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Confidential Draft Submission No. 3 as confidentially submitted to the Securities and Exchange Commission on September 16, 2013. This draft registration statement has not been publicly filed with the Securities and Exchange Commission and all information herein remains strictly confidential.

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-1

REGISTRATION STATEMENT
Under
THE SECURITIES ACT OF 1933

VERACYTE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**8071**	**20-5455398**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

7000 Shoreline Court, Suite 250
South San Francisco, California 94080
(650) 243-6300
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Bonnie H. Anderson
President and Chief Executive Officer
7000 Shoreline Court, Suite 250
South San Francisco, California 94080
(650) 243-6300
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Stanton D. Wong **Gabriella A. Lombardi** **Heidi E. Mayon** **Pillsbury Winthrop Shaw Pittman LLP** **Four Embarcadero Center, 22nd Floor** **San Francisco, California 94111**	**Shelly D. Guyer** **Chief Financial Officer** **Veracyte, Inc.** **7000 Shoreline Court, Suite 250** **South San Francisco, California 94080**	**William H. Hinman** **Simpson Thacher & Bartlett LLP** **2475 Hanover Street** **Palo Alto, California 94304**

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

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

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

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

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. 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 ☒ (Do not check if a	Smaller reporting company o

smaller reporting company)

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Proposed maximum aggregate offering price[(1)(2)]	Amount of registration fee
Common Stock, par value $0.001 per share		

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933.

(2) Includes the offering price of shares that the underwriters have the option to purchase to cover over-allotments, if any.

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

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

PROSPECTUS (Subject to Completion)
Issued , 2013

Shares

COMMON STOCK

Veracyte, Inc. is offering shares of its common stock. This is our initial public offering and no public market currently exists for our shares. We anticipate that the initial public offering price of our common stock will be between $ and $ per share.

We intend to apply to list our common stock on The NASDAQ Global Market under the symbol "VCYT".

We are an "emerging growth company" under applicable Securities and Exchange Commission rules and will be subject to reduced public company reporting requirements for this prospectus and future filings.

Investing in our common stock involves risks. Please see "Risk Factors" beginning on page 10.

PRICE $ A SHARE

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Company
Per Share	*$*	*$*	*$*
Total	*$*	*$*	*$*

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

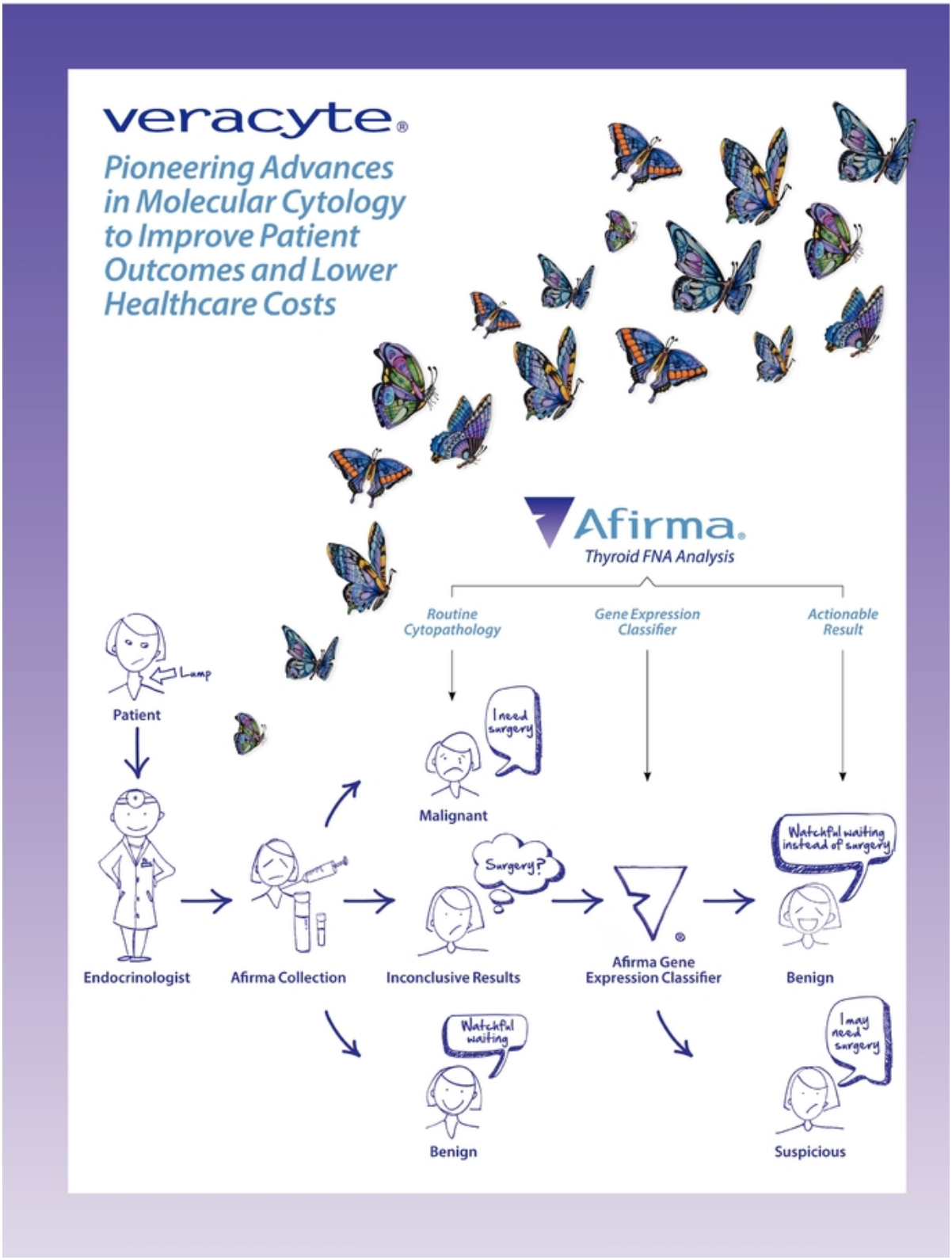
The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to purchasers on , 2013.

MORGAN STANLEY *LEERINK SWANN*

WILLIAM BLAIR *COWEN AND COMPANY*

, 2013


veracyte®
Pioneering Advances in Molecular Cytology to Improve Patient Outcomes and Lower Healthcare Costs
Afirma®
Thyroid FNA Analysis
Routine Cytopathology
Gene Expression Classifier
Actionable Result
Lamp
Patient
I need surgery
Malignant
Endocrinologist
Afirma Collection
Surgery?
Inconclusive Results
Afirma Gene Expression Classifier
Watchful waiting instead of surgery
Benign
Watchful waiting
Benign
I may need surgery
Suspicious

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You should rely only on the information contained in this prospectus and any free writing prospectus we have prepared. We have not, and the underwriters have not, authorized anyone to provide you with information or make any representations different from or in addition to those contained in this prospectus or any free writing prospectus we have prepared. We and the underwriters take no responsibility for and can provide no assurance as to the reliability of any other information that others may give you. We are offering to sell shares of common stock and seeking offers to buy shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of the common stock. Our business, financial condition, results of operations and prospectus may have changed since that date.

Until , 2013 (25 days after commencement of this offering), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

For investors outside the United States: We have not, and the underwriters have not, done anything that would permit this offering or possession or distribution of this prospectus or any free writing prospectus we may provide to you in connection with this offering in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus and any such free writing prospectus outside of the United States.

PROSPECTUS SUMMARY

This summary highlights information contained in greater detail elsewhere in this prospectus. This summary is not complete and does not contain all of th information you should consider in making your investment decision. You should read the entire prospectus carefully before making an investment in our commo stock. You should carefully consider, among other things, our financial statements and the related notes and the sections entitled "Risk Factors" and "Management Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

Overview

We are a diagnostics company pioneering the field of molecular cytology to improve patient outcomes and lower healthcare costs. We specifically target disease that often require invasive procedures for an accurate diagnosis – diseases where many healthy patients undergo costly interventions that ultimately prove unnecessar We improve the accuracy of diagnosis at an earlier stage of patient care by deriving clinically actionable genomic information from cytology samples collected in a outpatient setting. Our first commercial solution, the Afirma Thyroid FNA Analysis, includes as its centerpiece our Gene Expression Classifier, which we refer to a the GEC. The GEC helps physicians reduce the number of unnecessary surgeries by employing a proprietary 142-gene signature to preoperatively determine whethe thyroid nodules previously classified by cytopathology as indeterminate can be reclassified as benign. We have demonstrated the clinical utility and cost effectivene of the GEC in studies published in peer-reviewed journals and established the clinical validity of the GEC in a study published in *The New England Journal o Medicine* in 2012.

Since we commercially launched Afirma in January 2011, we have processed over 50,000 fine needle aspiration, or FNA, samples for evaluation using Afirm and performed more than 10,000 GECs to resolve indeterminate cytopathology results. We have obtained positive coverage decisions from Aetna, Humana, Medica and UnitedHealthcare. Collectively, these payers represent more than 100 million covered lives. Additionally, we have entered into a global co-promotion agreeme with Genzyme Corporation, a subsidiary of Sanofi. Our revenue has increased from $2.6 million in 2011 to $17.1 million for the trailing twelve months endi June 30, 2013.

For decades, pathologists have diagnosed complex diseases by evaluating cells taken from a surgical tissue sample. More recently, molecular diagnostic tests th analyze the genomic material in these samples have emerged as an important complement to surgical pathology by predicting outcomes and guiding treatme decisions. Both approaches, however, typically require relatively large quantities of tissue that must be obtained through an invasive surgical procedur Cytopathology, which relies on small samples such as FNAs collected in an outpatient setting, is often the first step in the diagnostic process because it offers minimally invasive and cost-effective alternative to surgery. However, cytology samples tend to be small and non-uniform, which contributes to a relatively high ra of diagnostic ambiguity and results in many patients undergoing surgery to obtain an accurate diagnosis. Molecular diagnostics broadly used today are not designed reduce this ambiguity.

We are building our molecular cytology business by developing molecular diagnostics that yield clinically actionable genomic information from cytolog samples, as opposed to surgical tissue samples. Molecular cytology identifies genomic signatures from cytology samples to inform clinical decisions pre-operativel We believe molecular cytology has the potential to improve patient care while simultaneously lowering costs to the healthcare system in a broad range of area including thyroid, pulmonology, dermatology and reproductive endocrinology. Based on our internal analysis and third-party data, we believe molecular diagnost solutions to address these markets could represent an approximately $4.0 billion opportunity.

Our strategy is to focus on diseases where a large number of patients undergo invasive and costly diagnostic procedures that could be avoided with a mo accurate diagnosis from a cytology sample taken pre-operatively. In prioritizing our opportunities, we develop a detailed understanding of the unmet

clinical need and the shortcomings of the current standard of care. We define the precise clinical question in these diseases that, if informed by genomic informatio would alter the standard of care in a way that improves patient outcomes while reducing costs in both the short- and long-term. Only then do we deploy our scientif expertise in biomarker discovery and algorithm development to derive a genomic signature that provides meaningful diagnostic information.

We developed our first commercial offering, Afirma, to address a significant unmet need in thyroid nodule diagnosis. Thyroid nodules, or bumps under the skin the neck around the thyroid gland, are usually benign; however, patients with nodules are generally referred to an endocrinologist for evaluation. Endocrinologis typically collect cells from the nodule for cytopathology with an FNA and send these samples to a cytopathologist for analysis. Approximately 525,000 thyroid FNA were performed in the United States in 2011. Typically, 15% to 30% of FNAs yield indeterminate results, meaning they cannot be diagnosed as definitively benign malignant by cytopathology alone. Because the risk of malignancy is approximately 25% for an indeterminate diagnosis, clinical practice guidelines have historical recommended patients with indeterminate cytopathology results undergo surgery to remove part or all of their thyroid to obtain an accurate pathology diagnosi However, in 70% to 80% of these cases, the thyroid nodule proves to be benign for cancer. We estimate the average cost of this surgery to be $15,000, and surgery ca result in complications and leave a patient in need of hormone replacement therapy for life. We believe Afirma, if fully adopted, could result in over $500 million direct cost savings to the healthcare system over five years.

Afirma is a comprehensive solution that consists of cytopathology and the GEC. The GEC reduces the number of unnecessary diagnostic surgeries by analyzin the genomic signature of FNA samples judged to be indeterminate by cytopathology and reclassifies about 50% of those nodules to a benign diagnosis. In *The Ne England Journal of Medicine* clinical validation study for the GEC, the study authors concluded that the GEC could be useful to physicians in making importa patient care decisions, such as recommending watchful waiting in lieu of diagnostic surgery for patients who receive a GEC benign result following indetermina cytopathology findings. A subsequent clinical utility study published in *Thyroid* covered 368 patients from 51 different endocrinologists. Each of these patients ha both a cytopathology indeterminate result and a GEC benign result. The study found that physicians recommended surgery in only 7.6% of these cases, representing 90% reduction in surgeries when compared to the historical average for patients with cytopathology indeterminate results alone. We believe the GEC is currently th only diagnostic test that meets the criteria of the National Comprehensive Cancer Network, or NCCN, for safely monitoring patients with indeterminate cytopatholog results in lieu of surgery.

In addition to thyroid cancer, there are many other complex diseases in which cytology samples play a critical role in clinical decision making. As with thyro nodule diagnosis, inherent ambiguity in evaluation of cytopathology samples often results in unnecessary costs and procedures that would be avoidable if a molecul diagnostic test could refine diagnoses reached by cytopathology alone. We are currently developing the Afirma Malignant GEC test for rare forms of thyroid cancer metastases to the thyroid that is intended to better inform surgical strategy. We are also in late biomarker discovery in interstitial lung disease, a group of lung disease affecting the tissue and space around the microscopic air sacs of the lungs that are difficult to diagnose prior to surgery. Specifically, we intend to improve the accurac of diagnosis of idiopathic pulmonary fibrosis, one of the more progressive, often fatal, interstitial lung diseases, and to provide critical information to physicians ar patients as they decide whether to pursue potentially lifesaving treatments or participate in clinical studies.

Company Highlights

- *Clinically validated solution with demonstrated utility and significant payer adoption.* We have demonstrated the benefits of Afirma in multip clinical studies that have been published in leading peer-reviewed publications. As a result of Afirma's demonstrated utility and our managed care

expertise, we have obtained positive coverage decisions from a range of payers, including Aetna, Humana, Medicare and UnitedHealthcare.

- *Large, underserved specialty markets.* Approximately 525,000 thyroid FNAs were performed in the United States in 2011, by an estimated 3,5(endocrinologists whom we believe specialize in thyroid disease. We estimate the thyroid nodule diagnostic market to be approximately $500 millic per year in the United States and approximately $300 million outside of the United States. We believe we can effectively market Afirma with a sma specialty sales force, in part because Afirma represents a significant innovation in the underserved thyroid cancer diagnostic market. Because Afirm represents a significant innovation for this underserved and relatively concentrated base of physicians, we believe we can effectively market Afirm with a small specialty sales force.

- *Turnkey solution that drives customer retention.* We market Afirma as a comprehensive offering that combines cytopathology with the GEC. Afirm simplifies the diagnostic process for physicians while optimizing utilization of our molecular diagnostic to maximize clinical benefits for patients ar cost savings for payers. We believe these characteristics are key drivers of a physician's decision to convert their existing FNA protocol to Afirm Since we commercially launched Afirma in 2011, more than 80% of physicians who ordered five or more Afirma tests in 2011 remain customers toda As a result, our targeted sales force devotes fewer resources to maintaining business with our existing base of physicians and instead focuses on drivir adoption of Afirma among new customers. We intend to duplicate this model with solutions we develop for other diseases.

- *Demonstrated core competencies leverageable across multiple products.* We successfully advanced Afirma from the concept stage in early 2008 to commercial product with broad physician and payer adoption today. We believe our expertise in disease selection, genomic signature discovery, clinic study design, commercialization and managed care, all of which we have demonstrated with the success of Afirma, will allow us to establish molecul cytology solutions in a range of diseases.

- *Product pipeline with multiple high-value solutions.* We believe we are well-positioned to introduce multiple new products in the near- and mediun term. In the second quarter of 2014, we plan to introduce the Afirma Malignant GEC, our first product line extension for Afirma, to guide surgic strategy for the treatment of medullary thyroid cancer and other rare and metastatic forms of thyroid cancer. We plan to commercialize our first produ for interstitial lung disease in 2016 and believe this product will serve as the foundational application to expand our molecular cytology platform to th treatment of lung disease.

Our Solution

We are pioneering the field of molecular cytology by developing molecular diagnostics that yield clinically actionable genomic information from cytolog samples. Molecular cytology combines the screening benefits of a minimally invasive cytology sample with genomic information to inform disease diagnosis treatment decisions pre-operatively. We focus on diseases in which a large number of patients undergo invasive and costly diagnostic procedures that could be avoide with a more accurate diagnosis from a cytology sample taken prior to surgery. Positioning our test as an alternative to an invasive procedure allows us to efficient validate the accuracy of our diagnostic test by comparing our test results to those obtained using the more invasive approach. Armed with clinical data that suppor the use of molecular cytology in lieu of a more invasive or costly procedure, we believe we are well-positioned to support clinical studies that demonstrate how ou products change the standard of care, improve patient outcomes and reduce costs.

In contrast to molecular diagnostics developed for surgical tissue, we have developed the expertise to solve many of the technical challenges associated wi generating analytically valid and clinically relevant genomic information from smaller, heterogeneous cytology samples. To this end, we use a whole-genom approach for gene selection and proprietary machine-learning algorithms with statistical methods to identify the genomic signature that achieves the desire performance.

Afirma is our first commercial solution based on our molecular cytology platform. We drive physician adoption and retention by marketing Afirma as th centerpiece of a comprehensive solution for improved disease diagnosis, which allows our offering to seamlessly integrate into a physician's practice workflow. W offer Afirma to physicians as a turnkey solution that combines cytopathology for every patient with our molecular diagnostic test when cytopathology yield ambiguous results. Our solution includes a complete patient report that guides decision making. By integrating disparate diagnostic procedures into one comprehensiv offering, we can simplify and improve the diagnostic process for physicians and their patients while optimizing utilization of our molecular diagnostics to maximiz clinical benefits and cost savings. We intend to duplicate this model with solutions we develop for other diseases.

Our capabilities in managed care and claims adjudication are essential to our success in obtaining positive coverage decisions and reimbursement. Our integrate team combines expertise in advocating for positive coverage decisions with specific insights into what tactical steps will maximize reimbursement from each payer. A a result, we have developed detailed knowledge of the intricacies of specific payer practices and requirements, which informs our strategy across disease selectio clinical study design, marketing and sales.

Advantages of Afirma FNA Analysis for Stakeholders

- *Benefits for patients.* With the GEC, approximately half of the patients with indeterminate cytology results may avoid unnecessary, invasive diagnost surgery. Patients who obtain an Afirma benign result avoid the potential for surgery-related complications, the effects of life-long hormone replaceme therapy and the associated costs. We estimate that approximately 115,000 FNAs performed in the United States in 2011 yielded an indeterminate resul

- *Benefits for physicians.* Afirma enables every physician, regardless of practice setting, to offer his or her patients access to advanced technology for th diagnosis and management of thyroid nodules. Afirma does not introduce any new steps into the physician's patient-care routine and often simplifie their workflow. In addition, our cytopathology provider, Thyroid Cytology Partners, is a specialized practice focused solely on performing thyro FNAs and meets high-quality standards with short turnaround times.

- *Benefits for payers.* Payers differentiate themselves by offering their insured the most advanced care available in medicine. However, payers are als under increased pressure to contain rising healthcare costs. Afirma allows payers to provide advanced care at a cost lower than the current standard care. The first peer-reviewed economic impact study, published in the *Journal of Clinical Endocrinology and Metabolism*, concluded that routine use the GEC in the United States would prevent tens of thousands of surgeries each year. Based on our estimate of the average cost of surgery of $15,000 a well as clinical utility studies, we believe full adoption of Afirma would result in over $500 million in direct cost savings to the healthcare system ov five years.

Our Strategy

Our goal is to resolve diagnostic ambiguity pre-operatively, allowing patients to avoid unnecessary procedures and generating significant cost savings for th healthcare system.

Our strategy includes the following key elements:

- Accelerate the growth of Afirma by expanding our base of prescribing physicians and achieving broader reimbursement.

- Market our novel molecular diagnostic tests as the centerpiece of a comprehensive patient-care solution.

- Drive cost and capital efficiencies by offering turnkey solutions to physicians in specialty markets.

- Broaden our addressable market in endocrinology by leveraging our thyroid expertise to introduce new products.
- Capitalize on our demonstrated core competencies to expand molecular cytology to additional diseases.

Risks Associated with Our Business

Our business is subject to numerous risks and uncertainties, including those identified in "Risk Factors" immediately following this prospectus summary. Yo should read these risks before you invest in our common stock. We may be unable, for many reasons, including those that are beyond our control, to implement o business strategy. In particular, risks associated with our business include:

- 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 susta profitability.
- Our financial results depend solely on sales of Afirma, and we will need to generate sufficient revenue from this and other diagnostic solutions to gro our business.
- We depend on Medicare, Aetna and UnitedHealthcare for a significant portion of our revenue and if one or more significant payers stop providir reimbursement or decrease the amount of reimbursement for our tests, our revenue could decline.
- If payers do not provide reimbursement, rescind or modify their reimbursement policies or delay payments for our tests, or if we are unable t successfully negotiate reimbursement contracts, our commercial success could be compromised.
- We may experience limits on our revenue if physicians decide not to order Afirma.
- The success of our relationship with Genzyme to co-promote Afirma may have a significant effect on our business.
- Because we do not recognize a significant portion of our revenue on an accrual basis, our quarterly operating results are likely to fluctuate.
- We rely on sole suppliers for some of the reagents, equipment, chips and other materials used in Afirma, and we may not be able to find replacemen or transition to alternative suppliers.
- We depend on a specialized cytopathology practice to perform the cytopathology component of Afirma, and our ability to perform our diagnost solution would be harmed if we were required to secure a replacement.
- If we are unable to support demand for Afirma or any of our future products or solutions, 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 approval.

Corporate Information

We were incorporated in Delaware as Calderome, Inc. in August 2006. Calderome operated as an incubator until early 2008. We changed our name t Veracyte, Inc. in March 2008. Our principal executive offices are located at 7000 Shoreline Court, Suite 250, South San Francisco, California 94080 and our telephor number is (650) 243-6300. Our website address is www.veracyte.com. We do not incorporate the information on, or accessible through, our website into th prospectus, and you should not consider any information on, or accessible through, our website as part of this prospectus.

Unless the context indicates otherwise, as used in this prospectus, the terms "Veracyte," "Company," "we," "us" and "our" refer to Veracyte, Inc. Veracyte ar Afirma are our trademarks. This prospectus also contains trademarks and trade names that are the property of their respective owners. We do not intend our use display of other companies' trade names, trademarks or service marks to imply relationships with, or endorsements or sponsorship of us by, these other companies.

THE OFFERING

Common stock offered by us	shares
Common stock to be outstanding after this offering	shares (shares if the underwriters exercise their over-allotment option in full)
Over-allotment option	We have granted to the underwriters the option, exercisable for 30 days from the date of this prospectu to purchase up to additional shares of common stock.
Use of proceeds	The principal purposes of this offering are to obtain additional capital to support our operations, establish a public market for our common stock and to facilitate our future access to the public capital markets. We currently intend to use the net proceeds from this offering as follows: • approximately $20 million for sales and marketing activities, including expansion of our sales forc to support the ongoing commercialization of our products; • approximately $20 million for research and development, including medical and clinical cost related to the continued support of Afirma as well as the development of our product pipeline; and • the remaining proceeds for working capital and other general corporate purposes. In addition, we may use a portion of the net proceeds from this offering for acquisitions of complementary businesses, technologies or other assets. However, we do not have agreements for any material acquisitions at this time. See "Use of Proceeds".
Risk factors	See "Risk Factors" beginning on page 10 and the other information included in this prospectus for a discussion of factors you should consider carefully before deciding to invest in our common stock.
Proposed NASDAQ Global Market symbol	VCYT

The number of shares of common stock that will be outstanding after this offering is based on 63,704,170 shares outstanding as of June 30, 2013, on an a converted basis, and excludes:

- 9,681,245 shares of common stock issuable upon the exercise of options outstanding as of June 30, 2013, at a weighted average exercise price of $0.7 per share;

- 99,206 shares of common stock issuable upon the exercise of warrants to purchase Series C preferred stock, which will become exercisable for share of common stock upon conversion of our Series C preferred stock into common stock immediately prior to the completion of this offering, with a exercise price of $1.89 per share;

- 574,821 shares of common stock reserved for future issuance under our 2008 Stock Plan and shares of common stock, subject to increas on an annual basis, reserved for future issuance under our 2013 Stock Incentive Plan, which will become effective in connection with this offering; and

- 232,546 shares of common stock issued upon the exercise of options between June 30, 2013 and August 31, 2013.

Unless otherwise indicated, all information in this prospectus assumes:

- that our restated certificate of incorporation, which we will file in connection with the completion of this offering, is in effect;

- the conversion of all outstanding shares of our convertible preferred stock into an aggregate of 59,989,268 shares of common stock immediately prio to the completion of this offering; and

- no exercise by the underwriters of their over-allotment option to purchase up to additional shares of common stock from us.

SUMMARY FINANCIAL DATA

The following summary financial data should be read together with our financial statements and related notes, "Selected Financial Data" and "Management Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this prospectus. The summary statements of operations data for th years ended December 31, 2011 and 2012 and the six months ended June 30, 2012 and 2013, and the balance sheet data as of June 30, 2013 have been derived fro our audited financial statements and unaudited interim condensed financial statements included elsewhere in this prospectus. Historical results are not necessaril indicative of the results that may be expected in the future and results of interim periods are not necessarily indicative of the results for the entire year.

	Year Ended December 31,		Six Months Ended June 30,	
	2011	2012	2012	2013
	(In thousands, except share and per share data)		(Unaudited)	
Statements of Operations Data:				
Revenue	$ 2,645	$ 11,628	$ 3,947	$ 9,452
Operating expenses:				
Cost of revenue[(1)]	2,925	7,584	3,000	6,004
Research and development[(1)]	6,680	6,608	3,158	3,912
Selling and marketing[(1)]	2,934	8,447	3,045	5,318
General and administrative[(1)]	5,372	7,918	3,618	5,528
Total operating expenses[(1)]	17,911	30,557	12,821	20,762
Loss from operations	(15,266)	(18,929)	(8,874)	(11,310)
Interest income	2	2	—	—
Interest expense	—	—	—	(5)
Other income (expense), net	819	278	—	(2,070)
Net loss	$ (14,445)	$ (18,649)	$ (8,874)	$ (13,385)
Net loss per common share, basic and diluted	$ (6.23)	$ (7.17)	$ (3.48)	$ (4.12)
Shares used in computing net loss per common share, basic and diluted	2,320,252	2,601,352	2,553,287	3,250,863
Other Operating Data:				
Fine needle aspirations (FNAs) received	6,402	25,890	9,535	23,181

(1) Includes stock-based compensation as follows:

	Year Ended December 31,		Six Months Ended June 30,	
	2011	2012	2012	2013
	(In thousands)		(Unaudited)	
Cost of revenue	$ 32	$ 26	$ 16	$ 13
Research and development	130	131	48	103
Selling and marketing	77	111	52	76
General and administrative	227	407	174	297
Total stock-based compensation	$ 466	$ 675	$ 290	$ 489

	As of June 30, 2013		
	Actual	Pro Forma	Pro Forma As Adjusted
		(In thousands) (Unaudited)	
Balance Sheet Data:			
Cash and cash equivalents	$ 20,683		
Working capital	14,049		
Total assets	27,159		
Convertible preferred stock	79,025		
Accumulated deficit	(73,455)		
Total stockholders' (deficit) equity	(70,788)		

The preceding table presents a summary of our unaudited balance sheet data as of June 30, 2013:

- on an actual basis;
- on a pro forma basis to give effect to the conversion of all outstanding shares of our convertible preferred stock into common stock immediately prio to the completion of this offering; and
- on a pro forma as adjusted basis to give further effect to the receipt of the estimated net proceeds from the sale of shares of commo stock in this offering at a price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, and aft deducting the estimated underwriting discounts and commissions and estimated expenses payable by us.

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

RISK FACTORS

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

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 years ended December 31, 2011 and 2012 and for the six months ended June 30, 2013, we had a net loss of $14.4 million, $18.6 million and $13.4 million, respectively, and we expect to incur additional losses this year and in future years. As of June 30, 2013, we had an accumulated deficit of $73.5 million. To date, we have generated only limited revenue, and 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, Afirma and to develop future diagnostic solutions. 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 historical revenue has 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 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 of Afirma, expand reimbursement for Afirma, or successfully 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 Medicare, Aetna and UnitedHealthcare for a significant portion of our revenue and if one or more significant payers stop providing reimbursement or decrease the amount of reimbursement for our tests, our revenue could decline.

Reimbursement on behalf of patients covered by Medicare accounted for 34% and 35% of our revenue for the year ended December 31, 2012 and for the six months ended June 30, 2013, respectively. UnitedHealthcare accounted for 12% and 14% of our revenue for the year ended December 31, 2012 and for the six months ended June 30, 2013, respectively. Aetna accounted for 13% and 7% of our revenue for the year ended December 31, 2012 and for the six months ended June 30, 2013, respectively. 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 on the GEC. On a five-year rotational basis, Medicare requests bids for its regional MAC services. In mid-September 2013, Noridian Administrative Services is scheduled to succeed Palmetto as the MAC for our region. The change in the MAC processing Medicare claims for the GEC could result in a change in the coverage or reimbursement rates for the GEC, or the loss of coverage. The transition to Noridian could also result in delays in payments made to us on behalf of Medicare patients.

We do not have a contracted rate of reimbursement with Aetna, Humana or UnitedHealthcare. 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.

If payers do not provide reimbursement, rescind or modify their reimbursement policies or delay payments for our tests, or if we are unable to successfully negotiate 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 GEC. Reimbursement by a payer may depend on a number of factors, including a payer's determination that tests such as the GEC are:

- not experimental or investigational;
- 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 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 most payers. 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 co-insurance or co-payment requirement which may result in further delay or decreased likelihood of collection.

We expect to continue to focus substantial resources on increasing adoption of and coverage and reimbursement for Afirma. 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. If we fail to establish broad adoption of and reimbursement for our products, or if we are unable to maintain existing reimbursement from payers, our ability to generate revenue could be harmed and our future prospects and our business could suffer.

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 several current guidelines and historical practice have typically led to such procedures. Moreover, our diagnostic services are performed at our 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 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.

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 co-promotion agreement with Genzyme Corporation. We are also working with Genzyme to begin selling Afirma in certain countries outside of the United States. Under the agreement, we are required to pay Genzyme a co-promotion fee that is equal to a percentage of our cash receipts from Afirma. The percentage is currently 40% and will decrease to 32% in March 2014 and thereafter. Our agreement with Genzyme expires in 2027 and either party may terminate the agreement at any time without cause and with six months prior notice. If we were to terminate the agreement without cause prior to January 2014, we would be required to repay 50% of the $10.0 million fee we received from Genzyme. Such percentage would be reduced to 40% of such fee if we were to terminate the agreement between January 2014 and January 2015, and 30% of such fee if we were to terminate the agreement between January 2015 and January 2016. 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 Afirma 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 agree to co-promote with Genzyme. Any such termination may also delay our entry into international markets.

Because we do not recognize a significant portion of our revenue on an accrual basis, our quarterly operating results are likely to fluctuate.

We currently recognize the majority 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. These factors will likely result in fluctuations in our quarterly revenue. 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 in Afirma, and we may not be able to find replacements or transition to alternative suppliers.

We rely on sole suppliers, such as NuGEN Technologies, Inc. and Affymetrix, Inc., for critical supply of reagents, equipment, chips and other materials that we use to perform the GEC. We also purchase components used in our Afirma 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 GEC 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. Any such interruption may significantly affect our future revenue and harm our customer relations and reputation. In addition, in

order to mitigate these risks, we may need to maintain inventories of these supplies at higher levels than would be the case if multiple sources of supply were available.

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 Cytology 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 until December 2015 and thereafter automatically renews every year unless either party provides notice of intent not to renew at least twelve 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 or any of our future products or solutions grows, 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 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 Afirma 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. We believe that Afirma is an LDT. As a result, we believe Afirma should not be subject to regulation in accordance with the FDA's current policy of exercising enforcement discretion regarding LDTs.

From time to time, the FDA has indicated that it was revisiting its current policy of enforcement discretion and planned to issue guidance that, when finalized, would adopt a risk-based framework that would increase FDA oversight of LDTs. In July 2010, the FDA convened a public meeting to discuss such a risk-based framework. Legislative proposals addressing oversight of LDTs were introduced in the previous two Congresses and we expect that new legislative proposals will be introduced from time to time. We cannot provide any assurance that FDA regulation, including premarket review, will not be required in the

future for our tests, whether through additional guidance issued by the FDA, new enforcement policies adopted by the FDA or new legislation enacted by Congress. It is possible that legislation will be enacted into law or guidance could be issued by the FDA which may result in increased regulatory burdens for us to continue to offer our tests or to develop and introduce new tests. We cannot predict the timing or content of future legislation enacted or guidance issued regarding LDTs, or how it will affect our business.

In June 2011, the FDA issued draft guidance regarding "Commercially Distributed In Vitro Diagnostic Products Labeled for Research Use Only or Investigational Use Only". To date, the FDA has not issued final research-use only guidance. We cannot predict the ultimate timing or form of any such guidance or regulation and or the potential effect on Afirma, our tests in development or the materials used to perform our tests. While we qualify all materials used in our tests according to CLIA regulations, we cannot be certain that the FDA would not promulgate rules or issue guidance documents that could affect our ability to purchase materials necessary for the performance of our tests. Should any of the reagents, instruments, software or components obtained by us from suppliers and used in conducting our tests be affected by future regulatory actions, our business could be adversely affected by those actions, including increasing the cost of testing or delaying, limiting or prohibiting the purchase of reagents, instruments, software or components necessary to perform testing.

If FDA premarket review or approval is required for Afirma or any of our future tests we may develop, or we decide to voluntarily pursue FDA review or approval, we may be forced to stop selling our tests or we may be allowed to keep selling our tests while we work to obtain FDA approval. Our business would be negatively affected until such review is completed and clearance to market or approval is obtained. The regulatory approval process may involve, among other things, successfully completing additional clinical studies and submitting premarket notification or filing a premarket approval application with the FDA. If premarket review is required by the FDA or if we decide to voluntarily pursue FDA premarket review of our tests, there can be no assurance that Afirma or any tests we may develop in the future will be cleared or approved on a timely basis, if at all, nor can there be assurance that labeling claims will be consistent with our current claims or adequate to support continued adoption of and reimbursement for our tests. If our tests are allowed to remain on the market but there is uncertainty in the marketplace about our tests, if they are labeled investigational by the FDA, or if labeling claims the FDA allows us to make are limited, orders may decline and reimbursement may be adversely affected. Ongoing compliance with FDA regulations would increase the cost of conducting our business, and subject us to heightened regulation by the FDA and penalties for failure to comply with these requirements.

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 will impose significant added responsibilities on management, including the need to identify, recruit, train and integrate additional employees. In addition, rapid and significant growth may place strain on our administrative 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 only recently installed a new, 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. 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 solution is complex, and we must dedicate substantial time and resources to the billing process to be paid for our tests.

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 solution 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 Afirma 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 among payers and the effect of patient co-payments or co-insurance;
- differences in information and billing requirements among payers;
- incorrect or missing billing information; and
- the resources required to manage the billing and claims appeals process.

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. 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. If claims for Afirma are not submitted to payers on a timely basis, 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.

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, primarily through our co-promotion agreement with Genzyme, and may include establishing and maintaining physician outreach and education

capabilities outside of the United States 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;
- 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 collecting accounts receivable, the effect of local and regional financial crises on demand and payment for our solution 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, its books and records provisions or 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 unable to compete successfully, we may be unable to increase or sustain our revenue or achieve profitability.

Our principal competition for Afirma comes from traditional methods used by physicians to diagnose thyroid cancer. 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 educate physicians about the benefits of Afirma to change clinical practice.

We also face competition from commercial laboratories, such as Laboratory Corporation of America Holdings and Quest Diagnostics Incorporated, with strong infrastructure to support the commercialization of diagnostic services. We face potential competition from companies such as Life Technologies Corporation, which is currently expected to be acquired by Thermo Fisher Scientific Inc., and Illumina, Inc., both of which have recently 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 Asuragen Inc. and other companies that measure mutational markers such as BRAF and KRAS to identify nodules that are malignant instead of benign. In the future, we may also face competition from companies developing new products or technologies.

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.

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 are in the process of developing the Afirma Malignant GEC and a product for interstitial lung disease. These products may not be fully developed and introduced as planned in 2014 and 2016, respectively. In the longer term, we may face challenges obtaining sufficient numbers of samples to validate a genomic signature for a molecular diagnostic product. In order to develop and commercialize diagnostic products, we need to:

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

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 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, 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.

As part of our business strategy, we may pursue acquisitions of complementary businesses or assets, as well as technology licensing arrangements. 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 not acquired other companies and have limited experience with respect to the formation of strategic alliances and joint ventures. If we make any acquisitions, we may not be able to integrate these acquisitions successfully into our existing business, and we could assume unknown or contingent liabilities. Any future acquisitions 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 an acquired company or business 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. Once we become a public company, 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 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 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, for Afirma. 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.

We are also required to maintain state licenses to conduct testing in our laboratories. California law establishes standards for day-to-day operation of our clinical reference laboratory in South San Francisco, including the training and skills required of personnel and quality control matters. In addition, our clinical reference laboratories are required to be licensed on a test-specific basis by New York State. 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. We have obtained a license from New York for our South San Francisco laboratory and have applied for a license for our Austin laboratory. If New York State does not license our Texas laboratory, we would not be able to prepare samples for cytopathology on FNAs from

patients in New York in that laboratory. Moreover, 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 state 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 license 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.

Finally, we may be subject to regulation in foreign jurisdictions as we pursue offering Afirma 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 or the import of tissue into the United States, may limit our ability to offer Afirma 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 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 would affect 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 reduced the potential future cost-based increases to the Medicare CLFS by 2%. Overall the expected total fee cut to the CLFS for 2013 is 2.95% not considering a further reduction of 2% anticipated from implementation of the automatic expense reductions (sequester) under the Budget Control Act of 2011,

which went into effect for dates of service on or after April 1, 2013. 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.

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.

We are subject to other regulation by both the federal government and the states in which we conduct our business, including:

- Medicare billing and payment regulations applicable to clinical laboratories;
- the Federal anti-kickback law and state anti-kickback prohibitions;
- the Federal physician self-referral prohibition, commonly known as the Stark Law, and state equivalents;
- the Federal Health Insurance Portability and Accountability Act of 1996;
- the Medicare civil money penalty and exclusion requirements;
- the Federal False Claims Act civil and criminal penalties and state equivalents; and
- the Foreign Corrupt Practices Act of 1977, which applies 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. The risk of our being found in violation of these or other laws and regulations is further increased by the fact that many have not been fully interpreted by the regulatory authorities or the courts, and their provisions are open to a variety of interpretations. 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.

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 Afirma could lead to product liability claims if someone were to allege that the GEC failed to perform as it was 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 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 products 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.

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, including licensed clinical laboratory scientists and biostatisticians. 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. Because it is expected that there will be a shortage of clinical laboratory scientists in coming years, it may become more difficult to hire sufficient numbers of qualified personnel. We also face competition from universities and public and private research institutions in recruiting and retaining highly qualified scientific personnel. Additionally, our success depends on our ability to attract and retain qualified salespeople. We may have difficulties locating, recruiting or retaining qualified salespeople, which could cause a delay or decline in the rate of adoption of our solution. 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 and sales 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.

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 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 GEC processing. The equipment we use to perform the GEC would be costly to replace and could require substantial lead time to replace and qualify for use. 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 GEC testing or the backlog of GEC tests that could develop if our California facility is inoperable 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.

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 a diagnostic solution such as Afirma, and our inability to control when and if results are published may delay or limit our ability to derive sufficient revenue from any solution.

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.

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.

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 have not experienced 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 the Health Insurance Portability and Accountability Act of 1996, 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 solution 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 services 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 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. As of June 30, 2013, we had six pending United States non-provisional patent applications and one allowed patent application. 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.

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 DNA.

In particular, the patent positions of companies engaged in the development and commercialization of genomic diagnostic tests, like Afirma, are particularly uncertain. Various courts, including the U.S. Supreme Court, have recently 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 genetic 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 yet registered certain of our trademarks, including Afirma, 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.

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 United States 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.

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 market development programs, which could lower the economic value of those programs to our company.

Risks Related to Being a Public Company

We will 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 incur significant legal, accounting 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 will increase our legal, accounting and financial compliance costs and will make some activities more time-consuming and costly. We also expect that it will be more expensive for us to obtain 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 will be 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 our annual report for the year ending December 31, 2014, provide a management report on the internal control over financial reporting. If we have a material weakness 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 are in the process of compiling the system and processing documentation necessary to perform the evaluation needed to comply with Section 404 of the Sarbanes-Oxley Act. We may not be able to complete our evaluation, testing and any required remediation in a timely fashion.

During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, 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. Internal control deficiencies could also result in a restatement of our financial results in the future.

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 for up to five years, 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.

Risks Related to this Offering and 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 this offering, there has been no public market for our common stock, and an active public market for our stock may not develop or be sustained after this offering. We and the representatives of the underwriters will determine the initial public offering price of our common stock through negotiation. This price will not necessarily reflect the price at which investors in the market will be willing to buy and sell our stock following this offering. In addition, the trading price of our common stock following this offering is likely 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;
- periodic 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 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 shortly following this offering. 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 included in their reports. Securities analysts may elect not to provide research coverage of our company after the completion of this offering, 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.

Future sales of shares by existing stockholders could cause our stock price to decline.

If our existing stockholders sell, or indicate an intention to sell, substantial amounts of our common stock in the public market after the lock-up and other legal restrictions on resale discussed in this prospectus lapse, the trading price of our common stock could decline. Based on shares outstanding as of , 2013, upon completion of this offering, we will have outstanding a total of shares of common stock. Of these shares, only of the shares of common stock sold in this offering will be freely tradable, without restriction, in the public market immediately after the offering. Each of our directors and officers and substantially all of our other stockholders has entered into a lock-up agreement with the underwriters that restricts their ability to sell or transfer their shares. The lock-up agreements pertaining to this offering will expire 180 days from the date of this prospectus. The underwriters, however, may, in their sole discretion, waive the contractual lock-up prior to the expiration of the lock-up agreements. After the lock-up agreements expire, based on shares outstanding as of , 2013, up to an additional shares of common stock will be eligible for sale in the public market, of which are held by directors, executive officers and other affiliates and will be subject to volume limitations under

Rule 144 under the Securities Act, and various vesting agreements. In addition, shares of common stock that are subject to outstanding options as of , 2013 will become eligible for sale in the public market to the extent permitted by the provisions of various vesting agreements, the lock-up agreements and Rules 144 and 701 under the Securities Act. We intend to file a registration statement on Form S-8 under the Securities Act covering all of the shares of common stock subject to options outstanding and reserved for issuance under our stock plans. This registration statement will become effective immediately upon filing, and shares covered by this registration statement will be eligible for sale in the public markets, subject to Rule 144 limitations applicable to affiliates and any lock-up agreements described above. If these additional shares are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common stock could decline.

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

As of , 2013, directors and executive officers and their affiliates beneficially owned, in the aggregate, % 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.

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 to become effective upon completion of this offering 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 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.

Our management will have broad discretion in the use of the net proceeds from this offering and may not use them effectively.

Our management will have broad discretion in the application of the net proceeds from this offering and could spend the proceeds in ways that do not improve our results of operations or enhance the value of our common stock. Our failure to apply these funds effectively could have a material adverse effect on our business, delay the development of new tests and cause the price of our common stock to decline.

Purchasers in this offering will experience immediate and substantial dilution in the book value of their investment.

The initial public offering price of our common stock is substantially higher than the net tangible book value per share of our common stock immediately after this offering. Therefore, if you purchase our common stock in this offering, you will incur an immediate dilution of $ in net tangible book value per share from the price you paid, based on an assumed initial public offering price of $ per share. In addition, new investors who purchase shares in this offering will contribute approximately % of the total amount of equity capital raised by us through the date of this offering, but will only own approximately % of the outstanding equity capital. The exercise of outstanding options and warrants will result in further dilution. For a detailed description of the dilution that you will experience immediately after this offering, see "Dilution".

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.

If an active, liquid trading market for our common stock does not develop, you may not be able to sell your shares quickly or at or above the initial offering price.

There has not been a public market for our common stock. An active and liquid trading market for our common stock may not develop or be sustained following this offering. You may not be able to sell your shares quickly or at or above the initial offering price. The initial public offering price will be determined by negotiations with the representatives of the underwriters. This price may not be indicative of the price at which our common stock will trade after this offering, and our common stock could trade below the initial public offering price.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements. All statements other than statements of historical facts contained in this prospectus, including statements regarding our future results of operations and financial position, strategy and plans, and our expectations for future operations, are forward-looking statements. The words "believe," "may," "will," "estimate," "continue," "anticipate," "design," "intend," "expect" or the negative version of these words and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, strategy, short- and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in "Risk Factors". In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus may not occur, and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Forward-looking statements include, but are not limited to, statements about:

- our ability to continue to increase adoption of and obtain reimbursement for Afirma;
- anticipated trends and challenges in our business and the competition that we face;
- the execution of our business plan and our growth strategy;
- our expectations regarding the size of and growth in potential markets;
- changes in laws or regulations applicable to our business, including potential regulation by the FDA;
- our strategic relationships, collaboration and co-promotion efforts;
- our ability to develop and commercialize new products and the timing of commercialization;
- the outcome or success of clinical studies;
- our liquidity and working capital requirements, including our long-term future cash requirements beyond the next 12 months;
- our expectations regarding future revenue and expenses; and
- our expectations regarding the use of proceeds from this offering.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. In addition, neither we nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. Any forward-looking statement made by us in this prospectus speaks only as of the date on which it is made. We disclaim any duty to update any of these forward-looking statements after the date of this prospectus to confirm these statements to actual results or revised expectations.

You may rely only on the information contained in this prospectus. You should read this prospectus and the documents that we reference in this prospectus and have filed with the Securities and Exchange Commission as exhibits to the registration statement of which this prospectus is a part completely and with the understanding that our actual future results, levels of activity, performance and events and circumstances may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

This prospectus 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 prospectus is also based on our internal estimates. Although we have not independently verified the third-party data, we are responsible for its inclusion in the prospectus and believe it to be reasonable.

USE OF PROCEEDS

We estimate that the net proceeds from the sale of shares of our common stock in this offering will be approximately $, based on an assumed initial public offering price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. If the underwriters' over-allotment option to purchase additional shares from us is exercised in full, we estimate that our net proceeds will be approximately $. A $1.00 increase (decrease) in the assumed initial public offering price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, would increase (decrease) the estimated net proceeds to us by $ million, assuming that the number of shares offered by us as set forth on the cover page of this prospectus remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. We may also increase or decrease the number of shares we are offering. An increase (decrease) of 1.0 million shares in the number of shares offered by us would increase (decrease) the net proceeds to us by $ million, assuming a price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

The principal purposes of this offering are to obtain additional capital to support our operations, establish a public market for our common stock and to facilitate our future access to the public capital markets. We currently intend to use the net proceeds from this offering as follows:

- approximately $20 million for sales and marketing activities, including expansion of our sales force to support the ongoing commercialization of our products;
- approximately $20 million for research and development, including medical and clinical costs, related to the continued support of Afirma as well as the development of our product pipeline; and
- the remaining proceeds for working capital and other general corporate purposes.

In addition, we may use a portion of the net proceeds from this offering for acquisitions of complementary businesses, technologies or other assets. We have no agreements with respect to any material acquisitions at this time, and we have not allocated specific amounts of net proceeds for any of these purposes.

We cannot specify with certainty all of the uses for the net proceeds to be received by us from this offering. In addition, the amount, allocation and timing of actual expenditures will depend upon numerous factors, including revenue generated from the sale of Afirma. Accordingly, our management will have broad discretion in using the net proceeds from this offering.

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

DIVIDEND POLICY

We have never declared or paid any cash dividend on our capital stock. We currently intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future. 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 further 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.

CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of June 30, 2013, as follows:

- on an actual basis;
- on a pro forma basis to give effect to the conversion of all outstanding shares of our convertible preferred stock into common stock immediately prior to the completion of this offering; and
- on a pro forma as adjusted basis to give further effect to the receipt of the estimated net proceeds from the sale of shares of common stock in this offering at a price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, and after deducting the estimated underwriting discounts and commissions and estimated expenses payable by us.

You should read this table in conjunction with "Selected Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and related notes included elsewhere in this prospectus.

	As of June 30, 2013		
	Actual	Pro Forma	Pro Forma as Adjusted
	(In thousands, except share and per share data) (Unaudited)		
Cash and cash equivalents	$ 20,683	$	$
Long-term debt, net of discount	4,826		
Preferred stock warrant liability	175		
Convertible preferred stock, par value $0.001 per share: 60,187,700 shares authorized, 59,989,268 issued and outstanding, actual; no shares authorized, issued or outstanding, pro forma and pro forma as adjusted	79,025		
Stockholders' (deficit) equity:			
Common stock, par value $0.001 per share: 77,000,000 shares authorized, 3,714,902 shares issued and outstanding, actual; shares authorized, 63,704,170 shares issued and outstanding, pro forma; shares issued and outstanding, pro forma as adjusted	4		
Additional paid-in capital	2,663		
Accumulated deficit	(73,455)		
Total stockholders' (deficit) equity	(70,788)		
Total capitalization	$ 13,238	$	$

A $1.00 increase (decrease) in the assumed initial public offering price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, would increase (decrease) each of cash and cash equivalents, additional paid-in capital, total capitalization and total stockholders' (deficit) equity by $ million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. Each increase (decrease) of 1.0 million shares in the number of shares offered by us would increase (decrease) cash and cash equivalents, additional paid-in capital, total capitalization and total stockholders' (deficit) equity by approximately $ million, assuming an initial public offering price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, and after deducting the estimated underwriting

discounts and commissions and estimated offering expenses payable by us. The pro forma as adjusted information discussed above is illustrative only and will be adjusted based on the actual public offering price and other terms of this offering determined at pricing.

If the underwriters' over-allotment option were exercised in full, pro forma as adjusted cash and cash equivalents, common stock, additional paid-in capital, total stockholders' deficit and shares issued and outstanding as of June 30, 2013 would be $, $, $, $ and , respectively.

The number of shares of common stock in the table above excludes:

- 9,681,245 shares of common stock issuable upon the exercise of options outstanding as of June 30, 2013, at a weighted average exercise price of $0.70 per share;
- 99,206 shares of common stock issuable upon the exercise of warrants to purchase Series C preferred stock, which will become exercisable for shares of common stock upon conversion of our Series C preferred stock into common stock immediately prior to the completion of this offering, with an exercise price of $1.89 per share;
- 574,821 shares of common stock reserved for future issuance under our 2008 Stock Plan and shares of common stock, subject to increase on an annual basis, reserved for future issuance under our 2013 Stock Incentive Plan, which will become effective in connection with this offering; and
- 232,546 shares of common stock issued upon the exercise of options between June 30, 2013 and August 31, 2013.

DILUTION

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

Net tangible book value per share is determined by dividing our total tangible assets less our total liabilities by the number of shares of common stock outstanding. Our historical net tangible book value (deficit) as of June 30, 2013, was $, or $ per share of common stock. Our pro forma net tangible book value (deficit) as of June 30, 2013, was $, or $ per share of common stock, based on the total number of shares of our common stock outstanding as of June 30, 2013, after giving effect to the conversion of all outstanding shares of our convertible preferred stock into common stock.

After giving effect to the sale of shares of common stock in this offering at an assumed initial public offering price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma as adjusted net tangible book value as of June 30, 2013 would have been $, or $ per share. This represents an immediate increase in pro forma net tangible book value of $ per share to existing stockholders and an immediate dilution in net tangible book value of $ per share to purchasers of common stock in this offering, as illustrated in the following table:

Assumed initial public offering price per share		$
Pro forma net tangible book value (deficit) per share as of June 30, 2013	$	
Increase in pro forma net tangible book value (deficit) per share attributable to new investors		
Pro forma as adjusted net tangible book value (deficit) per share after this offering		
Dilution per share to investors participating in this offering		$

Each $1.00 increase (decrease) in the assumed public offering price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, would increase (decrease) our pro forma as adjusted net tangible book value by approximately $ million, or approximately $ per share, and the dilution per share to investors in this offering by approximately $ per share, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. We may also increase or decrease the number of shares we are offering. An increase (decrease) of 1.0 million shares in the number of shares offered by us would (decrease) our pro forma as adjusted net tangible book value by approximately $ million, or approximately $ per share, and the pro forma dilution per share to investors in this offering by approximately $ per share, assuming an initial public offering price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. The pro forma as adjusted information discussed above is illustrative only and will be adjusted based on the actual public offering price and other terms of this offering determined at pricing.

If the underwriters' over-allotment option to purchase additional shares is exercised in full, the pro forma as adjusted net tangible book value per share after this offering would be $ per share, the increase in pro forma as adjusted net tangible book value per share to existing stockholders would be $ per share and the dilution to new investors purchasing shares in this offering would be $ per share.

The following table presents, on a pro forma as adjusted basis as of June 30, 2013, the differences between existing stockholders and purchasers of shares in this offering with respect to the number of shares purchased from us, the total consideration paid or to be paid and the average price paid per share assuming with respect to the purchasers of shares in this offering an initial public offering price of $ per share, the midpoint of the price range on the cover of this prospectus before deducting estimated underwriting discounts and commissions and estimated expenses payable by us:

	Total Shares		Total Consideration		Average Price per Share
	Number	Percent	Amount	Percent	
Existing stockholders before this offering		%	$	%	$
Investors participating in this offering					
Total		100%	$	100%	

Each $1.00 increase (decrease) in the assumed initial public offering price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, would increase (decrease) the total consideration paid to us by new investors and total consideration paid to us by all stockholders by $ million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. An increase (decrease) of 1.0 million shares in the number of shares offered by us would increase (decrease) the total consideration paid to us by new investors and total consideration paid to us by all stockholders by $ million, assuming an initial public offering price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

If the underwriters' over-allotment option to purchase additional shares is exercised in full, existing stockholders would own % and new investors would own % of the total number of shares of our common stock outstanding immediately after this offering.

The calculations above are based on shares outstanding as of June 30, 2013 after giving effect to the conversion of all outstanding shares of convertible preferred stock into common stock and exclude:

- 9,681,245 shares of common stock issuable upon the exercise of options outstanding as of June 30, 2013, at a weighted average exercise price of $0.70 per share;
- 99,206 shares of common stock issuable upon the exercise of warrants to purchase Series C preferred stock, which will become exercisable for shares of common stock upon conversion of our Series C preferred stock into common stock immediately prior to the completion of this offering, with an exercise price of $1.89 per share; and
- 574,821 shares of common stock reserved for future issuance under our 2008 Stock Plan and shares of common stock, subject to increase on an annual basis, reserved for future issuance under our 2013 Stock Incentive Plan, which will become effective in connection with this offering.

To the extent that any outstanding options or warrants are exercised or new options are issued under our incentive plans, there will be further dilution to investors participating in this offering.

SELECTED FINANCIAL DATA

We derived the selected statements of operations data for the years ended December 31, 2011 and 2012 and the selected balance sheets data as of December 31, 2011 and 2012 from our audited financial statements included elsewhere in this prospectus. We derived the selected statements of operations data for the six months ended June 30, 2012 and 2013 and the selected balance sheets data as of June 30, 2013 from our unaudited interim condensed financial statements and related notes included elsewhere in this prospectus. Our unaudited interim condensed financial statements were prepared on the same basis as our audited financial statements and include, in our opinion, all adjustments, consisting of normal recurring adjustments that we consider necessary for a fair presentation of the financial information set forth in those financial statements. Historical results are not necessarily indicative of the results that may be expected in the future. You should read the selected financial data together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements, related notes and other financial information included elsewhere in this prospectus. The selected financial data is qualified in its entirety by the financial statements and related notes included elsewhere in this prospectus.

	Year Ended December 31,		Six Months Ended June 30,	
	2011	2012	2012	2013
	(In thousands, except share and per share data)		(Unaudited)	
Statements of Operations Data:				
Revenue	$ 2,645	$ 11,628	$ 3,947	$ 9,452
Operating expenses:				
Cost of revenue[(1)]	2,925	7,584	3,000	6,004
Research and development[(1)]	6,680	6,608	3,158	3,912
Selling and marketing[(1)]	2,934	8,447	3,045	5,318
General and administrative[(1)]	5,372	7,918	3,618	5,528
Total operating expenses[(1)]	17,911	30,557	12,821	20,762
Loss from operations	(15,266)	(18,929)	(8,874)	(11,310)
Interest income	2	2	—	—
Interest expense	—	—	—	(5)
Other income (expense), net	819	278	—	(2,070)
Net loss	$ (14,445)	$ (18,649)	$ (8,874)	$ (13,385)
Net loss per common share, basic and diluted	$ (6.23)	$ (7.17)	$ (3.48)	$ (4.12)
Shares used in computing net loss per common share, basic and diluted	2,320,252	2,601,352	2,553,287	3,250,863
Other Operating Data:				
FNAs received	6,402	25,890	9,535	23,181

(1) Includes employee stock-based compensation as follows:

	Year Ended December 31,		Six Months Ended June 30,	
	2011	2012	2012	2013
	(In thousands)		(Unaudited)	
Cost of revenue	$ 32	$ 26	$ 16	$ 13
Research and development	130	131	48	103
Selling and marketing	77	111	52	76
General and administrative	227	407	174	297
Total stock-based compensation	$ 466	$ 675	$ 290	$ 489

	As of December 31,		As of June 30,
	2011	2012	2013
	(In thousands)		(Unaudited)
Balance Sheets Data:			
Cash and cash equivalents	$ 7,566	$ 14,002	$ 20,683
Working capital	6,707	7,390	14,049
Total assets	10,451	19,067	27,159
Convertible preferred stock	49,296	63,372	79,025
Accumulated deficit	(41,420)	(60,069)	(73,455)
Total stockholders' (deficit) equity	(40,766)	(58,471)	(70,788)

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and related notes included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in "Risk Factors" included elsewhere in this prospectus.

Overview

We are a diagnostics company pioneering the field of molecular cytology to improve patient outcomes and lower healthcare costs. We specifically target diseases that often require invasive procedures for an accurate diagnosis – diseases where many healthy patients undergo costly interventions that ultimately prove unnecessary. We improve the accuracy of diagnosis at an earlier stage of patient care by deriving clinically actionable genomic information from cytology samples collected in an outpatient setting. Our first commercial solution, the Afirma Thyroid FNA Analysis, includes as its centerpiece our Gene Expression Classifier, which we refer to as the 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. We have demonstrated the clinical utility and cost effectiveness of the GEC in 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. Since we commercially launched Afirma in January 2011, we have processed over 50,000 fine needle aspiration, or FNA, samples for evaluation using Afirma and performed more than 10,000 GECs to resolve indeterminate cytopathology results.

We market and sell our solution with a sales force consisting of our own sales professionals and members of the Genzyme endocrinology sales team. In January 2012, we entered into a co-promotion agreement with Genzyme for the co-exclusive right to promote and market Afirma in the United States and in 40 countries pursuant to which we received a $10.0 million fee from Genzyme. Under the agreement, we are required to pay Genzyme a co-promotion fee that is equal to a percentage of our cash receipts from Afirma.

As of August 2013, the list price for the GEC is $4,275. We invoice for routine cytopathology at a standard price of $490. We obtained Medicare coverage for the GEC effective in January 2012 which provides reimbursement at an agreed upon rate. In addition, we received positive coverage decisions for the GEC from UnitedHealthcare in March 2013, Aetna in June 2013 and Humana in July 2013, and have also received positive coverage decisions from a number of other smaller payers. Collectively, these payers represent more than 100 million covered lives. Reimbursement rates vary by payer.

Our revenue increased from $2.6 million in 2011 to $11.6 million in 2012. Our revenue increased from $3.9 million for the six months ended June 30, 2012 to $9.5 million for six months ended June 30, 2013. We incurred a net loss of $14.4 million and $18.6 million for the years ended December 31, 2011 and 2012, respectively, and $13.4 million for the six months ended June 30, 2013. As of June 30, 2013, we had an accumulated deficit of $73.5 million.

Financial Overview

Revenue

We generate revenue from the sale of our Afirma solution. 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.

For tests performed where an agreed upon reimbursement rate and a predictable history of collections exists, such as in the case of Medicare, we recognize revenue upon delivery of a patient report to the prescribing physician based on the established billing rate less contractual and other adjustments, such as allowance for doubtful accounts, 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, after analyzing payment history. The expected amount is typically lower than 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 all other situations, as we do not have sufficient history of collection and are not able to determine a predictable pattern of payment, we recognize revenue upon the earlier of receipt of third-party payer notification of payment or when cash is received. Our ability to increase our revenue will depend on our ability to penetrate the market, obtain contracted reimbursement from additional third-party payers and increase our collection rate for tests performed.

Cost of Revenue

The components of our cost of revenue are materials and service costs, including 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 the efficiencies we may gain as test volume increases and from automation and other cost reductions.

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 absolute dollars in future periods as we continue to invest in research and development activities related to developing additional products. We expect that in the next 12 months the increase in research and development expenses will be for the continued development and support of Afirma and other new products and programs under development, including the Afirma Malignant GEC and our lung program.

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. We expect our selling and marketing expenses to increase over the next 12 months primarily driven by the co-promotion fees to Genzyme, the costs of hiring additional internal sales personnel associated with further penetrating the domestic market, and marketing and education expenses to drive market penetration and reimbursement.

General and Administrative

General and administrative expenses include executive, finance and accounting, human resources, 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, and allocated overhead, including rent, information technology, equipment depreciation and utilities. We expect to incur additional expenses over the next 12 months as a result of operating as a public company, including expenses related to compliance with the rules and regulations of the Securities and Exchange Commission and The NASDAQ Stock Market, additional insurance expenses, investor relations activities and other administrative and professional services. We also expect our general and administration expenses will increase in absolute dollars over the next 12 months as we expand our billing and client services functions.

Interest Income

Interest income is from interest on our cash equivalents.

Interest Expense

Interest expense is attributable to our borrowings under the loan agreement entered into in June 2013.

Other Income (Expense), Net

Other income (expense), net is related primarily to the change in value of the preferred stock liability associated with our obligation to issue additional shares of Series B and Series C convertible preferred stock. In June 2010, we entered into a tranched Series B convertible preferred stock purchase agreement. In November 2012, we entered into a tranched Series C convertible preferred stock purchase agreement. In connection with the initial closing of each of these agreements, we agreed to issue to the purchasers, and the purchasers agreed to purchase, additional shares of the Series B and Series C convertible preferred stock within a specified timeframe. We determined that the liability to issue additional Series B and Series C convertible preferred stock at a future date was a freestanding instrument that should be accounted for as a liability. Accordingly, we recorded a liability related to this instrument at the time of each initial close in June 2010 and November 2012 and remeasure the liabilities at each reporting period with the corresponding gain or loss from the adjustment recorded as other income (expense), net. The Series B liability expired in July 2011. The Series C liability expired in June 2013.

In addition, other income (expense), net in 2011 includes $0.1 million we received from Genzyme in exchange for exclusive rights to negotiate a co-promotion agreement.

Critical Accounting Polices and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with United States generally accepted accounting principles, or U.S. GAAP. The preparation of these 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.

Revenue Recognition

Our revenue is generated from the sale of Afirma, a diagnostic solution for the assessment of thyroid nodules. We generally bill third-party payers upon delivery of a patient report to the prescribing physician. As such, we take assignment of benefits and risk of collections from the third-party payer and individual patients.

Revenue is recognized when persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the fee is fixed or determinable; and collectability is reasonably assured. The assessment of the fixed or determinable nature of the fees charged for testing performed and the collectability of those fees require significant judgment by management. When evaluating these criteria, we consider whether we have sufficient history to reliably estimate a payer's payment pattern. We review the number of tests paid against the number of tests billed and the payer's outstanding balance for unpaid tests to determine whether payments are being made at a consistently high percentage of tests billed and at appropriate amounts given the amount billed by us. To date, except for third-party payers with contracted reimbursement coverage, we have not been able to demonstrate a predictable pattern of collectability from third-party payers. 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 test as ordered by the physician under their reimbursement policies. In such situations, we pursue reimbursement from the patients on a case-by-case basis. To date, we have not been able to demonstrate a predictable pattern of collectability directly from patients. In the absence of contracted reimbursement and/or a predictable pattern of collectability at consistent payment amounts, we believe that all the revenue recognition criteria are met upon the earlier of receipt of third-party payer notification of payment or when cash is received and accordingly, we recognize revenue at that time. For tests performed where an agreed upon reimbursement rate and a predictable history of collections exists, we recognize revenue upon delivery of a patient report to the prescribing physician based on the established billing rate less contractual and other adjustments, such as allowance for doubtful accounts, 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, after analyzing payment history. The expected amount is typically lower than 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.

We use judgment in our assessment of whether the fee is fixed or determinable and whether collectability is reasonably assured in determining when to recognize revenue in the future as we continue to gain payment experience with third-party payers and patients.

Allowance for Doubtful Accounts

We accrue an allowance for doubtful accounts against our accounts receivable based on estimates 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. Historically, the amounts of uncollectible accounts receivable that have been written off have been consistent with management's expectations. 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.

If the financial conditions of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Derivative Liability

We account for derivative financial instruments as either equity or liabilities based upon the characteristics and provisions of each instrument. We recorded the preferred stock liability incurred in

connection with our Series B and Series C convertible preferred stock and the preferred stock warrant liability related to the issuance of a warrant for Series C convertible preferred stock, each as a derivative financial instrument liability at their fair value on the date of issuance, and we remeasure them on each subsequent balance sheet date. The changes in fair value are recognized as a gain or loss from the adjustment to other income (expense), net in the statements of operations and comprehensive loss. We estimate the fair value of this liability using option-pricing models that include assumptions for future financings, expected volatility, expected life, yield and risk-free interest rate.

Deferred Tax Assets

We file U.S. federal income tax returns and tax returns in California, Texas and other states. To date, we have not been audited by the Internal Revenue Service or any state income tax authority.

As of December 31, 2012, our gross deferred tax assets were $24.9 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 December 31, 2012. We will continue to maintain a full valuation allowance on our 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 compensation costs related to stock options granted to employees based on the estimated fair value of the awards on the date of grant, net of estimated forfeitures. We estimate the grant date fair value, and the resulting stock-based compensation expense, using the Black-Scholes option-pricing model. The grant date fair value of stock-based awards is expensed on a straight-line basis over the vesting period of the respective award. Performance-based awards vest and are expensed over the performance period when the related performance goal is probable of being achieved.

We account for stock-based compensation arrangements with non-employees using a fair value approach. The fair value of these options is measured using the Black-Scholes option-pricing model reflecting the same assumptions as applied to employee options in each of the reported periods, other than the expected life, which is assumed to be the remaining contractual life of the option. The compensation costs of these arrangements are subject to remeasurement over the vesting terms as earned.

We recorded stock-based compensation expense of $0.5 million, $0.7 million and $0.5 million for the years ended December 31, 2011, and 2012, and the six months ended June 30, 2013, respectively. We expect to continue to grant stock options and other equity-based awards in the future, and to the extent that we do, our stock-based compensation expense recognized in future periods will likely increase.

The Black-Scholes option-pricing model requires the use of highly subjective and complex assumptions, which determine the fair value of stock-based awards. Our assumptions are as follows:

- *Expected term.* The expected term represents the period that the stock-based awards are expected to be outstanding. Our historical share option exercise experience does not provide a reasonable basis upon which to estimate an expected term because of a lack of sufficient data. Therefore we estimate the expected term by using the simplified method provided by the SEC. The simplified method calculates the expected term as the average of the time-to-vesting and the contractual life of the options.

- *Expected volatility.* As our common stock has never been publicly traded, the expected volatility is derived from the average historical volatilities of publicly traded companies within our industry that we consider to be comparable to our business over a period approximately equal to the expected term.

- *Risk-free interest rate.* The risk-free interest rate is based on the U.S. Treasury yield in effect at the time of grant for zero coupon U.S. Treasury notes with maturities approximately equal to the expected term.

- *Expected dividend.* The expected dividend is assumed to be zero as we have never paid dividends and have no current plans to pay any dividends on our common stock.

In addition to the assumptions used in the Black-Scholes option-pricing model, we also estimate a forfeiture rate to calculate the stock-based compensation for our equity awards. We will continue to use judgment in evaluating the expected volatility, expected terms and forfeiture rates utilized for our stock-based compensation calculations on a prospective basis.

Significant factors, assumptions and methodologies used in determining the estimated fair value of our common stock

We are also required to estimate the fair value of the common stock underlying our stock-based awards when performing the fair value calculations using the Black-Scholes option-pricing model. Our board of directors, with the assistance of management, determined the fair value of our common stock on each grant date. Option grants are based on the estimated fair value of our common stock on the date of grant, which is determined by taking into account several factors, including the following:

- important developments in our operations, in particular coverage policies or contracts with third-party payers;

- valuations performed by an independent third party;

- the prices at which we sold our convertible preferred stock and the rights, preferences, and privileges of the convertible preferred stock relative to those of our common stock, including the liquidation preferences of the convertible preferred stock;

- our actual operating results and financial performance;

- conditions in our industry and the economy in general;

- stock price performance of comparable public companies;

- the estimated likelihood of achieving a liquidity event, such as an IPO or an acquisition of our company, given prevailing market conditions; and

- the illiquidity of the common stock underlying stock options.

In determining the estimated fair value of our common stock, our board of directors, with the assistance of management, used the market approach to estimate the enterprise value of our company in

accordance with the American Institute of Certified Public Accountants Accounting and Valuation Guide, *Valuation of Privately-Held Company Equity Securities Issued as Compensation*. The market approach, comprised of the Guideline Publicly Traded Company and the M&A Transaction methodologies, estimates the value of a company by comparing it to a peer group of similar publicly traded companies. When selecting the peer group to be used for the market multiple approaches, we focused on companies within the molecular diagnostics industry. The criteria we used to select comparable companies included the stage of development of their product candidates, their position in the industry and their overall risk profile. The peer group in the Guideline Publicly Traded Company was reviewed at each valuation date to assess whether to add or remove companies to maintain the relevance of the peer group; our peer group's composition has changed over time based upon this continuing evaluation. In connection with our November 2012 contemporaneous valuation, we removed two of the peer group companies we deemed no longer comparable to us, either as they were acquired or their business model was no longer similar to ours, and replaced them with two other companies that we believe are comparable to us. Based on these considerations, we believe that our peer group of comparable companies has been a representative group for purposes of performing valuations.

Once a group of comparable publicly traded companies is selected, market multiples are calculated using each company's stock price and other financial data. Typically, a company's value is estimated by applying selected market multiples of selected peer group companies to a company's forecasted financial results. We used revenue multiples in the Guideline Publicly Traded Company methodology and in the M&A Transaction methodology. As part of the Guideline Public Company methodology used in the January 2012, April 2013 and June 2013 valuations, we took into consideration the revenue multiples and enterprise value of select companies that had completed IPOs in the molecular diagnostic industry in the prior twelve months. For the November 2012, April 2013 and June 2013 valuations, we also used the OPM Backsolve method, a form of the market approach to valuation, which derives the implied equity value for a company from a recent transaction involving the company's own securities.

The initial estimated enterprise value was then allocated to the common stock using the Option Pricing Method, the Probability Weighted Expected Return Method or the Hybrid Method.

The Option Pricing Method, or OPM, treats the enterprise as a call option, to be distributed among the common and convertible preferred security classes, with exercise prices based on the liquidation preference of the convertible preferred stock. Therefore, by extension, the common stock has value only if the funds available for distribution to the stockholders exceed the value of the liquidation preference at the time of a liquidity event such as a merger, sale or IPO, assuming the enterprise has funds available to make a liquidation preference meaningful and collectible by the stockholders. The common stock is modeled to be a call option with a claim on the enterprise at an exercise price equal to the remaining value immediately after the convertible preferred stock is liquidated. The OPM uses the Black-Scholes option-pricing model to price the call option. The OPM is appropriate to use when the range of possible future outcomes is so difficult to predict that forecasting discrete exit events would be highly speculative.

The Probability Weighted Expected Return Method, or PWERM, is a scenario-based analysis that estimates the value per share based on the probability-weighted present value of expected future investment returns, considering each of the possible outcomes available to us, as well as the rights of each share class. PWERM estimates the common stock value to our stockholders under possible future scenarios which includes various IPO outcomes and liquidation. The value per share under each scenario is then probability weighted and the resulting weighted values per share are summed to determine the fair value per share of our common stock. In the liquidation scenario, the value per share is allocated taking into account the liquidation preferences and participation rights of our convertible preferred stock consistent with the method outlined in the American Institute of Certified Public Accountants Practice Guide, *Valuation of Privately-Held Company Equity Securities Issued as Compensation*. In the IPO scenarios, it is assumed that all outstanding shares of our convertible preferred stock will convert into common stock.

Over time, as we achieve certain company-related milestones, the probability of each scenario is evaluated and adjusted accordingly.

The Hybrid Method employs the concepts of the PWERM and OPM in a single framework. The PWERM estimates the future equity value under a range of IPO exits, and allocates the same in each scenario according to the subject company's capital structure, probability-weighting each exit and discounting the value to a present value equivalent using a risk-adjusted discount rate. The Option Pricing Model frames the scenario where the Company remains private, and is modeled over a weighted average term to exit using a financing round or external comparable benchmarks as the basis for fair market value determination.

In determining the estimated fair value of our common stock, our board of directors also considers the fact that our common stock is not freely tradable in the public market. The estimated fair value of our common stock at each grant date reflects a non-marketability discount partially based on the anticipated likelihood and timing of a future liquidity event.

Common stock valuations

Information regarding our stock option grants to our employees and non-employees, along with the estimated fair value per share of the underlying common stock, for stock options granted since January 1, 2012 is summarized as follows:

Grant Date	Number of Common Shares Underlying Options Granted	Exercise Price per Common Share	Estimated Fair Value per Share of Common Stock
March 10, 2012	1,814,628	$ 0.67	$ 0.67
April 11, 2012	924,000	0.67	0.67
June 6, 2012	450,000	0.67	0.67
July 25, 2012	270,000	0.67	0.67
December 6, 2012	269,167	1.00	1.00
February 5, 2013	1,709,007	1.00	1.00
June 20, 2013	801,625	1.51	1.98

The intrinsic value of all outstanding options as of June 30, 2013 was $ million based on the mid-point of the estimated price range set forth on the cover of this prospectus, of which approximately $ million related to vested options and approximately $ million related to unvested options.

The estimated fair value per share of the common stock in the table above represents the determination by our board of directors of the estimated fair value of our common stock as of the date of the grant, taking into consideration various objective and subjective factors, including the conclusions, if applicable, of the most recent valuation of our common stock, as discussed below.

March 2012. We granted options to purchase 1,814,628 shares of our common stock on March 10, 2012. Our board of directors set an exercise price of $0.67 per share. We had obtained a contemporaneous independent valuation of our common stock as of January 19, 2012. The valuation was prepared on a minority, non-marketable interest basis. We used the Guideline Publicly Traded Company methodology to determine an enterprise value. The valuation used a non-marketability discount of 35% and a discount rate of 20% based on our risk-adjusted cost of capital. Our considerations of the form, timing and probability of a particular future liquidity event or outcome were based on the business outlook as of January 19, 2012. We estimated a 30% probability of an initial public offering with a high valuation, a 30% probability of an initial public offering with a low valuation, and a 40% probability of liquidation. The estimated time to a liquidity event assumed a timeline of either an IPO of 2.5 years or dissolution in 0.7 years. We allocated the enterprise value using the PWERM and these three scenarios. This valuation indicated a fair value of $0.67 per share for our common stock as of January 19, 2012. In the judgment of our board of directors, there

were no internal or external developments that would indicate that the fair value of our common stock would have increased from January 19, 2012. Accordingly, the board of directors determined that the estimated fair value of our common stock at March 10, 2012 as $0.67 per share.

April to July 2012. We granted options to purchase 924,000, 450,000 and 270,000 shares of our common stock on April 11, 2012, June 6, 2012, and July 25, 2012. Our board of directors set an exercise price of $0.67 per share. Although our revenues increased as compared to the same period in the prior year, we had only been generating revenues since January 2011. During this time we had not obtained coverage from any new third-party payers, and continued to recognize the majority of our revenues upon the earlier of receipt of third-party payer notification of payment or when cash is received due to the absence of contracted reimbursement or a predictable pattern and history of collectability in connection with our billings. In the judgment of our board of directors, there were no internal or external developments that would indicate that the fair value of our common stock would have increased from January 19, 2012. Accordingly, the board of directors determined that the estimated fair value of our common stock at April 11, 2012, June 6, 2012, and July 25, 2012 was $0.67 per share.

December 2012. We granted options to purchase 269,167 shares of our common stock on December 6, 2012. Our board of directors set an exercise price of $1.00 per share. We had obtained a contemporaneous independent valuation of our common stock as of November 1, 2012. The valuation was prepared on a minority, non-marketable interest basis. In November 2012, we issued 7,936,508 shares of Series C convertible preferred stock at a purchase price of $1.89 per share, resulting in gross proceeds to us of $15.0 million. The preferred stock has rights, preferences, and privileges that are significantly different from those of our common stock, including liquidation preferences. For purposes of the November 1, 2012 valuation, we determined that the OPM was the most appropriate valuation methodology to estimate the fair value of our common stock given the uncertainty of determining various exit scenarios and due to the recently completed financing. We utilized the OPM Backsolve method to estimate the equity value based on the November 2012 Series C preferred stock financing, at a price of $1.89 per share, which we believed to be the most indicative of our value as of November 1, 2012. The estimated time to a liquidity event assumed a timeline of either an IPO or dissolution of two years. The valuation used a non-marketability discount of 20%. This valuation indicated a fair value of $1.00 per share for our common stock as of November 1, 2012.

In the judgment of our board of directors, there were no internal or external developments that would indicate that the fair value of our common stock would have increased from November 1, 2012. Accordingly, the board of directors determined that the estimated fair value of our common stock at December 6, 2012 was $1.00 per share.

The December 6, 2012 estimated fair value was based in part on a contemporaneous independent valuation of our common stock as of November 1, 2012. The primary factors that supported the increase in the fair value of our common stock from $0.67 per share on March 10, 2012 to $1.00 per share on December 6, 2012 were the success in completing a $15.0 million preferred stock financing in November 2012, positive research results, and publications in peer-reviewed journals, as well as the U.S. roll out of Afirma with Genzyme and the increased adoption of Afirma throughout 2012.

February 2013. We granted options to purchase 1,709,007 shares of our common stock on February 5, 2013. Our board of directors set an exercise price of $1.00 per share. In the judgment of our board of directors, there were no internal or external developments that would indicate that the fair value of our common stock would have increased from December 6, 2012. Accordingly, the board of directors determined that the estimated fair value of our common stock at February 5, 2013 was $1.00 per share.

April 2013. We obtained a contemporaneous independent valuation of our common stock as of April 30, 2013. Our considerations of the form, timing and probability of a particular future liquidity event or outcome were based on the business outlook at the time of the valuation. We estimated a 50% probability of an IPO and a 50% probability that we would continue as a private company. Accordingly, we used a hybrid method of the OPM and the PWERM in allocating the equity value, weighting the fair values estimated under these methods equally. The hybrid methodology was applied to reflect the uncertainties associated with growth-stage companies, especially in the medical diagnostics sector. Many medical diagnostic companies seeking an IPO in the past 12 months had to either offer their shares at a substantial discount to the proposed offering range or withdrew their filings. This supports the application of the hybrid model as of April 30, 2013.

For the IPO scenario, we determined the equity value using the Guideline Public Company methodology. The valuation used a discount rate of 20% based on our risk-adjusted cost of capital. The common stock value based on the PWERM method incorporates probability estimates for a potential future IPO in six months with low, mid, and high valuation scenarios at 30%, 60%, and 10% probability, respectively.

For the stay private scenario, we determined the equity value utilizing the Backsolve method based on the second closing of the Series C preferred stock financing, with a purchase price of $1.89 per share, which closed in June 2013 and resulted in gross proceeds to us of $13.0 million. The preferred stock has rights, preferences, and privileges that are significantly different from those of our common stock, including the liquidation preferences of the convertible preferred stock. We allocated the equity value to the various classes of securities using the OPM.

We applied equal weighting to the results under the OPM and the PWERM methodologies to arrive at a pre-discounted value and then applied a non-marketability discount of 20% which resulted in an estimated common stock value of $1.51 per share on a non-marketable, minority interest basis as of April 30, 2013.

June 2013. We granted options to purchase 801,625 shares of our common stock on June 20, 2013. Our board of directors set an exercise price of $1.51 per share for these options based in part on a contemporaneous third-party valuation prepared as of April 30, 2013. Subsequent to the granting of these options, we obtained a third-party valuation as of June 30, 2013 which determined a fair value of our common stock of $1.98 per share on that date.

Our considerations of the form, timing and probability of a particular future liquidity event or outcome were based on the business outlook at the time of the June 30, 2013 valuation. We estimated a 70% probability of an IPO and a 30% probability that we would continue as a private company. Accordingly, we continued to use a hybrid method of the OPM and the PWERM in allocating the equity value, weighting the fair values estimated under these methods based on our estimates of the probability of each scenario.

For the IPO scenario, we determined the equity value using the Guideline Public Company methodology and applied a non-marketability discount of 10%. The common stock value based on the PWERM method incorporates probability estimates for a potential future IPO in six months with low, mid, and high valuation scenarios at 25%, 60%, and 15% probability, respectively.

For the stay private scenario, we determined the equity value utilizing the Backsolve method based on our outstanding equity securities as of June 30, 2013. The preferred stock has rights, preferences, and privileges that are significantly different from those of our common stock, including the liquidation preferences of the convertible preferred stock. We allocated the equity value to the various classes of securities using the OPM and applied a non-marketability discount of 20%.

We applied a 30% and 70% weighting to the values determined under the OPM and the PWERM methodologies, respectively, which resulted in an estimated common stock value of $1.98 per share on a non-marketable, minority interest basis as of June 30, 2013.

As noted above, the board granted stock options in June 2013 with an exercise price of $1.51 per share based in part on the fair value of our common stock determined in the April 30, 2013 valuation. However, for financial reporting purposes, we reassessed the fair value of the underlying common stock on the June 20, 2013 grant date and determined that the fair value should be based on the June 30, 2013 valuation. This valuation indicated a fair value of our common stock of $1.98 per share and accordingly, for financial reporting purposes, we have recorded stock-based compensation expense based on the reassessed fair value.

The increase in the estimated fair value of our common stock from $1.00 per share as of February 5, 2013 to $1.51 per share as of April 30, 2013 and to $1.98 per share as of June 20, 2013 primarily resulted from our increased equity value due to continued growth in our business, including increases in FNA volume, obtaining positive coverage decisions from UnitedHealthcare and Aetna, and the completion of our debt and equity financings in June 2013. In addition, as we gained more clarity on our liquidity events, our June 2013 valuation increased the PWERM weighting of an IPO from 50% to 70% reflecting the higher probability of an IPO liquidity event.

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. Generally 5%-10% of the FNA samples we receive have insufficient cellular material from which to render a cytopathology diagnosis. We do not bill for these tests. For results that are benign or suspicious/malignant, we bill for the cytopathology portion of the test. If the sample is indeterminate, we perform the GEC. Historically, approximately 14%-17% of samples we have received for cytopathology have been diagnosed as indeterminate. We also perform GEC testing on a small number of samples referred by physicians where prior cytopathology testing has resulted in an indeterminate result. Of the FNA samples sent for GEC testing, approximately 5%-10% have insufficient RNA from which to render a finding. We issue a patient report classifying the sample as GEC Benign, GEC Suspicious or GEC No Result. We bill for the GEC Benign and GEC Suspicious results only. At this time, we also issue the cytopathology report for the indeterminate samples, and bill for the cytopathology portion of the test. 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 thus potential revenue generated.

Continued adoption of and reimbursement for Afirma

As of August 2013, the list price for the GEC is $4,275. To date only a portion of payers have reimbursed us at full list price. Revenue growth depends on our ability to achieve broader reimbursement at increased levels from third-party payers and to expand our base of prescribing physicians. To drive increased adoption of Afirma, we plan to increase our marketing efforts and to selectively increase our internal sales force in high-volume geographies domestically and to leverage our relationship with Genzyme to accelerate Afirma growth both in the United States and internationally. Because many 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, which should enhance our collections. If we are unable to expand the base of prescribing physicians 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.

How we recognize revenue

A significant portion of our revenue is recognized when cash is received. Medicare is the only payer with agreed upon reimbursement rates and a predictable history of collections, which allows us to recognize the related revenue on an accrual basis. Until we achieve a predictable pattern of collections and a consistent payment amount 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 achieve a predictable pattern of collections and a consistent payment amount 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.

Impact of Genzyme co-promotion agreement

The $10.0 million fee we received from Genzyme under our co-promotion agreement is being amortized over a four-year period beginning in 2012, and is recorded as a reduction of selling and marketing expenses. Under the agreement, we pay a significant portion of our cash receipts to Genzyme for co-promoting Afirma, and such amounts are recorded in selling and marketing expense. We incurred $5.5 million in co-promotion fees in the year ended December 31, 2012, and $1.7 million and $3.7 million in the six months ended June 30, 2012 and 2013, respectively. The co-promotion agreement requires that we pay a certain percentage of our cash receipts to Genzyme, which percentage decreases over time. As of January 2013, the percentage is 40%, and it decreases to 32% in March 2014 and thereafter. As our cash collections grow, both from volume growth as well as from increased reimbursement rates and collections for Afirma, the total amount we pay to Genzyme will increase in absolute dollars although the percentage of revenue we are required to pay Genzyme decreases over time. We believe our relationship with Genzyme will accelerate sales of Afirma. As a result, our selling and marketing expense may be higher than what we would have incurred if we alone were marketing and promoting Afirma.

We also may receive up to an additional $3.0 million from Genzyme, consisting of $0.6 million for each of up to five countries outside of the United States in which we obtain regulatory authorization to market Afirma and achieve a specified level of reimbursement. Genzyme has also agreed to spend $0.5 million to support clinical development expenses required for entry into the international markets covered by our agreement. This obligation expires in July 2014.

Our agreement with Genzyme expires in 2027 and either party may terminate the agreement at any time without cause and with six months' prior notice. If we terminate the agreement without cause prior to January 2014, we will be required to repay 50% of the $10.0 million fee we received. The percentage decreases to 40% of such fee if we were to terminate the agreement between January 2014 and January 2015, and 30% of such fee if we were to terminate the agreement between January 2015 and January 2016. Subsequent to January 2016, we are not required to repay any portion of the fee in the event we terminate the agreement without cause.

Development of additional products

We rely on sales of Afirma to generate all of our revenue. Our product development pipeline includes the Afirma Malignant GEC, a test that we believe will serve our current base of prescribing physicians. We also plan to pursue development of products for additional diseases to increase and diversify our revenue. For example, we are pursuing a solution for interstitial lung disease, or ILD, 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 solution and to develop additional products. Our success in developing 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 test, Afirma. 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.

Seasonal fluctuations in FNA volume and collections

Our business is subject to fluctuations in FNA volume 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. Our reimbursed rates and cash collections are also subject to seasonality. Medicare normally makes downward adjustments in its fee schedules at the beginning of the year which may negatively affect our reimbursement. Additionally, patient deductibles generally reset 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 Medicare and third-party payers. Later in the year, particularly in the fourth quarter, we experience better 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 and decreased cash collections for the subsequent first quarter of the succeeding year. The effects of these seasonal fluctuations in prior periods may have been obscured by the growth of our business.

Results of Operations

Comparison of the Six Months Ended June 30, 2012 and 2013

	Six Months Ended June 30,		Dollar Change	% Change
	2012	2013		
	(In thousands) (Unaudited)			
Revenue	$ 3,947	$ 9,452	$ 5,505	139%
Operating expenses:				
Cost of revenue	3,000	6,004	3,004	100%
Research and development	3,158	3,912	754	24%
Selling and marketing	3,045	5,318	2,273	75%
General and administrative	3,618	5,528	1,910	53%
Total operating expenses	12,821	20,762	7,941	62%
Loss from operations	(8,874)	(11,310)	(2,436)	27%
Interest expense	—	(5)	(5)	N/M
Other income (expense), net	—	(2,070)	(2,070)	N/M
Net loss	$ (8,874)	$ (13,385)	$ (4,511)	51%

Revenue

Revenue increased $5.5 million, or 139%, for the six months ended June 30, 2013 compared to the same period in 2012 primarily due to a $3.8 million increase in revenue from increased adoption of Afirma, resulting in increased collections, and a $1.7 million increase in revenue from Medicare.

Cost of revenue

Cost of revenue increased $3.0 million, or 100%, for the six months ended June 30, 2013 compared to the same period in 2012. This increase is primarily due to a $2.8 million, or 121%, increase in variable costs which are directly related to the increase in the number of FNAs received for analysis from 9,535 for the six months ended June 30, 2012 to 23,181 in the same period in 2013, offset by continuing refinements in our testing process, including automation, and economies of scale related to the increase in FNAs. The remaining increase of $0.2 million relates to increases in indirect labor costs, supplies, and depreciation and facility allocations.

Research and development

Research and development expenses increased $0.8 million, or 24%, for the six months ended June 30, 2013 compared to the same period in 2012. The increase was primarily driven by a $0.5 million increase in costs to support our product pipeline and ongoing support for Afirma and a $0.4 million increase in personnel expenses related to headcount increase.

Selling and marketing

Selling and marketing expenses increased $2.3 million, or 75%, for the six months ended June 30, 2013 compared to the same period in 2012. The increase was primarily due to a $1.9 million increase in net expense recognized under our co-promotion agreement with Genzyme, which was entered into in January 2012. The net expense of $1.9 million is comprised of the co-promotion fee to Genzyme offset in part by amortization of the deferred upfront fee paid to us by Genzyme. In addition, there was an increase of

$0.2 million in personnel expenses for additional sales representatives hired in the six months ended June 30, 2013 and a $0.2 million increase in marketing and promotional materials.

General and administrative

General and administrative expenses increased $1.9 million, or 53%, for the six months ended June 30, 2013 compared to the same period in 2012. The increase is primarily related to a $1.0 million increase in personnel expenses resulting from an increase in headcount and employee severance, a $0.5 million increase in professional fees and a $0.3 million increase in facility, equipment, and information technology expenses.

Other income (expense), net

Other income (expense), net, was ($2.1) million for the six months ended June 30, 2013 and is primarily related to the increase in value of the preferred stock liability associated with our obligation to issue additional shares of Series C convertible preferred stock.

Comparison of the Years Ended December 31, 2011 and 2012

	Year Ended December 31,		Dollar Change	% Change
	2011	2012		
	(In thousands)			
Revenue	$ 2,645	$ 11,628	$ 8,983	340%
Operating expenses:				
Cost of revenue	2,925	7,584	4,659	159%
Research and development	6,680	6,608	(72)	(1)%
Selling and marketing	2,934	8,447	5,513	188%
General and administrative	5,372	7,918	2,546	47%
Total operating expenses	17,911	30,557	12,646	71%
Loss from operations	(15,266)	(18,929)	(3,663)	24%
Interest income	2	2	—	—%
Other income (expense), net	819	278	(541)	66%
Net loss	$ (14,445)	$ (18,649)	$ (4,204)	29%

Revenue

Revenue increased $9.0 million, or 340%, in 2012 compared to 2011 primarily due to a $6.4 million increase in revenue from increased Afirma adoption, resulting in increased collections, and a $2.6 million increase in revenue from Medicare.

Cost of revenue

Cost of revenue increased $4.7 million, or 159%, in 2012 compared to 2011. This increase is primarily due to a $4.3 million, or 237%, increase in variable costs which are directly related to the increase in the number of FNAs received for analysis from 6,402 in 2011 to 25,890 in 2012, offset by continuing refinements in our testing process and economies of scale related to the increase in FNAs. The remaining increase of $0.4 million relates to increases in indirect labor costs, supplies, and depreciation and facility allocations.

Research and development

Research and development expenses were essentially flat in 2012 compared to 2011. Our research and development expenses in 2011 reflect the conclusion of clinical studies and other research and development activities supporting the commercial launch of Afirma. In 2012, our research and development expenses shifted to the development of our product pipeline as well as the continued support of Afirma.

Selling and marketing

Selling and marketing expenses increased $5.5 million, or 188%, in 2012 compared to 2011. This increase was primarily due to $3.1 million in net expense recognized under our co-promotion agreement with Genzyme, partially offset by amortization of the deferred fee. The remaining $2.4 million increase included a $1.4 million increase in personnel expenses as we hired a vice president of sales and additional sales representatives in 2012, a $0.4 million increase in marketing and promotional materials, a $0.3 million increase in allocated information technology, facilities and other costs and a $0.3 million increase in travel and meetings related expenses.

General and administrative

The $2.5 million, or 47%, increase in general and administrative expenses for 2012 compared to 2011 was due to a $1.8 million increase in personnel expenses primarily from increased headcount, higher bonus payments and higher stock-based compensation expense, a $0.3 million increase in professional fees and a $0.3 million increase in occupancy and equipment expenses.

Other income (expense), net

Other income (expense), net was $0.8 million for the year ended December 31, 2011, and is primarily comprised of $0.7 million related to the decrease in value of the preferred stock liability associated with our obligation to issue additional shares of Series B convertible preferred stock. In addition, $0.1 million represents a payment made to us by Genzyme in connection with the right to negotiate an exclusive co-promotion arrangement. Other income (expense), net was $0.3 million for the year ended December 31, 2012, which represents the decrease in value of the preferred stock liability associated with our obligation to issue additional shares of Series C convertible preferred stock.

Quarterly Results of Operations Data

The following table sets forth our unaudited quarterly statements of operations data and other data for each of the six most recent quarters in the period ended June 30, 2013. We have prepared the quarterly results of operations data on a consistent basis with the audited financial statements included elsewhere in this prospectus. In the opinion of management, the quarterly results of operations data reflects all necessary adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of this data. The statements of operations data should be read in conjunction with the financial statements

and related notes included elsewhere in this prospectus. The results of historical periods are not necessarily indicative of results for a full year or for any future period.

	Three Months Ended,					
	Mar 31, 2012	June 30, 2012	Sept 30, 2012	Dec 31, 2012	Mar 31, 2013	June 30, 2013
	(In thousands)					
Statements of Operations Data:						
Revenue	$ 1,468	$ 2,479	$ 3,224	$ 4,457	$ 4,384	$ 5,068
Operating expenses:						
Cost of revenue	1,254	1,746	1,984	2,600	2,773	3,231
Research and development	1,481	1,677	1,729	1,721	2,010	1,902
Selling and marketing	1,215	1,830	2,347	3,055	2,703	2,615
General and administrative	1,766	1,852	2,103	2,197	2,791	2,737
Total operating expenses	5,716	7,105	8,163	9,573	10,277	10,485
Loss from operations	(4,248)	(4,626)	(4,939)	(5,116)	(5,893)	(5,417)
Interest income	—	—	1	1	—	—
Interest expense	—	—	—	—	—	(5)
Other income (expense), net	—	—	—	278	(1,002)	(1,068)
Net loss	$ (4,248)	$ (4,626)	$ (4,938)	$ (4,837)	$ (6,895)	$ (6,490)
Other Operating Data:						
FNAs received	3,925	5,610	7,052	9,303	10,757	12,424

Revenue increased quarter over quarter through December 31, 2012 due to increased collections which resulted from increased adoption of Afirma. In the quarter ended March 31, 2013, the coding for the GEC changed to a miscellaneous code for certain diagnostic tests, including the GEC. This change resulted in longer collection times as payers had to change their internal systems, and we had to appeal more claims under the new coding. While the number of FNAs received continued to grow in the first quarter of 2013, revenue decreased from the quarter ended December 31, 2012 to the quarter ended March 31, 2013 due to several factors, including: Medicare's downward adjustment to the cytopathology fee schedule, the effect of the implementation of the automatic expense reductions under the Budget Control Act of 2011, the resetting of patient deductibles in the first quarter and third-party payers clearing pending claims before year end.

Operating expenses generally increased consistently with the growth of the business. Cost of revenue increases are directly related to the increasing volume of tests received during the quarters in 2012. During the quarters ended March 31 and June 30, 2013, we experienced increased costs due to the implementation of automation in our California laboratory that is expected to yield future cost efficiencies per test. We expect our cost of revenue to increase in a non-linear manner in the next several quarters as our Austin, Texas laboratory becomes fully operational. Our expenditures in research and development were lower in the quarter ended December 31, 2012 due to the timing of some large studies and experiments which were delayed and occurred in the quarter ended March 31, 2013. Our selling and marketing expenses decreased from the fourth quarter of 2012 to the first quarter of 2013, primarily due to contractual rate reductions under our co-promotion agreement with Genzyme which decreases take effect in the first quarter of each year. The continued decrease of our selling and marketing expenses from the quarter ended March 31, 2013 to the quarter ended June 30, 2013 was primarily due to the reduction of direct marketing and consulting expenses. Our general and administrative expenses increased from the quarter ended December 31, 2012 to the quarter ended March 31, 2013, primarily due to building out our Austin, Texas laboratory. The quarter ended March 31, 2013 also included non-recurring severance costs. General and administrative expenses remained relatively flat in the quarter ended June 30, 2013 due in part to the continued build out of the Austin facility, which began processing cytology samples in May, as well as

increases in professional and other expenses related to the growth of our business. We expect our general and administrative expenses will increase in the future as we continue to grow our business.

Liquidity and Capital Resources

Since inception, our operations have been financed primarily by net proceeds of $78.6 million from sales of our preferred stock and a $10.0 million payment from our co-promotion agreement with Genzyme, and since June 2013, borrowings under our loan and security agreement. As of December 31, 2012 and June 30, 2013, we had $14.0 million and $20.7 million of cash and cash equivalents, respectively.

In June 2013, we entered into a loan and security agreement with a financial institution. This agreement provides for term loans of up to an aggregate of $10.0 million. On entering into the agreement, we drew down an initial $5.0 million term loan. We may request a second term loan of up to $5.0 million on or prior to March 31, 2014. Loans drawn under the loan and security agreement will be used for working capital and general corporate purposes.

The initial term loan bears interest at a fixed rate equal to 6.06%. The second term loan, if drawn, will bear interest at a fixed rate equal to the greater of (a) 5.88% or (b) the three-year U.S. Treasury note rate, plus 5.40%. We are required to repay any outstanding principal amounts of each loan in 30 equal monthly installments beginning 18 months after the date of each borrowing. In each case, on the date of our final principal payment, we must also pay an end-of-term payment equal to 4.45% of the amount borrowed. We may, at our option, prepay the term loan borrowings by paying the lender a prepayment premium.

Our obligations under the loan and security agreement are secured by a security interest on substantially all of our assets, excluding our intellectual property and certain other assets. The loan and security agreement contains customary conditions 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 loan and security agreement does not require that we comply with any financial covenants.

In connection with the drawdown of the initial $5.0 million term loan under the loan and security agreement, we issued the lender a warrant to purchase 99,206 shares of our Series C preferred stock, which will become exercisable for the same number of shares of our common stock following completion of this offering. The warrant will expire on the seventh anniversary of this offering. If we draw down the second term loan under the loan and security agreement, we will issue the lender a second warrant with identical terms.

Our primary uses of cash are to fund our operations as we continue to grow our business. Cash used to fund operating expenses is impacted by the timing of when we pay expenses, as reflected in the change in our outstanding accounts payable and accrued expenses.

We believe that the estimated net proceeds from this offering, together with our existing cash and cash equivalents as of June 30, 2013, will be sufficient to meet our anticipated cash requirements for at least the next 24 months. Management may elect, however, to finance operations by utilizing available borrowings under our loan and security agreement or selling equity securities. If additional funding is required or desired, there can be no assurance that additional funds will be available to us on acceptable terms on a timely basis, if at all, or that we will generate sufficient cash from operations to adequately fund our operating needs or achieve or sustain profitability. If we are unable to raise additional capital or generate sufficient cash from operations to adequately fund our operations, we will need to curtail planned activities to reduce costs. Doing so will likely have an unfavorable effect on our ability to execute on our business plan.

Our estimate of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement and involves risks and uncertainties, and actual results could vary as a result of a number of factors. We have based this estimate on assumptions that may prove to be wrong, and we may utilize our available capital resources sooner than we currently expect.

The following table summarizes our cash flows for the periods indicated:

	Year Ended December 31,		Six Months Ended June 30,	
	2011	2012	2012	2013
	(In thousands)		(Unaudited)	
Cash provided by (used in) operating activities	$ (13,524)	$ (7,167)	$ 1,985	$ (10,623)
Cash used in investing activities	(331)	(1,462)	(642)	(891)
Cash provided by financing activities	18,646	15,065	66	18,195

Cash Flows from Operating Activities

Cash used in operating activities for the six months ended June 30, 2013 was $10.6 million. The net loss of $13.4 million reflects non-cash charges of $2.1 million for the change in the value of the preferred stock liability, $1.3 million in amortization of the deferred fee received from Genzyme, $0.4 million of depreciation and amortization, $0.5 million of stock-based and equity-based compensation and $0.1 million of bad debt expense. The increase in net operating assets of $0.9 million was primarily due to a $1.7 million increase in accrued liabilities due to timing of payments and a $0.3 million decrease in supply inventory due to the increase in volume of testing performed, offset by a $0.5 million increase in accounts receivable due to increased revenues from Medicare and a $0.6 million increase in prepaid expenses and other assets primarily related to costs for our anticipated initial public offering.

Cash provided by operating activities for the six months ended June 30, 2012 was $2.0 million. The net loss of $8.9 million reflects non-cash charges of $1.1 million in amortization of the deferred fee from Genzyme, $0.3 million of depreciation and amortization and $0.4 million of stock-based and equity-based compensation. The increase in net operating assets of $11.1 million was primarily due to the $10.0 million we received from Genzyme. Accounts payable and accrued liabilities increased $2.1 million due to the growth in our operations and the timing of our payments. Accounts receivable increased by $0.4 million due to the increase in accrued revenue in 2012 as we had only begun to sell Afirma in 2011. In addition, there was a $0.4 million increase in supplies inventory related to increased test volume.

Cash used in operating activities for the year ended December 31, 2012 was $7.2 million. The net loss of $18.6 million was offset by non-cash charges of $0.9 million of stock-based and equity-based compensation, $0.7 million for depreciation and amortization, $0.3 million for the change in value of the preferred stock liability and $0.2 million of bad debt expense. The increase in net operating assets of $12.3 million was primarily due to the $10.0 million deferred payment from Genzyme, of which we amortized $2.4 million as of December 31, 2012. Accounts payable and accrued liabilities increased $3.9 million due to the growth in our operations and the timing of our payments. Accounts receivable increased by $0.6 million due to the increase in accrued revenue in 2012 as we had only begun to sell Afirma in 2011. In addition, there was an $0.8 million increase in supplies inventory related to increased test demand.

Cash used in operating activities for the year ended December 31, 2011 was $13.5 million. The net loss of $14.4 million was offset by non-cash charges of $0.7 million of stock-based and equity-based compensation, $0.7 million for the change in value of the preferred stock liability, $0.6 million of depreciation and amortization, $0.2 million of bad debt expense and a $0.2 million loss on the disposal of property and equipment. The decrease in net operating assets of $0.1 million was primarily due to the increase in accounts receivable as 2011 was our first year with revenue, and an increase of $0.1 million in supplies inventory, offset by an increase in accounts payable and accrued liabilities of $0.6 million due to the growth in our operations and the timing of payments.

Cash Flows from Investing Activities

Cash used in investing activities is primarily related to the acquisition of property and equipment totaling $0.6 million and $0.9 million for the six months ended June 30, 2012 and 2013, respectively. Purchases of property and equipment were primarily related to research and development and laboratory equipment.

Cash used in investing activities is related to the acquisition of property and equipment totaling $0.3 million and $1.5 million for the years ended December 31, 2011 and 2012, respectively, and the change in restricted cash balance totaling $55,000 and $0 for the years ended December 31, 2011 and 2012, respectively. Purchases of property and equipment were primarily related to research and development and laboratory equipment.

Cash Flows from Financing Activities

Cash from financing activities for the six months ended June 30, 2013 primarily is from net proceeds of $4.9 million from the loan and security agreement we entered into in June 2013 and net proceeds of $13.0 million from the sale of our convertible preferred stock.

Cash from financing activities for the six months ended June 30, 2012 consists of proceeds of $66,000 from the exercise of options to purchase common stock.

Cash from financing activities for the years ended December 31, 2011 and 2012 of $18.6 million and $15.1 million, respectively, were primarily due to the net proceeds from the sale of our convertible preferred stock.

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2012 (in thousands):

	Payments Due by Period				
	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years	Total
Operating leases	$ 816	$ 1,927	$ 635	$ 130	$ 3,508

In February 2010, we entered into a non-cancellable lease agreement to lease our headquarters and laboratory space in South San Francisco, California. The lease expires in March 2016.

In November 2012, we entered into a non-cancellable lease agreement commencing February 2013 to lease laboratory space in Austin, Texas. The lease expires in July 2018.

In June 2013, we entered into a $10.0 million loan and security agreement with a financial institution, and drew down an initial term loan of $5.0 million. We are required to pay interest only on this loan for the first 18 months and then will begin paying principal and interest over the subsequent 30-month period.

Off-Balance Sheet Arrangements

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

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 $14.0 million and $20.7 million as of December 31, 2012 and June 30, 2013, respectively, which consist of bank deposits and money market funds. Such interest-bearing instruments carry a degree of risk; however, we have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in interest rates. A hypothetical 10% change in

interest rates during any of the periods presented would not have had a material impact on our financial statements.

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 2011, the Financial Accounting Standards Board, or FASB, issued authoritative guidance to achieve common fair value measurement and disclosure requirements between U.S. GAAP and International Financial Reporting Standards. This new literature amends current fair value measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. The guidance is effective for fiscal years and interim periods beginning after December 15, 2011. As this guidance provides only presentation requirements, its adoption did not impact our financial condition or results of operations.

In June 2011, the FASB issued authoritative guidance requiring companies to present items of net income, items of other comprehensive income and total comprehensive income in one continuous statement or two consecutive statements. This guidance eliminates the option for companies to present other comprehensive income in the statement of stockholders' equity. We adopted this standard in January 2012. As this guidance provides only presentation requirements, its adoption did not impact our financial condition or results of operations.

In February 2013, the FASB issued Accounting Standards Update (ASU) No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This ASU requires reporting and disclosure about changes in accumulated other comprehensive income balances and reclassifications out of accumulated other comprehensive income. We adopted this guidance as of January 1, 2013 on a prospective basis and the adoption did not have a material effect on our financial statements as we do not have comprehensive income (loss).

BUSINESS

Overview

We are a diagnostics company pioneering the field of molecular cytology to improve patient outcomes and lower healthcare costs. We specifically target diseases that often require invasive procedures for an accurate diagnosis – diseases where many healthy patients undergo costly interventions that ultimately prove unnecessary. We improve the accuracy of diagnosis at an earlier stage of patient care by deriving clinically actionable genomic information from cytology samples collected in an outpatient setting. Our first commercial solution, the Afirma Thyroid FNA Analysis, includes as its centerpiece our Gene Expression Classifier, which we refer to as the 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. We have demonstrated the clinical utility and cost effectiveness of the GEC in 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.

Since we commercially launched Afirma in January 2011, we have processed over 50,000 fine needle aspiration, or FNA, samples for evaluation using Afirma and performed more than 10,000 GECs in order to resolve indeterminate cytopathology results. We have received positive coverage decisions from Aetna, Humana, Medicare and UnitedHealthcare. Collectively, these payers represent more than 100 million covered lives. Additionally, we have entered into a global co-promotion agreement with Genzyme Corporation, a subsidiary of Sanofi. Our revenue has increased from $2.6 million in 2011 to $17.1 million for the trailing twelve months ending June 30, 2013.

For decades, pathologists have diagnosed complex diseases by evaluating cells taken from a surgical tissue sample. More recently, molecular diagnostic tests that analyze the genomic material in these samples have emerged as an important complement to surgical pathology by predicting outcomes and guiding treatment decisions. Both approaches, however, typically require relatively large quantities of tissue that must be obtained through an invasive surgical procedure. Cytopathology, which relies on small samples such as FNAs, collected in an outpatient setting, is often the first step in the diagnostic process because it offers a minimally invasive and cost effective alternative to surgery. However, cytology samples tend to be small and non-uniform, which contributes to a relatively high rate of diagnostic ambiguity, which results in many patients undergoing surgery to obtain an accurate diagnosis. Molecular diagnostics broadly used today are not designed to reduce this ambiguity.

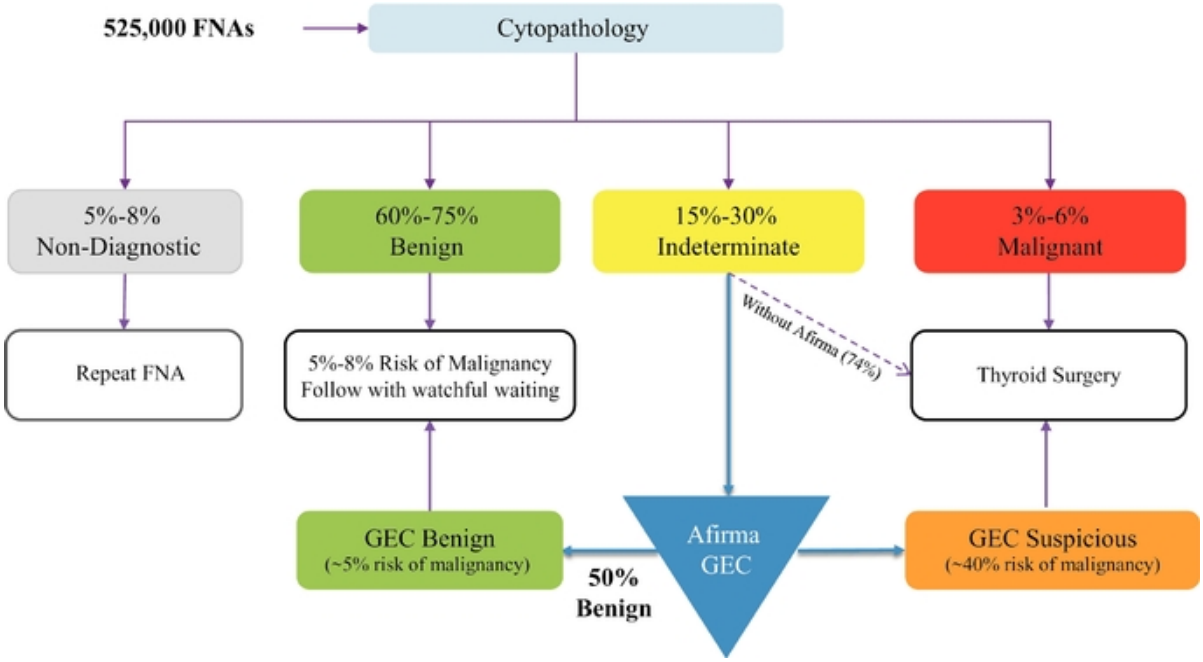
We are building our molecular cytology business by developing molecular diagnostics that yield clinically actionable genomic information from cytology samples, as opposed to surgical tissue samples. Molecular cytology identifies genomic signatures from cytology samples to inform clinical decisions prior to surgery. We believe molecular cytology has the potential to improve patient care while simultaneously lowering costs to the healthcare system in a broad range of areas including thyroid, pulmonology, dermatology and reproductive endocrinology. Based on our internal analysis and third-party data, we believe molecular diagnostic solutions to address these markets could represent an approximately $4.0 billion opportunity.

Our strategy is to focus on diseases in which a large number of patients undergo invasive and costly diagnostic procedures that could be avoided with a more accurate diagnosis from a cytology sample taken pre-operatively. In prioritizing our opportunities, we develop a detailed understanding of the unmet clinical need and the shortcomings of the current standard of care. We precisely define the clinical question in these diseases that, if informed by genomic information, would alter the standard of care in a way that improves patient outcomes while reducing costs in both the short- and long-term. Only then do we deploy our expertise in biomarker discovery and algorithm development to derive a genomic signature that provides meaningful diagnostic information. We position our diagnostic solution as an alternative to an invasive procedure and attempt to efficiently validate the accuracy of our diagnostic tests during product development by comparing our results to those obtained using the more invasive approach.

We developed our first commercial offering, Afirma, to address a significant unmet need in thyroid nodule diagnosis. Thyroid nodules, or bumps under the skin of the neck around the thyroid gland, are usually benign, however, patients with thyroid nodules larger than one centimeter are often referred to an endocrinologist for evaluation. Endocrinologists typically collect cells from the nodule for cytopathology with an FNA and send these samples to a cytopathologist for analysis. Approximately 525,000 thyroid FNAs were performed in the United States in 2011. Typically 15% to 30% of FNAs yield indeterminate results, meaning they cannot be diagnosed as definitively benign or malignant by cytopathology alone. Because the risk of malignancy is approximately 25% for an indeterminate diagnosis, clinical practice guidelines have historically recommended that patients with indeterminate cytopathology results undergo surgery to remove part or all of their thyroid to obtain an accurate pathology diagnosis. However, in 70%-80% of these cases, the thyroid nodule proves to be benign for cancer. We estimate the average cost of surgery to be $15,000, and surgery can result in complications and leave a patient in need of hormone replacement therapy for life.

Afirma is a comprehensive solution that consists of cytopathology and the GEC. The GEC reduces the number of unnecessary diagnostic surgeries by analyzing the genomic signature of FNA samples judged to be indeterminate by cytopathology and reclassifies about 50% of those nodules to a benign diagnosis. In *The New England Journal of Medicine* clinical validation study for the GEC, the study authors concluded that the GEC could be useful to physicians in making important patient care decisions, such as recommending watchful waiting in lieu of diagnostic surgery for patients who receive a GEC benign result following indeterminate cytopathology findings. A subsequent clinical utility study published in *Thyroid* covered 368 patients from 51 different endocrinologists. Each of these patients had both a cytopathology indeterminate result and a GEC-benign result. The study found that physicians recommended surgery in only 7.6% of these cases, representing a 90% reduction in surgeries when compared to the historical average for patients with cytopathology indeterminate results alone. We believe the GEC is currently the only diagnostic test that meets the criteria of the National Comprehensive Cancer Network, or NCCN, for safely monitoring patients with indeterminate cytopathology results in lieu of surgery.

The graphic below illustrates how Afirma changes the traditional method of thyroid nodule diagnosis.



In addition to thyroid cancer, there are many other complex diseases in which cytology samples play a critical role in clinical decision making. As with thyroid nodule diagnosis, inherent ambiguity in evaluation

of cytopathology samples often results in unnecessary costs and procedures that would be avoidable if a molecular diagnostic test could refine diagnoses reached by cytopathology alone. We are currently developing the Afirma Malignant GEC test to identify rare forms of thyroid cancer or metastases to the thyroid that is intended to better inform surgical strategy. We are also in late biomarker discovery in interstitial lung disease, a group of lung diseases affecting the tissue and space around the microscopic air sacs of the lungs that are difficult to diagnose prior to surgery. Specifically, we intend to improve the accuracy of diagnosis of idiopathic pulmonary fibrosis, one of the more progressive, often fatal, interstitial lung diseases, and to provide critical information to physicians and patients as they decide whether to pursue potentially lifesaving treatments and participate in clinical studies.

Limitations of Disease Diagnosis Today

Surgical pathology has long been part of the standard of care for diagnosis in many complex diseases, including the diagnosis of many kinds of cancer and lung diseases. Samples collected from surgeries allow multiple slices, or sections, of the tissue to be stained, permitting a pathologist to evaluate the shape and structure of the cells in question, or cellular morphology, that diagnostically classify the sample. However, surgical pathology by definition requires an invasive procedure. Cytopathology, or the analysis of small numbers of cells obtained by minimally invasive needle biopsies, scrapings or smears, what we refer to as cytology samples, is designed to provide a pathologic diagnosis using a small biopsy, obviating the need for surgery. However, cytology samples often have small numbers of cells for microscopic analysis which can make it difficult to make a definitive diagnosis. Even when tissue samples are obtained through a diagnostic surgery, there are limitations of microscopic review to guide patient care and treatment decisions. Cells that structurally appear the same by pathology review under a microscope may function differently over the course of disease progression. Predicting aggressiveness of disease, the likelihood of recurrence, which patients are likely to respond to treatment and which therapies would be most likely to improve outcomes is difficult. Even in cases in which pathology provides a definitive benign diagnosis, patient care would be meaningfully improved with lower costs if that diagnosis could be provided without surgery.

The role of genomic information in medical practice is evolving rapidly and has affected the diagnosis of disease as well as treatment decisions. Over the past decade, molecular diagnostic tests that analyze genomic material from surgical tissue samples have emerged as an important complement to evaluations performed by pathologists. Information at the molecular level enables one to understand more fully the makeup and specific subtype of disease to improve diagnosis. In many cases, the genomic information derived from these samples can guide treatment decisions as part of the standard of care. However, due to limitations of available technologies, many of these molecular tests require relatively large quantities of tissue with known levels of cellularity that most often must be obtained through an invasive surgical procedure.

Cytology samples offer a more attractive alternative for early, less invasive and less costly diagnosis. These samples are commonly obtained using minimally invasive methods, such as FNA biopsies, washings, brushings, lavages or bronchoscopy biopsies, from which to diagnose various diseases. Physicians typically collect these samples in an outpatient setting, without surgery, and therefore have the potential to offer a lower cost and less invasive approach to disease diagnosis. Cytology samples, however, are challenging for both traditional cytopathology, as well as molecular cytology, due to the small amount of cellular material obtained in the collection process and the often non-uniform nature of the collected tissue. The high rate of ambiguity in diagnosis on cytology samples today results in many patients undergoing other subsequent invasive procedures, often including surgery, to obtain an accurate diagnosis.

Extracting clinically meaningful genomic information from these small, heterogeneous cytology samples offers the potential to reduce ambiguity in diagnosis prior to surgery and inform treatment decisions at a much lower cost to the healthcare system.

Our Solution

We are pioneering the field of molecular cytology by developing molecular diagnostics that yield clinically actionable genomic information from cytology samples. Molecular cytology combines the screening benefits of a minimally invasive cytology sample with genomic information to inform disease diagnosis or treatment decisions pre-operatively. Our approach begins by developing a detailed understanding of the unmet clinical need and the current standard of care. We precisely define the clinical question in a disease area that, if informed by genomic information, would alter the standard of care in a way that reduces costs and improves patient outcomes. Only then do we deploy our scientific expertise in biomarker discovery and algorithm development to derive a genomic signature that provides meaningful diagnostic information. We focus on diseases in which a large number of patients undergo invasive and costly diagnostic procedures that could be avoided with a more accurate diagnosis from a cytology sample taken pre-operatively. Positioning our test as an alternative to an invasive procedure allows us to efficiently validate the accuracy of our test by comparing our test results to those obtained using the more invasive approach. Armed with clinical data that supports the use of molecular cytology in lieu of a more invasive or costly procedure, we believe we are well-positioned to support clinical studies that demonstrate how our products change the standard of care, improve patient outcomes and reduce costs.

We take an integrated team approach in identifying a large, unmet need and carefully defining the relevant clinical question and performance specifications we believe must be achieved to alter patient care. We then leverage the expertise we have developed in biomarker discovery and algorithm development to derive a genomic signature that provides an answer to that clinical question. In contrast to molecular diagnostics developed for surgical tissue, our solution solves many of the technical challenges associated with generating analytically valid and clinically relevant genomic information from smaller, heterogeneous cytology samples. To this end, we use a whole-genome approach for gene selection and machine-learning algorithms with statistical methods to identify the genomic signature that achieves the desired performance. Once we have a feasible genomic signature to move forward in product development, we partner with key opinion leaders to design and execute clinical studies that specifically validate the key attributes we believe will be required for broad adoption and reimbursement of our products.

In order to achieve broad clinical adoption and consistent reimbursement, we believe stakeholders in the healthcare system are increasingly demanding that a molecular diagnostic not only meet a rigorous standard of evidence supporting a test's ability to detect disease, but also provide information to physicians that affects clinical decisions, improves patient outcomes and favorably affects cost. Our clinical studies are designed to demonstrate that by deploying our solutions, physicians can safely avoid or delay a more invasive diagnostic procedure for a meaningful proportion of a patient population. Our studies are also designed to confirm that our diagnostic solution materially affects the standard of care and to quantify the resulting costs savings and benefits to patient care. The clinical evidence supporting the GEC is sufficiently robust to reduce diagnostic surgery on patients with cytology indeterminate results by approximately 90% as measured by our published clinical utility and clinical validity data.

We drive physician adoption and retention by marketing Afirma as the centerpiece of a comprehensive solution for improved disease diagnosis, which allows our solution to seamlessly integrate into a physician's practice workflow. We offer Afirma to physicians as a turnkey solution that combines cytopathology for every patient with the GEC when cytopathology yields ambiguous results. Our solution includes a complete patient report that guides decision making. By integrating disparate diagnostic procedures into one comprehensive offering, we can simplify and improve the diagnostic process for physicians and their patients while optimizing utilization of our molecular diagnostics to maximize clinical benefits and cost savings. We intend to duplicate this model with solutions we develop for other diseases.

Our capabilities in managed care and claims adjudication are essential to our success in obtaining positive coverage decisions and reimbursement. Our integrated team combines expertise in advocating for positive coverage decisions with specific insights into what tactical steps will maximize reimbursement from each payer. As a result, we have developed detailed knowledge of the intricacies of specific payer practices

and requirements, which informs our strategy across disease selection, clinical study design, marketing and sales.

Thyroid Cancer Diagnostic Market

Afirma addresses a large and growing thyroid nodule diagnostic market where significant ambiguity in cytopathology offers the potential to reduce the rate of surgery needed to diagnose or treat thyroid cancers. These dynamics offer an attractive opportunity for diagnostic improvement:

- *Large, growing market.* Thyroid cancer is the fastest growing cancer in the United States according to the American Cancer Society, and screening of nodules suspicious for cancer is rapidly increasing the number of thyroid FNAs performed. Approximately 525,000 thyroid FNAs were performed in the United States in 2011. We estimate the thyroid nodule diagnostic market opportunity today is approximately $500 million per year in the United States, consisting of an estimated $100 million of cytopathology testing, $350 million of GECs performed on indeterminate cytopathology samples and an additional $50 million related to a molecular cytology test for malignant thyroid FNA samples. Our market research indicates that there is an estimated $300 million market opportunity for the GEC internationally. We believe we can effectively market Afirma with a small specialty sales force in part because Afirma represents a significant innovation in the underserved thyroid cancer diagnostic market. Because Afirma represents a significant innovation for this underserved and relatively concentrated base of physicians, we believe we can effectively market Afirma with a small specialty sales force.

- *High costs of unnecessary surgery for patients and payers.* The biology of thyroid cells is complex. Microscopic analysis by a cytopathologist typically results in 15% to 30% of diagnoses being deemed indeterminate, meaning they cannot be diagnosed as definitively benign or malignant by cytopathology alone. This ambiguity results in confusion for doctors and patients. The 2011 NCCN Clinical Practice Guidelines in Oncology recommend these patients undergo a diagnostic surgery, which we estimate costs $15,000 on average. Post-surgical diagnosis indicates a benign condition in 70% to 80% of these surgeries but surgery can result in complications and leave a patient in need of hormone replacement therapy for life.

- *Concentrated base of customers.* We estimate that approximately 3,500 endocrinologists specialize in thyroid disease. While endocrinologists are responsible for diagnosing patients and referring them to surgery when necessary, endocrinologists generally do not perform the surgeries themselves. Afirma represents a new solution that endocrinologists can employ to better identify patients with benign results, where watchful waiting is the appropriate standard of care rather than referral to a surgeon.

- *Highly fragmented thyroid FNA cytopathology market.* We believe the analysis of thyroid FNAs is highly fragmented among local cytopathologists and a number of local, regional and national laboratories. As a result, turnaround times and analysis quality can vary between laboratories and cytopathologists. Because an ambiguous diagnosis often leads patients to opt for thyroid surgery, cytopathology practices that meet standards comparable to those found in leading academic settings have the potential to reduce the frequency of indeterminate diagnoses and subsequent thyroid surgeries.

Afirma Thyroid FNA Analysis

Afirma Thyroid FNA Analysis is our comprehensive solution for thyroid nodule diagnosis. Our customers, primarily endocrinologists, radiologists and head and neck specialists, can implement Afirma in their practice without any meaningful changes to their workflow. Samples for both cytology and the GEC are collected during one FNA procedure on the patient using well accepted techniques.

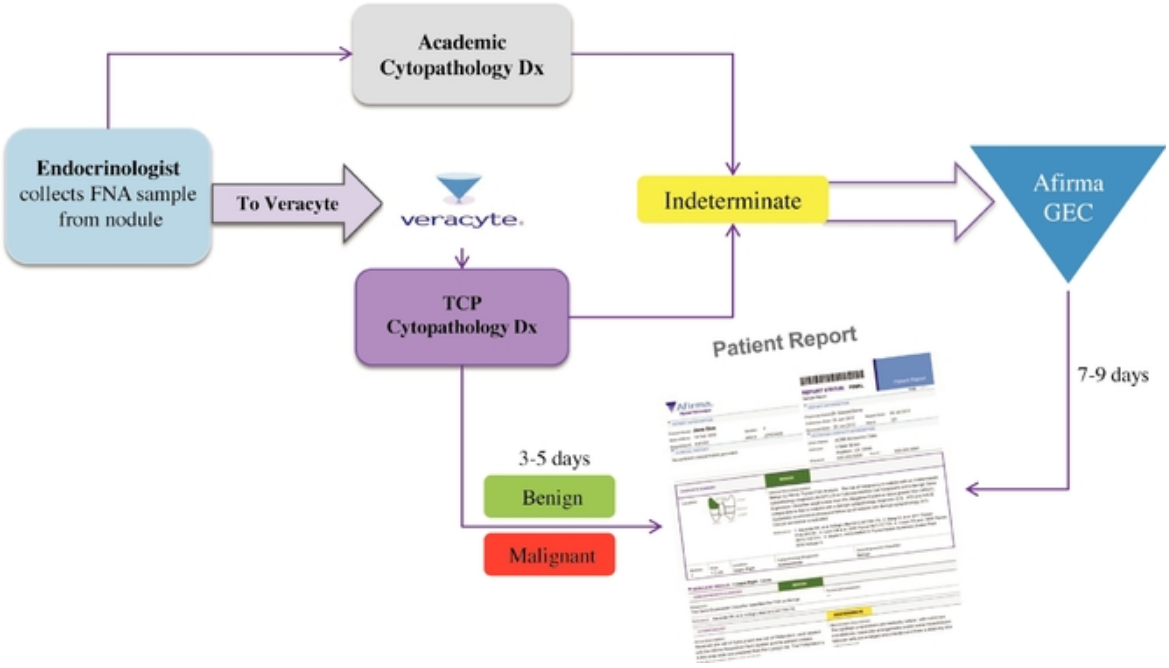
The majority of our customers practice in the community setting. Our community-based customers send both the cytopathology and the GEC samples overnight to our licensed CLIA laboratory for analysis. After we receive samples and accession them into our laboratory information system, the GEC samples are stored in a freezer while the cytopathology samples are prepared and stained for review by Thyroid Cytology Partners, or TCP, a specialized practice that provides cytopathology professional diagnoses on these samples. For additional information with respect to our relationship with TCP, please see "Business–Third-party Relationships". When cytopathology results are indeterminate, we perform the GEC on the patient's sample collected from the same FNA procedure. Approximately 14% to 17% of thyroid FNA biopsies to date from TCP have been classified as indeterminate and have been reflexed to the GEC. This rate is at the low end of the 15% to 30% range cited in the 2009 American Thyroid Association Guidelines, suggesting TCP's specialized focus on thyroid cytopathology offers results more consistent with academic settings. Through our relationship with TCP, the high quality of care historically only accessible to patients in academic settings is now broadly available.

By using a single thyroid-specialty laboratory to offer consistent cytopathology analysis, we can optimize quality and manage appropriate utilization, ensuring that the GEC is not run on cytologically benign or malignant samples, or where the FNA contains insufficient cellular material for diagnosis. Our ability to manage utilization is attractive to payers looking to capture the value we promise in patient care.

Physicians based in academic settings generally conduct cytopathology in their own laboratory. With Afirma, the GEC sample is preserved until they have processed the cytopathology results. The GEC samples from patients with a cytopathology indeterminate diagnosis are then sent overnight to our laboratory for analysis.

Whether the final result is rendered by cytopathology alone or a combination of cytopathology and the GEC, physicians receive an actionable answer based on samples collected in a single patient visit.

The graphic below illustrates the Afirma workflow:



Advantages of Afirma for Stakeholders

Patients

With the GEC, approximately half of the patients with indeterminate cytology results may avoid unnecessary, invasive diagnostic surgery. Patients who obtain an Afirma benign result avoid the potential for surgery-related complications, the effects of life-long hormone replacement therapy and the associated costs. We estimate that approximately 115,000 FNAs performed in the United States in 2011 yielded an indeterminate result. With Afirma, patients benefit from access to high-quality cytopathology services delivered as part of our comprehensive solution. Samples for both cytopathology and the GEC can be collected during one routine FNA procedure, delivering to patients a comprehensive assessment of their health status from the first office visit.

Physicians

Afirma enables every physician, regardless of practice setting, to offer his or her patients access to advanced technology for the diagnosis and management of thyroid nodules. We believe the GEC is the only test available today to reclassify an indeterminate thyroid diagnosis as benign with a risk of malignancy similar to that of a benign diagnosis by cytopathology alone. Afirma does not introduce any new steps into the physician's patient-care routine and eliminates the step of preparing slides for cytopathology. In addition, TCP, our cytopathology provider, is a specialized practice focused solely on performing thyroid FNAs and meets high quality standards with short turnaround times. According to a market research study conducted by a third party and commissioned by us and Genzyme, a survey of 229 endocrinologists indicated that 86% of 102 Afirma users reported that they were either extremely satisfied or very satisfied with the services of TCP. We participated in preparation of the questions used in the survey. We did not compensate Genzyme for the study. Genzyme is a party to our global co-promotion agreement for Afirma. For additional information with respect to our strategic relationship with Genzyme, please see "Business–Third-party Relationships".

Payers

Payers differentiate themselves by offering their insured the most advanced care available in medicine, however, payers are also under increased pressure to contain rising healthcare costs. Afirma allows payers to provide advanced care at a cost lower than the current standard of care. The first peer-reviewed and independent economic impact study, published in the *Journal of Clinical Endocrinology and Metabolism*, concluded that routine use of the GEC in the United States would prevent tens of thousands of surgeries each year. Based on our estimate of the average cost of surgery of $15,000 as well as clinical utility studies, we believe full adoption of Afirma would result in over $500 million in direct cost savings to the healthcare system over five years.

Our Strategy

Our goal is to resolve diagnostic ambiguity pre-operatively, allowing patients to avoid unnecessary procedures and generate significant cost savings for the healthcare system.

Key initiatives driving our strategy include:

- *Accelerate the growth of Afirma.* We will continue to drive rapid adoption of Afirma by expanding our base of prescribing physicians and achieving broader reimbursement. We plan to selectively grow our sales force in high-volume geographies domestically and leverage our marketing relationship with Genzyme to accelerate Afirma growth both in the United States and internationally. We intend to increase the body of clinical and pharmacoeconomic evidence to support Afirma's inclusion in additional clinical practice guidelines. We will use our inclusion in guidelines and the extensive data published on Afirma to date, coupled with our core expertise in managed care, claims adjudication, and billing to drive broader reimbursement.

- *Market our novel molecular diagnostic tests as the centerpiece of a comprehensive patient-care solution.* In each disease area we pursue, we intend to offer one comprehensive solution that integrates our tests with the disparate diagnostic procedures recommended by clinical practice guidelines. By applying a consistent, evidenced-based diagnostic framework to every patient that fits seamlessly within the physician's practice workflow, we reduce complexity for our customers and optimize utilization of our molecular diagnostics to maximize patient benefit and cost savings.

- *Drive cost and capital efficiencies by offering turnkey solutions to physicians in specialty markets.* The infrastructure we have built to make Afirma commercially available is designed to support a rapid acceleration in patient volumes as we drive broader adoption. Because we market Afirma in a specialty market as part of a turnkey solution, our targeted sales force is able to devote fewer resources to maintaining business with our existing base of prescribing physicians and instead focus on driving adoption of Afirma among new customers. As a result, we believe we are well-positioned to drive rapid margin improvements and achieve scale in Afirma with only incremental capital investments. We intend to target diseases that are well suited to this sales model whenever possible.

- *Broaden our addressable market in endocrinology.* Our product development pipeline includes additional genomic tests to complement Afirma that will serve our current base of physician customers. The large volumes of thyroid FNA samples we receive in the course of performing Afirma provides us with access to patient FNAs from rare malignancies or cancers that have metastasized to the thyroid gland. For example, in the second quarter of 2014, we plan to introduce the Afirma Malignant GEC, our first product line extension to guide surgical strategy for the treatment of medullary thyroid cancer and other rare and metastatic forms of thyroid cancer.

- *Expand molecular cytology to additional diseases.* We intend to apply our core competencies we have developed in disease selection, genomic discovery, clinical development, and managed care strategy to additional areas of unmet need. For example, we are pursuing a solution for ILD diagnosis that will offer an alternative to surgery by developing genomic signatures derived from cytology samples collected through less invasive bronchoscopy techniques. We intend to commercialize our first lung product in 2016 and believe this product will serve as the foundational application to expand our molecular cytology platform within the pulmonology vertical.

The Afirma Gene Expression Classifier

Development

For the GEC, we used a whole-genome approach to identify gene expression patterns that could best identify a benign thyroid nodule signature in thyroid FNA samples diagnosed as indeterminate by cytopathology. We utilized microarray technology to perform whole-genome analyses on hundreds of thyroid samples, producing a rich database of more than one billion genomic measurements of thyroid biology. We initially measured mRNA expression in over 247,000 transcripts before selecting the target genes to be measured. We acquired large numbers of FNA samples taken from endocrinology practices across the United States in the early development of the GEC. Because thyroid cancer is a complex disease with multiple, sometimes rare, subtypes, this approach provided the diversity of clinical samples that would be encountered both during clinical validation and in commercial practice. Our scientists then developed machine-learning algorithms using sophisticated statistical approaches to distill the large amount of genomic data, and to address FNA sample variability, dilution effects and RNA quantity and quality challenges. The development of the GEC first on thyroid surgical tissue and then on thyroid FNA samples was first published in 2010 in the *Journal of Clinical Endocrinology and Metabolism*.

Clinical Validation

We collaborated with clinicians across the country to demonstrate the clinical validity of the GEC in a range of practice settings. Clinical validity refers to the accuracy of the results from the GEC against diagnosis from expert pathological review of surgical tissue samples.

Preoperative Diagnosis of Benign Thyroid Nodules with Indeterminate Cytology (The New England Journal of Medicine, 2012)

In this study, which was sponsored by us and conducted with the support of institutional research grants from us, our gene expression classifier exhibited a negative predictive value, or NPV, of 95% for indeterminate results in the atypia or follicular lesion of undetermined clinical significance category (AUS/FLUS) and 94% for indeterminate results in the suspicious for follicular or Hürthle cell neoplasm category (SFN/SHN) and reclassified as benign over half of the true benign FNA samples that had indeterminate cytopathology diagnoses, which the authors defined to include any results suspicious for malignancy in addition to AUS/FLUS and SFN/SHN. This pivotal validation study employed a prospective, multicenter, double-blind study design to validate the accuracy of pre-operative GEC benign results compared to post-operative expert pathology review. It was the second prospective multicenter study validating the GEC approach. The study supported the consideration of a more conservative approach than surgery for most patients with thyroid nodules that are cytologically indeterminate but benign according to GEC results.

This large multicenter study included 49 academic and community practices across 26 states over 19 months. The study involved patients with ultrasonographically confirmed thyroid nodules one centimeter or larger in diameter. 4,812 thyroid FNA samples were prospectively collected from 3,789 patients. In the independent validation set of 265 nodules that were indeterminate by cytopathology, 85 were subsequently determined malignant by surgical pathology, equivalent to a 32% risk of malignancy. The GEC correctly identified 78 of the 85 malignant nodules as suspicious, a 92% sensitivity (95% confidence interval, or CI, 84 to 97). The GEC achieved a 52% specificity (95% CI 44 to 59) and reclassified as benign over half of the true benign FNA samples that had indeterminate cytopathology diagnoses. The authors concluded that a benign GEC result has a post-test probability of malignancy that is similar to the probability for operated nodules with cytologically benign features on an FNA, making watchful waiting a safe and effective clinical option for these patients.

Molecular Classification of Thyroid Nodules using High-Dimensionality Genomic Data (Journal of Clinical Endocrinology and Metabolism, 2010)

In this study, which we sponsored, our FNA trained classifier exhibited an NPV of 96% on a modest sized test set of indeterminate FNA samples, demonstrating an NPV similar to operated nodules with benign FNA cytology. In this study, the authors defined indeterminate results to include any cytological results suspicious for malignancy in addition to AUS/FLUS and SFN/SHN. This prospective, multicenter, double-blind study was the first study on an independent modest-sized set of FNA samples to clinically validate the gene expression classifier approach. In addition, this study demonstrated that even with substantial degradation of RNA and in the presence of blood, in some cases with dilution of up to 80%, the GEC correctly recognized benign nodules and did not miss malignancy in the majority of FNA samples.

In this study, the GEC was prospectively validated on an independent test set of 48 FNA samples, one-half of which had indeterminate cytopathology. The GEC exhibited an NPV of 96% and a specificity of 84%. The reference gold standard in this outcome study was the post-operative determination of whether the thyroid nodule was benign or malignant by expert endocrine surgical pathologists who were blinded to the GEC results. The authors concluded that the GEC performance and validation conducted on an independent validation set demonstrated a high enough specificity to reclassify over half of indeterminate FNAs as benign and that the observed NPV indicated that those nodules classified as benign by the GEC carry a similar risk of malignancy as a benign diagnosis by thyroid nodule FNA cytopathology alone.

Clinical Utility and Cost Effectiveness

We collaborated with clinicians to demonstrate the clinical utility of the GEC, which refers to the effect of the GEC result on treatment decision-making and patient outcomes. The clinical utility of the

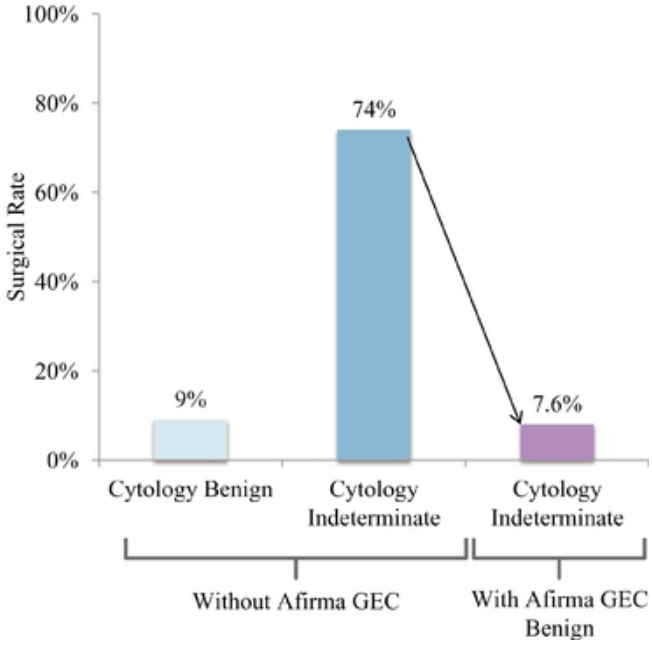
GEC is based on preventing surgery on cytologically indeterminate but benign thyroid nodules that would otherwise be referred for a diagnostic thyroid surgery. Because thyroid nodules with indeterminate FNA cytopathology have an approximately 25% risk of malignancy when resected, approximately 75% of these operations will likely be on nodules determined to be benign post-operatively. Thyroid surgery is associated with potential complications, including temporary and permanent hypocalcemia, recurrent laryngeal nerve injury (with voice change, dysphagia, and potentially airway compromise), and bleeding, with an incidence as high as approximately 2% to 10%. Hypothyroidism is an expected consequence of thyroid surgery, with patients requiring life-long thyroid hormone supplementation or replacement therapy. We believe the most appropriate metric for evaluating the clinical utility of the GEC is the reduction of surgeries performed on patients with benign nodules that are diagnosed as cytologically indeterminate. We believe the impact of the GEC on the physician and patient decision making is immediate and measurable from both the perspective of avoidance of unnecessary surgery and cost savings.

Clinical utility

The Impact of Benign Gene Expression Classifier Test Results on the Endocrinologist-patient Decision to Operate in Patients with Thyroid Nodules with Indeterminate Fine Needle Aspiration Cytopathology (Thyroid, 2012)

This study, which was sponsored by us and supported with institutional research grants, found that approximately one surgery was avoided for every two GECs run on thyroid FNAs with indeterminate cytopathology, which the authors defined to include any results suspicious for malignancy in addition to AUS/FLUS and SFN/SHN. This study evaluated the clinical utility of the GEC in a multicenter, cross-sectional survey of the endocrinologists' decision to operate on patients with a cytopathology indeterminate FNA and a benign GEC result. The study reviewed the first 2,040 GEC tests performed on samples that were classified as indeterminate by cytopathology, of which the GEC reclassified 52.3% of these results as benign. In the study, a cohort of 51 endocrinologists (46 community-based; 5 academic based) at 21 practice sites in 11 states completed case report forms on whether surgery was recommended for their Afirma benign patients. Of 368 unique patients (395 cytopathology indeterminate FNAs) for whom data was collected, physicians and patients opted for watchful waiting in lieu of diagnostic thyroid surgery 92.4% of the time when the GEC result reclassified the patient's indeterminate nodule as benign. Surgery was performed on only 7.6% (CI 5.1 to 10.8) of patients, compared to the 74% rate of surgery on indeterminate thyroid nodules previously reported by *Thyroid* in 2011, a 90% reduction in the decision to operate ($p < 0.001$). Additionally, this 7.6% rate of surgery is similar to the 9.0% rate of surgery associated with cytology benign FNA results reflects other factors considered by physicians, including the size and growth rate of the nodule, the presence of other suspicious or malignant nodules, and the presence of other symptoms. The study demonstrates the effect of the GEC on clinical decision making for patients with indeterminate thyroid nodules. The graph below sets forth the results of the study:

Afirma Gene Expression Classifier:
Proven Clinical Utility



In addition, such results were consistent with results from an earlier unpublished study presented at the American Thyroid Association annual scientific meeting in 2011, which reported the results of a web-and mail-based opinion survey of 32 physician practices, with a mean of 89% of physicians reporting that they recommended watchful waiting for patients with cytologically indeterminate FNAs but benign GEC results.

Health economics

*Cost-effectiveness of a Novel Molecular Test for Cytologically Indeterminate Thyroid Nodules (Journal of Clinical Endocrinology and Metabolism, 2011) ©The Endocrine Society**

This clinical study was conducted by researchers from the Johns Hopkins University School of Medicine. Supported with a research grant from us, the authors found that use of the GEC can potentially avoid almost three-fourths of currently performed surgeries in patients with benign nodules but indeterminate cytopathology results, which the authors defined to include any results suspicious for malignancy in addition to AUS/FLUS and SFN/SHN.

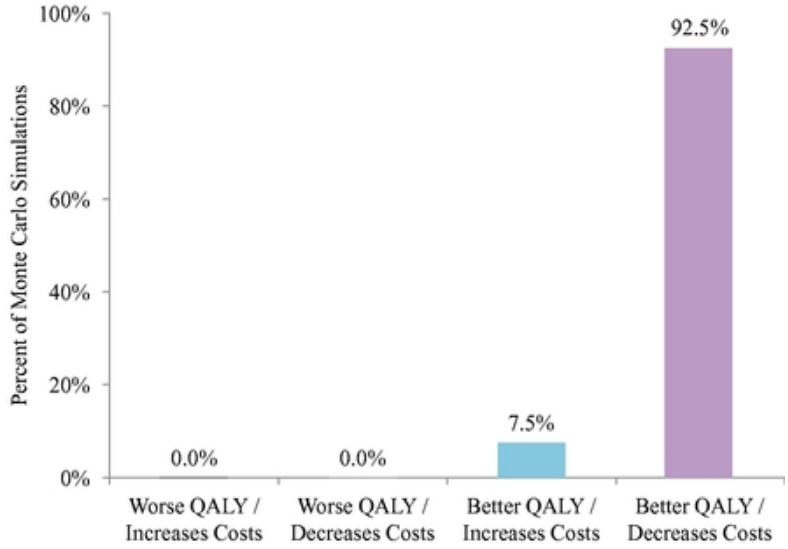
Researchers modeled the direct cost savings of utilizing the GEC in clinical practice. They developed a 16-state Markov decision model based upon the 2009 American Thyroid Association Guidelines for the treatment of adult patients with thyroid nodules with an FNA cytopathology indeterminate diagnosis. The decision model was based on clinical validation study results and expert opinion though model variables necessarily require a substantial degree of judgment. One million patient simulations were run through the decision model to represent five years of treatment and follow-up for patients who first presented with cytologically indeterminate thyroid nodules. Utilization of the GEC yielded an estimated direct cost savings of $1,453 and an increase of 0.07 quality adjusted life years, or QALYs, per patient, a modest increase in the quality of life. A Monte Carlo simulation of 10,000 trials testing the sensitivity of all variables across a range of values resulted in the GEC being both less costly and more effective in

* A co-author of this study is a consultant and member of our clinical advisory board, and owns shares of our common stock. This study was conducted with the support of institutional research grants by us.

improving care quality 92.5% of the time. A Monte Carlo simulation is the repeated sampling of random outcomes to predict likely outcomes. Additionally, the authors found no difference in cancers left untreated between the current care paradigm of sending patients with indeterminate nodules to surgery versus clinical observation following a benign GEC result. The authors concluded that if the GEC were to be universally adopted in routine clinical practice in the United States, every year 74% fewer surgeries would be performed on patients with benign nodules that cytopathology would have classified as indeterminate.

The cost savings estimate in the Johns Hopkins model was based on an estimated 14% rate of surgery on a GEC benign nodule, which rate is almost double the 7.6% subsequently reported in *Thyroid* as described above. Based on the rate of surgery on GEC benign nodules reported in *Thyroid*, we estimate that each GEC test would save approximately $2,600. The graph below sets forth the results of the study:

Impact on Patient Quality-Adjusted Life Years (QALY) and Cost Effectiveness of Incorporating GEC into Practice



Analytical Validity

Analytical Performance Verification of a Molecular Diagnostic for Cytology-Indeterminate Thyroid Nodules (Journal of Clinical Endocrinology and Metabolism, 2012)

We conducted extensive analytical performance studies to validate the performance of the GEC to ensure our ability to offer a robust, accurate and reproducible assay result on patient samples. Over 40 sub-studies were performed on a large number of FNA samples. In the above study, the GEC was subjected to an analytical verification study in our clinical laboratory.

This study found that the RNA content in an FNA sample that is preserved in our proprietary FNAProtect is stable for up to six days at room temperature with no changes in RNA yield or quality. Additionally, the GEC results were found to be stable over the range of shipping conditions expected in community practice. Analytic sensitivity studies demonstrated tolerance to variation in RNA input (5-25ng) and to the dilution of malignant FNA material down to 20%. Analytic specificity studies using malignant samples mixed with blood up to 83% and genomic DNA up to 30% demonstrated negligible assay interference with respect to false-negative results, although benign FNA samples mixed with relatively high proportions of blood demonstrated a potential for false-positive results. The GEC results were shown to be reproducible across operators, runs, reagent lots, and in inter-laboratory comparisons (standard deviation of 0.158 for scores on a >6 unit scale), demonstrating the highest level of evidence for analytic validity based on the Evaluation of Genomic Applications in Practice and Prevention, or EGAPP, criteria. Analytical sensitivity, analytical specificity, robustness, and quality control of the GEC were successfully verified, indicating its suitability for clinical use.

The table below summarizes the Afirma clinical studies that have been performed to date:

Study	Publication/ Presentation	Main Findings
Clinical Validity		
Preoperative Diagnosis of Benign Thyroid Nodules with Indeterminate Cytology[1][2]	*The New England Journal of Medicine* (August 2012)	• Pivotal clinical validation study (prospective, multicenter, double-blind) • A GEC benign result is comparable in accuracy to a benign cytology result
Molecular Classification of Thyroid Nodules Using High-Dimensionality Genomic Data[1]	*Journal of Clinical Endocrinology and Metabolism* (December 2010)	• First prospective, multicenter, double-blind validation study • Even in the presence of degraded RNA, bloody samples, or malignant samples diluted up to 80% with aspirate material from benign nodules, the GEC correctly recognizes benign nodules and does not miss malignancy in the majority of FNA samples
Clinical Utility		
The Impact of Benign Gene Expression Classifier Test Results on the Endocrinologist-Patient Decision to Operate on Patients with Thyroid Nodules with Indeterminate Fine-Needle Aspiration Cytopathology[1][2]	*Thyroid* (October 2012)	• Large multicenter study of endocrinologists' practices • Approximately one surgery was avoided for every two GEC tests run on thyroid FNAs with indeterminate cytology
Clinical Practice Impact of a Novel mRNA–based Gene Expression Classifier in Thyroid Nodules with Indeterminate Fine Needle Aspiration Cytopathology[1][2]	*American Thyroid Association* (*Abstract Poster Presentation*) (October 2011)	• Assessed clinical utility by surveying physicians' treatment decisions[3] • Applying the survey results to 540 patients with indeterminate cytopathology, physicians recommended watchful waiting and sonographic follow up in lieu of surgery in 89% (234 of 263) of patients with a benign GEC result
Health Economics		
Cost-Effectiveness of a Novel Molecular Test for Cytologically Indeterminate Thyroid Nodules[2][4]	*Journal of Clinical Endocrinology and Metabolism* (August 2011)	• Use of Afirma can potentially avoid almost three-fourths of currently performed surgeries in patients with benign nodules
Analytical Validity		
Analytical Performance Verification of a Molecular Diagnostic for Cytology-Indeterminate Thyroid Nodules[5]	*Journal of Clinical Endocrinology and Metabolism* (October 2012)	• Analytical sensitivity, analytical specificity, robustness, and quality control of the GEC were successfully verified, indicating its suitability for clinical use
Other Studies		
A Large Multicenter Correlation Study of Thyroid Nodule Cytopathology and Histopathology[1]	*Thyroid* (March 2011)	• Prospective multicenter study and meta-review of 11 recently published U.S. based pathology series • Two-thirds of cytologically indeterminate nodules[3] were found to be benign post-operatively • Operated cytology benign nodules were found to have an 11% risk of malignancy in the prospective study and 6% risk of malignancy in the meta-review (range 2%-18%)

(1) Sponsored by Veracyte.

(2) Supported with institutional research grants from Veracyte.

(3) Indeterminate results were defined to include any cytological results suspicious for malignancy in addition to AUS/FLUS and SFN/SHN.

(4) A co-author of this study is a consultant and member of our clinical advisory board, and owns shares of our common stock.

(5) Conducted by Veracyte.

The table below summarizes review articles related to Afirma that have been published to date:

Title	Publication	Summary
Use of the Afirma Gene Expression Classifier for Preoperative Identification of Benign Thyroid Nodules with Indeterminate Fine Needle Aspiration Cytopathology[1]	*PLoS Currents: Evidence on Genomic Tests* (February 2013)	• Studies reviewed regarding clinical validity, analytic validity, and clinical utility support recommendation for offering patients the alternative of using the GEC in lieu of thyroid resection in the specific case of thyroid FNAs with indeterminate cytopathology
Minimizing Unnecessary Surgery for Thyroid Nodules	*The New England Journal of Medicine* (August 2012)	• Clinical algorithm recommending monitoring in lieu of diagnostic surgery in patients with indeterminate FNA cytopathology results
Diagnostic Use of Molecular Markers in the Evaluation of Thyroid Nodules[3]	*Endocrine Practice* (September/October 2012)	• Genomic tests exhibit variable performance characteristics and require clinical validation in prospective, multicenter, blinded studies before widespread adoption
Molecular Biomarkers in Thyroid FNA Samples	*Journal of Clinical Endocrinology & Metabolism* (December 2012)	• Prospective, large scale validation of Afirma provides the broadest available data among any of the thyroid nodule diagnostic tests • Clinical implementation of genomic tests requires robust demonstration of analytic validity, as reported for Afirma in Walsh et al JCEM 2012
Diagnosis and Management of Differentiated Thyroid Cancer using Molecular Biology[4]	*Laryngoscope* (April 2013)	• As many as 30-40% of thyroid carcinomas do not display known somatic oncogene mutations and may harbor novel genetic alterations • The mutation assessment test may serve best as a diagnostic algorithm to identify suspected malignancy with an NPV of up to 95%, Afirma may serve to exclude malignancy • Molecular markers can be classified broadly into those with high positive predictive value (BRAF, RET/PTC, PAX8/PPARc) and those with potentially high negative predictive value (gene expression microarrays)
Molecular markers in the diagnosis of thyroid nodules[2]	*Brazilian Archives of Endocrinology and Metabolism* (March 2013)	• Gene expression microarrays may eliminate the need for unnecessary diagnostic lobectomy in 60% to 90% of cases • The Afirma GEC raises specificity on indeterminate cytology thyroid nodules from 0% to 52%, effectively reducing the need to operate by one-half
Progress in Molecular-based Management of Differentiated Thyroid Cancer[3]	*The Lancet* (March 2013)	• The GEC performed best on the atypia of undetermined significance (AUS) or follicular lesion of undetermined significance (FLUS) and follicular neoplasm or suspicious for follicular neoplasm lesions (SFN/SHN) (sensitivity 90%, NPV 94-95%), whereas the NPV was lower for the suspicious for malignancy lesions (85%), which have a higher prevalence of malignancy

(1) Co-authored and sponsored by a research grant from Veracyte.

(2) Sponsored by Veracyte.

(3) A co-author of this study has received research support from Veracyte.

(4) Two co-authors are Veracyte consultants.

Practice Guidelines

We believe inclusion of new products in practice guidelines is essential to drive their broad adoption and reimbursement. In order to change patient care, tests must carry a high level of published evidence demonstrating clinical validity, analytic validity, clinical utility and cost effectiveness. When studies with such evidence are published in peer-reviewed journals, the authors of practice guidelines may assess the level of evidence and determine whether modifying existing guidelines to include new technology is warranted. In January 2013, the NCCN modified its thyroid cancer guidelines to recommend that physicians consider molecular testing for those patients with cytopathology indeterminate thyroid nodules who have a low risk of cancer. The revised NCCN guidelines further suggest that if a molecular diagnostic test predicts a risk of malignancy comparable to the risk of malignancy of a benign cytopathology result, observation in lieu of a diagnostic surgery is recommended. Based on published evidence, the GEC meets these criteria. We believe our published evidence provides a basis for the American Thyroid Association and the American Association of Clinical Endocrinologists to consider inclusion of the GEC in their treatment guidelines. Additionally, UpToDate, a leading evidence-based clinical decision support resource for physicians, recommended the GEC in its February 2013 review.

Marketing and Sales

Marketing

Our marketing strategy focuses on the comprehensive nature of the Afirma Thyroid FNA Analysis which includes as its centerpiece our proprietary GEC. Our comprehensive solution reduces the number of unnecessary diagnostic surgeries for patients with thyroid nodules. We believe our solution-based approach differentiates us in the marketplace because we serve as a one-stop provider–Afirma integrates disparate diagnostic procedures into one comprehensive offering, simplifying and improving the diagnostic process for physicians. Our approach can deliver a number of benefits to physicians, payers, and patients, including:

- reduction of unnecessary thyroid surgeries;
- lower healthcare costs; and
- actionable information from a single patient visit.

We employ diverse marketing programs to inform key stakeholders of the value of our solution in order to drive adoption and reimbursement. As part of our marketing strategy, we educate physicians, healthcare professionals and managed care executives about our unique value proposition, which is supported by numerous peer-reviewed publications demonstrating the analytical and clinical validity, clinical utility and cost-effectiveness of Afirma. We primarily achieve this through national and regional clinical meetings focused on thyroid and endocrine disease and disorders. We also sponsor physician speaker programs and continuing medical education where both academic and community physicians educate their peers on the benefits of Afirma and provide personal testimony of the value they have provided to their patients using Afirma. We market to patient advocacy organizations and managed care organizations directly through meetings, phone calls and direct educational efforts. Finally, our website serves as a portal for educational material for healthcare professionals, payers and patients.

Sales

Pursuant to our co-promotion agreement with Genzyme, we engage in joint marketing efforts with sales professionals from Genzyme. Our primary target market for Afirma is the approximately 3,500 endocrinologists in the United States whom we believe perform the majority of FNAs in community-based practice settings. To address this concentrated market, we deploy a team of our internal sales professionals and professionals from Genzyme that specialize in endocrinology sales. Our sales team is organized into eight regions, with each region having a Veracyte sales person complemented by Genzyme sales professionals. We have designed sales goals and financial incentives to align the interests of all sales

representatives, regardless of company affiliation, to drive Afirma adoption and growth. Our combined sales team has significant experience selling sophisticated diagnostic services to physicians and deep expertise working with endocrinologists who diagnose and treat patients with thyroid cancer.

We have experienced a high level of customer retention. Of the physicians who ordered five or more tests in 2011, more than 80% remain customers today.

We, together with Genzyme, are in the early stages of commercializing Afirma internationally. We intend to selectively target attractive markets for entry beginning in 2014.

Third-party Relationships

Genzyme

On January 18, 2012, we entered into a co-promotion agreement with Genzyme Corporation, a subsidiary of Sanofi, whereby we granted Genzyme the co-exclusive right to market Afirma in the United States and in 40 countries pursuant to which we received a $10.0 million up-front fee from Genzyme. Genzyme is an established leader in endocrinology globally, developing and commercializing Thyrogen®(thyrotropin alfa for injection) in over 42 countries worldwide. Thyrogen is an adjunctive diagnostic agent used in follow up of patients with well-differentiated thyroid cancer, and an adjunctive treatment for ablation or destruction of thyroid remnants in patients who have had their thyroid removed for the treatment of well-differentiated thyroid cancer. Afirma offers the Genzyme endocrinology sales force a diagnostic solution that can be promoted as part of a comprehensive solution aimed at improving the quality of care for patients with suspected or confirmed thyroid cancer. We began joint marketing under the agreement in June 2012. We manage the relationship through a steering committee that oversees tactical and strategic planning activities.

Under the agreement, we are required to pay Genzyme a co-promotion fee that is equal to a percentage of our cash receipts from Afirma. As of January 18, 2013, the percentage is 40%, but it will decrease to 32% in March 2014 and thereafter. We may receive up to an additional $3.0 million from Genzyme consisting of $0.6 million for each country outside of the United States in which we obtain regulatory authorization to market Afirma and achieve a specified level of reimbursement, for up to five countries. Genzyme has also agreed to spend $0.5 million to support clinical development expenses required for entry into the international markets covered by our agreement. This obligation expires in July 2014. We record the Genzyme co-promotion fees, net of amortization related to the upfront fee, within selling and marketing expense in our statements of operations.

Our agreement with Genzyme expires January 18, 2027 and either party may terminate the agreement at any time without cause and with six months prior notice. If we terminate the agreement without cause prior to January 18, 2014, we will be required to repay 50% of the $10.0 million up-front fee, with such percentage being reduced to 40% of such fee if we were to terminate the agreement between January 18, 2014 and January 18, 2015, and 30% of such fee if we were to terminate between January 18, 2015 and January 18, 2016. After January 18, 2016, we are not required to return any portion of the fee if we terminate the agreement without cause. In addition, either party may terminate the agreement upon the occurrence of certain events or cause. We have also granted Genzyme a right of first offer to co-promote any future thyroid cancer product that we commercialize.

TCP

We rely on Thyroid Cytology Partners, P.A., or TCP, to provide cytopathology professional diagnoses on thyroid FNA samples pursuant to a pathology services agreement. We originally entered into the pathology services agreement in November 2010 with Brazos Valley Pathology, P.A. D/B/A Reitpath which assigned the contract to TCP in May 2011. In December 2012, we further amended the pathology services agreement. Pursuant to the agreement, as amended in full, TCP has the exclusive right to provide the cytopathology diagnoses on FNA samples that are referred to us as part of the Afirma solution at a fixed

price per test with volume discounts. TCP can terminate the agreement upon our failure to pay any amounts due under the contract, and either we or TCP can terminate the agreement upon the insolvency of the other party, breach of the agreement by the other party, termination or breach of the service terms or the suspension or termination of the necessary regulatory licenses and approvals needed to perform the FNA diagnoses. We have also agreed to allow TCP to co-locate in a portion of our facilities in Austin, Texas. TCP has agreed to reimburse us for a portion of our actual out-of-pocket rental and related operating expense costs. Our agreement with TCP is effective until December 2015 and thereafter automatically renews every year unless either party provides notice of intent not to renew at least twelve months prior to the end of the then-current term.

Reimbursement

Revenue for Afirma comes from several sources, including commercial third-party payers, such as insurance companies and health maintenance organizations, government payers, such as Medicare and Medicaid, and patients.

Payer Landscape for Afirma

Reimbursement for Afirma is comprised of two separate components: routine cytopathology and, when cytopathology yields an indeterminate result, reimbursement for the GEC. Substantially all patient samples are assessed with cytopathology for which we bill both the technical and professional component using established CPT codes. We bill payers directly for the GEC using either a unique code or a miscellaneous code. Payers generally assign the GEC its own specific code once a contracting decision is made by the payer.

Effective January 2012, Palmetto GBA, a Medicare administrative contractor with jurisdiction at that time over reimbursement coverage determinations for our products, completed and published an independent technology assessment of Afirma. The review determined that Afirma met criteria for analytical and clinical validity, and clinical utility as a reasonable and necessary Medicare benefit. This coverage decision provided approximately 50 million Medicare participants with access to Afirma.

As of July 2013, more than 100 million lives are covered for Afirma and hundreds of payers have reimbursed one or more GEC tests. We obtained a positive coverage decision from UnitedHealthcare in March 2013, Aetna in June 2013 and Humana in July 2013.

Dependence on Certain Third-party Payers

We rely on a small number of third-party payers for a significant portion of our revenue. Reimbursement on behalf of patients covered by Medicare accounted for 34% and 35% of our revenue for the year ended December 31, 2012 and for the six months ended June 30, 2013, respectively. UnitedHealthcare accounted for 12% and 14% of our revenue for the year ended December 31, 2012 and for the six months ended June 30, 2013, respectively. Aetna accounted for 13% and 7% of our revenue for the year ended December 31, 2012 and for the six months ended June 30, 2013, respectively. The loss of one or more of these payers would have a negative effect on our business and our revenue.

Reimbursement Strategy

We employ a multi-pronged strategy designed to achieve broad coverage and reimbursement for Afirma:

Meet the evidence standards necessary to be consistent with leading clinical guidelines. We believe inclusion in leading clinical practice guidelines plays a critical role in payers' coverage decisions. The data published on the GEC to date is consistent with the requirements of the widely-recognized NCCN clinical practice guidelines. We believe that our data provides compelling evidence for inclusion in the American Thyroid Association and the American Association of Clinical Endocrinologists guidelines as well.

Execute an internal managed care policy and claims adjudication function as part of our core business operations. We believe that obtaining adequate and widespread reimbursement is a critical factor in our long-term success. We employ a team of in-house claims processing and reimbursement specialists who work with patients and payers to obtain maximum reimbursement. In parallel, a managed care team collaborates with our reimbursement specialists to ensure our payer outreach strategy reacts and anticipates the changing needs of our customer base. Our customer service team is an integral part of our reimbursement strategy, working with patients and physician practices to navigate the claims process.

Cultivate a network of key opinion leaders. Key opinion leaders are able to influence clinical practice by publishing research and determining whether new tests should be integrated into practice guidelines. We collaborate with key opinion leaders early in the development process to ensure our clinical studies are designed and executed in a way that clearly demonstrates the benefits of our tests to physicians and payers.

Compile a growing library of peer-reviewed studies that demonstrate the test is effective. To date, several peer-reviewed articles and review papers have been published and have helped support our efforts aimed at widespread adoption and reimbursement of Afirma. In each disease area we pursue, we intend to conduct studies in order to develop similar supporting literature.

Our Product Pipeline

We are continuously evaluating substantial unmet clinical needs in large, addressable markets where we can leverage our molecular cytology platform to commercialize comprehensive solutions that improve quality of life for patients by reducing unnecessary surgeries and costs. Today, minimally invasive cytology biopsies are routinely collected from numerous organs such as breast, cervix, endometrium and others. Similar to thyroid, these often generate ambiguous results that lead to invasive procedures including surgery.

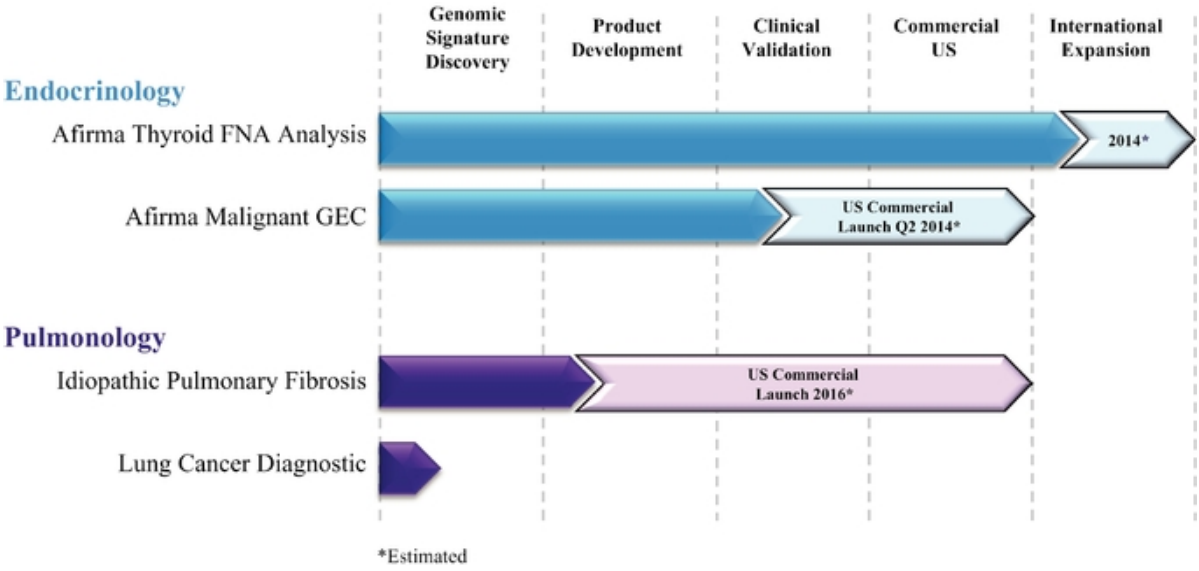
Afirma Malignant GEC

Our product development pipeline includes additional molecular cytology tests to complement Afirma that can serve our current customer physician base. We believe we can add value to physicians, payers, and patients by characterizing thyroid nodule FNAs classified as suspicious or malignant by cytopathology with genomic information that determines subclass or suspected malignant diagnosis that could influence the choice of surgery. Several clinical manifestations that may present as a malignant thyroid nodule, such as a recurrent metastatic cancer from another organ or parathyroid conditions, would not be treated by removing the thyroid. Additionally, medullary thyroid cancer, a rare and aggressive form of thyroid cancer, requires a full central neck and lymph node surgery for treatment. Today, many of these remain undiagnosed until thyroid surgery is performed, requiring a second and more invasive surgery. We believe the only way to positively affect patient care and costs is to diagnose these conditions from the FNA. Our Afirma Malignant GEC test is being developed to inform on surgical strategy using the FNA and direct the patient to the right surgery the first time. We intend to introduce this product in the second quarter of 2014, which will expand the number of patients for which we can perform testing using the Afirma solution.

Idiopathic Pulmonary Fibrosis and Nodules Suspicious for Lung Cancer

We believe the lung disease market provides several opportunities to expand our molecular cytology platform to improve patient care and reduce costs. We have chosen ILDs as our entry into the lung vertical, as it is a large and often overlooked disease area in need of diagnostics that would meaningfully improve the standard of care. We estimate that over 200,000 patients present each year with an ILD for whom accurate diagnosis is crucial in order to develop optimal treatment plans and accurately communicate prognosis. Bronchoscopy, a minimally invasive procedure often used to diagnose lung cancer, is typically inadequate for definitive diagnosis of ILDs. As a result, tens of thousands of patients undergo expensive and invasive diagnostic surgeries.

We are in late stage biomarker discovery for IPF, one of the more challenging ILDs to diagnose. Based on our results, we are now investing in the collection of prospective samples and advancing the program into product development. We also have early biomarker discovery efforts underway to help resolve the diagnosis of nodules found on imaging modalities that are suspicious for lung cancer.



Research and Development

Our technology platform offers a number of key attributes:

- *Core expertise in whole genome analysis.* Our team of bioinformatics and computational scientists possess extensive knowledge of both existing computational methods as well as the capacity to develop proprietary methods as needed for algorithm design. We demonstrated our ability to make sense of large amounts of genomic data with machine learning algorithms in the development of the GEC.

- *Proprietary capabilities in analyzing small, heterogeneous cytology samples.* We have developed proprietary technology, intellectual property and know-how for optimized methods for extraction and analysis of nanogram quantities of RNA from small biopsy samples. Although others can extract RNA from FNAs, we believe their process has not been optimized and scaled for high-throughput clinical testing and large-scale clinical development studies involving amplification and hybridization to high-density microarrays. Our process uses commercially available reagents and instruments with our own proprietary process and protocols, which results in RNA extraction from the range of FNAs used in our clinical development studies and our commercial laboratory test.

- *Precision and reproducibility.* We have in place standard operating procedures governing reagents, materials, instruments and controls and extensive experience from numerous verification studies performed for the GEC. We are applying the same high-quality control methods that were developed for our reagents and processes, along with our proprietary software for automation, sample tracking, data quality control and statistical analysis, to our development process in interstitial lung disease and expect to do so for other diseases in the future.

- *Technology agnostic discovery platform.* We are not reliant on specific formats and are able to take advantage of a multitude of genomic technologies in developing future tests. When we developed the GEC in 2008, microarray technologies were a cost-effective discovery technology compared to other approaches that were nascent at the time. More recently, the rapid cost reductions achieved

in next generation sequencing platforms has allowed us to pursue our whole genome approach to biomarker discovery using a range of technologies, including gene expression and DNA methylation, as well as DNA and RNA sequencing.

Our research and development expenses for the years ended December 31, 2011 and 2012 and for the six months ended June 30, 2013 were $6.7 million, $6.6 million and $3.9 million, respectively.

Laboratory Operations

Our laboratory operations are headquartered at our CLIA-certified laboratory in South San Francisco, California, where we perform all GEC testing. Beginning in May 2013, our customers began shipping samples to our laboratory in Austin, Texas. Once received, samples are processed through our automated accessioning system, prepared for cytopathology review, and delivered to TCP for cytopathology diagnosis. If an FNA sample is diagnosed as indeterminate following cytopathology, the sample is transferred to South San Francisco where we perform GEC testing. Our South San Francisco facility is responsible for quality assurance oversight, licensing and regulation compliance and maintenance for both of our laboratories to ensure data integrity and consistent, validated processes.

We believe we have sufficient laboratory capacity to process Afirma tests for at least the next 24 months.

Quality Assurance

Our quality assurance function oversees quality of the our laboratories as well as the quality systems used in research and development, client services, billing operations and sales and marketing. We have established a quality system implementation and maintenance, document control, supplier qualification, corrective or preventive actions oversight, and employee training processes that we believe achieves excellence in operations across the entire business. We continuously monitor and improve our quality over time and believe our implementation of these processes has supported our achievement of product performance, customer satisfaction and retention and a philosophy of continuous improvement.

Competition

We believe the principal competitive factors in our target market include:

- quality and strength of clinical and analytical validation data;
- confidence in diagnostic results;
- the extent of reimbursement;
- inclusion in practice guidelines;
- cost-effectiveness; and
- ease of use.

We believe we compete favorably on the factors described above.

Our principal competition for Afirma comes from traditional methods used by physicians to diagnose thyroid cancer. 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 will need to educate physicians about the benefits of our test in order to change clinical practice.

We also face competition from commercial laboratories, such as Laboratory Corporation of America Holdings and Quest Diagnostics Incorporated, with strong infrastructure to support the commercialization of diagnostic services. We face potential competition from companies, such as Life Technologies Corporation, which is currently expected to be acquired by Thermo Fisher Scientific Inc., and

Illumina, Inc., both of which have recently announced their intention to enter the clinical diagnostics market. Other potential competitors include companies that develop diagnostic tests such as Roche Diagnostics, a division of Roche Holding Ltd, Siemens AG and Qiagen N.V. We also face competition from Asuragen Inc. and other companies that measure mutational markers such as BRAF and KRAS to identify nodules that are malignant instead of benign. In the future, we may also face competition from companies developing new products or technologies.

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.

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 solutions 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 our stock price to decline.

Intellectual Property

In order to remain competitive, we must develop and maintain protection of the proprietary aspects of our technologies. To that end, we rely on a combination of patents, copyrights and trademarks, as well as contracts, such as confidentiality, invention assignment and licensing agreements. We also rely upon trade secret laws to protect unpatented know-how and continuing technological innovation. In addition, we have what we consider to be reasonable security measures in place to maintain confidentiality. Our intellectual property strategy is intended to develop and maintain our competitive position.

As of June 30, 2013, we had six pending United States nonprovisional patent applications and one allowed patent application related to methods that are used in the Afirma diagnostic and one pending United States provisional patent application relating to our lung disease product under development. Many of these patent applications have also been filed in one or more foreign countries.

We intend to file additional patent applications in the United States and abroad to strengthen our intellectual property rights; however, our patent applications (including the patent applications listed above) may not result in issued patents in a timely fashion or at all, and we cannot assure investors that any patents that have issued or might issue will protect our technology. We may receive notices of claims of potential infringement from third parties in the future. For additional information, see the section of this prospectus captioned "Risk Factors–Risks Related to Intellectual Property".

We hold registered trademarks in the United States for "Veracyte" and "Afirma".

We require all employees and technical consultants working for us to execute confidentiality agreements, which provide that all confidential information received by them during the course of the employment, consulting or business relationship be kept confidential, except in specified circumstances. Our agreements with our research employees provide that all inventions, discoveries and other types of intellectual property, whether or not patentable or copyrightable, conceived by the individual while he or she is employed by us are assigned to us. We cannot provide any assurance, however, that employees and consultants will abide by the confidentiality or assignment terms of these agreements. Despite measures taken to protect our intellectual property, unauthorized parties might copy aspects of our technology or obtain and use information that we regard as proprietary.

Regulation

Clinical Laboratory Improvement Amendments of 1988, or CLIA

As a clinical reference laboratory, we are required to hold certain federal, state and local licenses, certifications and permits to conduct our business. Under CLIA, we are required to hold a certificate applicable to the type of laboratory examinations we perform and to comply with standards covering personnel, facilities administration, quality systems and proficiency testing.

We have current certificates under CLIA to perform testing at each of our locations. To renew our CLIA certificates, we are subject to survey and inspection every two years to assess compliance with program standards. The regulatory and compliance standards applicable to the testing we perform may change over time, and any such changes could have a material effect on our business.

If one of our clinical reference laboratories is out of compliance with CLIA requirements, we may be subject to sanctions such as suspension, limitation or revocation of our CLIA certificate, as well as directed plan of correction, state on-site monitoring, civil money penalties, civil injunctive suit or criminal penalties. We must maintain CLIA compliance and certification to be eligible to bill for diagnostic services provided to Medicare beneficiaries. If we were to be found out of compliance with CLIA requirements and subjected to sanction, our business could be harmed.

U.S. Food and Drug Administration: Diagnostic Kits

Diagnostic kits that are sold and distributed through interstate commerce are regulated as medical devices by the FDA. Devices subject to FDA regulation must undergo premarket review prior to commercialization unless the device is of a type exempted from such review. In addition, manufacturers of medical devices must comply with various regulatory requirements under the Federal Food, Drug, and Cosmetic Act, or FDC Act, and implementing regulations promulgated under that Act. Entities that fail to comply with FDA requirements may be subject to issuance of notice of observations, untitled or warning letters, and can be liable for criminal or civil penalties, such as recalls, import detentions, seizures, or injunctions, including orders to cease manufacturing.

The FDC Act classifies medical devices into one of three categories based on the risks associated with the device and the level of control necessary to provide reasonable assurance of safety and effectiveness. Class I devices are deemed to be low risk and are subject to the fewest regulatory controls. Many Class I devices are exempt from FDA premarket review requirements. Class III devices are generally the highest risk devices and are subject to the highest level of regulatory control to provide reasonable assurance of the device's safety and effectiveness. Class III devices must typically be approved by the FDA before they are marketed. For Class II devices, the FDA generally requires clearance through the premarket notification, or 510(k) clearance, process.

Generally, establishments that manufacture or distribute devices, including manufacturers, repackagers and relabelers, specification developers, and initial importers, are required to register their establishments with the FDA and provide the FDA a list of the devices that they handle at their facilities.

After a device is placed on the market, numerous regulatory requirements apply. These include: all of the relevant elements of the Quality System Regulation, or QSR, labeling regulations, restrictions on promotion and advertising, the Medical Device Reporting regulation (which requires that manufacturers report to the FDA if their device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if it were to recur), and the Reports of Corrections and Removals regulation (which requires manufacturers to report certain recalls and field actions to the FDA).

The FDA has issued a regulation outlining specific requirements for "specimen transport and storage containers." "Specimen transport and storage containers" are medical devices "intended to contain biological specimens, body waste, or body exudate during storage and transport" so that the specimen can

be used effectively for diagnostic examination. A specimen transport and storage container is a Class I device so long as no sterility claims are made. It is subject to MDR requirements, the reporting of corrections and removals, registration and listing. It is exempt from premarket review, and from QSR requirements except for recordkeeping and complaint handling requirements. Our facility is registered with the FDA and the container we provide for collection and transport of FNA samples from a physician to our clinical reference laboratory is listed with the FDA as a Class I medical device and is subject to regulation by the FDA.

The FDA enforces the requirements described above by various means, including inspection and market surveillance. If the FDA finds a violation, it can institute a wide variety of enforcement actions, ranging from an Untitled Letter or Warning Letter to more severe sanctions such as:

- fines, injunctions, and civil penalties;
- recall or seizure of products;
- operating restrictions, partial suspension or total shutdown of production; and
- criminal prosecution.

Federal Oversight of Laboratory Developed Tests and Research Use Only Products

Clinical laboratory tests like Afirma are regulated under CLIA, as administered by the Centers for Medicare & Medicaid Services, or CMS, as well as by applicable state laws. Clinical laboratory tests that are developed and validated by a laboratory for its own use, which are referred to as laboratory developed tests, or LDTs, currently are generally not subject to FDA regulation, although reagents, instruments, software or components provided by third parties and used to perform LDTs may be subject to regulation. We believe that the Afirma GEC is an LDT. As a result, we believe our diagnostic services should not be subject to regulation under established FDA policies. Beginning in 1992, the FDA began expressing its view that all LDTs were subject to FDA regulation as devices; however, it stated that it would generally exercise enforcement discretion and not apply the regulatory requirements for medical devices to LDTs. In June 2010, the FDA announced that it was revisiting its policy of exercising enforcement discretion with respect to LDTs. The FDA held a public meeting in July 2010, and FDA officials subsequently indicated that the FDA is interested in developing a risk-based application of oversight for LDTs and that it plans to issue draft guidance on the regulation of LDTs that would more stringently regulate LDTs that met criteria that would be established by the FDA. On June 5, 2013, FDA Commissioner Margaret A. Hamburg reiterated calls made by other Agency officials for increased FDA oversight of LDTs. Two days later, a laboratory association petitioned the FDA to refrain from issuing any such LDT guidance. Meanwhile, the Food and Drug Administration Safety and Innovation Act requires the FDA to notify Congress at least 60 days prior to issuing a draft or final guidance on the regulation of LDTs. The notice must include anticipated details of the action. Draft guidance has not yet been issued with respect to this proposed oversight of LDTs.

Some products are for research use only, or RUO. An RUO product is not intended for human clinical use and must be labeled "For Research Use Only. Not for use in diagnostic procedures." RUOs are a separate regulatory category and are not considered medical devices. They are therefore not subject to the FDA regulatory requirements discussed above. They cannot make any claims related to safety, effectiveness, or diagnostic utility or be intended for human clinical diagnostic or prognostic use. In June 2011, the FDA issued draft guidance regarding "Commercially Distributed In Vitro Diagnostic Products Labeled for Research Use Only or Investigational Use Only." Aspects of this draft guidance, which has not been finalized, are controversial.

We cannot predict the ultimate form of any such RUO or LDT guidance and the potential effect on our solutions or materials used to perform our diagnostic services. While we qualify all materials used in our diagnostic services according to CLIA regulations, we cannot be certain that the FDA might not promulgate rules or issue guidance documents that could affect our ability to purchase materials necessary

for the performance of our diagnostic services. Should any of the reagents obtained by us from vendors and used in conducting our diagnostic services be affected by future regulatory actions, our business could be adversely affected by those actions, including increasing the cost of service or delaying, limiting or prohibiting the purchase of reagents necessary to perform the service.

We cannot provide any assurance that FDA regulation, including premarket review, will not be required in the future for our diagnostic services, whether through additional guidance or regulations issued by the FDA, new enforcement policies adopted by the FDA or new legislation enacted by Congress. Legislative proposals addressing oversight of LDTs were introduced in recent years and we expect that new legislative proposals will be introduced from time to time. It is possible that legislation could be enacted into law or guidance could be issued by the FDA which may result in new or increased regulatory requirements for us to continue to offer our diagnostic services or to develop and introduce new services.

If premarket review is required, our business could be negatively affected until such review is completed and clearance to market or approval is obtained, and the FDA could require that we stop selling our diagnostic services pending premarket clearance or approval. If our diagnostic services are allowed to remain on the market but there is uncertainty about our services, if they are labeled investigational by the FDA, or if labeling claims the FDA allows us to make are limited, order levels may decline and reimbursement may be adversely affected. The regulatory approval process may involve, among other things, successfully completing additional clinical studies and submitting a premarket notification or filing a PMA application with the FDA. If premarket review is required by the FDA, there can be no assurance that our diagnostic services will be cleared or approved on a timely basis, if at all, nor can there any be assurance that labeling claims will be consistent with our current claims or adequate to support continued adoption of and reimbursement for our solution. Ongoing compliance with FDA regulations would increase the cost of conducting our business, and subject us to heightened requirements of the FDA and penalties for failure to comply with these requirements. We may also decide voluntarily to pursue FDA premarket review of our diagnostic services if we determine that doing so would be appropriate.

Health Insurance Portability and Accountability Act

Under the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, the Department of Health and Human Services, or HHS, has issued regulations to protect the privacy and security of protected health information used or disclosed by health care providers, such as us. HIPAA also regulates standardization of data content, codes and formats used in health care transactions and standardization of identifiers for health plans and providers. Penalties for violations of HIPAA regulations include civil and criminal penalties.

We have developed and implemented policies and procedures designed to comply with these regulations. The requirements under these regulations may change periodically and could have an effect on our business operations if compliance becomes substantially more costly than under current requirements.

In addition to federal privacy regulations, there are a number of state laws governing confidentiality of health information that are applicable to our business.

New laws governing privacy may be adopted in the future as well. We have taken steps to comply with health information privacy requirements to which we are aware that we are subject. However, we can provide no assurance that we are or will remain in compliance with diverse privacy requirements in all of the jurisdictions in which we do business. Failure to comply with privacy requirements could result in civil or criminal penalties, which could have a materially adverse effect on our business.

Federal and State Physician Self-referral Prohibitions

We are subject to the federal physician self-referral prohibitions, commonly known as the Stark Law, and to similar restrictions under California's Physician Ownership and Referral Act, or PORA. Together

these restrictions generally prohibit us from billing a patient or any governmental or private payer for any diagnostic services when the physician ordering the service, or any member of such physician's immediate family, has an investment interest in or compensation arrangement with us, unless the arrangement meets an exception to the prohibition.

Both the Stark Law and PORA contain an exception for compensation paid to a physician for personal services rendered by the physician. We have compensation arrangements with a number of physicians for personal services, such as speaking engagements and consulting activities. We have structured these arrangements with terms intended to comply with the requirements of the personal services exception to Stark and PORA.

However, we cannot be certain that regulators would find these arrangements to be in compliance with Stark, PORA or similar state laws. We would be required to refund any payments we receive pursuant to a referral prohibited by these laws to the patient, the payer or the Medicare program, as applicable.

Sanctions for a violation of the Stark Law include the following:

- denial of payment for the services provided in violation of the prohibition;
- refunds of amounts collected by an entity in violation of the Stark Law;
- a civil penalty of up to $15,000 for each service arising out of the prohibited referral;
- possible exclusion from federal healthcare programs, including Medicare and Medicaid; and
- a civil penalty of up to $100,000 against parties that enter into a scheme to circumvent the Stark Law's prohibition.

These prohibitions apply regardless of the reasons for the financial relationship and the referral. No finding of intent to violate the Stark Law is required for a violation. In addition, knowing violations of the Stark Law may also serve as the basis for liability under the Federal False Claims Act.

Further, a violation of PORA is a misdemeanor and could result in civil penalties and criminal fines. Finally, other states have self-referral restrictions with which we have to comply that differ from those imposed by federal and California law. While we have attempted to comply with the Stark Law, PORA and similar laws of other states, it is possible that some of our financial arrangements with physicians could be subject to regulatory scrutiny at some point in the future, and we cannot provide assurance that we will be found to be in compliance with these laws following any such regulatory review.

Federal and State Anti-kickback Laws

The Federal health care program Anti-kickback Law makes it a felony for a person or entity , including a laboratory, to knowingly and willfully offer, pay, solicit or receive remuneration, directly or indirectly, in order to induce business that is reimbursable under any federal health care program. A violation of the Anti-kickback Law may result in imprisonment for up to five years and fines of up to $250,000 in the case of individuals and $500,000 in the case of organizations. Convictions under the Anti-kickback Law result in mandatory exclusion from federal health care programs for a minimum of five years. In addition, HHS has the authority to impose civil assessments and fines and to exclude health care providers and others engaged in prohibited activities from Medicare, Medicaid and other federal health care programs. Actions which violate the Anti-kickback Law also incur liability under the Federal False Claims Act, which prohibits knowingly presenting, or causing to be presented, a false or fraudulent claim for payment to the U.S. Government.

Although the Anti-kickback Law applies only to federal health care programs, a number of states, including California, have passed statutes substantially similar to the Anti-kickback Law pursuant to which similar types of prohibitions are made applicable to all other health plans and third-party payers. Both California's fee-splitting statute, Business and Professions Code Section 650, and its Medi-Cal anti-kickback statute, Welfare and Institutions Code Section 14107.2, have been interpreted by the

California Attorney General and California courts in substantially the same way as HHS and the courts have interpreted the Anti-kickback Law. A violation of Section 650 is punishable by imprisonment and fines of up to $50,000. A violation of Section 14107.2 is punishable by imprisonment and fines of up to $10,000.

Federal and state law enforcement authorities scrutinize arrangements between health care providers and potential referral sources to ensure that the arrangements are not designed as a mechanism to induce patient care referrals or induce the purchase or prescribing of particular products or services. The law enforcement authorities, the courts and Congress have also demonstrated a willingness to look behind the formalities of a transaction to determine the underlying purpose of payments between health care providers and actual or potential referral sources. Generally, courts have taken a broad interpretation of the scope of the Anti-kickback Law, holding that the statute may be violated if merely one purpose of a payment arrangement is to induce referrals or purchases.

In addition to statutory exceptions to the Anti-kickback Law, regulations provide for a number of safe harbors. If an arrangement meets the provisions of a safe harbor, it is deemed not to violate the Anti-kickback Law. An arrangement must fully comply with each element of an applicable safe harbor in order to qualify for protection. There are no regulatory safe harbors to California's Section 650.

Among the safe harbors that may be relevant to us is the discount safe harbor. The discount safe harbor potentially applies to discounts provided by providers and suppliers, including laboratories, to physicians or institutions. If the terms of the discount safe harbor are met, the discounts will not be considered prohibited remuneration under the Anti-kickback Law. California does not have a discount safe harbor. However, as noted above, Section 650 has generally been interpreted consistent with the Anti-kickback Law.

The personal services safe harbor to the Anti-kickback Law provides that remuneration paid to a referral source for personal services will not violate the Anti-kickback Law provided all of the elements of that safe harbor are met. One element is that if the agreement is intended to provide for the services of the physician on a periodic, sporadic or part-time basis, rather than on a full-time basis for the term of the agreement, the agreement specifies exactly the schedule of such intervals, their precise length, and the exact charge for such intervals. Our personal services arrangements with some physicians may not meet the specific requirement of this safe harbor that the agreement specify exactly the schedule of the intervals of time to be spent on the services because the nature of the services, such as speaking engagements, does not lend itself to exact scheduling and therefore meeting this element of the personal services safe harbor is impractical. Failure to meet the terms of the safe harbor does not render an arrangement illegal. Rather, the government may evaluate such arrangements on a case-by-case basis, taking into account all facts and circumstances.

While we believe that we are in compliance with the Anti-kickback Law and Section 650, there can be no assurance that our relationships with physicians, academic institutions and other customers will not be subject to investigation or challenge under such laws. If imposed for any reason, sanctions under the Anti-kickback Law and Section 650 could have a negative effect on our business.

Other Federal and State Fraud and Abuse Laws

In addition to the requirements discussed above, several other health care fraud and abuse laws could have an effect on our business. For example, provisions of the Social Security Act permit Medicare and Medicaid to exclude an entity that charges the federal health care programs substantially in excess of its usual charges for its services. The terms "usual charge" and "substantially in excess" are ambiguous and subject to varying interpretations.

Further, the Federal False Claims Act prohibits a person from knowingly submitting a claim, making a false record or statement in order to secure payment or retaining an overpayment by the federal government. In addition to actions initiated by the government itself, the statute authorizes actions to be

brought on behalf of the federal government by a private party having knowledge of the alleged fraud. Because the complaint is initially filed under seal, the action may be pending for some time before the defendant is even aware of the action. If the government is ultimately successful in obtaining redress in the matter or if the plaintiff succeeds in obtaining redress without the government's involvement, then the plaintiff will receive a percentage of the recovery. Finally, the Social Security Act includes its own provisions that prohibit the filing of false claims or submitting false statements in order to obtain payment. Violation of these provisions may result in fines, imprisonment or both, and possible exclusion from Medicare or Medicaid programs. California has an analogous state false claims act applicable to all payers, as do many other states.

California Laboratory Licensing

In addition to federal certification requirements of laboratories under CLIA, licensure is required and maintained for our South San Francisco clinical reference laboratory under California law. Such laws establish standards for the day-to-day operation of a clinical reference laboratory, including the training and skills required of personnel and quality control. In addition, California laws mandate proficiency testing, which involves testing of specimens that have been specifically prepared for the laboratory.

If our clinical reference laboratory is out of compliance with California standards, the California Department of Health Services, or DHS, may suspend, restrict or revoke our license to operate our clinical reference laboratory, assess substantial civil money penalties, or impose specific corrective action plans. Any such actions could materially affect our business. We maintain a current license in good standing with DHS. However, we cannot provide assurance that DHS will at all times in the future find us to be in compliance with all such laws.

New York Laboratory Licensing

Because we receive specimens from New York State, our clinical reference laboratories are required to be licensed by New York, under New York laws and regulations, which establish standards for:

- day-to-day operation of a clinical laboratory, including training and skill levels required of laboratory personnel;
- physical requirements of a facility;
- equipment; and
- validation and quality control.

New York law also mandates proficiency testing for laboratories licensed under New York state law, regardless of whether or not such laboratories are located in New York. If a laboratory is out of compliance with New York statutory or regulatory standards, the New York State Department of Health, or DOH, may suspend, limit, revoke or annul the laboratory's New York license, censure the holder of the license or assess civil money penalties. Statutory or regulatory noncompliance may result in a laboratory's operator being found guilty of a misdemeanor under New York law. DOH also must approve the LDT before the test is offered in New York. Should we be found out of compliance with New York laboratory requirements, we could be subject to such sanctions, which could harm our business. We maintain a current license in good standing with DOH for our South San Francisco laboratory. We have applied to the DOH for a license for our Austin laboratory. We cannot provide assurance that our Austin laboratory will obtain a license from the State of New York or that the DOH will at all times find us to be in compliance with applicable laws.

Other States' Laboratory Licensing

In addition to New York and California, other states including Florida, Maryland, Pennsylvania and Rhode Island, require licensing of out-of-state laboratories under certain circumstances. We have obtained

licenses from states where we believe we are required to be licensed, and believe we are in compliance with applicable licensing laws.

From time to time, we may become aware of other states that require out-of-state laboratories to obtain licensure in order to accept specimens from the state, and it is possible that other states do have such requirements or will have such requirements in the future. If we identify any other state with such requirements or if we are contacted by any other state advising us of such requirements, we intend to comply with such requirements.

Corporate Practice of Medicine

Numerous states, including California and Texas, have enacted laws prohibiting corporations such as us from practicing medicine and employing or engaging physicians to practice medicine. These laws are designed to prevent interference in the medical decision-making process by anyone who is not a licensed physician. This prohibition is generally referred to as the prohibition against the corporate practice of medicine. Violation of this prohibition may result in civil or criminal fines, as well as sanctions imposed against us or the professional through licensing proceedings. The pathologists who review and classify thyroid FNA cytopathology results for Afirma are employed by Thyroid Cytology Partners, a Texas professional association, pursuant to services agreement between us and TCP. Pursuant to the agreement, we pay TCP a monthly fee on a per FNA basis, and TCP manages and supervises the pathologists who perform the cytopathology services as a component of Afirma. TCP is managed by Pathology Resources Consultants, or PRC, which provides management and other services to medical practitioners. We have entered into a services agreement with PRC in connection with our arrangement with TCP, pursuant to which we engaged PRC exclusively to manage the pathology services being provided by TCP. Our agreement with PRC is effective until December 2015 and automatically renews on an annual basis unless either party provides notice of intent not to renew.

Employees

As of August 31, 2013, we had 99 employees, of which 23 work in laboratory operations, 18 in research and development and clinical development, 15 in selling and marketing, 43 in general and administrative including 20 in billing and client services, seven in information technology, and two in quality and regulatory affairs. None of our employees are the subject of collective bargaining arrangements, and our management considers its relationships with employees to be good.

Facilities

We lease 24,000 square feet of office and laboratory space at our headquarters in South San Francisco, California, under a lease that expires in 2016, with an option for us to extend the lease for an additional three years. We also lease approximately 10,400 square feet of office and laboratory space in Austin, Texas, under a lease that expires in 2018, with an option for us to extend the lease for an additional five years. We believe that our existing facilities are adequate to meet our business requirements for at least the next 12 months and that additional space will be available on commercially reasonable terms, if required.

Environmental Matters

Our operations require the use of hazardous materials (including biological materials) which subject us to a variety of federal, state and local environmental and safety laws and regulations. Some of these regulations provide for strict liability, holding a party potentially liable without regard to fault or negligence. We could be held liable for damages and fines as a result of our, or others', business operations should contamination of the environment or individual exposure to hazardous substances occur. We cannot predict how changes in laws or new regulations will affect our business, operations or the cost of compliance.

Raw Materials and Suppliers

We procure reagents, equipment, chips and other materials we use to perform the GEC from sole suppliers such as NuGEN Technologies, Inc. and Affymetrix, Inc. We also purchase components used in our Afirma 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 whether 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 GEC and for our collection kits, if the materials do not meet our quality specifications, or if we cannot obtain acceptable substitute materials, our business would be negatively affected.

Legal Proceedings

From time to time, we may be party to lawsuits in the ordinary course of business. We are currently not a party to any legal proceedings.

MANAGEMENT

Executive Officers and Directors

Our executive officers, directors and key employees, and their ages and positions as of August 31, 2013, are as set forth below:

Name	Age	Position
Executive Officers and Key Employees		
Bonnie H. Anderson	55	President, Chief Executive Officer and Director
Shelly D. Guyer	53	Chief Financial Officer and Secretary
Christopher M. Hall	45	Chief Commercial Officer
Giulia C. Kennedy, Ph.D.	54	Chief Scientific Officer
Richard B. Lanman, M.D.	58	Chief Medical Officer
Directors		
Brian G. Atwood(1)(3)	60	Chairman of Board and Director
Brook H. Byers(2)(3)	68	Director
Fred E. Cohen, M.D., D.Phil.(1)	56	Director
Samuel D. Colella(2)	73	Director
Karin Eastham(1)	63	Director
Evan Jones(2)	56	Director
Jesse I. Treu, Ph.D(3)	66	Director

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Member of the Nominating and Corporate Governance Committee

Bonnie H. Anderson has served as our Chief Executive Officer and as a member of our board of directors since February 2008. In August 2013, she was appointed as our President. Prior to joining us, Ms. Anderson was an independent strategic consultant from April 2006 to January 2008, including as a strategic consultant for us from July 2007 to January 2008. Ms. Anderson was a Vice President at Beckmam Coulter, Inc., a manufacturer of biomedical testing instrument systems, tests and supplies, from September 2000 to March 2006. She currently serves as a member of the Board of Trustees of the Keck Graduate Institute of Applied Life Sciences. Ms. Anderson holds a B.S. in Medical Technology from Indiana University of Pennsylvania. Our board of directors has concluded that Ms. Anderson should serve on our board of directors due to her extensive industry experience, strategic perspective of our development, historic knowledge of our company and key leadership position as our President and Chief Executive Officer.

Shelly D. Guyer has served as our Chief Financial Officer and Secretary since April 2013. Prior to joining us, Ms. Guyer served as Chief Financial Officer and Executive Vice President of Finance and Administration of iRhythm Technologies, Inc., a medical device and service company, from April 2008 to December 2012. From March 2006 to August 2007, Ms. Guyer served as Vice President of Business Development and Investor Relations of Nuvelo Inc., a biopharmaceutical company. Prior to joining Nuvelo, Ms. Guyer worked at J.P. Morgan Securities and its predecessor companies for over 17 years, serving in a variety of roles including in healthcare investment banking. Ms. Guyer holds a A.B. in Politics from Princeton University and an M.B.A. from the Haas School of Business at the University of California, Berkeley.

Christopher M. Hall has served as our Chief Commercial Officer since March 2010. Prior to joining us, Mr. Hall served as Chief Business Officer of Celera Corporation, a diagnostics company focusing on personalized disease management, from October 2008 to February 2010. From August 2002 to February

2010, Mr. Hall served in various executive and senior positions at Berkeley HeartLab, Inc., a cardiovascular disease management company that was acquired by Celera in October 2007, including Chief Clinical Operations Officer and Vice President of Marketing. Mr. Hall holds a B.A. in Economics and Political Science from DePauw University and an M.B.A. from Harvard University.

Giulia C. Kennedy, Ph.D., has served as our Chief Scientific Officer since September 2008 and served as our Senior Vice President of Research and Development from April 2008 to September 2008. Prior to joining us, Dr. Kennedy was a Senior Director at Affymetrix, Inc., a microarray technology company, where she served from January 2000 to March 2008. Prior to joining Affymetrix, Dr. Kennedy served in scientific roles at Chiron Corporation and Millennium Pharmaceuticals, Inc., both of which were biotechnology companies. Dr. Kennedy holds a B.S. in Applied Science from Youngstown State University and a Ph.D. in Biochemistry from Case Western Reserve University School of Medicine and completed postdoctoral training in the Biochemistry Department and Hormone Research Institute at the University of California, San Francisco.

Richard B. Lanman, M.D., has served as our Chief Medical Officer since July 2008. Prior to joining us, Dr. Lanman served as Executive Vice President and Chief Medical Officer of diaDexus Inc., a medical diagnostics company, from April 2005 to July 2008. From November 2000 until March 2005, Dr. Lanman served as Chief Medical Officer and Executive Vice President, Business Development, of Atherotech, Inc., a laboratory test and medical device company. Prior to Atherotech, Dr. Lanman was Founder and Chief Executive Officer of Adesso Healthcare Technology Services, Inc., an application service provider profiling quality and utilization for specialist physician networks. Earlier in his career, he was in physician practice management roles as Senior Vice President and Medical Director for San Jose Medical Group, and as a Chief of Quality at The Permanente Medical Group. Dr. Lanman holds a B.S. in Chemistry from Stanford University and an M.D. from Northwestern University, Feinberg School of Medicine, and completed internship and residency at the University of California, San Francisco.

Brian G. Atwood has served as Chairman of our board of directors since February 2008 and as a director since December 2006. Since 1999, Mr. Atwood has served as a Managing Director of Versant Ventures, a healthcare-focused venture capital firm that he co-founded. Prior to founding Versant Ventures, Mr. Atwood served as a general partner of Brentwood Associates, a venture capital firm. He was also founder, President and Chief Executive Officer of Glycomed, Inc., a biopharmaceutical company. Mr. Atwood is currently a director of Cadence Pharmaceuticals, Inc., Clovis Oncology, Inc. and Trius Therapeutics, Inc. and a number of privately held companies. Mr. Atwood served as a director of Helicos BioSciences Corporation from 2003 until September 2011 and Pharmion Corporation from January 2000 until its acquisition in March 2008. Mr. Atwood holds a B.S. in Biological Sciences from the University of California, Irvine, an M.S. in Ecology from the University of California, Davis and an M.B.A. from Harvard University. Our board of directors has concluded that Mr. Atwood should serve on our board of directors due to his experience in the venture capital industry, his experience as a director of numerous publicly traded and privately held companies, as well as his experience founding and serving as President and Chief Executive Officer of a publicly traded biopharmaceutical company.

Brook H. Byers has served as a member of our board of directors since January 2007. Mr. Byers is a Managing Partner of Kleiner Perkins Caufield & Byers, a venture capital firm which he joined in 1977. Mr. Byers currently serves as a director of Pacific Biosciences of California, Inc. and a number of privately held companies and served as a director of Genomic Health, Inc. from January 2001 to June 2011. Mr. Byers holds a B.S. in Electrical Engineering from the Georgia Institute of Technology and an M.B.A. from the Stanford Graduate School of Business. Our board of directors has concluded that Mr. Byers should serve on our board of directors due to his expertise and background as a founder and chairman of numerous publicly traded and privately held life sciences companies, his service as a director of numerous companies in the life sciences and molecular diagnostics industry, and his leadership in personalized medicine initiatives.

Fred E. Cohen, M.D., D.Phil., has served as a member our board of directors since January 2007. Dr. Cohen is a partner at TPG, a private equity firm he joined in 2001, and serves as co-head of TPG's biotechnology group. Dr. Cohen is also an Adjunct Professor of Cellular and Molecular Pharmacology at the University of California, San Francisco, where he has taught since 1988. Dr. Cohen currently serves as a director of Aptalis Holdings Inc., a privately held company, BioCryst Pharmaceuticals, Inc., Genomic Health, Inc., and Quintiles Transnational Holdings Inc., and a number of other privately held companies. Dr. Cohen holds a B.S. in Molecular Biophysics and Biochemistry from Yale University, a D.Phil. in Molecular Biophysics from Oxford University and an M.D. from Stanford University. Our board of directors has concluded that Dr. Cohen should serve on our board of directors due to his significant leadership experience in the medical and finance fields through his background as an M.D. and a venture capitalist, his extensive technical expertise relevant to our business, and his experience as an investor in and on the boards of numerous life sciences and healthcare companies.

Samuel D. Colella has served as a member our board of directors since December 2006. Since 1999, Mr. Colella has served as a Managing Director of Versant Ventures, a healthcare-focused venture capital firm venture capital firm that he co-founded. Mr. Colella is also a general partner of Institutional Venture Partners, a venture capital firm he joined in 1984. Mr. Colella currently serves as the Chairman of the Board of Fluidigm Corporation and as a director of Genomic Health, Inc. and a number of privately held companies. Mr. Colella served as a director of Alexza Pharmaceuticals, Inc. from September 2002 to June 2012 and Jazz Pharmaceuticals, Inc. from April 2003 to January 2012. Mr. Colella holds a B.S. in Business and Engineering from the University of Pittsburgh and an M.B.A. from the Stanford Graduate School of Business. Our board of directors has concluded that Mr. Colella should serve on our board of directors due to his significant leadership in the life sciences industry, having founded, invested in and served on the boards of numerous publicly and privately held life sciences and healthcare companies. He also brings extensive senior management experience in a broad array of diverse businesses.

Karin Eastham has served as a member our board of directors since December 2012. Ms. Eastham serves on the boards of directors of several life sciences companies. From May 2004 to September 2008, Ms. Eastham served as Executive Vice President and Chief Operating Officer, and as a member of the Board of Trustees, of the Burnham Institute for Medical Research, a non-profit corporation engaged in biomedical research. From April 1999 to May 2004, Ms. Eastham served as Senior Vice President, Chief Financial Officer and Secretary of Diversa Corporation, a biotechnology company. She previously held similar positions with CombiChem, Inc., a computational chemistry company, and Cytel Corporation, a biopharmaceutical company. Ms. Eastham also held several positions, including Vice President, Finance, at Boehringer Mannheim Corporation, a diagnostics company, from 1976 to 1988. Ms. Eastham currently serves as a director of Geron Corporation, Illumina, Inc., MorphoSys AG, and Trius Therapeutics, Inc. Ms. Eastham served as a director of Amylin Pharmaceuticals, Inc. from September 2005 until its acquisition in August 2012, Genoptix, Inc. from August 2008 until its acquisition in March 2011, and Tercica, Inc. from December 2003 until its acquisition in October 2008. Ms. Eastham received a B.S. in Accounting and an M.B.A. from Indiana University and is a Certified Public Accountant. Our board of directors has concluded that Ms. Eastham should serve on our board of directors due to her experience as a director of numerous life sciences companies, as well as her extensive senior management experience in the biopharmaceutical industry, particularly in key corporate finance and accounting positions.

Evan Jones has served as a member of our board of directors since February 2008. Mr. Jones has served since 2007 as Managing Member of jVen Capital, LLC, a life sciences investment company. He also serves as executive chairman of Opgen, Inc., a privately held genetic analysis company. He was a co-founder of Digene Corporation, a publicly-traded biotechnology company focused on women's health and molecular diagnostic testing, serving as Chairman of the Board from 1995 until its acquisition in 2007 and serving as Chief Executive Officer from 1990 to 2006 and as President from 1990 to 1999. Mr. Jones is a director of CAS Medical Systems, Inc. and Fluidigm Corporation. Mr. Jones received a B.A. in Biotechnology from the University of Colorado and an M.B.A. from The Wharton School at the University

of Pennsylvania. Our board of directors has concluded that Mr. Jones' knowledge of the life sciences industry and his experience as a chief executive officer and as a board member of other publicly traded and privately held life sciences companies qualifies him to serve on our board of directors.

Jesse I. Treu, Ph.D., has served as a member our board of directors since June 2010. Dr. Treu has been a partner at Domain Associates, a venture capital firm, since its inception in 1985. Dr. Treu currently serves as a director of Regado Biosciences, Inc., a biopharmaceutical company, Tandem Diabetes Care, Inc., a privately held company, and a number of other privately held life sciences and biopharmaceutical companies. He served as a director of SenoRx, Inc. from October 1999 until June 2008 and Somaxon Pharmaceuticals, Inc. from December 2003 to June 2010. Prior to the formation of Domain Associates, Dr. Treu was vice president of the predecessor organization to The Wilkerson Group, and its venture capital arm, CW Ventures. Previous to that, Dr. Treu held a number of management and corporate staff positions in the medical industry, including positions at General Electric Company and Technicon Instruments. Dr. Treu holds a B.S. in Physics from Rensselaer Polytechnic Institute and an M.A. and a Ph.D. in Physics from Princeton University. Our board of directors has concluded that Dr. Treu should serve on our board of directors due to his extensive management and board experience in the healthcare industry.

Board Composition

Our board of directors currently consists of eight members. The restated certificate of incorporation that will become effective upon completion of this offering provides that the authorized number of directors on our board will consist of not fewer than and not more than directors, as the board of directors may from time to time determine. Our board of directors will initially consist of eight directors. The authorized number of directors may be changed by resolution of our board of directors. Vacancies on our board of directors can be filled by resolution of our board of directors. Upon the completion of this offering, our board of directors will be divided into three classes, each serving staggered, three-year terms:

- Our Class I directors will be Bonnie H. Anderson and Evan Jones and their terms will expire at the first annual meeting of stockholders following the date of this prospectus;
- Our Class II directors will be Brook H. Byers, Fred E. Cohen, M.D., D. Phil. and Samuel D. Colella and their terms will expire at the second annual meeting of stockholders following the date of this prospectus; and
- Our Class III directors will be Brian G. Atwood, Karin Eastham and Jesse I. Treu, Ph.D. and their terms will expire at the third annual meeting of stockholders following the date of this prospectus.

As a result, only one class of directors will be elected at each annual meeting of stockholders, with the other classes continuing for the remainder of their respective terms.

Code of Business Conduct and Ethics

We have adopted a code of business conduct and ethics that applies to each of our directors, officers and employees, including our Chief Executive Officer, our Chief Financial Officer and other employees who perform financial or accounting functions. We have also adopted a code of ethics for senior financial officers applicable to our Chief Executive Officer, Chief Financial Officer and other key management employees. Upon completion of this offering, the code of business conduct and ethics and the code of ethics for senior financial officers will each be posted on our website.

Director Independence

Our board of directors determined that and are "independent directors" as defined under the rules of The NASDAQ Stock Market.

Role of the Board in Risk Oversight

Our board of directors is responsible for overseeing the overall risk management process at the company. The responsibility for managing risk rests with executive management while the committees of our board of directors and our board of directors as a whole participate in the oversight process. Our board of directors' risk oversight process builds upon management's risk assessment and mitigation processes, which include reviews of long-term strategic and operational planning, executive development and evaluation, regulatory and legal compliance, and financial reporting and internal controls.

Board Committees

We have established an audit committee, compensation committee and nominating and corporate governance committee. We believe that the composition of these committees meets the criteria for independence under, and the functioning of these committees complies with the applicable requirements of, the Sarbanes-Oxley Act, the current rules of The NASDAQ Stock Market and SEC rules and regulations. We intend to comply with future requirements as they become applicable to us. Each committee has the composition and responsibilities described below:

Audit committee. Mr. Atwood, Dr. Cohen and Ms. Eastham serve on our audit committee. Ms. Eastham is the chairperson of this committee. Our audit committee oversees our corporate accounting and financial reporting process and assists our board of directors in oversight of the integrity of our financial statements, our compliance with financial and regulatory requirements, our independent auditor's qualifications, independence and performance, and our internal accounting and financial controls. Our audit committee is responsible for the appointment, compensation, retention and oversight of our independent auditors. Our board of directors has determined that is an audit committee financial expert, as defined by the rules promulgated by the SEC, and has the requisite financial sophistication as defined under the applicable rules and regulations of The NASDAQ Stock Market.

Compensation committee. Messrs. Byers, Colella and Jones serve on our compensation committee. Mr. Jones is the chairperson of this committee. Our compensation committee oversees our compensation policies, plans and benefits programs and assists our board of directors in meeting its responsibilities with regard to oversight and determination of executive compensation. In addition, our compensation committee reviews and makes recommendations to our board of directors with respect to our major compensation plans, policies and programs and assesses whether our compensation structure establishes appropriate incentives for officers and employees.

Nominating and corporate governance committee. Messrs. Atwood and Byers and Dr. Treu serve on our nominating and corporate governance committee. Dr. Treu is the chairperson of this committee. Our nominating and corporate governance committee is responsible for making recommendations to our board of directors regarding candidates for directorships and the size and composition of the board of directors and its committees. In addition, our nominating and corporate governance committee is responsible for reviewing and making recommendations to our board of directors on matters concerning corporate governance and conflicts of interest.

Compensation Committee Interlocks and Insider Participation

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

Director Compensation

Directors who are employees do not receive any additional compensation for their service on our board of directors. We reimburse our non-employee directors for their reasonable out-of-pocket costs and travel expenses in connection with their attendance at board of directors and committee meetings.

The following table sets forth the compensation accrued or paid by us to certain non-employee directors during the year ended December 31, 2012, for service on our board of directors. We did not pay or accrue any compensation for Messrs. Atwood, Byers and Colella or for Drs. Cohen and Treu during the year ended December 31, 2012.

Name	Fees Earned or Paid in Cash ($)	Option Awards ($)[1][2]	Total ($)
Karin Eastham	$ 1,712[3]	16,621	18,333
Evan Jones	—	13,297	13,297

(1) Amounts represent the aggregate fair value of the option awards computed as of the grant date of each option award in accordance with FASB ASC Topic 718, rather than amounts paid to or realized by the named individual. Our assumptions with respect to the calculation of these values are set forth above in "Management's Discussion and Analysis of Financial Condition and Results of Operations–Critical Accounting Policies–Stock-based Compensation". There can be no assurance that option awards will be exercised (in which case no value will be realized by the individual) or that the value on exercise will approximate the fair value as computed in accordance with FASB ASC Topic 718.

(2) The following table sets forth outstanding equity awards held by non-employee directors as of December 31, 2012:

Name[1]	Option Grant Date	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Option Exercise Price[2]($/sh)	Option Expiration Date
Karin Eastham	12/06/12[3]	—	25,000	$ 1.00	12/05/22
Evan Jones	07/08/08[4]	160,000	—	$ 0.02	07/07/18
	05/17/11[3]	20,000	—	$ 0.59	05/16/21
	12/06/12[5]	13,334	6,666	$ 1.00	12/05/22

(1) Messrs. Atwood, Byers and Colella and Drs. Cohen and Treu did not hold any outstanding options as of December 31, 2012.

(2) The grant date fair value of the common stock underlying these option awards is equal to the option exercise price on the date of grant.

(3) This option vests ratably over 12 months from the grant date.

(4) This option vests as to 25% of the underlying shares on the one year anniversary of the grant date, and the remainder ratably over 36 months thereafter.

(5) This option vests ratably over 12 months from the vesting commencement date. The vesting commencement date is May 1, 2012.

(3) We have agreed to pay Ms. Eastham an annual cash retainer of $20,000 for her service as director and $5,000 for her service as chairperson of our audit committee. The amount above reflects the pro rated portion of Ms. Eastham's cash retainer from the day she joined our board of directors through December 31, 2012.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth information concerning the total compensation of our Chief Executive Officer and two other highest paid executive officers, who we refer to as our named executive officers, earned for services rendered to us in all capacities during the year ended December 31, 2012:

Name and Principal Position	Fiscal Year	Salary ($)	Option Awards ($)[1][2]	Non-Equity Incentive Plan Compensation ($)[3]	All Other Compensation ($)	Total ($)
Bonnie H. Anderson Chief Executive Officer	2012	355,000	302,631[4]	62,500	—	720,131
Mark E. Spring[5] Former Chief Financial Officer	2012	296,250	288,417[6]	30,000	54,913[7]	669,580
Christopher M. Hall Chief Commercial Officer	2012	304,148	93,082[8]	30,500	—	427,730

(1) Amounts represent the aggregate fair value of the option awards computed as of the grant date of each option award in accordance with FASB ASC Topic 718, rather than amounts paid to or realized by the named individual. Our assumptions with respect to the calculation of these values are set forth above in "Management's Discussion and Analysis of Financial Condition and Results of Operations–Critical Accounting Policies–Stock-based Compensation". There can be no assurance that option awards will be exercised (in which case no value will be realized by the individual) or that the value on exercise will approximate the fair value as computed in accordance with FASB ASC Topic 718.

(2) Includes fully vested options granted in February 2013 for service in 2012 pursuant to our Executive Bonus Plan.

(3) Reflects the amount approved by our board of directors as cash incentive under our Executive Bonus Plan.

(4) Includes the grant of a fully vested option to purchase 96,451 shares of our common stock granted on February 5, 2013 pursuant to our Executive Bonus Plan.

(5) Mr. Spring's employment with us ended in February 2013. Shelly D. Guyer was appointed our Chief Financial Officer in April 2013.

(6) Includes the grant of a fully vested option to purchase 46,296 shares of our common stock granted on February 5, 2013 pursuant to our Executive Bonus Plan.

(7) Consisted of $36,765 for reimbursement of relocation expenses and a tax gross-up for such expenses of $18,148.

(8) Includes the grant of a fully vested option to purchase 47,068 shares of our common stock granted on February 5, 2013 pursuant to our Executive Bonus Plan.

Executive Bonus Plan

Our board of directors has adopted an Executive Bonus Plan, under which our executive officers are eligible to receive annual incentive compensation if the company achieves the annual corporate goals approved by our board of directors. Such bonuses may be paid in cash, fully vested stock options or restricted stock, or any combination thereof, at the discretion of our board of directors. The potential for actual awards under the Executive Bonus Plan could either exceed or be less than the targets established, as determined by our board of directors in their sole discretion based on corporate and individual performance. The corporate goals are established and measured annually.

The 2012 bonus pool was funded based on our achievement of Afirma-related goals (test levels, revenue levels, inclusion in clinical practice guidelines and reimbursement progress) along with accomplishment of operational goals and strategic targets relating to the introduction of new products.

In 2012, the bonus target levels for Bonnie H. Anderson, Christopher M. Hall and Mark E. Spring were 35%, 20% and 20% of base salary, respectively. Our board of directors determined that each of the named executive officer's bonus targets were achieved in full, and determined to pay 50% of the incentive compensation in cash and 50% in fully vested stock options.

For 2013, the bonus pool is funded based on our achievement of Afirma-related goals (test levels, revenue levels and reimbursement progress) along with achievement of operational goals (reducing costs associated with test processing, and laboratory and facility expansion) and achievement of specific strategic targets relating to the introduction of new products. In 2013, the bonus target levels for Bonnie H. Anderson, Shelly D. Guyer and Christopher M. Hall are 40%, 25% and 25% of base salary, respectively.

In connection with this offering, our board of directors intends to adopt a new public company bonus plan that will be effective in 2014.

Outstanding Equity Awards at Fiscal Year End

The following table sets forth certain information with respect to outstanding equity awards held by each of our named executive officers as of December 31, 2012:

	Option Awards			
Name	Number of Securities Underlying Unexercised Options–Exercisable[1]	Number of Securities Underlying Unexercised Options–Unexercisable[1]	Exercise Price of Options	Expiration Date of Options
Bonnie H. Anderson	52,613(2)	—	$ 0.20	02/02/2020
	400,000(3)	—(5)	$ 0.59	09/27/2020
	72,500(4)	—	$ 0.59	02/22/2021
	131,131(4)	—	$ 0.67	03/09/2022
	575,000(3)	—(6)	$ 0.67	03/09/2022
Mark E. Spring	610,000(3)	—(7)	$ 0.67	04/10/2022
Christopher M. Hall	450,000(3)	—(8)	$ 0.20	03/29/2020
	50,000(3)	—(5)	$ 0.59	09/27/2020
	44,000(4)	—	$ 0.59	02/22/2021
	150,000(3)	—(6)	$ 0.67	03/09/2022
	67,708(4)	—	$ 0.67	03/09/2022

(1) Each option award listed in the table may be exercised in full prior to the vesting of the shares underlying the option. Vesting of each option is subject to continued service on the applicable vesting date. All options listed in this table were granted pursuant to the Company's 2008 Stock Plan.

(2) Option award vests at a rate of 1/24th of the total number of shares subject to the option each month following the vesting commencement date. The vesting commencement date is January 1, 2010.

(3) All option awards vest as to 25% of the total number of shares subject to the option one year after the vesting commencement date, and the remaining shares vest at a rate of 1/48th of the total number of shares subject to the options each month thereafter. If an option holder is terminated without Cause or resigns for Good Reason (each as defined in the applicable option agreement) within 12 months of a change in control, 100% of the shares subject to the option shall vest immediately prior to such termination or resignation.

(4) Options were fully vested on the date of grant.

(5) The vesting commencement date is September 28, 2010.

(6) The vesting commencement date is March 10, 2012.

(7) The vesting commencement date is January 5, 2012.

(8) The vesting commencement date is March 15, 2010.

Employment Arrangements

Bonnie H. Anderson

On February 15, 2008, we entered into an employment agreement with Bonnie H. Anderson, our President and Chief Executive Officer. The agreement provided Ms. Anderson with an initial base salary at

an annual rate of $300,000 and provided that Ms. Anderson was eligible to receive an annual bonus targeted at 20% of her base salary. On December 22, 2008 and March 11, 2009, we entered into amendments to the employment agreement which collectively increased Ms. Anderson's target bonus percentage to 30% of her base salary. Since 2009, our board of directors has reviewed the terms of Ms. Anderson's employment arrangement in connection with its annual compensation review, and has adjusted Ms. Anderson's base salary and target bonus percentages further. Ms. Anderson's base salary for 2012 was $355,000 and her target bonus percentage was 35%, and for 2013 her base salary is $380,000 and her target bonus percentage is 40%. Ms. Anderson is entitled to participate in all employee benefit plans, including group health care plans and all fringe benefit plans. Ms. Anderson's employment agreement provides that she is an at-will employee and her employment may be terminated at any time by her or us.

On August 24, 2012, we entered into a Change of Control and Severance Agreement with Ms. Anderson, with an initial term of four years, which term automatically renews for additional one year periods unless either party provides written notice of non-renewal at least 60 days prior to the date of automatic renewal and which term extends for one year from a "change of control," as defined in the agreement, if such change of control occurs within the final twelve months of the initial term or the term as extended through automatic renewal. Pursuant to the agreement, if Ms. Anderson is terminated by us without "cause" (as defined in the agreement), or Ms. Anderson terminates her employment for "good reason" (as defined in the agreement), each during a period not within two months prior to and ending 12 months following a change of control, or the Change of Control Period, Ms. Anderson is entitled to (i) 12 months of salary continuation from the termination date, (ii) a lump sum payment equal to her pro-rated annual bonus for performance up to the end of the applicable performance period and (iii) accelerated vesting equal to 50% of any outstanding equity awards along with the extension of the post-termination exercise period of such awards to 24 months after the termination date.

Further, if Ms. Anderson is terminated by us without cause, or Ms. Anderson terminates her employment for good reason each during the Change of Control Period, Ms. Anderson is entitled to (i) a lump sum severance payment equal to 12 months of salary from the termination date, (ii) a lump sum payment equal to 100% of the higher of her (A) annual target bonus for the year in which the change of control occurs, (B) annual target bonus for the year in which the termination occurs, or (C) actual bonus for the year prior to the year in which the termination occurs and (iii) accelerated vesting equal to 100% of any outstanding equity awards along with the extension of the post-termination exercise period of such awards to 24 months after the termination date.

In either of the above situations, receipt of the above-described benefits are subject to Ms. Anderson executing a release of certain claims against us. Further, in either of the above situations Ms. Anderson will also be reimbursed (or receive payments in lieu of such reimbursements) if she elects and pays to continue health insurance under the Consolidated Omnibus Budget Reconciliation Act of 1985, or COBRA, for any premiums paid for continued health benefits for Ms. Anderson and her eligible dependents until the earlier of (i) 12 months after the termination date or (ii) the date upon which Ms. Anderson or her eligible dependents become covered under similar plans.

Pursuant to the employment agreement and Change of Control and Severance Agreement with Ms. Anderson, following her termination, she will maintain the confidentiality of our confidential information and will not solicit any of our employees for a 12 month period.

Shelly D. Guyer

On April 8, 2013, we entered into an offer letter with Shelly D. Guyer, our Chief Financial Officer. The letter agreement provided Ms. Guyer with an initial base salary of $275,000 and provided that Ms. Guyer was eligible to receive an annual bonus targeted at 25% of her base salary. In addition, Ms. Guyer received an option to purchase 600,000 shares of our common stock at an exercise price of $1.51 per share. Ms. Guyer is entitled to participate in all employee benefit plans, including group health

care plans and all fringe benefit plans. Ms. Guyer's offer letter provides that she is an at-will employee and her employment may be terminated at any time by her or us.

On April 8, 2013, we entered into a Change of Control and Severance Agreement with Ms. Guyer, with an initial term of four years, which term automatically renews for additional one year periods unless either party provides written notice of non-renewal at least 60 days prior to the date of automatic renewal and which term extends for one year from a "change of control," as defined in the agreement, if such change of control occurs within the final twelve months of the initial term or the term as extended through automatic renewal. Pursuant to the agreement, if Ms. Guyer is terminated by us without "cause" (as defined in the agreement), or Ms. Guyer terminates her employment for "good reason" (as defined in the agreement), each during a period not within two months prior to and ending 12 months following a change of control, or the Change of Control Period, Ms. Guyer is entitled to six months of salary continuation from the termination date.

Further, if Ms. Guyer is terminated by us without cause, or Ms. Guyer terminates her employment for good reason, each during the Change of Control Period, Ms. Guyer is entitled to (i) a lump sum severance payment equal to six months of salary from the termination date, (ii) a lump sum payment equal to 50% the higher of her (A) annual target bonus for the year in which the change of control occurs, (B) annual target bonus for the year in which the termination occurs, or (C) actual bonus for the year prior to the year in which the termination occurs and (iii) accelerated vesting equal to 100% of any outstanding equity awards along with the extension of the post-termination exercise period of such awards to 18 months after the termination date

In either of the above situations, receipt of the above-described benefits are subject to Ms. Guyer executing a release of certain claims against us. Further, in either of the above situations, Ms. Guyer will also be reimbursed (or receive payments in lieu of such reimbursements) if she elects and pays to continue health insurance under COBRA for any premiums paid for continued health benefits for Ms. Guyer and her eligible dependents until the earlier of (i) six months after the termination date or (ii) the date upon which Ms. Guyer or her eligible dependents become covered under similar plans.

Pursuant to the Change of Control and Severance Agreement with Ms. Guyer, following her termination, she will maintain the confidentiality of our confidential information.

Christopher M. Hall

On January 28, 2010, we entered into an offer letter with Christopher M. Hall, our Chief Commercial Officer. The letter agreement provided Mr. Hall with an initial base salary of $290,000 and provided that Mr. Hall was eligible to receive an annual bonus targeted at 20% of his base salary. In addition, Mr. Hall received an option to purchase 450,000 shares of our common stock at an exercise price of $0.20 per share. Mr. Hall is entitled to participate in all employee benefit plans, including group health care plans and all fringe benefit plans. Mr. Hall's offer letter provides that he is an at-will employee and his employment may be terminated at any time by him or us. Since entering into this offer letter, our board of directors has reviewed the terms of Mr. Hall's employment arrangement in connection with its annual compensation review and has adjusted Mr. Hall's base salary and target bonus percentages further. Mr. Hall's base salary for 2012 was $304,148 and his target bonus percentage was 20%, and for 2013 his base salary is $316,314 and his target bonus percentage is 25%.

On August 24, 2012, we entered into a Change of Control and Severance Agreement with Christopher M. Hall, with an initial term of four years, which term automatically renews for additional one year periods unless either party provides written notice of non-renewal at least 60 days prior to the date of automatic renewal and which term extends for one year from a "change of control," as defined in the agreement, if such change of control occurs within the final twelve months of the initial term or the term as extended through automatic renewal. Pursuant to the agreement, if Mr. Hall is terminated by us without "cause" (as defined in the agreement), or Mr. Hall terminates his employment for "good reason" (as

defined in the agreement), each during a period not within two months prior to and ending 12 months following a change of control, or the Change of Control Period, Mr. Hall is entitled to six months of salary continuation from the termination date.

Further, if Mr. Hall is terminated by us without cause, or Mr. Hall terminates his employment for good reason, each during the Change of Control Period, Mr. Hall is entitled to (i) a lump sum severance payment equal to six months of salary from the termination date, (ii) a lump sum payment equal to 50% of the higher of his (A) annual target bonus for the year in which the change of control occurs, (B) annual target bonus for the year in which the termination occurs, or (C) actual bonus for the year prior to the year in which the termination occurs and (iii) accelerated vesting equal to 100% of any outstanding equity awards along with the extension of the post-termination exercise period of such awards to 18 months after the termination date.

In either of the above situations, receipt of the above-described benefits are subject to Mr. Hall executing a release of certain claims against us. Further, in either of the above situations, Mr. Hall will also be reimbursed (or receive payments in lieu of such reimbursements) if he elects and pays to continue health insurance under COBRA for any premiums paid for continued health benefits for Mr. Hall and his eligible dependents until the earlier of (i) six months after the termination date or (ii) the date upon which Mr. Hall or his eligible dependents become covered under similar plans.

Pursuant to the Change of Control and Severance Agreement with Mr. Hall, following his termination, he will maintain the confidentiality of our confidential information.

Employee Benefit Plans

2008 Stock Plan

Our 2008 Stock Plan was adopted by our board of directors in February 2008 and was subsequently approved by our stockholders. The purpose of the 2008 Stock Plan is to attract and retain the best personnel, provide incentives to our employees, directors and consultants and to promote the success of the Company's business.

Our 2008 Stock Plan provides for the grant of nonstatutory stock options and restricted stock awards to our employees, directors and consultants, and incentive stock options, within the meaning of Section 422 of the Internal Revenue Code, which may be granted only to our employees.

Share reserve. As of August 31, 2013, 11,800,873 shares of common stock have been authorized for issuance under the 2008 Stock Plan. As of August 31, 2013 options to purchase a total of 9,409,272 shares of common stock were outstanding under the 2008 Stock Plan. If an option or an award to purchase restricted stock expires or is cancelled for any reason, the shares allocable to the unexercised portion of such option or award will become available for future award under the 2008 Stock Plan. If a share previously issued under the 2008 Stock Plan is reacquired pursuant to a forfeiture provision, then such a share will again become available for award under the 2008 Stock Plan.

Administration. Our board of directors administers the 2008 Stock Plan. The board of directors may delegate any of its administrative functions to a committee. Subject to the provisions of our 2008 Stock Plan, the administrator may take all actions it deems necessary or advisable for the administration of the 2008 Stock Plan. All actions of the administrator are final and binding on all persons.

Stock options. The administrator may grant incentive or nonstatutory stock options under our 2008 Stock Plan; provided that incentive stock options are only granted to employees. The exercise price of options granted under the plan must be equal to or greater than 100% of the fair market value of our common stock on the date of grant and the term of an option may not exceed ten years; provided, however, that an incentive stock option held by an optionee who owns more than 10% of the total combined voting power of all classes of our stock may not have a term in excess of five years and must have

an exercise price of at least 110% of the fair market value of our common stock on the grant date. The exercise price for an option may be paid in cash or cash equivalents. In addition, the administrator may allow for payment by surrender of shares, promissory note, cashless exercise, pledge of shares or other forms of payment as may be permitted by our board of directors. Subject to the provisions of our 2008 Stock Plan, the administrator determines the remaining terms of the options (*e.g.*, exercisability and vesting). The administrator may permit an optionee to exercise his or her option as to shares that have not vested, subject to the Company's right to repurchase any shares unvested as of the optionee's termination of service at the lower of the original exercise price or the then-current fair market value of the shares. After an optionee's termination of service, the optionee may exercise his or her option, to the extent vested as of the date of termination, for a period of three months (or twelve months in the case of termination due to death or disability) following such termination. However, in no event may an option be exercised later than the expiration of its term.

Restricted shares. The administrator may award restricted shares or grant stock purchase rights under our 2008 Stock Plan. The terms of the award of restricted shares will be set forth in a restricted share agreement between the purchaser and us. Any right to acquire shares, other than options, shall automatically expire if not exercised by the purchaser within thirty days after we communicate the grant of such right to the purchaser. Awards of restricted shares or shares received upon the exercise of a stock purchase right may be subject to forfeiture conditions, rights of repurchase, rights of first refusal and other restrictions as set forth in the applicable restricted share agreement. Once a stock purchase right is exercised, the purchaser will generally have all of the rights of a stockholder with respect to such shares, other than the right to transfer such shares before vesting.

Transferability. Our 2008 Stock Plan generally does not allow for options to be transferred in any manner other than by will or the laws of descent and distribution. Notwithstanding the foregoing, to the extent permitted by our board of directors, a nonstatutory stock option may be transferred to a family member or trust to the extent permitted by applicable laws.

Adjustments. If any change is made in our common stock subject to the 2008 Stock Plan including a subdivision, stock dividend, dividend payable in a form other than stock that has a material effect on our shares, a combination or consolidation, a recapitalization, a spin-off or a similar occurrence, then equitable adjustments will be made to one or more of the following: the number of shares available under the 2008 Stock Plan, the number of shares covered by each outstanding option or the exercise price under each outstanding option and the price of shares subject to our right to repurchase.

Corporate transaction. If the Company is a party to a merger or other change of control event, outstanding awards under the 2008 Stock Plan will be treated as the administrator determines, including, without limitation, that each award be assumed or substituted by the successor; provided, that if the successor did does not assume or substitute the award, such award shall fully vest and be exercisable and the administrator shall notify the participant that the award shall be fully vested and exercisable for a period of time as determined by the administrator in its sole discretion.

Plan amendments and termination. Our board of directors may at any time amend, suspend or terminate the 2008 Stock Plan. Certain amendments which materially alter or impair the rights of existing option holders require an optionee's consent. Our 2008 Stock Plan will automatically terminate on , unless we terminate it sooner.

Upon the completion of this offering, the 2008 Stock Plan will be terminated and no shares of our common stock will remain available for future issuance under the 2008 Stock Plan.

2013 Stock Incentive Plan

General. Our 2013 Stock Incentive Plan was adopted by our board of directors and approved by our stockholders in , 2013.

The 2013 Stock Incentive Plan provides for the granting of incentive stock options within the meaning of Section 422 of the Internal Revenue Code to employees and the granting of nonstatutory stock options to employees, non-employee directors, advisors and consultants. The 2013 Stock Incentive Plan also provides for the grants of restricted stock, stock appreciation rights and stock unit awards to employees, non-employee directors, advisors and consultants.

Administration. The compensation committee of our board of directors will administer the 2013 Stock Incentive Plan, including the determination of the recipient of an award, the number of shares subject to each award, whether an option is to be classified as an incentive stock option or nonstatutory option, and the terms and conditions of each award, including the exercise and purchase prices and the vesting or duration of the award.

At the discretion of our board of directors, our compensation committee may consist solely of two or more "non-employee directors." To the extent required by our board of directors, the composition of our compensation committee may satisfy the requirements for plans intended to qualify for exemption under Rule 16b-3 of the Exchange Act and Section 162(m) of the Internal Revenue Code. Our board of directors may appoint one or more separate committees of our board of directors, each consisting of one or more members of our board of directors, to administer our 2013 Stock Incentive Plan with respect to employees who are not subject to Section 16 of the Exchange Act. Subject to applicable law, our board of directors may also authorize one or more officers to designate employees, other than employees who are subject to Section 16 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, to receive awards under our 2013 Stock Incentive Plan or determine the number of such awards to be received by such employees subject to limits specified by our board of directors.

Authorized shares. Under our 2013 Stock Incentive Plan, shares of our common stock have been authorized for issuance. In addition, the number of shares that have been authorized for issuance under the 2013 Stock Incentive Plan will be automatically increased on the first day of each year beginning in fiscal 2014 and ending in 2023, in an amount equal to the least of (i) shares, (ii) % of the outstanding shares of our common stock on the last day of the immediately preceding year or (iii) another amount determined by our board of directors. Shares subject to awards granted under the 2013 Stock Incentive Plan that are forfeited or terminated before being exercised or settled, or are not delivered to the participant because such award is settled in cash, will again become available for issuance under the 2013 Stock Incentive Plan. Shares withheld to satisfy the grant, exercise price or tax withholding obligation related to an award will again become available for issuance under the 2013 Stock Incentive Plan. However, shares that have actually been issued shall not again become available unless forfeited. No more than shares may be delivered upon the exercise of incentive stock options granted under the 2013 Stock Incentive Plan plus, to the extent allowable under applicable law, any shares that again become available for issuance under the 2013 Stock Incentive Plan. In addition, shares originally reserved for issuance under our 2008 Stock Plan but which are not issued or subject to outstanding grants on the effective date of the 2013 Stock Incentive Plan, and shares subject to outstanding options under our 2008 Stock Plan on the effective date of the 2013 Stock Incentive Plan that are subsequently forfeited or terminated for any reason before being exercised, and shares subject to vesting restrictions under the 2008 Stock Plan that are subsequently forfeited, up to a number of additional shares not to exceed an aggregate of shares, will again become available for awards under our 2013 Stock Incentive Plan on the date the 2013 Stock Incentive Plan becomes effective.

No participant in the 2013 Stock Incentive Plan can receive option grants, restricted shares, stock appreciation rights or stock units totaling more than an aggregate of shares in any calendar year, except in the participant's first year of employment in which the participant may receive equity awards totaling up to shares. No participant in the 2013 Stock Incentive Plan may be paid more than an aggregate of in cash during any calendar year with respect to equity awards that are payable in cash.

Types of Awards

- *Stock options.* A stock option is the right to purchase a certain number of shares of stock, at a certain exercise price, in the future. Under our 2013 Stock Incentive Plan, incentive stock options and nonstatutory options must be granted with an exercise price of at least 100% of the fair market value of our common stock on the date of grant. Incentive stock options granted to any holder of more than 10% of the voting shares of our company must have an exercise price of at least 110% of the fair market value of our common stock on the date of grant. No incentive stock option can be granted to an employee if as a result of the grant, the employee would have the right in any calendar year to exercise for the first time one or more incentive stock options for shares having an aggregate fair market value in excess of $100,000. The stock option agreement specifies the date when all or any installment of the option is to become exercisable. We expect that 1/4th of the total number of shares subject to the options will vest and become exercisable 12 months after the vesting commencement date for options granted, and the remaining options will vest and become exercisable at a rate of 1/48th of the total number of shares subject to the options each month thereafter. Each stock option agreement sets forth the term of the options, which is prohibited from exceeding ten years (five years in the case of an incentive stock option granted to any holder of more than 10% of our voting shares), and the extent to which the optionee will have the right to exercise the option following termination of the optionee's service with the company. Payment of the exercise price may be made in cash or cash equivalents or, if provided for in the stock option agreement evidencing the award, (i) by surrendering, or attesting to the ownership of, shares which have already been owned by the optionee, (ii) by delivery of an irrevocable direction to a securities broker to sell shares and to deliver all or part of the sale proceeds to us in payment of the aggregate exercise price, (iii) by delivery of an irrevocable direction to a securities broker or lender to pledge shares and to deliver all or part of the loan proceeds to us in payment of the aggregate exercise price, (iv) by a "net exercise" arrangement, (v) by delivering a full-recourse promissory note or (vi) by any other form that is consistent with applicable laws, regulations and rules.

- *Restricted stock.* Restricted stock is a share award that may be subject to vesting conditioned upon continued service, the achievement of performance objectives or the satisfaction of any other condition as specified in a restricted stock agreement. Participants who are granted restricted stock awards generally have all of the rights of a stockholder with respect to such stock, other than the right to transfer such stock prior to vesting. Subject to the terms of the 2013 Stock Incentive Plan, our compensation committee will determine the terms and conditions of any restricted stock award, including any vesting arrangement, which will be set forth in a restricted stock agreement to be entered into between us and each recipient. Restricted stock may be awarded for such consideration as our compensation committee may determine, including without limitation cash, cash equivalents, full-recourse promissory notes, future services or services rendered prior to the award, without payment by the recipient.

- *Stock units.* Stock units give recipients the right to acquire a specified number of shares of stock at a future date upon the satisfaction of certain conditions, including any vesting arrangement, established by our compensation committee and as set forth in a stock unit agreement. Unlike restricted stock, the stock underlying stock units will not be issued until the stock units have vested and are settled, and recipients of stock units generally will have no voting or dividend rights prior to the time the vesting conditions are satisfied and the award is settled. Our compensation committee may elect to settle vested stock units in cash or in common stock or in a combination of cash and common stock. Subject to the terms of the 2013 Stock Incentive Plan, our compensation committee will determine the terms and conditions of any stock unit award, which will be set forth in a stock unit agreement to be entered into between us and each recipient.

- *Stock appreciation rights.* Stock appreciation rights typically will provide for payments to the recipient based upon increases in the price of our common stock over the exercise price of the stock

appreciation right. The exercise price of a stock appreciation right will be determined by our compensation committee, which shall not be less than the fair market value of our common stock on the date of grant. Our compensation committee may elect to pay stock appreciation rights in cash or in common stock or in a combination of cash and common stock.

Other Plan Features

Under the 2013 Stock Incentive Plan:

- Unless the agreement evidencing an award expressly provides otherwise, no award granted under the plan may be transferred in any manner (prior to the vesting and lapse of any and all restrictions applicable to shares issued under such award), other than by will or the laws of descent and distribution.

- Nondiscretionary, automatic grants of nonstatutory stock options will be made to outside directors. Any outside director who first joins our board of directors on or after the effective date, will be automatically granted an initial nonstatutory option to purchase shares of our common stock that have a value of $, calculated using the fair market value of our common stock on the date of grant, upon first becoming a member of our board of directors. The initial option will vest and become exercisable over four years in equal monthly installments. On the first business day after each of our regularly scheduled annual meetings of stockholders, each outside director will be automatically granted an option to purchase shares of our common stock that have a value of $, calculated using the fair market value of our common stock on the date of grant, provided that the outside director has served on our board of directors for at least six months. Each annual option will vest and become exercisable on the first anniversary of the date of grant, or immediately prior to the next regular annual meeting of the company's stockholders following the date of grant if the meeting occurs prior to the first anniversary date. The options granted to outside directors will have a per share exercise price equal to 100% of the fair market value of the underlying shares on the date of grant and will become fully vested if we are subject to a change of control. In addition, such options will terminate on the earlier of (i) the day before the tenth anniversary of the date of grant or (ii) the date 12 months after the termination of the outside director's termination of service for any reason.

- In the event of a recapitalization, stock split or similar capital transaction, our compensation committee will make appropriate and equitable adjustments to the number of shares reserved for issuance under the 2008 Stock Plan, including the share number in the formula for automatic annual increases, the limitation regarding the total number of shares underlying awards given to an individual participant in any calendar year, the number of shares that can be issued as incentive stock options and other adjustments in order to preserve the benefits of outstanding awards under the 2013 Stock Incentive Plan.

- Generally, if we merge with or into another corporation, we will provide for full exercisability or vesting and accelerated expiration of outstanding awards or settlement of the intrinsic value of the outstanding awards in cash or cash equivalents followed by cancellation of such awards unless the awards are continued if we are the surviving entity, or assumed or substituted for by any surviving entity or a parent or subsidiary of the surviving entity.

- If we are involved in an asset acquisition, stock acquisition, merger or similar transaction with another entity, our compensation committee may make awards under the 2013 Stock Incentive Plan by the assumption, substitution or replacement of awards granted by another entity. The terms of such assumed, substituted or replaced awards will be determined by our compensation committee in its discretion.

- Awards under our 2013 Stock Incentive Plan may be made subject to the attainment of performance criteria including cash flows, earnings per share, earnings before interest, taxes and amortization, return on equity, total stockholder return, share price performance, return on capital, return on assets or net assets, revenue, income or net income, operating income or net operating income, operating profit or net operating profit, operating margin or profit margin, return on operating revenue, return on invested capital, market segment shares, costs, expenses, regulatory body approval for commercialization of a product or implementation or completion of critical projects.

- The 2013 Stock Incentive Plan terminates ten years after its initial adoption, unless terminated earlier by our board of directors. Our board of directors may amend or terminate the plan at any time, subject to stockholder approval where required by applicable law. Any amendment or termination may not materially impair the rights of holders of outstanding awards without their consent.

Limitation on Liability and Indemnification Matters

Our certificate of incorporation contains provisions that limit the personal liability of our directors for monetary damages to the fullest extent permitted by the General Corporation Law of the State of Delaware, or the DGCL. Consequently, our directors will not be personally liable to us or our stockholders for monetary damages for any breach of fiduciary duties as directors, except liability for:

- any breach of the director's duty of loyalty to us or our stockholders;

- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;

- unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the DGCL; or

- any transaction from which the director derived an improper personal benefit.

Our certificate of incorporation and bylaws provide that we are required to indemnify our directors, in each case to the fullest extent permitted by the DGCL. Our bylaws also provide that we shall advance expenses incurred by a director in advance of the final disposition of any action or proceeding, and permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in that capacity regardless of whether we would otherwise be permitted to indemnify him or her under the provisions of the DGCL. Prior to the closing of the offering, we plan to enter into indemnification agreements with each of our officers and directors. With certain exceptions, these agreements will provide for indemnification for related expenses including, among other things, attorneys' fees, judgments, fines and settlement amounts incurred by any of our directors in any action or proceeding. We believe that these bylaw provisions and indemnification agreements are necessary to attract and retain qualified persons to serve as directors and officers. We also maintain directors' and officers' liability insurance.

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

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In addition to the cash and equity compensation arrangements of our directors and named executive officers discussed above under "Management–Director Compensation" and "Executive Compensation," the following is a description of transactions since January 1, 2010, to which we have been a party in which the amount involved exceeded or will exceed $120,000 and in which any of our directors, executive officers, beneficial holders of more than 5% of our capital stock, or entities affiliated with or immediate family members of any of the foregoing, had or will have a direct or indirect material interest.

Sales of Convertible Preferred Stock

The following table summarizes purchases of our convertible preferred stock since January 1, 2010 by our directors, executive officers and holders of more than 5% of our capital stock and their affiliated entities. Each outstanding share of our convertible preferred stock is convertible into one share of our common stock upon the completion of this offering. As of August 31, 2013, all of our outstanding convertible preferred stock will convert into 59,989,268 shares of our common stock assuming the conversion immediately upon the closing of this offering.

	Shares of Preferred Stock		Aggregate Purchase Price ($)
Purchaser	Series B	Series C	
Entities affiliated with Domain Partners[1]	9,600,000	2,744,101	17,186,351
Entities affiliated with Versant Ventures[2]	4,016,000	3,215,553	11,097,395
TPG Biotechnology Partners II, L.P.[3]	4,016,000	3,158,385	10,989,348
KPCB Holdings, Inc.[4]	4,016,000	3,158,385	10,989,348
jVen Capital, LLC[5]	552,000	443,629	1,528,459
Karin Eastham Defined Benefit Plan[6]	—	52,910	100,000
Total	22,200,000	12,772,963	51,890,901

(1) The purchasers were Domain Partners VIII, L.P. and DP VIII Associates, L.P. Jesse I. Treu, a director of our company, is affiliated with these entities.

(2) The purchasers were Versant Venture Capital III, L.P. and Versant Side Fund III, L.P. Brian G. Atwood and Samuel D. Colella, directors of our company, are affiliated with these entities.

(3) Fred E. Cohen, a director of our company, is affiliated with this entity.

(4) Brook H. Byers, a director of our company, is affiliated with this entity.

(5) Evan Jones, a director of our company, is affiliated with this entity.

(6) Karin Eastham, a director of our company, is affiliated with this entity.

Investor Rights Agreement

Holders of our convertible preferred stock are entitled to certain registration rights following this offering with respect to the common stock issued or issuable upon conversion of the convertible preferred stock. See "Description of Capital Stock–Investor Rights Agreement" for additional information.

Indemnification Agreements

Prior to the closing of the offering, we plan to enter into indemnification agreements with our directors and officers. The indemnification agreements and our certificate of incorporation and bylaws require us to indemnify these individuals to the fullest extent permitted by Delaware law. See "Management–Limitation on Liability and Indemnification Matters".

Related Party Transaction Policy

We intend to adopt a formal policy that our executive officers, directors, holders of more than 5% of any class of our voting securities, and any member of the immediate family of and any entity affiliated with any of the foregoing persons, are not permitted to enter into a related party transaction with us without the prior consent of our audit committee, or other independent members of our board of directors in the event it is inappropriate for our audit committee to review such transaction due to a conflict of interest. Any request for us to enter into a transaction with an executive officer, director, principal stockholder, or any of their immediate family members or affiliates, in which the amount involved exceeds $120,000 must first be presented to our audit committee for review, consideration and approval. In approving or rejecting any such proposal, our audit committee is to consider the relevant facts and circumstances available and deemed relevant to our audit committee, including, but not limited to, whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances and the extent of the related party's interest in the transaction. All of the transactions described above were entered into prior to the adoption of such policy.

Although we have not had a written policy for the review and approval of transactions with related persons prior to 2013, our board of directors has historically reviewed and approved any transaction where a director or officer had a financial interest, including all of the transactions described above. Prior to approving such a transaction, the material facts as to a director's or officer's relationship or interest as to the agreement or transaction were disclosed to our board of directors. Our board of directors would take this information into account when evaluating the transaction and in determining whether such a transaction was fair to the company and in the best interests of all of our stockholders. In addition, for each related party transaction described above, the disinterested directors in the context of each such transaction approved the applicable agreement and transaction.

PRINCIPAL STOCKHOLDERS

The following table sets forth information regarding the number of shares of common stock beneficially owned on August 31, 2013, and immediately following consummation of this offering, by:

- each person who is known by us to beneficially own 5% or more of our common stock;
- each of our named executive officers and directors; and
- all of our executive officers and directors as a group.

We have determined beneficial ownership in accordance with SEC rules. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power with respect to all shares of common stock that they beneficially own, subject to applicable community property laws.

Applicable percentage ownership is based on 63,936,716 shares of common stock outstanding at August 31, 2013 and assumes the conversion of all outstanding shares of our convertible preferred stock into 59,989,268 shares of our common stock. For purposes of the table below, we have assumed that shares of common stock will be outstanding upon completion of this offering. In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person, we deemed to be outstanding all shares of common stock subject to options held by that person or entity that are currently exercisable or exercisable within 60 days of August 31, 2013. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person.

Except as otherwise set forth below, the address of each beneficial owner is 7000 Shoreline Court, Suite 250, South San Francisco, California 94080.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned[1]	Percentage of Shares Beneficially Owned	
		Before Offering	After Offering
5% Stockholders:			
Entities affiliated with Domain Partners[2]	12,344,101	19.31%	
KPCB Holdings, Inc.[3]	14,207,718	22.22%	
TPG Biotechnology Partners II, L.P[4]	14,207,718	22.22%	
Entities affiliated with Versant Ventures[5]	14,464,886	22.62%	
Directors and Executive Officers:			
Bonnie H. Anderson[6]	3,224,036	4.90%	
Brian G. Atwood[5]	14,464,886	22.62%	
Brook H. Byers[3]	14,207,718	22.22%	
Fred E. Cohen, M.D., D.Phil.[7]	-		
Samuel D. Colella[5]	14,464,886	22.62%	
Karin Eastham[8]	77,910	*	
Evan Jones[9]	2,195,629	3.42%	
Jesse I. Treu, Ph.D.[2]	12,344,101	19.31%	
Shelly D. Guyer[10]	600,000	*	
Christopher M. Hall[11]	933,776	1.44%	
All directors and executive officers as a group (10 persons)[12]	48,048,056	71.16%	

* Less than 1%

(1) Unless otherwise indicated, includes shares owned by a spouse, minor children and relatives sharing the same home, as well as entities owned or controlled by the named person. Also includes options to purchase shares of common stock exercisable within 60 days of August 31, 2013. Unless otherwise indicated, shares are owned of record and beneficially by the named person.

(2) Consists of 12,253,179 shares held by Domain Partners VIII, L.P. and 90,922 shares held by DP VIII Associates, L.P. The managing members of One Palmer Square Associates VIII, L.L.C., the general partner of Domain Partners VIII, L.P. and DP VIII Associates, L.P., share voting and dispositive power with respect to these shares. The managing members of One Palmer Square Associates VIII, L.L.C. are Jesse I. Treu, a member of our board of directors, James C. Blair, Brian H. Dovey, Brian K. Halak, Kathleen K. Schoemaker and Nicole Vitullo. Each of Jesse I. Treu, James C. Blair, Brian H. Dovey, Brian K. Halak, Kathleen K. Schoemaker and Nicole Vitullo disclaims beneficial ownership of these shares except to the extent of his or her pecuniary interest therein. The address for these entities is One Palmer Square, Suite 515, Princeton, New Jersey 08542.

(3) Includes 12,697,935 shares of common stock beneficially owned by Kleiner Perkins Caufield & Byers XII, LLC, or KPCB XII; 182,782 shares of common stock beneficially owned by KPCB XII Founders Fund, LLC, or KPCB XII FF; 245,741 shares of common stock beneficially owned by Brook H. Byers, a member of our board of directors; and 1,081,260 shares of common stock beneficially owned by individuals and entities associated with Kleiner Perkins Caufield & Byers. All shares are held for convenience in the name of "KPCB Holdings, Inc. as nominee," for the accounts of such individuals and entities who each exercise their own voting and dispositive power over such shares. The managing member of KPCB XII and KPCB XII FF is KPCB XII Associates, LLC ("KPCB XII Associates"). Brook H. Byers, L. John Doerr, Joseph Lacob, Raymond J. Lane, Theodore E. Schlein and Russ Siegelman, the managers of KPCB XII Associates, exercise shared voting and dispositive power over the shares directly held by KPCB XII and KPCB XII FF. The principal business address for all entities and individuals affiliated with Kleiner Perkins Caufield & Byers is 2750 Sand Hill Road, Menlo Park, California 94025.

(4) Consists of 14,207,718 shares held by TPG Biotechnology Partners II, L.P., a Delaware limited partnership whose general partner is TPG Biotechnology GenPar II, L.P., a Delaware limited partnership, whose general partner is TPG Biotechnology GenPar II Advisors, LLC, a Delaware limited liability company, whose sole member is TPG Holdings I, L.P. whose general partner is TPG Holdings I-A, LLC, a Delaware limited liability company, whose sole member is TPG Group Holdings (SBS), L.P., a Delaware limited partnership, whose general partner is TPG Group Holdings (SBS) Advisors, Inc., a Delaware corporation. David Bonderman and James G. Coulter are directors, officers and sole shareholders of TPG Group Holdings (SBS) Advisors, Inc. and may therefore be deemed to be the beneficial owners of the shares held by TPG Biotechnology Partners II, L.P. Messrs. Bonderman and Coulter disclaim beneficial ownership of the shares held by TPG Biotechnology Partners II, L.P. except to the extent of their pecuniary interest therein. The address of TPG Group Holdings (SBS) Advisors, Inc. and Messrs. Bonderman and Coulter is c/o TPG Global, LLC, 301 Commerce Street, Suite 3300, Fort Worth, Texas 76102.

(5) Consists of 14,379,957 shares held by Versant Venture Capital III, L.P. and 84,929 shares held by Versant Side Fund III, L.P. Versant Ventures III, LLC, the sole general partner of Versant Venture Capital III, L.P. and Versant Side Fund III, L.P., has voting and dispositive power with respect to these shares. The individual managing members of Versant Ventures III, LLC are Brian G. Atwood, Bradley J. Bolzon, Samuel D. Colella, Ross A. Jaffe, William J. Link, Kirk G. Nielsen, Rebecca B. Robertson, and Charles M. Warden, all of whom share voting and investment power with respect to these shares. Messrs. Atwood and Colella are members of our board of directors. Each individual managing member disclaims beneficial ownership of these shares, except to the extent of their pecuniary interest in such shares. The address of each entity affiliated with Versant Ventures is 3000 Sand Hill Road, Building Four, Suite 210, Menlo Park, California 94025.

(6) Includes options to purchase 1,827,695 shares of our common stock which are immediately exercisable, 985,514 of which are subject to the company's right of repurchase on or prior to 60 days after August 31, 2013 and 50,000 of which are subject to the company's right of repurchase, which right lapses upon the closing of this offering if this offering closes in 2013.

(7) Does not include 14,207,718 shares held by TPG Biotechnology Partners II, LP. Dr. Cohen is a partner at TPG Biotechnology Partners II, LP. Dr. Cohen does not have voting or dispositive power with respect to the shares held by TPG Biotechnology Partners II, LP and disclaims beneficial ownership of such shares. The address of Dr. Cohen is c/o TPG Global, LLC, 301 Commerce Street, Suite 3300, Fort Worth, Texas 76102.

(8) Includes options to purchase 25,000 shares of our common stock which are immediately exercisable, 4,167 of which are subject to the company's right of repurchase on or prior to 60 days after August 31, 2013, which right lapses over time. Also includes 52,910 shares held by Karin Eastham Defined Benefit Plan.

(9) Includes options to purchase 200,000 shares of our common stock which are immediately exercisable. Also includes 1,995,629 shares held by jVen Capital, LLC, of which Mr. Jones is Managing Member.

(10) Consists of options to purchase 600,000 shares of our common stock which are immediately exercisable, all of which are subject to the company's right of repurchase on or prior to 60 days after August 31, 2013, which right lapses over time.

(11) Consists of options to purchase 933,776 shares of our common stock which are immediately exercisable, 273,959 of which are subject to the company's right of repurchase on or prior to 60 days after August 31, 2013, which right lapses over time.

(12) Includes options to purchase 3,586,471 shares of our common stock which are immediately exercisable, 1,863,640 of which are subject to the company's right of repurchase on or prior to 60 days after August 31, 2013, which right lapses over time and 50,000 of which are subject to the company's right of repurchase, which right lapses upon the closing of this offering.

DESCRIPTION OF CAPITAL STOCK

General

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

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

- shares will be designated as common stock; and
- shares will be designated as preferred stock.

As of August 31, 2013, we had outstanding 63,936,716 shares of common stock held of record by 51 stockholders, assuming the automatic conversion of all outstanding shares of preferred stock into common stock immediately prior to the closing of this offering. Upon completion of this offering, no shares of preferred stock will be outstanding.

Common Stock

Each holder of common stock is entitled to one vote per share on all matters submitted to a vote of stockholders. We have not provided for cumulative voting in the election of directors. Subject to preferences that may apply to shares of preferred stock outstanding at the time, the holders of outstanding shares of our common stock are entitled to receive dividends out of assets legally available at the times and in the amounts that our board of directors may determine from time to time. Upon our liquidation, dissolution or winding-up, the holders of common stock are entitled to share ratably in all assets remaining after payment of all liabilities and the liquidation preferences of any outstanding preferred stock. Holders of common stock have no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to our common stock.

Preferred Stock

Our certificate of incorporation in effect prior to the closing of this offering provides that, upon the closing of a firmly underwritten public offering pursuant to an effective registration statement under the Securities Act covering the offer and sale of our common stock with gross cash proceeds to us (before underwriting discounts, commissions and fees) of at least $40 million, each share of each series of preferred stock shall automatically be converted into shares of common stock at the then-effective conversion price for such series. Accordingly, as of August 31, 2013, upon the closing of this offering, each outstanding share of our Series A preferred stock will be converted into one share of common stock, or an aggregate of 22,399,999 shares of common stock, each outstanding share of Series B preferred stock will be converted into one share of common stock or an aggregate of 22,748,000 shares of common stock, and each outstanding share of Series C preferred stock will be converted into one share of common stock, or an aggregate of 14,841,269 shares of common stock.

Following the conversion of each share of our preferred stock into shares of common stock, our certificate of incorporation will be amended and restated to delete all references to the prior series of preferred stock and our board of directors will have the authority, without further action by our stockholders, to issue from time to time up to shares of preferred stock in one or more series. Our board of directors will have the authority to establish the number of shares to be included in each series and fix the powers, preferences and rights of the shares of each wholly unissued series and any of its qualifications, limitations or restrictions. Our board of directors will also be able to increase or decrease

the number of shares of any series, but not below the number of shares of that series then outstanding, without any further vote or action by the stockholders.

The issuance of preferred stock could decrease the amount of earnings and assets available for distribution to the holders of common stock or adversely affect the rights and powers, including voting rights, of the holders of common stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, have the effect of delaying, deferring or preventing a change in control of our company, which could depress the market price of our common stock. We have no current plans to issue any shares of preferred stock.

Warrants

As of August 31, 2013, we had a warrant outstanding to purchase 99,206 shares of our Series C preferred stock at an exercise price of $1.89 per share, which will become exercisable for the same number of shares of our common stock upon completion of this offering. This warrant has a net exercise provision under which its holder may, in lieu of payment of the exercise price in cash, surrender the warrant and receive a net amount of shares based on the fair market value of our stock at the time of exercise of the warrants after deduction of the aggregate exercise price. This warrant contain provisions for adjustment of the exercise price and number of shares issuable upon the exercise of the warrant in the event of certain stock dividends, stock splits, reorganizations, reclassifications and consolidations. This warrant will expire on the seventh anniversary of this offering.

Registration Rights

After this offering, the holders of 59,989,268 shares of our common stock issued upon the conversion of our preferred stock will be entitled to contractual rights to require us to register those shares under the Securities Act. These rights are provided under the terms of our amended and restated investor rights agreement. If we propose to register any of our securities under the Securities Act for our own account, holders of shares having registration rights are entitled to include their shares in our registration statement, provided, among other conditions, that the underwriters of any such offering have the right to limit the number of shares included in the registration. These holders have waived their rights to include their shares in this offering. Holders of shares having registration rights may also require us to file up to two additional registration statements on Form S-3 or similar short-form registration statement, if we are eligible to use Form S-3 or similar short-form registration statement, and the value of the securities to be registered is at least $1,500,000.

We will pay all expenses relating to any demand, piggyback or Form S-3 registration described below, other than underwriting discounts and selling commissions. The registration rights terminate upon the earlier of the third anniversary of this offering, a change of control, or with respect to the registration rights of an individual holder, when that holder can sell all of the holder's shares covered by registration rights pursuant to Rule 144 under the Securities Act in any 90-day period.

Demand Registration Rights

After the expiration of the 180-day lock-up agreements referred to under "Shares Eligible for Future Sale," and subject to limitations and conditions specified in the investor rights agreement, holders of a majority of the shares covered by registration rights may require us to prepare and file a registration statement under the Securities Act covering all shares they request that we register. We are not obligated to effect more than two of these stockholder-initiated registrations.

Piggyback Registration Rights

If we propose to register any of our securities under the Securities Act either for our own account or for the account of other stockholders, the holders of shares having registration rights will, subject to certain

exceptions, be entitled to include their shares in our registration statement. These registration rights are subject to specified conditions and limitations, including the right of the underwriters to limit the number of shares included in any such registration statement under certain circumstances, but not below 25% of the total number of shares covered by the registration statement.

Form S-3 Registration Rights

At any time after we are qualified to file a registration statement on Form S-3, and subject to limitations and conditions specified in the investor rights agreement, the holders of shares having registration rights may require us to prepare and file a registration statement on Form S-3 under the Securities Act covering their shares, so long as the aggregate offering price of the shares to be registered is at least $1,500,000. We not obligated to effect more than two of these Form S-3 registrations.

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

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

Certificate of Incorporation and Bylaws

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

- authorize our board of directors to issue, without further action by the stockholders, up to 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.

Delaware Law

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

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

Section 203 defines "business combination" to include the following:

- any merger or consolidation involving the corporation and the interested stockholder;
- any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;
- subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;
- any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or
- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by any of these entities or persons.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is . The transfer agent's address is .

Listing

We have applied to list our common stock on The NASDAQ Global Market under the symbol "VCYT".

SHARES ELIGIBLE FOR FUTURE SALE

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

Based on the number of shares outstanding as of , 2013, upon the completion of this offering a total of shares of common stock will be outstanding, assuming that there are no exercises of options or warrants after , 2013 and no exercise of the underwriters' over-allotment option. Of these shares, all shares of common stock sold in this offering, and any shares sold upon exercise of the underwriters' over-allotment option, will be freely tradable in the public market without restriction or further registration under the Securities Act of 1933, unless these shares are held by "affiliates," as that term is defined in Rule 144 under the Securities Act.

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

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

Date	Number of Shares
On the date of this prospectus	—
Between 90 and 180 days after the date of this prospectus	—
At various times beginning more than 180 days after the date of this prospectus	

In addition, of the shares of our common stock that were subject to options outstanding as of , 2013, options to purchase shares of common stock were vested as of , 2013 and will be eligible for sale at various times beginning more than 180 days following the effective date of this offering.

Rule 144

In general, under Rule 144, beginning 90 days after the date of this prospectus, a person who is not deemed to be our affiliate and has not been our affiliate at any time during the three months preceding a sale will be entitled to sell any shares of our common stock that such person has beneficially owned for at least six months, including the holding period of any prior owner other than one of our affiliates, without regard to manner of sale, volume limitations or notice provisions of Rule 144. Sales of our common stock by any such person would be subject to the availability of current public information about us if the shares to be sold were beneficially owned by such person, including the holding period of any prior owner other than one of our affiliates, for less than one year.

In addition, under Rule 144, a person may sell shares of our common stock acquired from us immediately upon the closing of this offering, without regard to volume limitations or the availability of public information about us, if:

- the person is not our affiliate and has not been our affiliate at any time during the preceding three months; and
- the person has beneficially owned the shares to be sold for at least one year, including the holding period of any prior owner other than one of our affiliates.

Beginning 90 days after the date of this prospectus, our affiliates who have beneficially owned shares of our common stock for at least six months, including the holding period of any prior owner other than one of our affiliates, would be entitled to sell within any three-month period a number of shares that does not exceed the greater of:

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

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

Rule 701

In general, under Rule 701, any of our employees, consultants or advisors who purchase shares from us in connection with a compensatory stock or option plan or other written agreement in a transaction before the date of this offering that was completed in reliance on Rule 701 and complied with the requirements of Rule 701 will, subject to the lock-up restrictions described below, be eligible to resell such shares 90 days after the date of this offering in reliance on Rule 144, but without compliance with certain restrictions, including the holding period, contained in Rule 144.

Lock-up Agreements

In connection with this offering we and our officers, directors, substantially all of our stockholders and optionholders have agreed with the underwriters, subject to certain exceptions, not to dispose of or hedge any of our common stock or securities convertible into or exchangeable for shares of common stock, enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the common stock or such other securities, file or cause to be filed a registration statement covering shares of common stock or any securities that are convertible into, exchangeable for, or represent the right to receive, common stock or any substantially similar securities, or publicly disclose the intention to do any of the foregoing, during the period from the date of this prospectus continuing through the date 180 days after the date of this prospectus, except with the prior written consent of Morgan Stanley & Co. LLC and Leerink Swann LLC. This agreement does not apply to the issuance by us of shares under any existing employee benefit plans. These agreements are subject to certain exceptions, as set forth in "Underwriters".

Registration Rights

After this offering, the holders of shares of common stock will be entitled to rights to cause us to register the sale of those shares under the Securities Act. Registration of these shares under the Securities Act would result in these shares, other than shares purchased by our affiliates, becoming fully tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. See "Description of Capital Stock–Registration Rights" for additional information.

Stock Plans

We intend to file a registration statement on Form S-8 under the Securities Act covering all of the shares of common stock subject to options outstanding or reserved for issuance under our stock plans. We expect to file this registration statement as soon as practicable after this offering. However, none of the shares registered on Form S-8 will be eligible for resale until the expiration of the lock-up agreements to which they are subject.

MATERIAL UNITED STATES TAX CONSIDERATIONS TO NON-U.S. HOLDERS

The following is a summary of certain material U.S. federal income and estate tax consequences applicable to non-U.S. holders (as defined below) with respect to the purchase, ownership and disposition of our common stock, but does not purport to be a complete analysis of all the potential tax considerations relating thereto. This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, Treasury regulations promulgated thereunder, administrative rulings and judicial decisions, all as of the date hereof. These authorities may be changed, possibly retroactively, so as to result in U.S. federal income tax consequences different from those set forth below. This summary is limited to the tax consequences to those persons that purchase our common stock in this offering and will hold our common stock as capital assets within the meaning of Section 1221 of the Internal Revenue Code.

This summary does not address the tax considerations arising under the laws of any U.S. state or local jurisdiction or any non-U.S. jurisdiction or under U.S. federal gift, generation-skipping and, except to the extent specifically set forth below, estate tax laws or the potential application of certain provisions of the Internal Revenue Code relating to what is known as the Medicare Contribution tax. In addition, this discussion does not address tax considerations applicable to an investor's particular circumstances or to investors that may be subject to special tax rules, including, without limitation:

- banks, insurance companies or other financial institutions;
- persons subject to the alternative minimum tax;
- tax-exempt organizations;
- dealers in securities or currencies;
- "controlled foreign corporations," or "passive foreign investment companies," each as defined for U.S. federal income tax purposes;
- partnerships or entities classified as partnerships for U.S. federal income tax purposes, or any investors in such entities;
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;
- persons that own, or are deemed to own, more than five percent of our common stock (except to the extent specifically set forth below);
- certain former citizens or long-term residents of the United States;
- persons who hold our common stock as a position in a hedging transaction, "straddle," "conversion transaction" or other risk reduction transaction;
- persons who acquire our common stock through the exercise of employee stock options or otherwise as compensation for services; or
- persons deemed to sell our common stock under the constructive sale provisions of the Internal Revenue Code.

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

You are urged to consult your tax advisor with respect to the application of the U.S. federal income tax laws to your particular situation, as well as any tax consequences of the purchase, ownership and disposition of our common stock arising under the U.S. federal estate, generation-skipping or gift tax rules

or under the laws of any U.S. state or local or any non-U.S. or other taxing jurisdiction or under any applicable tax treaty.

Non-U.S. Holder Defined

For purposes of this discussion, you are a non-U.S. holder if you are a beneficial owner of our common stock (other than a partnership or entity classified as a partnership for U.S. federal income tax purposes) that for U.S. federal income tax purposes is not:

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

A foreign individual may be treated as a resident instead of a nonresident of the United States in any calendar year for U.S. federal income tax purposes if the individual was present in the United States for at least 31 days in that calendar year and for an aggregate of at least 183 days during the three-year period ending with the current calendar year. Subject to certain exceptions, for purposes of this calculation, all of the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year are counted.

Distributions

If we make distributions on our common stock, those payments will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent those distributions exceed both our current and our accumulated earnings and profits, they will constitute a return of capital and will first reduce your basis in our common stock, but not below zero. Any excess will be treated as gain from the sale or other disposition of the common stock and will be treated as described below under "–Gain on Disposition of Common Stock".

Any dividend paid to you generally will be subject to U.S. withholding tax either at a rate of 30% of the gross amount of the dividend or such lower rate as may be specified by an applicable income tax treaty, unless the dividends are effectively connected with your conduct of a U.S. trade or business, as discussed below. In order to receive a reduced treaty rate, you must provide us or the relevant paying agent with an IRS Form W-8BEN or other appropriate version of IRS Form W-8 prior to the distribution date properly certifying qualification for the reduced rate.

Dividends received by you that are effectively connected with your conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, attributable to a permanent establishment maintained by you in the United States) generally will be subject to U.S. federal income tax at the same graduated rates applicable to U.S. persons, net of certain deductions and credits. If you are a corporate non-U.S. holder, you also may be subject to a branch profits tax equal to 30% (or such lower rate specified by an applicable income tax treaty) of your earnings and profits for the taxable year, subject to certain adjustments, that are effectively connected with your conduct of a trade or business in the United States. Payment of effectively connected dividends that are included in your gross income generally will be exempt from withholding tax if you provide us or the relevant paying agent with an IRS Form W-8ECI or other applicable IRS Form W-8 prior to the distribution date properly certifying such exemption.

If you are eligible for a reduced rate of withholding tax pursuant to a tax treaty, you may be able to obtain a refund of any excess amounts currently withheld if you timely file an appropriate claim for refund with the IRS.

Gain on Disposition of Common Stock

Subject to the discussion below under "Backup Withholding and Information Reporting" and "Foreign Account Tax Compliance," you generally will not be required to pay U.S. federal income tax on any gain realized upon the sale or other disposition of our common stock unless:

- the gain is effectively connected with your conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, the gain is attributable to a permanent establishment maintained by you in the United States), in which case you will be required to pay tax on the net gain derived from the sale (net of certain deductions or credits) under regular graduated U.S. federal income tax rates, and if you are a non-U.S. holder that is a corporation, you may also be subject to a branch profits tax at a 30% rate (or such lower rate as may be specified by an applicable income tax treaty) of your earnings and profits for the taxable year, subject to certain adjustments, that are effectively connected with your conduct of a trade or business in the United States;

- you are an individual who is present in the United States for a period or periods aggregating 183 days or more during the calendar year in which the sale or disposition occurs and certain other conditions are met, in which case you will be required to pay a flat 30% tax on the gain derived from the sale, which gain may be offset by U.S. source capital losses (even though you are not considered a resident of the United States) subject to applicable income tax or other treaties providing otherwise; or

- our common stock constitutes a U.S. real property interest by reason of our status as a "U.S. real property holding corporation" for U.S. federal income tax purposes, or a USRPHC , at any time within the shorter of the five-year period preceding the disposition or your holding period for our common stock. In general, a corporation is a USRPHC if the fair market value of its U.S. real property interests (as defined in the Internal Revenue Code and applicable Treasury regulations) equals or exceeds 50% of the sum of the fair market value of its worldwide (U.S. and foreign) real property interests and its other assets used or held for use in a trade or business.

We believe that we are not currently and will not become a USRPHC. However, because the determination of whether we are a USRPHC depends on the fair market value of our U.S. real property relative to the fair market value of our other business assets, there can be no assurance that we will not become a USRPHC in the future. Even if we become a USRPHC , however, as long as our common stock is regularly traded on an established securities market, such common stock will be treated as a U.S. real property interest only if you actually or constructively hold more than five percent of such regularly traded common stock at any time during the five year (or shorter) period that is described above.

Backup Withholding and Information Reporting

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

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

you are a U.S. person. Payment of the proceeds from a disposition of our common stock by a non-U.S. holder effected through a non-U.S. office of a non-U.S. broker generally will not be subject to information reporting or backup withholding if the payment is not received in the United States. However, information reporting, but generally not backup withholding, will apply to such a payment if the broker has certain connections with the U.S. unless the broker has documentary evidence in its records that the beneficial owner thereof is a non-U.S. holder and specified conditions are met or an exemption is otherwise established.

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

Foreign Account Tax Compliance

Legislation commonly referred to as the Foreign Accounts Tax Compliance Act, or FATCA, generally will impose a 30% U.S. withholding tax on dividends on our common stock and the gross proceeds from a disposition of our common stock if paid to a foreign entity, regardless of whether such foreign entity is the beneficial owner or an intermediary, unless (i) if the entity is a "foreign financial institution," the foreign entity undertakes certain due diligence, reporting, withholding and certification obligations, (ii) if the foreign entity is not a "foreign financial institution," the foreign entity identifies certain of its U.S. investors, or (iii) the foreign entity is otherwise exempted under FATCA. The obligation to withhold under FATCA is currently expected to apply to dividends paid on or after July 1, 2014 and to gross proceeds from sales or other dispositions of our common stock after December 31, 2016. You are encouraged to consult with your own tax advisor regarding the possible implications of this legislation on your investment in our common stock.

U.S. Federal Estate Tax

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

Each prospective investor should consult its own tax advisor regarding the particular U.S. federal, state and local and non-U.S. tax consequences of the purchase, ownership and disposition of our common stock, including the consequences of any proposed change in applicable laws.

UNDERWRITERS

Under the terms and subject to the conditions in an underwriting agreement dated the date of this prospectus, the underwriters named below, for whom Morgan Stanley & Co. LLC and Leerink Swann LLC are acting as representatives, have severally agreed to purchase, and we have agreed to sell to them, severally, the number of shares indicated below:

Name	Number of Shares
Morgan Stanley & Co. LLC	
Leerink Swann LLC	
William Blair & Company, L.L.C.	
Cowen and Company, LLC	
Total	

The underwriters and the representatives are collectively referred to as the "underwriters" and the "representatives," respectively. The underwriters are offering the shares of common stock subject to their acceptance of the shares from us and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of common stock offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the shares of common stock offered by this prospectus if any such shares are taken. However, the underwriters are not required to take or pay for the shares covered by the underwriters' over-allotment option described below.

The underwriters initially propose to offer part of the shares of common stock directly to the public at the offering price listed on the cover page of this prospectus and part to certain dealers. After the initial offering of the shares of common stock, the offering price and other selling terms may from time to time be varied by the representatives.

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to additional shares of common stock at the public offering price listed on the cover page of this prospectus, less underwriting discounts and commissions. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the shares of common stock offered by this prospectus. To the extent the option is exercised, each underwriter will become obligated, subject to certain conditions, to purchase about the same percentage of the additional shares of common stock as the number listed next to the underwriter's name in the preceding table bears to the total number of shares of common stock listed next to the names of all underwriters in the preceding table.

The following table shows the per share and total public offering price, underwriting discounts and commissions, and proceeds before expenses to us. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase up to an additional shares of common stock.

		Total	
	Per Share	No Exercise	Full Exercise
Public offering price	$	$	$
Underwriting discounts and commissions to be paid by us	$	$	$
Proceeds, before expenses, to us	$	$	$

The estimated offering expenses payable by us, exclusive of the underwriting discounts and commissions, are approximately $. We have agreed to reimburse the underwriters for certain expenses in an amount up to $.

The underwriters have informed us that they do not intend sales to discretionary accounts to exceed 5% of the total number of shares of common stock offered by them.

We have applied to list our common stock on The NASDAQ Global Market under the trading symbol "VCYT".

We and all directors and officers and the holders of all of our outstanding stock and stock options have agreed that, without the prior written consent of Morgan Stanley & Co. LLC and Leerink Swann LLC on behalf of the underwriters, we and they will not, during the period ending 180 days after the date of this prospectus (the "restricted period"):

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for shares of common stock;

- file any registration statement with the Securities and Exchange Commission relating to the offering of any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock; or

- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of common stock.

whether any such transaction described above is to be settled by delivery of common stock or such other securities, in cash or otherwise. In addition, we and each such person agrees that, without the prior written consent of Morgan Stanley & Co. LLC and Leerink Swann LLC on behalf of the underwriters, we or such other person will not, during the restricted period, make any demand for, or exercise any right with respect to, the registration of any shares of common stock or any security convertible into or exercisable or exchangeable for common stock.

The restrictions described in the immediately preceding paragraph are subject to certain customary exceptions.

Morgan Stanley & Co. LLC and Leerink Swann LLC, in their sole discretion, may release the common stock and other securities subject to the lock-up agreements described above in whole or in part at any time with or without notice.

In order to facilitate the offering of the common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the common stock. Specifically, the underwriters may sell more shares than they are obligated to purchase under the underwriting agreement, creating a short position. A short sale is covered if the short position is no greater than the number of shares available for purchase by the underwriters under the over-allotment option. The underwriters can close out a covered short sale by exercising the over-allotment option or purchasing shares in the open market. In determining the source of shares to close out a covered short sale, the underwriters will consider, among other things, the open market price of shares compared to the price available under the over-allotment option. The underwriters may also sell shares in excess of the over-allotment option, creating a naked short position. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in this offering. As an additional means of facilitating this offering, the underwriters may bid for, and purchase, shares of common stock in the open market to stabilize the price of the common stock. These activities may raise or maintain the market price of the common stock above independent market levels or prevent or retard a decline in the market price of the common stock. The underwriters are not required to engage in these activities and may end any of these activities at any time.

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

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

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for us or our affiliates, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve our securities and instruments. The underwriters and their respective affiliates may also make investment recommendations or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long or short positions in such securities and instruments.

Pricing of the Offering

Prior to this offering, there has been no public market for our common stock. The initial public offering price was determined by negotiations between us and the representative. Among the factors considered in determining the initial public offering price were our future prospects and those of our industry in general, our sales, earnings and certain other financial and operating information in recent periods, and the price-earnings ratios, price-sales ratios, market prices of securities, and certain financial and operating information of companies engaged in activities similar to ours.

Selling Restrictions

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State") an offer to the public of any shares of our common stock may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any shares of our common stock may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representatives for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of shares of our common stock shall result in a requirement for the publication by us or any underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any shares of our common stock in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any shares of our common stock to be offered so as to enable an investor to decide to purchase any shares of our common stock, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State, and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

United Kingdom

Each underwriter has represented and agreed that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 ("FSMA") received by it in connection with the issue or sale of the shares of our common stock in circumstances in which Section 21(1) of the FSMA does not apply to us; and

- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares of our common stock in, from or otherwise involving the United Kingdom.

LEGAL MATTERS

The validity of the shares of common stock offered by this prospectus will be passed upon for us by Pillsbury Winthrop Shaw Pittman LLP, San Francisco and Palo Alto, California. Simpson Thacher & Bartlett LLP, Palo Alto, California is representing the underwriters in this offering.

EXPERTS

The financial statements as of December 31, 2011 and 2012 and for each of the two years in the period ended December 31, 2012 included in this prospectus have been so included in reliance on the report (which contains an explanatory paragraph relating to the Company's experience of recurring operating losses and negative cash flows from operations as described in Note 2 to the financial statements) of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the Securities and Exchange Commission a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock offered by this prospectus. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits and schedules to the registration statement. Please refer to the registration statement, exhibits and schedules for further information with respect to the common stock offered by this prospectus. Statements contained in this prospectus regarding the contents of any contract or other document are only summaries. With respect to any contract or document that is filed as an exhibit to the registration statement, you should refer to the exhibit for a copy of the contract or document, and each statement in this prospectus regarding that contract or document is qualified by reference to the exhibit. You may read and copy the registration statement and its exhibits and schedules at the SEC's public reference room, located at 100 F Street, N.E., Room 1580, Washington D.C. You may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website that contains reports, proxy and information statements and other information regarding companies, such as ours, that file documents electronically with the SEC. The address of that website is www.sec.gov. The information on the SEC's web site is not part of this prospectus, and any references to this web site or any other web site are inactive textual references only.

Upon completion of this offering, we will become subject to the information and reporting requirements of the Securities Exchange Act of 1934 and, in accordance with this law, will be required to file periodic reports, proxy statements and other information with the SEC. These periodic reports, proxy statements and other information will be available for inspection and copying at the SEC's public reference facilities and the website of the SEC referred to above.

VERACYTE, INC.
Index to Audited Financial Statements

Years Ended December 31, 2011 and 2012

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Veracyte, Inc.

In our opinion, the accompanying balance sheets and the related statements of operations and comprehensive loss, statements of convertible preferred stock and stockholders' deficit, and statements of cash flows present fairly, in all material respects, the financial position of Veracyte, Inc. at December 31, 2011 and 2012, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, the Company has experienced recurring operating losses and negative cash flows from operations. Management's plans with regard to its liquidity are also discussed in Note 2.

/s/ PricewaterhouseCoopers LLP

San Jose, California
August 12, 2013

VERACYTE, INC.

Balance Sheets

(In thousands, except share and per share amounts)

	As of December 31, 2011	As of December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 7,566	$ 14,002
Accounts receivable, net of allowance of $235 and $222 as of December 31, 2011 and 2012	229	569
Supplies inventory	279	1,050
Prepaid expenses and other current assets	519	710
Restricted cash	–	50
Total current assets	8,593	16,381
Property and equipment, net	1,687	2,446
Restricted cash	168	118
Other assets	3	122
Total assets	$ 10,451	$ 19,067
Liabilities, Convertible Preferred Stock, and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 550	$ 1,888
Accrued liabilities	1,336	4,020
Deferred Genzyme co-promotion fee	–	2,500
Preferred stock liability	–	583
Total current liabilities	1,886	8,991
Deferred rent, net of current portion	35	61
Deferred Genzyme co-promotion fee, net of current portion	–	5,114
Total liabilities	1,921	14,166
Commitments and contingencies (Note 8)		
Convertible preferred stock, $0.001 par value; 45,147,999 and 59,147,999 shares authorized, 45,147,999 and 53,084,507 shares issued and outstanding as of December 31, 2011 and December 31, 2012; aggregate liquidation value of $50,835 and $65,835 as of December 31, 2011 and 2012	49,296	63,372
Stockholders' deficit:		
Common stock, $0.001 par value; 60,000,000 and 77,000,000 shares authorized, 2,379,782 and 2,670,767 shares issued and outstanding as of December 31, 2011 and 2012	2	3
Additional paid-in capital	652	1,595
Accumulated deficit	(41,420)	(60,069)
Total stockholders' deficit	(40,766)	(58,471)
Total liabilities, convertible preferred stock, and stockholders' deficit	$ 10,451	$ 19,067

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

VERACYTE, INC.

Statements of Operations and Comprehensive Loss

(In thousands, except share and per share amounts)

	Year Ended December 31,	
	2011	2012
Revenue	$ 2,645	$ 11,628
Operating expenses:		
Cost of revenue	2,925	7,584
Research and development	6,680	6,608
Selling and marketing	2,934	8,447
General and administrative	5,372	7,918
Total operating expenses	17,911	30,557
Loss from operations	(15,266)	(18,929)
Interest income	2	2
Other income (expense), net	819	278
Net loss and comprehensive loss	$ (14,445)	$ (18,649)
Net loss per common share, basic and diluted	$ (6.23)	$ (7.17)
Shares used to compute net loss per common share, basic and diluted	2,320,252	2,601,352
Pro forma net loss per common share, basic and diluted (unaudited)		$ (0.38)
Shares used to compute pro forma net loss per common share, basic and diluted (unaudited)		48,961,439

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

VERACYTE, INC.
Statements of Convertible Preferred Stock and Stockholders' Deficit
(In thousands, except share and per share amounts)

	Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount			
Balance–January 1, 2011	30,249,334	$ 30,674	2,227,387	$ 2	$ 162	$ (26,975)	$ (26,811)
Issuance of Series B convertible preferred stock in February 2011 for cash at $1.25 per share, net of issuance costs of $1	7,449,335	9,311	–	–	–	–	–
Issuance of Series B convertible preferred stock in July 2011 for cash at $1.25 per share, net of issuance costs of $1	7,449,330	9,311	–	–	–	–	–
Common stock issued on exercise of common stock options	–	–	152,395	–	24	–	24
Stock-based compensation expense (employee)	–	–	–	–	378	–	378
Stock-based compensation expense (non-employee)	–	–	–	–	88	–	88
Net loss and comprehensive loss	–	–	–	–	–	(14,445)	(14,445)
Balance–December 31, 2011	45,147,999	49,296	2,379,782	2	652	(41,420)	(40,766)
Issuance of Series C convertible preferred stock in November and December 2012 for cash at $1.89 per share, net of issuance costs of $63 and $861 preferred stock liability	7,936,508	14,076	–	–	–	–	–
Common stock issued on exercise of common stock options	–	–	290,985	1	75	–	76
Stock-based compensation expense (employee)	–	–	–	–	590	–	590
Stock-based compensation expense (non-employee)	–	–	–	–	85	–	85
Equity-based compensation	–	–	–	–	193	–	193
Net loss and comprehensive loss	–	–	–	–	–	(18,649)	(18,649)
Balance–December 31, 2012	53,084,507	$ 63,372	2,670,767	$ 3	$ 1,595	$ (60,069)	$ (58,471)

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

VERACYTE, INC.

Statements of Cash Flows

(In thousands)

	Year Ended December 31,	
	2011	**2012**
Operating activities		
Net loss	$ (14,445)	$ (18,649)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	611	706
Bad debt expense	235	225
Loss on write-off of property and equipment	215	–
Genzyme co-promotion fee amortization	–	(2,386)
Stock-based compensation	466	675
Equity-based compensation	193	259
Change in value of preferred stock liability	(719)	(278)
Changes in operating assets and liabilities:		
Accounts receivable	(463)	(565)
Supplies inventory	(143)	(771)
Prepaid expenses and current other assets	(117)	(191)
Other assets	(1)	(119)
Accounts payable	116	1,348
Accrued liabilities and deferred rent	528	2,579
Deferred Genzyme co-promotion fee	–	10,000
Net cash used in operating activities	(13,524)	(7,167)
Investing activities		
Purchases of property and equipment	(276)	(1,462)
Change in restricted cash	(55)	–
Net cash used in investing activities	(331)	(1,462)
Financing activities		
Proceeds from issuance of convertible preferred stock, net of issuance costs	18,622	14,989
Proceeds from the exercise of common stock options	24	76
Net cash provided by financing activities	18,646	15,065
Net increase in cash and cash equivalents	4,791	6,436
Cash and cash equivalents at beginning of period	2,775	7,566
Cash and cash equivalents at end of period	$ 7,566	$ 14,002
Supplementary cash flow information of non-cash investing and financing activities:		
Purchases of property and equipment included in accounts payable and accrued liabilities	$ 106	$ 109
Preferred stock liability	$ –	$ 861
Convertible preferred stock issuance costs included in accounts payable	$ –	$ 52
Transfer of equity-based compensation from liabilities to equity	$ –	$ 193

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

VERACYTE, INC.

Notes to Audited Financial Statements

1. Organization and Description of Business

Veracyte, Inc. (the "Company") was incorporated in the state of Delaware on August 15, 2006 as Calderome, Inc. Calderome operated as an incubator until early 2008. On March 4, 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 collected in an outpatient setting. 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 Company's operations are based in South San Francisco, California and Austin, Texas, and it operates in one segment.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Company's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred significant losses and negative cash flows from operations. At December 31, 2012, the Company had an accumulated deficit of $60.1 million and cash and cash equivalents of $14.0 million. As discussed in Note 14–Subsequent Events, the Company raised $13.0 million in gross proceeds from the issuance of Series C Preferred Stock in June 2013 and entered into a $10.0 million loan and security agreement under which the Company has drawn $5.0 million. The Company's management believes that its currently available resources, including the funds obtained from the preferred stock and debt transactions, will provide sufficient funds to enable the Company to meet its obligations through at least December 31, 2013. However, if the Company's anticipated operating results are not achieved in future periods, planned expenditures may need to be reduced in order to extend the time period over which the then-available resources would be able to fund the Company's operations. The Company will need to raise additional capital to fully implement its business plan. Additional funding may not be available to the Company on acceptable terms, or at all.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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; allowance for doubtful accounts; the useful lives of property and equipment; the recoverability of long-lived assets; the determination of fair value of the Company's common stock, stock options, preferred stock liability; 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

VERACYTE, INC.

Notes to Audited Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

carrying values of assets and liabilities and recorded revenue and expenses that are not readily apparent from other sources. Actual results could differ from those estimates and assumptions.

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 of America. 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 solution, 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. All of the Company's accounts receivables are derived from sales of Afirma in the United States.

As of December 31, 2012, all of the Company's revenue is derived from the sale of Afirma. The Company's solution to date has been delivered primarily to physicians in the United States. The Company's significant third-party payers and their related revenue as a percentage of revenue are as follows:

	Year Ended December 31,	
	2011	2012
Medicare	38%	34%
Aetna	14%	13%
UnitedHealthcare	13%	12%
	65%	59%

Accounts receivable from Medicare amounted to 34% and 87% of gross accounts receivable as of December 31, 2011 and 2012. No other third-party payer represented more than 10% of the Company's revenue or accounts receivable balances for these periods.

Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less from the date of purchase. Cash equivalents consist primarily of amounts invested in money market accounts.

Restricted Cash

As of December 31, 2011 and 2012, deposits of $168,000 were restricted from withdrawal and held by a bank in the form of certificates of deposit and collateral for letters of credit. The balance as of December 31, 2011 and 2012 consists of a certificate of deposit of $50,000 held as collateral for payment of

VERACYTE, INC.

Notes to Audited Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

the Company's credit cards and a letter of credit totaling $118,000 which is related to security for the lease of the Company's office space.

Allowance for Doubtful Accounts

The Company accrues an allowance for doubtful accounts against its accounts receivable based on estimates consistent with historical collection 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 the claims appeals process is exhausted or when there is other substantive evidence that the account will not be paid.

	As of December 31,	
	2011	2012
	(In thousands)	
Beginning balance	$ –	$ 235
Charged to expense	235	225
Write-offs, net of recoveries	–	(238)
Ending balance	$ 235	$ 222

Supplies Inventory

Supplies inventory consists of test reagents and other consumables used in the sample collection kits and in the GEC 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 third-party costs incurred in the application development stage to design and implement the software used in the GEC. Costs incurred in the development of application of the software are capitalized and amortized over an estimated useful life of three years on a straight line basis.

During the years ended December 31, 2011 and 2012, the Company capitalized $0 and $173,000 of software development costs. During the years ended December 31, 2011 and 2012, the Company wrote-off $215,000 and $0 of capitalized software costs to research and development expenses. Amortization expense totaled $16,000 and $47,000, for the years ended December 31, 2011 and 2012, respectively. Capitalized

VERACYTE, INC.

Notes to Audited Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

software is included in property and equipment, and had a net book value of $58,000 and $184,000 and as of December 31, 2011 and 2012, respectively.

Long-lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An impairment loss is recognized 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 were no impairments for the years ended December 31, 2011 and 2012.

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. As of December 31, 2011 and 2012, the Company accrued $407,000 and $671,000, respectively, for liabilities associated with these employee and executive bonus plans. As more fully discussed in Note 11 to the financial statements, a portion of the bonus accruals was settled with equity awards issued subsequent to year end.

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 its 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 commercial carriers or governmental programs subject to contractual arrangements and when there is a predictable pattern of collectability on an accrual basis, net of contractual adjustments. These contractual adjustments represent the difference between the list price (the billing rate) and the reimbursement rate set by commercial or governmental payers. Until a contract has been negotiated with a commercial carrier 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 the Company. In the absence of an agreement or other clearly enforceable legal right to demand payment, when test services are provided to patients with non-contracted insurance carriers or no insurance, the related revenue is only recognized upon the earlier of payment notification, if applicable, or cash receipt.

VERACYTE, INC.

Notes to Audited Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

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; the fee is fixed or determinable; and collectability is reasonably assured.

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 the fixed or determinable nature of the fees charged for diagnostic testing performed and the collectability of those fees require significant judgment by management. Management believes that these two criteria have been met when there is contracted reimbursement coverage and/or a predictable pattern of collectability with individual third-party payers and accordingly, recognizes revenue 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 a predictable pattern and history of collectability, the Company believes that the fee is fixed or determinable and collectability is reasonably assured only upon receipt of third-party payer notification of payment or when cash is received and accordingly, recognizes revenue at that time.

Cost of Revenue

Cost of revenue is expensed as incurred and includes material and service costs related to the initial cytopathology testing performed by a third-party pathology group, direct labor costs, equipment and infrastructure expenses associated with testing tissue 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, but are not limited to, payroll and personnel-related expenses, stock-based compensation expense, prototype materials, laboratory supplies, consulting costs, 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 greater than 50 percent likely 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.

VERACYTE, INC.

Notes to Audited Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

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 valuation 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.

Equity instruments issued to non-employees are valued using the Black-Scholes option-pricing valuation model and are subject to remeasurement as the underlying equity instruments vest.

Net Loss and Unaudited Pro Forma 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 convertible preferred stock and options to purchase common stock 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 antidilutive for all periods presented. In contemplation of an initial public offering, the Company has presented the unaudited pro forma basic and diluted net loss per common share which has been computed to give effect to the conversion of the convertible preferred stock into common stock.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued authoritative guidance requiring companies to present items of net income, items of other comprehensive income and total comprehensive income in one continuous statement or two consecutive statements. This guidance eliminates the option for companies to present other comprehensive income in the statement of stockholders' equity. The Company adopted this guidance as of January 1, 2012. As this guidance provides only presentation requirements, the adoption of this guidance did not impact the Company's financial condition or results of operations.

In May 2011, the FASB issued authoritative guidance to achieve common fair value measurement and disclosure requirements between U.S. GAAP and International Financial Reporting Standards. This new literature amends current fair value measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. The guidance is effective for fiscal years and interim periods beginning after December 15, 2011. The Company adopted this standard in January 2012, as reflected in Note 5 to the financial statements.

VERACYTE, INC.

Notes to Audited Financial Statements (Continued)

3. Net Loss Per Common Share

The following table presents the calculation of basic and diluted net loss per common share for the years ended December 31, 2011 and 2012 (in thousands, except share and per share amounts):

	Year Ended December 31,	
	2011	2012
Net loss	$ (14,445)	$ (18,649)
Shares used to compute net loss per common share, basic and diluted	2,320,252	2,601,352
Net loss per common share, basic and diluted	$ (6.23)	$ (7.17)

The following outstanding shares of common stock equivalents have been excluded from diluted net loss per common share for the years ended December 31, 2011 and 2012 because their inclusion would be anti-dilutive:

	Year Ended December 31,	
	2011	2012
Shares of common stock subject to outstanding options	5,718,952	8,910,706
Shares of common stock subject to conversion from preferred stock	45,147,999	53,084,507
Total shares of common stock equivalents	50,866,951	61,995,213

The following table sets forth the computation of the Company's unaudited pro forma basic and diluted net loss per common share after giving effect to the conversion of convertible preferred stock using the as-if converted method into common stock as though the conversion had occurred at the beginning of the year ended December 31, 2012 (in thousands, except share and per share amounts):

	Year Ended December 31, 2012 (Unaudited)
Net loss	$ (18,649)
Shares used to compute net loss per common share, basic and diluted	2,601,352
Pro forma adjustments to reflect assumed conversion of convertible preferred stock	46,360,087
Shares used to compute pro forma net loss per common share, basic and diluted	48,961,439
Pro forma net loss per common share, basic and diluted	$ (0.38)

VERACYTE, INC.

Notes to Audited Financial Statements (Continued)

4. Balance Sheet Components

Property and Equipment, Net

Property and equipment consisted of the following (in thousands):

	As of December 31,	
	2011	2012
Leasehold improvements	$ 328	$ 341
Laboratory equipment	1,658	2,061
Computer equipment	371	526
Software, including software developed for internal use	302	554
Furniture and fixtures	54	81
Construction-in-process	84	699
Total property and equipment, gross	2,797	4,262
Accumulated depreciation and amortization	(1,110)	(1,816)
Total property and equipment, net	$ 1,687	$ 2,446

Depreciation and amortization expense was $611,000 and $706,000 for the years ended December 31, 2011 and 2012, and was recorded in the statements of operations and comprehensive loss as follows (in thousands):

	Year Ended December 31,	
	2011	2012
Cost of revenue	$ 397	$ 401
Research and development	162	184
Selling and marketing	21	46
General and administrative	31	75
Total depreciation and amortization expense	$ 611	$ 706

Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	Year Ended December 31,	
	2011	2012
Accrued compensation expenses	$ 787	$ 1,360
Accrued consulting fees	93	28
Accrued legal and professional fees	123	84
Accrued other	213	373
Accrued Genzyme co-promotion fees	–	2,175
Deferred rent–short-term	120	–
Total accrued liabilities	$ 1,336	$ 4,020

VERACYTE, INC.

Notes to Audited Financial Statements (Continued)

5. 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 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 following table sets forth the fair value of the Company's financial assets and liabilities measured on a recurring basis, as of December 31, 2011 and 2012 (in thousands):

	As of December 31, 2011			
	Level I	Level II	Level III	Total
Financial Assets:				
Money market funds	$ 7,344	$ –	$ –	$ 7,344
Total financial assets	$ 7,344	$ –	$ –	$ 7,344

	As of December 31, 2012			
	Level I	Level II	Level III	Total
Financial Assets:				
Money market funds	$ 12,830	$ –	$ –	$ 12,830
Total financial assets	$ 12,830	$ –	$ –	$ 12,830
Financial Liabilities:				
Preferred stock liability	$ –	$ –	$ 583	$ 583
Total financial liabilities	$ –	$ –	$ 583	$ 583

VERACYTE, INC.

Notes to Audited Financial Statements (Continued)

5. Fair Value Measurements (Continued)

The Company's Level 3 liabilities consist of a preferred stock liability (see Note 9). The following table sets forth a summary of the changes in the fair value of the Company's Level 3 financial liabilities, which are measured on a recurring basis:

	December 31,	
	2011	2012
	(In thousands)	
Beginning balance	$ 719	$ –
Fair value of preferred stock liability	–	861
Change in fair value of preferred stock liability recorded in other income (expense), net	(719)	(278)
Ending balance	$ –	$ 583

6. Genzyme Co-promotion Agreement

In May 2011, the Company received $100,000 from Genzyme Corporation ("Genzyme") in connection with an extension of an exclusive right to negotiate a co-promotion agreement.

In January 2012, the Company and Genzyme executed a co-promotion agreement for the co-exclusive rights and license to promote and market the Company's Afirma thyroid cancer solution in the United States and in 40 named countries. In exchange, the Company received a $10.0 million co-promotion fee from Genzyme in February 2012. The Company may receive an additional $3.0 million in payments, $600,000 for each country outside of the United States in which the Company obtains marketing authorization and achieves a specified level of reimbursement, for up to five countries. Under the terms of the agreement, Genzyme will receive a percentage of cash receipts that the Company has received related to Afirma as co-promotion fees. The percentage was 50% in 2012 and will decrease to 40% in January 2013 and will further decrease to 32% in March 2014 and thereafter. Genzyme will also spend up to $500,000 for qualifying clinical development activities in countries that require additional testing for approval. This obligation expires in July 2014. The agreement expires in January 2027 and either party may terminate the agreement at any time and with six months prior notice. The Company is amortizing the co-promotion fee over a four-year period, which is management's best estimate of the life of the agreement, in part because after that period either party may terminate the agreement without penalty. The Company amortized $2.4 million in the year ended December 31, 2012, which is reflected as a reduction to selling and marketing expenses in the statements of operations and comprehensive loss. The unamortized balance of the co-promotion fee is $7.6 million as of December 31, 2012.

7. Thyroid Cytology 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 with the specialized pathology practice, Thyroid Cytology Partners ("TCP"), is effective through December 31, 2015, unless terminated earlier, and renews annually thereafter. Under the service agreement, Veracyte 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 Veracyte's facility in Austin, Texas. TCP will reimburse the Company for a proportionate share of the Company's rent and related operating expense costs for the

VERACYTE, INC.

Notes to Audited Financial Statements (Continued)

7. Thyroid Cytology Partners (Continued)

leased facility. 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. All amounts to be received from TCP will be recorded in the same period as the corresponding lease costs.

TCP provided $434,000 and $1.8 million in cytopathology testing and evaluation services in the years ended December 31, 2011 and 2012, respectively. The Company also reimbursed TCP for licensure fees of $83,000 and $137,000 in the years ended December 31, 2011 and 2012, respectively. Expenses for testing and evaluation services and reimbursed professional licensure fees are included in cost of revenue in the statements of operations and comprehensive loss. The Company's outstanding obligations to TCP were $134,000 and $458,000 as of December 31, 2011 and 2012, respectively, which were included in accounts payable in the Company's balance sheets.

8. Commitments and Contingencies

Operating Leases

The Company leases its headquarters and South San Francisco laboratory facilities under a non-cancelable lease agreement that expired March 31, 2013. The lease was amended in July 2012 to extend the term to March 31, 2016 and to provide tenant improvement allowances of up to $253,000. The Company provided security deposits in the form of irrevocable standby letters of credit secured with restricted cash deposits at the Company's primary bank. The Company deposited $118,000 in restricted cash accounts as collateral for the lease which is included in restricted cash in the Company's balance sheets as of December 31, 2011 and 2012.

In November 2012, the Company entered into a non-cancelable lease agreement commencing February 1, 2013 to lease laboratory space in Austin, Texas. The lease expires on July 31, 2018. The Company paid a cash security deposit of $75,000, which is included in other assets in the Company's balance sheet as of December 31, 2012.

Future minimum lease payments under non-cancellable operating leases as of December 31, 2012 are as follows (in thousands):

Year Ending December 31,	Amounts
2013	$ 816
2014	938
2015	989
2016	413
2017	222
Thereafter	130
Total minimum lease payments	$ 3,508

The Company recognizes rent expense on a straight-line basis over the non-cancellable lease period. Facilities rent expense was $570,000 and $711,000 and for the years ended December 31, 2011 and 2012, respectively.

VERACYTE, INC.

Notes to Audited Financial Statements (Continued)

8. Commitments and Contingencies (Continued)

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.

9. Convertible Preferred Stock

Convertible preferred stock as of December 31, 2011 and 2012 consists of the following (in thousands, except for share data):

	Shares Authorized	Original Issue Price	Shares Issued and Outstanding	Aggregate Liquidation Amount	Proceeds Net of Issuance Costs and Preferred Stock Liability
Series A	22,399,999	$ 1.00	22,399,999	$ 22,400	$ 22,328
Series B	22,748,000	1.25	22,748,000	28,435	26,968
Balance at December 31, 2011	45,147,999		45,147,999	50,835	49,296
Series A	22,399,999	$ 1.00	22,399,999	22,400	22,328
Series B	22,748,000	1.25	22,748,000	28,435	26,968
Series C	14,000,000	1.89	7,936,508	15,000	14,076
Balance at December 31, 2012	59,147,999		53,084,507	$ 65,835	$ 63,372

In June 2010, the Company recorded a preferred stock liability as the investors received the right to purchase from the Company, on the same terms, additional shares of Series B convertible preferred stock, in a second and third tranche. As the investors hold a majority of the seats on the Board of Directors, the decision to complete the second and third tranche were deemed to be outside the control of the Company. The Company recorded a preferred stock liability of $1.4 million for the fair value of the Company's obligation to sell the convertible preferred stock for the second and third tranche of Series B convertible preferred stock. The preferred stock liability was valued using the option-pricing method with the following assumptions: 100% probability of success of the second and third tranches, a term of 0.75 years for the second tranche and 1.59 years for the third tranche, a risk-free rate of 0.3% for the second tranche and 0.7% for the third tranche, and volatility of 43.8% for the second tranche and 45.1% for the third tranche. This resulted in an initial fair value of $0.5 million for the second tranche and $0.9 million for the third tranche for the Company's obligation to sell the convertible preferred stock. At year end 2010, a change in value of the liability of $0.7 million was recorded to other income (expense), net. In February 2011 and June 2011, the Company issued 7,449,335 and 7,449,330 shares of Series B convertible preferred stock, respectively, at $1.25 per share for aggregate net proceeds of $18.6 million, in the second and third tranche of the Series B financing. With the issuance of the Series B convertible preferred stock, the Company recorded $0.7 million to other income (expense) related to the change in value of the preferred stock liability before retirement of the preferred stock liability in 2011.

In November 2012, the Company entered into a Series C Preferred Stock Purchase Agreement (the "Series C Agreement"). Under the Series C Agreement, the Company authorized the issuance and sale of an aggregate of 13,227,513 shares of its Series C convertible preferred stock, which may be sold in three

VERACYTE, INC.

Notes to Audited Financial Statements (Continued)

9. Convertible Preferred Stock (Continued)

closings: 7,910,053 shares in the initial purchase (the "Initial Closing"), 5,291,005 shares in the second closing ("the Second Closing"), and 26,455 shares in an additional closing (the "First Additional Closing").

The Initial Closing of the Series C convertible preferred stock occurred in November 2012 and the First Additional Closing in December 2012. In the Initial Closing and the First Additional Closing, the Company issued an aggregate of 7,936,508 shares of its Series C convertible preferred stock at a price per share of $1.89 for gross proceeds of $15.0 million.

Following the written confirmation from the Company and the holders of at least $66^{2}/_{3}\%$ of the then outstanding shares of Series C convertible preferred stock purchased pursuant to the Series C Agreement, a Second Closing will take place provided that the written confirmation of the Second Closing occurs on or before the 12 month anniversary of the Initial Closing. The total number of shares that may be sold in the second closing is 5,291,005, which at a price per share of $1.89 would result in total gross proceeds of $10.0 million. In November 2012, the Company recorded a preferred stock liability as the investors received the right to purchase from the Company, on the same terms, additional shares of Series C convertible preferred stock, in a second tranche. As the investors hold a majority of the board seats, the decision to complete the second tranche was deemed to be outside the control of the Company. The preferred stock liability was valued using the option-pricing method with the following assumptions: 100% probability of success of the second tranche, fair value of Series C preferred stock of $1.78, a term of 0.67 years and expected volatility of 44%. This resulted in an initial fair value of $0.9 million for the Company's obligation to sell the convertible preferred stock. At December 31, 2012, the Company revalued the preferred stock liability to $0.6 million and recorded other income (expense), net of $0.3 million related to the change in value of the liability through that date.

In June 2013, the Company completed the second tranche, see Note 14–Subsequent Events.

The rights, preferences and privileges of the Series A, Series B and Series C convertible preferred stock are as follows:

Dividends

The holders of the outstanding shares of Series A, Series B and Series C convertible preferred stock are entitled to receive, when and if declared by the Board of Directors, a non-cumulative cash dividend at the rate of eight percent (8%) of the applicable original issue price per annum on each outstanding share of Series A, Series B and Series C convertible preferred stock. Such dividends are payable in preference to any dividends for common stock declared by the Board of Directors. No dividends have been declared to date.

Conversion Rights

Each share of Series A, Series B and Series C convertible preferred stock is, at the option of the holder, convertible into the number of fully paid and non-assessable shares of common stock as determined by dividing the original issue price applicable to such convertible preferred stock by the conversion price in effect at that time. The conversion price for each series preferred stock shall initially be the original issue price of such series of preferred stock and shall be adjusted in accordance with conversion provision contained in the Company's Amended and Restated Certificate of Incorporation.

Each share of convertible preferred stock will be automatically be converted into shares of common stock based on the then effective conversion price (i) upon the affirmative election of the holders of at

VERACYTE, INC.

Notes to Audited Financial Statements (Continued)

9. Convertible Preferred Stock (Continued)

least a majority of the outstanding shares of the convertible preferred stock or (ii) immediately upon the closing of a firmly underwritten public offering filed under the Securities Act of 1933, as amended, covering the offer and sale of common stock for the account of the Company in which the gross cash proceeds to the Company are at least $40 million.

Voting Rights

Each holder is entitled to the number of votes equal to the number of shares of common stock into which the shares of preferred stock could be converted.

Liquidation Rights

Upon liquidation, dissolution, or winding down of the Company, the holders of the convertible preferred stock shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of shares of common stock, an amount equal to the per share issue price of such series of preferred stock ($1.00 per share for Series A convertible preferred stock, $1.25 per share for Series B convertible preferred stock, and $1.89 per share for Series C convertible preferred stock), plus all declared and unpaid dividends on such shares (the "liquidation preference"). If available assets are insufficient to pay the full liquidation preference, the available assets will be distributed among the holders of the convertible preferred stock, on a pari passu and pro rata basis. After the payment of the liquidation preference, all remaining assets available for distribution will be distributed ratably among the holders of the common stock.

Other

The Company recorded the convertible preferred stock at fair value on the dates of issuance, net of issuance costs. The Company classifies the convertible preferred stock outside of stockholders' equity because the shares contain liquidation features that are not solely within its control. During the years ended December 31, 2011 and 2012, the Company did not adjust the carrying values of the convertible preferred stock to the deemed redemption values of such shares since a liquidation event was not probable. Subsequent adjustments to increase the carrying values to the ultimate redemption values will be made only when it becomes probable that such a liquidation event will occur.

10. Stockholders' Deficit

Common Stock

The Company's Certificate of Incorporation, as amended November 5, 2012, authorizes the Company to issue 77,000,000 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 December 31, 2012.

VERACYTE, INC.

Notes to Audited Financial Statements (Continued)

10. Stockholders' Deficit (Continued)

As of December 31, 2011 and 2012, the Company had reserved shares of common stock, on an as-if converted basis, for issuance as follows:

	As of December 31,	
	2011	2012
Conversion of Series A convertible preferred stock	22,399,999	22,399,999
Conversion of Series B convertible preferred stock	22,748,000	22,748,000
Conversion of Series C convertible preferred stock	–	7,936,508
Conversion of Series C convertible preferred stock reserved for issuance	–	5,291,005
Options issued and outstanding	5,718,952	8,910,706
Options available for grant under stock option plan	1,899,834	1,389,495
Total	52,766,785	68,675,713

11. Stock Incentive Plan

Stock Option Plan

On February 15, 2008, the Company adopted the 2008 Stock Plan (the "2008 Plan"). The 2008 Plan provides for the granting of options to purchase common stock and common stock to employees, directors and consultants of the Company. The Company may grant incentive stock options ("ISOs"), non-statutory stock options ("NSOs") or restricted stock under the 2008 Plan. ISOs may only be granted to Company employees (including directors who are also considered employees). NSOs and restricted stock may be granted to Company employees, directors and consultants.

Options under the 2008 Plan may be granted for terms of up to ten years from the date of grant, as determined by the Board of Directors, provided however, that with respect to an ISO granted to a person who owns stock representing more than 10% of the voting power of all classes of stock of the Company, the term shall be for no more than five years from the date of grant.

The exercise price of options granted under the 2008 Plan must be at a price no less than 100% of the estimated fair value of the shares on the date of grant, as determined by the Board of Directors, provided however, that with respect to an ISO granted to an employee who at the time of grant of such option owns stock representing more than 10% of the voting power of all classes of stock of the Company, the exercise price shall not be less than 110% of the estimated fair value of the shares on the date of grant.

Options granted under the 2008 Plan to newly hired employees generally vest over four years (generally 25% after one year and monthly thereafter). Options granted to employees as part of annual bonus compensation are generally fully vested at the grant date.

VERACYTE, INC.

Notes to Audited Financial Statements (Continued)

11. Stock Incentive Plan (Continued)

Activity under the Company's 2008 Plan is set forth below:

	Shares Available for Grant	Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In thousands)
Balance–January 1, 2011	2,824,999	4,946,182	$ 0.31	8.82	$ 1,387
Granted	(1,474,500)	1,474,500	0.60		
Cancelled	549,335	(549,335)	0.32		
Exercised	–	(152,395)	0.16		
Balance–December 31, 2011	1,899,834	5,718,952	0.39	8.22	1,221
Additional options authorized	2,972,400	–			
Granted	(3,727,795)	3,727,795	0.69		
Cancelled	245,056	(245,056)	0.49		
Exercised	–	(290,985)	0.26		
Balance–December 31, 2012	1,389,495	8,910,706	0.52	8.17	4,311
Options exercisable–December 31, 2012		4,166,004	$ 0.37	7.32	$ 2,631
Options vested and expected to vest–December 31, 2012		8,472,770	$ 0.51	8.13	$ 4,156

Outstanding and exercisable stock options as of December 31, 2012 are summarized as follows:

	Options Outstanding			Options Vested and Exercisable		
Exercise Prices	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In thousands)	Number of Options Exercisable	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In thousands)
$0.02	1,183,500	5.67	$ 1,160	1,176,312	5.66	$ 1,153
$0.20	973,557	7.07	779	778,711	7.04	623
$0.59	2,091,479	7.84	857	1,313,971	7.85	539
$0.60	934,375	8.68	374	428,382	8.68	171
$0.67	3,458,628	9.27	1,141	438,628	9.19	145
$1.00	269,167	9.93	–	30,000	9.93	–
	8,910,706	8.17	$ 4,311	4,166,004	7.32	$ 2,631

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying stock options and the fair value of the Company's common stock for stock options that were in-the-money.

The weighted average fair value of options to purchase common stock granted was $0.42 and $0.49 in the years ended December 31, 2011 and 2012, respectively.

The weighted average fair value of options to purchase common stock vested was $0.25 and $0.35 per share in the years ended December 31, 2011 and 2012. The total estimated grant date fair value of

VERACYTE, INC.

Notes to Audited Financial Statements (Continued)

11. Stock Incentive Plan (Continued)

employee options to purchase common stock vested during the years ended December 31, 2011 and 2012 was $466,000 and $583,000 respectively.

The weighted average fair value of options to purchase common stock exercised was $0.16 and $0.22 in the years ended December 31, 2011 and 2012, respectively. The intrinsic value of options to purchase common stock exercised was $68,000 and $215,000 in the years ended December 31, 2011 and 2012, respectively. The estimated fair value of the Company's common stock as of December 31, 2011 and 2012 was $0.60 and $1.00 per share, respectively.

In February 2008, the Company entered into a restricted stock purchase agreement with a founder. The Company issued 1,396,341 shares of restricted common stock at $0.005 per share, of which 62,060 shares were unvested as of January 1, 2011. These shares had a grant date fair value of $0.015 per share and became fully vested in 2011.

Stock-based Compensation

The Company uses the grant date fair market value of its common stock to value both employee and non-employee options when granted. The Company revalues non-employee options each reporting period using the fair market value of the Company's common stock as of the last day of each reporting period.

Determining Fair Value of Stock Options

The fair value of the shares of common stock underlying stock options has historically been determined by the Board of Directors. Because there has been no public market for the Company's common stock, the Board of Directors has determined fair value of the common stock at the time of grant of the option by considering a number of objective and subjective factors including important developments in the Company's operations, valuations performed by an independent third party, sales of convertible preferred stock, actual operating results and financial performance, the conditions in our industry and the economy in general, the stock price performance of comparable public companies, and the lack of liquidity of the Company's common stock, among other factors. The fair value of the underlying common stock shall be determined by the Board of Directors until such time as the Company's common stock is listed on national stock exchange.

The Black-Scholes option-pricing valuation model is used to determine the fair value of stock options. The input assumptions used to estimate fair value of these awards include the exercise price of the award, the expected option term, the expected volatility of the Company's stock over the option's expected term, the risk-free interest rate over the option's expected term, and the Company's expected dividend yield, if any.

The estimated expected term of options granted is determined by taking the average of the vesting term and the contractual term of each option. As the Company has limited stock price history from which to forecast stock price volatility, it estimates common stock price volatility by calculating the actual average volatility of the common stock of a selected peer group whose share price is publicly available. The Company uses a look-back period commensurate with the expected life of each option award. The risk-free interest rates used in the valuation model are based on U.S. Treasury issues with remaining terms similar to the expected term of the options. The Company does not anticipate paying any dividends in the foreseeable future and therefore used an expected dividend yield of zero.

VERACYTE, INC.

Notes to Audited Financial Statements (Continued)

11. Stock Incentive Plan (Continued)

Summary of Assumptions

The fair value of share-based payments for option granted to employees and directors was estimated on the date of grant using the Black-Scholes option-pricing valuation model based on the following weighted average assumptions:

	Year Ended December 31,	
	2011	2012
Expected term (in years)	5.00 - 6.08	5.00 - 6.08
Expected volatility	70.78 - 80.92%	82.07 - 84.33%
Risk-free interest rate	1.19 - 2.51%	0.65 - 1.19%
Dividend yield	–	–

Stock-based compensation related to stock options granted to non-employees is recognized as the stock options are earned. The fair value of the stock options granted is calculated at each reporting date using the Black-Scholes option-pricing model with the following assumptions: expected life is equal to the remaining contractual term of the award as of the measurement date ranging from 6.52 years to 9.84 years as of December 31, 2011 and 8.23 years to 9.93 years as of December 31, 2012; risk free rate is 1.23% to 1.86% for the year ended December 31, 2011 and 1.43% to 1.77% for the year ended December 31, 2012; expected dividend yield of 0%; and volatility ranging from 79.35% to 81.62% as of December 31, 2011 and 81.14% to 82.11% as of December 31, 2012.

The following table summarizes stock-based compensation expense related to stock options for the years ended December 31, 2011 and 2012 included in the statements of operations and comprehensive loss as follows (in thousands):

	Year Ended December 31,	
	2011	2012
Cost of revenue	$ 32	$ 26
Research and development	130	131
Selling and marketing	77	111
General and administrative	227	407
Total stock-based compensation expense	$ 466	$ 675

If all of the remaining non-vested and outstanding stock option awards that have been granted vested, the Company would recognize approximately $1.6 million in compensation expense over a weighted average remaining period of 2.8 years. No compensation expense will be recognized for any stock options that do not vest.

Equity-based Compensation

For the years ended December 31, 2011 and 2012, the Company paid a portion of its executive bonuses through the grant of stock options. The equity transaction associated with these bonuses is classified as equity-based compensation expense. Accruals for the anticipated grants were $193,000 and

VERACYTE, INC.

Notes to Audited Financial Statements (Continued)

11. Stock Incentive Plan (Continued)

$259,000 in the years ended December 31, 2011 and 2012, respectively, and are included in accrued liabilities in the balance sheets. The expenses were determined as follows:

- In March 2012, the Company's Board of Directors authorized the grant of 438,628 fully vested stock options at a fair value of $0.44 resulting in $193,000 in expense in the year ended December 31, 2011. The option fair value was determined using the Black-Scholes option-pricing valuation model. The option exercise price was $0.67 as determined by the Company's Board of Directors, the risk free rate was 0.88%, the expected life was 5.0 years, the volatility was determined to be 83.52% and expected dividend yield of 0%. Upon issuance of the fully vested options, the liability was reclassified into additional paid-in capital.

- In February 2013, the Company's Board of Directors authorized the grant of 402,007 fully vested stock options at a fair value of $0.65 resulting in $259,000 in expense in the year ended December 31, 2012. The fair value of the options was determined using the Black-Scholes option-pricing valuation model with the following assumptions: fair market value of common stock of $1.00 as determined by the Company's Board of Directors, risk-free rate of 0.88%, expected term of 5.0 years, expected volatility of 81.41% and expected dividend yield of 0%. Upon issuance of the fully vested options, the liability was reclassified into additional paid-in capital.

The following table summarizes equity-based compensation expense for the years ended December 31, 2011 and 2012, which were included in the statements of operations and comprehensive loss as follows (in thousands):

	Year Ended December 31,	
	2011	2012
Cost of revenue	$ 2	$ 2
Research and development	80	100
Selling and marketing	41	39
General and administrative	70	118
Total equity-based compensation expense	$ 193	$ 259

12. Income Taxes

The Company operates in only one jurisdiction, United States. The Company did not record a provision or benefit for income taxes during the years ended December 31, 2011 and 2012. The following table presents a reconciliation of the tax expense computed at the statutory federal rate and the Company's tax expense for the period presented (in thousands):

	Year Ended December, 31,	
	2011	2012
U.S. federal taxes at statutory rate	$ (4,911)	$ (6,341)
State taxes (net of federal benefit)	(843)	(1,074)
Permanent differences	(108)	261
Tax credits	(181)	(113)
Change in valuation allowance	6,043	7,267
Total	$ –	$ –

VERACYTE, INC.

Notes to Audited Financial Statements (Continued)

12. Income Taxes (Continued)

The tax effects of temporary differences and carryforwards that give rise to significant portions of the deferred tax assets are as follows (in thousands):

	As of December 31,	
	2011	2012
Deferred tax assets:		
Net operating loss carryforwards	$ 16,547	$ 20,536
Research and development credit	723	954
Stock-based compensation	50	154
Genzyme co-promotion agreement		3,049
Accruals, depreciation and deferred rent	197	157
Gross deferred tax assets	17,517	24,850
Valuation allowance	(17,469)	(24,767)
Net deferred tax assets	48	83
Deferred tax liabilities:		
Property and equipment	$ (48)	$ (83)
Gross deferred tax liabilities	(48)	(83)
Net deferred tax liabilities	$ –	$ –

The Company has established a full valuation allowance against its deferred tax assets due to the uncertainty surrounding realization of such assets. The valuation allowance increased $6.0 million and $7.3 million during the years ended December 31, 2011 and 2012, respectively.

The guidance for accounting for income taxes prescribes certain realization requirements for stock compensation. The table above does not include certain deferred tax assets at December 31, 2011 and 2012 that could arise directly from tax deductions for equity compensation expense incurred in the periods to the extent it exceeds equity compensation expense recognized for financial reporting purposes in those periods. If and when such benefits are ultimately realized, additional paid in capital would be increased and taxes payable would be reduced.

As of December 31, 2012, the Company had net operating loss carryforwards of approximately $52.0 million and $49.6 million available to reduce future taxable income, if any, for Federal and state income tax purposes, respectively. The U.S. federal net operating loss carryforwards will begin to expire in 2026 while for state purposes, the net operating losses will begin to expire in 2018.

As of December 31, 2012, the Company had credit carryforwards of approximately $0.9 million and $0.7 million available to reduce future taxable income, if any, for Federal and California state income tax purposes, respectively. The Federal credit carryforwards begin to expire in 2028. California credits have no expiration date.

The Internal Revenue Code of 1986, as amended, imposes restrictions on the utilization of net operating losses and tax credits in the event of an "ownership change" of a corporation. Accordingly, a company's ability to use net operating losses and tax credits may be limited as prescribed under Internal Revenue Code Section 382 and 383 ("IRC Section 382"). Events which may cause limitations in the amount of the net operating losses or tax credits that the Company may use in any one year include, but

VERACYTE, INC.

Notes to Audited Financial Statements (Continued)

12. Income Taxes (Continued)

are not limited to, a cumulative ownership change of more than 50% over a three-year period. Utilization of the federal and state net operating losses may be subject to substantial annual limitation due to the ownership change limitations provided by the IRC Section 382 rules and similar state provisions. The Company has not had any ownership changes from inception to March 31, 2013. In the event the Company has subsequent changes in ownership, net operating losses and research and development credit carryovers could be limited and may expire unutilized.

As of December 31, 2012, the Company had unrecognized tax benefits of $0.5 million, all of which would not currently affect the Company's effective tax rate if recognized due to the Company's 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 December 31, 2012 will significantly increase or decrease within the next twelve months.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	Year Ended December 31,	
	2011	2012
Unrecognized tax benefits, beginning of period	$ 263	$ 341
Gross increases–tax position in prior period	–	67
Gross decrease–tax position in prior period	–	–
Gross increases–current period tax positions	78	73
Lapse of statute of limitations	–	–
Unrecognized tax benefits, end of period	$ 341	$ 481

It is the Company's policy to include penalties and interest expense related to income taxes as a component of other expense and interest expense, respectively, as necessary. There was no interest expense or penalties related to unrecognized tax benefits recorded through December 31, 2012.

The Company's major tax jurisdictions are the United States and California. All of the Company's tax years will remain open for examination by the Federal and state tax authorities for three and four years, respectively, from the date of utilization of the net operating loss or research and development credit. The Company does not have any tax audits pending.

13. 401(k) Plan

The Company sponsors a 401(k) defined contribution plan covering all employees. There were no employer contributions to the plan in the years ended December 31, 2011 and 2012.

14. Subsequent Events

In February 2013, the Company granted its Chief Executive Officer an incentive stock option to purchase 50,000 shares of its common stock with an exercise price of $1.00 per share and a contractual term of 10 years. This option will only vest if an initial public offering or merger occurs in 2013.

In June 2013, the Company amended its Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Series C convertible preferred stock from 14,000,000 to

VERACYTE, INC.

Notes to Audited Financial Statements (Continued)

14. Subsequent Events (Continued)

14,852,001 and amended the Series C Agreement to increase the number of shares that may be sold in additional closings from 26,455 to a total of 1,640,212. The Company completed the Second Closing and two additional closings under the Series C Agreement and received gross proceeds of $10.0 million from existing investors and $3.0 million from a new investor for the issuance of 6,904,761 shares.

In June 2013, the Company entered into a loan and security agreement with a financial institution to fund its working capital and other general corporate needs. The agreement 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. The Company is required to pay interest only on the $5.0 million loan for the first 18 months and then will begin paying principal and interest over a 30 month period. The loan bears interest at a rate of 6.06% per annum. In addition, the Company issued the financial institution a warrant to purchase 99,206 shares of Series C convertible preferred stock at $1.89 per share. The warrant expires on the earlier of (i) June 26, 2023 or (ii) the seventh anniversary of the Company's initial public offering.

The Company may request a second term loan of up to $5.0 million on or prior to March 31, 2014. The Company's obligations under the loan and security agreement are secured by a security interest on substantially all of its assets, excluding it's intellectual property and certain other assets. The loan and security agreement contains customary conditions 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 our capital stock, repurchase stock and make investments, in each case subject to certain exceptions. The loan and security agreement does not require that the Company comply with any financial covenants.

The Company has evaluated subsequent events through August 12, 2013, the date the audited financial statements were issued.

VERACYTE, INC.
Index to Unaudited Interim Condensed Financial Statements

Six Months Ended June 30, 2012 and 2013

VERACYTE, Inc.

Condensed Balance Sheets

(In thousands, except share and per share amounts)

	December 31, 2012	June 30, 2013 (Unaudited)	Pro Forma Stockholders' Equity as of June 30, 2013 (Unaudited)
Assets			
Current assets:			
Cash and cash equivalents	$ 14,002	$ 20,683	
Accounts receivable, net of allowance of $222 and $318 as of December 31, 2012 and June 30, 2013	569	991	
Supplies inventory	1,050	770	
Prepaid expenses and other current assets	710	1,398	
Restricted cash	50	–	
Total current assets	16,381	23,842	
Property and equipment, net	2,446	3,025	
Restricted cash	118	118	
Other assets	122	174	
Total assets	$ 19,067	$ 27,159	
Liabilities, Convertible Preferred Stock, and Stockholders' (Deficit) Equity			
Current liabilities:			
Accounts payable	$ 1,888	$ 1,906	
Accrued liabilities	4,020	5,387	
Deferred Genzyme co-promotion fee	2,500	2,500	
Preferred stock liability	583	–	
Total current liabilities	8,991	9,793	
Long-term debt, net of discount	–	4,826	
Deferred rent, net of current portion	61	264	
Preferred stock warrant liability	–	175	$ –
Deferred Genzyme co-promotion fee, net of current portion	5,114	3,864	
Total liabilities	14,166	18,922	
Commitments and Contingencies			
Convertible preferred stock; $0.001 par value, 59,147,999 and 60,187,700 shares authorized at December 31, 2012 and June 30, 2013 (unaudited), respectively; 53,084,507 and 59,989,268 shares issued and outstanding at December 31, 2012 and June 30, 2013 (unaudited), respectively; no shares authorized, issued and outstanding, pro forma (unaudited); aggregate liquidation value of $65,835 and $78,885 at December 31, 2012 and June 30, 2013 (unaudited), respectively	63,372	79,025	$ –
Stockholders' (deficit) equity:			
Common stock, $0.001 par value; 77,000,000 shares authorized; 2,670,767 and 3,714,902 shares issued and outstanding at December 31, 2012 and June 30, 2013 (unaudited), respectively; shares authorized and 63,704,170 shares issued and outstanding, pro forma (unaudited)	3	4	64
Additional paid-in capital	1,595	2,663	81,803
Accumulated deficit	(60,069)	(73,455)	(73,455)
Total stockholders' (deficit) equity	(58,471)	(70,788)	$ 8,412
Total liabilities, convertible preferred stock, and stockholders' (deficit) equity	$ 19,067	$ 27,159	

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

VERACYTE, INC.

Condensed Statements of Operations and Comprehensive Loss

(Unaudited)

(In thousands, except share and per share amounts)

	Six Months Ended June 30,	
	2012	2013
Revenue	$ 3,947	$ 9,452
Operating expenses:		
Cost of revenue	3,000	6,004
Research and development	3,158	3,912
Selling and marketing	3,045	5,318
General and administrative	3,618	5,528
Total operating expenses	12,821	20,762
Loss from operations	(8,874)	(11,310)
Interest expense	–	(5)
Other income (expense), net	–	(2,070)
Net loss and comprehensive loss	$ (8,874)	$ (13,385)
Net loss per common share, basic and diluted	$ (3.48)	$ (4.12)
Shares used to compute net loss per common share, basic and diluted	2,553,287	3,250,863
Pro forma net loss per common share, basic and diluted		$ (0.24)
Shares used to compute pro forma net loss per common share, basic and diluted		56,781,744

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

VERACYTE, INC.

Condensed Statements of Cash Flows

(Unaudited)

(In thousands)

	Six Months Ended June 30,	
	2012	2013
Operating activities		
Net loss	$ (8,874)	$ (13,385)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	349	428
Bad debt expense	85	117
Genzyme co-promotion fee amortization	(1,136)	(1,250)
Stock-based compensation	290	489
Equity-based compensation	126	–
Amortization of debt discount and issuance costs	–	2
Change in value of preferred stock liability	–	2,070
Changes in operating assets and liabilities:		
Accounts receivables	(437)	(539)
Supplies inventory	(448)	280
Prepaid expenses and current other assets	(67)	(646)
Other assets	(24)	28
Accounts payable	753	35
Accrued liabilities and deferred rent	1,368	1,748
Deferred Genzyme co-promotion fee	10,000	–
Net cash provided by (used in) operating activities	1,985	(10,623)
Investing activities		
Purchases of property and equipment	(642)	(941)
Change in restricted cash	–	50
Net cash used in investing activities	(642)	(891)
Financing activities		
Proceeds from the issuance of long-term debt, net of debt issuance costs	–	4,877
Proceeds from issuance of redeemable convertible preferred stock, net of issuance costs	–	12,998
Proceeds from the exercise of common stock options	66	320
Net cash provided by financing activities	66	18,195
Net increase in cash and cash equivalents	1,409	6,681
Cash and cash equivalents at beginning of period	7,566	14,002
Cash and cash equivalents at end of period	$ 8,975	$ 20,683

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

VERACYTE, INC.

Notes to Condensed Financial Statements

1. Summary of Significant Accounting Policies

Unaudited Interim Financial Statements

The interim balance sheet as of June 30, 2013, and the statements of operations and comprehensive loss and cash flows for the six months ended June 30, 2012 and 2013 are unaudited. The unaudited interim financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's financial position as of June 30, 2013 and its results of operations and cash flows for the six months ended June 30, 2012 and 2013. The financial data and the other financial information contained in these notes to the financial statements related to the three month periods are also unaudited. The results of operations for the six months ended June 30, 2013 are not necessarily indicative of the results to be expected for the year ending December 31, 2013 or for any other future annual or interim period. These financial statements should be read in conjunction with the Company's audited financial statements included elsewhere in this prospectus.

Unaudited Pro Forma Stockholders' Equity

The pro forma stockholders' equity as of June 30, 2013 presents the Company's stockholders' equity as though all of the Company's convertible preferred stock outstanding had automatically converted into 59,989,268 shares of common stock upon the completion of a qualifying initial public offering ("IPO") of the Company's common stock. In addition, the pro forma stockholders' equity assumes the reclassification of the preferred stock warrant liability to additional paid-in capital upon a qualifying initial public offering of the Company's common stock, as the warrants upon an initial public offering become common stock warrants that are not subject to remeasurement. The shares of common stock issuable and the proceeds expected to be received in the IPO are excluded from such pro forma financial information.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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; allowance for doubtful accounts; the useful lives of property and equipment; the recoverability of long-lived assets; the determination of fair value of the Company's common stock, stock options, preferred stock liability; 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 those estimates and assumptions.

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 of America. 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

VERACYTE, INC.

Notes to Condensed Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

timely basis, it could suffer delays in being able to deliver Afirma, 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. All of the Company's accounts receivables are derived from sales of Afirma in the United States.

As of December 31, 2012 and June 30, 2013, all of the Company's revenue is derived from the sale of Afirma. To date, Afirma has been available only to physicians in the United States. The Company's significant third-party payers and percentage of revenue as a percentage of revenue were as follows:

	Six Months Ended June 30,	
	2012	2013
Medicare	40%	35%
Aetna	16%	7%
United Healthcare	11%	14%
	67%	56%

Accounts receivable from Medicare amounted to 87% and 86% of gross receivables as of December 31, 2012 and June 30, 2013, respectively. No other third-party payer represented more than 10% of the Company's service revenues or accounts receivable balances for these periods.

Cash and Cash Equivalents

Cash and cash equivalents consist of all highly liquid investments with original maturities of three months or less at the date of purchase. Cash equivalents consist primarily of amounts invested in money market accounts.

Restricted Cash

At December 31, 2012 and June 30, 2013, deposits of $168,000 and $118,000 were restricted from withdrawal and held by a bank in the form of certificates of deposit and collateral for letters of credit. The balance at December 31, 2012 and June 30, 2013 consists of a certificate of deposit of $50,000 and $0, respectively, held as collateral for payment of the Company's credit cards and a letter of credit totaling $118,000 and $118,000, respectively, which is related to security for the lease of office space.

Allowance for Doubtful Accounts

The Company accrues an allowance for doubtful accounts against its accounts receivable based on estimates consistent with historical payment experience. 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 the appeals claims process is exhausted or when there is other substantive evidence that the account will not be paid. The Company's allowance for doubtful accounts as of December 31, 2012 and June 30, 2013 was $222,000 and $318,000, respectively. The provision for bad debt expense was $85,000 and $117,000 for the six months ended June 30, 2012 and 2013,

VERACYTE, INC.

Notes to Condensed Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

respectively. There were no write-offs and $21,000 in write-offs for doubtful accounts against the allowance during the six months ended June 30, 2012 and 2013, respectively.

Supplies Inventory

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

Internal-use Software

Capitalized software costs consist of third-party costs incurred in the application development stage to design and implement the software that is used in the GEC. Costs incurred in the development of application of the software are capitalized and amortized over an estimated useful life of three years on a straight line basis. During the six months ended June 30, 2012 and 2013, the Company capitalized $0 and $166,000 of software development costs, respectively. Capitalized software is classified as part of property and equipment, and had a net book value of $184,000 and $311,000 as of December 31, 2012 and June 30, 2013, respectively.

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. At December 31, 2012 and June 30, 2013, the Company accrued $671,000 and $410,000, respectively, for liabilities associated with these employee and executive bonus plans.

Revenue Recognition

The Company's revenue is generated from the provision of diagnostic services using its 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 commercial carriers or governmental programs subject to contractual arrangements and when there is a predictable pattern of collectability on an accrual basis, net of contractual adjustments. These contractual adjustments represent the difference between the list price (the billing rate) and the reimbursement rate set by commercial or governmental payers. Until a contract has been negotiated with a commercial carrier 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 the Company. In the absence of an agreement or other clearly enforceable legal right to demand payment, when test services are provided to patients with non-contracted insurance carriers or no insurance 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; the fee is fixed or determinable; and collectability is reasonably assured.

VERACYTE, INC.

Notes to Condensed Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

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 the fixed or determinable nature of the fees charged for testing performed and the collectability of those fees require significant judgment by management. Management believes that these two criteria have been met when there is contracted reimbursement coverage and/or a predictable pattern of collectability with individual third-party payers and accordingly, recognizes revenue 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 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 a predictable pattern and history of collectability, the Company believes that the fee is fixed or determinable and collectability is reasonably assured only upon receipt of third-party payer notification of payment or when cash is received and accordingly, recognizes revenue at that time.

Net Loss per Common Share

Basic net loss per common share is calculated by dividing net loss for the period 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 the loss for the period by the weighted-average number of common share equivalents outstanding for the period determined using the treasury stock method. Potentially dilutive securities consisting of convertible preferred stock and options to purchase common stock 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 antidilutive for all periods presented.

Unaudited Pro Forma Net Loss per Common Share

Pro forma basic and diluted net loss per common share has been computed to give effect to the conversion of all of the outstanding shares of convertible preferred stock into common stock.

2. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	December 31, 2012	June 30, 2013
Accrued compensation expenses	$ 1,360	$ 1,121
Accrued consulting fees	28	–
Accrued legal and professional fees	84	215
Accrued Genzyme co-promotion fees	2,175	3,668
Accrued other	373	383
Accrued liabilities	$ 4,020	$ 5,387

VERACYTE, INC.

Notes to Condensed Financial Statements (Continued)

3. 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 long-term 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 Company's financial assets and liabilities subject to fair value measurements on a recurring basis and the level of inputs used in such measurements were as follows (in thousands):

	December 31, 2012			
	Level I	Level II	Level III	Total
Financial Assets:				
Money market funds	$ 12,830	$ –	$ –	$ 12,830
Total financial assets	$ 12,830	$ –	$ –	$ 12,830
Financial Liabilities:				
Preferred stock liability	$ –	$ –	$ 583	$ 583
Total financial liabilities	$ –	$ –	$ 583	$ 583

	June 30, 2013			
	Level I	Level II	Level III	Total
Financial Assets:				
Money market funds	$ 11,896	$ –	$ –	$ 11,896
Total financial assets	$ 11,896	$ –	$ –	$ 11,896
Financial Liabilities:				
Preferred stock warrant liability	$ –	$ –	$ 175	$ 175
Total financial liabilities	$ –	$ –	$ 175	$ 175

VERACYTE, INC.

Notes to Condensed Financial Statements (Continued)

3. Fair Value Measurements (Continued)

The Company's Level III liabilities consist of a preferred stock liability and a preferred stock warrant liability (see Note 5). The following table sets forth a summary of the changes in the fair value of the Company's Level III financial liabilities, which are measured on a recurring basis (in thousands):

Balance as of December 31, 2012	$ 583
Change in fair value of preferred stock liability recorded in other income (expense), net	2,070
Settlement of preferred stock liability	(2,653)
Fair value of preferred stock warrant liability	175
Balance as of June 30, 2013	$ 175

In November 2012, the Company recorded a preferred stock liability as investors received the right to purchase from the Company, on the same terms, additional shares of Series C convertible preferred stock, in a second tranche. As the investors hold a majority of the board seats, the decision to complete the second tranche was deemed to be outside the control of the Company. The preferred stock liability was valued using the option-pricing method, which resulted in an initial fair value of $0.9 million for the Company's obligation to sell the convertible preferred stock. In June 2013, the Company settled the preferred stock liability upon completion of the sale of the second tranche of Series C convertible preferred stock. Immediately prior to settlement, the Company revalued the preferred stock liability to $2.7 million and recorded other expense, net of $2.1 million related to the change in value of the liability through that date. The preferred stock liability was valued using the option-pricing method with the following assumptions: 100% probability of success of the second tranche, fair value of Series C preferred stock of $2.39, a term of 0.003 years and expected volatility of 36.4%.

4. Debt

In June 2013, the Company entered into a loan and security agreement with a financial institution to fund its working capital and other general corporate needs. The agreement 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. The Company is required to repay the outstanding principal in 30 equal installments beginning 18 months after the date of the borrowing. The loan bears interest at a rate of 6.06% per annum. The loan carries prepayment penalties of 2.25% and 1.5% for prepayment within one and two years, respectively, of the loan origination and 0.75% thereafter.

Upon execution of the loan and security agreement, the Company issued the financial institution a warrant to purchase shares of Series C convertible preferred stock at $1.89 per share (See Note 5). At the time of issuance, the aggregate fair value of the warrant for the 99,206 shares exercisable under the warrant was $175,000. The fair value of the warrant was carved out from total proceeds, resulting in a debt discount to be amortized to interest expense over 48 months, through the maturity date of the initial loan, using the effective interest rate method, and was recorded as a preferred stock warrant liability. The end of term payment of $223,000 representing 4.45% of the total outstanding principal balance will be accreted 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. The Company's interest expense related to the amortization of the debt discount and accretion of the end of term payment was not material for the six months ended June 30, 2013.

VERACYTE, INC.

Notes to Condensed Financial Statements (Continued)

4. Debt (Continued)

The Company may request a second term loan of up to $5.0 million on or prior to March 31, 2014. The Company's obligations under the loan and security agreement are secured by a security interest on substantially all of its assets, excluding its intellectual property and certain other assets. The loan and security agreement 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 agreement 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 loan and security agreement does not require that the Company comply with any financial covenants.

5. Convertible Preferred Stock Warrants

In June 2013, in conjunction with the execution of the loan and security agreement (Note 4), the Company issued to the lender a warrant to purchase up to 198,412 shares of Series C convertible preferred stock with an exercise price of $1.89 per share. Upon the draw down of the $5.0 million term loan, the warrant became exercisable for 99,206 shares. If the Company draws the second term loan, the remaining 99,206 shares will become exercisable under the warrant. The warrant expires at the earlier of (i) June 26, 2023 or (ii) the seventh anniversary of the Company's initial public offering. The warrant is exercisable in cash or through a cashless exercise provision. Under the cashless exercise provision, the holder may, in lieu of payment of the exercise price in cash, surrender the warrant and receive a net amount of shares based on the fair market value of the Company's Series C convertible preferred stock at the time of exercise of the warrant after deducting the aggregate exercise price. In the event that all outstanding shares of the Series C convertible preferred stock are converted into common stock, the warrant will be exercisable for the same number of shares of common stock.

The fair value of the currently exercisable portion of the warrant in the amount of $175,000 was recorded as a preferred stock warrant liability upon issuance and is subject to remeasurement at each reporting period. The fair value of the warrant upon issuance was calculated using the Black-Scholes option-pricing valuation model with the following assumptions: Series C preferred stock value of $2.40 per share, contractual term of 7.3 years, risk-free interest rate of 2.1%, expected volatility of 73.7%, and expected dividend yield of 0%. The fair value of the preferred stock warrant liability did not change from issuance to June 30, 2013.

6. Convertible Preferred Stock

In June 2013, the Company amended its Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Series C convertible preferred stock from 14,000,000 to 14,852,001 and amended the Series C stock purchase agreement to increase the number of shares that may be sold in additional closings from 26,455 to a total of 1,640,212. The Company completed the second closing and two additional closings under the agreement, and received gross proceeds of $13.0 million for the issuance of an aggregate of 6,904,761 shares of Series C convertible preferred stock.

VERACYTE, INC.

Notes to Condensed Financial Statements (Continued)

7. Stock Incentive Plan

The following table summarizes activity under the Company's 2008 Stock Plan, including grants to non-employees and restricted stock issued (in thousands, except per share amounts):

	Shares Available for Grant	Options Outstanding	Weighted Average Exercise Price per Share	Aggregate Intrinsic Value
Balances at December 31, 2012	1,389,495	8,910,706	$ 0.52	$ 4,311
Additional options authorized	1,000,000	–	–	
Options granted	(2,510,632)	2,510,632	1.16	
Options exercised	–	(1,044,135)	0.31	
Options forfeited	695,958	(695,958)	0.66	
Balances at June 30, 2013	574,821	9,681,245	$ 0.70	$ 12,431
Vested–June 30, 2013		4,704,914	$ 0.50	$ 6,957
Expected to vest–June 30, 2013		9,124,394	$ 0.68	$ 11,819

The aggregate intrinsic value was calculated as the difference between the exercise price of the options to purchase common stock and the estimated fair value of the Company's common stock of $1.98 per share as of June 30, 2013.

Outstanding and exercisable stock options at June 30, 2013 are summarized as follows:

	Options Outstanding		Options Vested and Exercisable	
Exercise Price	Number	Weighted-Average Remaining Contractual Life (in Years)	Number	Weighted-Average Remaining Contractual Life (in Years)
$0.02	723,500	5.15	723,500	5.15
$0.20	784,778	6.65	674,881	6.64
$0.59	1,825,125	7.31	1,327,307	7.33
$0.60	895,000	8.19	509,216	8.20
$0.67	2,750,506	8.78	1,060,133	8.73
$1.00	1,904,211	9.58	409,877	9.58
$1.51	798,125	9.97	–	–
$0.02-1.51	9,681,245	8.26	4,704,914	7.50

The weighted average fair value of stock options granted was $0.47 and $0.78 per share in the six months ended June 30, 2012 and 2013, respectively.

The weighted average fair value of stock options vested was $0.35 and $0.52 per share in the six months ended June 30, 2012 and 2013, respectively.

The weighted average fair value of stock options exercised was $0.24 and $0.21 per share in the three months ended June 30, 2012 and 2013, respectively. The intrinsic value of stock options exercised was $109,000 and $1.7 million in the six months ended June 30, 2012 and 2013, respectively.

VERACYTE, INC.

Notes to Condensed Financial Statements (Continued)

7. Stock Incentive Plan (Continued)

Stock-based Compensation

Stock-based compensation expense recognized was as follows (in thousands):

	Six Months Ended June 30,	
	2012	2013
Cost of revenue	$ 16	$ 13
Research and development	48	103
Selling and marketing	52	76
General and administrative	174	297
Total	$ 290	$ 489

As of June 30, 2013, the Company had $2.6 million of unrecognized compensation expense related to unvested stock options, which is expected to be recognized over an estimated weighted-average period of 3.0 years.

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

	Six Months Ended June 30,	
	2012	2013
Weighted-average volatility	83.06 - 83.69%	80.42 - 81.41%
Weighted-average expected term (years)	5.0 - 6.08	5.0 - 6.08
Risk-free interest rate	0.90 - 1.19%	0.88 - 1.60%
Expected dividend yield	0%	0%

Stock-based compensation related to stock options granted to non-employees is recognized as the stock options are earned. The fair value of the stock options granted is calculated at each reporting date using the Black-Scholes option-pricing model with the following assumptions: expected life is the equal to the remaining contractual term of the award as of the measurement date ranging from 8.73 years to 9.69 years as of June 30, 2012 and 8.22 years to 9.43 years as of June 30, 2013; risk free rate is based on the U.S. Treasury Constant Maturity rate with a term similar to the expected life of the option at the measurement date ranging from 1.43%-1.61% as of June 30, 2012 and 2.19%-2.41% as of June 30, 2013; expected dividend yield of 0%; and volatilities ranging from 82.48% to 82.96% as of June 30, 2012 and 79.01% to 79.58% as of June 30, 2013.

Equity-based Compensation

The Company paid 50% of 2012 executive bonuses through the grant of stock options. The equity transaction associated with these bonuses is classified as equity-based compensation expense. The accrual for the anticipated grants was $259,000 and $0 at December 31, 2012 and June 30, 2013, respectively, and is included in accrued liabilities in the balance sheet.

In February 2013, the Company's Board of Directors authorized the grant of 402,007 fully vested stock options at a fair value of approximately $0.65 resulting in $259,000 in expense in the year ended

VERACYTE, INC.

Notes to Condensed Financial Statements (Continued)

7. Stock Incentive Plan (Continued)

December 31, 2012. The fair value of the stock options was determined using the Black-Scholes option-pricing valuation model. The grant date fair market value was $1.00 as determined by the Company's Board of Directors, the risk free rate was 0.88%, the expected life was 5.0 years, the volatility was determined to be 81.41% and there was no dividend yield.

In February 2013, the Company granted its Chief Executive Officer an incentive stock option to purchase 50,000 shares of common stock with an exercise price of $1.00 per share and a contractual term of 10 years. The option will only vest if an initial public offering or merger occurs in 2013. The Company has not recorded any compensation expense related to this option grant as the vesting event is not deemed probable of occurring as of June 30, 2013.

The following table summarizes equity-based compensation expense for the six months ended June 30, 2012 and 2013, which were included in the statements of operations and comprehensive loss as follows:

	Six Months Ended June 30,	
	2012	2013
Cost of revenue	$ 1	$ –
Research and development	44	–
Selling and marketing	21	–
General and administrative	60	–
Total	$ 126	$ –

8. Genzyme Co–promotion Agreement

In January 2012, Veracyte 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 cancer solution in the United States and in 40 named countries. In exchange, the Company received a $10.0 million co-promotion fee from Genzyme. The Company may receive an additional $3.0 million in payments, $600,000 for each country outside of the United States in which the Company obtains marketing authorization and achieves a specified level of reimbursement, for up to five countries. Under the terms of the agreement, Genzyme will receive a percentage of cash receipts that the Company has received related to Afirma as co-promotion fees. The percentage was 50% in 2012 and decreased to 40% in January 2013 and will further decrease to 32% in March 2014 and thereafter. Genzyme will also spend up to $500,000 for qualifying clinical development activities in countries that require additional testing for approval. This obligation expires in July 2014. The agreement expires in January 2027 and either party may terminate the agreement at any time and with six months prior notice. The Company is amortizing the co-promotion fee over a four-year period, which is management's best estimate of the life of the arrangement, in part because after that period either party may terminate the agreement without penalty. The Company amortized $1.1 million and $1.3 million in the six months ended June 30, 2012 and 2013, respectively, which are reflected as a reduction to selling and marketing expenses in the statements of operations and comprehensive loss. The unamortized balance of the co-promotion fee is $6.4 million as of June 30, 2013.

VERACYTE, INC.

Notes to Condensed Financial Statements (Continued)

9. Thyroid Cytology Partners

In 2010, the Company entered into an arrangement with Pathology Resource Consultants, P.A. ("PRC") to establish and manage a specialized pathology practice to provide cytopathology 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 services agreement with the specialized pathology practice, Thyroid Cytology Partners ("TCP"), is effective through December 31, 2015, unless terminated earlier, and renews annually thereafter. Under the services 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 services agreement allows TCP to use a portion of the Company's facility in Austin, Texas. TCP will reimburse the Company for a proportionate share of the Company's rent and related operating expense costs for the leased facility. 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 services agreement are expensed as incurred. All amounts to be received from TCP will be recorded in the same period as the corresponding lease costs.

TCP provided $643,000 and $1.5 million in cytopathology testing and evaluation services in the six months ended June 30, 2012 and 2013, respectively. The Company also reimbursed TCP for licensure fees of $58,000 and $0 in six months ended June 30, 2012 and 2013, respectively. Expenses for testing and evaluation services and reimbursed professional licensure fees are included in cost of revenue in the statements of operations and comprehensive loss. The Company's outstanding obligations to TCP were $458,000 and $536,000 as of December 31, 2012 and June 30, 2013, respectively, which were included in accounts payable in the Company's balance sheets.

10. Net Loss per Common Share and Pro Forma Net Loss Per Common Share

The following table presents the calculation of basic and diluted net loss per common share for the six months ended June 30, 2012 and 2103 (in thousands, except share and per share amounts):

	Six Months Ended June 30,	
	2012	2013
Net loss	$ (8,874)	$ (13,385)
Shares used to compute net loss per common share, basic and diluted	2,553,287	3,250,863
Net loss per common share, basic and diluted	$ (3.48)	$ (4.12)

VERACYTE, INC.

Notes to Condensed Financial Statements (Continued)

10. Net Loss per Common Share and Pro Forma Net Loss Per Common Share (Continued)

The following outstanding common stock equivalents were excluded from the computation of diluted net loss per common share for the periods presented because including them would have been antidilutive:

	Six Months Ended June 30,	
	2012	2013
Convertible preferred stock	45,147,999	59,989,268
Options to purchase common stock	8,489,352	9,681,245
Warrants to purchase convertible preferred stock	–	99,206
	53,637,351	69,769,719

The following table sets forth the computation of the Company's pro forma basic and diluted net loss per common share during the six months ended June 30, 2013 (in thousands, except share and per share amounts):

	Six Months Ended June 30, 2013
Pro forma net loss:	
Net loss used in computing pro forma net loss per common share, basic and diluted	$ (13,385)
Shares used in computing net loss per common share, basic and diluted	3,250,863
Pro forma adjustments to reflect assumed conversion of convertible preferred stock	53,530,881
Shares used in computing pro forma net loss per common share, basic and diluted	56,781,744
Pro forma net loss per common share, basic and diluted	$ (0.24)

11. Subsequent Events

The Company has evaluated subsequent events through August 30, 2013, the date the unaudited interim financial statements for the six months ended June 30, 2013 were issued.

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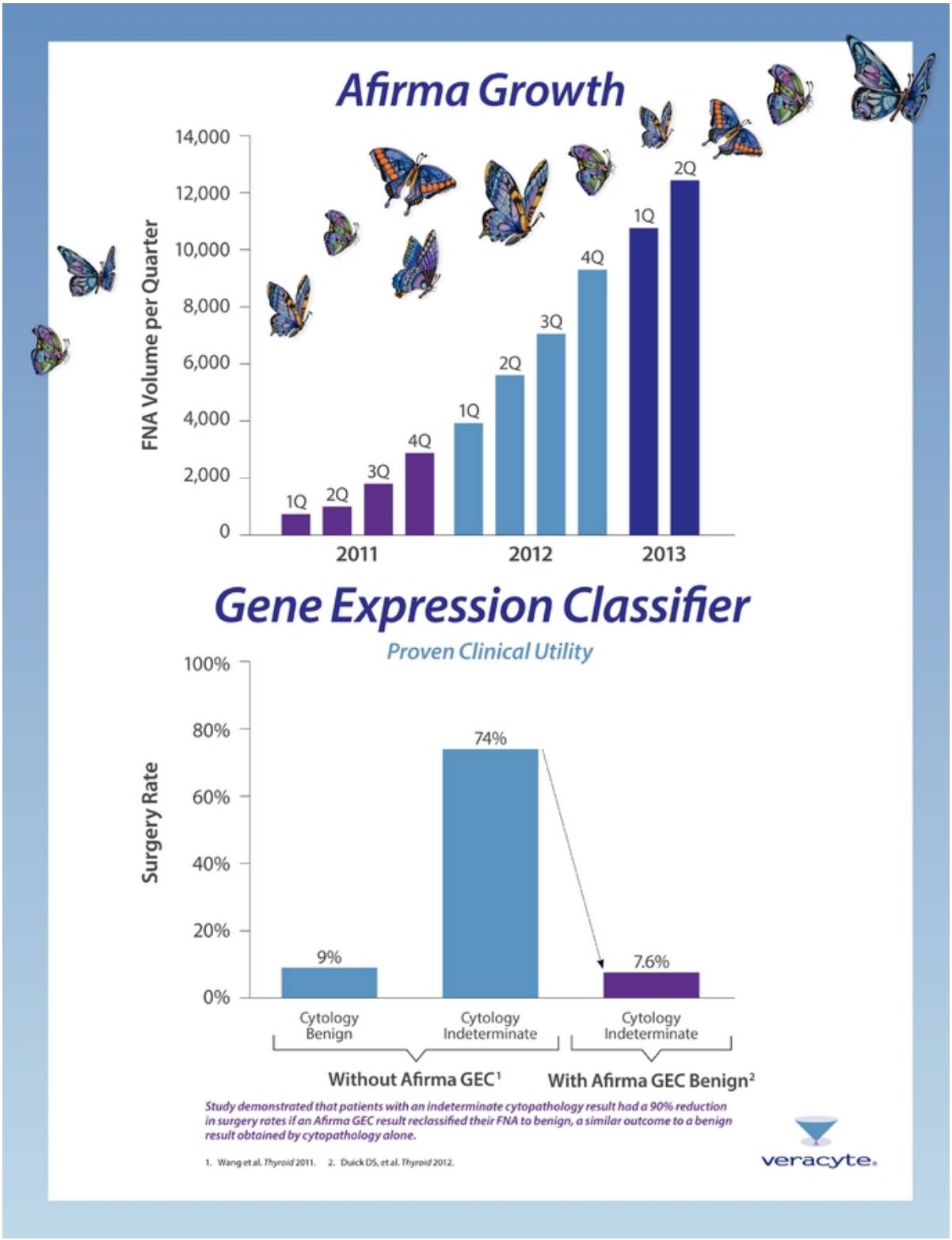

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Part II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

The following table sets forth the various expenses expected to be incurred by the Registrant in connection with the sale and distribution of the securities being registered hereby, other than underwriting discounts and commissions. All amounts are estimated except the Securities and Exchange Commission registration fee and the Financial Industry Regulatory Authority, Inc. filing fee.

Securities and Exchange Commission registration fee	*
Financial Industry Regulatory Authority, Inc. filing fee	*
NASDAQ Stock Market filing fee	*
Blue Sky fees and expenses	*
Accounting fees and expenses	*
Legal fees and expenses	*
Printing and engraving expenses	*
Registrar and transfer agent fees	*
Miscellaneous fees and expenses	*
Total	$ *

* To be filed by amendment

Item 14. Indemnification of Directors and Officers

Section 145 of the General Corporation Law of the State of Delaware (the "DGCL") provides for the indemnification of officers, directors, and other corporate agents in terms sufficiently broad to indemnify such persons under certain circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act of 1933. Article of the Registrant's Restated Certificate of Incorporation (Exhibit 3.1(b) hereto), and Article of the Registrant's Amended and Restated Bylaws (Exhibit 3.2(b) hereto), provide for indemnification of the Registrant's directors, officers, employees and other agents to the extent and under the circumstances permitted by the DGCL. The Registrant has also entered into agreements with its directors and officers that will require the Registrant, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers to the fullest extent not prohibited by law.

The Underwriting Agreement (Exhibit 1.1 hereto) provides for indemnification by the Underwriters of us and our directors and officers for certain liabilities, including liabilities arising under the Securities Act of 1933 (the "Securities Act"), and affords certain rights of contribution with respect thereto.

Item 15. Recent Sales of Unregistered Securities

The following sets forth information regarding all unregistered securities sold since January 1, 2010 through August 31, 2013:

From June 4, 2010 to July 26, 2011, the Registrant issued and sold an aggregate of 22,748,000 shares of its Series B convertible preferred stock at $1.25 per share to 10 accredited investors for aggregate consideration of $28,435,000.(1)

From November 6, 2012 to June 27, 2013, the Registrant issued and sold an aggregate of 14,841,269 shares of its Series C convertible preferred stock at $1.89 per share to 11 accredited investors for aggregate consideration of $28,049,998.(1)

The Registrant has granted to its directors, officers and employees options to purchase 10,748,984 shares of common stock under the Registrant's 2008 Stock Plan, as amended, with per share exercise prices ranging from $0.20 to $1.51, and issued 1,777,353 shares of common stock upon exercise of such options for aggregate consideration of $577,053, at exercise prices ranging from $0.02 to $1.00.(2)

None of the foregoing transactions involved any underwriters, underwriting discounts or commissions, or any public offering. The Registrant believes that each transaction was exempt from the registration requirements of the Securities Act in reliance on the following exemptions:

(1) These transactions were deemed to be exempt from registration under the Securities Act in reliance upon Section 4(2) of the Securities Act or Regulation D promulgated thereunder as transactions by an issuer not involving any public offering. The recipients of the securities in each of these transactions represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were placed upon the stock certificates issued in these transactions. All recipients had adequate information about the Registrant or had adequate access, through their relationships with the Registrant, to information about the Registrant.

(2) These transactions were deemed to be exempt from registration under the Securities Act in reliance upon Rule 701 promulgated under Section 3(b) of the Securities Act pursuant to benefit plans and contracts relating to compensation as provided under Rule 701. The recipients of the securities in each of these transactions represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were placed upon the stock certificates issued in these transactions. All recipients had adequate information about the Registrant or had adequate access, through their relationships with the Registrant, to information about the Registrant.

Item 16. Exhibits and Financial Statement Schedules

(a) Exhibits

Exhibit Number	Description
1.1*	Form of Underwriting Agreement.
3.1(a)+	Fourth Amended and Restated Certificate of Incorporation of the Registrant, as amended.
3.1(b)*	Form of Restated Certificate of Incorporation of the Registrant, to be in effect upon the completion of this offering.
3.2(a)+	Bylaws of the Registrant.
3.2(b)*	Form of Amended and Restated Bylaws of the Registrant, to be in effect upon the completion of this offering.
4.1*	Form of Common Stock Certificate.
4.2+	Second Amended and Restated Investors Rights Agreement, dated November 6, 2012, between the Registrant and certain investors.
4.3+	Amendment to Second Amended and Restated Investors Rights Agreement, dated June 14, 2013, between the Registrant and certain investors.
4.4+	Warrant to Purchase Series C Preferred Stock dated June 26, 2013.
5.1*	Opinion of Pillsbury Winthrop Shaw Pittman LLP.
10.1*	Form of Indemnification Agreement between the Registrant and its officers and directors.
10.2#+	2008 Stock Plan and forms of agreements thereunder.
10.3#*	2013 Stock Incentive Plan and forms of agreements thereunder.
10.4	Lease Agreement dated as of February 10, 2010 between ARE-San Francisco No 17, LLC and the Registrant.

Exhibit Number	Description
10.5+	First Amendment to Lease Agreement entered into as of July 11, 2012 between ARE-San Francisco No 17, LLC and the Registrant.
10.6	Lease Agreement between Riata Holdings, L.P., as landlord, and the Registrant, as tenant, dated November 28, 2012.
10.7†+	Co-Promotion Agreement dated as of January 18, 2012 between Genzyme Corporation and the Registrant.
10.8+	Amendment to Co-Promotion Agreement, effective April 9, 2013, between Genzyme Corporation and the Registrant.
10.9+	Loan and Security Agreement dated as of June 26, 2013 between Silicon Valley Bank and the Registrant.
10.10#+	Employment Agreement, dated as of February 15, 2008, between Bonnie Anderson and the Registrant.
10.11#+	Amendment to Bonnie Anderson Employment Agreement, dated as of December 22, 2008, between Bonnie Anderson and the Registrant
10.12#+	Amendment No. 2 to Bonnie Anderson Employment Agreement, effective as of March 11, 2009, between Bonnie Anderson and the Registrant.
10.13#+	Change of Control and Severance Agreement, effective as of August 24, 2012, between Bonnie Anderson and the Registrant.
10.14#+	Change of Control and Severance Agreement, effective as of August 24, 2012, between Christopher Hall and the Registrant.
10.15#+	Change of Control and Severance Agreement, effective as of April 8, 2013, between Shelly Guyer and the Registrant.
10.16#+	Executive Bonus Plan
10.17#	Offer Letter dated as of April 8, 2013 with Shelly D. Guyer.
10.18#	Offer Letter dated as of January 28, 2010 with Christopher M. Hall.
10.19†	Pathology Services Agreement dated as of November 12, 2010 between Brazos Valley Pathology, P.A. D/B/A Reitpath and the Registrant.
10.20	Approval of the Registrant to the Assignment of the Pathology Services Agreement with Brazos Valley Pathology to Thyroid Cytopathology Partners, P.A. as of May 18, 2011.
10.21†	First Amendment to Pathology Services Agreement dated as of December 19, 2012 between Thyroid Cytology Partners, P.A. and the Registrant.
23.1*	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.
23.2*	Consent of Pillsbury Winthrop Shaw Pittman LLP (included in Exhibit 5.1)
24.1	Power of Attorney (see page II-5 of this Registration Statement)

* To be filed by amendment.

† Confidential treatment requested.

Management contract or compensatory arrangement.

+ Previously filed.

Item 17. Undertakings

The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such

indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of South San Francisco, State of California, on the day of September, 2013.

VERACYTE, INC.

By _____

Bonnie H. Anderson
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS that each person whose signatures appears below constitutes and appoints Bonnie H. Anderson and Shelly D. Guyer, and each of them, his or her true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments, including post-effective amendments, to this Registration Statement, and any registration statement relating to the offering covered by this Registration Statement and filed pursuant to Rule 462(b) under the Securities Act of 1933, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that each of said attorney-in-fact and agents or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Name	Title	Date
Bonnie H. Anderson	President, Chief Executive Officer (Principal Executive Officer) and Director	September , 2013
Shelly D. Guyer	Chief Financial Officer (Principal Financial and Accounting Officer)	September , 2013
Brian G. Atwood	Chairman of Board of Directors	September , 2013
Brook H. Byers	Director	September , 2013
Fred E. Cohen, M.D., D.Phil.	Director	September , 2013
Samuel D. Colella	Director	September , 2013
Karin Eastham	Director	September , 2013
Evan Jones	Director	September , 2013
Jesse I. Treu, Ph.D.		

EXHIBIT INDEX

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23.2*	Consent of Pillsbury Winthrop Shaw Pittman LLP (included in Exhibit 5.1)
24.1	Power of Attorney (see page II-5 of this Registration Statement)

* To be filed by amendment.

† Confidential treatment requested.

Management contract or compensatory arrangement.

+ Previously filed.

LEASE AGREEMENT

THIS LEASE AGREEMENT (this "**Lease**") is made as of this 10 day of February, 2010 (the "**Lease Date**"), between **ARE-SAN FRANCISCO NO. 17, LLC**, a Delaware limited liability company ("**Landlord**"), and **VERACYTE, INC.**, a Delaware corporation ("**Tenant**").

RECITALS

A. As of the Lease Date, Nodality, Inc., a Delaware corporation ("**Nodality**"), and Landlord are parties to that certain Lease Agreement dated as of March 2,2007 (as the same may be amended from time to time, the "**Nodality Lease**") whereby Landlord leases to Nodality the Current Premises (as hereinafter defined).

B. As of the Lease Date, Tenant subleases the Current Premises from Nodality pursuant to that certain Sublease Agreement dated April 21, 2008 (the "**Nodality Sublease**"). Landlord, Tenant and Nodality entered into that certain Consent to Sublease dated June 6, 2008 whereby Landlord consented to the Nodality Sublease (the "**Current Premises Consent Agreement**").

C. Upon the expiration or earlier termination of the Nodality Lease, Tenant desires to lease the Current Premises under a direct lease between Landlord and Tenant.

D. As of the Lease Date, Poniard Pharmaceuticals, Inc., a Washington corporation ("**Poniard**"), and Landlord are parties to that certain Lease dated as of July 10, 2006 (as the same may be amended from time to time, the "**Poniard Lease**") whereby Landlord leases to Poniard the Expansion Premises (as hereinafter defined).

E. As of the Lease Date, Tenant subleases the Expansion Premises from Poniard pursuant to that certain Sublease dated as of the Lease Date (the "**Poniard Sublease**"). Landlord, Tenant and Poniard entered into that certain Consent to Sublease dated as of the Lease Date whereby Landlord consented to the Poniard Sublease (the "**Expansion Premises Consent Agreement**").

G. Upon the expiration or earlier termination of the Poniard Lease, Tenant desires to lease the Expansion Premises under a direct lease between Landlord and Tenant.

BASIC LEASE PROVISIONS

Address: 7000 Shoreline Court, South San Francisco, California

Premises: That portion of the Project, containing approximately 24,039 rentable square feet ("**RSF**"), consisting of (a) a portion of the Project containing approximately 6,994 RSF, as shown on **Exhibit A-1** (the "**Current Premises**"), and (b) a portion of the Project containing approximately 17,045 RSF, as determined by Landlord, as shown on **Exhibit A-2** (the "**Expansion Premises**").

Project: The real property on which the building (the "**Building**") in which the Premises are located, together with all improvements thereon and appurtenances thereto as described on **Exhibit B**.

Base Rent:

Period	Base Rent per Month	Base Rent per RSF per Month
April 1,2010 – April 30, 2010	$ 0.00	$ 0.00
May 1,2010 – July 11, 2011	$ 17,205.24	$ 2.46
July 12,2011- April 30, 2012	$ 63,943.74	$ 2.66
May 1, 2012 – Expiration of the Base Term	$ 68,751.54	$ 2.86

Rentable Area of Premises: 24,039 RSF

Rentable Area of Project: 136,691 RSF

Tenant's Share of Operating Expenses: 5.12% as to the Current Premises and 12.47% as to the Expansion Premises, collectively 17.59%

Security Deposit: $34,270.60, until January 1, 2011, at which time, the amount shall increase to $117,791.10 (the "**Increased Security Deposit Amount**")

Base Term: A term beginning on the first to occur of the Current Premises Commencement Date (as defined in Section 2 hereof) or the Expansion Premises Commencement Date (as defined in Section 2 hereof) and ending March 31, 2013 (as may be adjusted pursuant to Section 2(b) below).

Permitted Use: Research and development laboratory, related office and other related uses consistent with the character of the Project and otherwise in compliance with the provisions of Section 7 hereof.

Address for Rent Payment:
P.O. Box 51783
Los Angeles, CA 90051-6083

Landlord's Notice Address:
385 E. Colorado Boulevard, Suite 299
Pasadena, CA 91101
Attention: Corporate Secretary

Tenant's Notice Address:
7000 Shoreline Court

South San Francisco, CA 94080
Attention: Chief Executive Officer

The following Exhibits and Addenda are attached hereto and incorporated herein by this reference:

x	**EXHIBIT A-1 –**	CURRENT PREMISES DESCRIPTION
x	**EXHIBIT A-2 –**	EXPANSION PREMISES DESCRIPTION
x	**EXHIBIT B –**	DESCRIPTION OF PROJECT
x	**EXHIBIT C –**	WORK LETTER
x	**EXHIBIT D –**	ACKNOWLEDGEMENT OF COMMENCEMENT DATE
x	**EXHIBIT E –**	RULES AND REGULATIONS
x	**EXHIBIT F –**	TENANT'S PERSONAL PROPERTY
x	**EXHIBIT G –**	LANDLORD'S PROPERTY

1. **Lease of Premises**. Upon and subject to all of the terms and conditions hereof, Landlord hereby leases the Premises to Tenant and Tenant hereby leases the Premises from Landlord. The portions of the Project which are for the non-exclusive use of tenants of the Project are collectively referred to herein as the "**Common Areas**." Landlord reserves the right to modify Common Areas,

provided that such modifications do not materially adversely affect Tenant's use of the Premises for the Permitted Use and provided that such modifications do not materially increase the obligations or materially decrease the rights of Tenant under this Lease.

2. **Prior Lease; Commencement Date; Term; Acceptance of Premises**.

(a) **Prior Lease; Term**.

(i) Landlord and Tenant hereby acknowledge and agree that, as of the Lease Date (A) the Current Premises Consent Agreement contains the complete agreement between Landlord and Tenant with respect to the Current Premises, (B) the Expansion Premises Consent Agreement contains the complete agreement between Landlord and Tenant with respect to the Expansion Premises, and (C) both the Current Premises Consent Agreement and the Expansion Premises Consent Agreement are in full force and effect.

(ii) Tenant hereby certifies to Landlord (and its successors and assigns) that, as of the Lease Date except as granted herein, (A) Tenant has no right, title, or interest in or to the Premises or the Project other than as a sublessee of the Current Premises under the Nodality Sublease and as a sublessee of the Expansion Premises under the Poniard Sublease, (B) Tenant has no option, right of first refusal, right of first offer, or other right to acquire or purchase all or any portion of, or interest in, the Premises or the Project and (C) Tenant is not currently subletting any portion of the Premises to any sublessee nor has it assigned any portion of the Nodality Sublease or the Poniard Sublease to any assignee.

(iii) The "**Current Premises Commencement Date**" shall be the earlier to occur of (i) April 1, 2010 and (ii) the termination of the Nodality Lease. The "**Expansion Premises Commencement Date**" shall be the earlier to occur of (x) July 12, 2011 and (y) the termination of the Poniard Lease. From time to time, upon request of Landlord, Tenant shall execute and deliver a written acknowledgment of the Current Premises Commencement Date, the Expansion Premises Commencement Date and the expiration date of the Term, or whichever of such dates have then been established, when such are established in the form of the "Acknowledgement of Commencement Date" attached to this Lease as **Exhibit D**; provided, however, Tenant's failure to execute and deliver such acknowledgment shall not affect Landlord's rights hereunder. The "**Term**" of this Lease shall be the Base Term, as defined above in the Basic Lease Provisions and any Extension Term which Tenant may elect pursuant to Section 40 hereof. Notwithstanding anything to the contrary herein, (a) until the Current Premises Commencement Date, the "Premises" shall not include the Current Premises and Tenant's Share of Operating Expenses shall not include the share allocated to the Current Premises and (b) until the Expansion Premises Commencement Date, the "Premises" shall not include the Expansion Premises and Tenant's Share of Operating Expenses shall not include the share allocable to the Expansion Premises. Notwithstanding anything to the contrary in this Lease, if the Current Premises Commencement Date occurs before April 1, 2010 or the Expansion Premises Commencement Date occurs before July 12, 2011, Tenant shall not be required to pay rent under this Lease with respect to the Current Premises or the Expansion Premises, as applicable, for any period for which Tenant paid rent for the same under the Poniard Sublease or the Nodality Sublease, as applicable.

(iv) As of the Current Premises Commencement Date, the Nodality Sublease and the Current Premises Consent Agreement shall expire and be of no further force or effect. As of the Expansion Premises Commencement Date, the Poniard Sublease and the Expansion Premises Consent Agreement shall expire and be of no further force or effect. Landlord may terminate the Nodality Lease prior to the natural expiration thereof, on terms and conditions acceptable to Landlord in its sole and absolute discretion. Landlord may terminate the Poniard Lease prior to the natural expiration thereof, on terms and conditions acceptable to Landlord in its sole and absolute discretion.

Upon the expiration or earlier termination of the Nodality Lease, Tenant shall have no other right, title, or interest, of any kind, direct or indirect, in any portion of the Current Premises, except as expressly provided in this Lease. All obligations of the parties under the Current Premises Consent Agreement which are by their terms intended to survive the termination of the Nodality Lease, the Nodality Sublease and the Current Premises Consent Agreement (including, without limitation, indemnity obligations and obligations concerning the condition and repair of the Current Premises and/or the Project) (the "**Nodality Prior Lease Obligations**") shall survive such termination of the Nodality Lease, the Nodality Sublease and the Current Premises Consent Agreement for the benefit of Landlord (and its successors and assigns) and Tenant. Landlord hereby reserves all rights and claims that Landlord may have against Tenant for any such Nodality Prior Lease Obligations.

Upon the expiration or earlier termination of the Poniard Lease, Tenant shall have no other right, title, or interest, of any kind, direct or indirect, in any portion of the Expansion Premises, except as expressly provided in this Lease. All obligations of the parties under the Expansion Premises Consent Agreement which are by their terms intended to survive the termination of the Poniard Lease, the Poniard Sublease and the Expansion Premises Consent Agreement (including, without limitation, indemnity obligations and obligations concerning the condition and repair of the Expansion Premises and/or the Project) (the "**Poniard Prior Lease Obligations**") shall survive such termination of the Poniard Lease, the Poniard Sublease and the Expansion

Premises Consent Agreement for the benefit of Landlord (and its successors and assigns) and Tenant. Landlord hereby reserves all rights and claims that Landlord may have against Tenant for any such Poniard Prior Lease Obligations.

This Lease constitutes the complete agreement of Landlord and Tenant with respect to the subject matter hereof and supersedes any and all prior representations, inducements, promises, agreements, understandings, and negotiations that are not contained herein including, without limitation, the Nodality Lease, the Poniard Lease, the Nodality Sublease, the Poniard Sublease, the Current Premises Consent Agreement and the Expansion Premises Consent Agreement.

(b) **Acceptance of Premises**. Tenant has been in possession of, and conducting business in, the Current Premises under the Nodality Sublease and expects to be in possession of the Expansion Premises under the Poniard Sublease as of the Lease Date, and intends to continue conducting business in the Premises, without interruption, from and after the Lease Date. Further, since (i) the Current Premises will not be empty and/or unoccupied at any time prior to the Current Premises Commencement Date and Landlord will have no opportunity to inspect, examine, and/or audit the Current Premises in order to establish the condition of the Current Premises as of the Current Premises Commencement Date, Landlord shall have no liability for any defects in the Current Premises (whether latent or. patent) and, except as set forth in the Work Letter, shall have no obligation to perform any work or to refurbish, finish, or otherwise alter the Current Premises in order to prepare the Current Premises for Tenant's use or occupancy and (ii) the Expansion Premises will not be empty and/or unoccupied at any time prior to the Expansion Premises Commencement Date and Landlord will have no opportunity to inspect, examine, and/or audit the Expansion Premises in order to establish the condition of the Expansion Premises as of the Expansion Premises Commencement Date, Landlord shall have no liability for any defects in the Expansion Premises (whether latent or patent) and, except as set forth in the Work Letter, shall have no obligation to perform any work or to refurbish, finish, or otherwise alter the Expansion Premises in order to prepare the Expansion Premises for Tenant's use or occupancy. As a result, as conclusively evidenced by Tenant's execution and delivery of this Lease, Tenant accepts the Premises "as is", in their condition as of the Lease Date, without any qualifications, restrictions, or limitations, subject to all applicable Legal Requirements (as defined in Section 7 hereof). Tenant agrees and acknowledges that neither Landlord nor any agent of Landlord has made any representation or warranty with respect to the condition of all or any portion of the Premises or the Project, and/or the suitability of the Premises or the Project for the conduct of Tenant's business, and Tenant waives any implied warranty that the Premises or the Project are suitable for the Permitted Use. Landlord in executing this Lease

does so in reliance upon Tenant's representations, warranties, acknowledgments and agreements contained herein.

Notwithstanding anything to the contrary in this Lease, Landlord agrees that (a) Tenant's continued occupancy of the Current Premises following the Current Premises Commencement Date or the Expansion Premises following the Expansion Premises Commencement Date, shall be pursuant to this Lease and shall not constitute a holdover under the Nodality Lease or Poniard Lease and (b) neither Nodality nor Poniard shall have any obligation to remove or restore any existing alterations in the Premises or to remove or restore Landlord's Work.

If the Poniard Lease or the Nodality Lease has terminated due to a casualty or Taking (as hereinafter defined), such casualty or Taking shall be deemed to have occurred during the Term of this Lease and the rights and obligations of Landlord and Tenant with respect to this Lease shall be governed by Section 18 or Section 19 of this Lease, as applicable.

Subject to delays resulting from Force Majeure and Tenant Delay (as defined in the Work Letter), Landlord shall use reasonable efforts to cause Landlord's Work to be Substantially Complete (as defined in the Work Letter) on or before the date which is 56 days after the Lease Date ("**Target Completion Date**"). If Landlord fails to complete Landlord's Work by the Target Completion Date, Landlord shall not be liable to Tenant for any loss or damage resulting therefrom, and this Lease shall not be void or voidable. If Landlord fails to Substantially Complete Landlord's Work by the date which is 70 days after the Lease Date (which date shall be extended for delays resulting from Force Majeure and Tenant Delay) (such date, as so extended, the "**Outside Delivery Date**"), then (i) Base Rent under this Lease shall abate by one day for each day of delay in Substantial Completion of Landlord's Work beyond the Outside Delivery Date and (ii) the Base Term shall be extended by one day for each day of delay in Substantial Completion of Landlord's Work beyond the Outside Delivery Date. Landlord agrees to use reasonable efforts to perform Landlord's Work in a manner which does not unreasonably interfere with Tenant's use and enjoyment of the Premises under the Nodality Sublease and the Poniard Sublease. Without limiting the foregoing, Landlord agrees that it shall endeavor to schedule any utility interruptions related to the performance of Landlord's Work on weekends and shall endeavor to provide Tenant with at least 5 business days prior notice of any such interruption; provided, however, that notwithstanding anything to the contrary contained herein, in no event shall Landlord have any obligation to incur any additional or overtime costs to complete Landlord's Work.

Notwithstanding anything to the contrary contained herein, for the period of 60 consecutive days after (i) the Lease Date, as to the Current Premises and (ii) the Substantial Completion of Landlord's Work, as to the Expansion Premises, Landlord shall, at its sole cost and expense (which shall not constitute an Operating Expense), be responsible for any repairs that are required to be made to the Building and Building Systems serving the Premises, unless Tenant was responsible for the cause of such repair, in which case Tenant shall pay the cost.

Tenant shall have the right during the Term to use all the office furniture and equipment located within the Premises as of the date hereof that is owned by Landlord, as more specifically described on **Exhibit G** ("**Landlord's Property**"). Tenant shall accept Landlord's Property in its "as is" condition as of the Lease Date and shall return all of Landlord's Property located in the Premises as of the Lease Date to Landlord upon the expiration or earlier termination of this Lease in the same condition as received, ordinary wear and tear excepted; provided, however, Tenant shall have the right to remove the 3, 8-foot chemical fume hoods in the chemistry lab of the Premises (the "**Existing Fume Hoods**") provided that (i) Tenant removes the Existing Fume Hoods in a manner reasonably calculated to avoid damage to both the Existing Fume Hoods and the Premises, (ii) Tenant delivers the Existing Fume Hoods to Landlord after removal and (iii) Tenant repairs any damage to the Premises caused by the removal of the Existing Fume Hoods.

3. **Rent.**

(a) **Base Rent**. The second month's Base Rent and the Security Deposit shall be due and payable on delivery of an executed copy of this Lease to Landlord. Tenant shall pay to Landlord in advance, without demand, abatement, deduction or set-off, monthly installments of Base Rent on or before the first day of each calendar month during the Term hereof, in lawful money of the United States of America, at the office of Landlord for payment of Rent set forth above, or to such other person or at such other place as Landlord may from time to time designate in writing. Payments of Base Rent for any fractional calendar month shall be prorated. The obligation of Tenant to pay Base Rent and other sums to Landlord and the obligations of Landlord under this Lease are independent obligations.

Tenant shall have no right at any time to abate, reduce, or set-off any Rent (as defined in Section 5) due hereunder except for any abatement as may be expressly provided in this Lease.

Notwithstanding anything to the contrary contained in this Lease, if the Current Premises Commencement Date occurs prior to April 1, 2010, Tenant shall only be required to pay Base Rent for the Current Premises in the amount of $25,969.77 per month commencing on the Current Premises Commencement Date through March 31, 2010. Notwithstanding anything to the contrary contained in this Lease, if the Expansion Premises Commencement Date occurs prior to July 12, 2011, Tenant shall be required to pay Base Rent for the Expansion Premises in the amount of $17,600.00 per month, if prior to September 1, 2010, and otherwise $28,124.25 per month commencing on the Expansion Premises Commencement Date through July 11, 2011.

(b) **Additional Rent**. In addition to Base Rent, commencing on the earlier to occur of (A) the Current Premises Commencement Date and (B) the Expansion Premises Commencement Date, Tenant agrees to pay to Landlord as additional rent ("**Additional Rent**"): (i) Tenant's Share of "Operating Expenses" (as defined in Section 5), and (ii) any and all other amounts Tenant assumes or agrees to pay under the provisions of this Lease, including, without limitation, any and all other sums that may become due by reason of any default of Tenant or failure to comply with the agreements, terms, covenants and conditions of this Lease to be performed by Tenant, after any applicable notice and cure period.

4. **Intentionally Deleted**

5. **Operating Expense Payments**. Landlord shall deliver to Tenant a written estimate of Operating Expenses for each calendar year during the Term (the "**Annual Estimate**"), which may be revised by Landlord from time to time during such calendar year. During each month of the Term, on the same date that Base Rent is due, Tenant shall pay Landlord an amount equal to 1/12th of Tenant's Share of the Annual Estimate. Payments for any fractional calendar month shall be prorated.

The term "**Operating Expenses**" means all costs and expenses of any kind or description whatsoever incurred or accrued each calendar year by Landlord with respect to the Project (including, without duplication, Taxes (as defined in Section 9), capital repairs and improvements amortized over the lesser of 10 years and the useful life of such capital items as reasonably determined by Landlord ("**Approved Capital Expenses**"), and the costs of Landlord's third party property manager (not to exceed 3.0% of Base Rent) or, if there is no third party property manager, administration rent in the amount of 3.0% of Base Rent), excluding only:

(a) the original construction costs of the Project and renovation prior to the date of the Lease and costs of correcting defects in such original construction or renovation;

(b) capital expenditures for expansion of the Project and other capital expenditures to the extent not Approved Capital Expenses;

(c) any costs incurred to remove, study, test, remediate or otherwise related to the presence of Hazardous Materials in or about the Building or the Project, which Hazardous Materials Tenant proves (i) existed prior to the Lease Date, except to the extent caused by or contributed to by Tenant or any

Tenant Party, (ii) originated from any separately demised tenant space within the Project other than the Premises, except to the extent caused by or contributed to by Tenant or any Tenant Party, or (iii) were not brought upon, kept, used, stored, handled, treated, generated in, or released or disposed of from, the Project by Tenant or any Tenant Party;

(d) interest, principal payments of Mortgage (as defined in Section 27) debts of Landlord, financing costs and amortization of funds borrowed by Landlord, whether secured or unsecured and all payments of base rent (but not taxes or operating expenses) under any ground lease or other underlying lease of all or any portion of the Project;

(e) depreciation of the Project and capital expense reserves (except for capital improvements, the cost of which are includable in Operating Expenses);

(f) advertising, legal and space planning expenses and leasing commissions and other costs and expenses incurred in procuring and leasing space to tenants for the Project, including any leasing office maintained in the Project, free rent and construction allowances for tenants;

(g) legal and other expenses incurred in the negotiation or enforcement of leases;

(h) completing, fixturing, improving, renovating, painting, redecorating or other work, which Landlord pays for or performs for other tenants within their premises, and costs of correcting defects in such work;

(i) costs of utilities outside normal business hours sold to tenants of the Project;

(j) costs to be reimbursed by other tenants of the Project or Taxes to be paid directly by Tenant or other tenants of the Project, whether or not actually paid;

(k) salaries, wages, benefits and other compensation paid to officers and employees of Landlord who are not assigned in whole or in part to the operation, management, maintenance or repair of the Project;

(l) general organizational, administrative and overhead costs relating to maintaining Landlord's existence, either as a corporation, partnership, or other entity, including general corporate, legal and accounting expenses;

(m) costs (including attorneys' fees and costs of settlement, judgments and payments in lieu thereof) incurred in connection with disputes with tenants, other occupants, or prospective tenants, and costs and expenses, including legal fees, incurred in connection with negotiations or disputes with employees, consultants, management agents, leasing agents, purchasers or mortgagees of the Building;

(n) costs incurred by Landlord due to the violation by Landlord, its employees, agents or contractors or any tenant of the terms and conditions of any lease of space in the Project or any Legal Requirement (as defined in Section 7);

(o) penalties, fines or interest incurred as a result of Landlord's inability or failure to make payment of Taxes and/or to file any tax or informational returns when due, or from Landlord's failure to make any payment of Taxes required to be made by Landlord hereunder before delinquency;

(p) overhead and profit increment paid to Landlord or to subsidiaries or affiliates of Landlord for goods and/or services in or to the Project to the extent the same exceeds the costs of such goods and/or services rendered by unaffiliated third parties on a competitive basis;

(q) costs of Landlord's charitable or political contributions, or of fine art maintained at the Project;

(r) costs in connection with services (including electricity), items or other benefits of a type which are not standard for the Project and which are not available to Tenant without specific charges therefor, but which are provided to another tenant or occupant of the Project, whether or not such other tenant or occupant is specifically charged therefor by Landlord;

(s) costs incurred in the sale or refinancing of the Project;

(t) net income taxes of Landlord or the owner of any interest in the Project, franchise, capital stock, gift, estate or inheritance taxes or any federal, state or local documentary taxes imposed against the Project or any portion thereof or interest therein;

(u) any expenses otherwise includable within Operating Expenses to the extent actually reimbursed by persons other than tenants of the Project under leases for space in the Project; and

(v) costs incurred in connection with the performance of alterations or modifications to the Project (other than the Premises for which Tenant shall be solely responsible for) that are required solely due to the non-compliance of the Project with Legal Requirements applicable to the Project (other than the Premises for which Tenant shall be solely responsible for) as of the Lease Date.

Notwithstanding anything to the contrary contained in this Lease, Tenant's Share of each earthquake deductible or occurrence of uninsured earthquake damage affecting the Premises shall not exceed $4.50 per rentable square foot of the Premises (the "**Initial Cap**"). On May 1, 2010, and on the first day of each month thereafter, the Initial Cap shall be reduced by $0,125 per rentable square foot of the Premises. Following earthquake damage to the Project, Tenant shall pay Tenant's Share of any such deductible or uninsured damage in equal monthly installments amortized over the remaining balance of the Base Term of the Lease.

Within 90 days after the end of each calendar year (or such longer period as may be reasonably required), Landlord shall furnish to Tenant a statement (an "**Annual Statement**") showing in reasonable detail: (a) the total and Tenant's Share of actual Operating Expenses for the previous calendar year, and (b) the total of Tenant's payments in respect of Operating Expenses for such year. If Tenant's Share of actual Operating Expenses for such year exceeds Tenant's payments of Operating Expenses for such year, the excess shall be due and payable by Tenant as Rent within 30 days after delivery of such Annual Statement to Tenant. If Tenant's payments of Operating Expenses for such year exceed Tenant's Share of actual Operating Expenses for such year Landlord shall pay the excess to Tenant within 30 days after delivery of such Annual Statement, except that after the expiration, or earlier termination of the Term or if Tenant is delinquent in its obligation to pay Rent, Landlord shall pay the excess to Tenant after deducting all other amounts due Landlord.

The Annual Statement shall be final and binding upon Tenant unless Tenant, within 45 days after Tenant's receipt thereof, shall contest any item therein by giving written notice to Landlord, specifying each item contested and the reason therefor. If, during such 45 day period, Tenant reasonably and in good faith questions or contests the accuracy of Landlord's statement of Tenant's Share of Operating Expenses, Landlord will provide Tenant with access to Landlord's books and records relating to the operation of the Project and such information as Landlord reasonably determines to be responsive to Tenant's questions (the "**Expense Information**"). If after Tenant's review of such Expense Information, Landlord and Tenant cannot agree upon the amount of Tenant's Share of Operating Expenses, then Tenant shall have the right to have an independent public accounting firm selected by Tenant from among the 5 largest in the United States, working pursuant to a fee arrangement other than a contingent fee (at Tenant's sole cost and expense) and approved by Landlord (which approval shall not be unreasonably withheld or delayed), audit and/or review the Expense Information for the year in question (the "**Independent Review**"). The results of any such Independent Review shall be binding on Landlord and Tenant. If the Independent Review shows that the payments actually made by Tenant with respect to Operating Expenses for the calendar year in question exceeded Tenant's Share of Operating Expenses for such calendar year, Landlord shall at Landlord's option either (i) credit the excess amount to the next succeeding installments of estimated Operating Expenses or (ii) pay the excess to Tenant within 30 days

after delivery of such statement, except that after the expiration or earlier termination of this Lease or if Tenant is delinquent in its obligation to pay Rent, Landlord shall pay the excess to Tenant after deducting all other amounts due Landlord. If the Independent Review shows that Tenant's payments with respect to Operating Expenses for such calendar year were less than Tenant's Share of Operating Expenses for the calendar year, Tenant shall pay the deficiency to Landlord within 30 days after delivery of such statement. If the Independent Review shows that Tenant has overpaid with respect to Operating Expenses by more than 5% then Landlord shall reimburse Tenant for all costs incurred by Tenant for the Independent Review. Tenant shall treat the results of each Independent Review as confidential and shall not disclose any information regarding such Independent Review to any other tenants; provided, however, that Tenant may disclose such information to its accountants, attorneys and real estate consultants and to governmental authorities as required by Legal Requirements and in connection with any litigation, arbitration or similar proceeding. Operating Expenses for the calendar years in which Tenant's obligation to share therein begins and ends shall be prorated. Notwithstanding anything set forth herein to the contrary, if the Project is not at least 95% occupied on average during any year of the Term, Tenant's Share of Operating Expenses for such year shall be computed as though the Project had been 95% occupied on average during such year.

"**Tenant's Share**" shall be the percentage set forth in the Basic Lease Provisions as Tenant's Share as reasonably adjusted by Landlord for changes in the physical size of the Premises or the Project occurring thereafter. The rentable area of the Premises shall not be subjected to re-measurement by either party. If Landlord has a reasonable basis for doing so, Landlord may equitably increase Tenant's Share for any item of expense or cost reimbursable by Tenant that relates to a repair, replacement, or service that benefits only the Premises or only a portion of the Project that includes the Premises or that varies with occupancy or use. Base Rent, Tenant's Share of Operating Expenses and all other amounts payable by Tenant to Landlord hereunder are collectively referred to herein as "**Rent.**"

6. **Security Deposit**. Tenant shall deposit with Landlord, within thirty (30) days after delivery of an executed copy of this Lease to Landlord, a security deposit (the "**Security Deposit**") for the performance of all of Tenant's obligations hereunder in the amount set forth in the Basic Lease Provisions, which Security Deposit shall be in the form of an unconditional and irrevocable letter of credit (the "**Letter of Credit**"): (i) in form and substance satisfactory to Landlord, (ii) naming Landlord as beneficiary, (iii) expressly allowing Landlord to draw upon it at any time from time to time by delivering to the issuer notice

that Landlord is entitled to draw thereunder, (iv) issued by an FDIC-insured financial institution satisfactory to Landlord, and (v) redeemable by presentation of a sight draft in the state of Landlord's choice. If Tenant does not provide Landlord with a substitute Letter of Credit complying with all of the requirements hereof at least 10 days before the stated expiration date of any then current Letter of Credit, Landlord shall have the right to draw the full amount of the current Letter of Credit and hold the funds drawn in cash without obligation for interest thereon as the Security Deposit. The Security Deposit shall be held by Landlord as security for the performance of Tenant's obligations under this Lease. The Security Deposit is not an advance rental deposit or a measure of Landlord's damages in case of Tenant's default. Upon each occurrence of a Default (as defined in Section 20), Landlord may use all or any part of the Security Deposit to pay delinquent payments due under this Lease, future rent damages under California Civil Code Section 1951.2, and the cost of any damage, injury, expense or liability caused by such Default, without prejudice to any other remedy provided herein or provided by law. Landlord's right to use the Security Deposit under this Section 6 includes the right to use the Security Deposit to pay future rent damages following the termination of this Lease pursuant to Section 21(c) below. Upon any use of all or any portion of the Security Deposit, Tenant shall pay Landlord on demand the amount that will restore the Security Deposit to the amount set forth in the Basic Lease Provisions. Tenant hereby waives the provisions of any law, now or hereafter in force, including, without limitation, California Civil Code Section 1950.7, which provide that Landlord may claim from a security deposit only those sums reasonably necessary to remedy defaults in the payment of Rent, to repair damage caused by Tenant or to clean the Premises, it being agreed that Landlord may, in addition, claim those sums reasonably necessary to compensate Landlord for any other loss or damage, foreseeable or unforeseeable, caused by the act or omission of Tenant or any officer, employee, agent or invitee of Tenant. Upon bankruptcy or other debtor-creditor proceedings against Tenant, the Security Deposit shall be deemed to be applied first to the payment of Rent and other charges due Landlord for periods prior to

the filing of such proceedings. Upon any such use of all or any portion of the Security Deposit, Tenant shall, within 5 days after demand from Landlord, restore the Security Deposit to its original amount. If Tenant shall fully perform every provision of this Lease to be performed by Tenant, the Security Deposit, or any balance thereof (i.e., after deducting therefrom all amounts to which Landlord is entitled under the provisions of this Lease), shall be returned to Tenant (or, at Landlord's option, to the last assignee of Tenant's interest hereunder) within 90 days after the expiration or earlier termination of this Lease. On or before January 1, 2011, Tenant shall deliver to Landlord either (A) a substitute Letter of Credit complying with all of the requirements hereof in the amount of the Increased Security Deposit Amount or (B) an amendment to the existing Letter of Credit increasing the existing Letter of Credit to the Increased Security Deposit Amount, and the failure to do so shall immediately be a Default after the expiration of applicable notice and cure periods.

If Landlord transfers its interest in the Project or this Lease, Landlord shall either (a) transfer any Security Deposit then held by Landlord to a person or entity assuming Landlord's obligations under this Section 6, or (b) return to Tenant any Security Deposit then held by Landlord and remaining after the deductions permitted herein. Upon such transfer to such transferee or the return of the Security Deposit to Tenant, Landlord shall have no further obligation with respect to the Security Deposit, and Tenant's right to the return of the Security Deposit shall apply solely against Landlord's transferee. The Security Deposit is not an advance rental deposit or a measure of Landlord's damages in case of Tenant's default, Landlord's obligation respecting the Security Deposit is that of a debtor, not a trustee, and no interest shall accrue thereon.

7. **Use**. The Premises shall be used solely for the Permitted Use set forth in the Basic Lease Provisions, and in compliance with all laws, orders, judgments, ordinances, regulations, codes, directives, permits, licenses, covenants and restrictions now or hereafter applicable to the Premises, and to the use and occupancy thereof, including, without limitation, the Americans With Disabilities Act, 42 U.S.C. § 12101, et seq. (together with the regulations promulgated pursuant thereto, "**ADA**") (collectively, "**Legal Requirements**" and each, a "**Legal Requirement**"). Tenant shall, upon 5 days' written notice from Landlord, discontinue any use of the Premises which is declared by any Governmental Authority (as defined in Section 9) having jurisdiction to be a violation of a Legal Requirement. Tenant will not use or permit the Premises to be used for any purpose or in any manner that would void Tenant's or Landlord's insurance, increase the insurance risk, or cause the disallowance of any sprinkler or other credits. To Landlord's actual knowledge, the Permitted Use will not result in the voidance of or an increase in insurance risk with respect to the insurance currently being maintained by Landlord. Tenant shall not permit any part of the Premises to be used as a "place of public accommodation", as defined in the ADA or any similar legal requirement. Tenant shall reimburse Landlord promptly upon demand for any additional premium charged for any such insurance policy by reason of Tenant's failure to comply with the provisions of this Section or otherwise caused by Tenant's use and/or occupancy of the Premises. Tenant will use the Premises in a careful, safe and proper manner and will not commit or permit waste, overload the floor or structure of the Premises, subject the Premises to use that would damage the Premises or obstruct or interfere with the rights of Landlord or other tenants or occupants of the Project, including conducting or giving notice of any auction, liquidation, or going out of business sale on the Premises, or using or allowing the Premises to be used for any unlawful purpose. Tenant shall cause any equipment or machinery to be installed in the Premises so as to reasonably prevent sounds or vibrations from the Premises from extending into Common Areas, or other space in the Project. Tenant shall not place any machinery or equipment weighing 500 pounds or more in or upon the Premises or transport or move such items through the Common Areas of the Project or in the Project elevators without the prior written consent of Landlord, which shall not be unreasonably withheld or delayed. Except as may be provided under the Work Letter, Tenant shall not, without the prior written consent of Landlord, use the Premises in any manner which will require ventilation, air exchange, heating, gas, steam, electricity or water beyond the existing capacity of the Project as proportionately allocated to the Premises based upon Tenant's Share as usually furnished for the Permitted Use.

Landlord has received no written notice from any Governmental Authority (as defined in Section 9 below) that the Project is not in compliance with the applicable provisions of the Americans With Disabilities Act, 42 U.S.C. § 12101, et seq. (together with regulations promulgated pursuant thereto,

"**ADA**"). Landlord shall be responsible, at Landlord's sole cost and expense (and not as an Operating Expense) for the compliance of the Common Areas of the Project with the ADA as of the Lease Date.

To the extent arising after the Lease Date, Landlord shall, as an Operating Expense (to the extent such Legal Requirement is generally applicable to similar buildings in the area in which the Project is located) or at Tenant's expense (to the extent such Legal Requirement is applicable solely by reason of Tenant's, as compared to other tenants of the Project, particular use of the Premises or any alterations or modifications made by Tenant) make any alterations or modifications to the Common Areas or the exterior of the Building that are required by Legal Requirements, including the ADA. In addition, Landlord shall, at Landlord's expense, make any alterations or modifications to the Premises that are required due to the non compliance of the Premises with Legal Requirements applicable to the Premises as of the Substantial Completion of Landlord's Work, except to the extent such alterations or modifications are required by Legal Requirements (including, without limitation, compliance of the Premises with ADA) related to Tenant's particular use of the Premises. Notwithstanding any other provision herein to the contrary, subject to the first two sentences of this paragraph, Tenant shall be responsible for any and all demands, claims, liabilities, losses, costs, expenses, actions, causes of action, damages or judgments, and all reasonable expenses incurred in investigating or resisting the same (including, without limitation, reasonable attorneys' fees, charges and disbursements and costs of suit) (collectively, "**Claims**") arising out of any failure of the Premises to comply with Legal Requirements, and Tenant shall indemnify, defend, hold and save Landlord harmless from and against any and all Claims arising out of or in connection with any failure of the Premises to comply with any Legal Requirement.

8. **Holding Over**. If, with Landlord's express written consent, Tenant retains possession of the Premises after the termination of the Term, (i) unless otherwise agreed in such written consent, such possession shall be subject to immediate termination by Landlord at any time, (ii) all of the other terms and provisions of this Lease (including, without limitation, the adjustment of Base Rent pursuant to Section 4 hereof) shall remain in full force and effect (excluding any expansion or renewal option or other similar right or option) during such holdover period, (iii) Tenant shall continue to pay Base Rent in the amount payable upon the date of the expiration or earlier termination of this Lease or such other amount as Landlord may indicate, in Landlord's sole and absolute discretion, in such written consent, and (iv) all other payments shall continue under the terms of this Lease. If Tenant remains in possession of the Premises after the expiration or earlier termination of the Term without the express written consent of Landlord, (A) Tenant shall become a tenant at sufferance upon the terms of this Lease except that the monthly rental shall be equal to 150% of Rent in effect during the last 30 days of the Term for the first 90 days of such tenancy at sufferance and thereafter 200% of Rent in effect during the last 30 days of the Term, and (B) Tenant shall be responsible for all damages suffered by Landlord resulting from or occasioned by Tenant's holding over, including consequential damages. No holding over by Tenant, whether with or without consent of Landlord, shall operate to extend this Lease except as otherwise expressly provided, and this Section 8 shall not be construed as consent for Tenant to retain possession of the Premises. Acceptance by Landlord of Rent after the expiration of the Term or earlier termination of this Lease shall not result in a renewal or reinstatement of this Lease.

9. **Taxes**. Landlord shall pay, as part of Operating Expenses, all taxes, levies, fees, assessments and governmental charges of any kind, existing as of the Lease Date or thereafter enacted (collectively referred to as "**Taxes**"), imposed by any federal, state, regional, municipal, local or other governmental authority or agency, including, without limitation, quasi-public agencies (collectively, "**Governmental Authority**") during the Term, including, without limitation, all Taxes: (i) imposed on or measured by or based, in whole or in part, on rent payable to (or gross receipts received by) Landlord under this Lease and/or from the rental by Landlord of the Project or any portion thereof, or (ii) based on the square footage, assessed value or other measure or evaluation of any kind of the Premises or the Project, or (iii) assessed or imposed by or on the operation or maintenance of any portion of the Premises or the Project, including parking, or (iv) assessed or imposed by, or at the direction of, or resulting from Legal Requirements, or interpretations thereof, promulgated by any Governmental Authority, or (v) imposed as a license or other fee, charge, tax, or assessment on Landlord's business or occupation of leasing space in the Project. Landlord may contest by appropriate legal proceedings the amount, validity, or application of any Taxes or liens securing Taxes. Notwithstanding anything to the contrary herein,

Landlord shall only charge Tenant for such assessments existing as of the Commencement Date as if those assessments were paid by Landlord over the longest possible term which Landlord is permitted to pay for the applicable assessments without additional charge other than interest, if any, provided under the terms of the underlying assessments. Notwithstanding anything to the contrary contained in this Lease, Taxes shall not include any net income taxes, estate taxes or inheritance taxes imposed on Landlord except to the extent such net income taxes are in substitution for any Taxes payable hereunder, or any late penalties, interest or fines imposed due to Landlord's failure to pay any Taxes prior to delinquency. If any such Tax is levied or assessed directly against Tenant, then Tenant shall be responsible for and shall pay the same at such times and in such manner as the taxing authority shall require. Tenant shall pay, prior to delinquency, any and all Taxes levied or assessed against any personal property or trade fixtures placed by Tenant in the Premises, whether levied or assessed against Landlord or Tenant. If any Taxes on Tenant's personal property or trade fixtures are levied against Landlord or Landlord's property, or if the assessed valuation of the Project is increased by a value attributable to improvements in or alterations to the Premises, whether owned by Landlord or Tenant and whether or not affixed to the real property so as to become a part thereof, higher than the base valuation on which Landlord from time-to-time allocates Taxes to all tenants in the Project, Landlord shall have the right, but not the obligation, to pay such Taxes. Landlord's determination of any excess assessed valuation shall be binding and conclusive, absent manifest error. The amount of any such payment by Landlord shall constitute Additional Rent due from Tenant to Landlord immediately upon demand.

10. **Parking**. Subject to all matters of record, Force Majeure, a Taking (as defined in Section 19 below) and the exercise by Landlord of its rights hereunder, Tenant shall have the right, in common with other tenants of the Project pro rata in accordance with the rentable area of the Premises and the rentable areas of the Project occupied by such other tenants, to park in those areas designated for non-reserved parking, subject in each case to Landlord's rules and regulations. As of the Lease Date, Tenant's pro rata share of parking equates to 2.8 parking spaces per 1,000 RSF of the Premises. Landlord may allocate parking spaces among Tenant and other tenants in the Project pro rata as described above if Landlord determines that such parking facilities are becoming crowded. Landlord shall not be responsible for enforcing Tenant's parking rights against any third parties, including other tenants of the Project.

11. **Utilities, Services**. Landlord shall provide, subject to the terms of this Section 11, water, electricity, heat, light, power, telephone, sewer, and other utilities (including gas and fire sprinklers to the extent the Project is plumbed for such services), refuse and trash collection and janitorial services (collectively, "**Utilities**"). Landlord shall pay, as Operating Expenses or subject to Tenant's reimbursement obligation, for all Utilities used on the Premises, all maintenance charges for Utilities, and any storm sewer charges or other similar charges for Utilities imposed by any Governmental Authority or Utility provider, and any taxes, penalties, surcharges or similar charges thereon. Landlord may cause, at Landlord's expense, any Utilities to be separately metered or charged directly to Tenant by the provider. Tenant shall pay directly to the Utility provider, prior to delinquency, any separately metered Utilities and services which may be furnished to Tenant or the Premises during the Term. Tenant shall pay, as part of Operating Expenses, its share of all charges for jointly metered Utilities based upon consumption, as reasonably determined by Landlord. No interruption or failure of Utilities, from any cause whatsoever other than Landlord's willful misconduct, shall result in eviction or constructive eviction of Tenant, termination of this Lease or the abatement of Rent. Tenant agrees to limit use of water and sewer with respect to Common Areas to normal restroom use.

12. **Alterations and Tenant's Property**. Any alterations, additions, or improvements made to the Premises by or on behalf of Tenant, including additional locks or bolts of any kind or nature upon any doors or windows in the Premises, but excluding installation, removal or realignment of furniture systems (other than removal of furniture systems owned or paid for by Landlord) not involving any modifications to the structure or connections (other then by ordinary plugs or jacks) to Building Systems (as defined in Section 13) ("**Alterations**") shall be subject to Landlord's prior written consent, which may be given or withheld in Landlord's sole discretion if any such Alteration affects the structure or Building Systems, but which shall otherwise not be unreasonably withheld or delayed. Tenant may construct nonstructural Alterations in the Premises without Landlord's prior approval if the aggregate cost of all such

work in any 12 month period does not exceed $50,000 (a "**Notice-Only Alteration**"), provided Tenant notifies Landlord in writing of such intended Notice-Only Alteration, and such notice shall be accompanied by plans, specifications, work contracts and such other information concerning the nature and cost of the Notice-Only Alteration as may be reasonably requested by Landlord, which notice and accompanying materials shall be delivered to Landlord not less than 15 business days in advance of any proposed construction. If Landlord approves any Alterations, Landlord may impose such conditions on Tenant in connection with the commencement, performance and completion of such Alterations as Landlord may deem appropriate in Landlord's reasonable discretion. Any request for approval shall be in writing, delivered not less than 15 business days in advance of any proposed construction, and accompanied by plans, specifications, bid proposals, work contracts and such other information concerning the nature and cost of the alterations as may be reasonably requested by Landlord, including the identities and mailing addresses of all persons performing work or supplying materials. Landlord's right to review plans and specifications and to monitor construction shall

be solely for its own benefit, and Landlord shall have no duty to ensure that such plans and specifications or construction comply with applicable Legal Requirements. Tenant shall cause, at its sole cost and expense, all Alterations to comply with insurance requirements and with Legal Requirements and shall implement at its sole cost and expense any alteration or modification required by Legal Requirements as a result of any Alterations. Tenant shall pay to Landlord, as Additional Rent, on demand an amount equal to 3% of all charges incurred by Tenant or its contractors or agents in connection with any Alteration to cover Landlord's overhead and expenses for plan review, coordination, scheduling and supervision. Before Tenant begins any Alteration, Landlord may post on and about the Premises notices of non-responsibility pursuant to applicable law. Tenant shall reimburse Landlord for, and indemnify and hold Landlord harmless from, any expense incurred by Landlord by reason of faulty work done by Tenant or its contractors, delays caused by such work, or inadequate cleanup.

Tenant shall furnish security or make other arrangements reasonably satisfactory to Landlord to assure payment for the completion of all Alterations work free and clear of liens, and shall provide (and cause each contractor or subcontractor to provide) certificates of insurance for workers' compensation and other coverage in amounts and from an insurance company satisfactory to Landlord protecting Landlord against liability for personal injury or property damage during construction. Upon completion of any Alterations, Tenant shall deliver to Landlord: (i) sworn statements setting forth the names of all contractors and subcontractors who did the work and final lien waivers from all such contractors and subcontractors; and (ii) "as built" plans for any such Alteration.

Except for Removable Installations (as hereinafter defined), all Installations (as hereinafter defined) shall be and shall remain the property of Landlord following the expiration or earlier termination of the Term, shall not be removed by Tenant at any time during the Term, and shall remain upon and be surrendered with the Premises as a part thereof. Notwithstanding the foregoing, Landlord shall if requested by Tenant, at the time its approval of any such Installation is requested, notify Tenant if Landlord requires that Tenant remove such Installation upon the expiration or earlier termination of the Term, in which event Tenant shall remove such Installation in accordance with the immediately succeeding sentence. Upon the expiration or earlier termination of the Term, Tenant shall remove (i) all wires, cables or similar equipment which Tenant has installed in the Premises or in the risers or plenums of the Building, (ii) any Installations for which Landlord has given Tenant notice of removal in accordance with the immediately preceding sentence, and (iii) all of Tenant's Property (as hereinafter defined), and Tenant shall restore and repair any damage caused by or occasioned as a result of such removal, including, without limitation, capping off all such connections behind the walls of the Premises and repairing any holes. Notwithstanding anything to the contrary contained herein, Tenant shall have no obligation to remove Landlord's Work. During any restoration period beyond the expiration or earlier termination of the Term, Tenant shall pay Rent to Landlord as provided herein as if said space were otherwise occupied by Tenant. If Landlord is requested by Tenant or any lender, lessor or other person or entity claiming an interest in any of Tenant' Property to waive any lien Landlord may have against any of Tenant's Property, and Landlord consents to such waiver, then Landlord shall be entitled to be paid as administrative rent a fee of $1,000 per occurrence for its time and effort in preparing and negotiating such a waiver of lien.

For purposes of this Lease, (x) "**Removable Installations**" means any items listed on **Exhibit F** attached hereto and any items agreed by Landlord in writing to be included on **Exhibit F** in the future, (y) "**Tenant's Property**" means Removable Installations and, other than Installations, any personal property or equipment of Tenant that may be removed without material damage to the Premises, and (z) "**Installations**" means all property of any kind paid for by Landlord, all Alterations, all fixtures, and all partitions, hardware, built-in machinery, built-in casework and cabinets and other similar additions, equipment, property and improvements built into the Premises so as to become an integral part of the Premises, including, without limitation, fume hoods which penetrate the roof or plenum area, built-in cold rooms, built-in warm rooms, walk-in cold rooms, walk-in warm rooms, deionized water systems, glass washing equipment, autoclaves, chillers, built-in plumbing, electrical and mechanical equipment and systems, and any power generator and transfer switch.

13. **Landlord's Repairs**. Landlord, as an Operating Expense (except to the extent the cost thereof is expressly excluded from Operating Expenses pursuant to Section 5 hereof), shall maintain all of the structural, exterior, parking and other Common Areas of the Project, including HVAC, plumbing, fire sprinklers, elevators and all other building systems serving the Premises and other portions of the Project ("**Building Systems**"), in good repair, reasonable wear and tear and uninsured losses and damages (unless such losses or damages would have been insured losses or expenses if the insurance Landlord is required to maintain hereunder had been obtained) caused by Tenant, or by any of Tenant's agents, servants, employees, invitees and contractors (collectively, "**Tenant Parties**") excluded. Subject to the provisions of the penultimate paragraph of Section 17, losses and damages caused by Tenant or any Tenant Party shall be repaired by Landlord, at Tenant's sole cost and expense, to the extent not covered by insurance Landlord is required to maintain hereunder (or to the extent such losses or damages would have been covered by insurance Landlord is required to maintain hereunder if such insurance had been maintained). Landlord reserves the right to stop Building Systems services when necessary (i) by reason of accident or emergency, or (ii) for planned repairs, alterations or improvements, which are, in the judgment of Landlord, desirable or necessary to be made, until said repairs, alterations or improvements shall have been completed, provided Landlord shall use commercially reasonable efforts to minimize interference with Tenant's Permitted Use of the Premises. Landlord shall have no responsibility or liability for failure to supply Building Systems services during any such period of interruption; provided, however, that Landlord shall, except in case of emergency, make a commercially reasonable effort to give Tenant 24 hours advance notice of any planned stoppage of Building Systems services for routine maintenance, repairs, alterations or improvements and shall in all events use commercially reasonable efforts to perform any repairs in a manner that will minimize interference with Tenant's use of the Premises. Tenant shall promptly give Landlord written notice of any repair required by Landlord pursuant to this Section, after which Landlord shall make a commercially reasonable effort to effect such repair. Landlord shall not be liable for any failure to make any repairs or to perform any maintenance unless such failure shall persist for an unreasonable time after Tenant's written notice of the need for such repairs or maintenance as provided in this Lease. Tenant waives its rights under any state or local law to terminate this Lease or to make such repairs at Landlord's expense and agrees that the parties' respective rights with respect to such matters shall be solely as set forth herein. Repairs required as the result of fire, earthquake, flood, vandalism, war, or similar cause of damage or destruction shall be controlled by Section 18.

14. **Tenant's Repairs**. Subject to Section 13 hereof, Tenant, at its expense, shall repair, replace and maintain in good condition all portions of the Premises, including, without limitation, entries, doors, ceilings, interior windows, interior walls, and the interior side of demising walls; provided, however, that Landlord shall be responsible, as part of Operating Expenses, for repairs, replacements and maintenance that could constitute capital expenditures. Should Tenant fail to make any such repair or replacement or fail to maintain the Premises, Landlord shall give Tenant notice of such failure. If Tenant fails to commence cure of such failure within 10 days of Landlord's notice, and thereafter diligently prosecute such cure to completion, Landlord may perform such work and shall be reimbursed by Tenant within 10 days after demand therefor; provided, however, that if such failure by Tenant creates or could create an emergency, Landlord may immediately commence cure of such failure and shall thereafter be entitled to recover the costs of such cure from Tenant. Subject to Sections 17 and 18, Tenant shall bear

the full uninsured cost of any repair or replacement to any part of the Project that results from damage caused by Tenant or any Tenant Party and any repair that benefits only the Premises.

15. **Mechanic's Liens**. Tenant shall discharge, by bond or otherwise, any mechanic's lien filed against the Premises or against the Project for work claimed to have been done for, or materials claimed to have been furnished to, Tenant within 10 days after the filing thereof, at Tenant's sole cost and shall otherwise keep the Premises and the Project free from any liens arising out of work performed, materials furnished or obligations incurred by Tenant. Should Tenant fail to discharge any lien described herein, Landlord shall have the right, but not the obligation, to pay such claim or post a bond or otherwise provide security to eliminate the lien as a claim against title to the Project and the cost thereof shall be immediately due from Tenant as Additional Rent. If Tenant shall lease or finance the acquisition of office equipment, furnishings, or other personal property of a removable nature utilized by Tenant in the operation of Tenant's business, Tenant warrants that any Uniform Commercial Code Financing Statement filed as a matter of public record by any lessor or creditor of Tenant will upon its face or by exhibit thereto indicate that such Financing Statement is applicable only to removable personal property of Tenant located within the Premises. In no event shall the address of the Project be furnished on the statement without qualifying language as to applicability of the lien only to removable personal property, located in an identified suite held by Tenant.

16. **Indemnification**. Tenant hereby indemnifies and agrees to defend, save and hold Landlord harmless from and against any and all Claims for injury or death to persons or damage to property occurring within or about the Premises, arising directly or indirectly out of use or occupancy of the Premises or a breach or default by Tenant in the performance of any of its obligations hereunder, unless caused solely by the willful misconduct or gross negligence of Landlord. Landlord shall not be liable to Tenant for, and Tenant assumes all risk of damage to, personal property (including, without limitation, loss of records kept within the Premises). Tenant further waives any and all Claims for injury to Tenant's business or loss of income relating to any such damage or destruction of personal property (including, without limitation, any loss of records). Landlord shall not be liable for any damages arising from any act, omission or neglect of any tenant in the Project or of any other third party.

17. **Insurance**. Landlord shall maintain all risk property and, if applicable, sprinkler damage insurance covering the full replacement cost of the Project or such lesser coverage amount as Landlord may elect provided such coverage amount is not less than 90% of such full replacement cost. Landlord shall further procure and maintain commercial general liability insurance with a single loss limit of not less than $2,000,000 for bodily injury and property damage with respect to the Project. Landlord may, but is not obligated to, maintain such other insurance and additional coverages as it may deem necessary, including, but not limited to, flood, environmental hazard and earthquake, loss or failure of building equipment, errors and omissions, rental loss during the period of repair or rebuilding, workers' compensation insurance and fidelity bonds for employees employed to perform services and insurance for any improvements installed by Tenant or which are in addition to the standard improvements customarily furnished by Landlord without regard to whether or not such are made a part of the Project. All such insurance shall be included as part of the Operating Expenses. The Project may be included in a blanket policy (in which case the cost of such insurance allocable to the Project will be determined by Landlord based upon the insurer's cost calculations). Tenant shall also reimburse Landlord for any increased premiums or additional insurance which Landlord reasonably deems necessary as a result of Tenant's use of the Premises.

Tenant, at its sole cost and expense, shall maintain during the Term: all risk property insurance with business interruption and extra expense coverage, covering the full replacement cost of all property and improvements installed or placed in the Premises by Tenant at Tenant's expense; workers' compensation insurance with no less than the minimum limits required by law; employer's liability insurance with such limits as required by law; and commercial general liability insurance, with a minimum limit of not less than $2,000,000 per occurrence for bodily injury and property damage with respect to the Premises. The commercial general liability insurance policy shall name Alexandria Real Estate Equities, Inc., and Landlord, its officers, directors, employees, managers, agents, invitees and contractors (collectively, "**Landlord Parties**"), as additional insureds; insure on an occurrence and not a claims-made

basis; be issued by insurance companies which have a rating of not less than policyholder rating of A and financial category rating of at least Class X in "Best's Insurance Guide"; shall not be cancelable for nonpayment of premium unless 10 days prior written notice shall have been given to Landlord from the insurer; contain a hostile fire endorsement and a contractual liability endorsement; and provide primary coverage to Landlord (any policy issued to Landlord providing duplicate or similar coverage shall be deemed excess over Tenant's policies). Copies of such policies (if requested by Landlord), or certificates of insurance showing the limits of coverage required hereunder and showing Landlord as an additional insured, along with reasonable evidence of the payment of premiums for the applicable period, shall be delivered to Landlord by Tenant upon commencement of the Term and upon each renewal of said insurance. Tenant's policy may be a "blanket policy" with an aggregate per location endorsement which specifically provides that the amount of insurance shall not be prejudiced by other losses covered by the policy. Tenant shall, at least 5 days prior to the expiration of such policies, furnish Landlord with renewal certificates.

In each instance where insurance is to name Landlord as an additional insured, Tenant shall upon written request of Landlord also designate and furnish certificates so evidencing Landlord as additional insured to: (i) any lender of Landlord holding a security interest in the Project or any portion thereof, (ii) the landlord under any lease wherein Landlord is tenant of the real property on which the Project is located, if the interest of Landlord is or shall become that of a tenant under a ground or other underlying lease rather than that of a fee owner, and/or (iii) any management company retained by Landlord to manage the Project.

The property insurance obtained by Landlord and Tenant shall include a waiver of subrogation by the insurers and all rights based upon an assignment from its insured, against Landlord or Tenant, and their respective officers, directors, employees, managers, agents, invitees and contractors ("**Related Parties**"), in connection with any loss or damage thereby insured against. Notwithstanding anything to the contrary contained in this Lease, neither party nor its respective Related Parties shall be liable to the other for loss or damage caused by any risk insured against under property insurance required to be maintained hereunder regardless of the negligence of the party to the Lease receiving the benefit of the waiver, and each party waives any claims against the other party, and its respective Related Parties, for such loss or damage. The failure of a party to insure its property shall not void this waiver. Landlord and its respective Related Parties shall not be liable for, and Tenant hereby waives all claims against such parties for, business interruption and losses occasioned thereby sustained by Tenant or any person claiming through Tenant resulting from any accident or occurrence in or upon the Premises or the Project from any cause whatsoever. If the foregoing waivers shall contravene any law with respect to exculpatory agreements, the liability of Landlord or Tenant shall be deemed not released but shall be secondary to the other's insurer.

Landlord may require insurance policy limits to be raised to conform with requirements of Landlord's lender and/or to bring coverage limits to levels then being generally required of new tenants within the Project; provided, however, that the increased amount of coverage is consistent with coverage amounts then being required by institutional owners of similar projects with tenants occupying similar size premises in the geographical area in which the Project is located.

18. **Restoration**. If, at any time during the Term, the Project or the Premises are damaged or destroyed by a fire or other insured casualty, Landlord shall notify Tenant within 60 days after discovery of such damage as to the amount of time Landlord reasonably estimates it will take to restore the Project or the Premises, as applicable (the "**Restoration Period**"). If the Restoration Period is estimated to exceed 9 months (the "**Maximum Restoration Period**"), Landlord may, in such notice, elect to terminate this Lease as of the date that is 75 days after the date of discovery of such damage or destruction; provided, however, that notwithstanding Landlord's election to restore, Tenant may elect to terminate this Lease by written notice to Landlord delivered within 5 business days of receipt of notice from Landlord estimating a Restoration Period for the Premises longer than the Maximum Restoration Period. Unless Landlord so elects to terminate this Lease, Landlord shall, subject to receipt of sufficient insurance proceeds (with any deductible to be treated as an Operating Expense subject to the provisions of Section 5), promptly restore the Premises (excluding the improvements installed by Tenant or by

Landlord and paid for by Tenant), subject to delays arising from the collection of insurance proceeds, from Force Majeure events or as needed to obtain any license, clearance or other authorization of any kind required to enter into and restore the Premises issued by any Governmental Authority having jurisdiction over the use, storage, handling, treatment, generation, release, disposal, removal or remediation of Hazardous Materials (as defined in Section 30) in, on or about the Premises (collectively referred to herein as "**Hazardous Materials Clearances**"); provided, however, that if repair or restoration of the Premises is not substantially complete as of the end of the Maximum Restoration Period or, if longer, the Restoration Period, Landlord may, in its sole and absolute discretion, elect not to proceed with such repair and restoration, or Tenant may by written notice to Landlord delivered within 5 business days of the expiration of the Maximum Restoration Period or, if longer, the Restoration Period, elect to terminate this Lease, in which event Landlord shall be relieved of its obligation to make such repairs or restoration and this Lease shall terminate as of the date that is 75 days after the later of: (i) discovery of such damage or destruction, or (ii) the date all required Hazardous Materials Clearances are obtained, but Landlord shall retain any Rent paid and the right to any Rent payable by Tenant prior to such election by Landlord or Tenant. Notwithstanding the foregoing, if a portion of the Project not including the Premises is damaged, Landlord may not terminate this Lease on the basis that the Restoration Period will exceed the Maximum Restoration Period if Landlord elects to merely repair the damage rather than redevelop or improve the Project as a whole, and Landlord actually commences construction of the repair of such damage. The Restoration Period and the Maximum Restoration Period shall not be extended by Force Majeure. In the event that the Lease terminates pursuant to the provisions of this Section 18 as a result of an earthquake, Tenant shall not be required to pay any deductibles as part of Operating Expenses in connection with such earthquake.

Tenant may, at Tenant's option, promptly re-enter the Premises and commence doing business in accordance with this Lease upon Landlord's completion of all repairs or restoration required to be done, by Landlord pursuant to this Section 18; provided, however, that Tenant shall nonetheless (and even if Tenant does not re-enter the Premises) continue to be responsible for all of its obligations under this Lease. Notwithstanding the foregoing, Landlord may terminate this Lease if the Premises are damaged during the last 1 year of the Term and Landlord reasonably estimates that it will take more than 2 months to repair such damage, or if insurance proceeds are not available for such restoration. Rent shall be abated from the date all required Hazardous Material Clearances are obtained until the Premises are repaired and restored, in the proportion which the area of the Premises, if any, which is not usable by Tenant bears to the total area of the Premises, unless Landlord provides Tenant with other space in the Project during the period of repair that is suitable for the temporary conduct of Tenant's business. Such abatement shall be the sole remedy of Tenant, and except as provided in this Section 18, Tenant waives any right to terminate the Lease by reason of damage or casualty loss.

The provisions of this Lease, including this Section 18, constitute an express agreement between Landlord and Tenant with respect to any and all damage to, or destruction of, all or any part of the Premises, or any other portion of the Project, and any statute or regulation which is now or may hereafter be in effect shall have no application to this Lease or any damage or destruction to all or any part of the Premises or any other portion of the Project, the parties hereto expressly agreeing that this Section 18 sets forth their entire understanding and agreement with respect to such matters.

19. **Condemnation**. If the whole or any material part of the Premises or the Project is taken for any public or quasi-public use under governmental law, ordinance, or regulation, or by right of eminent domain, or by private purchase in lieu thereof (a "**Taking**" or "**Taken**"), and the Taking would in Landlord's reasonable judgment, either prevent or materially interfere with Tenant's use of the Premises or materially interfere with or impair Landlord's ownership or operation of the Project, then upon written notice by Landlord this Lease shall terminate and Rent shall be apportioned as of said date. If part of the Premises shall be Taken, and this Lease is not terminated as provided above, Landlord shall promptly restore the Premises and the Project as nearly as is commercially reasonable under the circumstances to their condition prior to such partial Taking and the rentable square footage of the Building, the rentable square footage of the Premises, Tenant's Share of Operating Expenses and the Rent payable hereunder during the unexpired Term shall be reduced to such extent as may be fair and reasonable under the circumstances. Upon any such Taking, Landlord shall be entitled to receive the entire price or award

from any such Taking without any payment to Tenant, and Tenant hereby assigns to Landlord Tenant's interest, if any, in such award. Tenant shall have the right, to the extent that same shall not diminish Landlord's award, to make a separate claim against the condemning authority (but not Landlord) for such compensation as may be separately awarded or recoverable by Tenant for moving expenses and damage to Tenant's trade fixtures, if a separate award for such items is made to Tenant. Tenant hereby waives any and all rights it might otherwise have pursuant to any provision of state law to terminate this Lease upon a partial Taking of the Premises or the Project.

20. **Events of Default**. Each of the following events shall be a default ("**Default**") by Tenant under this Lease:

(a) **Payment Defaults**. Tenant shall fail to pay any installment of Rent or any other payment hereunder when due; provided, however, that Tenant's first failure to pay any installment of Rent or any other payment hereunder otherwise due in any 12 calendar month period shall not constitute a Default unless such payment is not made within 5 days after written notice from Landlord to Tenant and Tenant agrees that such notice shall be in lieu of and not in addition to, or shall be deemed to be, any notice required by law.

(b) **Insurance**. Any insurance required to be maintained by Tenant pursuant to this Lease shall be canceled or terminated or shall expire or shall be reduced or materially changed, or Landlord shall receive a notice of nonrenewal of any such insurance and Tenant shall fail to obtain replacement insurance at least 20 days before the expiration of the current coverage.

(c) **Abandonment**. Tenant shall abandon the Premises.

(d) **Improper Transfer**. Tenant shall assign, sublease or otherwise transfer or attempt to transfer all or any portion of Tenant's interest in this Lease or the Premises except as expressly permitted herein, or Tenant's interest in this Lease shall be attached, executed upon, or otherwise judicially seized and such action is not released within 90 days of the action.

(e) **Liens**. Tenant shall fail to discharge or otherwise obtain the release of any lien placed upon the Premises in violation of this Lease within 10 days after any such lien is filed against the Premises.

(f) **Insolvency Events**. Tenant or any guarantor or surety of Tenant's obligations hereunder shall: (A) make a general assignment for the benefit of creditors; (B) commence any case, proceeding or other action seeking to have an order for relief entered on its behalf as a debtor or to adjudicate it a bankrupt or insolvent, or seeking, reorganization, arrangement, adjustment, liquidations, dissolution or composition of it or its debts or seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or of any substantial part of its property (collectively a "**Proceeding for Relief**"); (C) become the subject

of any Proceeding for Relief which is not dismissed within 90 days of its filing or entry; or (D) die or suffer a legal disability (if Tenant, guarantor, or surety is an individual) or be dissolved or otherwise fail to maintain its legal existence (if Tenant, guarantor or surety is a corporation, partnership or other entity).

(g) **Estoppel Certificate or Subordination Agreement**. Tenant fails to execute any document required from Tenant under Sections 23 or 27 within 5 days after a second notice requesting such document.

(h) **Other Defaults**. Tenant shall fail to comply with any provision of this Lease other than those specifically referred to in this Section 20, and, except as otherwise expressly provided herein, such failure shall continue for a period of 10 days after written notice thereof from Landlord to Tenant.

(i) **Nodality Sublease**. A default beyond applicable cure periods by Tenant under the Nodality Sublease and/or the Current Premises Consent Agreement prior to the Current Premises Commencement Date which remains uncured.

(j) **Poniard Sublease**. A default beyond applicable cure periods by Tenant under the Poniard Sublease and/or the Expansion Premises Consent Agreement prior to the Expansion Premises Commencement Date which remains uncured.

Any notice given under Section 20(h) hereof shall: (i) specify the alleged default, (it) demand that Tenant cure such default, (iii) be in lieu of, and not in addition to, or shall be deemed to be, any notice required under any provision of applicable law, and (iv) not be deemed a forfeiture or a termination of this Lease unless Landlord elects otherwise in such notice; provided that if the nature of Tenant's default pursuant to Section 20(h) is such that it cannot be cured by the payment of money and reasonably requires more than 10 days to cure, then Tenant shall not be deemed to be in default if Tenant commences such cure within said 10 day period and thereafter diligently prosecutes the same to completion; provided, however, that such cure shall be completed no later than 30 days from the date of Landlord's notice.

21. **Landlord's Remedies**.

(a) **Payment By Landlord; Interest**. Upon a Default by Tenant hereunder, Landlord may, without waiving or releasing any obligation of Tenant hereunder, make such payment or perform such act. All sums so paid or incurred by Landlord, together with interest thereon, from the date such sums were paid or incurred, at the annual rate equal to 12% per annum or the highest rate permitted by law (the "**Default Rate**"), whichever is less, shall be payable to Landlord on demand as Additional Rent. Nothing herein shall be construed to create or impose a duty on Landlord to mitigate any damages resulting from Tenant's Default hereunder.

(b) **Late Payment Rent**. Late payment by Tenant to Landlord of Rent and other sums due will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult and impracticable to ascertain. Such costs include, but are not limited to, processing and accounting charges and late charges which may be imposed on Landlord under any Mortgage covering the Premises. Therefore, if any installment of Rent due from Tenant is not received by Landlord within 5 days after the date such payment is due, Tenant shall pay to Landlord an additional sum equal to 6% of the overdue Rent as a late charge. Notwithstanding the foregoing, before assessing a late charge the first time in any calendar year, Landlord shall provide Tenant written notice of the delinquency and will waive the right if Tenant pays such delinquency within 5 days thereafter. The parties agree that this late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of late payment by Tenant. In addition to the late charge, Rent not paid when due shall bear interest at the Default Rate from the 5th day after the date due until paid.

(c) **Remedies**. Upon the occurrence of a Default, Landlord, at its option, without further notice or demand to Tenant, shall have in addition to all other rights and remedies provided in this Lease, at law or in equity, the option to pursue any one or more of the following remedies, each and all of which shall be cumulative and nonexclusive, without any notice or demand whatsoever.

(i) Terminate this Lease, or at Landlord's option, Tenant's right to possession only, 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, 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 or damages therefor;

(ii) Upon any termination of this Lease, whether pursuant to the foregoing Section 21(c)(i) or otherwise, Landlord may recover from Tenant the following:

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

(B) 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

(C) 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

(D) 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; and

(E) At Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law.

The term "**rent**" as used in this Section 21 shall be deemed to be and to mean all sums of every nature required to be paid by Tenant pursuant to the terms of this Lease, whether to Landlord or to others. As used in Sections 21(c)(ii) (A) and (B), above, the "**worth at the time of award**" shall be computed by allowing

interest at the Default Rate. As used in Section 21(c)(ii)(C) 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 1%.

(iii) Landlord may continue this Lease in effect after Tenant's Default and recover rent as it becomes due (Landlord and Tenant hereby agreeing that Tenant has the right to sublet or assign hereunder, subject only to reasonable limitations). Accordingly, if Landlord does not elect to terminate this Lease following a Default by Tenant, Landlord may, from time to time, without terminating this Lease, enforce all of its rights and remedies hereunder, including the right to recover all Rent as it becomes due.

(iv) Whether or not Landlord elects to terminate this Lease following a Default by Tenant, Landlord shall have the right to terminate any and all subleases, licenses, concessions or other consensual arrangements for possession entered into by Tenant and affecting the Premises or may, in Landlord's sole discretion, succeed to Tenant's interest in such subleases, licenses, concessions or arrangements. Upon Landlord's election to succeed to Tenant's interest in any such subleases, licenses, concessions or arrangements, Tenant shall, as of the date of notice by Landlord of such election, have no further right to or interest in the rent or other consideration receivable thereunder.

(v) Independent of the exercise of any other remedy of Landlord hereunder or under applicable law, Landlord may conduct an environmental test of the Premises as generally described in Section 30(d) hereof, at Tenant's expense.

(d) **Effect of Exercise**. Exercise by Landlord of any remedies hereunder or otherwise available shall not be deemed to be an acceptance of surrender of the Premises and/or a termination of this Lease by Landlord, it being understood that such surrender and/or termination can be effected only by the express written agreement of Landlord and Tenant. Any law, usage, or custom to the contrary notwithstanding, Landlord shall have the right at all times to enforce the provisions of this Lease in strict accordance with the terms hereof; and the failure of Landlord at any time to enforce its rights under this

Lease strictly in accordance with same shall not be construed as having created a custom in any way or manner contrary to the specific terms, provisions, and covenants of this Lease or as having modified the same and shall not be deemed a waiver of Landlord's right to enforce one or more of its rights in connection with any subsequent default. A receipt by Landlord of Rent or other payment with knowledge of the breach of any covenant hereof shall not be deemed a waiver of such breach, and no waiver by Landlord of any provision of this Lease shall be deemed to have been made unless expressed in writing and signed by Landlord. Following a Default by Tenant under this Lease and Tenant's failure to cure such Default within the applicable cure period prescribed in this Lease, to the greatest extent permitted by law, Tenant waives the service of notice of Landlord's intention to re-enter, re-take or otherwise obtain possession of the Premises as provided in any statute, or to institute legal proceedings to that end, and also waives all right of redemption in case Tenant shall be dispossessed by a judgment or by warrant of any court or judge. Any reletting of the Premises or any portion thereof shall be on such terms and conditions as Landlord in its sole discretion may determine. Landlord shall not be liable for, nor shall Tenant's obligations hereunder be diminished because of, Landlord's failure to relet the Premises or collect rent due in respect of such reletting or otherwise to mitigate any damages arising by reason of Tenant's Default.

22. **Assignment and Subletting.**

(a) **General Prohibition.** Without Landlord's prior written consent subject to and on the conditions described in this Section 22, Tenant shall not, directly or indirectly, voluntarily or by operation of law, assign this Lease or sublease the Premises or any part thereof or mortgage, pledge, or hypothecate its leasehold interest or grant any concession or license within the Premises, and any attempt to do any of the foregoing shall be void and of no effect. If Tenant is a corporation, partnership or limited liability company, the shares or other ownership interests thereof which are not actively traded upon a stock exchange or in the over-the-counter market, a transfer or series of transfers whereby 49% or more of the issued and outstanding shares or other ownership interests of such corporation are, or voting control is, transferred (but excepting transfers upon deaths of individual owners) from a person or persons or entity or entities which were owners thereof at time of execution of this Lease to persons or entities who were not owners of shares or other ownership interests of the corporation, partnership or limited liability company at time of execution of this Lease, shall be deemed an assignment of this Lease requiring the consent of Landlord as provided in this Section 22. Notwithstanding the foregoing, (a) any public offering of shares or other ownership interest in Tenant shall not be deemed an assignment and (b) Tenant shall have the right to obtain financing from investors (including venture capital funding and corporate partners) which results in a change in control of Tenant without such change of control constituting an assignment under this Section 22 requiring Landlord consent, provided that (i) Tenant notifies Landlord in writing of the financing at least 5 business days prior to the closing of the financing, and (ii) provided that in no event shall such financing result in a change in use of the Premises from the use contemplated by Tenant at the commencement of the Term.

(b) **Permitted Transfers.** If Tenant desires to assign, sublease, hypothecate or otherwise transfer this Lease or sublet the Premises other than pursuant to a Permitted Assignment (as defined below), then at least 15 business days, but not more than 45 business days, before the date Tenant desires the assignment or sublease to be effective (the "**Assignment Date**"), Tenant shall give Landlord a notice (the "**Assignment Notice**") containing such information about the proposed assignee or sublessee, including the proposed use of the Premises and any Hazardous Materials proposed to be used, stored handled, treated, generated in or released or disposed of from the Premises, the Assignment Date, any relationship between Tenant and the proposed assignee or sublessee, and all material terms and conditions of the proposed assignment or sublease, including a copy of any proposed assignment or sublease in its final form, and such other information as Landlord may deem reasonably necessary or appropriate to its consideration whether to grant its consent. Landlord may, by giving written notice to Tenant within 15 business days after receipt of the Assignment Notice: (i) grant such consent, (ii) refuse such consent, in its reasonable discretion, or (iii) terminate this Lease with respect to the space described in the Assignment Notice as of the Assignment Date (an "**Assignment Termination**"). Among other reasons, it shall be reasonable for Landlord to withhold its consent in any of these circumstances: (1) the proposed assignee or subtenant is a governmental agency; (2) in Landlord's reasonable judgment,

the use of the Premises by the proposed assignee or subtenant would entail any alterations that would lessen the value of the leasehold improvements in the Premises, or would require increased services by Landlord; (3) in Landlord's reasonable judgment, the proposed assignee or subtenant is engaged in areas of scientific research or other business concerns that are controversial; (4) in Landlord's reasonable judgment, the proposed assignee or subtenant lacks the creditworthiness to support the financial obligations it will incur under the proposed assignment or sublease; (5) in Landlord's reasonable judgment, the proposed assignee or subtenant is inconsistent with the desired tenant-mix or quality of other tenancies in the Project or is inconsistent with the type and quality of the nature of the Building; (6) Landlord has received from any prior landlord to the proposed assignee or subtenant a negative report concerning such prior landlord's experience with the proposed assignee or subtenant; (7) Landlord has experienced previous defaults by or is in litigation with the proposed assignee or subtenant; (8) the use of the Premises by the proposed assignee or subtenant will violate any applicable Legal Requirements; (9) the proposed assignee or subtenant is an entity with whom Landlord has agreed to a letter of intent to lease space in the Project; or (10) the proposed assignment or sublease is prohibited by Landlord's lender. If Landlord delivers notice of its election to exercise an Assignment Termination, Tenant shall have the right to withdraw such Assignment Notice by

written notice to Landlord of such election within 5 business days after Landlord's notice electing to exercise the Assignment Termination. If Tenant withdraws such Assignment Notice, this Lease shall continue in full force and effect. If Tenant does not withdraw such Assignment Notice, this Lease, and the term and estate herein granted, shall terminate as of the Assignment Date. No failure of Landlord to exercise any such option to terminate this Lease, or to deliver a timely notice in response to the Assignment Notice, shall be deemed to be Landlord's consent to the proposed assignment, sublease or other transfer. Tenant shall pay to Landlord a fee equal to One Thousand Five Hundred Dollars ($1,500) in connection with its consideration of any Assignment Notice and/or its preparation or review of any consent documents.

Notwithstanding the foregoing, (i) Landlord's consent to an assignment of this Lease or a subletting of any portion of the Premises to any entity controlling, controlled by or under common control with Tenant shall not be required, provided that Landlord shall have the right to approve the form of any such sublease or assignment, which consent shall not be unreasonably withheld or delayed, and (ii) Tenant shall have the right to undergo a deemed assignment due to change in control or assign this Lease, upon 30 days prior written notice to Landlord but without obtaining Landlord's prior written consent, to a corporation or other entity which is a successor-in-interest to Tenant, by way of merger, consolidation or corporate reorganization, or by the purchase of all or substantially all of the assets or the ownership interests of Tenant provided that (A) such merger or consolidation, or such acquisition or assumption, as the case may be, is for a good business purpose and not principally for the purpose of transferring the Lease, and (B) the net worth (as determined in accordance with generally accepted accounting principles ("**GAAP**")) of the assignee is not less than the net worth (as determined in accordance with GAAP) of Tenant as of the date of Tenant's most current quarterly or annual financial statements, and (C) such assignee shall agree in writing to assume all of the terms, covenants and conditions of this Lease arising after the effective date of the assignment (a "**Permitted Assignment**"). Notwithstanding anything in this Section 22(b) to the contrary, Landlord shall not have the right to elect an Assignment Termination in connection with a Permitted Assignment.

(c) **Additional Conditions.** As a condition to any such assignment or subletting, whether or not Landlord's consent is required, Landlord may require:

(i) that any assignee or subtenant agree, in writing at the time of such assignment or subletting, that if Landlord gives such party notice that Tenant is in default under this Lease, such party shall thereafter make all payments otherwise due Tenant directly to Landlord, which payments will be received by Landlord without any liability except to credit such payment against those due under the Lease, and any such third party shall agree to attorn to Landlord or its successors and assigns should this Lease be terminated for any reason; provided, however, in no event shall Landlord or its successors or assigns be obligated to accept such attornment; and

(ii) A list of Hazardous Materials, certified by the proposed assignee or sublessee to be true and correct, which the proposed assignee or sublessee intends to use, store, handle,

treat, generate in or release or dispose of from the Premises, together with copies of all documents relating to such use, storage, handling, treatment, generation, release or disposal of Hazardous Materials by the proposed assignee or subtenant in the Premises or on the Project, prior to the proposed assignment or subletting, including, without limitation: permits; approvals; reports and correspondence; storage and management plans; plans relating to the installation of any storage tanks to be installed in or under the Project (provided, said installation of tanks shall only be permitted after Landlord has given its written consent to do so, which consent may be withheld in Landlord's sole and absolute discretion); and all closure plans or any other documents required by any and all federal, state and local Governmental Authorities for any storage tanks installed in, on or under the Project for the closure of any such tanks. Neither Tenant nor any such proposed assignee or subtenant is required, however, to provide Landlord with any portion(s) of the such documents containing information of a proprietary nature which, in and of themselves, do not contain a reference to any Hazardous Materials or hazardous activities.

(d) **No Release of Tenant, Sharing of Excess Rents.** Notwithstanding any assignment or subletting, Tenant and any guarantor or surety of Tenant's obligations under this Lease shall at all times remain fully and primarily responsible and liable for the payment of Rent and for compliance with all of Tenant's other obligations under this Lease. Except with respect to a Permitted Assignment, if the Rent due and payable by a sublessee or assignee (or a combination of the rental payable under such sublease or assignment plus any bonus or other consideration therefor or incident thereto in any form attributable to the assignment of sublease) exceeds the sum of the rental payable under this Lease, (excluding however, any Rent payable under this Section and actual and reasonable brokerage fees, legal costs and any design or construction fees directly related to and required pursuant to the terms of any such sublease) ("**Excess Rent**"), then Tenant shall be bound and obligated to pay Landlord as Additional Rent hereunder 50% of such Excess Rent within 10 days following receipt thereof by Tenant. If Tenant shall sublet the Premises or any part thereof, Tenant hereby immediately and irrevocably assigns to Landlord, as security for Tenant's obligations under this Lease, all rent from any such subletting, and Landlord as assignee and as attorney-in-fact for Tenant, or a receiver for Tenant appointed on Landlord's application, may collect such rent and apply it toward Tenant's obligations under this Lease; except that, until the occurrence of a Default, Tenant shall have the right to collect such rent.

(e) **No Waiver.** The consent by Landlord to an assignment or subletting shall not relieve Tenant or any assignees of this Lease or any sublessees of the Premises from obtaining the consent of Landlord to any further assignment or subletting nor shall it release Tenant or any assignee or sublessee of Tenant from full and primary liability under the Lease. The acceptance of Rent hereunder, or the acceptance of performance of any other term, covenant, or condition thereof, from any other person or entity shall not be deemed to be a waiver of any of the provisions of this Lease or a consent to any subletting, assignment or other transfer of the Premises.

(f) **Prior Conduct of Proposed Transferee.** Notwithstanding any other provision of this Section 22, if (i) the proposed assignee or sublessee of Tenant has been required by any prior landlord, lender or Governmental Authority to take remedial action in connection with Hazardous Materials contaminating a property, where the contamination resulted from such party's action or use of the property in question, (ii) the proposed assignee or sublessee is subject to an enforcement order issued by any Governmental Authority in connection with the use, storage, handling, treatment, generation, release or disposal of Hazardous Materials (including, without limitation, any order related to the failure to make a required reporting to any Governmental Authority), or (iii) because of the existence of a pre-existing environmental condition in the vicinity of or underlying the Project, the risk that Landlord would be targeted as a responsible party in connection with the remediation of such pre-existing environmental condition would be materially increased or exacerbated by the proposed use of Hazardous Materials by such proposed assignee or sublessee, Landlord shall have the absolute right to refuse to consent to any assignment or subletting to any such party.

23. **Estoppel Certificate.** Tenant shall, within 10 business days of written notice from Landlord, execute, acknowledge and deliver a statement in writing in any form reasonably requested by a proposed lender or purchaser, (i) certifying that this Lease is unmodified and in full force and effect (or, if

modified, stating the nature of such modification and certifying that this Lease as so modified is in full force and effect) and the dates to which the rental and other charges are paid in advance, if any, (ii) acknowledging that there are not any uncured defaults on the part of Landlord hereunder, or specifying such defaults if any are claimed, and (iii) setting forth such further information with respect to the status of this Lease or the Premises as may be requested thereon. Any such statement may be relied upon by any prospective purchaser or encumbrancer of all or any portion of the real property of which the Premises are a part. Tenant's failure to deliver such statement within such time shall, at the option of Landlord, constitute a Default under this Lease after the expiration of the notice and cure period set forth in Section 20(g), and, in any event, shall be conclusive upon Tenant that the Lease is in full force and effect and without modification except as may be represented by Landlord in any certificate prepared by Landlord and delivered to Tenant for execution.

24. **Quiet Enjoyment.** So long as Tenant is not in Default under this Lease, Tenant shall, subject to the terms of this Lease, at all times during the Term, have peaceful and quiet enjoyment of the Premises against any person claiming by, through or under Landlord.

25. **Prorations.** All prorations required or permitted to be made hereunder shall be made on the basis of a 360 day year and 30 day months.

26. **Rules and Regulations.** Tenant shall, at all times during the Term and any extension thereof, comply with all reasonable rules and regulations at any time or from time to time established by Landlord covering use of the Premises and the Project. The current rules and regulations are attached hereto as **Exhibit E**. If there is any conflict between said rules and regulations and other provisions of this Lease, the terms and provisions of this Lease shall control. Landlord shall not have any liability or obligation for the breach of any rules or regulations by other tenants in the Project and shall not enforce such rules and regulations in a discriminatory manner.

27. **Subordination.** This Lease and Tenant's interest and rights hereunder are hereby made and shall be subject and subordinate at all times to the lien of any Mortgage now existing or hereafter created on or against the Project or the Premises, and all amendments, restatements, renewals, modifications, consolidations, refinancing, assignments and extensions thereof, without the necessity of any further instrument or act on the part of Tenant; provided, however that so long as there is no Default hereunder, Tenant's right to possession of the Premises shall not be disturbed by the Holder of any such Mortgage. Tenant agrees, at the election of the Holder of any such Mortgage, to attorn to any such Holder. Tenant agrees upon demand to execute, acknowledge and deliver such instruments, confirming such subordination, and such instruments of attornment as shall be requested by any such Holder, provided any such instruments contain appropriate non-disturbance provisions assuring Tenant's quiet enjoyment of the Premises as set forth in Section 24 hereof. Notwithstanding the foregoing, any such Holder may at any time subordinate its Mortgage to this Lease, without Tenant's consent, by notice in writing to Tenant, and thereupon this Lease shall be deemed prior to such Mortgage without regard to their respective dates of execution, delivery or recording and in that event such Holder shall have the same rights with respect to this Lease as though this Lease had been executed prior to the execution, delivery and recording of such Mortgage and had been assigned to such Holder. The term "**Mortgage**" whenever used in this Lease shall be deemed to include deeds of trust, security assignments and any other encumbrances, and any reference to the "**Holder**" of a Mortgage shall be deemed to include the beneficiary under a deed of trust.

28. **Surrender.** Upon the expiration of the Term or earlier termination of Tenant's right of possession, Tenant shall surrender to Landlord (i) the Current Premises in the same condition as existed on April 15, 2008 (i.e. the commencement date under the Nodality Sublease), subject to any Alterations or Installations permitted by Landlord to remain in the Current Premises (including Landlord's Work which may remain in the Current Premises), free of Hazardous Materials brought upon, kept, used, stored, handled, treated, generated in, or released or disposed of from, the Current Premises on or after the April 15, 2008 by any person other than a Landlord Party (collectively, "**Current Premises Tenant HazMat Operations**") and released of all Hazardous Materials Clearances, broom clean, ordinary wear and tear and casualty loss and condemnation covered by Sections 18 and 19 excepted and (ii) the Expansion

Premises in the same conditions as existed on the Lease Date (i.e. the commencement date under the Poniard Sublease), subject to any Alterations or Installations permitted by Landlord to remain in the Expansion Premises (including Landlord's Work which may remain in the Expansion Premises), free of Hazardous Materials brought upon, kept, used, stored, handled, treated, generated in, or released or disposed of from, the Expansion Premises on or after the Lease Date by any person other than a Landlord Party (collectively, "**Expansion Premises Tenant HazMat Operations**" and together with Current Premises Tenant HazMat operations, "**Tenant HazMat Operations**") and released of all Hazardous Materials Clearances, broom clean, ordinary wear and tear and casualty loss and condemnation covered by Sections 18 and 19 excepted. At least 3 months prior to the surrender of the Premises, Tenant shall deliver to Landlord a narrative description of the actions proposed (or required by any Governmental Authority) to be taken by Tenant in order to surrender the Premises (including any Installations permitted by Landlord to remain in the Premises) at the expiration or earlier termination of the Term, free from any residual impact from the Tenant HazMat Operations and otherwise released for unrestricted use and occupancy (the "**Surrender Plan**"). Such Surrender Plan shall be accompanied by a current listing of (i) all Hazardous Materials licenses and permits held by or on behalf of any Tenant Party with respect to the Premises, and (ii) all Hazardous Materials used, stored, handled, treated, generated, released or disposed of from the Premises, and shall be subject to the review and approval of Landlord's environmental consultant, such approval not to be unreasonably withheld or delayed. In connection with the review and approval of the Surrender Plan, upon the request of Landlord, Tenant shall deliver to Landlord or its consultant such additional non-proprietary information concerning Tenant HazMat Operations as Landlord shall request. On or before such surrender, Tenant shall deliver to Landlord evidence that the approved Surrender Plan shall have been satisfactorily completed and Landlord shall have the right, subject to reimbursement at Tenant's expense as set forth below, to cause Landlord's environmental consultant to inspect the Premises and perform such additional procedures as may be deemed reasonably necessary to confirm that the Premises are, as of the effective date of such surrender or early termination of the Lease, free from any residual impact from Tenant HazMat Operations. Tenant shall reimburse Landlord, as Additional Rent, for the actual reasonable out-of pocket expense incurred by Landlord for Landlord's environmental consultant to review and approve the Surrender Plan and to visit the Premises and verify satisfactory completion of the same, which cost shall not exceed $2,500. Landlord shall have the unrestricted right to deliver such Surrender Plan and any report by Landlord's environmental consultant with respect to the surrender of the Premises to third parties.

If Tenant shall fail to prepare or submit a Surrender Plan approved by Landlord, or if Tenant shall fail to complete the approved Surrender Plan, or if such Surrender Plan, whether or not approved by Landlord, shall fail to adequately address any residual effect of Tenant HazMat Operations in, on or about the Premises, Landlord shall have the right to take such actions as Landlord may deem reasonable or appropriate to assure that the Premises and the Project are surrendered free from any residual impact from Tenant HazMat Operations, the cost of which actions shall be reimbursed by Tenant as Additional Rent, without regard to the limitation set forth in the first paragraph of this Section 28.

Tenant shall immediately return to Landlord all keys and/or access cards to parking, the Project, restrooms or all or any portion of the Premises furnished to or otherwise procured by Tenant. If any such access card or key is lost, Tenant shall pay to Landlord, at Landlord's election, either the cost of replacing such lost access card or key or the cost of reprogramming the access security system in which such access card was used or changing the lock or locks opened by such lost key. Any Tenant's Property, Alterations and property not so removed by Tenant as permitted or required herein shall be deemed abandoned and may be stored, removed, and disposed of by Landlord at Tenant's expense, and Tenant waives all claims against Landlord for any damages resulting from Landlord's retention and/or disposition of such property. All obligations of Tenant hereunder not fully performed as of the termination of the Term, including the obligations of Tenant

under Section 30 hereof, shall survive the expiration or earlier termination of the Term, including, without limitation, indemnity obligations, payment obligations with respect to Rent and obligations concerning the condition and repair of the Premises.

29. **Waiver of Jury Trial.** TO THE EXTENT PERMITTED BY LAW, TENANT AND LANDLORD WAIVE ANY RIGHT TO TRIAL BY JURY OR TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE,

BETWEEN LANDLORD AND TENANT ARISING OUT OF THIS LEASE OR ANY OTHER INSTRUMENT, DOCUMENT, OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH OR THE TRANSACTIONS RELATED HERETO.

30. **Environmental Requirements.**

(a) **Prohibition/Compliance/Indemnity.** Tenant shall not cause or permit any Hazardous Materials (as hereinafter defined) to be brought upon, kept, used, stored, handled, treated, generated in or about, or released or disposed of from, the Premises or the Project in violation of applicable Environmental Requirements (as hereinafter defined) by Tenant or any Tenant Party. If Tenant breaches the obligation stated in the preceding sentence, or if the presence of Hazardous Materials in the Premises results in contamination of the Premises, the Project or any adjacent property or if contamination of the Premises, the Project or any adjacent property by Hazardous Materials brought into, kept, used, stored, handled, treated, generated in or about, or released or disposed of from, the Premises by anyone other than Landlord and Landlord's employees, agents and contractors otherwise occurs during the Term or any holding over, Tenant hereby indemnifies and shall defend and hold Landlord, its officers, directors, employees, agents and contractors harmless from any and all actions (including, without limitation, remedial or enforcement actions of any kind, administrative or judicial proceedings, and orders or judgments arising out of or resulting therefrom), costs, claims, damages (including, without limitation, punitive damages and damages based upon diminution in value of the Premises or the Project, or the loss of, or restriction on, use of the Premises or any portion of the Project), expenses (including, without limitation, attorneys', consultants' and experts' fees, court costs and amounts paid in settlement of any claims or actions), fines, forfeitures or other civil, administrative or criminal penalties, injunctive or other relief (whether or not based upon personal injury, property damage, or contamination of, or adverse effects upon, the environment, water tables or natural resources), liabilities or losses (collectively, "**Environmental Claims**") which arise as a result of such contamination. This indemnification of Landlord by Tenant includes, without limitation, costs incurred in connection with any investigation of site conditions or any cleanup, treatment, remedial, removal, or restoration work required by any federal, state or local Governmental Authority because of Hazardous Materials present in the air, soil or ground water above, on, or under the Premises. Without limiting the foregoing, if the presence of any Hazardous Materials on the Premises, the Project or any adjacent property caused by or permitted by Tenant or any Tenant Party results in any contamination of the Premises, the Project or any adjacent property, Tenant shall promptly take all actions at its sole expense and in accordance with applicable Environmental Requirements as are necessary to return the Premises, the Project or any adjacent property to the condition existing prior to the time of such contamination, provided that Landlord's approval of such action shall first be obtained, which approval shall not unreasonably be withheld so long as such actions would not potentially have any material adverse long-term or short-term effect on the Premises or the Project. Notwithstanding anything to the contrary contained in Section 28 or this Section 30, Tenant shall not be responsible for or have any liability to Landlord, and the indemnification and hold harmless obligation set forth in this paragraph shall not apply to Hazardous Materials in the Premises, which Hazardous Materials Tenant proves to Landlord's reasonable satisfaction (i) existed prior to April 15, 2008 (i.e. the commencement date under the Nodality Sublease), as to the Current Premises, and the Lease Date, as to the Expansion Premises, (ii) originated from any separately demised tenant space within the Project other than the Premises, (iii) were not brought upon, kept, used, stored, handled, treated, generated in, or released or disposed of from, the Project by Tenant or any Tenant Party, or (iv) migrated from outside the Premises into the Premises, unless in each case, to the extent the presence of such Hazardous Materials (x) is the result of a breach by Tenant of any of its obligations under this Lease, or (y) was caused, contributed to or exacerbated by Tenant or any Tenant Party.

(b) **Business.** Landlord acknowledges that it is not the intent of this Section 30 to prohibit Tenant from using the Premises for the Permitted Use. Tenant may operate its business according to prudent industry practices so long as the use or presence of Hazardous Materials is strictly and properly monitored according to all then applicable Environmental Requirements. As a material inducement to Landlord to allow Tenant to use Hazardous Materials in connection with its business, Tenant agrees to deliver to Landlord prior to April 1, 2010 a list identifying each type of Hazardous Materials to be brought upon, kept, used, stored, handled, treated, generated on, or released or disposed of from, the Premises

and setting forth any and all governmental approvals or permits required in connection with the presence, use, storage, handling, treatment, generation, release or disposal of such Hazardous Materials on or from the Premises ("**Hazardous Materials List**"). Tenant shall deliver to Landlord an updated Hazardous Materials List at least once a year and shall also deliver an updated list before any new Hazardous Material is brought onto, kept, used, stored, handled, treated, generated on, or released or disposed of from, the Premises. Tenant shall deliver to Landlord true and correct copies of the following documents (the "**Haz Mat Documents**") relating to the use, storage, handling, treatment, generation, release or disposal of Hazardous Materials prior to April 1, 2010 or if unavailable at that time, concurrent with the receipt from or submission to a Governmental Authority: permits; approvals; reports and correspondence; storage and management plans, notice of violations of any Legal Requirements; plans relating to the installation of any storage tanks to be installed in or under the Project (provided, said installation of tanks shall only be permitted after Landlord has given Tenant its written consent to do so, which consent may be withheld in Landlord's sole and absolute discretion); all closure plans or any other documents required by any and all federal, state and local Governmental Authorities for any storage tanks installed in, on or under the Project for the closure of any such tanks; and a Surrender Plan (to the extent surrender in accordance with Section 28 cannot be accomplished in 3 months). Tenant is not required, however, to provide Landlord with any portion(s) of the Haz Mat Documents containing information of a proprietary nature which, in and of themselves, do not contain a reference to any Hazardous Materials or hazardous activities. It is not the intent of this Section to provide Landlord with information which could be detrimental to Tenant's business should such information become possessed by Tenant's competitors.

(c) **Tenant Representation and Warranty.** Tenant hereby represents and warrants to Landlord that (i) neither Tenant nor any of its legal predecessors has been required by any prior landlord, lender or Governmental Authority at any time to take remedial action in connection with Hazardous Materials contaminating a property which contamination was permitted by Tenant of such predecessor or resulted from Tenant's or such predecessor's action or use of the property in question, and (ii) Tenant is not subject to any enforcement order issued by any Governmental Authority in connection with the use, storage, handling, treatment, generation, release or disposal of Hazardous Materials (including, without limitation, any order related to the failure to make a required reporting to any Governmental Authority). If Landlord determines that this representation and warranty was not true as of the date of this lease, Landlord shall have the right to terminate this Lease in Landlord's sole and absolute discretion.

(d) **Testing.** In accordance with the provisions of Section 32, Landlord shall have the right to conduct annual tests of the Premises to determine whether any contamination of the Premises or the Project has occurred as a result of Tenant's use. Tenant shall be required to pay the cost of such annual test of the Premises if there is a violation of this Section 30 or if contamination for which Tenant is responsible under this Section 30 is identified; provided, however, that if

Tenant conducts its own tests of the Premises using third party contractors and test procedures acceptable to Landlord which tests are certified to Landlord, Landlord shall accept such tests in lieu of the annual tests to be paid for by Tenant. In addition, at any time, and from time to time, prior to the expiration or earlier termination of the Term, Landlord shall have the right to conduct appropriate tests of the Premises and the Project to determine if contamination has occurred as a result of Tenant's use of the Premises. In connection with such testing, upon the request of Landlord, Tenant shall deliver to Landlord or its consultant such non-proprietary information concerning the use of Hazardous Materials in or about the Premises by Tenant or any Tenant Party. If contamination has occurred for which Tenant is liable under this Section 30, Tenant shall pay all costs to conduct such tests. If no such contamination is found, Landlord shall pay the costs of such tests (which shall not constitute an Operating Expense). Landlord shall provide Tenant with a copy of all third party, non-confidential reports and tests of the Premises made by or on behalf of Landlord during the Term without representation or warranty and subject to a confidentiality agreement. Tenant shall, at its sole cost and expense, promptly and satisfactorily remediate any environmental conditions identified by such testing in accordance with all Environmental Requirements. Landlord's receipt of or satisfaction with any environmental assessment in no way waives any rights which Landlord may have against Tenant.

(e) **Underground Tanks.** If underground or other storage tanks storing Hazardous Materials located on the Premises or the Project are used by Tenant or are hereafter placed on the Premises or the Project by Tenant, Tenant shall install, use, monitor, operate, maintain, upgrade and manage such

storage tanks, maintain appropriate records, obtain and maintain appropriate insurance, implement reporting procedures, properly close any underground storage tanks, and take or cause to be taken all other actions necessary or required under applicable state and federal Legal Requirements, as such now exists or may hereafter be adopted or amended in connection with the installation, use, maintenance, management, operation, upgrading and closure of such storage tanks.

(f) **Tenant's Obligations.** Tenant's obligations under this Section 30 shall survive the expiration or earlier termination of the Lease. During any period of time after the expiration or earlier termination of this Lease required by Tenant or Landlord to complete the removal from the Premises of any Hazardous Materials (including, without limitation, the release and termination of any licenses or permits restricting the use of the Premises and the completion of the approved Surrender Plan), Tenant shall continue to pay the full Rent in accordance with this Lease for any portion of the Premises not relet by Landlord in Landlord's sole discretion, which Rent shall be prorated daily.

(g) **Definitions.** As used herein, the term "**Environmental Requirements**" means all applicable present and future statutes, regulations, ordinances, rules, codes, judgments, orders or other similar enactments of any Governmental Authority regulating or relating to health, safety, or environmental conditions on, under, or about the Premises or the Project, or the environment, including without limitation, the following: the Comprehensive Environmental Response, Compensation and Liability Act; the Resource Conservation and Recovery Act; and all state and local counterparts thereto, and any regulations or policies promulgated or issued thereunder. As used herein, the term "**Hazardous Materials**" means and includes any substance, material, waste, pollutant, or contaminant listed or defined as hazardous or toxic, or regulated by reason of its impact or potential impact on humans, animals and/or the environment under any Environmental Requirements, asbestos and petroleum, including crude oil or any fraction thereof, natural gas liquids, liquefied natural gas, or synthetic gas usable for fuel (or mixtures of natural gas and such synthetic gas). As defined in Environmental Requirements, Tenant is and shall be deemed to be the "**operator**" of Tenant's "**facility**" and the "**owner**" of all Hazardous Materials brought on the Premises by Tenant or any Tenant Party, and the wastes, by-products, or residues generated, resulting, or produced therefrom.

31. **Tenant's Remedies/Limitation of Liability.** Landlord shall not be in default hereunder unless Landlord fails to perform any of its obligations hereunder within 30 days after written notice from Tenant specifying such failure (unless such performance will, due to the nature of the obligation, require a period of time in excess of 30 days, then after such period of time as is reasonably necessary). Upon any default by Landlord, Tenant shall give notice by registered or certified mail to any Holder of a Mortgage covering the Premises and to any landlord of any lease of property in or on which the Premises are located and Tenant shall offer such Holder and/or landlord a reasonable opportunity to cure the default, including time to obtain possession of the Project by power of sale or a judicial action if such should prove necessary to effect a cure; provided Landlord shall have furnished to Tenant in writing the names and addresses of all such persons who are to receive such notices. All obligations of Landlord hereunder shall be construed as covenants, not conditions; and, except as may be otherwise expressly provided in this Lease, Tenant may not terminate this Lease for breach of Landlord's obligations hereunder.

All obligations of Landlord under this Lease will be binding upon Landlord only during the period of its ownership of the Premises and not thereafter. The term "**Landlord**" in this Lease shall mean only the owner for the time being of the Premises. Upon the transfer by such owner of its interest in the Premises, such owner shall thereupon be released and discharged from all obligations of Landlord thereafter accruing, but such obligations shall be binding during the Term upon each new owner for the duration of such owner's ownership.

32. **Inspection and Access.** Landlord and its agents, representatives, and contractors may enter the Premises at any reasonable time to inspect the Premises and to make such repairs as may be required or permitted pursuant to this Lease. Landlord and Landlord's representatives may enter the Premises during business hours on not less than 48 hours advance written notice (except in the case of emergencies in which case no such notice shall be required and such entry may be at any time) for the purpose of effecting any such repairs, inspecting the Premises, or showing the Premises to prospective

purchasers and, during the last year of the Term, to prospective tenants; provided, however, Landlord may show the Premises to prospective tenants only in the last 9 months of the Term. Landlord may erect a suitable sign on the Premises stating the Premises are available to let or that the Project is available for sale. Landlord may grant easements, make public dedications, designate Common Areas and create restrictions on or about the Premises, provided that no such easement, dedication, designation or restriction materially, adversely affects Tenant's use or occupancy of the Premises for the Permitted Use. At Landlord's request, Tenant shall execute such instruments as may be necessary for such easements, dedications or restrictions. Tenant shall at all times, except in the case of emergencies, have the right to escort Landlord or its agents, representatives, contractors or guests while the same are in the Premises, provided such escort does not materially and adversely affect Landlord's access rights hereunder.

33. **Security.** Tenant acknowledges and agrees that security devices and services, if any, while intended to deter crime may not in given instances prevent theft or other criminal acts and that Landlord is not providing any security services with respect to the Premises. Tenant agrees that Landlord shall not be liable to Tenant for, and Tenant waives any claim against Landlord with respect to, any loss by theft or any other damage suffered or incurred by Tenant in connection with any unauthorized entry into the Premises or any other breach of security with respect to the Premises. Tenant shall be solely responsible for the personal safety of Tenant's officers, employees, agents, contractors, guests and invitees while any such person is in, on or about the Premises and/or the Project. Tenant shall at Tenant's cost obtain insurance coverage to the extent Tenant desires protection against such criminal acts.

34. **Force Majeure.** Landlord shall not be responsible or liable for delays in the performance of its obligations hereunder when caused by, related to, or arising out of acts of God, sinkholes or subsidence, strikes, lockouts, or other labor disputes, embargoes, quarantines, weather, national, regional, or local disasters, calamities, or catastrophes, inability to obtain labor or materials (or reasonable substitutes therefor) at reasonable costs or failure of, or inability to obtain, utilities necessary for performance, governmental restrictions, orders, limitations, regulations, or controls, national emergencies, delay in issuance or revocation of permits, enemy or hostile governmental action, terrorism, insurrection, riots, civil disturbance or commotion, fire or other casualty, and other causes or events beyond the reasonable control of Landlord ("**Force Majeure**").

35. **Brokers.** Landlord and Tenant each represents and warrants that it has not dealt with any broker, agent or other person (collectively, "**Broker**") in connection with this transaction and that no Broker brought about this transaction, other than GVA Kidder Mathews. Landlord and Tenant each hereby agree to indemnify and hold the other harmless from and against any claims by any Broker, other than the broker, if any named in this Section 35, claiming a commission or other form of compensation by virtue of having dealt with Tenant or Landlord, as applicable, with regard to this leasing transaction. Landlord shall be responsible for all fees of Broker arising out of the execution of this Lease in accordance with the terms of a separate written agreement between Broker and Landlord.

36. **Limitation on Landlord's Liability.** NOTWITHSTANDING ANYTHING SET FORTH HEREIN OR IN ANY OTHER AGREEMENT BETWEEN LANDLORD AND TENANT TO THE CONTRARY: (A) LANDLORD SHALL NOT BE LIABLE TO TENANT OR ANY OTHER PERSON FOR (AND TENANT AND EACH SUCH OTHER PERSON ASSUME ALL RISK OF) LOSS, DAMAGE OR INJURY, WHETHER ACTUAL OR CONSEQUENTIAL TO: TENANT'S PERSONAL PROPERTY OF EVERY KIND AND DESCRIPTION, INCLUDING, WITHOUT LIMITATION TRADE FIXTURES, EQUIPMENT, INVENTORY, SCIENTIFIC RESEARCH, SCIENTIFIC EXPERIMENTS, LABORATORY ANIMALS, PRODUCT, SPECIMENS, SAMPLES, AND/OR SCIENTIFIC, BUSINESS, ACCOUNTING AND OTHER RECORDS OF EVERY KIND AND DESCRIPTION KEPT AT THE PREMISES AND ANY AND ALL INCOME DERIVED OR DERIVABLE THEREFROM; (B) THERE SHALL BE NO PERSONAL RECOURSE TO LANDLORD FOR ANY ACT OR OCCURRENCE IN, ON OR ABOUT THE PREMISES OR ARISING IN ANY WAY UNDER THIS LEASE OR ANY OTHER AGREEMENT BETWEEN LANDLORD AND TENANT WITH RESPECT TO THE SUBJECT MATTER HEREOF AND ANY LIABILITY OF LANDLORD HEREUNDER SHALL BE STRICTLY LIMITED SOLELY TO LANDLORD'S INTEREST IN THE PROJECT OR ANY PROCEEDS FROM SALE OR CONDEMNATION THEREOF

AND ANY INSURANCE PROCEEDS PAYABLE IN RESPECT OF LANDLORD'S INTEREST IN THE PROJECT OR IN CONNECTION WITH ANY SUCH LOSS; AND (C) IN NO EVENT SHALL ANY PERSONAL LIABILITY BE ASSERTED AGAINST LANDLORD IN CONNECTION WITH THIS LEASE NOR SHALL ANY RECOURSE BE HAD TO ANY OTHER PROPERTY OR ASSETS OF LANDLORD OR ANY OF LANDLORD'S OFFICERS, DIRECTORS, EMPLOYEES, AGENTS OR CONTRACTORS. UNDER NO CIRCUMSTANCES SHALL LANDLORD OR ANY OF LANDLORD'S OFFICERS, DIRECTORS, EMPLOYEES, AGENTS OR CONTRACTORS BE LIABLE FOR INJURY TO TENANT'S BUSINESS OR FOR ANY LOSS OF INCOME OR PROFIT THEREFROM.

37. **Severability.** If any clause or provision of this Lease is illegal, invalid or unenforceable under present or future laws, then and in that event, it is the intention of the parties hereto that the remainder of this Lease shall not be affected thereby. It is also the intention of the parties to this Lease that in lieu of each clause or provision of this Lease that is illegal, invalid or unenforceable, there be added, as a part of this Lease, a clause or provision as similar in effect to such illegal, invalid or unenforceable clause or provision as shall be legal, valid and enforceable.

38. **Signs; Exterior Appearance.** Tenant shall not, without the prior written consent of Landlord, which may be granted or withheld in Landlord's sole discretion: (i) attach any awnings, exterior lights, decorations, balloons, flags, pennants, banners, painting or other projection to any outside wall of the Project, (ii) use any curtains, blinds, shades or screens other than Landlord's standard window coverings, (iii) coat or otherwise sunscreen the interior or exterior of any windows, (iv) place any bottles, parcels, or other articles on the window sills, (v) place any equipment, furniture or other items of personal property on any exterior balcony, or (vi) paint, affix or exhibit on any part of the Premises or the Project any signs, notices, window or door lettering, placards, decorations, or advertising media of any type which can be viewed from the exterior of the Premises. Interior signs on doors and the directory tablet shall be inscribed, painted or affixed for Tenant by Landlord at the sole cost and expense of Tenant, and shall be of a size, color and type acceptable to Landlord. Nothing may be placed on the exterior of corridor walls or corridor doors other than Landlord's standard lettering. The directory tablet shall be provided exclusively for the display of the name and location of tenants.

39. **Right to Extend Term.** Tenant shall have the right to extend the Term of the Lease upon the following terms and conditions:

(a) **Extension Rights.** Tenant shall have 1 right (the "**Extension Right**") to extend the term of this Lease for 3 years (the "**Extension Term**") on the same terms and conditions as this Lease (other than Base Rent) by giving Landlord written notice of its election to exercise the Extension Right at least 9 months prior, and no earlier than 12 months prior, to the expiration of the Base Term of the Lease.

Notwithstanding anything to the contrary contained in this Lease, if Tenant exercise its Extension Right hereunder, commencing on April 1, 2013, Tenant's Share of each earthquake deductible or occurrence of uninsured earthquake damage affecting the Premises shall not exceed $4.50 per rentable square foot of the Premises (the "**Extension Cap**"). On May 1, 2013, and on the first day of each month thereafter, the Extension Cap shall be reduced by $0.125 per rentable square foot of the Premises. Following earthquake damage to the Project during the Extension Term, Tenant shall pay Tenant's Share of any such deductible or uninsured damage in equal monthly installments amortized over the balance of the Term of the Lease.

Upon the commencement of the Extension Term, Base Rent shall be payable at the Market Rate (as defined below). Base Rent shall thereafter be adjusted on each annual anniversary of the commencement of such Extension Term (each an "**Adjustment Date**") by multiplying the Base Rent payable immediately before such Adjustment Date by a percentage as determined by Landlord and agreed to by Tenant at the time the Market Rate is determined. As used herein, "**Market Rate**" shall mean the then market rental rate as determined by Landlord and agreed to by Tenant.

If, on or before the date which is 120 days prior to the expiration of the Base Term of this Lease, Tenant has not agreed with Landlord's determination of the Market Rate and the rent escalations during the

applicable Extension Term after negotiating in good faith, Tenant shall be deemed to have elected arbitration as described in Section 39(b) below. Tenant acknowledges and agrees that, if Tenant has elected to exercise the Extension Right by delivering notice to Landlord as required in this Section 39(a), Tenant shall have no right thereafter to rescind or elect not to extend the term of the Lease for the Extension Term.

(b) **Arbitration.**

(i) Within 10 days of Tenant's notice to Landlord of its election (or deemed election) to arbitrate Market Rate and escalations, each party shall deliver to the other a proposal containing the Market Rate and escalations that the submitting party believes to be correct ("**Extension Proposal**"). If either party fails to timely submit an Extension Proposal, the other party's submitted proposal shall determine the Base Rent and escalations for the Extension Term. If both parties submit Extension Proposals, then Landlord and Tenant shall meet within 7 days after delivery of the last Extension Proposal and make a good faith attempt to mutually appoint a single Arbitrator (and defined below) to determine the Market Rate and escalations. If Landlord and Tenant are unable to agree upon a single Arbitrator, then each shall, by written notice delivered to the other within 10 days after the meeting, select an Arbitrator. If either party fails to timely give notice of its selection for an Arbitrator, the other party's submitted proposal shall determine the Base Rent and any escalations for the Extension Term. The 2 Arbitrators so appointed shall, within 5 business days after their appointment, appoint a third Arbitrator. If the 2 Arbitrators so selected cannot agree on the selection of the third Arbitrator within the time above specified, then either party, on behalf of both parties, may request such appointment of such third Arbitrator by application to any state court of general jurisdiction in the jurisdiction in which the Premises are located, upon 10 days prior written notice to the other party of such intent.

(ii) The decision of the Arbitrator(s) shall be made within 30 days after the appointment of a single Arbitrator or the third Arbitrator, as applicable. The decision of the single Arbitrator shall be final and binding upon the parties. The average of the two closest Arbitrators in a three Arbitrator panel shall be final and binding upon the parties. Each party shall pay the fees and expenses of the Arbitrator appointed by or on behalf of such party and the fees and expenses of the third Arbitrator shall be borne equally by both parties. If the Market Rate and escalations are not determined by the first day of the Extension Term, then Tenant shall pay Landlord Base Rent in an amount equal to the Base Rent in effect immediately prior to the Extension Term and increased by 3% until such determination is made. After the determination of the Market Rate and escalations, the parties shall make any necessary adjustments to such payments made by Tenant. Landlord and Tenant shall then execute an amendment recognizing the Base Rate and escalations for the Extension Term.

(iii) An "**Arbitrator**" shall be any person appointed by or on behalf of either party or appointed pursuant to the provisions hereof and: (i) shall be (A) a member of the American Institute of Real Estate Appraisers with not less than 10 years of experience in the appraisal of improved office and high tech industrial real estate in the South San Francisco, California area, or (B) a licensed commercial real estate broker with not less than 15 years experience representing landlords and/or tenants in the leasing of high tech or life sciences space in the South San Francisco, California area, (ii) devoting substantially all of their time to professional appraisal or brokerage work, as applicable, at the time of appointment and (iii) be in all respects impartial and disinterested.

(c) **Rights Personal.** The Extension Right is personal to Tenant and is not assignable without Landlord's consent, which may be granted or withheld in Landlord's sole discretion separate and apart from any consent by Landlord to an assignment of Tenant's interest in the Lease, except that they may be assigned in connection with any Permitted Assignment of this Lease.

(d) **Exceptions.** Notwithstanding anything set forth above to the contrary, the Extension Right shall not be in effect and Tenant may not exercise the Extension Right:

(i) during any period of time that Tenant is in Default under any provision of this Lease; or

(ii) if Tenant has been in Default under any provision of this Lease 3 or more times, whether or not the Defaults are cured, during the 12 month period immediately prior to the date that Tenant intends to exercise the Extension Right, whether or not the Defaults are cured.

(e) **No Extensions.** The period of time within which the Extension Right may be exercised shall not be extended or enlarged by reason of Tenant's inability to exercise the Extension Right.

(f) **Termination.** The Extension Right shall terminate and be of no further force or effect even after Tenant's due and timely exercise of the Extension Right, if, after such exercise, but prior to the commencement date of the Extension Term, (i) Tenant fails to timely cure any default by Tenant under this Lease; or (ii) Tenant has Defaulted 3 or more times during the period from the date of the exercise of the Extension Right to the date of the commencement of the Extension Term, whether or not such Defaults are cured.

40. **Miscellaneous.**

(a) **Notices.** All notices or other communications between the parties shall be in writing and shall be deemed duly given upon delivery or refusal to accept delivery by the addressee thereof if delivered in person, or upon actual receipt if delivered by reputable overnight guaranty courier, addressed and sent to the parties at their addresses set forth above. Landlord and Tenant may from time to time by written notice to the other designate another address for receipt of future notices.

(b) **Joint and Several Liability.** If and when included within the term "**Tenant**," as used in this instrument, there is more than one person or entity, each shall be jointly and severally liable for the obligations of Tenant.

(c) **Financial Information.** Tenant shall furnish Landlord with true and complete copies of (i) Tenant's most recent audited annual financial statements within 180 days of the end of each of Tenant's fiscal years during the Term, (ii) Tenant's most recent unaudited quarterly financial statements within 45 days of the end of each of Tenant's first three fiscal quarters of each of Tenant's fiscal years during the Term, and (iii) any other financial information or summaries that Tenant typically provides to its lenders. Notwithstanding the foregoing, in no event shall Tenant be required to provide any of the foregoing financial information to Landlord if Tenant does not otherwise prepare it (or cause it to be prepared) for its own purposes.

(d) **Recordation.** Neither this Lease nor a memorandum of lease shall be filed by or on behalf of Tenant in any public record. Landlord may prepare and file, and upon request by Landlord Tenant will execute, a memorandum of lease.

(e) **Interpretation.** The normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Lease or any exhibits or amendments hereto. Words of any gender used in this Lease shall be held and construed to include any other gender, and words in the singular number shall be held to include the plural, unless the context otherwise requires. The captions inserted in this Lease are

for convenience only and in no way define, limit or otherwise describe the scope or intent of this Lease, or any provision hereof, or in any way affect the interpretation of this Lease.

(f) **Not Binding Until Executed.** The submission by Landlord to Tenant of this Lease shall have no binding force or effect, shall not constitute an option for the leasing of the Premises, nor confer any right or impose any obligations upon either party until execution of this Lease by both parties.

(g) **Limitations on Interest.** It is expressly the intent of Landlord and Tenant at all times to comply with applicable law governing the maximum rate or amount of any interest payable on or in connection with this Lease. If applicable law is ever judicially interpreted so as to render usurious any interest called for under this Lease, or contracted for, charged, taken, reserved, or received with respect to this Lease, then it is Landlord's and Tenant's express intent that all excess amounts theretofore collected by Landlord be credited on the applicable obligation (or, if the obligation has been or would thereby be paid in full, refunded to Tenant), and the provisions of this Lease immediately shall be deemed reformed and the amounts thereafter collectible hereunder reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for hereunder.

(h) **Choice of Law.** Construction and interpretation of this Lease shall be governed by the internal laws of the state in which the Premises are located, excluding any principles of conflicts of laws.

(i) **Time.** Time is of the essence as to the performance of Tenant's obligations under this Lease.

(j) **OFAC.** Tenant, and all beneficial owners of Tenant, are currently (a) in compliance with and shall at all times during the Term of this Lease remain in compliance with the regulations of the Office of Foreign Assets Control ("**OFAC**") of the U.S. Department of Treasury and any statute, executive order, or regulation relating thereto (collectively, the "**OFAC Rules**"), (b) not listed on, and shall not during the term of this Lease be listed on, the Specially Designated Nationals and Blocked Persons List maintained by OFAC and/or on any other similar list maintained by OFAC or other governmental authority pursuant to any authorizing statute, executive order, or regulation, and (c) not a person or entity with whom a U.S. person is prohibited from conducting business under the OFAC Rules.

(k) **Incorporation by Reference.** All exhibits and addenda attached hereto are hereby incorporated into this Lease and made a part hereof. If there is any conflict between such exhibits or addenda and the terms of this Lease, such exhibits or addenda shall control.

(l) **No Accord and Satisfaction.** No payment by Tenant or receipt by Landlord of a lesser amount than the monthly installment of Base Rent or any Additional Rent will be other than on account of the earliest stipulated Base Rent and Additional Rent, nor will any endorsement or statement on any check or letter accompanying a check for payment of any Base Rent or Additional Rent be an accord and satisfaction. Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such Rent or to pursue any other remedy provided in this Lease.

(m) **Hazardous Activities.** Notwithstanding any other provision of this Lease, Landlord, for itself and its employees, agents and contractors, reserves the right to refuse to perform any repairs or services in any portion of the Premises which, pursuant to Tenant's routine safety guidelines, practices or custom or prudent industry practices, require any form of protective clothing or equipment other than safety glasses. In any such case, Tenant shall contract with parties who are acceptable to Landlord, in Landlord's reasonable discretion, for all such repairs and services, and Landlord shall, to the extent required, equitably adjust Tenant's Share of Operating Expenses in respect of such repairs or services to reflect that Landlord is not providing such repairs or services to Tenant.

(n) **Project Specific Requirements.** Tenant acknowledges that the use and operation of the Project are governed by, among other things, CC&Rs and Environmental CC&Rs, and Tenant acknowledges having reviewed copies of the same. Tenant agrees to comply with all of the terms of the CC&Rs and Environmental CC&Rs which are applicable to tenants of the Project including, without limitation, maintaining the insurance required under the Environmental CC&Rs. As used herein, (i) "**CC&Rs**" mean that certain Amended and Restated Declaration of Covenants, Conditions and Restrictions for Sierra Point recorded in the Official Records of San Mateo County on October 23, 1998, as amended, and (ii) "**Environmental CC&Rs**" mean that certain First Amended and Restated Declaration of Covenants, Conditions and Environmental Restrictions Relating to Environmental

Compliance for Sierra Point, recorded in the Official Records of San Mateo County on October 20, 1999 as Instrument No. 1999-176058.

[Signatures on next page]

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease as of the day and year first above written.

TENANT:

VERACYTE, INC.,
a Delaware corporation

By: /s/ Bonnie Anderson
Its: CEO

LANDLORD:

ARE-SAN FRANCISCO NO. 17, LLC,

a Delaware limited liability company

By: ALEXANDRIA REAL ESTATE EQUITIES, L.P.,
a Delaware limited partnership, its managing member

By: ARE-QRS CORP.,
a Maryland corporation,
its general partner

By: /s/ Gary Dean
GARY DEAN
Its: VP-RE LEGAL AFFAIRS

EXHIBIT A-1 TO LEASE

DESCRIPTION OF CURRENT PREMISES

(See attached)

[Floor Plan of Current Premises]

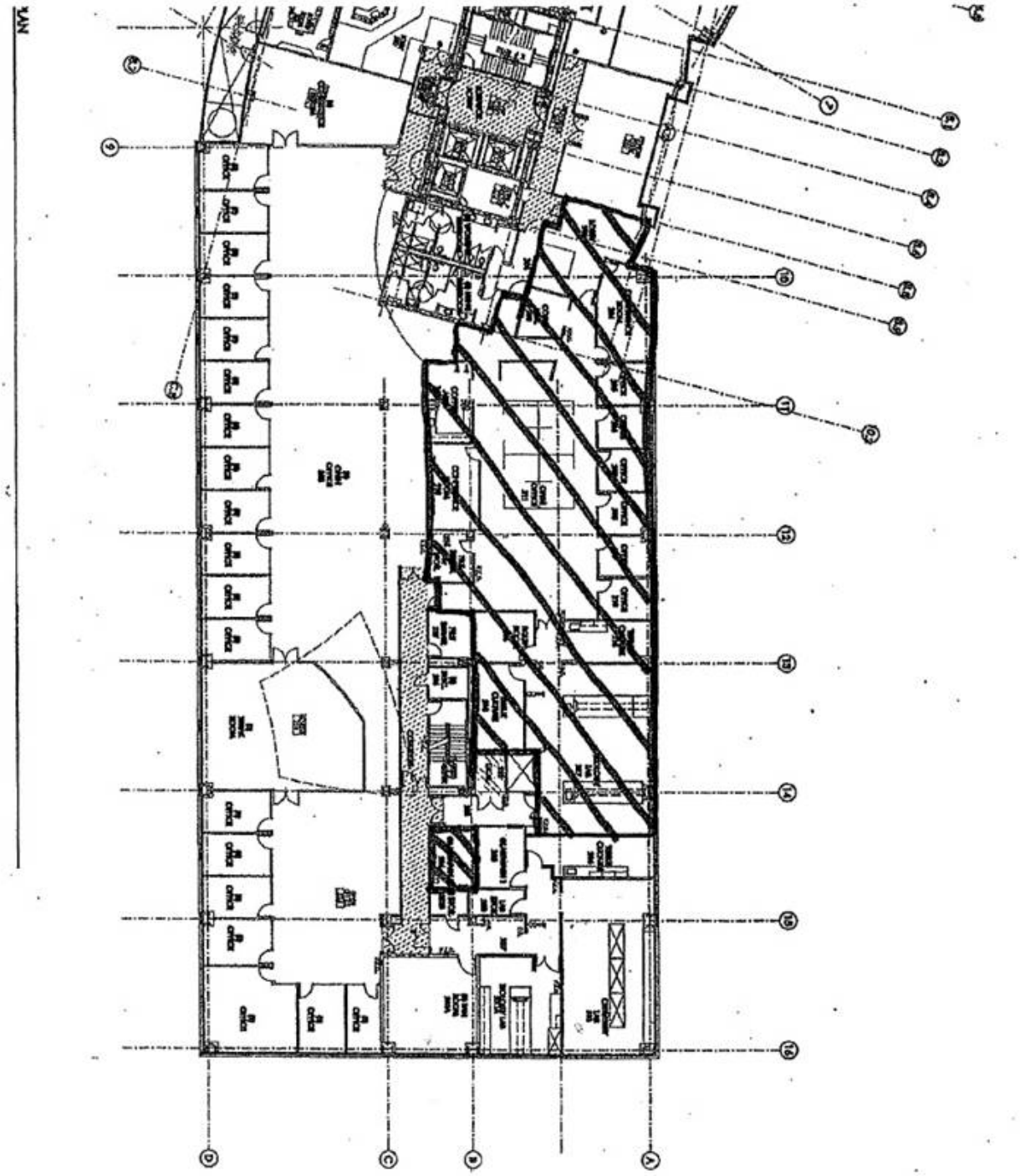

EXHIBIT A-2 TO LEASE

DESCRIPTION OF EXPANSION PREMISES

(See attached)

[Second Level Floor Plan]

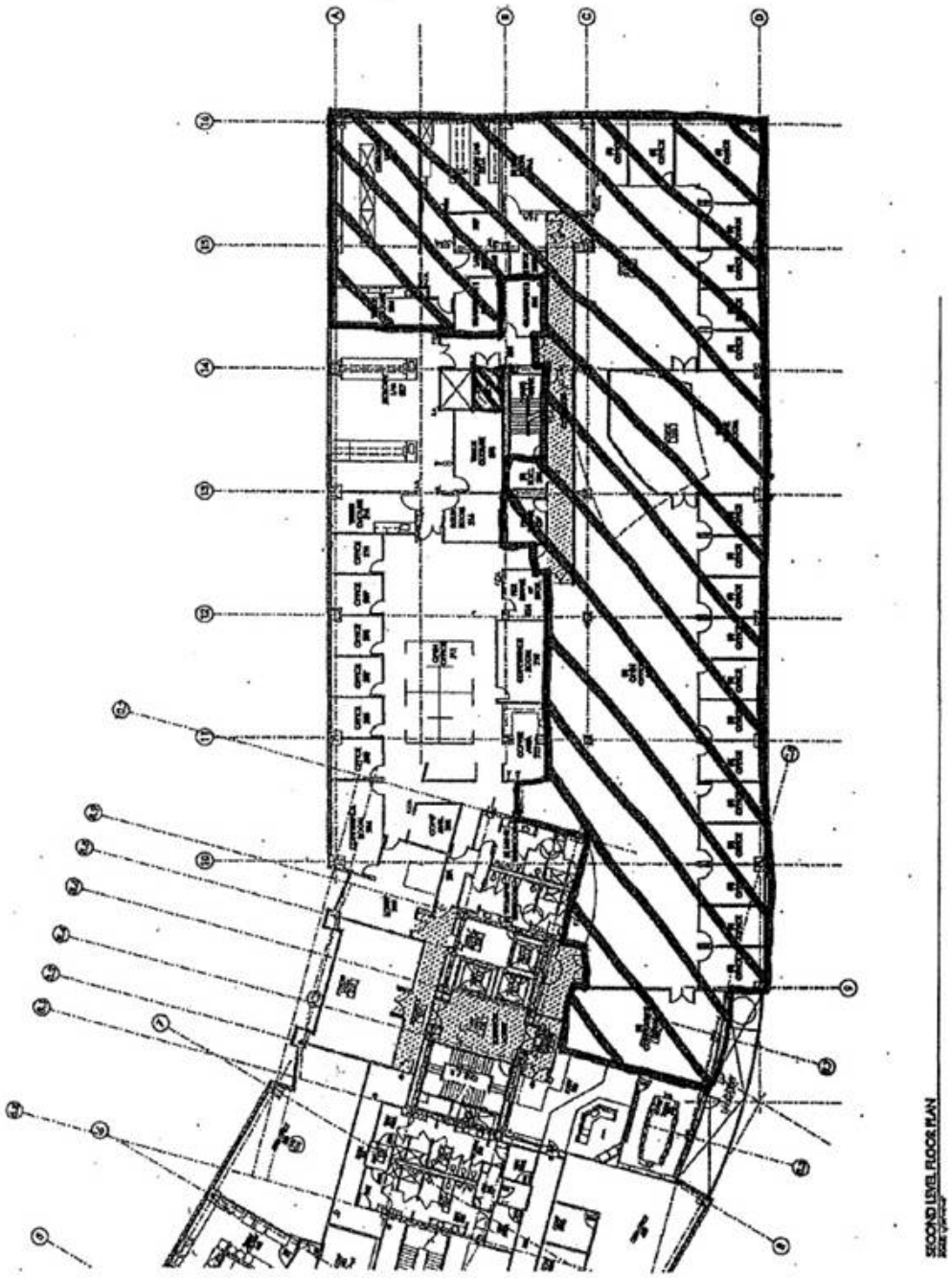

EXHIBIT B TO LEASE

DESCRIPTION OF PROJECT

CITY OF SOUTH SAN FRANCISCO

PARCEL 1:

PARCEL C, AS SHOWN ON THAT CERTAIN MAP ENTITLED, “PARCEL MAP 98-044 LANDS OF SIERRA POINT, LLC, CITY OF SOUTH SAN FRANCISCO”, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN MATEO COUNTY, STATE OF CALIFORNIA, ON AUGUST 6, 1999, IN BOOK 71 OF PARCEL MAPS, AT PAGE(S) 71 AND 72.

PARCEL 2:

THOSE CERTAIN ACCESS EASEMENTS AS DESCRIBED IN THE FIRST AMENDMENT TO AMENDED AND RESTATED DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS FOR SIERRA POINT RECORDED AUGUST 6, 1999, AS DOCUMENT NO. 1999-134787, AND RERECORDED OCTOBER 20 1999, AS DOCUMENT NO. 1999-176057.

ASSESSOR’S PARCEL NO. 015-010-570 JOINT PLANT NO. 015-001-010-02.04A

EXHIBIT C TO LEASE

WORK LETTER

THIS WORK LETTER (this "**Work Letter**") is made and entered into by and between ARE-SAN FRANCISCO NO. 17, LLC, a Delaware limited liability company ("**Landlord**"), and VERACYTE, INC., a Delaware corporation ("**Tenant**"), and is attached to and made a part of the Lease Agreement by and between Landlord and Tenant. Any initially capitalized terms used but not defined herein shall have the meanings given them in the Lease.

1. **General Requirements.**

(a) **Tenant's Authorized Representative.** Tenant designates Anne E. Sissel ("**Tenant's Representative**") as the only person authorized to act for Tenant pursuant to this Work Letter. Landlord shall not be obligated to respond to or act upon any request, approval, inquiry or other communication ("**Communication**") from or on behalf of Tenant in connection with this Work Letter unless such Communication is in writing from Tenant's Representative. Tenant may change Tenant's Representative at any time upon not less than 5 business days advance written notice to Landlord. Neither Tenant nor Tenant's Representative shall be authorized to direct Landlord's contractors in the performance of Landlord's Work (as hereinafter defined).

(b) **Landlord's Authorized Representative.** Landlord designates Radika Bunton, Todd Miller and Catie Paton (any such individual acting alone, "**Landlord's Representative**") as the only persons authorized to act for Landlord pursuant to this Work Letter. Tenant shall not be obligated to respond to or act upon any request, approval, inquiry or other Communication from or on behalf of Landlord in connection with this Work Letter unless such Communication is in writing from Landlord's Representative. Landlord may change any Landlord's Representative at any time upon not less than 5 business days advance written notice to Tenant. Landlord's Representative shall be the sole persons authorized to direct Landlord's contractors in the performance of Landlord's Work.

(c) **Architects, Consultants and Contractors.** Landlord and Tenant hereby acknowledge and agree that: (i) BN Builders shall be the general contractor ("**General Contractor**") for the Tenant Improvements, (ii) any subcontractors for the Tenant Improvements shall be selected by Landlord, subject to Tenant's approval, which approval shall not be unreasonably withheld, conditioned or delayed, and (iii) Dowler Gruman Architects shall be the architect (the "**TI Architect**") for the Tenant Improvements.

2. **Tenant Improvements.**

(a) **Tenant Improvements Defined.** As used herein, "**Tenant Improvements**" shall mean all improvements to the Project as shown on the TI Construction Drawings, as defined in Section 2(c) below, constructed pursuant to this Work Letter. The Tenant Improvements are further described on the construction budget attached hereto as Schedule 2. Other than Landlord's Work (as defined in Section 3(a) below, Landlord shall not have any obligation whatsoever with respect to the finishing of the Premises for Tenant's use and occupancy. Landlord and Tenant acknowledge and agree that Landlord will be performing the Tenant Improvements during Tenant's occupancy of the Premises. Tenant shall permit access to the Premises at all reasonable times to allow Landlord to perform the Tenant Improvements. The completion of the Tenant Improvements may have a material adverse effect on Tenant's use and quiet enjoyment of the Premises and the operation of Tenant's business at the Premises, including, without limitation, the creation of dust, noise and vibrations, none of which shall constitute a constructive eviction of Tenant, an interruption of Tenant's use and quiet enjoyment of the Premises or result in any offset or abatement of Rent whatsoever. Notwithstanding anything to the contrary set forth herein, Landlord shall have no liability to Tenant for any Claims resulting from, arising out of or related to the performance of the Tenant Improvements.

(b) **Tenant's Space Plans.** Landlord and Tenant acknowledge and agree that the plan prepared by the TI Architect attached to this Work Letter as Schedule 1 the "**Space Plan**") has been approved by both Landlord and Tenant. Landlord and Tenant further acknowledge and agree that any changes to the Space Plan requested by Tenant (other than de minimus changes which are consistent generally with the Space Plan) constitute a Change Request the cost of which changes shall be paid for by Tenant.

(c) **Working Drawings.** Landlord and Tenant have agreed upon construction plans, specifications and drawings for the Tenant Improvements prepared in accordance with the Space Plan ("**TI Construction Drawings**"). Tenant shall be solely responsible for ensuring that the TI Construction Drawings reflect Tenant's requirements for the Tenant Improvements. Subject to the provisions of Section 4 below, Landlord shall not materially modify the TI Construction Drawings except as may be reasonably required in connection with the issuance of the TI Permit (as defined in Section 3(b) below).

(d) **Approval and Completion.** Upon any dispute regarding the design of the Tenant Improvements, which is not settled within 10 business days after notice of such dispute is delivered by one party to the other, Tenant may make the final decision regarding the design of the Tenant Improvements, provided (i) Tenant acts reasonably and such final decision is either consistent with or a compromise between Landlord's and Tenant's positions with respect to such dispute, (ii) that all costs and expenses resulting from any such decision by Tenant shall be payable by Tenant, and (iii) Tenant's decision will not affect the base Building, structural components of the Building or any Building systems. Any changes to the TI Construction Drawings requested by Tenant shall be processed as provided in Section 4 hereof.

3. **Performance of Landlord's Work.**

(a) **Definition of Landlord's Work.** As used herein, "**Landlord's Work**" shall mean the work of designing, permitting and constructing the Tenant Improvements.

(b) **Commencement and Permitting.** Landlord shall promptly commence construction of the Tenant Improvements upon obtaining a building permit (the "**TI Permit**") authorizing the construction of the Tenant Improvements consistent with the TI Construction Drawings approved by Tenant. The cost of obtaining the TI Permit shall be payable by Landlord. Tenant shall reasonably assist Landlord in obtaining the TI Permit. If any Governmental Authority having jurisdiction over the construction of Landlord's Work or any portion thereof shall impose terms or conditions upon the construction thereof that: (i) are inconsistent with Landlord's obligations hereunder, (ii) increase the cost of constructing Landlord's Work, or (iii) will materially delay the construction of Landlord's Work, Landlord and Tenant shall reasonably and in good faith seek means by which to mitigate or eliminate any such adverse terms and conditions.

(c) **Completion of Landlord's Work.** Landlord shall substantially complete or cause to be substantially completed Landlord's Work in a good and workmanlike manner, in accordance with the TI Permit subject, in each case, to Minor Variations and normal "punch list" items of a non-material nature that do not interfere with the use of the Premises ("**Substantial Completion**" or "**Substantially Complete**"). Substantial Completion shall not include completion of the Cased Opening (as hereinafter defined) which shall be completed in accordance with Section 7 below. Upon Substantial Completion of Landlord's Work, Landlord shall require the TI Architect and the General Contractor to execute and deliver, for the benefit of Tenant and Landlord, a Certificate of Substantial Completion in

the form of the American Institute of Architects ("**AIA**") document G704. For purposes of this Work Letter, "**Minor Variations**" shall mean any modifications reasonably required: (i) to comply with all applicable Legal Requirements and/or to obtain or to comply with any required permit (including the TI Permit); (ii) to comply with any request by Tenant for modifications to Landlord's Work; (iii) to comport with good design, engineering, and construction practices that are not material; or (iv) to make reasonable adjustments for non-material field deviations or conditions encountered during the construction of Landlord's Work.

(d) **Selection of Materials.** Where more than one type of material or structure is indicated on the TI Construction Drawings, the option will be selected at Landlord's sole and absolute discretion. As to all building materials and equipment that Landlord is obligated to supply under this Work Letter, Landlord shall select the manufacturer thereof in its sole and absolute discretion unless a manufacturer is expressly specified in the approved TI Construction Drawings.

(e) **Construction Defects.** When Landlord's Work is Substantially Complete, subject to the remaining terms and provisions of this Section 3(e), Tenant shall accept Landlord's Work. Tenant's acceptance of Landlord's Work shall not constitute a waiver of: (i) any warranty with respect to workmanship (including installation of equipment) or material (exclusive of equipment provided directly by manufacturers), (ii) any non-compliance of Landlord's Work with applicable Legal Requirements, or (iii) any claim that Landlord's Work was not completed substantially in accordance with the TI Construction Drawings (subject to Minor Variations and such other changes as are permitted hereunder) (collectively, a "**Construction Defect**"). Tenant shall have one year after Substantial Completion within which to notify Landlord of any such Construction Defect discovered by Tenant, and Landlord shall use reasonable efforts to remedy or cause the responsible contractor to remedy any such Construction Defect within 30 days thereafter. Notwithstanding the foregoing, Landlord shall not be in default under the Lease if the applicable contractor, despite Landlord's reasonable efforts, fails to remedy such Construction Defect within such 30-day period, in which case Landlord shall have no further obligation with respect to such Construction Defect other than to cooperate, at no cost to Landlord, with Tenant should Tenant elect to pursue a claim against such contractor, provided that Tenant shall defend with counsel reasonably acceptable to Landlord, indemnify and hold Landlord harmless from and against any claims arising out of or in connection with any such claim.

Tenant shall be entitled to receive the benefit of all construction warranties and manufacturer's equipment warranties relating to equipment installed in the Premises. If requested by Tenant, Landlord shall attempt to obtain extended warranties from manufacturers and suppliers of such equipment, but the cost of any such extended warranties shall be borne solely by Tenant. Landlord shall promptly undertake and complete, or cause to be completed, all punch list items.

(f) **Tenant Delay.** For purposes of this Lease, "**Tenant Delay**" shall mean actual delay in the Substantial Completion of Landlord's Work caused by any one or more of the following:

(i) Tenant's Representative was not available to give or receive any Communication or to take any other action required to be taken by Tenant hereunder within the time periods set forth herein;

(ii) Tenant's request for Change Requests (as defined in Section 4(a) below) whether or not any such Change Requests are actually performed;

(iii) Construction of any Change Requests;

(iv) Tenant's request for materials, finishes or installations requiring unusually long lead times;

(v) Tenant's delay in reviewing, revising or approving plans and specifications beyond the periods set forth herein;

(vi) Tenant's delay in providing information critical to the normal progression of the Project. Tenant shall provide such information as soon as reasonably possible, but in no event longer than one week after receipt of any request for such information from Landlord;

(vii) Tenant's delay in making payments to Landlord for Excess TI Costs (as defined in Section 5 below); or

(viii) Any other act or omission by Tenant or any Tenant Party (as defined in the Lease), or persons employed by any of such persons that continues for more than one (1) day after Landlord's notice thereof to Tenant.

If Substantial Completion of Landlord's Work is delayed for any of the foregoing reasons, then Landlord shall cause the TI Architect to certify the date on which the Tenant Improvements would have been completed but for such Tenant Delay and such certified date shall be the date of Substantial Completion. Upon request, Landlord will advise Tenant if any materials, finishes or installations which are requested as part of any Change Request are likely to require unusually long lead times.

4. **Changes.** Any changes requested by Tenant to the Tenant Improvements after the delivery and approval by Landlord of the Space Plan shall be requested and instituted in accordance with the provisions of this Section 4 and shall be subject to the written approval of Landlord and the TI Architect, such approval not to be unreasonably withheld, conditioned or delayed.

(a) **Tenant's Request For Changes.** If Tenant shall request changes to the Tenant Improvements ("**Changes**"), Tenant shall request such Changes by notifying Landlord in writing in substantially the same form as the AIA standard change order form (a "**Change Request**"), which Change Request shall detail the nature and extent of any such Change. Such Change Request must be signed by Tenant's Representative. Landlord shall, before proceeding with any Change, use commercially reasonable efforts to respond to Tenant as soon as is reasonably possible with an estimate of: (i) the time it will take, and (ii) the architectural and engineering fees and costs that will be incurred, to analyze such Change Request (which costs shall be paid by Tenant to the extent actually incurred, whether or not such change is implemented). Landlord shall thereafter submit to Tenant in writing, within 5 business days of receipt of the Change Request (or such longer period of time as is reasonably required depending on the extent of the Change Request), an analysis of the additional cost or savings involved, including, without limitation, architectural and engineering costs and the period of time, if any, that the Change will extend the date on which Landlord's Work will be Substantially Complete.

(b) **Implementation of Changes.** If Tenant: (i) approves in writing the cost or savings and the estimated extension in the time for completion of Landlord's Work, if any, and (ii) deposits with Landlord any Excess TI Costs required in connection with such Change, Landlord shall cause the approved Change

to be instituted.

5. **Costs.**

(a) **TI Costs.** Except as otherwise provided in Section 5(b) below, Landlord shall be responsible for the payment of design, permits and construction costs in connection with the construction of the Tenant Improvements, including, without limitation, the cost of electrical power and other utilities used in connection with the construction of the Tenant Improvements, the cost of preparing the TI Construction Drawings and the Space Plans and Landlord's out-of-pocket expenses and all of Landlord's project management fees (collectively, "**TI Costs**"). Notwithstanding anything to the contrary contained herein, in no event shall Landlord be required to pay for any furniture, personal property or other non-Building system materials or equipment, including, but not limited to, Tenant's voice or data cabling, non-ducted biological safety cabinets and other scientific equipment not incorporated into the Tenant Improvements.

(b) **Excess TI Costs.** Notwithstanding anything to the contrary contained herein, Tenant acknowledges and agrees that, Landlord shall have no obligation to bear any costs arising from or related to (i) Tenant's Changes to the Space Plan or TI Construction Drawings, and the cost of Changes and Change Requests and (ii) Tenant Delay (collectively, "**Excess TI Costs**"). Upon Landlord's request from time to time, Tenant shall deposit with Landlord, as a condition precedent to Landlord's obligation to complete the Tenant Improvements, 100% of the Excess TI Costs. If Tenant fails to deposit any Excess TI Costs with Landlord, Landlord shall have all of the rights and remedies set forth in the Lease for nonpayment of Rent (including, but not limited to, the right to interest at the Default Rate and the right to

assess a late charge). For purposes of any litigation instituted with regard to such amounts, those amounts will be deemed Rent under the Lease.

6. **No Interference.** Neither Tenant nor any Tenant Party (as defined in the Lease) shall interfere with the performance of Landlord's Work, nor with any inspections or issuance of final approvals by applicable Governmental Authorities.

7. **Construction of Opening.** Landlord shall construct, at Landlord's expense, a cased opening between the suites in the location shown on the Space Plan (the "**Cased Opening**") after September 1, 2010 and before October 1, 2010.

8. **Miscellaneous.**

(a) **Consents.** Whenever consent or approval of either party is required under this Work Letter, that party shall not unreasonably withhold, condition or delay such consent or approval, unless expressly set forth herein to the contrary.

(b) **Modification.** No modification, waiver or amendment of this Work Letter or of any of its conditions or provisions shall be binding upon Landlord or Tenant unless in writing signed by Landlord and Tenant.

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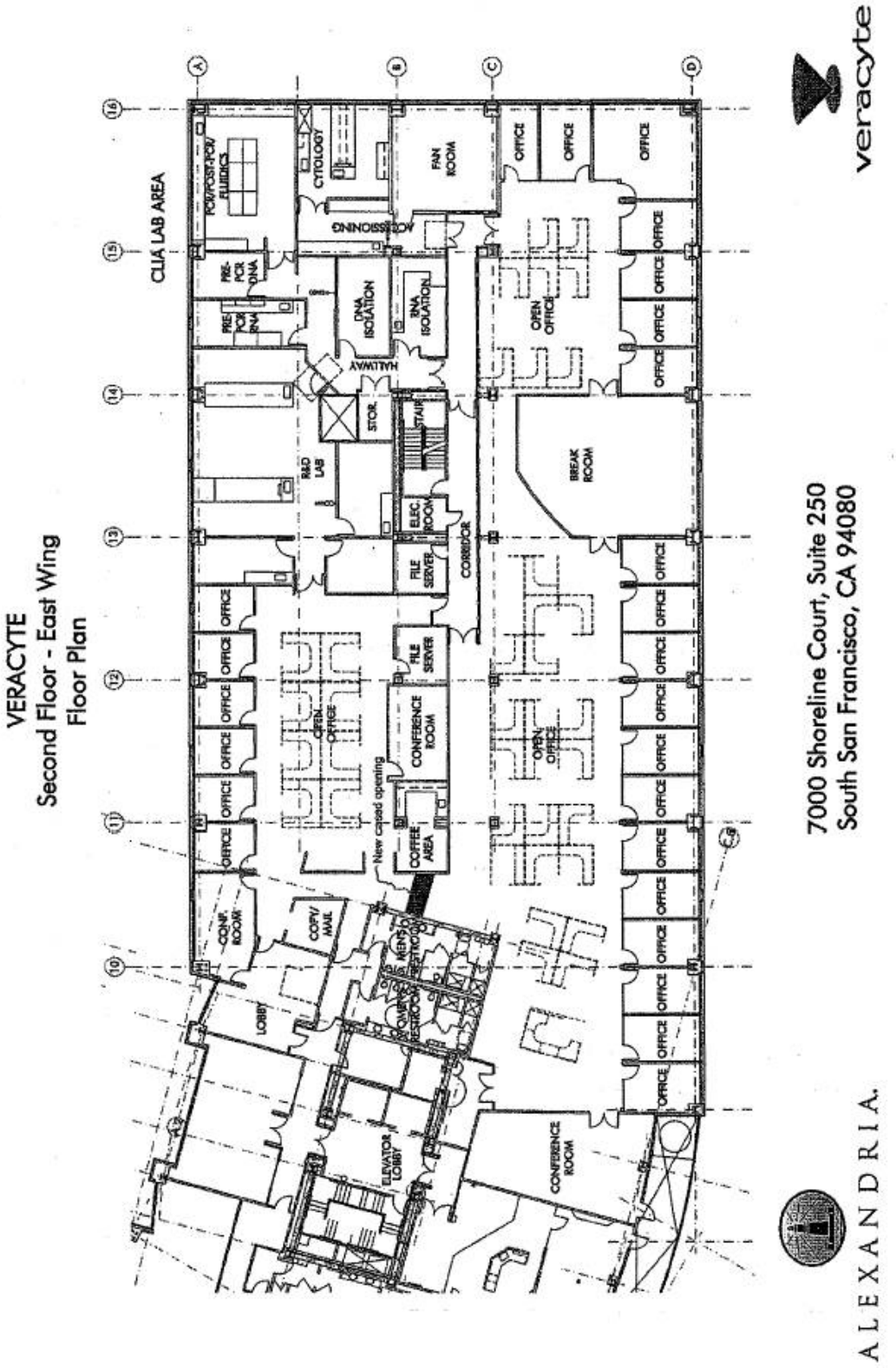
SCHEDULE 1 TO WORK LETTER

SPACE PLAN

(See attached)

[Second Floor - East Wing Floor Plan]



SCHEDULE 2 TO WORK LETTER

CONSTRUCTION BUDGET

(See attached)

CONFIDENTIAL

SUMMARY

[BNB NorCal Logo]

PROJECT: Veracyte - CLIA Lab Build-Out
CITY: South San Francisco, CA
CLIENT: Veracyte
ARCH: DGA

BNB PROJECT NO.: TBD
DATE: January 28, 2010

Attached is the revised pricing for the Veracyte CLIA Lab Renovation.

This revised pricing is based on the January 25th design meeting and updated Permit Set drawings dated 1.27.10

Summary of changes:

Temp. protection cost have been reduced to reflect work performed by Superintendent
Cost of Interior demo has been reduced
Layout & Survey, Final clean, and Caulking will be performed by Superintendant
Insulation in new walls has been deleted
Ceiling, Flooring and Painting scopes were reviewed and remain the same. Painting scope was discussed with subcontractor and was bld at new walls only (corner to corner) to match existing.
Cost of relocating 2 fire extinguisher cabinets and 1 new cabinet will performed by superintendant
Elevator protection will be performed by Superintendant
Plumbing scope was reduced with the deletion of vacuum and two sinks (In rooms 223 and 229)
Fire Alarm quote from DFP (current building fire alarm vendor)
Detailed backup for Project Management and Special Requirement line items has been included; Project Management was reduced by removing Principal's time
Permit Fee Allowance has been deleted
Contingency Allowance of 2% has been added
Electrical scope added additional light fixtures and power
Add for new celling in rm 224
Lab casework priced as used

FINAL PRICING - OPTION F [BNB NorCal Logo]

PROJECT: Veracyte - CLIA Lab Build-Out
LOCATION: South San Francisco, CA
ARCHITECT: DGA
OWNER: Veracyte
DATE: January 28, 2010

Sys No.	System Description		Costs	Cost/SF	% of Total
	WORK AREA	3,300 sf			
1.000	Sitework		$ —	$ —	0.0%
2.000	Foundations		$ —	$ —	0.0%
3.000	Substructure		$ —	$ —	0.0%
4.000	Superstructure		$ 400	$ 0.12	0.2%
5.000	Exterior Skin		$ 5,000	$ 1.52	1.9%
6.000	Roofing		$ —	$ —	0.0%
7.000	Interior Construction		$ 50,086	$ 15.18	18.8%
8.000	Special Equipment		$ 25,915	$ 7.85	9.7%
9.000	Conveying		$ —	$ —	0.0%
10.000	Fire Protection		$ 4,800	$ 1.45	1.8%
11.000	Plumbing & Process Piping		$ 27,230	$ 8.25	10.2%
12.000	HVAC		$ 40,550	$ 12.29	15.2%
13.000	Electrical		$ 39,390	$ 11.94	14.8%
14.000	Project Management		$ 40,560	$ 12.29	15.2%
15.000	Special Requirements		$ 10,083	$ 3.06	3.8%
	SUBTOTAL		$ 244,014	$ 73.94	91.6%
			$ —	$ —	0.0%
	Liability Insurance & Fee		$ 14,641	$ 4.44	5.5%
	Contingency (2%)		$ 5,173	$ 1.57	1.9%
	Preconstruction		$ 2,500	$ 0.78	0.9%
	TOTAL CONSTRUCTION COSTS		$ 266,328	$ 80.71	100.0%

ESTIMATE BACK-UP [BNB NorCal Logo]

PROJECT: Veracyte - CLIA Lab Build-Out
CITY: South San Francisco, CA
CLIENT: Veracyte BNB PROJECT NO.: TBD
ARCH: DGA DATE: January 28, 2010

System No.	Description	Qty.	Unit	Unit Cost	Total	Comments

1.000		SITEWORK					
	0.010	Sitework					
		None	0	Is		0	
		Subtotal				0	
		SUBTOTAL SITEWORK				0	
2.000		FOUNDATIONS					
	0.010	Foundations					
		None	0	Is		0	
		Subtotal				0	
		SUBTOTAL FOUNDATIONS				0	
3.000		SUBSTRUCTURE					
	3.010	Laout & Survey					
		None	0	sqft		0	
		Subtotal				0	
		SUBTOTAL SUBSTRUCTURE				0	
4.000		SUPERSTRUCTURE					
	4.010	Layout & Survey					
		None	0	sqft		0	
		Subtotal				0	
	4.060	Metal Deck Concrete Fill					
		None	0	Is		0	
		Subtotal				0	
	4.200	Rough Carpentry					
		See Interiors	0	Is		0	
		Subtotal				0	
	4.250	Fireproofing					
		Fireproof - Patching	0.5	md	800.00	400.00	Allowance
		Subtotal				400	
		SUBTOTAL SUPERSTRUCTURE				400	
5.000		EXTERIOR SKIN					
	5.290	Exterior Skin					
		Remove Window for Fume Hoods	1	Is	5,000.00	5,000	Allowance
		Subtotal				5,000	
		SUBTOTAL EXTERIOR SKIN				5,000	
6.000		ROOFING SYSTEMS					
	6.020	Insulation					
		None	0	Is	0.00	0	
		Subtotal				0	

System No.	Description	Qty.	Unit	Unit Cost	Total	Comments
6.060	Built-up Roofing					
	None	0	Is	0.00	0	
	Subtotal				0	
	SUBTOTAL ROOFING SYSTEMS				0	
7.000	INTERIOR CONSTRUCTION					
7.005	Temp. Protection					
	Temp Protection - Initial Set-up	1	Is	1,860.00	1,860	2MD + $500Mtl
	Temp. Protection - Weekly Maintenance	6	wk	0.00	0	by superintendant
	Subtotal				1,860	
7.010	Interior Demolition					
	Demo & Remove Lab Casework & Hooc	1	Is	4,580.00	4,580	
	Selective Demo Interiors	1	Is	6,100.00	6,100	2 laborers 1 week + tools
	Dumpsters	2	ea	750.00	1,500	

	Subtotal				12,180	
7.020	Layout & Survey					
	Layout	3,300	sf	0.00	0	by superintendant
	Subtotal				0	
7.030	Final Clean-up					
	Final Clean-up	0	sf	0.25	0	by superintendant
	Subtotal				0	
7.040	Concrete					
	Misc. Slab Patch Allow	1	Is	800.00	800	
	Subtotal				800	
7.070	Metal Fabrications					
	None	0	ea	0.00	0	
	Subtotal				0	
7.090	Rough Carpentry					
	Misc. Rough Carpentry & Backing	0	Is	0.00	0	
	Subtotal				0	
7.100	Finish Carpentry / Millwork					
	None	0	If	0.00	0	
	Subtotal				0	
7.110	Waterproofing / Damproofing					
	None	0	Is	0.00	0	
	Subtotal				0	
7.120	Insulation					
	Insulation	0	Is	0.00	0	
	Subtotal				0	
7.130	Caulking & sealants					
	Misc. Caulking & Sealants	0	md	800.00	0	by superintendant
	Subtotal				0	

System No.	Description	Qty.	Unit	Unit Cost	Total	Comments
7.150	Doors/Frames/Hardware					
	Save & Re-Install Doors, Frames & Harc	4	ea	320.00	1,280	2 MDs
	New Door, Frame, Hardware	1	ea	1,600.00	1,600	
	Card Readers / Electrified Hardware	0	allow	0.00	0	Required, by others
	Re-Keying	0	Is	0.00	0	By Others
	Subtotal				2,880	
7.220	Glass & Glazing					
	New Flase Mullions	0	ea	1,200.00	0	
	Alumn Window Frames & Glazing	1	ea	800.00	800	
	Glazing at Sidelights	0	ea	400.00	0	
	Glazing at Door Lites Allowance	0	53	1,000.00	0	
	Subtotal				800	
7.240	Framing & Drywall					
	Framing & Drywall	1	Is	10,500.00	10,500	D&R Paquette
	Wall Insulation	0	Is	900.00	0	not required
	Rated Opening Modifications	0	ea	3,500.00	0	
	Misc Patching Allow	1	Is	2,000.00	2,000	
	Subtotal				12,500	
7.250	Ceramic Tile / Stone					
	None	0	sf	0.00	0	
	Subtotal				0	
7.280	Acoustical Ceiling					
	Cut-Back for New Walls & Selective Der	1	Is	6,040.00	6,040	Ad-in
	2x4 - Vinyl Rock or Enviroguard	480	sf	4.50	2,160	
	Misc. Patching / Tile Replace Allowance		Is	1.75	0	included above
	Subtotal				8,200	
7.290	Acoustical Panels / Wall Coverings					
	None	0	Is	0.00	0	None
	Subtotal				0	

7.330	Resilient Flooring / Carpeting					
	VCT	1	Is	4,595.00	4,595	Preston Borg
	Carpet	0	sf	0.00	0	None
	Sheet Vinyl Welded	0	sf	0.00	0	None
	Vapor Emission Reduction Syst.	0	sf	0.00	0	None
	Misc. Patch & Repair @ (E) Floor	3,300	sf	0.25	825	
	Subtotal				5,420	
7.360	Special Coatings					
	Epoxy Flooring	0	Is	0.00	0	None
	Subtotal				0	
7.370	Painting					
	Painting	1	Is	5,046.00	5,046	C&O
	Subtotal				5,046	
7.390	Visual Display Boards					
	Makerboard / Caulktrays / Wall Talker	0	Is	0.00	0	None
	Subtotal				0	
7.440	Corner & Wall Guards					
	Corner & Wall Guard	1	Is	400.00	400	Allowance

System No.	Description	Qty.	Unit	Unit Cost	Total	Comments
7.447	Identifying Devices					
	Interior Signage	0	ea	0.00	0	By Others
	Code Signage Allowance	0	Is	0.00	0	None
	Subtotal				0	
7.449	Fire Protection Specialties					
	Fire Extinguishers / Cabinets	0	Is	800.00	0	by superintendent
	Subtotal				0	
7.570	Projection Screens					
	None	0	ea	0.00	0	
	Subtotal				0	
7.580	Window Coverings					
	None	0	Is	0.00	0	
	Subtotal				0	
	SUBTOTAL INTERIOR CONSTRUCTION				50,086	
8.000	SPECIAL EQUIPMENT					
8.050	Audio Visual					
	None				0	
	Subtotal				0	
8.110	Laboratory Equipment					
	Gas Manifolds / Change Over Panels	0	ea	0.00	0	By Veracyte
	None	0	ea	0.00	0	
	Subtotal				0	
8.120	Laboratory Casework & Hoods					
	Used Lab Casework	1	Is	23,005.00	23,005	
	Re-Install Fume Hoods	1	ea		0	no reuse
	Re-Install (E) Casework & Sinks	0	If	130.00	0	
	Stainless Steel Ceiling Panels	2	ea	480.00	960	
	Relocate BSC's	0	ea	640.00	0	
	New Reagent Racks	0	If	250.00	0	
	New Wall Shelving	0	If	175.00	0	
	Umbilicals	2	ea	800.00	1,600	
	Misc. Filler Pnls, Fixtures & Turrets	0	Is	4,000.00	0	
	Shop Drawings	1	Is	350.00	350	
	Subtotal				25,915	
8.200	Environmental Rooms					
	None	0	Is	0.00	0	
	Subtotal				0	
8.250	Chemical Storage Building					
	None	0	Is	0.00	0	

	Subtotal				0	
8.260	High Density Storage					
	None	0	Is	0.00	0	
	Subtotal				0	
	SUBTOTAL SPECIAL EQUIPMENT				25,915	

System No.	Description	Qty.	Unit	Unit Cost	Total	Comments
9.000	CONVEYING SYSTEMS					
9.200	Elevators					
	Temp Protection	0	ls	500.00	0	by superintendant
	Subtotal				0	
	SUBTOTAL CONVEYING SYSTEMS				0	
10.000	FIRE PROTECTION SYSTEMS					
10.010	Fire Protection Systems					
	Design & Precon	1	Is		0	included below
	Fire Protection System Modifications	1	ls	4,800.00	4,800	BFP
	Subtotal				4,800	
	TOTAL FIRE PROTECTION				4,800	
11.000	PLUMBING & PROCESS PIPING					
11.001	Plumbing & Process Piping					
	Plumbing & Process Piping	1	Is	35,900.00	27,230.00	KDS
	Subtotal				27,230	
	TOTAL PLUMBING & PROCESS PIPING				27,230	
12.000	HVAC					
12.001	HVAC					
	Design & Preconstruction	1	Is		0	included below
	HVAC & Control Modifications	1	Is	39,950.00	39,950	Western Allied
	Relocate existing DP Guage to RM 230	1	Is	600	600	
	Subtotal				40,550	
	TOTAL H.V.A.C.				40,550	
13.000	ELECTRICAL					
13.001	Electrical Systems					
	Electrical Design & Precon	1	Is		0	included below
	Electrical	1	Is	31,725.00	31,725	TL Electric
	Additional scope per 1/25/10 design mtg	1	Is	2,115.00	2,115	additional lighting and power
	Subtotal				33,840	
13.060	Fire Alarm					
	Fire Alarm Design and Install	1	Is	5,550.00	5,550.00	DFP
	Subtotal				5,550	
13.080	Security Systems					
	None	0	Is	0.00	0	By Others
	Subtotal				0	
13.080	Tele/Data Systems					
	None	0	Is	0.00	0	By Others
	Subtotal				0	
	TOTAL ELECTRICAL				39,390	

System No.	Description	Qty.	Unit	Unit Cost	Total	Comments

14.000		PROJECT MANAGEMENT					
	14.010	Project Management					
		Project Management	1	Is	40,560.00	40,560	see attached worksheet for breakdow
		Subtotal				40,560	
		TOTAL PROJECT MANAGEMENT				40,560	
15.000		SPECIAL REQUIREMENTS					
	15.010	Special Requirements					
		Special Requirements	1	Is	10,083.00	10,083	see attached worksheet for breakdow
		Permit Fees	1	allow		0	included above
		Subtotal				10,083	
		TOTAL SPECIAL REQUIREMENTS				10,083	

CLARIFICATIONS [BNB NorCal Logo]

PROJECT: Veraoyte - CLIA Lab Build-Out
CITY: South San Francisco, CA
CLIENT: Veracyte BNB PROJECT NO.: TBD
ARCH: DGA DATE: January 28, 2010

1 Decommissioning of existing space is excluded
2 All salvaged items will be stored onsite
3 Work will be performed during normal business hours
4 Equipment identified as future not included
5 Permit fees are excluded
6 Structural upgrades are not included
7 Per latest dwgs no sink included in Rms. 223 or 229
8 Security/Card readers are not included.
9 Cost to add existing fume hood to E-power is pending confirmation of E-power load and existing conditions
10 Cost for new door based on conversation with DCA on 1.19.10 and review of existing door sizes
11 No costs are inculded for sheet A1.1 ADA upgrades, separate pricing will be forwarded
12 Moving door 221D is excluded
13 No demo or cap of existing utilities in rm 226 is included
14 Existing walls to remain as is, extending studs to underside of deck is excluded
15 Sound Insulation is excluded

EXHIBIT D TO LEASE

ACKNOWLEDGMENT OF COMMENCEMENT DATE

This **ACKNOWLEDGMENT OF COMMENCEMENT DATE** is made this day of , , between **ARE-SAN FRANCISCO NO. 17, LLC,** a Delaware limited liability company ("**Landlord**"), and **VERACYTE, INC.,** a Delaware corporation ("**Tenant**"), and is attached to and made a part of the Lease dated , (the "**Lease**"), by and between Landlord and Tenant. Any initially capitalized terms used but not defined herein shall have the meanings given them in the Lease.

Landlord and Tenant hereby acknowledge and agree, for all purposes of the Lease, that the Current Premises Commencement Date is , , the Expansion Premises Commencement Date is , , and the termination date of the Base Term of the Lease shall be midnight on . In case of a conflict between the terms of the Lease and the terms of this Acknowledgment of Commencement Date, this Acknowledgment of Commencement Date shall control for all purposes.

IN WITNESS WHEREOF, Landlord and Tenant have executed this ACKNOWLEDGMENT OF COMMENCEMENT DATE to be effective on the date first above written.

TENANT:

VERACYTE, INC.,
a Delaware corporation

By: _____
Its: _____

LANDLORD:

ARE-SAN FRANCISCO NO. 17, LLC,
a Delaware limited liability company

By: ALEXANDRIA REAL ESTATE EQUITIES, L.P.,
a Delaware limited partnership, its managing member

By: ARE-QRS CORP.,
a Maryland corporation,
its general partner

By: _____
Its: _____

EXHIBIT E TO LEASE

Rules and Regulations

1. The sidewalk, entries, and driveways of the Project shall not be obstructed by Tenant, or any Tenant Party, or used by them for any purpose other than ingress and egress to and from the Premises.

2. Tenant shall not place any objects, including antennas, outdoor furniture, etc., in the parking areas, landscaped areas or other areas outside of its Premises, or on the roof of the Project.

3. Except for animals assisting the disabled, no animals shall be allowed in the offices, halls, or corridors in the Project.

4. Tenant shall not disturb the occupants of the Project or adjoining buildings by the use of any radio or musical instrument or by the making of loud or improper noises.

5. If Tenant desires telegraphic, telephonic or other electric connections in the Premises, Landlord or its agent will direct the electrician as to where and how the wires may be introduced; and, without such direction, no boring or cutting of wires will be permitted. Any such installation or connection shall be made at Tenant's expense.

6. Tenant shall not install or operate any steam or gas engine or boiler, or other mechanical apparatus in the Premises, except as specifically approved in the Lease. The use of oil, gas or inflammable liquids for heating, lighting or any other purpose is expressly prohibited. Explosives or other articles deemed extra hazardous shall not be brought into the Project.

7. Parking any type of recreational vehicles is specifically prohibited on or about the Project. Except for the overnight parking of operative vehicles, no vehicle of any type shall be stored in the parking areas at any time. In the event that a vehicle is disabled, it shall be removed within 48 hours. There shall be no "For Sale" or other advertising signs on or about any parked vehicle. All vehicles shall be parked in the designated parking areas in conformity with all signs and other markings. All parking will be open parking, and no reserved parking, numbering or lettering of individual spaces will be permitted except as specified by Landlord.

8. Tenant shall maintain the Premises free from rodents, insects and other pests.

9. Landlord reserves the right to exclude or expel from the Project 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 the Rules and Regulations of the Project.

10. Tenant shall not cause any unnecessary labor by reason of Tenant's carelessness or indifference in the preservation of good order and cleanliness. Landlord shall not be responsible to Tenant for any loss of property on the Premises, however occurring, or for any damage done to the effects of Tenant by the janitors or any other employee or person.

11. Tenant shall give Landlord prompt notice of any defects in the water, lawn sprinkler, sewage, gas pipes, electrical lights and fixtures, heating apparatus, or any other service equipment affecting the Premises.

12. Tenant shall not permit storage outside the Premises, including without limitation, outside storage of trucks and other vehicles, or dumping of waste or refuse or permit any harmful materials to be placed in any drainage system or sanitary system in or about the Premises.

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13. All moveable trash receptacles provided by the trash disposal firm for the Premises must be kept in the trash enclosure areas, if any, provided for that purpose.

14. No auction, public or private, will be permitted on the Premises or the Project.

15. No awnings shall be placed over the windows in the Premises except with the prior written consent of Landlord.

16. The Premises shall not be used for lodging, sleeping or cooking or for any immoral or illegal purposes or for any purpose other than that specified in the Lease. No gaming devices shall be operated in the Premises.

17. Tenant shall ascertain from Landlord the maximum amount of electrical current which can safely be used in the Premises, taking into account the capacity of the electrical wiring in the Project and the Premises and the needs of other tenants, and shall not use more than such safe capacity. Landlord's consent to the installation of electric equipment shall not relieve Tenant from the obligation not to use more electricity than such safe capacity.

18. Tenant assumes full responsibility for protecting the Premises from theft, robbery and pilferage.

19. Tenant shall not install or operate on the Premises any machinery or mechanical devices of a nature not directly related to Tenant's ordinary use of the Premises and shall keep all such machinery free of vibration, noise and air waves which may be transmitted beyond the Premises.

EXHIBIT F TO LEASE

TENANT'S PERSONAL PROPERTY

None.

EXHIBIT G TO LEASE

LANDLORD'S PROPERTY

Inventory of Existing Furniture in the Premises

Main Conference Room:
· Large conference room table
· 1, credenza
· 1, short/black fridge
· 2 whiteboards

Patio:
· 3 round metal tables
· 9 metal chairs (weathered)
· 6 metal chairs with black seats (weathered)

Reception:
· 1, round (approx 4' diameter) table with wood top
· 3, wood armchairs with leaf fabric pattern

Powered Office Cubes:
· 30 assembled

Break Room:
· Stainless steel fridge

Private offices:
· 9 assembled desks/workstations
· 1, desk only
· 1, file (under-desk, black, single-drawer)
· 2, oval tables

Office and Cube Chairs:
· 1, black/fabric task chair
· 11, blue task chairs
· 16, black, side chairs

LEASE AGREEMENT BETWEEN

RIATA HOLDINGS, L.P.,
AS LANDLORD, AND

VERACYTE, INC.,

AS TENANT

DATED NOVEMBER 28, 2012

RIATA CORPORATE PARK
12357 A RIATA TRACE PARKWAY, BUILDING 5
AUSTIN, TEXAS 78727

BASIC LEASE INFORMATION

Lease Date:	November 28, 2012
Landlord:	**RIATA HOLDINGS, L.P.,** a Delaware limited partnership doing business in Texas as Riata Austin Holdings, L.P.
Tenant:	**VERACYTE, INC.,** a Delaware corporation
Premises:	Suite No. 100 and Suite No. 110, containing in the aggregate 10,364 rentable square feet, in the building commonly known as 12357 A Riata Trace Parkway, Building 5 (the "**Building**"), and whose street address is 12357 A Riata Trace Parkway, Building 5, Austin, TX 78727. The Premises are outlined on the plan attached to the Lease as Exhibit A. The land on which the Project is located (the "**Land**") is described on Exhibit B. The term "**Project**" shall collectively refer to the Building, the Land and the driveways, parking facilities, and similar improvements and easements associated with the foregoing or the operations thereof.
Term:	66 full calendar months, plus any partial month from the Commencement Date to the end of the month in which the Commencement Date falls, starting on the Commencement Date and ending at 5:00 p.m. local time on the last day of the 66th full calendar month following the Commencement Date, subject to adjustment and earlier termination as provided in the Lease.
Commencement Date:	The earliest of (a) the date on which Tenant occupies any portion of the Premises and begins conducting business therein, (b) the date on which the Work (as defined in Exhibit D hereto) in the Premises is Substantially Completed (as defined in Exhibit D hereto), (c) the date on which the Work in the Premises would have been Substantially Completed but for the occurrence of any Tenant Delay Days (as defined in Exhibit D hereto), or (d) February 1, 2013 (subject to extension for each Landlord Delay Day, as defined in Exhibit D hereto).
Basic Rent:	Subject to the abatement of Basic Rent provided below, Basic Rent shall be the following amounts for the following periods of time:

Lease Months	Annual Basic Rent Rate Per Rentable Square Foot in the Premises	Monthly Basic Rent
1 — 12*	$ 18.50*	$ 15,977.83*
13 — 24	$ 19.25	$ 16,625.58
25 — 36	$ 20.00	$ 17,273.33
37 — 48	$ 20.75	$ 17,921.08
49 - 66	$ 21.50	$ 18,568.83

* Notwithstanding anything in the Basic Rent schedule above to the contrary, Basic Rent shall be abated during the first six months of the Term, e.g., if the Commencement Date is January 15, 2013, Basic Rent shall be abated until July 14, 2013. Commencing with the first day after the end of the abatement period referred to above, Tenant shall make Basic Rent payments for any remaining partial calendar month and on the first day of the first full calendar month thereafter shall make Basic Rent payments as otherwise provided in this Lease. Notwithstanding such abatement of Basic Rent (a) all other sums due under this Lease, including Additional Rent, after-hours HVAC charges, etc., shall be payable as provided in this Lease, and (b) any increases in Basic Rent set forth in this Lease shall occur on the dates scheduled therefor.

As used herein, the term "**Lease Month**" means each calendar month during the Term (and if the Commencement Date does not occur on the first day of a calendar month, the period from the Commencement Date to the first day of the next calendar month shall be included in the first Lease Month for purposes of determining the duration of the Term and the monthly Basic Rent rate applicable for such partial month).

Security Deposit:	$75,138.99 (equal to the estimated gross Rent for the first three Lease Months, disregarding any rental abatement).	
Additional Rent:	Tenant's Proportionate Share of Operating Costs, Taxes and Electrical Costs.	
Rent:	Basic Rent, Additional Rent, and all other sums that Tenant may owe to Landlord or otherwise be required to pay under the Lease.	
Permitted Use:	General office use, including limited medical diagnostic laboratory use not involving live animals, incompliance with all Laws and in compliance with Section 9 of the Lease. Tenant shall be solely responsible for ensuring that its intended uses in the Building are permitted by Law; provided that Landlord shall not initiate any zoning change during the Term that would affect the compliance of the Permitted Use with all Laws.	
Tenant's Proportionate Share:	11.05%, which is the percentage obtained by dividing (a) the number of rentable square feet in the Premises as stated above by (b) the 93,828 rentable square feet in the Project. Landlord and Tenant stipulate that the number of rentable square feet in the Premises and in the Project set forth above is conclusive and shall be binding upon them.	
Tenant's Address:	Prior to Commencement Date: Veracyte, Inc. 7000 Shoreline Ct. Suite 250 South San Francisco, CA 94080 Attention: Chief Financial Officer Telephone: 650.243.6300 Facsimile: 650.243.6301	Following Commencement Date: Veracyte, Inc. 12357 A Riata Trace Parkway, Building 5, Suite 100 Austin, TX 78727 Attention: [To be determined pursuant to Exhibit E hereto.] Telephone: [To be determined pursuant to Exhibit E hereto.] Facsimile: [To be determined pursuant to Exhibit E hereto.]
Landlord's Address:	For all Notices: Riata Holdings, L.P. c/o Spear Street Capital One Market Plaza, Spear Tower, Suite 4125 San Francisco, CA 94105 Attention: John S. Grassi - Riata Telephone: 415.222.7420 Facsimile: 415.856.0348	With a copy to: Riata Holdings, L.P. c/o Spear Street Capital One Market Plaza, Spear Tower, Suite 4125 San Francisco, CA 94105 Attention: Asset Manager - Riata Telephone: 415.222.7420 Facsimile: 415.856.0348

The foregoing Basic Lease Information is incorporated into and made a part of the Lease identified above. If any conflict exists between any Basic Lease Information and the Lease, then the Lease shall control.

TABLE OF CONTENTS

LIST OF DEFINED TERMS

LEASE

This Lease Agreement (this "**Lease**") is entered into as of the Lease Date between Landlord and Tenant (as each such term is defined in the Basic Lease Information).

1. **Definitions and Basic Provisions.** The definitions and basic provisions set forth in the Basic Lease Information (the "**Basic Lease Information**") are incorporated herein by reference for all purposes. Additionally, the following terms shall have the following meanings when used in this Lease: "**Affiliate**" means any person or entity which, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with the party in question; "**Building's Structure**" means the Building's roof and roof membrane, elevator shafts, footings, foundations, structural portions of load-bearing walls, structural floors and subfloors, structural columns and beams, and curtain walls; "**Building's Systems**" means the Building's HVAC, life-safety, plumbing, electrical, mechanical and elevator systems; "**including**" means including, without limitation; "**Laws**" means all federal, state and local laws, ordinances, building codes and standards, rules and regulations, all court orders, governmental directives, and governmental orders and all interpretations of the foregoing, and all restrictive covenants affecting the Project, and "**Law**" means any of the foregoing; "**Tenant's Off-Premises Equipment**" means any of Tenant's equipment or other property that may be located on or about the Project or the related complex (other than inside the Premises); and "**Tenant Party**" means any of the following persons: Tenant; any assignees claiming by, through, or under Tenant; any subtenants claiming by, through, or under Tenant; and any of their respective agents, contractors, officers, employees, licensees, guests and invitees.

2. **Lease Grant.** Subject to the terms of this Lease, Landlord leases to Tenant, and Tenant leases from Landlord, the Premises.

3. **Tender of Possession.** Landlord and Tenant presently anticipate that possession of the Premises will be tendered to Tenant in the condition required by this Lease on or about February 1, 2013 or, if later, 65 days following Tenant's execution and delivery of this Lease to Landlord, regardless of the date on which Landlord countersigns this Lease (such later date being the "**Estimated Delivery Date**"). If Landlord does not tender possession of the Premises with the Work Substantially Completed to Tenant by the Estimated Delivery Date, then (a) the validity of this Lease shall not be affected or impaired thereby, (b) Landlord shall not be in default hereunder or be liable for damages therefor, and (c) Tenant shall accept possession of the Premises when Landlord tenders possession thereof to Tenant. Tenant shall have early access to the Premises as provided in Section 26.2. By occupying the Premises, Tenant shall be deemed to have accepted the Premises in their condition as of the date of such occupancy, subject to the performance of punch-list items that remain to be performed by Landlord, if any. Prior to occupying the Premises, Tenant shall execute and deliver to Landlord a letter substantially in the form of Exhibit E hereto confirming (1) the Commencement Date and the expiration date of the initial Term, (2) that Tenant has accepted the Premises, and (3) that Landlord has performed all of its obligations with respect to the Premises (except for punch-list items specified in such letter); however, the failure of the parties to execute such letter shall not defer the Commencement Date or otherwise invalidate this Lease. Entry into the Premises by any Tenant Party prior to the Commencement Date shall be subject to all of the provisions of this Lease excepting only those requiring the payment of Basic Rent and Additional Rent.

4. **Rent.**

4.1 **Payment.** Tenant shall timely pay to Landlord Rent, without notice, demand, deduction or set off (except as otherwise expressly provided herein), by good and sufficient check drawn on a national banking association, or, at either party's election, by electronic or wire transfer, at Landlord's address provided for in this Lease or such other address as may be specified in writing by Landlord, and shall be accompanied by all applicable state and local sales or use taxes; provided, that following any monetary Event of Default by Tenant, Landlord shall be permitted to require alternative methods of payment, in Landlord's sole discretion. The obligations of Tenant to pay Rent to Landlord and the obligations of Landlord under this Lease are independent obligations. Basic Rent, adjusted as herein provided, shall be payable monthly in advance. The first monthly installment of Basic Rent, in the amount payable under this Lease after the end of all Basic Rent abatement periods provided in the Basic Lease Information, is due upon execution of this Lease by Tenant; thereafter, Basic Rent shall be payable on the first day of each calendar month, subject to any Basic Rent abatement provision in the Basic Lease Information. The monthly Basic Rent for any partial month at the beginning of the Term shall equal the product of 1/365 of the annual

Basic Rent in effect during the partial month and the number of days in the partial month, and such Basic Rent payment is due upon execution of this Lease by Tenant; however, if the Commencement Date is not a fixed date that is ascertainable as of the Lease Date, then such Basic Rent payment for any fractional calendar month at the beginning of the Term shall be due by Tenant on the Commencement Date. Payments of Basic Rent for any fractional calendar month at the end of the Term shall be similarly prorated. Tenant shall pay to Landlord monthly installments of Additional Rent in advance on the first day of each calendar month and otherwise on the same terms and conditions described above with respect to Basic Rent, Unless a shorter time period is specified in this Lease, all payments of miscellaneous Rent charges hereunder (that is, all Rent other than Basic Rent and Additional Rent) shall be due and payable within 30 days following Landlord's delivery to Tenant of an invoice therefor.

4.2 **Additional Rent.**

4.2.1 **Operating Costs.** Tenant shall pay to Landlord Tenant's Proportionate Share of Operating Costs. Prior to each calendar year Landlord shall provide to Tenant in writing a good faith estimate of Operating Costs to be due by Tenant for the following calendar year or part thereof during the Term. Landlord estimates that Operating Costs for calendar year 2013 shall be $10.50 per rentable square foot; however, such amount is merely an estimate and shall not be binding on Landlord or Tenant. During each calendar year or partial calendar year of the Term, Tenant shall pay to Landlord, in advance concurrently with each monthly installment of Basic Rent, an amount equal to Tenant's estimated Operating Costs for such calendar year or part thereof divided by the number of months therein. From time to time, Landlord may re-estimate (but Landlord may not re-estimate more than twice in any calendar year), the Operating Costs to be due by Tenant and deliver a copy of the re-estimate to Tenant. Thereafter, the monthly installments of Operating Costs payable by Tenant shall be appropriately adjusted in accordance with the estimations so that, by the end of the calendar year in question, Tenant shall have paid all of the Operating Costs as estimated by Landlord. Any amounts paid based on such an estimate shall be subject to adjustment as herein provided when actual Operating Costs are available for each calendar year.

4.2.2 **Operating Costs Defined.** The term "**Operating Costs**" means all costs, expenses and disbursements (subject to the limitations set forth below) that Landlord incurs in connection with the ownership, operation, and maintenance of the Project and performing Landlord's obligations under this Lease, in each case, determined in accordance with sound accounting principles consistently applied, including the following costs: (a) wages and salaries of all on-site employees at or below the grade of general manager engaged in the operation, maintenance or security of the Project (together with Landlord's reasonable allocation of expenses of off-site employees at or below the grade of general manager who perform a portion of their services in connection with the operation, maintenance or security of the Project including accounting personnel), including taxes, insurance and benefits relating thereto; (b) all supplies and materials used in the operation, maintenance, repair, replacement, and security of the Project; (c) costs for improvements made to the Project which, although capital in nature, are expected to reduce the normal operating costs (including all utility costs) of the Project, as amortized using a commercially reasonable interest rate over the time period reasonably estimated by Landlord to recover the costs thereof taking into consideration the anticipated cost savings, as determined by Landlord using its good faith, commercially reasonable judgment, as well as capital improvements made in order to comply with any Law hereafter promulgated by any governmental authority, or any amendment to or any

interpretation hereafter rendered with respect to any existing Law that have the effect of changing the legal requirements applicable to the Project from those currently in effect, as amortized using a commercially reasonable interest rate over the useful economic life of such improvements as determined by Landlord in its reasonable discretion; (d) cost of all utilities, except Electrical Costs and the cost of any utilities directly reimbursable to Landlord by the Project's tenants other than pursuant to a provision similar to this Section 4.2.2; (e) insurance expenses, including the cost of any commercially reasonable deductibles; (f) repairs, replacements, and general maintenance of the Project; (g) fair market rental and other costs with respect to the management office for the Project; and (h) service, maintenance and management contracts and fees (payable to Landlord, Landlord's affiliate or a third-party management company; provided that any costs paid to Landlord or Landlord's affiliate for management services shall exclude amounts paid in excess of the competitive rates for management services of comparable quality rendered by persons or entities of similar skill, competence and experience) for the operation, maintenance, management, repair, replacement, or security of the Project (including alarm service, window cleaning, janitorial, security, landscape maintenance and elevator

maintenance), provided that in no event shall the management fee exceed 4% of the gross revenues of the Project. Landlord shall have the right to allocate costs among different uses of space in the Project if Landlord reasonably determines the costs for operating, maintaining and repairing such different spaces differ from other spaces within the Project. To the extent any Operating Costs, Taxes or Electrical Costs are shared among the multi-building complex of which the Building is a part (the "**related complex**" which includes both Riata Corporate Park and Riata Crossing), such amounts shall be prorated among the Project and the other buildings of the related complex, as reasonably determined by Landlord.

Operating Costs shall not include costs for (1) capital improvements made to the Project, other than capital improvements described in Section 4.2.2(c) and except for items which are generally considered maintenance and repair items, such as painting and wall covering of common areas, replacement of carpet or other floor coverings in elevator lobbies and common areas, and the like; (2) repair, replacements and general maintenance paid by proceeds of insurance, condemnation awards, or directly by Tenant or other third parties; (3) interest, amortization or other payments on loans to Landlord; (4) depreciation; (5) leasing commissions; (6) legal expenses for services, other than those that benefit the Project tenants generally (e.g., tax disputes and negotiation of vendor contracts); (7) renovating or otherwise improving space for specific occupants of the Project or vacant leasable space in the Project, other than costs for repairs, maintenance and compliance with Laws provided or made available to the Project tenants generally; (8) Taxes; (9) federal income taxes imposed on or measured by the income of Landlord from the operation of the Project; (10) Electrical Costs; (11) costs of advertising and public relations, or other promotional costs associated with promoting the Project, Building or the Land (but not including Tenant-appreciation or other similar events held for the benefit of Building tenants, which may be included in Operating Costs); (12) except as permitted by clause (6) above, costs incurred in connection with disputes (including a breach by Landlord under any lease at the Project or any other agreement) with actual or prospective tenants or other occupants of the Building, or with actual or prospective employees, consultants, management agents, leasing agents, purchasers, ground lessors or mortgagees of the Project or any portion thereof; (13) costs incurred in connection with the sale, financing, refinancing, mortgaging, selling, leasing (underlying or space) or change of ownership (directly or indirectly) or other similar transactions relating to the Project or any portion thereof; (14) base rent payments made on any ground or underlying lease; (15) lease takeover or takeback costs incurred by Landlord in connection with leases in the Project; (16) costs paid or incurred in connection with the removal, replacement, enclosure, encapsulation or other treatment of any Hazardous Materials brought into the Project in violation of Laws as enacted and interpreted as of the Lease Date (except that there may be included in Operating Costs the costs of disposing from the Project Hazardous Materials which (i) are used in compliance with applicable Laws; (ii) are used in the ordinary day-to-day operation and maintenance of the Project, and (iii) are not attached to the Building [e.g., costs of disposing of cleaning fluids or photocopying toner would be includable]); (17) all costs and expenses incurred by Landlord in connection with the formation, and maintaining in good standing, of any corporate or other legal entity that constitutes Landlord or any affiliate of Landlord; (18) all charitable or political contributions; and (19) costs due to Landlord's gross negligence or willful misconduct. In no event shall Operating Costs include any costs or expenses directly or indirectly related to the acquisition, design, entitlement, permitting, construction, operation, maintenance or repair of any parking lot or facility acquired in connection with the Project or related complex for the benefit of any other tenant or occupant of the Project or related complex, the use of which is not offered to Tenant.

4.2.3 **Taxes; Taxes Defined.** Tenant shall also pay Tenant's Proportionate Share of Taxes. Tenant shall pay Tenant's Proportionate Share of Taxes in the same manner as provided above for Tenant's Proportionate Share of Operating Costs. "**Taxes**" means taxes, assessments, and governmental charges or fees whether federal, state, county or municipal, and whether they be by taxing districts or authorities presently taxing or by others, subsequently created or otherwise, and any other taxes and assessments (including non-governmental assessments [including assessments from any applicable property owner's association] for common charges under a restrictive covenant, declaration of covenants, restrictions and easements or other private agreement that are not treated as part of Operating Costs) now or hereafter attributable to the Project (or its operation), excluding, however, penalties and interest thereon and federal and state taxes on income. However, if the present method of taxation changes so that in lieu of or in addition to the whole or any part of any Taxes, there is levied on Landlord a capital tax directly on the rents or revenues received from the Project or a franchise tax, margin tax, assessment, or charge based upon

such rents or revenues for the Project, then all such taxes, assessments, or charges, or the part thereof so based, shall be deemed to be included within the term "Taxes" for purposes hereof, but only to the extent such capital tax, franchise tax, margin tax, assessment or charge is attributable to rents from the Project, and excluding (i) any federal income tax payable by Landlord, and (ii) any tax on rents received from other property owned by Landlord. Notwithstanding anything to the contrary herein, Taxes shall include the Texas margin tax and/or any other business tax imposed under Texas Tax Code Chapter 171 and/or any successor statutory provision to the extent attributable to rents received from the Project, and excluding (i) any federal income tax payable by Landlord, and (ii) any tax on rents received from other property owned by Landlord. Taxes shall include the costs of consultants retained in an effort to lower taxes and all costs incurred in disputing any taxes or in seeking to lower the tax valuation of the Project. For property tax purposes, Tenant waives all rights to protest or appeal the appraised value of the Premises, as well as the Project, and all rights to receive notices of reappraisement as set forth in Sections 41.413 and 42.015 of the Texas Tax Code. From time to time during any calendar year, Landlord may estimate or re-estimate the Taxes to be due by Tenant for that calendar year and deliver a copy of the estimate or re-estimate to Tenant. Thereafter, the monthly installments of Taxes payable by Tenant shall be appropriately adjusted in accordance with the estimations.

4.2.4 **Electrical Costs.** Tenant shall also pay to Landlord Tenant's Proportionate Share of Electrical Costs. As used herein, "**Electrical Costs**" means the cost of all electricity used by the Project, which shall include sales, use, excise or other taxes assessed by governmental authorities on electrical services supplied to the Project, but which shall not include separately metered electricity payable directly to Landlord by Tenant or any other tenant or occupant of the Project. Such amount shall be payable in monthly installments on the Commencement Date and on the first day of each calendar month thereafter. Each installment shall be based on Landlord's estimate of the amount due for each month. From time to time during any

calendar year, Landlord may estimate or re-estimate the Electrical Costs to be due by Tenant for that calendar year and deliver a copy of the estimate or re-estimate to Tenant. Thereafter, the monthly installments of Electrical Costs payable by Tenant shall be appropriately adjusted in accordance with the estimations.

4.2.5 **Reconciliation Statement.** By April 30 of each calendar year, or as soon thereafter as practicable (but in no event later than June 30 of any calendar year, unless there is a pending tax contest or similar item beyond Landlord's reasonable control), Landlord shall furnish to Tenant a statement of Operating Costs and Electrical Costs for the previous year, in each case adjusted as provided in Section 4.2.6, and of the Taxes for the previous year (the "**Reconciliation Statement**"). If Tenant's estimated payments of Operating Costs, Taxes or Electrical Costs under this Section 4.2 for the year covered by the Reconciliation Statement exceed Tenant's Proportionate Share of such items as indicated in the Reconciliation Statement, then Landlord shall credit or reimburse Tenant for such excess within 30 days after Landlord furnishes the Reconciliation Statement to Tenant; likewise, if Tenant's estimated payments of Operating Costs, Taxes or Electrical Costs under this Section 4.2 for such year are less than Tenant's Proportionate Share of such items as indicated in the Reconciliation Statement, then Tenant shall pay Landlord such deficiency within 30 days of invoice from Landlord. If a reimbursement from Landlord or a payment from Tenant is due with respect to Tenant's payments of estimated Additional Rent for the year in which the Term of the Lease expires, then such obligation shall survive expiration of the Lease and such reimbursement by Landlord or payment by Tenant, as applicable, shall be due within thirty (30) days of Landlord's delivery of the Reconciliation Statement.

4.2.6 **Gross Up.** With respect to any calendar year or partial calendar year in which the Project is not occupied to the extent of 95% of the rentable area thereof, or Landlord is not supplying comparable services to 95% of the rentable area thereof, the Operating Costs and Electrical Costs for such period which vary with the occupancy of the Project or level of service shall, for the purposes hereof, be increased to the amount which would have been incurred had the Project been occupied to the extent of 95% of the rentable area thereof and Landlord had been supplying comparable services to 95% of the rentable area thereof.

5. **Delinquent Payment; Handling Charges.** All payments required of Tenant hereunder that are more than five days past due shall bear interest from the date due until paid at the lesser of eighteen percent per

annum or the maximum lawful rate of interest (such lesser amount is referred to herein as the "**Default Rate**"); additionally, Landlord, in addition to all other rights and remedies available to it, may charge Tenant a late fee equal to the greater of (a) five percent of the delinquent payment, or (b) $250, to reimburse Landlord for its cost and inconvenience incurred as a consequence of Tenant's delinquency. In no event, however, shall the charges permitted under this Section 5 or elsewhere in this Lease, to the extent they are considered to be interest under applicable Law, exceed the maximum lawful commercial rate of interest.

6. **Security Deposit.** Contemporaneously with the execution of this Lease, Tenant shall pay to Landlord the Security Deposit, which shall be held by Landlord to secure Tenant's performance of its obligations under this Lease. The Security Deposit is not an advance payment of Rent or a measure or limit of Landlord's damages upon an Event of Default (as defined herein). Landlord may, from time to time following an Event of Default and without prejudice to any other remedy, use all or a part of the Security Deposit to perform any obligation Tenant fails to perform hereunder. Following any such application of the Security Deposit, Tenant shall pay to Landlord on demand the amount so applied in order to restore the Security Deposit to its original amount. Provided that Tenant has performed all of its obligations hereunder, Landlord shall, within 60 days after the expiration of the Term and Tenant's surrender of the Premises in compliance with the provisions of this Lease, return to Tenant the portion of the Security Deposit which was not applied to satisfy Tenant's obligations. Notwithstanding the preceding sentence and to the extent permitted by applicable Law, Landlord may retain that portion of the Security Deposit which Landlord reasonably estimates is necessary to pay all amounts payable by Tenant under this Lease (including all reconciliation amounts payable by Tenant for the year in which the Term expires) until such time after the expiration of the Term that Landlord is actually able to reconcile and confirm such amounts payable by Tenant under this Lease have been paid in full by Tenant (e.g., Landlord cannot reconcile and confirm Tenant has paid Tenant's Proportionate Share of Taxes for the calendar year in which the Term expires if Landlord has not received a Tax bill from all applicable taxing authorities at the time of such expiration); provided, however, the portion of the Security Deposit retained by Landlord pursuant to the foregoing shall not exceed 50% of the total Security Deposit required by this Lease. The Security Deposit may be commingled with other funds, and no interest shall be paid thereon. If Landlord transfers its interest in the Premises and the transferee assumes Landlord's obligations under this Lease, then Landlord may assign the Security Deposit to the transferee and Landlord thereafter shall have no further liability for the return of the Security Deposit. The rights and obligations of Landlord and Tenant under this Section 6 are subject to any other requirements and conditions imposed by Laws applicable to the Security Deposit.

7. **Landlord's Obligations.**

7.1 **Services.** Landlord shall use all reasonable efforts to furnish to Tenant; (a) water at those points of supply provided for general use of tenants of the Building; (b) the equipment to provide heated and refrigerated air conditioning ("**HVAC**") as appropriate, at such temperatures and in such amounts as are standard for comparable buildings with comparable densities and heat loads in the vicinity of the Building (not to exceed the current HVAC system's capacity existing as of the Lease Date); (c) janitorial service to the Premises five days per week, other than holidays, for Building-standard installations and such window washing as may from time to time be reasonably required; (d) elevators for ingress and egress to the floor on which the Premises are located, in common with other tenants, provided that Landlord may reasonably limit the number of operating elevators during non-business hours and holidays; and (e) electrical current during normal business hours for equipment that does not require more than 110 volts and whose electrical energy consumption does not exceed normal office usage. If Tenant desires janitorial service at other than normal service times, or HVAC service: (1) at any time other than between 7:00 a.m. and 7:00 p.m. on weekdays and between 8:00 a.m. and 1:00 p.m. on Saturdays (in each case other than holidays), or (2) on Sundays or holidays, then such services shall be supplied to Tenant upon the written request (or such other means as may be provided by Landlord for all Building tenants) by Tenant delivered to Landlord's designated property manager before 3:00 p.m. on the business day preceding such extra usage, and Tenant shall pay to Landlord its then standard cost of such services (which shall not be included in Tenant's Proportionate Share of Operating Costs or Electrical Costs) within 30 days after Landlord has delivered to Tenant an invoice therefor. Tenant acknowledges that the cost components for providing after-hours HVAC service to the Premises are not separately metered; accordingly, Landlord's determination of after-hours HVAC charges is an estimate of the costs incurred by Landlord in providing such after-hours HVAC service to Tenant. The costs charged to Tenant for such after-hours service shall include Landlord's reasonable allocation of the costs for electricity, water, sewage, water treatment, labor, metering, filtering, equipment depreciation, wear and tear and maintenance to provide such service

and an administrative fee of 15%. Landlord's reasonable estimate of 2012 after-hours charges for HVAC is $15.00 per hour per zone in the Building (with a two-hour minimum), plus any applicable sales or other taxes; however, Landlord and Tenant agree that such figure may be adjusted for increases in Landlord's costs for providing such services and shall not be interpreted as the maximum amount which may be charged to Tenant during the Term. With respect to the calculation of the foregoing, Landlord covenants that, during the Term, there shall be no more than two HVAC zones in the Premises leased to Tenant as of the Lease Date.

7.2 **Excess Utility Use.** Landlord shall not be required to furnish electrical power that exceeds Tenant's floor proportionate share of the electrical capacity of the Building floor on which the Premises are located made available for general tenant usage. If Tenant's requirements for or consumption of electricity exceed the electricity to be provided by Landlord as described in Section 7.1, Landlord shall, at Tenant's expense, make reasonable efforts to supply such service through the then-existing feeders and risers serving the Building and the Premises, provided the additional use of such feeders and risers caused by Tenant's excess electrical requirements do not adversely affect Landlord's ability to provide reasonable electrical service to the balance of the Building (as determined by Landlord in the exercise of its reasonable discretion); and Tenant shall pay to Landlord the cost of such service within 30 days after Landlord has delivered to Tenant an invoice therefor. Landlord may determine the amount of such additional consumption and potential consumption by any verifiable method, including installation of a separate meter in the Premises installed, maintained, and read by Landlord, at Tenant's expense. Tenant shall not install any electrical equipment requiring special wiring or requiring voltage in excess of 110 volts unless approved in advance by Landlord, which approval shall not be unreasonably withheld. Tenant shall not install any electrical equipment requiring voltage in excess of the prorata capacity available to Tenant as of the date of this Lease unless approved in advance by Landlord, which approval may be withheld in Landlord's sole discretion. The use of electricity in the Premises shall not exceed the capacity of existing feeders and risers to or wiring in the Premises. Any risers or wiring required to meet Tenant's excess electrical requirements shall, upon Tenant's written request, be installed by Landlord, at Tenant's cost, if, in Landlord's judgment, the same are necessary and shall not cause permanent damage to the Building or the Premises, cause or create a dangerous or hazardous condition, entail excessive or unreasonable alterations, repairs, or expenses, adversely affect Landlord's ability to provide reasonable service to the balance of the Building, or interfere with or disturb other tenants of the Building. If Tenant (a) uses machines or equipment in the Premises or (b) operates within the Premises at a density, either of which (1) affects the temperature otherwise maintained by the air conditioning system or (2) otherwise overloads any utility, Landlord may install supplemental air conditioning units or other supplemental equipment in the Premises, and the cost thereof, including the cost of design, installation, operation, use, and maintenance, in each case plus an administrative fee of 15% of such cost, shall be paid by Tenant to Landlord within 30 days after Landlord has delivered to Tenant an invoice therefor. To the extent practicable, and subject to Landlord's prior written consent, not to be unreasonably withheld, conditioned or delayed, Tenant shall have the right to elect, at Tenant's sole cost and expense, to separately submeter electricity consumption in the entire Premises or any portion thereof. If Tenant elects, and Landlord approves, separately submetering the any portion of the Premises, Landlord and Tenant shall enter into an amendment to this Lease revising Tenant's obligations for the payment of Electrical Costs, including separately submetered electricity usage, common area electricity usage, and any portions of the Premises not covered by the separate submeter(s).

7.3 **Restoration of Services; Abatement.** Landlord shall use reasonable efforts to restore any service required of it under Section 7.1 that becomes unavailable; however, such unavailability shall not render Landlord liable for any damages caused thereby, be a constructive eviction of Tenant, constitute a breach of any implied warranty, or, except as provided in the next sentence, entitle Tenant to any abatement of Tenant's obligations hereunder. If, however, Tenant is prevented from using, and does not use, any portion of the Premises because of the unavailability of any such service for a period of ten consecutive business days following Landlord's receipt from Tenant of a written notice regarding such unavailability, and such unavailability was not caused by a Tenant Party or a governmental directive, then Tenant shall, as its exclusive remedy, be entitled to a proportionate abatement of Basic Rent and Additional Rent based upon the portion of the Premises affected, for each consecutive day (after such ten-business-day period) that Tenant is so prevented from using the Premises.

7.4 **Repair and Maintenance by Landlord.** Landlord shall maintain and repair the common areas of the Project, Building's Structure (including any structural elements within or affecting the Premises), the core portions of the Building's Systems, the parking areas and other exterior areas of the Project, including driveways, alleys, landscape and grounds of the Project and utility lines in a good condition, consistent

with the operation of similar class office buildings in the market in which the Project is located, including maintenance, repair and replacement of the exterior of the Project (including painting), landscaping, sprinkler systems and any items normally associated with the foregoing. All costs in performing the work described in this Section shall be included in Operating Costs except to the extent excluded by Section 4.2. In no event shall Landlord be responsible for alterations to the Building's Structure required by applicable Law solely because of Tenant's specific use of the Premises (as opposed to alterations required by applicable Law which are generally applicable to tenants of the Building), or alterations or improvements to the Premises made by or for a Tenant Party (which alterations shall be made by Landlord at Tenant's sole cost and expense and on the same terms and conditions as Landlord performed repairs as described in Section 8.2 below). Notwithstanding anything to the contrary contained herein, Landlord shall, in its commercially-reasonable discretion, determine whether, and to the extent, repairs or replacements are the appropriate remedial action.

8. **Improvements; Alterations; Repairs; Maintenance.**

8.1 **Improvements; Alterations.** Improvements to the Premises shall be installed at Tenant's expense only in accordance with plans and specifications which have been previously submitted to and approved in writing by Landlord, which approval shall be governed by the provisions set forth in this Section 8.1. No alterations or physical additions in or to the Premises (including the installation of systems furniture or other equipment or personal property that affects or otherwise connects to the Building's Systems) may be made without Landlord's prior written consent, which shall not be unreasonably withheld or delayed; however, Landlord may withhold its consent to any alteration or addition that would (a) adversely affect (in the reasonable discretion of Landlord) the Building's Structure or the Building's Systems (including the Project's restrooms or mechanical rooms), or (b) affect (in the sole discretion of Landlord) the (1) exterior appearance of the Project, (2) appearance of the Project's common areas or elevator lobby areas, (3) quiet enjoyment of other tenants or occupants of the Project, or (4) provision of services to other occupants of the Project. To the extent that Landlord grants Tenant the right to use areas within the Project, whether pursuant to the terms of this Lease or through plans and specifications subsequently approved by Landlord (and without implying that Landlord shall grant any such approvals), (A) in no event may Tenant use more than its Proportionate Share of the areas within the Building or utility capacity made available by Landlord for general tenant usage for Tenant's installations and operations in the Premises (including chilled water, electricity, telecommunications room space, electrical room space, plenum space and riser space), and (B) Tenant shall comply with the provisions of this Section with respect to all such items, including Tenant's Off-Premises Equipment. Tenant shall not paint or install lighting or decorations, signs, window or door lettering, or advertising media of any type visible from the exterior of the Premises without the prior written consent of Landlord, which consent may be withheld in Landlord's sole and absolute discretion. Notwithstanding the foregoing, but subject to Section 8.2 below with respect to the Visible Premises, Tenant shall not be required to obtain Landlord's consent for repainting, recarpeting, or other alterations, tenant improvements, or physical additions to the Premises which are cosmetic in nature totaling less than $15,000 in any single instance or series of related alterations performed within a six-month period ("**Permitted Alterations**") (provided that Tenant shall not perform any improvements, alterations or additions to the Premises in stages as a means to subvert this provision), in each case provided that (i) Tenant delivers to Landlord written notice thereof, a list of contractors and subcontractors to perform the work (and certificates of insurance for each such party) and any plans and specifications therefor prior to commencing any such alterations, additions, or improvements (for informational purposes only so long as no consent is required by Landlord as required by this Lease), (ii) the installation thereof does not require the issuance of any building permit or other governmental approval, or involve any

core drilling or the configuration or location of any exterior or interior walls of the Building, and (iii) such alterations, additions and improvements will not affect (x) the Building's Structure or the Building's Systems, (y) the provision of services to other Building tenants, or (z) the appearance of the Building's common areas or the exterior of the Building. All alterations, additions, and improvements shall be constructed, maintained, and used by Tenant, at its risk and expense, in accordance with all Laws; Landlord's consent to or approval of any alterations, additions or improvements (or the plans therefor) shall not constitute a representation or warranty by Landlord, nor Landlord's acceptance, that the same comply with sound architectural and/or engineering practices or with all applicable Laws, and Tenant shall be solely responsible for ensuring all such compliance.

8.2 **Repair and Maintenance by Tenant.** Tenant shall maintain the Premises in a clean, safe, and operable condition, and shall not permit or allow to remain any waste or damage to any portion of the Premises. If the Premises include, now or hereafter, one or more floors of the Building in their entirety, all corridors

and restroom facilities located on such full floor(s) shall be considered to be a part of the Premises. Additionally, Tenant, at its sole expense, shall repair, replace and maintain in good condition and in accordance with all Laws and the equipment manufacturer's suggested service programs, all portions of the Premises (excluding the core portion of the Building's Systems, which shall be maintained by Landlord pursuant to Section 7.4, and the branch lines of the plumbing, electrical and HVAC systems, including all duct work, exclusively serving the Premises, which shall be maintained by Landlord at Tenant's cost and expense) and Tenant's Off-Premises Equipment, if any, and all areas, improvements and separate systems, e.g., supplemental HVAC systems, if any, exclusively serving the Premises. Notwithstanding any other provision in this Lease to the contrary, with respect to any portion of the Premises visible from any common area inside or outside of the Building (the "**Visible Premises**"). Tenant shall (a) maintain such Visible Premises and furniture, fixtures and equipment located therein in a neat and first-class condition throughout the Term and any extension thereof, (b) not use the Visible Premises for storage, (c) obtain Landlord's prior written consent as to the interior paint color, signage, carpeting, furniture and equipment contained in the Visible Premises, (d) complete within the Visible Premises any requested cleaning within one business day after Landlord's written request therefor, and (e) complete within the Visible Premises any requested repairs, alterations or changes within five business days after Landlord's written request therefor. Tenant shall repair or replace, subject to Landlord's direction and supervision, any damage to the Project caused by a Tenant Party. If (1) Tenant fails to commence to make such repairs or replacements within 15 days after the occurrence of such damage and thereafter diligently pursue the completion thereof (or, in the case of an emergency, such shorter period of time as is reasonable given the circumstances), or (2) notwithstanding such diligence, Tenant fails to complete such repairs or replacements within 30 days after the occurrence of such damage (or, in the case of an emergency, such shorter period of time as is reasonable given the circumstances), then Landlord may make the same at Tenant's cost. If any such damage occurs outside of the Premises, or if such damage occurs inside the Premises but affects the Building's Systems and/or Building's Structure or any other area outside the Premises, then Landlord may elect to repair such damage at Tenant's expense, rather than having Tenant repair such damage. The actual, reasonable out-of-pocket cost of all maintenance, repair or replacement work performed by Landlord under this Section 8, in each case plus an administrative fee of 15% of such cost, shall be paid by Tenant to Landlord within 30 days after Landlord has invoiced Tenant therefor.

8.3 **Performance of Work.** All work described in this Section 8 shall be performed only by Landlord or by contractors and subcontractors approved in writing by Landlord and only in accordance with plans and specifications approved by Landlord in writing. If Landlord elects, in its sole discretion, to supervise any work described in this Section 8, Tenant shall pay to Landlord a construction management fee equal to 5% of the cost of such work. Tenant shall cause all contractors and subcontractors to procure and maintain insurance coverage naming Landlord, Landlord's Mortgagee, Landlord's property management company and Landlord's asset management company as additional insureds against such risks, in such amounts, and with such companies as Landlord may reasonably require. Tenant shall provide Landlord with the identities, mailing addresses and telephone numbers of all persons performing work or supplying materials prior to beginning such construction and Landlord may post on and about the Premises notices of non-responsibility pursuant to applicable Laws. All such work shall be performed in accordance with all Laws and in a good and workmanlike manner so as not to damage the Building (including the Premises, the Building's Structure and the Building's Systems) and shall use materials of a quality that is at least equal to the quality designated by Landlord as the minimum standard for the Building, and in such manner as to cause a minimum of disruption to the other occupants of the Project and interference with other construction in progress and with the transaction of business in the Project and the related complex. Landlord may designate reasonable rules, regulations and procedures for the performance of all such work in the Building (including insurance requirements for contractors) and, to the extent reasonably necessary to avoid disruption to the occupants of the Building, shall have the right to designate the time when such work may be performed. All such work which may affect the Building's Structure or the Building's Systems must be approved by the Project's engineer of record, at Tenant's expense and, at Landlord's election, must be performed by Landlord's usual contractor for such work. All work affecting the roof of the Building must be performed by Landlord's roofing contractor and no such work will be permitted if it would void or reduce or otherwise adversely affect the warranty on the roof. Upon completion of any work described in this Section 8, except with respect to any Permitted Alterations or any repairs required to be made by Tenant under Section 8.2, Tenant shall furnish Landlord with accurate reproducible "as-built" CADD files of the improvements as constructed.

8.4 **Mechanic's Liens.** All work performed, materials furnished, or obligations incurred by or at the request of a Tenant Party shall be deemed authorized and ordered by Tenant only, and Tenant shall not

permit any mechanic's or construction liens to be filed against the Premises or the Project in connection therewith. Upon completion of any such work, Tenant shall deliver to Landlord final unconditional lien waivers from all contractors, subcontractors and materialmen who performed such work. If such a lien is filed, then Tenant shall, within ten business days after Landlord has delivered notice of the filing thereof to Tenant (or such earlier time period as may be necessary to prevent the forfeiture of the Premises, the Project or any interest of Landlord therein or the imposition of a civil or criminal fine with respect thereto), either (a) pay the amount of the lien and cause the lien to be released of record, or (b) diligently contest such lien and deliver to Landlord a bond or other security reasonably satisfactory to Landlord. If Tenant fails to timely take either such action, then Landlord may pay the lien claim, and any amounts so paid, including actual, out-of-pocket expenses and applicable interest, shall be paid by Tenant to Landlord within ten business days after Landlord has invoiced Tenant therefor. Landlord and Tenant acknowledge and agree that their relationship is and shall be solely that of "landlord-tenant" (thereby excluding a relationship of "owner-contractor," "owner-agent" or other similar relationships) and that Tenant is not authorized to act as Landlord's common law agent or construction agent in connection with any work performed in the Premises. Accordingly, all materialmen, contractors, artisans, mechanics, laborers and any other persons now or hereafter contracting with Tenant, any contractor or subcontractor of Tenant or any other Tenant Party for the furnishing of any labor, services, materials, supplies or equipment with respect to any portion of the Premises, at any time from the date hereof until the end of the Term, are hereby charged with notice that they look exclusively to Tenant to obtain payment for same. Nothing herein shall be deemed a consent by Landlord to any liens being placed upon the Premises, the Project or Landlord's interest therein due to any work performed by or for Tenant or deemed to give any contractor or subcontractor or materialman any right or interest in any funds held by Landlord to reimburse Tenant for any portion of the cost of such work. Tenant shall defend, indemnify and hold harmless Landlord and its agents and representatives from and against all claims, demands, causes of action, suits, judgments, damages and expenses (including attorneys' fees) in any way arising from or relating to the failure by any Tenant Party to pay for any work performed, materials furnished, or obligations incurred by or at the request of a

Tenant Party, except to the extent such claim, demand, cause of action, suit, judgment, damage or expense is solely attributable to Landlord's failure to comply with the Lease (including the provisions of this Section 8). This indemnity provision shall survive termination or expiration of this Lease.

8.5 **Janitorial Services**. Landlord, as part of Operating Costs, shall provide janitorial services in the Premises and arrange for trash removal and recycling services from the Premises. Notwithstanding the forgoing, Tenant shall have the right to provide janitorial services to the Premises at Tenant's sole cost and expense, in lieu of using the janitorial service provided by Landlord, provided (a) Tenant gives Landlord prior written notice that Tenant intends to provide such service, which notice shall specify the name of the janitorial service provider Tenant desires to use and the date Tenant desires to commence providing such service (which notice may be given prior to the Commencement Date), (b) Tenant shall not be permitted to use more than one janitorial service provider to provide janitorial services to the Premises (so that different portions of the Premises may not be cleaned by different janitorial service providers), (c) Tenant obtains Landlord's prior written approval (not to be unreasonably withheld or delayed) of such janitorial service provider (or any replacement for such provider), (d) Tenant's janitorial service provider provides janitorial and recycling services for the Premises on weekdays during the Term (exclusive of holidays) in accordance with cleaning specifications that are reasonable and customary for the first class office space, (e) Tenant's provision of janitorial services does not cause any labor disharmony or disruption (subject to the following terms of this Section), (f) Tenant's janitorial service provider is bonded and maintains at all times insurance reasonably required by Landlord (and furnishes evidence to Landlord of such insurance upon request from Landlord, which evidence may include, without limitation, a certificate of insurance, if requested by Landlord) and (g) Landlord shall have the right to require Tenant to cause its janitorial service provider to use "green" cleaning products and equipment to clean the Premises or, if Landlord is maintaining or seeking to obtain a LEED certification for the Building, such products and equipment as are required to be used in order to obtain or maintain such certification. Once Tenant has obtained the necessary approvals from Landlord, Landlord and Tenant shall coordinate to select a date on which Tenant shall commence to provide janitorial services to the Premises and Tenant shall commence to provide such services in accordance with this Section 8.5 on the date agreed upon, using the janitorial service provider approved by Landlord (the "**Approved Janitorial Contractor**") and from and after such date Landlord shall have no further obligation to provide janitorial services to the Premises, except as set forth in the next sentence. If Tenant subsequently elects not to provide janitorial services to the Premises in accordance with this Section 8.5, Landlord agrees to resume providing janitorial services to the Premises in the manner specified above, upon at least 30 days' prior written notice from Tenant and, thereafter, Tenant shall have no further right to provide janitorial services to the Premises. Landlord will not unreasonably

withhold its consent to Tenant's janitorial service provider as long as such provider is a reputable, adequately bonded and insured company (in Landlord's reasonable judgment) with experience cleaning office space in commercial buildings and will not cause labor disharmony or disruption at the Building. If the presence of Tenant's Approved Janitorial Contractor at the Building causes labor disharmony or disruption (as determined by Landlord), Tenant shall take any actions reasonably necessary to resolve such disruption, including having any pickets removed and, at the request of Landlord, suspending any work being performed in the Premises giving rise to such dispute until such time as Landlord shall have given its written consent for the resumption of such work (which consent shall not be unreasonably withheld or delayed). If such dispute cannot be resolved within a reasonable period of time, Tenant's right to provide such janitorial services to the Premises shall terminate, and Landlord shall provide janitorial services to the Premises in the manner specified above.

9. **Use**. Tenant shall continuously occupy and use the Premises only for the Permitted Use and shall comply with all Laws relating to the use, condition, access to, and occupancy of the Premises and will not commit waste, overload the Building's Structure or the Building's Systems or subject the Premises to use that would damage the Premises. The population density within the Premises as a whole shall at no time exceed one person for each 250 rentable square feet in the Premises; however, such population density may from time to time exceed such number on a temporary basis for meetings, conferences and other events of a temporary nature. Subject to the Building rules and regulations attached as Exhibit C hereto and the other provisions of this Lease, Tenant will be provided access to the Premises 24 hours per day, seven days per week. Tenant may use the Premises after normal business hours; however, such hours of operation shall not affect (i) the normal Building hours specified in Section 7.1, or (ii) Tenant's obligation to request and pay for, among other things, after-hours HVAC service as provided in Section 7.1 and all costs and expenses incurred by Landlord as a result of Tenant operating in the Premises beyond the normal Building hours specified in Section 7.1, including any additional cost and expense to provide the services contemplated by this Lease, such as any additional janitorial and day porter service to the common areas, and such costs and services shall be paid by Tenant to Landlord within 30 days following Landlord's delivery to Tenant of an invoice therefor, and such costs shall not be included in Operating Costs. Notwithstanding anything in this Lease to the contrary, as between Landlord and Tenant, (a) except as expressly provided below, Tenant shall bear the risk of complying with Title III of the Americans With Disabilities Act of 1990, any state laws governing handicapped access or architectural barriers, and all rules, regulations, and guidelines promulgated under such laws, as amended from time to time (the "**Disabilities Acts**") in the Premises, and (b) Landlord shall bear the risk of (1) complying with the Disabilities Acts in the common areas of the Building, as well as (2) complying with the Disabilities Acts (as such Disabilities Acts are codified and interpreted as of the date of this Lease) in the Premises to the extent such non-compliance was caused by a condition which existed due to the construction of the Premises (but only if the Working Drawings complied with the Disabilities Acts) as of the date Landlord tenders possession of the Premises to Tenant, in each case in clause (1) and (2) above other than compliance that is necessitated by the use of the Premises for other than the Permitted Use or as a result of any alterations or additions, including the design of any initial tenant improvement work, made by or on behalf of a Tenant Party (which risk and responsibility shall be borne by Tenant). If, however, any non-compliance with the Disabilities Acts in the Premises is due to a defect in the Architect's Working Drawings (as each is defined in Exhibit D hereto), Tenant's sole remedy shall be an action against the Architect, and Landlord shall have no liability therefor (however Landlord, at no cost to Landlord, shall reasonably cooperate with Tenant in any actions against the Architect). The Premises shall not be used for any use which is disreputable, creates extraordinary fire hazards, or results in an increased rate of insurance on the Project or its contents, or for the storage of any Hazardous Materials (other than *de minimis* quantities found in typical office supplies [e.g., photocopier toner] and then only in compliance with all Laws and in a reasonable and prudent manner). Tenant shall not use any substantial portion of the Premises for a "call center," any other telemarketing use, or any credit processing use. Tenant may use any existing wiring or cabling in the Premises in its current "**AS-IS**" condition (and Landlord covenants that such existing wiring shall remain in the Premises during the Term to the extent permitted by Laws); however, any additional wiring or cabling installed by Tenant or modifications made to the existing wiring or cabling shall be at Tenant's sole cost and expense. During the Term, Tenant shall leave any pre-existing but unused wiring and cabling undamaged and in a neat and organized fashion, labeled, and comparable to its current condition. If, because of a Tenant Party's acts or omissions or because Tenant vacates the Premises, the rate of insurance on the Building or its contents increases, then such acts or omissions shall be an Event of Default, Tenant shall pay to Landlord the amount of such increase on demand, and acceptance of such payment shall not waive any of Landlord's other rights. Tenant shall conduct its business and control each other Tenant Party so as not to create any nuisance or unreasonably interfere with other tenants or Landlord in its management of the Project.

10. **Assignment and Subletting.**

10.1 **Transfers**. Except as provided in Section 10.8, Tenant shall not, without the prior written consent of Landlord, (a) assign, transfer, or encumber this Lease or any estate or interest herein, whether directly or by operation of law, (b) permit any other entity to become Tenant hereunder by merger, consolidation, or other reorganization, (c) if Tenant is an entity other than a corporation whose stock is publicly traded, permit the transfer of an ownership interest

in Tenant so as to result in a change in the current direct or indirect control of Tenant, (d) sublet any portion of the Premises, (e) grant any license, concession, or other right of occupancy of any portion of the Premises, (f) permit the use of the Premises by any parties other than Tenant, or (g) sell or otherwise transfer, in one or more transactions, a majority of Tenant's assets (any of the events listed in Section 10.1(a) through 10.1(g) being a "**Transfer**").

10.2 **Consent Standards**. Landlord shall not unreasonably withhold its consent to any assignment of Tenant's entire interest in this Lease or subletting of the Premises, so long as the proposed transferee (a) is creditworthy, (b) will use the Premises for the Permitted Use (thus, excluding, without limitation, uses for credit processing and telemarketing) and will not use the Premises in any manner that would conflict with any exclusive use agreement or other similar agreement entered into by Landlord with any other tenant of the Project or the related complex, (c) will not use the Premises, Building or Project in a manner that would materially increase Operating Costs or the pedestrian or vehicular traffic to the Premises, Building or Project, (d) is not a governmental or quasi-governmental entity, or subdivision or agency thereof, or any other entity entitled to the defense of sovereign immunity, (e) is not another occupant of the Project or the related complex or an Affiliate of such occupant, (f) is not currently and has not in the past been involved in litigation with Landlord or any of its Affiliates, (g) meets Landlord's reasonable standards for tenants of the Project and is otherwise compatible with the character of the occupancy of the Project and the related complex, and (h) is not a person or entity with whom Landlord is then, or has been within the nine-month period prior to the time Tenant seeks to enter into such assignment or subletting, negotiating to lease space in the Project or the related complex or any Affiliate of any such person or entity; otherwise, Landlord may withhold its consent in its sole discretion. Additionally, Landlord may withhold its consent in its sole discretion to any proposed Transfer if any Event of Default by Tenant then exists. For the purposes of clause (h) above, "**negotiating to lease space**" shall mean any of the following: Landlord has received a request for proposal from a prospective tenant or its broker, Landlord has submitted a written lease proposal, or Landlord has initiated space planning for a prospective tenant. Any Transfer made while an Event of Default exists hereunder, irrespective whether Landlord's consent is required hereunder with respect to the Transfer, shall be voidable by Landlord in Landlord's sole discretion. In agreeing to act reasonably, Landlord is agreeing to act in a manner consistent with the standards followed by large institutional owners of commercial real estate and Landlord is permitted to consider the financial terms of the Transfer and the impact of the Transfer on Landlord's own leasing efforts and the value of the Project. Landlord may condition its consent to a Transfer on an increase in the Security Deposit or receipt of a guaranty from a suitable party. Landlord shall not be required to act reasonably in considering any request to pledge or encumber this Lease or any interest therein.

10.3 **Request for Consent**. If Tenant requests Landlord's consent to a Transfer, then, at least 15 business days prior to the effective date of the proposed Transfer, Tenant shall provide Landlord with a written description of all terms and conditions of the proposed Transfer, copies of the proposed documentation, and the following information about the proposed transferee: name and address of the proposed transferee and any entities and persons who own, control or direct the proposed transferee; reasonably satisfactory information about its business and business history; its proposed use of the Premises; banking, financial, and other credit information; and general references sufficient to enable Landlord to determine the proposed transferee's creditworthiness and character. Concurrently with Tenant's notice of any request for consent to a Transfer, Tenant shall pay to Landlord a fee of $500 to defray Landlord's expenses in reviewing such request, and Tenant shall also reimburse Landlord immediately upon request for its reasonable attorneys' fees and other expenses incurred in connection with considering any request for consent to a Transfer (which shall not exceed $1,500, provided Landlord's standard consent form is used without material modification or negotiation).

10.4 **Conditions to Consent**. If Landlord consents to a proposed Transfer, then the proposed transferee shall deliver to Landlord a written agreement whereby it expressly assumes Tenant's obligations hereunder; however, any transferee of less than all of the space in the Premises shall be liable only for obligations under this Lease that are properly allocable to the space subject to the Transfer for the period of the Transfer. No

Transfer shall release Tenant from its obligations under this Lease, but rather Tenant and its transferee shall be jointly and severally liable therefor. Landlord's consent to any Transfer shall not waive Landlord's rights as to any subsequent Transfers and no subtenant of any portion of the Premises shall be permitted to further sublease any portion of its subleased space. If an Event of Default occurs while the Premises or any part thereof are subject to a Transfer, then Landlord, in addition to its other remedies, may collect directly from such transferee all rents becoming due to Tenant and apply such rents against Rent. Tenant authorizes its transferees to make payments of rent directly to Landlord upon receipt of notice from Landlord to do so following the occurrence of an Event of Default hereunder. Landlord shall not be responsible for the costs of any demising walls or other improvements necessitated by a proposed subletting or assignment.

10.5 **Attornment by Subtenants**. Each sublease by Tenant hereunder shall be subject and subordinate to this Lease and to the matters to which this Lease is or shall be subordinate, and each subtenant by entering into a sublease is deemed to have agreed that in the event of termination, re-entry or dispossession by Landlord under this Lease, Landlord may, at its option, take over all of the right, title and interest of Tenant, as sublandlord, under such sublease, and such subtenant shall, at Landlord's option, attorn to Landlord pursuant to the then executory provisions of such sublease, except that Landlord shall not be (a) liable for any previous act or omission of Tenant under such sublease, (b) subject to any counterclaim, offset or defense that such subtenant might have against Tenant, (c) bound by any previous modification of such sublease not approved by Landlord in writing or by any rent or additional rent or advance rent which such subtenant might have paid for more than the current month to Tenant, and all such rent shall remain due and owing, notwithstanding such advance payment, (d) bound by any security or advance rental deposit made by such subtenant which is not delivered or paid over to Landlord and with respect to which such subtenant shall look solely to Tenant for refund or reimbursement, or (e) obligated to perform any work in the subleased space or to prepare it for occupancy, and in connection with such attornment, the subtenant shall execute and deliver to Landlord any instruments Landlord may reasonably request to evidence and confirm such attornment. Each subtenant or licensee of Tenant shall be deemed, automatically upon and as a condition of its occupying or using the Premises or any part thereof, to have agreed to be bound by the terms and conditions set forth in this Section 10.5. The provisions of this Section 10.5 shall be self-operative, and no further instrument shall be required to give effect to this provision.

10.6 **Cancellation**. In the event of a proposed assignment of the Lease or a sublease of more than 35% of the Premises leased to Tenant as of the Lease Date, Landlord may, within 30 days after submission of Tenant's written request for Landlord's consent to such assignment or subletting, cancel this Lease as to the portion of the Premises proposed to be sublet or assigned as of the date the proposed Transfer is to be effective. If Landlord cancels this Lease as to any portion of the Premises, then this Lease shall cease for such portion of the Premises and Tenant shall pay to Landlord all Rent accrued through the cancellation date relating to the portion of the Premises covered by the proposed Transfer. Thereafter, Landlord may lease such portion of the Premises to the prospective transferee (or to any other person) without liability to Tenant. For purposes of clarification and the avoidance of doubt, Landlord's rights under this Section 10.6 shall not apply with respect to any Permitted Transfer (defined below).

10.7 **Additional Compensation**. Tenant shall pay to Landlord, immediately upon receipt thereof, 50% of the excess (or while an Event of Default exists, 100% of the excess) of (a) all compensation received by Tenant for a Transfer less the actual out-of-pocket costs reasonably incurred by Tenant with unaffiliated third parties (i.e., brokerage commissions and tenant finish work) in connection with such Transfer (such costs shall be amortized on a straight-line basis over the term of the Transfer in question) over (b) the Rent allocable to the portion of the Premises covered thereby.

10.8 **Permitted Transfers.** Notwithstanding Section 10.1, Tenant may Transfer all or part of its interest in this Lease or all or part of the Premises or an ownership interest in Tenant so as to result in a change in the direct or indirect control of Tenant (a "**Permitted Transfer**") to the following types of

entities (a "**Permitted Transferee**") without the written consent of Landlord:

10.8.1 an Affiliate of Tenant;

10.8.2 any corporation, limited partnership, limited liability partnership, limited liability company or other business entity in which or with which Tenant, or its corporate successors or

assigns, is merged or consolidated, in accordance with applicable statutory provisions governing merger and consolidation of business entities, so long as (a) Tenant's obligations hereunder are assumed by the entity surviving such merger or created by such consolidation; and (b) the proposed transferee satisfies the Tangible Net Worth/Credit Threshold as of the effective date of the Permitted Transfer;

10.8.3 any corporation, limited partnership, limited liability partnership, limited liability company or other business entity acquiring all or substantially all of Tenant's assets, so long as (a) Tenant's obligations hereunder are assumed by the entity acquiring such assets; and (b) the proposed transferee satisfies the Tangible Net Worth/Credit Threshold as of the effective date of the Permitted Transfer; or

10.8.4 any corporation, limited partnership, limited liability partnership, limited liability company or other business entity or individuals acquiring, directly or indirectly, and whether through an initial public offering of stock or otherwise, a controlling interest in Tenant or any indirect owner of Tenant, so long as Tenant continues to satisfy the Tangible Net Worth/Credit Threshold as of the effective date of the Permitted Transfer.

Tenant shall promptly notify Landlord of any such Permitted Transfer. Tenant shall remain liable for the performance of all of the obligations of Tenant hereunder, or if Tenant no longer exists because of a merger, consolidation, or acquisition, the surviving or acquiring entity shall expressly assume in writing the obligations of Tenant hereunder. Additionally, the Permitted Transferee shall comply with all of the terms and conditions of this Lease, including the Permitted Use, and the use of the Premises by the Permitted Transferee may not violate any other agreements affecting the Premises or the Project or the related complex, Landlord or other tenants of the Project or the related complex. No later than ten business days after the effective date of any Permitted Transfer, Tenant agrees to furnish Landlord with (1) copies of the instrument effecting any of the foregoing Transfers, (2) documentation establishing Tenant's satisfaction of the requirements set forth above applicable to any such Transfer, and (3) evidence of insurance as required under this Lease with respect to the Permitted Transferee. The occurrence of a Permitted Transfer shall not waive Landlord's rights as to any subsequent Transfers, and any subsequent Transfer by a Permitted Transferee shall be subject to the terms of this Section 10. As used herein, the term "**Tangible Net Worth/Credit Threshold**" shall mean (A) the proposed Permitted Transferee has a Tangible Net Worth equal to or greater than $50,000,000 as evidenced by financial statements audited by a certified public accounting firm reasonably acceptable to Landlord, and (B) if the proposed Permitted Transferee has been assigned a Corporate Debt Rating, then such proposed Permitted Transferee's Corporate Debt Rating satisfies the Corporate Debt Rating Requirement. As used herein, "**Tangible Net Worth**" means the excess of total assets over total liabilities, in each case as determined in accordance with generally accepted accounting principles consistently applied ("**GAAP**"), excluding, however, from the determination of total assets all assets which would be classified as intangible assets under GAAP including goodwill, licenses, patents, trademarks, trade names, copyrights, and franchises. "**Corporate Debt Rating**" shall mean either a general corporate debt rating or an unsecured corporate debt rating by either Standard & Poor's Corporation ("**S&P**") or Moody's Investor Service ("**Moody's**"), and "**Corporate Debt Rating Requirement**" shall mean a Corporate Debt Rating of BBB or better (as determined by S&P) and Baa2 or better (as determined by Moody's).

11. **Insurance; Waivers; Subrogation; Indemnity**.

11.1 **Tenant's Insurance**. Effective as of the earlier of (a) the date Tenant enters or occupies the Premises, or (b) the Commencement Date, and continuing throughout the Term, Tenant shall maintain the following insurance policies: (1) commercial general liability insurance (including property damage, bodily injury and personal injury coverage) in amounts of $1,000,000 per occurrence in primary coverage, with an additional $5,000,000 in umbrella coverage or, following the expiration of the initial Term, such greater amounts as landlords of similar class buildings in the Northwest Austin, Texas submarket are then generally requiring (and, if the use and occupancy of the Premises include any activity or matter that is or may be excluded from coverage under a commercial general liability policy [e.g., use of hazardous materials or the sale, service or consumption of alcoholic beverages], Tenant shall obtain such endorsements to the commercial general liability policy or otherwise obtain insurance to insure all liability arising from such activity or matter [including liquor liability, if applicable] in such

amounts as Landlord may reasonably require), insuring Tenant (and naming as additional insureds Landlord and, provided in each case that Landlord has delivered to Tenant written notice of the names and addresses thereof, Landlord's property management company, Landlord's asset management company and, if requested in writing by Landlord, Landlord's Mortgagee), against liability for injury to or death of a person or persons or damage to property arising from the use and occupancy of the Premises and (without implying any consent by Landlord to the installation thereof) the installation, operation, maintenance, repair or removal of Tenant's Off-Premises Equipment, (2) cause of loss-special risk form (formerly "all-risk") insurance (including, but not limited to, sprinkler leakage, ordinance and law, sewer back-up, windstorm and collapse coverage) covering the full value of all alterations and improvements and betterments in the Premises, naming Landlord and Landlord's Mortgagee as additional loss payees as their interests may appear, (3) cause of loss-special risk form (formerly "all-risk") insurance covering the full value of all furniture, trade fixtures, equipment and personal property (including property of Tenant or others) in the Premises or otherwise placed in the Project by or on behalf of a Tenant Party (including Tenant's Off-Premises Equipment), (4) contractual liability insurance sufficient to cover Tenant's indemnity obligations hereunder (but only if such contractual liability insurance is not already included in Tenant's commercial general liability insurance policy), (5) commercial auto liability insurance (if applicable) covering automobiles owned, hired or used by Tenant in carrying on its business with limits not less than $1,000,000 combined single limit for each accident, insuring Tenant (and naming as additional insureds Landlord, Landlord's property management company, Landlord's asset management company and, if requested in writing by Landlord, Landlord's Mortgagee, in each case to the extent Landlord has provided written notice of such names and addressses), (6) worker's compensation insurance and employer's liability insurance with statutory limits, and (7) business interruption insurance in an amount equal to or greater than 12 months of Tenant's actual, sustained probable loss. Tenant's insurance shall be primary and non-contributory when any policy issued to Landlord provides duplicate or similar coverage, and in such circumstance Landlord's policy will be excess over Tenant's policy. Tenant shall furnish to Landlord certificates of such insurance, proof that Tenant's laboratory use is covered by its commercial general liability policy or that Tenant has obtained separate environmental coverage (provided that Tenant shall not be required to obtain or carry separate pollution liability coverage), and such other evidence reasonably satisfactory to Landlord of the maintenance of all insurance coverages required hereunder at least ten days prior to the earlier of the Commencement Date or the date Tenant enters or occupies the Premises (in any event, within ten days of the effective date of coverage), and at least 15 days prior to each renewal of said insurance, and Tenant shall endeavor to obtain a written obligation on the part of each insurance company to notify Landlord at least 30

days before cancellation or a material change of any such insurance policies (and if Tenant is not successful, Tenant shall notify Landlord in writing of such cancellation or material change by the deadlines set forth above). All such insurance policies shall be issued by companies with an A.M. Best rating of A+:VIII or better. However, no review or approval of any insurance certificate or policy by Landlord shall derogate from or diminish Landlord's rights or Tenant's obligations hereunder. If Tenant fails to comply with the foregoing insurance requirements or to deliver to Landlord the certificates or evidence of coverage required herein, Landlord, in addition to any other remedy available pursuant to this Lease or otherwise, may, but shall not be obligated to, obtain such insurance and Tenant shall pay to Landlord on demand the premium costs thereof, plus an administrative fee of 15% of such cost.

11.2 **Landlord's Insurance**. Throughout the Term of this Lease, Landlord shall maintain, as a minimum, the following insurance policies: (a) property insurance for the Building's replacement value (excluding property required to be insured by Tenant), less a commercially-reasonable deductible if Landlord so chooses, and (b) commercial general liability insurance in an amount of not less than $5,000,000. Landlord may, but is not obligated to, maintain such other insurance and additional coverages as it may deem necessary. The cost of all insurance carried by Landlord with respect to the Project shall be included in Operating Costs. The foregoing insurance policies and any other insurance carried by Landlord shall be for the sole benefit of Landlord and under Landlord's sole control, and Tenant shall have no right or claim to any proceeds thereof or any other rights thereunder. Any insurance required to be maintained by Landlord may be taken out under a blanket insurance policy or policies covering other buildings, property or insureds in addition to the Building and Landlord. In such event, the costs of any such blanket insurance policy or policies shall be reasonably allocated to the Project and the other properties covered by such policy or policies as reasonably determined by Landlord and included as part of Operating Costs. Notwithstanding anything in this Lease to the contrary, Landlord's indemnity obligations under this Lease shall be limited to the extent any such claim is insured against under the terms of any insurance policy maintained by Landlord (or is required to be maintained by Landlord under the terms of this Lease); provided that such limitation shall not apply if the act for which there is an indemnity obligation falls under the policy exclusions.

11.3 **No Subrogation; Waiver of Property Claims**. Landlord and Tenant each waives any claim it might have against the other for any damage to or theft, destruction, loss, or loss of use of any property, to the extent the same is insured (or required by this Lease to be insured) against under any insurance policy of the types described in this Section 11 that covers the Project, the Premises, Landlord's or Tenant's fixtures, personal property, leasehold improvements, or business, or is required to be insured against under the terms hereof, **regardless of whether the negligence of the other party caused such Loss (defined below)**. Additionally, Tenant waives any claim it may have against Landlord for any Loss to the extent such Loss is caused by a terrorist act. Each party shall cause its insurance carrier to endorse all applicable policies waiving the carrier's rights of recovery under subrogation or otherwise against the other party. Notwithstanding any provision in this Lease to the contrary, Landlord, its agents, employees and contractors shall not be liable to Tenant or to any party claiming by, through or under Tenant for (and Tenant hereby releases Landlord and its servants, agents, contractors, employees and invitees from any claim or responsibility for) any damage to or destruction, loss, or loss of use, or theft of any property of any Tenant Party located in or about the Project or the related complex, caused by casualty, theft, fire, third parties or any other matter or cause, **regardless of whether the negligence of any party caused such loss in whole or in part.** Tenant acknowledges that Landlord shall not carry insurance on, and shall not be responsible for damage to, any property of any Tenant Party located in or about the Project or the related complex.

11.4 **Indemnity**. Subject to Section 11.3, Tenant shall defend, indemnify, and hold harmless Landlord and its representatives and agents from and against all claims, demands, liabilities, causes of action, suits, judgments, damages, and expenses (including reasonable attorneys' fees) arising from any injury to or death of any person or the damage to or theft, destruction, loss, or loss of use of, any property or inconvenience (a "**Loss**") (a) occurring in or on the Project (other than within the Premises) to the extent caused by the negligence or willful misconduct of any Tenant Party, (b) occurring in the Premises, or (c) arising out of the installation, operation, maintenance, repair or removal of any property of any Tenant Party located in or about the Project, including Tenant's Off-Premises Equipment. **It being agreed that clauses (b) and (c) of this indemnity are intended to indemnify Landlord and its agents against the consequences of their own negligence or fault, even when Landlord or its agents are jointly, comparatively, contributively, or concurrently negligent with Tenant, and even though any such claim, cause of action or suit is based upon or alleged to be based upon the strict liability of Landlord or its agents; however, such indemnity shall not apply to the sole or gross negligence or willful misconduct of Landlord and its agents.** Subject to Section 11.3, Landlord shall defend, indemnify, and hold harmless Tenant and its agents from and against all claims, demands, liabilities, causes of action, suits, judgments, damages, and expenses (including reasonable attorneys' fees) for any Loss arising from any occurrence (1) in or on the Building's or Project's common areas to the extent caused by the negligence of Landlord or its agents, or (2) anywhere at the Project (including the Premises) to the extent caused by the gross negligence or willful misconduct of Landlord or its agents. The indemnities set forth in this Lease shall survive termination or expiration of this Lease and shall not terminate or be waived, diminished or affected in any manner by any abatement or apportionment of Rent under any provision of this Lease. If any proceeding is filed for which indemnity is required hereunder, the indemnifying party agrees, upon request therefor, to defend the indemnified party in such proceeding at its sole cost utilizing counsel satisfactory to the indemnified party.

12. **Subordination; Attornment: Notice to Landlord's Mortgagee**.

12.1 **Subordination**. This Lease shall be subordinate to any deed of trust, mortgage, or other security instrument (each, a "**Mortgage**"), or any ground lease, master lease, or primary lease (each, a "**Primary Lease**"), that now or hereafter covers ail or any part of the Premises (the mortgagee under any such Mortgage, beneficiary under any such deed of trust, or the lessor under any such Primary Lease is referred to herein as a "**Landlord's Mortgagee**"). Any Landlord's Mortgagee may elect, at any time, unilaterally, to make this Lease superior to its Mortgage, Primary Lease, or other interest in the Premises by so notifying Tenant in writing. The provisions of this Section shall be self-operative and no further instrument of subordination shall be required; however, in confirmation of such subordination, Tenant shall execute and return to Landlord (or such other party designated by Landlord) within ten days after written request therefor such documentation, in recordable form if required, as a Landlord's Mortgagee may reasonably request to evidence the subordination of this Lease to such Landlord's Mortgagee's Mortgage or Primary Lease (including a subordination, non-disturbance and attornment agreement) or, if the Landlord's Mortgagee so elects, the subordination of such Landlord's Mortgagee's Mortgage or Primary Lease to this Lease.

12.2 **Attornment**. Tenant shall attorn to any party succeeding to Landlord's interest in the Premises, whether by purchase, foreclosure, deed in lieu of foreclosure, power of sale, termination of lease, or otherwise, upon such party's request, and shall execute such agreements confirming such attornment as such party may reasonably request.

12.3 **Notice to Landlord's Mortgagee**. Tenant shall not seek to enforce any remedy it may have for any default on the part of Landlord without first giving written notice by certified mail, return receipt requested, specifying the default in reasonable detail, to any Landlord's Mortgagee whose address has been given to Tenant by written notice delivered in accordance with Section 25.6 below, and affording such Landlord's Mortgagee a reasonable opportunity to perform Landlord's obligations hereunder.

12.4 **Landlord's Mortgagee's Protection Provisions**. If Landlord's Mortgagee shall succeed to the interest of Landlord under this Lease, Landlord's Mortgagee shall not be: (a) liable for any act or omission of any prior lessor (including Landlord); (b) bound by any rent or additional rent or advance rent which Tenant might have paid for more than the current month to any prior lessor (including Landlord), and all such rent shall remain due and owing, notwithstanding such advance payment; (c) bound by any security or advance rental deposit made by Tenant which is not delivered or paid over to Landlord's Mortgagee and with respect to which Tenant shall look solely to Landlord for refund or reimbursement; (d) bound by any termination, amendment or modification of this Lease made without Landlord's Mortgagee's consent and written approval, except for those terminations, amendments and modifications permitted to be made by Landlord without Landlord's Mortgagee's consent pursuant to the terms of the loan documents between Landlord and Landlord's Mortgagee; (e) subject to the defenses which Tenant might have against any prior lessor (including Landlord); and (f) subject to the offsets which Tenant might have against any prior lessor (including Landlord) except for those offset rights which (1) are expressly provided in this Lease, (2) relate to periods of time following the acquisition of the Building by Landlord's Mortgagee, and (3) Tenant has provided written notice to Landlord's Mortgagee and provided Landlord's Mortgagee a reasonable opportunity to cure the event giving rise to such offset event. Landlord's Mortgagee shall have no liability or responsibility under or pursuant to the terms of this Lease or otherwise after it ceases to own fee simple title to the Project. Nothing in this Lease shall be construed to require Landlord's Mortgagee to see to the application of the proceeds of any loan, and Tenant's agreements set forth herein shall not be impaired on account of any modification of the documents evidencing and securing any loan. Upon the occurrence of a default by Landlord on its obligations to Landlord's Mortgagee (a "**Mortgage Default**") and while such Mortgage Default is continuing, Landlord's Mortgagee is authorized to direct Tenant to make all payments of Rent directly to Landlord's Mortgagee at such address and in such manner as Landlord's Mortgagee shall designate, and Tenant is hereby authorized to pay all Rent due during the continuance of any such Mortgage Default directly to Landlord's Mortgagee without any obligation to inquire into or determine (A) the reasons for paying or delivering such amounts to Landlord's Mortgagee, (B) the application of such amounts, (C) the status of Landlord's relations with Landlord's Mortgagee or its agent, (D) whether a Mortgage Default has occurred, or (E) whether the demand is in compliance with the provisions of any loan. If any conflict exists or arise between the terms of this Section 12.4 and the terms of the mortgagee protection provisions contained in any executed subordination, non-disturbance and attornment agreement, the terms of the mortgagee protection provisions in the executed subordination, non-disturbance and attornment agreement shall prevail.

12.5 **Subordination. Non-Disturbance and Attornment Agreement**. Landlord shall use reasonable efforts to obtain, within 30 days following Tenant's execution of this Lease, a subordination, non-disturbance and attornment agreement from the current Landlord's Mortgagee in the form of Exhibit I hereto or another form reasonably acceptable to Tenant and such Landlord's Mortgagee; however, Landlord's failure to obtain such agreement shall not constitute a default by Landlord hereunder or prohibit the mortgaging of the Building; and further provided that any third-party costs associated with obtaining such subordination, non-disturbance and attornment agreement shall be paid by Tenant within 15 days after Landlord's written request therefor. Landlord represents and warrants to Tenant that, provided Tenant executes the form of subordination, non-disturbance and attornment agreement attached as Exhibit I hereto without any changes other than completing any blanks, there shall be no charge associated with the initial agreement.

13. **Rules and Regulations**. Tenant shall comply with the rules and regulations of the Project which are attached hereto as Exhibit C. Landlord may, from time to time, change such rules and regulations for the safety, care, or cleanliness of the Project and related facilities, provided that such changes are generally applicable to all

tenants of the Project whose leases require such compliance and Tenant is notified of such changes, will not unreasonably interfere with Tenant's use of the Premises and are enforced by Landlord in a non-discriminatory manner among all tenants whose leases require such compliance. Tenant shall be responsible for the compliance or noncompliance with such rules and regulations by each Tenant Party.

14. **Condemnation**.

14.1 **Total Taking**. If the entire Building or Premises are taken by right of eminent domain or conveyed in lieu thereof (a "**Taking**"), this Lease shall terminate as of the date of the Taking.

14.2 **Partial Taking - Tenant's Rights**. If any part of the Building becomes subject to a Taking and such Taking will prevent Tenant from conducting on a permanent basis its business in the Premises in a manner reasonably comparable to that conducted immediately before such Taking, then Tenant may terminate this Lease as of the date of such Taking by giving written notice to Landlord within 30 days after the Taking, and Basic Rent and Additional Rent shall be apportioned as of the date of such Taking. If Tenant does not terminate this Lease, then Basic Rent and Additional Rent shall be abated on a proportional basis as to that portion of the Premises rendered untenantable by the Taking.

14.3 **Partial Taking - Landlord's Rights**. If any material portion, but less than all, of the Building or Project becomes subject to a Taking, or if Landlord is required to pay any of the proceeds arising from a Taking to a Landlord's Mortgagee, then Landlord may terminate this Lease by delivering written notice thereof to Tenant within 30 days after such Taking, and Basic Rent and Additional Rent shall be apportioned as of the date of such Taking. If Landlord does not so terminate this Lease, then this Lease will continue, but if any portion of the Premises has been taken, Basic Rent and Additional Rent shall abate as provided in the last sentence of Section 14.2.

14.4 **Award**. If any Taking occurs, then Landlord shall receive the entire award or other compensation for the Project and other improvements taken; however, Tenant may separately pursue a claim (to the extent it will not reduce Landlord's award) against the condemnor for the value of Tenant's personal property which Tenant is entitled to remove under this Lease, moving costs and loss of business.

15. **Fire or Other Casualty**.

15.1 **Repair Estimate**. If the Premises or the Project are damaged by fire or other casualty (a "**Casualty**"), Landlord shall, within 60 days after such Casualty, deliver to Tenant a good faith estimate (the "**Damage Notice**") of the time needed to repair the damage caused by such Casualty.

15.2 **Tenant's Rights**. If the Premises are damaged by Casualty such that Tenant is prevented from conducting its business in the Premises in a manner reasonably comparable to that conducted immediately before such Casualty and Landlord estimates that the damage caused thereby for which Landlord is responsible to repair under this Lease pursuant to Section 15.4 below cannot be repaired within 210 days after the commencement of repairs (the "**Repair Period**"), then Tenant may terminate this Lease by delivering written notice to Landlord of its election to terminate within 30 days after the Damage Notice has been delivered to Tenant.

15.3 **Landlord's Rights**. If a Casualty occurs and (a) Landlord estimates that the damage cannot be repaired within the Repair Period, (b) the damage exceeds 50% of the replacement cost thereof (excluding foundations and footings), as estimated by Landlord, and such damage occurs during the last two years of the Term, (c) regardless of the extent of damage, the damage is not fully covered by Landlord's insurance policies or Landlord makes a good faith

determination that restoring the damage would be uneconomical, or (d) Landlord is required to pay any insurance proceeds arising out of the Casualty to a Landlord's Mortgagee, then Landlord may terminate this Lease by giving written notice of its election to terminate within 30 days after the Damage Notice has been delivered to Tenant.

15.4 **Repair Obligation**. If neither party elects to terminate this Lease following a Casualty, then Landlord shall, within a reasonable time after such Casualty, begin to repair the Premises and shall proceed with reasonable diligence to restore the Premises to substantially the same condition as they existed immediately

before such Casualty; however, Landlord shall not be required to repair or replace any improvements, alterations or betterments within the Premises (which shall be promptly and with due diligence repaired and restored by Tenant at Tenant's sole cost and expense) or any furniture, equipment, trade fixtures or personal property of Tenant or others in the Premises or the Project, and Landlord's obligation to repair or restore the Premises shall be limited to the extent of the insurance proceeds actually received by Landlord for the Casualty in question. If this Lease is terminated under the provisions of this Section 15, Landlord shall be entitled to the full proceeds of the insurance policies providing coverage for all alterations, improvements and betterments in the Premises (and, if Tenant has failed to maintain insurance on such items as required by this Lease, Tenant shall pay Landlord an amount equal to the proceeds Landlord would have received had Tenant maintained insurance on such items as required by this Lease).

15.5 **Abatement of Rent**. If the Premises are damaged by Casualty, Basic Rent and Additional Rent for the portion of the Premises rendered untenantable by the damage shall be abated on a proportional basis from the date of damage until the earlier of (a) completion of Landlord's repairs, (b) the date upon which completion of Landlord's repairs would have occurred but for delays caused by Tenant Parties, or (c) the date of termination of this Lease by Landlord or Tenant as provided above, as the case may be, unless a Tenant Party caused such damage, in which case, Tenant shall continue to pay Basic Rent and Additional Rent without abatement.

16. **Personal Property Taxes**. Tenant shall be liable for, and shall pay prior to delinquency, all taxes levied or assessed against personal property, furniture, fixtures, betterments, improvements, and alterations placed by any Tenant Party in the Premises or in or on the Building or Project. If any taxes for which Tenant is liable are levied or assessed against Landlord or Landlord's property and Landlord elects to pay the same, or if the assessed value of Landlord's property is increased by inclusion of such personal property, furniture, fixtures, betterments, improvements, and alterations and Landlord elects to pay the taxes based on such increase, then Tenant shall pay to Landlord, within 30 days following written request therefor, the part of such taxes for which Tenant is primarily liable hereunder; however, Landlord shall not pay such amount if Tenant notifies Landlord that it will contest the validity or amount of such taxes before Landlord makes such payment, and thereafter diligently proceeds with such contest in accordance with Law and if the non-payment thereof does not pose a threat of loss or seizure of the Project or interest of Landlord therein or impose any fee or penalty against Landlord.

17. **Events of Default**. Each of the following occurrences shall be an "**Event of Default**" (i.e., a default beyond the applicable notice and cure periods as provided in this Section 17):

17.1 **Payment Default**. Tenant's failure to pay Rent within five days after Landlord has delivered written notice to Tenant that the same is due; however, an Event of Default shall occur hereunder without any obligation of Landlord to give any notice if Tenant fails to pay Rent when due and, during the 12 month interval preceding such failure, Landlord has given Tenant written notice of failure to pay Rent on two or more occasions;

17.2 **Abandonment**. Tenant (a) abandons or vacates the Premises or any substantial portion thereof or (b) fails to continuously operate its business in the Premises;

17.3 **Estoppel; Subordination; Financial Reports**. Tenant fails to provide any estoppel certificate, documentation regarding the subordination of this Lease or financial reports after Landlord's written request therefor pursuant to Section 25.5, Section 12.1, and Section 25.19 respectively, and such failure shall continue for five days after Landlord's second written notice thereof to Tenant;

17.4 **Insurance**. Tenant fails to procure, maintain and deliver to Landlord evidence of the insurance policies and coverages as required under Section 11.1;

17.5 **Mechanic's Liens**. Tenant fails to pay and release of record, or diligently contest and bond around, any mechanic's or construction lien filed against the Premises or the Project for any work performed, materials furnished, or obligation incurred by or at the request of a Tenant Party, within the time and in the manner required by Section 8.4;

17.6 **Other Defaults**. Tenant's failure to perform, comply with, or observe any agreement or obligation of Tenant under this Lease other than provided in this Section 17 and the continuance of such failure for a period of more than 30 days after Landlord has delivered to Tenant written notice thereof; and

17.7 **Insolvency**. The filing of a petition by or against Tenant (the term "Tenant" shall include, for the purpose of this Section 17.7, any guarantor of Tenant's obligations hereunder) (a) in any bankruptcy or other insolvency proceeding; (b) seeking any relief under any state or federal debtor relief law; (c) for the appointment of a liquidator or receiver for all or substantially all of Tenant's property or for Tenant's interest in this Lease; (d) for the reorganization or modification of Tenant's capital structure; or (e) in any assignment for the benefit of creditors proceeding; however, if such a petition is filed against Tenant, then such filing shall not be an Event of Default unless Tenant fails to have the proceedings initiated by such petition dismissed within 90 days after the filing thereof.

18. **Remedies**. Upon any Event of Default, Landlord may, in addition to all other rights and remedies afforded Landlord hereunder or by law or equity, take any one or more of the following actions:

18.1 **Termination of Lease**. Terminate this Lease by giving Tenant written notice thereof, in which event Tenant shall pay to Landlord the sum of (a) all Rent accrued hereunder through the date of termination, (b) all amounts due under Section 19.1, and (c) an amount equal to (but in no event less than zero) (1) the total Rent that Tenant would have been required to pay for the remainder of the Term discounted to present value at a per annum rate equal to the "Prime Rate" as published on the date this Lease is terminated by *The Wall Street Journal* in its listing of "Money Rates" minus one percent, minus (2) the then present fair rental value of the Premises, as determined by Landlord in Landlord's reasonable discretion, for such period, similarly discounted;

18.2 **Termination of Possession**. Terminate Tenant's right to possess the Premises without terminating this Lease by giving written notice thereof to Tenant, in which event Tenant shall pay to Landlord (a) all Rent and other amounts accrued hereunder to the date of termination of possession, (b) all amounts due from time to time under Section 19.1, and (c) all Rent and other net sums required hereunder to be paid by Tenant during the remainder of the Term, diminished by any net sums thereafter received by Landlord through reletting the Premises during such period, after deducting all costs incurred by Landlord in reletting the Premises. If Landlord elects to terminate Tenant's right to possession without terminating this Lease, and to retake possession of the Premises (and Landlord shall have no duty to make such election), Landlord shall use reasonable efforts to relet the Premises as further described in Section 19.4 below. Provided Landlord substantially complies with Section 19.4, Landlord shall not be liable for, nor shall Tenant's obligations hereunder be diminished because of, Landlord's failure to relet the Premises or to collect rent due for such reletting. Tenant shall not be entitled to the excess of any consideration obtained by reletting over the Rent due hereunder. Reentry by Landlord in the Premises shall not affect Tenant's obligations hereunder for the unexpired Term; rather, Landlord may, from time to time, bring an action against Tenant to collect amounts due by Tenant, without the necessity of Landlord's waiting until the expiration of the Term. Unless Landlord delivers written notice to Tenant expressly stating that it has elected to terminate this Lease, all actions taken by Landlord to dispossess or exclude Tenant from the Premises shall be deemed to be taken under this Section 18.2. If Landlord elects to proceed under this Section 18.2, it may at any time elect to terminate this Lease under Section 18.1;

18.3 **Perform Acts on Behalf of Tenant**. Perform any act Tenant is obligated to perform under the terms of this Lease (and enter upon the Premises in connection therewith if necessary) in Tenant's name and on Tenant's behalf, without being liable for any claim for damages therefor, and Tenant shall reimburse Landlord on demand for any expenses which Landlord may incur in thus effecting compliance with Tenant's obligations under this Lease (including, but not limited to, collection costs and legal expenses), plus interest thereon at the Default Rate;

18.4 **Suspension of Services**. Suspend any services required to be provided by Landlord hereunder without being liable for any claim for damages therefor; or

18.5 **Alteration of Locks**. Additionally, with or without notice, and to the extent permitted by Law, Landlord may alter locks or other security devices at the Premises to deprive Tenant of access thereto, and Landlord shall not be required to provide a new key or right of access to Tenant.

19. **Payment by Tenant; Non-Waiver; Cumulative Remedies; Mitigation of Damage**.

19.1 **Payment by Tenant**. Upon any Event of Default, Tenant shall pay to Landlord all amounts, costs, losses and/or expenses incurred, abated or foregone by Landlord (including court costs and reasonable attorneys' fees and expenses) in (a) obtaining possession of the Premises, (b) removing, storing and/or disposing of Tenant's or any other occupant's property, (c) repairing, restoring, altering, remodeling, or otherwise putting the Premises into condition acceptable to a new tenant, (d) if Tenant is dispossessed of the Premises and this Lease is not terminated, reletting all or any part of the Premises (including brokerage commissions, cost of tenant finish work, and other costs incidental to such reletting), (e) performing Tenant's obligations under this Lease which Tenant failed to perform, (f) enforcing, or advising Landlord of, its rights, remedies, and recourses arising out of the default, and (g) securing this Lease, including all commissions, allowances, reasonable attorneys' fees, and if this Lease or any amendment hereto contains any abated Rent granted by Landlord as an inducement or concession to secure this Lease or amendment hereto, the full amount of all Rent so abated (and such abated amounts shall be payable immediately by Tenant to Landlord, without any obligation by Landlord to provide written notice thereof to Tenant, and Tenant's right to any abated rent accruing following such Event of Default shall immediately terminate). To the full extent permitted by law, Landlord and Tenant agree the federal and state courts of the state in which the Premises are located shall have exclusive jurisdiction over any matter relating to or arising from this Lease and the parties' rights and obligations under this Lease.

19.2 **No Waiver**. Landlord's acceptance of Rent following an Event of Default shall not waive Landlord's rights regarding such Event of Default. No waiver by Landlord of any violation or breach of any of the terms contained herein shall waive Landlord's rights regarding any future violation of such term. Landlord's acceptance of any partial payment of Rent shall not waive Landlord's rights with regard to the remaining portion of the Rent that is due, regardless of any endorsement or other statement on any instrument delivered in payment of Rent or any writing delivered in connection therewith; accordingly, Landlord's acceptance of a partial payment of Rent shall not constitute an accord and satisfaction of the full amount of the Rent that is due.

19.3 **Cumulative Remedies**. Any and all remedies set forth in this Lease: (a) shall be in addition to any and all other remedies Landlord may have at law or in equity, (b) shall be cumulative, and (c) may be pursued successively or concurrently as Landlord may elect. The exercise of any remedy by Landlord shall not be deemed an election of remedies or preclude Landlord from exercising any other remedies in the future. Additionally, Tenant shall defend, indemnify and hold harmless Landlord, Landlord's Mortgagee and their respective representatives and agents from and against all claims, demands, liabilities, causes of action, suits, judgments, damages and expenses (including reasonable attorneys' fees) arising from Tenant's failure to perform its obligations under this Lease.

19.4 **Mitigation of Damage**. The parties agree any duty imposed by Law on Landlord to mitigate damages after a default by Tenant under this Lease shall be satisfied in full if Landlord uses reasonable efforts to lease the Premises to another tenant (a "**Substitute Tenant**") in accordance with the following criteria: (a) Landlord shall have no obligation to solicit or entertain negotiations with any Substitute Tenant for the Premises until 60 days following the date upon which Landlord obtains full and complete possession of the Premises, including the relinquishment by Tenant of any claim to possession of the Premises by written notice from Tenant to Landlord; (b) Landlord shall not be obligated to lease or show the Premises on a priority basis or offer the Premises to any prospective tenant when other space in the Project or the related complex is or soon will be available; (c) Landlord shall not be obligated to lease the Premises to a Substitute Tenant for less than the current fair market value of the Premises, as determined by Landlord in its sole discretion, nor will Landlord be obligated to enter into a new lease for the Premises under other terms and conditions that are unacceptable to Landlord under Landlord's then-current leasing policies; (d) Landlord shall not be obligated to enter into a lease with a Substitute Tenant: (1) whose use would violate any restriction, covenant or requirement contained in the lease of another tenant in the Project or the related complex; (2) whose use would adversely affect the reputation of the Project or the related complex; (3) whose use would require any addition to or modification of the Premises or Project or the related complex in order to comply with applicable Law, including building codes; (4) who does not satisfy the Tangible Net Worth/Credit Threshold or who does not have, in Landlord's sole opinion, the creditworthiness to be an acceptable tenant; (5) that is a governmental entity, or quasi-governmental entity, or subdivision or agency thereof, or any other entity entitled to the defense of sovereign immunity; or (6) that does not meet Landlord's reasonable standards for tenants of the Project or the related complex or is otherwise incompatible with the character of the

occupancy of the Project, as reasonably determined by Landlord; and (e) Landlord shall not be required to expend any amount of money to alter, remodel or otherwise make the Premises suitable for use by a Substitute Tenant unless: (1) Tenant pays any such amount to Landlord prior to Landlord's execution of a lease with such Substitute Tenant (which payment shall not relieve Tenant of any amount it owes Landlord as a result of Tenant's default under this Lease); or (2) Landlord, in Landlord's sole discretion, determines any such expenditure is financially prudent in connection with entering into a lease with the Substitute Tenant.

20. **Landlord's Lien**. In addition to any statutory landlord's lien, now or hereafter enacted, Tenant grants to Landlord, to secure performance of Tenant's obligations hereunder, a security interest in all of Tenant's furniture, fixtures, inventory and equipment situated in or upon the Premises or the Project, and all proceeds thereof (except merchandise sold in the ordinary course of business) (collectively, the "**Collateral**"), and the Collateral shall not be removed from the Premises or the Project without the prior written consent of Landlord until all obligations of Tenant have been fully performed. For the purposes of this Section 20, there shall be a rebuttable presumption that all property located in the Premises is owned by Tenant. For the avoidance of doubt, the Collateral shall not include any contract rights, accounts receivable or other similar intangible property of Tenant located at the Premises or the Project or associated with Tenant's use of the Premises. Upon the occurrence of an Event of Default, Landlord may, in addition to all other remedies, without notice or demand except as provided below, exercise the rights afforded to a secured party under the Uniform Commercial Code of the state in which the Premises are located (the "**UCC**"). To the extent the UCC requires Landlord to give to Tenant notice of any act or event and such notice cannot be validly waived before a default occurs, then five-days' prior written notice thereof shall be reasonable notice of the act or event. In order to perfect such security interest, Landlord may file any financing statement or other instrument necessary at Tenant's expense at the state and county Uniform Commercial Code filing offices. Upon Tenant's written request, Landlord shall subordinate the security interest in the Collateral granted to Landlord under this Section 20, to Tenant's primary line of credit provider so long as such credit provider is an institutional lender unaffiliated with Tenant, and Landlord and Tenant shall, at Tenant's expense, execute Landlord's standard form of subordination documentation to evidence such subordination; provided, however, such subordination shall not apply to any Collateral paid for in whole or in part by Landlord.

21. **Surrender of Premises**. No act by Landlord shall be deemed an acceptance of a surrender of the Premises, and no agreement to accept a surrender of the Premises shall be valid unless it is in writing and signed by Landlord. At the expiration or termination of this Lease or Tenant's right to possess the Premises, Tenant shall (a) deliver to Landlord the Premises broom-clean with all improvements located therein in good repair and condition (except for condemnation and Casualty damage not caused by Tenant, as to which Sections 14 and 15 shall control, and reasonable wear and tear, defined below), free of any liens or encumbrances and free of Hazardous Materials placed on the Premises during the Term; (b) deliver to Landlord all keys to the Premises and all access cards to the Project; (c) remove all unattached trade fixtures, furniture (including demountable walls), and personal property placed in the Premises or elsewhere in the Project by a Tenant Party and unattached equipment located in the Premises (but Tenant may not remove any such item which was paid for, in whole or in part, by Landlord unless Landlord requires such removal); (d) remove any and all cabling (including conduit) installed in the Premises or elsewhere in the Project by or on behalf of a Tenant Party, including all connections for such cabling, at Tenant's sole cost (Landlord will have the right, however, upon notice to Tenant, given prior to the expiration or earlier termination of the Term, to require Tenant to abandon and leave in place, without additional payment to Tenant or credit against Rent, any and all such cabling [including conduit], whether located in the Premises or elsewhere in the Project, and if Landlord so elects, Tenant covenants that such cabling (and all pre-existing cabling in the Premises installed by previous tenants and used by Tenant) shall be left in a neat and safe condition in accordance with the requirements of all applicable Laws, including the National Electric Code or any successor statute, and shall be terminated at both ends of a connector, properly labeled at each end and in each electrical closet and junction box); and (e) remove such alterations, additions, improvements, and Tenant's Off-Premises Equipment as Landlord may require and restore the areas surrounding such Tenant's Off-Premises Equipment to their conditions existing immediately prior to the installation of such Tenant's Off-Premises Equipment; however, Tenant shall not be required to remove the existing safety shower or any addition or improvement to the Premises or the Project (including wiring and cabling) if Landlord has specifically agreed in writing that the improvement or addition in question need not be removed. Upon Tenant's written request made no earlier than six months prior to the expiration of the Term, Landlord shall notify Tenant whether Landlord shall require Tenant to remove all wiring, cabling and conduit installed in or about the Premises or the Project by any Tenant Party during the Term, The term "**reasonable wear and tear**" as used herein shall mean such reasonable, normal and customary wear and tear

associated with reasonable, normal and customary use of the item in question that (A) is solely cosmetic in nature and (B) does not impair the function of the item in question for its intended use. Tenant shall repair all damage caused by the removal of the items described above. If Tenant fails to remove any property, including any of the property described above, Landlord may, at Landlord's option, (1) deem such items to have been abandoned by Tenant, the title thereof shall immediately pass to Landlord at no cost to Landlord, and such items may be appropriated, sold, stored, destroyed, or otherwise disposed of by Landlord without notice to Tenant and without any obligation to account for such items; any such disposition shall not be considered a strict foreclosure or other exercise of Landlord's rights in respect of the security interest granted hereunder or otherwise, (2) remove such items, perform any work required to be performed by Tenant hereunder, and repair all damage caused by such work, and Tenant shall reimburse Landlord on demand for any reasonable expenses which Landlord may incur in effecting compliance with Tenant's obligations hereunder (including collection costs and attorneys' fees), plus interest thereon at the Default Rate, or (2) elect any of the actions described in clauses (1) and (2) above as Landlord may elect in its sole discretion. Notwithstanding the requirements of clause (e) above to the contrary, Tenant shall not be required to remove any alterations, installations or improvements constructed inside the Premises as part of the initial Work (defined in Exhibit D hereto) which do not exceed or differ in any material respect from customary, standard type of installations or improvements for general, executive and administrative offices or diagnostic testing laboratories in comparable buildings in the submarket in which the Building is located; however, Tenant may be required by Landlord to remove any non-standard alterations, additions or improvements, including server rooms, data centers, computer rooms, specialty ceilings, or any items that would have above-average demolition costs ("**Non-Standard Alterations**"). In connection with Landlord's review and approval of any of Tenant's proposed alterations, additions or improvements to the Premises, Landlord may notify Tenant in writing, contemporaneously with Landlord's notice of approval to Tenant with respect to the improvements in question, that Landlord will require Tenant to remove such alterations prior to the expiration of the Term; however, if Tenant submits plans and specifications to Landlord for proposed alterations, additions or improvements to the Premises and delivers a Removal Notice (defined below) to Landlord contemporaneously with such submission by Tenant, and Landlord fails to notify Tenant that Tenant will be required to remove such alterations, additions or improvements to the Premises at the expiration of the Term, Landlord may not request such removal at the expiration of the Term. A "**Removal Notice**" means a written notice from Tenant to Landlord that conspicuously states in bold, uppercase typeface that Tenant will not be required to remove the alterations, additions or improvements in question at the end of the Term unless, contemporaneously with Landlord's notice of approval to Tenant with respect to the improvements in question, Landlord notifies Tenant in writing that Landlord will require Tenant to remove such alterations prior to the expiration of the Term. Notwithstanding the foregoing, if Tenant does not obtain Landlord's prior written consent for any alterations, additions or improvements to the Premises (whether such approval is required hereunder or otherwise), Tenant shall remove all such alterations, additions, improvements, trade fixtures, personal property, equipment, wiring, conduits, cabling, and furniture (including Tenant's Off-Premises Equipment) as Landlord may request in writing. For the avoidance of doubt, Tenant shall not be required to remove any laboratory fixtures or equipment existing in the Premises as of the Lease Date or contemplated by the approved Space Plans, defined in Exhibit D hereto, or the Working Drawings, to the extent such Working Drawings provide for the construction only of the tenant improvements depicted on the Space Plans. Notwithstanding anything in this Lease to the contrary, in all cases Tenant shall be required to remove, and to restore the Premises or Project, as applicable, to their previous condition, any wiring and cabling installed in the Premises or elsewhere in the Project by or on behalf of any Tenant Party, any alterations or relocations of base-Building's Systems made after completion of the initial Work, any improvements or signage incorporating Tenant's name or logo, internal stairwells, vaults, raised flooring, any alteration, improvement or equipment installed by or on behalf of any Tenant Party not complying with Laws, and, unless Landlord has expressly stated otherwise in writing, all of Tenant's Off-Premises Equipment, including any

supplemental HVAC equipment, rooftop equipment, etc. (all such items in this sentence being "**Mandatory Removal Items**"). The provisions of this Section 21 shall survive the end of the Term.

22. **Holding Over**. If Tenant fails to vacate the Premises at the end of the Term, then Tenant shall be a tenant at sufferance and, in addition to all other damages and remedies to which Landlord may be entitled for such holding over, (a) Tenant shall pay, in addition to the other Rent, Basic Rent equal to 150% of the Rent payable during the last month of the Term, and (b) Tenant shall otherwise continue to be subject to all of Tenant's obligations under this Lease. The provisions of this Section 22 shall not be deemed to limit or constitute a waiver of any other rights or remedies of Landlord provided herein or at law. If Tenant fails to surrender the Premises upon the termination or expiration of this Lease, in addition to any other liabilities to Landlord accruing therefrom, Tenant shall protect, defend, indemnify and hold Landlord harmless from all loss, costs (including reasonable attorneys'

fees) and liability resulting from such failure, including any claims made by any succeeding tenant founded upon such failure to surrender, and any lost profits or other consequential damages to Landlord resulting therefrom.

23. **Certain Rights Reserved by Landlord**. Landlord shall have the following rights:

23.1 **Building Operations**. To decorate and to make inspections, repairs, alterations, additions, changes, or improvements, whether structural or otherwise, in and about the Project, or any part thereof; to enter upon the Premises (after giving Tenant reasonable notice thereof, which may be oral notice, except in cases of real or apparent emergency, in which case no notice shall be required) and, during the continuance of any such work, to temporarily close doors, entryways, public space, and corridors in the Building; to interrupt or temporarily suspend Building services and facilities; to change the name of the Building; and to change the arrangement and location of entrances or passageways, doors, and doorways, corridors, elevators, stairs, restrooms, or other public parts of the Building;

23.2 **Security**. To take such reasonable measures as Landlord deems advisable for the security of the Building and its occupants; evacuating the Building for cause, suspected cause, or for drill purposes; temporarily denying access to the Building; and closing the Building after normal business hours and on Sundays and holidays, subject, however, to Tenant's right to enter when the Building is closed after normal business hours under such reasonable regulations as Landlord may prescribe from time to time, which may include, by way of example but not limitation, that persons entering or leaving the Building, whether or not during normal business hours, identify themselves to a security officer by registration or otherwise and that such persons establish their right to enter or leave the Building;

23.3 **Prospective Purchasers and Lenders**. Upon at least 24 hours' advance prior notice (which notice may be verbal) to Tenant, to enter the Premises at all reasonable hours to show the Premises to prospective purchasers or lenders; and

23.4 **Prospective Tenants**. At any time during the last 12 months of the Term (or earlier if Tenant has notified Landlord in writing that it does not desire to renew the Term) upon at least 24 hours' advance prior notice (which notice may be verbal) to Tenant, or at any time following the occurrence of an Event of Default, to enter the Premises at all reasonable hours to show the Premises to prospective tenants.

In exercising the foregoing rights in this Section 23, Landlord shall use commercially reasonable efforts to minimize any interference with Tenant's occupancy, access and use of the Premises.

24. **Substitution Space**. [Intentionally deleted].

25. **Miscellaneous**.

25.1 **Landlord Transfer**. Landlord may transfer any portion of the Project and any of its rights under this Lease. If Landlord assigns its rights under this Lease, then Landlord shall thereby be released from any further obligations hereunder arising after the date of transfer, provided that the assignee assumes in writing Landlord's obligations hereunder arising from and after the transfer date.

25.2 **Landlord's Liability**. The liability of Landlord (and its successors, partners, shareholders or members) to Tenant (or any person or entity claiming by, through or under Tenant) for any default by Landlord under the terms of this Lease or any matter relating to or arising out of the occupancy or use of the Premises and/or other areas of the Building shall be limited to Tenant's actual direct, but not consequential, damages therefor and shall be recoverable only from the interest of Landlord in the Building, net proceeds derived from the sale thereof, and, to the extent actually received by Landlord (thus excluding amounts paid to Landlord's Mortgagees), and following the issuance of a final, non-appealable judgment in favor of Tenant, any undistributed insurance proceeds and condemnation awards that were not applied to the restoration of the Project or any related complex, and Landlord (and its partners, shareholders or members) shall not be personally liable for any deficiency. Additionally, Tenant hereby waives its statutory lien under Section 91.004 of the Texas Property Code. The provisions of this Section shall survive any expiration or termination of this Lease.

25.3 **Force Majeure**. Other than for Tenant's or Landlord's obligations under this Lease that can be performed by the payment of money (e.g., payment of Rent and maintenance of insurance), whenever a period of time is herein prescribed for action to be taken by either party hereto, such party shall not be liable or responsible for, and there shall be excluded from the computation of any such period of time, any delays due to strikes, riots, acts of God, shortages of labor or materials, war, terrorist acts or activities, governmental laws, regulations, or restrictions, or any other causes of any kind whatsoever which are beyond the control of such party.

25.4 **Brokerage**. Neither Landlord nor Tenant has dealt with any broker or agent in connection with the negotiation or execution of this Lease, other than HPI Real Estate, Inc. and Jones Lang LaSalle Brokerage, Inc, whose commissions shall be paid by Landlord pursuant to separate written agreements. Tenant and Landlord shall each indemnify the other against all costs, expenses, attorneys' fees, liens and other liability for commissions or other compensation claimed by any other broker or agent claiming the same by, through, or under the indemnifying party.

25.5 **Estoppel Certificates**. From time to time, Tenant shall furnish to any party designated by Landlord, within ten business days after Landlord has made a request therefor, a certificate signed by Tenant confirming and containing such factual certifications and representations as to this Lease as Landlord may reasonably request. Unless otherwise required by Landlord's Mortgagee or a prospective purchaser or mortgagee of the Project, the initial form of

estoppel certificate to be signed by Tenant is attached hereto as Exhibit F. If Tenant does not deliver to Landlord the certificate signed by Tenant within such required time period, Landlord, Landlord's Mortgagee and any prospective purchaser or mortgagee, may conclusively presume and rely upon the following facts: (a) this Lease is in full force and effect; (b) the terms and provisions of this Lease have not been changed except as otherwise represented by Landlord; (c) not more than one monthly installment of Basic Rent and other charges have been paid in advance; (d) there are no claims against Landlord nor any defenses or rights of offset against collection of Rent or other charges; and (e) Landlord is not in default under this Lease. In such event, Tenant shall be estopped from denying the truth of the presumed facts.

25.6 **Notices**. All notices and other communications given pursuant to this Lease shall be in writing and shall be (a) mailed by first class, United States Mail, postage prepaid, certified, with return receipt requested, and addressed to the parties hereto at the address specified in the Basic Lease Information, (b) hand-delivered to the intended addressee, (c) sent by a nationally recognized overnight courier service, or (d) sent by facsimile transmission during normal business hours followed by a confirmatory letter sent in another manner permitted hereunder. All notices shall be effective upon delivery (which, in the case of delivery by facsimile transmission, shall be deemed to occur at the time of delivery indicated on the electronic confirmation of the facsimile so long as the confirmatory letter referenced above is sent) to the address of the addressee (even if such addressee refuses delivery thereof). The parties hereto may change their addresses by giving notice thereof to the other in conformity with this provision.

25.7 **Separability**. If any clause or provision of this Lease is illegal, invalid, or unenforceable under present or future laws, then the remainder of this Lease shall not be affected thereby and in lieu of such clause or provision, there shall be added as a part of this Lease a clause or provision as similar in terms to such illegal, invalid, or unenforceable clause or provision as may be possible and be legal, valid, and enforceable.

25.8 **Amendments; Binding Effect; No Electronic Records**. This Lease may not be amended except by instrument in writing signed by Landlord and Tenant, No provision of this Lease shall be deemed to have been waived by Landlord unless such waiver is in writing signed by Landlord, and no custom or practice which may evolve between the parties in the administration of the terms hereof shall waive or diminish the right of Landlord to insist upon the performance by Tenant in strict accordance with the terms hereof. Landlord and Tenant hereby agree not to conduct the transactions or communications contemplated by this Lease by electronic means, except by facsimile transmission as specifically set forth in Section 25.6 or electronic signatures as specifically set forth in Section 25.9; nor shall the use of the phrase "in writing" or the word "written" be construed to include electronic communications except by facsimile transmissions as specifically set forth in Section 25.6 and other electronic signatures as specifically set forth in Section 25.9. The terms and conditions contained in this Lease shall inure to the benefit of and be binding upon the parties hereto, and upon their respective successors in interest and legal representatives, except as otherwise herein expressly provided. This Lease is for the sole benefit of

Landlord and Tenant, and, other than Landlord's Mortgagee, no third party shall be deemed a third party beneficiary hereof.

25.9 **Counterparts**. This Lease (and amendments to this Lease) may be executed in any number of counterparts, each of which shall be deemed to be an original, and all of such counterparts shall constitute one document. To facilitate execution of this Lease, the parties may execute and exchange, by telephone facsimile or electronic mail PDF, counterparts of the signature pages. Signature pages may be detached from the counterparts and attached to a single copy of this Lease to physically form one document.

25.10 **Quiet Enjoyment**. Provided Tenant has performed all of its obligations hereunder, Tenant shall peaceably and quietly hold and enjoy the Premises for the Term, without hindrance from Landlord or any party claiming by, through, or under Landlord, but not otherwise, subject to the terms and conditions of this Lease and all matters of record as of the date of this Lease which are applicable to the Premises.

25.11 **No Merger**. There shall be no merger of the leasehold estate hereby created with the fee estate in the Premises or any part thereof if the same person acquires or holds, directly or indirectly, this Lease or any interest in this Lease and the fee estate in the leasehold Premises or any interest in such fee estate.

25.12 **No Offer**. The submission of this Lease to Tenant shall not be construed as an offer, and Tenant shall not have any rights under this Lease unless Landlord executes a copy of this Lease and delivers it to Tenant.

25.13 **Entire Agreement; No Reliance**. This Lease constitutes the entire agreement between Landlord and Tenant regarding the subject matter hereof and supersedes all oral statements and prior writings relating thereto. Except for those set forth in this Lease, no representations, warranties, or agreements have been made by Landlord or Tenant to the other with respect to this Lease or the obligations of Landlord or Tenant in connection therewith. Except as otherwise provided herein, no subsequent alteration, amendment, change or addition to this Lease shall be binding unless in writing and signed by Landlord and Tenant. The normal rule of construction that any ambiguities be resolved against the drafting party shall not apply to the interpretation of this Lease or any exhibits or amendments hereto. Further, Tenant disclaims any reliance upon any and all representations, warranties or agreements not expressly set forth in this Lease.

25.14 **Waiver of Jury Trial**. TO THE MAXIMUM EXTENT PERMITTED BY LAW, TENANT (ON BEHALF OF ITSELF AND ITS RESPECTIVE SUCCESSORS, ASSIGNS AND SUBTENANTS) AND LANDLORD EACH, AFTER CONSULTATION WITH COUNSEL, KNOWINGLY WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY LITIGATION OR TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE ARISING OUT OF OR WITH RESPECT TO THIS LEASE OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH OR THE TRANSACTIONS RELATED HERETO.

25.15 **Governing Law**. This Lease shall be governed by and construed in accordance with the laws of the State of Texas and venue for all purposes shall be Travis County, Texas.

25.16 **Recording**. Tenant shall not record this Lease or any memorandum of this Lease without the prior written consent of Landlord, which consent may be withheld or denied in the sole and absolute discretion of Landlord, and any recordation by Tenant shall be a material breach of this Lease. Tenant grants to Landlord a power of attorney to execute and record a release releasing any such recorded instrument of record that was recorded without the prior written consent of Landlord, which power is coupled with an interest and is irrevocable. Landlord acknowledges and agrees that Tenant shall be entitled to file a copy of this Lease with the Securities and Exchange Commission ("**SEC**"), to the extent such filing is required by the SEC, and such filing shall not violate this provision.

25.17 **Water or Mold Notification**. To the extent Tenant or its agents or employees discover any water leakage, water damage or mold in or about the Premises or Project, Tenant shall promptly notify Landlord thereof in writing.

25.18 **Joint and Several Liability**. If Tenant consists of more than one party (or if Tenant permits any other party to occupy the Premises), each such party shall be jointly and severally liable for Tenant's obligations under this Lease. All unperformed obligations of Tenant hereunder not fully performed at the end of the Term shall survive the end of the Term, including payment obligations with respect to Rent and all obligations concerning the condition and repair of the Premises.

25.19 **Financial Reports**. If Tenant is an entity that is domiciled in the United States of America, and whose securities are funded through a public securities exchange subject to regulation by the United States of America publicly traded over exchanges based in the United States and whose financial statements are readily available at no cost to Landlord, the terms of this Section 25.19 shall not apply. Otherwise, within 15 days after Landlord's request, Tenant will furnish Tenant's most recent audited financial statements (including any notes to them) to Landlord, or, if no such audited statements have been prepared, such other financial statements (and notes to them) as may have been prepared by an independent certified public accountant or, failing those, Tenant's internally prepared financial statements. Landlord will not disclose any aspect of Tenant's financial statements that Tenant designates to Landlord as confidential except (a) to Landlord's Mortgagee or prospective mortgagees or purchasers of the Building, (b) in litigation between Landlord and Tenant, and/or (c) if required by Law or court order. Tenant shall not be required to deliver the financial statements required under this Section 25.19 more than once in any 12-month period unless requested by Landlord's Mortgagee or a prospective buyer or lender of the Building or an Event of Default occurs.

25.20 **Landlord's Fees**. Whenever Tenant requests Landlord to take any action not required of Landlord hereunder or give any consent required or permitted under this Lease, Tenant will reimburse Landlord for Landlord's reasonable, out-of-pocket costs payable to third parties and incurred by Landlord in reviewing and taking the proposed action or consent, including reasonable engineers' or architects' fees and reasonable attorneys' fees (including amounts allocated by Landlord to Landlord's in-house counsel as well as fees and expenses charged by outside counsel engaged by Landlord), within 30 days after Landlord's delivery to Tenant of a statement of such costs. Tenant will be obligated to make such reimbursement without regard to whether Landlord consents to any such proposed action.

25.21 **Telecommunications**. Tenant and its telecommunications companies, including local exchange telecommunications companies and alternative access vendor services companies, shall have no right of access to and within the Building, for the installation and operation of telecommunications systems, including voice, video, data, Internet, and any other services provided over wire, fiber optic, microwave, wireless, and any other transmission systems ("**Telecommunications Services**"), for part or all of Tenant's telecommunications within the Building and from the Building to any other location unless Landlord has previously reviewed and approved all plans, specifications and contracts pertaining to telecommunication service entry points, and any documents to which Landlord is a party or which may encumber the Project, which consent will not be unreasonably withheld. All providers of Telecommunications Services shall be required to comply with the rules and regulations of the Project, applicable Laws and Landlord's policies and practices for the Project, and shall be required, at Landlord's election, to enter into a license agreement with Landlord to confirm and approve items such as, without limitation, the proposed location (and labeling requirements) of wiring, cabling, fiber lines, points of demarcation, entry into the Project, insurance requirements and the like. Tenant acknowledges that Landlord shall not be required to provide or arrange for any Telecommunications Services and that Landlord shall have no liability to any Tenant Party in connection with the installation, operation or maintenance of Telecommunications Services or any equipment or facilities relating thereto. Tenant, at its cost and for its own account, shall be solely responsible for obtaining all Telecommunications Services.

25.22 **Confidentiality**. Tenant acknowledges that the terms and conditions of this Lease are to remain confidential for Landlord's benefit, and may not be disclosed by Tenant to anyone, by any manner or means, directly or indirectly, without Landlord's prior written consent; however, Tenant may disclose the terms and conditions of this Lease to its attorneys, accountants, employees and existing or prospective financial partners, or if required by Law or court order, provided all parties to whom Tenant is permitted hereunder to disclose such terms and conditions are advised by Tenant of the confidential nature of such terms and conditions and agree to maintain the confidentiality thereof (in each case, prior to disclosure). Tenant shall be liable for any disclosures made in violation of this Section by Tenant or by any entity or individual to whom the terms of and conditions of this Lease

were disclosed or made available by Tenant. The consent by Landlord to any disclosures shall not be deemed to be a waiver on the part of Landlord of any prohibition against any future disclosure.

25.23 **Authority**. Tenant (if a corporation, partnership or other business entity) hereby represents and warrants to Landlord that Tenant is and will remain during the Term a duly formed and existing entity qualified to do business in the state in which the Premises are located, that Tenant has full right and authority to execute and deliver this Lease, and that each person signing on behalf of Tenant is authorized to do so, and that Tenant's organizational identification number assigned by the Delaware Secretary of State is 4198998. Landlord hereby represents and warrants to Tenant that Landlord is a duly formed and existing entity qualified to do business in the state in which the Premises are located, that Landlord has full right and authority to execute and deliver this Lease, and that each person signing on behalf of Landlord is authorized to do so.

25.24 **Hazardous Materials**. The term "**Hazardous Materials**" means any substance, material, or waste which is now or hereafter classified or considered to be hazardous, toxic, or dangerous under any Law relating to pollution or the protection or regulation of human health, natural resources or the environment, or poses or threatens to pose a hazard to the health or safety of persons on the Premises or in the Project. No Tenant Party shall use, generate, store or Release (defined below), or permit the use, generation, storage or Release of Hazardous Materials on or about the Premises or the Project except in a manner and quantity necessary for the ordinary performance of Tenant's business, and then in compliance with all Laws and in a reasonable and prudent manner. As used herein, "**Release**" means depositing, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping or disposing. If any Tenant Party breaches its obligations under this Section 25.24, Landlord may immediately take any and all action reasonably appropriate to remedy the same, including taking all appropriate action to clean up or remediate any contamination resulting from such Tenant Party's use, generation, storage or disposal of Hazardous Materials. Tenant shall defend, indemnify, and hold harmless Landlord and its representatives and agents from and against any and all claims, demands, liabilities, causes of action, suits, judgments, damages and expenses (including reasonable attorneys' fees and cost of clean up and remediation) arising from any Tenant Party's failure to comply with the provisions of this Section 25.24. This indemnity provision is intended to allocate responsibility between Landlord and Tenant under environmental Laws and shall survive termination or expiration of this Lease.

25.25 **List of Exhibits**. All exhibits and attachments attached hereto are incorporated herein by this reference.

Exhibit A - Outline of Premises
Exhibit B - Description of the Land
Exhibit C - Building Rules and Regulations
Exhibit D - Tenant Finish-Work: Landlord Builds to Plans
Exhibit E - Form of Confirmation of Commencement Date Letter

Exhibit F - Form of Tenant Estoppel Certificate
Exhibit G - Parking
Exhibit H - Renewal Option
Exhibit I - Form of Subordination, Non-Disturbance and Attornment Agreement

25.26 **Determination of Charges**. Landlord and Tenant agree that each provision of this Lease for determining charges and amounts payable by Tenant (including provisions regarding Additional Rent) is commercially reasonable and, as to each such charge or amount, constitutes a statement of the amount of the charge or a method by which the charge is to be computed for purposes of Section 93.012 of the Texas Property Code.

25.27 **Prohibited Persons and Transactions**. Tenant represents and warrants that neither Tenant nor, to the extent of Tenant's actual knowledge without duty of inquiry, any of its affiliates, nor any of their respective partners, members, shareholders or other equity owners, and none of their respective employees, officers, directors, representatives or agents is, nor will they become, a person or entity with whom U.S. persons or entities are restricted from doing business under regulations of the Office of Foreign Assets Control ("**OFAC**") of the Department of the Treasury (including those named on OFAC's Specially Designated Nationals and Blocked Persons List) or under any statute, executive order (including the September 24, 2001, Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism), or

other governmental action and is not and will not Transfer this Lease to, contract with or otherwise engage in any dealings or transactions or be otherwise associated with such persons or entities. For purposes hereof, "actual knowledge" shall mean the actual present conscious awareness of Mark Spring, Chief Financial Officer, as of the date of this Lease, but without any personal liability on the part of Mark Spring.

25.28 **Waiver of Consumer Rights**. Tenant hereby waives all its rights under the Texas Deceptive Trade Practices - Consumer Protection Act, Section 17.41 *et seq*. of the Texas Business and Commerce Code, a law that gives consumers special rights and protections. After consultation with an attorney of Tenant's own selection, Tenant voluntarily adopts this waiver.

26. **Other Provisions**.

26.1 **Signage**. Landlord shall install, as part of the Work and at Landlord's expense, Building-standard signage outside of the Premises and include Tenant's information in any Building directory located in the lobby of the Building.

26.2 **Early Entry by Tenant**. Tenant may enter the Premises up to 15 days before the Premises are Substantially Completed with Landlord's prior consent (which shall not be unreasonably withheld) solely to install Tenant's telecommunications wiring and cabling and furniture, fixtures and equipment, provided that (a) Landlord is given prior written notice of any such entry, (b) such entry shall be coordinated with Landlord and shall not interfere with the Work, and (c) Tenant shall deliver to Landlord evidence that the insurance required under Section 11 of this Lease has been obtained. Any such entry shall be on the terms of this Lease, but no Basic Rent or Additional Rent shall accrue during the period that Tenant so enters the Premises prior to Substantial Completion of the Premises. Tenant shall conduct its activities therein so as not to interfere with the Work, and shall do so at its risk and expense. If, in Landlord's reasonable judgment, Tenant's activities therein interfere with the Work, Landlord may terminate Tenant's right to enter the Premises before Substantial Completion of the Premises.

26.3 **Rooftop Equipment**.

26.3.1 **Right to Install Rooftop Equipment**. Provided Tenant complies with the terms of this Section 26.3, during the initial Term Tenant may, at its risk and expense, install, operate and maintain a satellite dish/microwave antenna and related equipment and wiring and/or one supplemental HVAC system reasonably necessary for Tenant's business operations (collectively, the "**Rooftop Equipment**") on the roof of the Building at a location approved by Landlord.

26.3.2 **Delivery of Plans. Specifications and Permits**. Before installing the Rooftop Equipment, Tenant shall submit to Landlord for its approval (which approval shall be given or withheld by Landlord using the same standards described in Section 8.1) (a) construction ready plans and specifications prepared by a registered professional engineer in the State of Texas reasonably approved by Landlord which (1) specify in detail the design, location, size, model, weight, method of installation, method of screening and frequency of the Rooftop Equipment and (2) are sufficiently detailed to allow for the installation of the Rooftop Equipment in a good and workmanlike manner and in accordance with all Laws and (b) all necessary consents, approvals, permits or registrations, including architectural guidelines in effect for the area in which the Building is located as they may be amended from time to time, required for the installation, maintenance, use or operation of the Rooftop Equipment. Notwithstanding anything to the contrary contained herein, Landlord may withhold its consent to the installation of the Rooftop Equipment if such installation would require any penetration of the Building's roof. Landlord may, as a condition to approving installation of the Rooftop Equipment, require that Tenant screen the Rooftop Equipment with a parapet wall or other screening device acceptable to Landlord. If the Rooftop Equipment uses any electricity, Tenant shall pay for the cost to purchase and install electrical submeter equipment and wiring, and thereafter Tenant shall pay to Landlord the monthly electrical submeter charges throughout the Term. Landlord's approval of any such plans and specifications shall not constitute a representation or warranty by Landlord that such plans and specifications comply with sound architectural guidelines and/or engineering practices or will comply with all applicable Laws; such compliance shall be the sole

responsibility of Tenant. Tenant shall maintain all permits necessary for the maintenance and operation of the Rooftop Equipment while it is on the Building, and all such permits shall be in Tenant's name.

26.3.3 **Tenant's Installation of Rooftop Equipment.** If Landlord approves such plans, Tenant shall install (in a good and workmanlike manner) the Rooftop Equipment in accordance with the approved plans and specifications therefor and all Laws (including all applicable permits and consents issued with respect to the Rooftop Equipment) in a manner so as not to damage the Building or interfere with the use of any portion of the Project while such installation is taking place.

26.3.4 **Tenant's Operation and Maintenance of Rooftop Equipment.** Tenant shall operate and maintain the Rooftop Equipment and the screening therefor in good repair and condition, in accordance with all Laws, all manufacturer's suggested maintenance programs, the approved plans and specifications therefor and in such a manner so as not to unreasonably interfere with any other equipment or systems (including other supplemental HVAC system, satellite, antennae, or other transmission facility) in the Project, all at Tenant's sole cost and expense. All work relating to

the Rooftop Equipment shall, at Tenant's expense, be coordinated with Landlord's roofing contractor so as not to affect any warranty for the Building's roof. Tenant shall maintain insurance in respect thereof reasonably satisfactory to Landlord, listing Landlord, Landlord's Mortgagee and the Building manager, as additional insureds. Tenant's access to the Building's roof shall be coordinated with Landlord's property manager.

26.3.5 **Relocation of Rooftop Equipment.** Tenant may not relocate any of the Rooftop Equipment without the prior written consent of Landlord. Tenant agrees that, upon at least 30 days' prior written notice to Tenant from Landlord that Landlord requires Tenant to relocate any Rooftop Equipment in order to accommodate roof repair or replacement (which notice may be given at any time and from time to time during the Term), Tenant shall relocate such Rooftop Equipment (as requested by Landlord) from the then existing location to any substitute location reasonably designated by Landlord on the Building. Tenant shall complete such relocation prior to the expiration of such 30-day period and upon the expiration of such 30-day period Tenant shall have no further right to use or occupy the prior location until the completion of such roof repair or replacement, at which time Landlord may notify Tenant to relocate back to the original location and Tenant will perform such relocation as soon as reasonably practicable after such notice. Tenant shall repair all damage to the Building caused by the installation, maintenance or removal of the Rooftop Equipment at any such prior rooftop locations. If Landlord exercises its right to cause Tenant to relocate all or a portion of the Rooftop Equipment pursuant this Section 26.3.5, Landlord shall use its commercially reasonable efforts to minimize any disruption to Tenant's operations as a result thereof, and Landlord and Tenant shall equally share the costs of relocating the Rooftop Equipment and restoring the roof as required hereunder.

26.3.6 **Rooftop Equipment Removal Obligations; Landlord's Rights.** Prior to the expiration of the Term or Tenant's vacating the Premises for more than 30 days, or within five business days following the termination of Tenant's right to possess the Premises or the early termination of this Lease following an Event of Default, Tenant shall, at its risk and expense, remove the Rooftop Equipment. If Tenant fails to do so, Landlord may remove the Rooftop Equipment and store or dispose of it in any manner Landlord deems appropriate without liability to Tenant; Tenant shall reimburse Landlord for all costs incurred by Landlord in connection therewith within ten days after Landlord's request therefor. Alternatively, at Landlord's election, Tenant shall deliver to Landlord the Rooftop Equipment in good repair and condition, normal wear and tear excepted (damages from Casualty and condemnation excepted), and deliver to Landlord a bill of sale for the Rooftop Equipment and all operating manuals, keys and similar items with respect to the Rooftop Equipment, and thereafter the Rooftop Equipment shall be Landlord's property. Tenant shall repair any damage to the Building caused by or relating to the Rooftop Equipment, including that which is caused by its installation, maintenance, use, or removal, and Tenant shall restore the area of the roof on which Tenant's Rooftop Equipment was located to its condition as of the Lease Date. If Tenant fails to do so within 30 days after Landlord's written request, Landlord may perform such work and Tenant shall pay to Landlord all reasonable costs incurred in connection therewith, plus an administrative fee of 15% of such costs, within 30 days after Landlord's written request therefor.

26.3.7 **Disclaimer.** For all purposes under this Lease, the Rooftop Equipment shall be deemed to be included within the definition of Tenant's Off-Premises Equipment. **LANDLORD SHALL HAVE NO RESPONSIBILITY OR LIABILITY TO TENANT, ITS AGENTS, EMPLOYEES, CONTRACTORS, VISITORS OR INVITEES FOR, LOSSES, DAMAGES OR INJURY TO PERSONS OR PROPERTY CAUSED BY, RELATED TO, OR ARISING OUT OF OR IN CONNECTION WITH, ANY SUCH CONNECTION TO, USE OF, OR FAILURE, NON-PERFORMANCE OR INADEQUATE PERFORMANCE OF, THE ROOFTOP EQUIPMENT, AND TENANT HEREBY RELEASES LANDLORD FROM ANY AND ALL LIABILITY FOR SUCH LOSSES, DAMAGES OR INJURY, EVEN IF CAUSED BY THE NEGLIGENCE OF LANDLORD OR ITS EMPLOYEES AND/OR AGENTS (BUT NOT TO THE EXTENT CAUSED BY THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF LANDLORD OR ITS EMPLOYEES AND/OR AGENTS).**

26.3.8 **Personal Right.** Tenant may only use the Rooftop Equipment in connection with Tenant's business. Tenant shall not allow any third party to use such equipment, whether by sublease, license, occupancy agreement or otherwise, except in connection with Permitted Transfers and any other Transfers approved by Landlord.

26.4 **Generator and UPS System.** Landlord acknowledges that Tenant is purchasing from the prior tenant of the Premises a generator located adjacent to the Building (the "**Generator**") and an uninterruptible power source system in the Premises ("**UPS System**", and collectively with the Generator, "**Auxiliary Power Equipment**"). Tenant shall use, maintain, and operate the Auxiliary Power Equipment in a good, clean, and safe condition and in accordance with all Laws and all manufacturer's suggested maintenance programs, all at Tenant's sole cost and expense. If the Auxiliary Power Equipment uses any electricity, Tenant shall pay to Landlord the monthly electrical submeter charges throughout the Term (and if the Generator or the UPS System is not currently separately submetered, Tenant shall pay for the cost to purchase and install electrical submeter equipment and wiring therefor). Tenant shall repair all damage caused by the installation, use, maintenance or operation of the Auxiliary Power Equipment. If Tenant fails to do so within 30 days after Landlord's request, Landlord may perform such work and Tenant shall pay to Landlord all reasonable costs incurred in connection therewith, plus an administrative fee of 15% of such costs, within 30 days after Landlord's written request therefor. Notwithstanding anything in this Lease to the contrary, prior to the expiration of the Lease, or within five days after (a) the termination of Tenant's right to possess the Premises, or (b) the termination of this Lease, Tenant shall, at its risk and expense, remove the Auxiliary Power Equipment. If Tenant fails to do so, Landlord may remove the Auxiliary Power Equipment and store or dispose of it in any manner Landlord deems appropriate without liability to Tenant; Tenant shall reimburse Landlord for all costs incurred by Landlord in connection therewith within ten days after Landlord's request therefor. Alternatively, at Landlord's election, Tenant shall deliver to Landlord the Auxiliary Power Equipment in good repair and condition, normal wear and tear excepted (damages from Casualty and condemnation excepted), and deliver to Landlord a bill of sale for the Auxiliary Power Equipment and all operating manuals, maintenance records, keys, any applicable warranties and similar items with respect to the Auxiliary Power Equipment, and thereafter the Auxiliary Power Equipment shall be Landlord's property; provided, however, that Landlord's rights under this sentence shall apply only with respect to the Auxiliary Power Equipment existing as of the Lease Date and not with respect to any new or replacement auxiliary power equipment installed by Tenant (in accordance with Section 8.1) during the Term, unless otherwise agreed in writing at the time Landlord approves the installation of such additional or replacement equipment. For all purposes under this Lease, the Auxiliary Power Equipment shall be deemed to be included within the definition of Tenant's Off-Premises Equipment. **LANDLORD SHALL HAVE NO RESPONSIBILITY OR LIABILITY TO TENANT, ITS AGENTS, EMPLOYEES, CONTRACTORS, VISITORS OR INVITEES FOR, LOSSES, DAMAGES OR INJURY TO PERSONS OR PROPERTY CAUSED BY, RELATED TO, OR ARISING OUT OF OR IN CONNECTION WITH, ANY SUCH CONNECTION TO, USE OF, OR FAILURE, NON-PERFORMANCE OR INADEQUATE PERFORMANCE OF, THE AUXILIARY POWER EQUEPMENT, AND TENANT HEREBY RELEASES LANDLORD FROM ANY AND ALL LIABILITY FOR SUCH LOSSES, DAMAGES OR INJURY, EVEN IF CAUSED BY LANDLORD'S NEGLIGENCE (BUT NOT TO THE EXTENT CAUSED BY LANDLORD'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT**). Except with Landlord's prior written consent (which consent shall be in Landlord's sole discretion),Tenant shall not have the right to sublease, license, sublicense or grant any other rights to use the Auxiliary Power Equipment to any third party, except to assignees or sublessees of Tenant's entire interest in this Lease. Notwithstanding anything in

this Section 26.4 to the contrary, Tenant may, with Landlord's prior written consent, sell the Auxiliary Power Equipment to a succeeding tenant of the Premises; however, it shall be reasonable for Landlord to withhold consent to such a sale for any portion of the Auxiliary Power Equipment that is outdated, not in good working order, or not in compliance with all Laws.

26.5 **Existing Security System.** Landlord acknowledges that Tenant is purchasing from the existing tenant in the Premises the existing electronic security access and control system ("**Existing Security System**") within the Premises installed by the existing tenant. Tenant shall furnish Landlord with a copy of all key codes or access cards and Tenant shall ensure that Landlord shall have access to the Premises at all times. Additionally, Tenant shall ensure that the Existing Security System shall comply with all Laws, including all fire safety laws, and in no event shall Landlord be liable for, and Tenant shall defend, indemnify, and hold harmless Landlord and its representatives and agents from any claims, demands, liabilities, causes of action, suits, judgments, damages and expenses arising from, the Existing Security System or the malfunctioning thereof in accordance with Tenant's indemnity contained in Section 11.4 hereof. Sections 8 and 21 of this Lease shall govern the maintenance and Landlord's removal rights with respect to the Existing Security System.

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LANDLORD AND TENANT EXPRESSLY DISCLAIM ANY IMPLIED WARRANTY THAT THE PREMISES ARE SUITABLE FOR TENANT'S INTENDED COMMERCIAL PURPOSE, AND TENANT'S OBLIGATION TO PAY RENT HEREUNDER IS NOT DEPENDENT UPON THE CONDITION OF THE PREMISES OR THE PERFORMANCE BY LANDLORD OF ITS OBLIGATIONS HEREUNDER, AND, EXCEPT AS OTHERWISE EXPRESSLY PROVIDED HEREIN, TENANT SHALL CONTINUE TO PAY THE RENT, WITHOUT ABATEMENT, DEMAND, SETOFF OR DEDUCTION, NOTWITHSTANDING ANY BREACH BY LANDLORD OF ITS DUTIES OR OBLIGATIONS HEREUNDER, WHETHER EXPRESS OR IMPLIED.

This Lease is executed as of the Lease Date (as defined in the Basic Lease Information).

LANDLORD:

RIATA HOLDINGS, L.P., a Delaware limited partnership
By: Riata Holdings General Partner, LLC, a Delaware limited liability company doing business in Texas as Riata Austin Holdings General Partner, LLC, its general partner

By: /s/ John S. Grassi
John S. Grassi, President

TENANT:

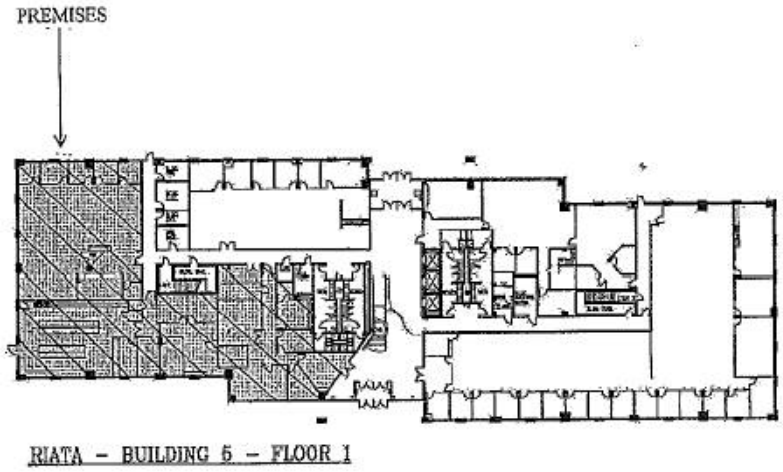
VERACYTE, INC., a Delaware corporation

By: /s/ Mark E. Spring
Name: Mark E. Spring
Title: CFO

EXHIBIT A

OUTLINE OF PREMISES

[Floor Plan - Rialta - Building 5 - Floor 1]



RIATA CORPORATE PARK
12357 A RIATA TRACE PARKWAY, BUILDING 5
AUSTIN, TEXAS 78727

EXHIBIT B

DESCRIPTION OF THE LAND

Lots 4, 5, 6, 7 and 9, Amended Plat, Riata Section Two, Block B, recorded in Book 98, Page 19, of the Plat Records of Travis County, Texas.

EXHIBIT C

BUILDING RULES AND REGULATIONS

The following rules and regulations shall apply to the Premises, the Building, any parking garage or other parking lot or facility associated therewith, and the appurtenances thereto:

1. Sidewalks, doorways, vestibules, halls, stairways, and other similar areas shall not be obstructed by tenants or used by any tenant for purposes other than ingress and egress to and from their respective leased premises and for going from one to another part of the Building. The halls, passages, exits, entrances, elevators, stairways, balconies and roof are not for the use of the general public and Landlord shall, in all cases, retain the right to control and prevent access thereto by all persons whose presence in the judgment of Landlord, reasonably exercised, shall be prejudicial to the safety, character, reputation and interests of the Project. No Tenant Party shall go upon the roof of the Project.

2. Plumbing, fixtures and appliances shall be used only for the purposes for which designed, and no sweepings, rubbish, rags or other unsuitable material shall be thrown or deposited therein. Damage resulting to any such fixtures or appliances from misuse by a tenant or its agents, employees or invitees, shall be paid by such tenant.

3. No signs, advertisements or notices (other than those that are not visible outside the Premises) shall be painted or affixed on or to any windows or doors or other part of the Building without the prior written consent of Landlord. No nails, hooks or screws (other than those which are necessary to hang paintings, prints, pictures, or other similar items on the Premises' interior walls) shall be driven or inserted in any part of the Building except by Building maintenance personnel. No curtains or other window treatments shall be placed between the glass and the Building standard window treatments.

4. Landlord shall provide all door locks at the entry of each tenant's leased premises, and no tenant shall place any additional door locks in its leased premises without Landlord's prior written consent. Landlord shall furnish to each tenant a reasonable number of keys and/or access cards to such tenant's leased premises, at such tenant's cost, and no tenant shall make a duplicate thereof. Replacement keys and/or access cards shall be provided on a reasonable basis and at Tenant's cost.

5. Movement in or out of the Building of furniture or office equipment, or dispatch or receipt by tenants of any bulky material, merchandise or materials which require use of elevators or stairways, or movement through the Building entrances or lobby shall be conducted under Landlord's supervision at such times and in such a manner as Landlord may reasonably require. Each tenant assumes all risks of and shall be liable for all damage to articles moved and injury to persons or public engaged or not engaged in such movement, including equipment, property and personnel of Landlord if damaged or injured as a result of acts in connection with carrying out this service for such tenant.

6. Landlord may prescribe weight limitations and determine the locations for safes and other heavy equipment or items, which shall in all cases be placed in the Building so as to distribute weight in a manner acceptable to Landlord which may include the use of such supporting devices as Landlord may require. All damages to the Building caused by the installation or removal of any property of a tenant, or done by a tenant's property while in the Building, shall be repaired at the expense of such tenant.

7. Corridor doors, when not in use, shall be kept closed. Nothing shall be swept or thrown into the corridors, halls, elevator shafts or stairways. No bicycles, birds or animals (other than seeing-eye dogs) shall be brought into or kept in, on or about any tenant's leased premises. No portion of any tenant's leased premises shall at any time be used or occupied as sleeping or lodging quarters.

8. Tenant shall cooperate with Landlord's employees in keeping its leased premises neat and clean. Tenants shall not employ any person for the purpose of such cleaning other than the Building's cleaning and maintenance personnel.

9. To ensure orderly operation of the Building, no ice, mineral or other water, towels, newspapers, etc. shall be delivered to any leased area except by persons approved by Landlord.

10. Tenant shall not make or permit any vibration or improper, objectionable or unpleasant noises or odors in the Building or otherwise interfere in any way with other tenants or persons having business with them.

11. No machinery or appliances of any kind (other than normal office equipment and normal break room appliances) shall be operated by any tenant on its leased area without Landlord's prior written consent, nor shall any tenant use or keep in the Building any flammable or explosive fluid or substance (other than typical office supplies [e.g., photocopier toner] used in compliance with all Laws).

12. Landlord will not be responsible for lost or stolen personal property, money or jewelry from tenant's leased premises or public or common areas regardless of whether such loss occurs when the area is locked against entry or not.

13. No vending or dispensing machines of any kind may be maintained in any leased premises without the prior written permission of Landlord.

14. Tenant shall not conduct any activity on or about the Premises or Building which will draw pickets, demonstrators, or the like.

15. All vehicles are to be currently licensed, in good operating condition, parked for business purposes having to do with Tenant's business operated in the Premises, parked within designated parking spaces, one vehicle to each space. No vehicle shall be parked as a "billboard" vehicle in the parking lot. Any vehicle parked improperly may be towed away. Tenant, Tenant's agents, employees, vendors and customers who do not operate or park their vehicles as required shall subject the vehicle to being towed at the expense of the owner or driver. Landlord may place a "boot" on the vehicle to immobilize it and may levy a charge of $50.00 to remove the "boot." Tenant shall indemnify, hold and save harmless Landlord of any liability arising from the towing or booting of any vehicles belonging to a Tenant Party.

16. No tenant may enter into phone rooms, electrical rooms, mechanical rooms, or other service areas of the Building unless accompanied by Landlord or the Building manager.

17. Tenant will not permit any Tenant Party to bring onto the Project any handgun, firearm or other weapons of any kind, illegal drugs or, unless expressly permitted by Landlord in writing, alcoholic beverages.

18. Tenant shall not permit any Tenant Party to smoke in the Premises or anywhere else on the Project, except in any Landlord-designated smoking area outside the Building. Tenant shall cooperate with Landlord in enforcing this prohibition and use its best efforts in supervising each Tenant Party in this regard.

19. Tenant shall not allow any Tenant Party to use any type of portable space heater in the Premises or the Building.

20. Only artificial holiday decorations may be placed in the Premises, no live or cut trees or other real holiday greenery may be maintained in the Premises or the Building.

21. Tenant shall not park or operate any semi-trucks or semi-trailers in the parking areas associated with the Building.

22. Tenant shall cooperate fully with Landlord to assure the most effective operation of the Premises or the Project's heating and air conditioning, and shall refrain from attempting to adjust any controls, other than room thermostats installed for Tenant's use. Tenant shall keep corridor doors closed and shall turn off all lights before leaving the Project at the end of the day.

23. Without the prior written consent of Landlord, Tenant shall not use the name of the Project or any picture of the Project in connection with, or in promoting or advertising the business of, Tenant, except Tenant may use the address of the Project as the address of its business.

24. Tenant shall not exhibit, sell or offer for sale, rent or exchange in the Premises or at the Project any article, thing or service to the general public or anyone other than Tenant's employees without the prior written consent of Landlord.

25. Tenant shall ensure that all portions of the leased premises visible from any interior Building common areas are lighted at all times during normal business hours regardless whether the leased premises are occupied.

EXHIBIT D

TENANT FINISH-WORK: LANDLORD BUILDS TO PLANS

1. **Acceptance of Premises.** Except as set forth in this Exhibit, Tenant accepts the Premises in their "**AS-IS**" condition on the date that this Lease is entered into.

2. **Space Plans.** On or before the execution of this Lease, Tenant has delivered to Landlord a space plan depicting improvements to be installed in the Premises, which plans were prepared by The Lauck Group ("**Architect**"), dated September 13, 2012, and a pricing schedule prepared by 6th Street Construction, LLC and dated October 4, 2012, which plans and schedule are attached as Schedule 1 hereto (the "**Space Plans**").

3. **Working Drawings.**

3.1 **Preparation and Delivery.** On or before the 15th business day following the date on which this Lease is fully executed by Landlord and Tenant (the "**Working Drawings Delivery Deadline**"), Tenant shall provide to Landlord for its approval working drawings, prepared by the Architect, of all improvements that Tenant proposes to install in the Premises; such working drawings shall include the partition layout, ceiling plan, electrical outlets and switches, telephone outlets, drawings for any modifications to the mechanical, electrical, life safety, plumbing and any other systems of the Building, and detailed plans and specifications for the construction of the improvements called for under this Exhibit in accordance with all applicable Laws and suitable for permitting and construction. The working drawings shall be prepared based upon the Space Plans, subject to (i) modifications necessary to obtain a building permit and other permits required by the City of Austin, and (ii) reasonable adjustments made by the Architect for purposes of safety, efficiency, cost, or other design considerations which could not be reasonably incorporated into the Space Plans given the level of detail involved. If Tenant fails to timely deliver such preliminary working drawings, then each day after the Working Drawings Delivery Deadline that such drawings are not delivered to Landlord shall be a Tenant Delay Day.

3.2 **Landlord's Approval.** Landlord shall notify Tenant whether it approves of the submitted working drawings within six business days after Tenant's submission thereof. If Landlord disapproves of such working drawings, then Landlord shall notify Tenant thereof specifying in reasonable detail the reasons for such disapproval, in which case Tenant shall, within three business days after such notice, revise such working drawings in accordance with Landlord's objections and submit the revised working drawings to Landlord for its review and approval. Landlord shall notify Tenant in writing whether it approves of the resubmitted working drawings within three business days after its receipt thereof. This process shall be repeated until the working drawings have been finally approved by Tenant and Landlord. If Landlord fails to notify Tenant that it disapproves of the initial working drawings within six business days (or, in the case of resubmitted working drawings, within three business days) after the submission thereof, then Landlord shall be deemed to have approved the working drawings in question. Landlord and Tenant agree to use all commercially reasonable efforts to respond with comments or revised drawings as soon as practicable, but in no event later than the deadlines set forth herein. If the working drawings are not fully approved (or deemed approved) by both Landlord and Tenant by the 20th business day after the delivery of the initial draft thereof to Landlord, and such delay was not solely caused by Landlord (e.g., by Landlord's failure to specify in reasonable detail the reasons for any disapproval of Tenant's proposed working drawings), then each day after such time period that such working drawings are not fully approved (or deemed approved) by both Landlord and Tenant shall constitute a Tenant Delay Day.

3.3 **Landlord's Approval; Performance of Work.** If any of Tenant's proposed construction work will affect the Building's Structure or the Building's Systems, then the working drawings pertaining thereto must be approved by the Project's engineer of record. Landlord's approval of such working drawings shall not be unreasonably withheld, conditioned or delayed, provided that (a) they comply with all Laws, (b) the improvements depicted thereon do not

(1) adversely affect (in the reasonable discretion of Landlord) the Building's Structure or the Building's Systems (including the Project's restrooms or mechanical rooms), or (2) affect (in the sole discretion of Landlord) (A) the exterior appearance of the Project, (B) the appearance of the Project's common areas or elevator lobby areas or (C) the provision of services to other occupants of the Project, (c) such working drawings are sufficiently detailed to allow construction of the improvements and associated work in a good and workmanlike manner, and (d) the improvements depicted thereon conform to the rules and regulations

promulgated from time to time by Landlord for the construction of tenant improvements (a copy of which has been delivered to Tenant). As used herein, "**Working Drawings**" means the final working drawings approved by Landlord, as amended from time to time by any approved changes thereto, and "**Work**" means all improvements to be constructed by Landlord in accordance with and as indicated on the Working Drawings. Landlord's approval of the Working Drawings shall not be a representation or warranty of Landlord that such drawings are adequate for any use or comply with any Law, but shall merely be the consent of Landlord thereto. Tenant shall, at Landlord's request, sign the Working Drawings to evidence its review and approval thereof. After the Working Drawings have been approved, (i) Landlord shall use commercially reasonable efforts to expedite acquisition of all necessary permits and approvals for the completion of the Work, and (ii) Landlord shall cause the Work to be performed in substantial accordance with the Working Drawings, using contractors and subcontractors selected by Landlord.

4. **Change Orders.** Tenant may initiate changes in the Work. Any change to the Working Drawings must receive the prior written approval of Landlord, such approval not to be unreasonably withheld or delayed; however, (a) if such requested change would adversely affect (in the reasonable discretion of Landlord) (1) the Building's Structure or the Building's Systems (including the Project's restrooms or mechanical rooms), (2) the exterior appearance of the Project, or (3) the appearance of the Project's common areas or elevator lobby areas, or (b) if any such requested change might delay the Commencement Date, Landlord may withhold its consent in its sole and absolute discretion. Landlord may initiate minor changes required due to construction exigencies, e.g., relocating a wall stud, window or door frame, or an electrical switch or outlet, with Tenant's prior consent (which request and consent may be verbal). If Tenant fails to respond within eight hours to any request for consent to a minor construction change order, Tenant shall be deemed to have approved the change.

5. **Definitions.** As used herein, a "**Tenant Delay Day**" means each day of delay in the performance of the Work that occurs (a) because Tenant fails to timely furnish any information or deliver or approve any required documents such as the Space Plans or Working Drawings (whether preliminary, interim revisions or final), pricing estimates, construction bids, and the like, (b) solely due to a change order submitted by Tenant to the Space Plans or Working Drawings and approved pursuant to Section (4) above, (c) because Tenant fails to (i) attend (whether by teleconference or videoconference or, at Tenant's election, in person) any meeting of which Tenant has at least 24 hours prior notice (which notice shall be sent by electronic mail or U.S. Mail to Tenant's construction representative or his designee, provided that Landlord has received the notice and electronic mail address of such designee), whether such meeting is with Landlord, the architect, any design professional, or any contractor, or their respective employees or representatives, as may be required or scheduled hereunder or otherwise necessary in connection with the preparation or completion of any construction documents, such as the Space Plans or Working Drawings, or in connection with the performance of the Work, (d) because of any specification by Tenant of materials or installations in addition to or other than Landlord's standard finish-out materials or any materials that are not readily available, after Tenant has been notified in writing by Landlord that such materials or installations are not readily available, or (e) because a Tenant Party otherwise unreasonably delays completion of the Work. As used herein, "**Landlord Delay Day**" means any delay in the completion of the Work which is directly attributable to the affirmative acts or willful failure to act by Landlord or Landlord's employees, agents or contractors, e.g., Landlord unreasonably fails to respond to any Tenant request for a change to the Space Plans or Working Drawings within the time-frames set forth in this Exhibit, fails to attend any meeting of which Landlord has at least eight hours' prior notice, or otherwise unreasonably delays completion of the Work, Provided that Landlord timely files applications for all required permits and approvals, the failure to timely receive such permits and approvals, whether due to Tenant's failure to provide satisfactory Working Drawings or the failure of the granting authority to respond to such applications in a timely manner, shall not be a Landlord Delay Day. As used herein, "**Substantial Completion**." "**Substantially Completed**" and any derivations thereof mean the Work in the Premises is substantially completed (as reasonably determined by Landlord) in substantial accordance with the Working Drawings. Substantial Completion shall have occurred even though minor details of construction, decoration, landscaping and mechanical adjustments remain to be completed by Landlord.

6. **Walk-Through; Punchlist.** When Landlord considers the Work in the Premises to be Substantially Completed, Landlord will notify Tenant and, within three business days thereafter, Landlord's representative and Tenant's representative shall conduct a walk-through of the Premises and identify any necessary touch-up work, repairs and minor completion items that are necessary for final completion of the Work. Neither Landlord's representative nor Tenant's representative shall unreasonably withhold his or her agreement on punchlist items. Landlord shall use reasonable efforts to cause the contractor performing the Work to complete all punchlist

items within 15 business days after agreement thereon; however, Landlord shall not be obligated to engage overtime labor in order to complete such items.

7. **Costs.** Landlord shall bear the entire cost of performing the Work depicted on the Space Plans (including the pricing schedule) initially submitted to and approved by Landlord and attached as Schedule 1 hereto, and as further depicted on the Working Drawings initially approved by Landlord. Tenant shall bear the entire additional actual, out-of-pocket costs incurred by Landlord in performing the Work solely because of any event specified in the definition of Tenant Delay Day. Tenant shall pay Landlord an amount equal to 90% of the estimated additional costs of any change to the Space Plans or the Working Drawings at the time of such change; Tenant shall pay to Landlord the remaining portion of additional costs incurred in performing the Work because of an event specified in the definition of Tenant Delay Day upon Substantial Completion of the Work. In consideration for Landlord's management and supervision for services performed in connection with the Work because of any event specified in the definition of Tenant Delay Day, Tenant shall pay to Landlord a construction management fee equal to five percent of the additional costs specified in this Section 7.

8. **Wiring and Cabling Allowance.** Landlord shall provide Tenant an allowance of up to $3.00 per rentable square foot in the Premises for the purchase and installation of Tenant's telecommunications wiring and cabling in the Premises (the "**Wiring and Cabling Allowance**"). Within 30 days following the date on which Tenant presents Landlord with an invoice and evidence of Tenant's payment thereof, Landlord shall reimburse Tenant's actual, out-of-pocket expenses incurred in connection with the purchase and installation of Tenant's wiring and cabling, up to a maximum amount of the Wiring and Cabling Allowance.

9. **Test-Fit Allowance.** Landlord shall provide Tenant a test-fit allowance of up to $0.10 per rentable square foot in the Premises, or $1,036.40 (the "**Test-Fit Allowance**") for the preparation of the Space Plans. Within 30 business days following the date on which Tenant presents Landlord with an invoice from the Architect and evidence of Tenant's payment thereof, Landlord shall reimburse Tenant's actual, out-of-pocket expenses incurred in connection with the Architect with respect to the Space Plans, up to a maximum amount of the Test-Fit Allowance.

10. **Construction Representatives.** Landlord's and Tenant's representatives for coordination of construction and approval of change orders will be as follows, provided that either party may change its representative upon written notice to the other and Tenant reserves the right to designate a temporary alternate representative for purposes of attending meetings requested by Landlord or the contractor:

Landlord's Representative:

Curt Whitlatch
c/o HPI Construction Management
3600 N. Capital of Texas Highway
Building B, Suite 250
Austin, TX 78746
Telephone: 512.719.3050
Email: whitlatch@hpitx.com

Tenant's Representative:

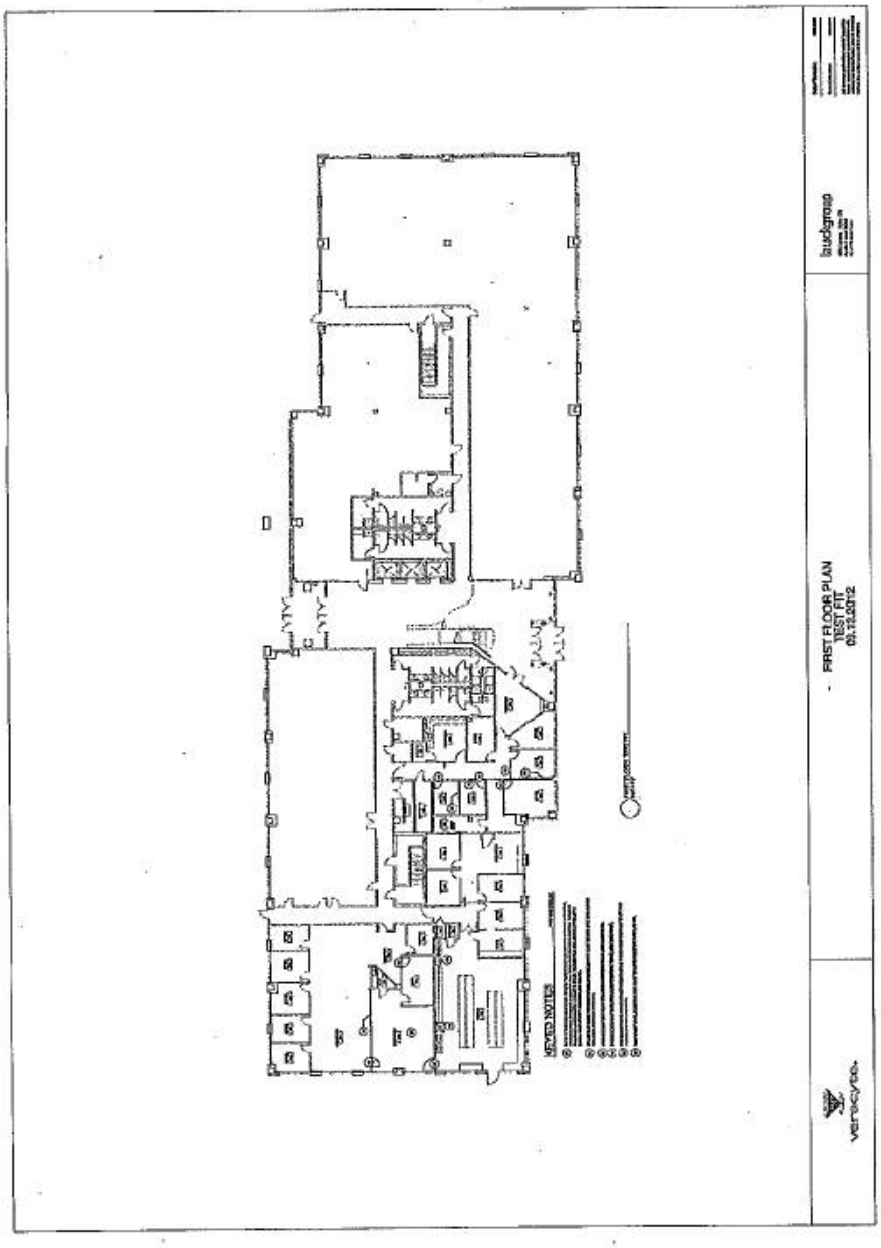
Mark Spring
c/o Veracyte, Inc.
7000 Shoreline Ct., Suite 250
South San Francisco, CA 94080
Telephone: 650.243.6341
Facsimile: 650.243.6301
Email: mark@Veracyte.com

11. **Miscellaneous.** To the extent not inconsistent with this Exhibit, Sections 8.1 and 21 of this Lease shall govern the performance of the Work and Landlord's and Tenant's respective rights and obligations regarding the improvements installed pursuant thereto.

SCHEDULE 1

APPROVED SPACE PLANS

[1st Floor Approved Floor Plan]



[6th Street Construction Logo]

Date of Bid: Thursday, October 04, 2012

Total Base Bid: $ 62,049.48

706B West Ben White Blvd
Suite 195
Austin, TX 78704

Project: Veracyte Test Fit
Address: 12331 Riata Trace Parkway
1st Floor
Austin, Texas 78727
Estimator: Freda Puckett

Architect: Lauckgroup — Date of Plans 9.13.12

Designer: N/A — Date of Plans N/A

Engineer: N/A — Date of Plans N/A

41 **Drywall/Acoustical/Demo** **$ 4,075.98**

demo	$	469.97	Demo as required
drywall	$	3,093.48	New under grid walls per plan
acoustical	$	512.53	Patch as required

12 **Doors, Frames, Hardware** **$ 6,782.00**
(6) new door units to include locksets, (l) relocat door unit

14 **Plumbing** **$ 8,175.00**
Break concrete and install a floor drain for shower drain, concrete ptur back to a rough condition, furnish and install (1) emergmcy shower per specs, mixing valve for shower (required but not in specs), add new sink to match existing

15 **Mechanical** **$ 3,100.00**
Pre-con service check on exisitng controls and equipment, filter media on bldg return air, add supply and returns for new offices, in house balance

16 **Electrical** **$ 3,800.00**
Demo, install switches in (6) new offices, relocate/reswitch lights as neded, add exit light in office 109, add outlets on each side of new walls, exisitng power pole and feed to remain as in Wet Lab, no new power included in Wet Lab

24 **Tape, Float, paint** **$ 2,400.00**
Patch and prep existing walls affected, tape and float new walls, paint new walls and walls affected by construction ONLY

23 **Flooring** **$12,320.00**
Furnish/install 80 yds of carpet at $24 sy allownace installed, furnish/install sheet viryl with welded seams (no flash cove), furnish/install rubber base, epoxy floor at emergency shower ONLY with 6” base (approx 3x3 area)

35 **Fire Sprinklers** **$ 1,650.00**
Per Code

20 **Millwork** **$ 950.00**
Lower cabinet for the (2) new sinks by Shower, repair millwork for shower install, See Alt for Island Millwork

45 **Fire Alarm Systems** **$ 2,543.00**
Per Code

25 **Final Clean** **$ 500.00**
Includes area of construction ONLY

22 **Miscellaneous** **$ 525.00**

Fire Cabinets and extinguishers	$	300.00
Port-o-can	$	225.00

$ 7,255.00

General Conditions	$	1,350.00
Project Management	$	3,780.00
Supervision	$	600.00
General Cleaning	$	510.00
Trash Dumpster	$	150.00
Building Protection	$	865.00
Permits		

Sub-Total $54,075.98

Overhead & Profit % 6.00%

99	**Overhead & Profit Total**	$	**3,244.56**
	Total Excluding Tax	**$**	**57,320.54**
100	**Remodel Tax %**		**8.25%**
	Remodel Tax Total	$	**4,728.94**
	Total Base Bid	**$**	**62,049.48**

Alt to Base Bid:

1	Branch duct Into existing fume hood exhaust duct for possible 2nd fume hood, Hood provided by others	**$**	**4,647.17**
2	Add for Paint throughout with (2) coats	**$**	**7,343.68**
3	Add for Carpet throughout @ $24 Syinstalled and std RB throughout	**$**	20,998.34
4	Add to duplicate free standing Millwork In middle of room with drawers on both sides	$	26,241.03

Qualifications to Base Bid:
Excludes data and cabling.
Work is figured during regular business hours except loud disruptive work.
Excludes all work associated with security. (card readers, electric locks, electric hinges, wiring, etc.)
Includes permit costs, Asbestos to be supplied by Owner.

EXHIBIT E

CONFIRMATION OF COMMENCEMENT DATE

April 17, 2013

Veracyte, Inc.
12357 A Riata Trace Parkway, Building 5, Suite 100
Austin, TX 78727

Re: Lease Agreement (the "**Lease**") dated November 28, 2012, between **RIATA HOLDINGS, L.P.**, a Delaware limited partnership doing business in Texas as Riata Austin Holdings, L.P. ("**Landlord**"), and **VERACYTE, INC.**, a Delaware corporation ("**Tenant**"). Capitalized terms used herein but not defined shall be given the meanings assigned to them in the Lease.

Ladies and Gentlemen:

Landlord and Tenant agree as follows:

1. **Condition of Premises.** Tenant has accepted possession of the Premises pursuant to the Lease. Any improvements required by the terms of the Lease to be made by Landlord have been completed to the full and complete satisfaction of Tenant in all respects except for the punchlist items described on Exhibit A hereto (the "**Punchlist Items**"), and except for such Punchlist Items, Landlord has fulfilled all of its duties under the Lease with respect to such initial tenant improvements. Furthermore, Tenant acknowledges that the Premises are suitable for the Permitted Use.

2. **Commencement Date.** The Commencement Date of the Lease is February 1, 2013.

3. **Expiration Date.** The Term is scheduled to expire on July 31, 2013, which is the last day of the 66th full calendar month following the Commencement Date.

4. **Contact Person.** Tenant's contact person in the Premises is:

Veracyte, Inc.
12357 A Riata Trace Parkway, Building 5, Suite 100
Austin, TX 78727
Attention: Edith Thomas
Telephone: 512.814.2500
Facsimile: 512.814.2501

5. **Ratification.** Tenant hereby ratifies and confirms its obligations under the Lease, and represents and warrants to Landlord that it has no defenses thereto. Additionally, Tenant further confirms and ratifies that, as of the date hereof, (a) the Lease is and remains in good standing and in full force and effect, and (b) Tenant has no claims, counterclaims, set-offs or defenses against Landlord arising out of the Lease or in any way relating thereto or arising out of any other transaction between Landlord and Tenant.

6. **Binding Effect; Governing Law.** Except as modified hereby, the Lease shall remain in full effect and this letter shall be binding upon Landlord and Tenant and their respective successors and assigns. If any inconsistency exists or arises between the terms of this letter and the terms of the Lease, the terms of this letter shall prevail. This letter shall be governed by the laws of the state in which the Premises are located.

Please indicate your agreement to the above matters by signing this letter in the space indicated below and returning an executed original to us.

Sincerely,

STREAM REALTY PARTNERS-AUSTIN, L.P., on behalf of Landlord

By: /s/ Buddy Reed

Name: Buddy Reed
Title: GM

Agreed and accepted:

VERACYTE, INC., a Delaware corporation

By: /s/ Shelly D. Guyer
Name: Shelly D. Guyer
Title: CFO

EXHIBIT A

Veracyte Commissioning Issues Summary

Priority
1- for completion of commissioning
2 - can follow commissioning

Architectural (to add to the Lauck Group Punchlist)

Date Noted		Description	Resp	Status	Priority
	1	Lock on the lab door 106	6th Street	Completed	1
	2	Clean paint specs on outlet boxes on counter in Lab 106	6th Street	Completed	2

Utilities

Date Noted		Description	Resp	Status	Priority
4/15/2013	1	Resolve safety shower model number	BAY MEP	Completed	1
4/15/2013	2	BAY MEP to review water/drain set up	BAY MEP	Completed	1
4/15/2013	3	Resolve access panel for the TMV	BAY MEP	Completed	1
4/15/2013	4	Resolve trap primer location/access panel	BAY MEP	Completed	1
4/15/2013	5	Label hot & cold water lines into the TMV	6th Street	Completed	1
4/15/2013	6	Tagging per General Provisions Note 14 of P0.00	BAY MEP	Completed	1
4/15/2013	7	Escutcheons on water pipes entering the lab through the ceiling per Plumbing General Note 15	6th Street	Completed	1
4/15/2013	8	As-built drawings (Plumbing & Fire Sprinklers in PDF and AutoCAD)	6th Street	Completed	2
4/15/2013	9	O&M Manuals per General Provisions Note 9 and 10 of P0.00	6th Street	Completed	2
4/15/2013	10	Warranty letters	6th Street	Completed	2
4/15/2013	11	Letter per General Provisions Note 6 of P0.00	6th Street	Completed	2
4/15/2013	12	Verification of disinfection per Plumbing General Note 5	6th Street	Completed	2

Electrical

Date Noted		Description	Resp	Status	Priority
4/15/2013	1	Correct power supplied to the lab - match drawing	6th Street	Completed	1
4/15/2013	2	Install missing outlets as noted on E3.01 drawings, Phase 1 and Phase 2, dated 4/15/13	6th Street	Completed	1
4/15/2013	3	Disconnect switch to the fume hood exhaust fan - this fan and the MAU to run 24 x 7	6th Street	Completed	1
4/15/2013	4	Several 2-pole breakers in the panels need to be switched out to single pole per the panel schedule	BAYMEP	Completed	1
4/15/2013	5	Correct and update panel schedules (Per Identification Labeling General Note 1 and comments on the panel schedules)	6th Street	Completed	1
4/15/2013	6	All outlets on DPUPS to be red with standard cover plate (note 4, E3/01). All outlets from DPL to be grey with standard cover plate	6th Street	Completed	1
4/15/2013	7	Spare circuits to be in the off position	6th Street	Completed	1
4/15/2013	8	Lab Panel 1LAB2 (missing name plate)	6th Street	Completed	1
4/15/2013	9	Label all outlets and light switches	6th Street	Completed	1
4/15/2013	10	Note location of the roof receptacle on the drawings (how will the use of this receptacle be managed since it comes from a Veracyte panel?)	Veracyte	Pending	1
4/15/2013	11	Provide summary of sub metering infrastructure (E3.01)	6th Street	Completed	2
4/15/2013	12	Credit for call box not installed at the front lobby door	6th Street	Completed	2
4/15/2013	13	As-built drawings (PDF and AutoCAD)	6th Street	Completed	2
4/15/2013	14	O&M Manuals per General Provisions Note 10 of E0.00	6th Street	Completed	2
4/15/2013	15	Warranty letters	6th Street	Completed	2
4/15/2013	16	Letter per General Provisions Note 7 of E0.00	6th Street	Completed	2
4/15/2013	17	Close Out requirement per E0.00	6th Street	Completed	2
4/127/13	18	DPUPS Panel is NOT bonded	Veracyte	Completed	1

Mechanical

Date Noted		Description	Resp	Status	Priority
4/16/2013	1	FCU 1-3 smoke detector indication not working	6th Street	Completed	1
4/16/2013	2	Add fitting to second location near fume hood, re-verify it is balanced to 100 CFM	6th Street	Completed	1
4/16/2013	3	Relocate office system thermostat located in Lab 106 (into the correct zone)	6th Street	Completed	2
4/16/2013	4	There is a fan supplying air into Storage 121, please include this in the as-builts and incorporate into the air balance report. (on circuit 1LAB1-17)	6th Street	Completed	1
4/16/2013	5	Fume hood alarm is not working, please investigate, this was existing but needs to be repaired.	6th Street	Completed	1
4/16/2013	6	Verify new filters were installed in the base HVAC system per note A in Project Close Out	6th Street	Completed	1
4/16/2013	7	Written operating narrative per Note D in Project Close Out	6th Street	Completed	2
4/16/2013	8	Confirm smoke detectors installed for FCU 1-1 and FCU 1-2, and FCU 1-3 - provide copies of Fire Alarm Plans.	6th Street	Completed	2
4/16/2013	9	As-built drawings (PDF and AutoCAD)	6th Street	Completed	2
4/16/2013	10	O&M Manuals	6th Street	Completed	2
4/16/2013	11	Warranty letters	6th Street	Completed	2
4/16/2013	12	Close Out requirement	6th Street	Completed	2

Air Balance Report Questions

Date Noted		Description	Resp	Status	Priority
4/16/2013	1	Please update to include the fan to storage room 121	6th Street	Completed	1
4/16/2013	2	The flow hood does not have any calibration information noted - please describe how this instrument's accuracy is verified (3/16)	6th Street	Completed	1
4/16/2013	3	Please clarify which instrument was used to measure the pressure differential and forward a copy of the cal cert (3/16)	6th Street	Completed	1
4/16/2013	4	Resolve note on the top of Page 4 with BAYMEP (regarding Note 11 on M2.01 - Ph2) (4/16)	6th Street	Completed	1
4/16/2013	5	Please verify that 100 cfm is balanced to the second vent point near the hood (it is currently capped)	6th Street	Completed	1
4/16/2013	6	Please add the information on the filters for all of the units (FCU1-1, 1-2, 1-3, MAU and existing HVAC into the air balance report)	6th Street	Completed	1
4/16/2013	7	FCU1-1 - page 7, Terminal numbers 5 and 6 need to be rebalanced to the correct amount (they were swapped)	6th Street	Completed	1
4/16/2013	8	MAU has blown fuses (4/16/13 Team Service checkout) - was this working during the air balancing?	Veracyte	Completed	1
4/16/2013	9	The fume hood information is indicating 168 FPM across the face OSHA (Federal Occupational Safety and Health Administration) Appendix A 4. (g) Quality. recommends, "...airflow into and within the hood should not be excessively turbulent...; hood face velocity should be adequate (typically 60-100 Ifm)..." Is this hood exhausting too much air? http://ateam.lbl.gov/hightech/fumehood/students/su00/Fox/FHSafety.htm	6th Street	Completed	1
4/16/2013	10	No information on the supply into Lab 110 was included in the air balance report	6th Street	Completed	1
4/17/2013	11	Lab 110 missed two supply locations	6th Street	Completed	1
4/17/2013	12	What note 5 is Adrian referring to? There are several "note 5s" on the mechanical plans	6th Street	Completed	1
4/17/2013	13	In generally, could you ask them to measure all of the supply grills - looks like they missed others. I circled most of the missing locations in the two	BAYMEP	Completed	1
4/17/2013	14	It would also be preferable to have all air balance information in a single	6th Street	Completed	1

Punchlist

Date Noted		Description	Resp	Status	Priority
4/18/2013	1	Room Lab 108: Caulk joint at wall/millwork near safety shower; install backer rod for clean joint if necessary. Rework trap primer as directed by Bay Engineers Safety shower substitution is accepted per Bay Engineers Receptacles missing at tombstone on millwork	6th Street	Completed	1

		countertop (labeled 1-LAB2-4) wall-mounted thermostatic mixing valve is acceptable per Bay Engineers			
4/18/2013	2	Lab Support 106: Complete installation of keyed lockset hardware Missing data coverplate at wall	6th Street	Completed	1
4/18/2013	3	Lab 110: Missing data coverplates at wall Reception desk: SS at south end missing; knee-space panels missing, light ardex coverage at corner bead of front facade.	Arch	N/A	1

EXHIBIT F

FORM OF TENANT ESTOPPEL CERTIFICATE

The undersigned is the Tenant under the Lease (defined below) between , a , as Landlord, and the undersigned as Tenant, for the Premises on the floor(s) of the building located at , and commonly known as , and hereby certifies as follows:

1. The Lease consists of the original Lease Agreement dated as of , 20 , between Tenant and Landlord *[‘s predecessor-in-interest]* and the following amendments or modifications thereto (if none, please state “none”):

The documents listed above are herein collectively referred to as the “**Lease**” and represent the entire agreement between the parties with respect to the Premises. All capitalized terms used herein but not defined shall be given the meaning assigned to them in the Lease.

2. The Lease is in full force and effect and has not been modified, supplemented or amended in any way except as provided in Section 1 above.

3. The Term commenced on , 20 , and the Term expires, excluding any renewal options, on , 20 , and Tenant has no option to purchase all or any part of the Premises or the Building or, except as expressly set forth in the Lease, any option to terminate or cancel the Lease.

4. Tenant currently occupies the Premises described in the Lease and Tenant has not transferred, assigned, or sublet any portion of the Premises nor entered into any license or concession agreements with respect thereto except as follows (if none, please state “none”):

5. All monthly installments of Basic Rent, all Additional Rent and all monthly installments of estimated Additional Rent have been paid when due through . The current monthly installment of Basic Rent is $.

6. All conditions of the Lease to be performed by Landlord necessary to the enforceability of the Lease have been satisfied and Landlord is not in default thereunder. In addition, Tenant has not delivered any notice to Landlord regarding a default by Landlord thereunder.

7. As of the date hereof, there are no existing defenses or offsets, or, to Tenant’s knowledge, claims or any basis for a claim, that Tenant has against Landlord and no event has occurred and no condition exists, which, with the giving of notice or the passage of time, or both, will constitute a default under the Lease.

8. No rental has been paid more than 30 days in advance and no security deposit has been delivered to Landlord except as provided in the Lease.

9. If Tenant is a corporation, partnership or other business entity, each individual executing this Estoppel Certificate on behalf of Tenant hereby represents and warrants that Tenant is and will remain during the Term a duly formed and existing entity qualified to do business in the state in which the Premises are located and that Tenant has full right and authority to execute and deliver this Estoppel Certificate and that each person signing on behalf of Tenant is authorized to do so.

10. There are no actions pending against Tenant under any bankruptcy or similar laws of the United States or any state.

11. Other than in compliance with all applicable laws and incidental to the ordinary course of the use of the Premises, Tenant has not used or stored any hazardous substances in the Premises.

12. All tenant improvement work to be performed by Landlord under the Lease has been completed in accordance with the Lease and has been accepted by Tenant and all reimbursements and allowances due to Tenant under the Lease in connection with any tenant improvement work have been paid in full.

Tenant acknowledges that this Estoppel Certificate may be delivered to Landlord, Landlord’s Mortgagee or to a prospective mortgagee or prospective purchaser, and their respective successors and assigns, and acknowledges that Landlord, Landlord’s Mortgagee and/or such prospective mortgagee or prospective purchaser will be relying upon the statements contained herein in disbursing loan advances or making a new loan or acquiring the property of which the Premises are a part and that receipt by it of this certificate is a condition of disbursing loan advances or making such loan or acquiring such property.

Executed as of , 20 .

TENANT: **,** a

By: _____

Name: _____
Title: _____

EXHIBIT G

PARKING

Tenant shall be entitled to the use of 41 unreserved parking spaces in the parking facilities associated with the Building (the "**Parking Area**") subject to such terms, conditions and regulations as are from time to time applicable to patrons of the Parking Area. There shall be no additional charge for Tenant's use of the unreserved parking spaces during the initial Term and any renewal thereof.

Tenant shall at all times comply with all Laws respecting the use of the Parking Area. Landlord reserves the right to adopt, modify, and enforce reasonable rules and regulations governing the use of the Parking Area from time to time including designation of assigned parking spaces, requiring use of any key-card, sticker, or other identification or entrance systems and charging a fee for replacement of any such key-card sticker or other item used in connection with any such system and hours of operations. Landlord may refuse to permit any person who violates such rules and regulations to park in the Parking Area, and any violation of the rules and regulations shall subject the car to removal from the Parking Area.

Unless specified to the contrary above, the parking spaces provided hereunder shall be provided on an unreserved, "first-come, first served" basis. Tenant acknowledges that Landlord has arranged or may arrange for the Parking Area to be operated by an independent contractor, not affiliated with Landlord.

All motor vehicles (including all contents thereof) shall be parked in the Parking Area at the sole risk of Tenant and each other Tenant Party, it being expressly agreed and understood Landlord has no duty to insure any of said motor vehicles (including the contents thereof), and Landlord is not responsible for the protection and security of such vehicles. Landlord shall not be responsible for enforcing Tenant's parking rights against any third parties. **NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS LEASE, LANDLORD SHALL HAVE NO LIABILITY WHATSOEVER FOR ANY PROPERTY DAMAGE OR LOSS WHICH MIGHT OCCUR ON THE PARKING AREA OR AS A RESULT OF OR IN CONNECTION WITH THE PARKING OF MOTOR VEHICLES IN ANY OF THE PARKING SPACES**

EXHIBIT H

RENEWAL OPTION

Tenant may renew this Lease for one additional period of five years, by delivering written notice of the exercise thereof to Landlord not earlier than 15 months nor later than 12 months before the expiration of the Term. The Basic Rent payable for each month during such extended Term shall be the prevailing rental rate (the "**Prevailing Rental Rate**"), at the commencement of such extended Term, for renewals of space in comparable buildings in the Northwest Austin, Texas submarket (including the Building) of equivalent quality, size, utility and location, with the length of the extended Term, the lack of any parking charges and the credit standing of Tenant to be taken into account on a fair market basis. Within 30 days after receipt of Tenant's notice to renew, Landlord shall deliver to Tenant written notice of the Prevailing Rental Rate and shall advise Tenant of the required adjustment to Basic Rent, if any, and the other terms and conditions offered. Tenant shall, within 30 days after receipt of Landlord's notice, notify Landlord in writing whether Tenant accepts or rejects Landlord's determination of the Prevailing Rental Rate. If Tenant timely notifies Landlord that Tenant accepts Landlord's determination of the Prevailing Rental Rate, then, on or before the commencement date of the extended Term, Landlord and Tenant shall execute an amendment to this Lease extending the Term on the same terms and conditions provided in this Lease, except as follows:

(a) Basic Rent shall be adjusted to the Prevailing Rental Rate;

(b) Tenant shall have no further renewal option unless expressly granted by Landlord in writing; and

(c) Landlord shall lease to Tenant the Premises in their then-current condition, and Landlord shall not provide to Tenant any allowances (e.g., moving allowance, construction allowance, and the like) or other tenant inducements.

If Tenant rejects Landlord's determination of the Prevailing Rental Rate, or fails to timely notify Landlord in writing that Tenant accepts or rejects Landlord's determination of the Prevailing Rental Rate, time being of the essence with respect thereto, Tenant's rights under this Exhibit shall terminate and Tenant shall have no right to renew this Lease.

Tenant's rights under this Exhibit shall terminate, at Landlord's option, if (a) an uncured Monetary Event of Default exists as of the date of Tenant's exercise of its rights under this Exhibit or as of the renewal commencement date of the applicable extended Term, (b) this Lease or Tenant's right to possession of any of the Premises is terminated, (c) Tenant assigns its interest in this Lease or sublets more than 20% of the Premises, (d) Tenant fails to lease from Landlord at least 10,364 rentable square feet of space and to occupy at least 80% of such space, (e) Landlord determines, in its sole but reasonable discretion, that Tenant's financial condition or creditworthiness has materially deteriorated since the date of this Lease, or (f) Tenant fails to timely exercise its option under this Exhibit, time being of the essence with respect to Tenant's exercise thereof. If Landlord determines that clause (e) above is applicable, Landlord may, as a condition to Tenant's right to exercise its renewal option under this Exhibit, require Tenant to provide Landlord with additional security (in the form of a security deposit or, at Landlord's election, a letter of credit), in an amount reasonably determined by Landlord to secure repayment of Landlord's out-of-pocket costs incurred as a result of a renewal of the Term. As used above, a "**Monetary Event of Default**" means any Event of Default under Section 17.1 of this Lease entitled "Payment Default" or Section 17.7 of this Lease entitled "Insolvency".

EXHIBIT I

FORM OF SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT

RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:

WELLS FARGO BANK, NATIONAL ASSOCIATION
Commercial Real Estate – Portfolio Services Group
420 Montgomery Street, 6th Floor
San Francisco, California 94104

Attention: Michael H. Panah
Loan No. 1000531

SUBORDINATION AGREEMENT; ACKNOWLEDGMENT OF LEASE ASSIGNMENT, ESTOPPEL, ATTORNMENT AND NON-DISTURBANCE AGREEMENT
(Lease to Deed of Trust)

NOTICE: THIS SUBORDINATION AGREEMENT RESULTS IN YOUR SECURITY INTEREST IN THE PROPERTY BECOMING SUBJECT TO AND OF LOWER PRIORITY THAN THE LIEN OF SOME OTHER OR LATER SECURITY INSTRUMENT.

THIS SUBORDINATION AGREEMENT; ACKNOWLEDGMENT OF LEASE ASSIGNMENT, ESTOPPEL, ATTORNMENT AND NON-DISTURBANCE AGREEMENT ("Agreement") is made as of , 2012, by and between RIATA HOLDINGS, L.P., a Delaware limited partnership, doing business in the State of Texas as Riata Austin Holdings, L.P. ("Owner" or "Lessor"), VERACYTE, INC., a Delaware corporation ("Lessee"), and WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent ("Administrative Agent") for the lenders from time to time party to the Loan Agreement, as defined below ("Lenders").

RECITALS

A. Pursuant to the terms and provisions of a Lease Agreement dated as of November 28, 2012 ("Lease"), Lessee holds a leasehold estate in and to a portion of the property described on Exhibit A attached hereto and incorporated herein by this reference (which property, together with all improvements now or hereafter located on the property, is defined as the "Property").

B. Pursuant to the Loan Agreement dated as of August 19, 2008, as amended ("Loan Agreement"), Owner has executed in favor of Administrative Agent, for the benefit of Lenders, a deed of trust with absolute assignment of leases and rents, security agreement and fixture filing, as amended (as amended, "Deed of Trust") securing, among other things, promissory notes (collectively, "Amended Notes") in the aggregate principal sum of One Hundred Thirty-Eight Million Three Hundred Seventy Thousand Dollars ($138,370,000), in favor of Lenders, which Amended Notes are payable with interest and upon the terms and conditions described therein and evidence a loan in such aggregate principal sum ("Loan"). The Deed of Trust was recorded on August 22, 2008, as Document No. 2008-142377, Travis County, Texas Official Records.

C. As a condition to making the Loan secured by the Deed of Trust, Administrative Agent and Lenders require that the Deed of Trust be unconditionally and at all times remain a lien on the Property, prior and superior to the Lease and that Lessee specifically and unconditionally subordinate the Lease to the lien of the Deed of Trust.

D. Owner and Lessee have agreed to the subordination, attornment and other agreements herein in favor of Administrative Agent and Lenders.

NOW THEREFORE, for valuable consideration, Owner and Lessee hereby agree for the benefit of Administrative Agent and Lenders as follows:

1. **SUBORDINATION.** Owner and Lessee hereby agree that:

1.1 **Prior Lien.** The Deed of Trust securing the Amended Notes in favor of Administrative Agent, for the benefit of Lenders, and any modifications, renewals or extensions thereof (including, without limitation, any modifications, renewals or extensions with respect to any additional advances made subject to the Deed of Trust), shall unconditionally be and at all times remain a lien on the Property prior and superior to the Lease;

1.2 **Subordination.** Lenders would not have made the Loan without this agreement to subordinate; and

1.3 **Whole Agreement.** This Agreement shall be the whole agreement and only agreement with regard to the subordination of the Lease to the lien of the Deed of Trust and shall supersede and cancel, but only insofar as would affect the priority between the Deed of Trust and the Lease, any prior agreements as to such subordination, including, without limitation, those provisions, if any, contained in the Lease which provide for the subordination of the Lease to a deed or deeds of trust or to a mortgage or mortgages.

AND FURTHER, Lessee individually declares, agrees and acknowledges for the benefit of Administrative Agent and Lenders that:

1.4 **Use of Proceeds.** Lenders, in making disbursements pursuant to the Amended Notes, the Deed of Trust or the Loan Agreement with respect to the Property, is under no obligation or duty to, nor have Administrative Agent or Lenders represented that they will, see to the application of such proceeds by the person or persons to whom Lenders disburse such proceeds, and any application or use of such proceeds for purposes other than those provided for in such agreement or agreements shall not defeat this agreement to subordinate in whole or in part;

1.5 **Waiver, Relinquishment and Subordination.** Lessee intentionally and unconditionally waives, relinquishes and subordinates all of Lessee's right, title and interest in and to the Property to the lien of the Deed of Trust and understands that in reliance upon, and in consideration of, this waiver, relinquishment and subordination, specific loans and advances are being and will be made by Lenders and, as part and parcel thereof, specific monetary and other obligations are being and will be entered into which would not be made or entered into but for said reliance upon this waiver, relinquishment and subordination.

2. **ASSIGNMENT.** Lessee acknowledges and consents to the assignment of the Lease by Lessor in favor of Administrative Agent, for the benefit of Lenders.

3. **ESTOPPEL.** Lessee acknowledges and represents that:

3.1 **Lease Effective.** The Lease has been duly executed and delivered by Lessee and, subject to the terms and conditions thereof, the Lease is in full force and effect, the obligations of Lessee thereunder are valid and binding and there have been no modifications or additions to the Lease, written or oral;

3.2 **No Default.** To the best of Lessee's knowledge, as of the date hereof: (i) there exists no breach, default, or event or condition which, with the giving of notice or the passage of time or both, would constitute a breach or default under the Lease; and (ii) there are no existing claims, defenses or offsets against rental due or to become due under the Lease;

3.3 **Entire Agreement.** The Lease constitutes the entire agreement between Lessor and Lessee with respect to the Property and Lessee claims no rights with respect to the Property other than as set forth in the Lease; and

3.4 **No Prepaid Rent.** No deposits or prepayments of rent have been made in connection with the Lease, except as follows (if none, state "None"): .

3.5 **No Broker Liens.** Neither Lessee nor Owner has incurred any fee or commission with any real estate broker which would give rise to any lien right under state or local law, except as follows (if none, state "None"): .

4. **ADDITIONAL, AGREEMENTS.** Lessee covenants and agrees that, during all such times as Administrative Agent, for the benefit of Lenders, is the Beneficiary under the Deed of Trust:

4.1 **Modification, Termination and Cancellation.** Lessee will not consent to any modification, amendment, termination or cancellation of the Lease (in whole or in part) without Administrative Agent's prior written consent and will not make any payment to Lessor in consideration of any modification, termination or cancellation of the Lease (in whole or in part) without Administrative Agent's prior written consent;

4.2 **Notice of Default.** Lessee will notify Administrative Agent in writing concurrently with any notice given to Lessor of any default by Lessor under the Lease, and Lessee agrees that Administrative Agent and Lenders have the right (but not the obligation) to cure any breach or default specified in such notice within the time periods set forth below and Lessee will not declare a default of the Lease, as to Lenders, if Administrative Agent or any Lender cures such default within fifteen (15) days from and after the expiration of the time period provided in the Lease for the cure thereof by Lessor; provided, however, that if such default cannot with diligence be cured by Administrative Agent or Lenders within such fifteen (15) day period, the commencement of action by Administrative Agent or any Lender within such fifteen (15) day period to remedy the same shall be deemed sufficient so long as Administrative Agent or such Lender pursues such cure with diligence;

4.3 **No Advance Rents.** Lessee will make no payments or prepayments of rent more than one (1) month in advance of the time when the same become due under the Lease; and

4.4 **Assignment of Rents**. Upon receipt by Lessee of written notice from Administrative Agent that Lenders have elected to terminate the license granted to Lessor to collect rents, as provided in the Deed of Trust, and directing the payment of rents by Lessee to Administrative Agent, Lessee shall comply with such direction to pay and shall not be required to determine whether Lessor is in default under the Loan and/or the Deed of Trust.

5. **ATTORNMENT.** In the event of a foreclosure under the Deed of Trust, Lessee agrees for the benefit of Administrative Agent and Lenders (including for this purpose any transferee of Administrative Agent or Lenders or any transferee of Lessor's title in and to the Property by Lenders' exercise of the remedy of sale by foreclosure under the Deed of Trust) as follows:

5.1 **Payment of Rent.** Lessee shall pay to Administrative Agent, for the benefit of Lenders, all rental payments required to be made by Lessee pursuant to the terms of the Lease for the duration of the term of the Lease;

5.2 **Continuation of Performance.** Lessee shall be bound to Administrative Agent and Lenders in accordance with all of the provisions of the Lease for the balance of the term thereof, and Lessee hereby attorns to Administrative Agent, for the benefit of Lenders, as its landlord, such attornment to be effective and self-operative without the execution of any further instrument immediately upon Administrative Agent or any Lender succeeding to Lessor's interest in the Lease and giving written notice thereof to Lessee;

5.3 **No Offset.** Neither Administrative Agent nor any Lender shall be liable for, nor subject to, any offsets or defenses which Lessee may have by reason of any act or omission of Lessor under the Lease, nor for the return of any sums which Lessee may have paid to Lessor under the Lease as and for security deposits, advance rentals or otherwise, except to the extent that such sums are actually delivered by Lessor to Administrative Agent or Lenders; and

5.4 **Subsequent Transfer.** If Administrative Agent or Lenders, by succeeding to the interest of Lessor under the Lease, should become obligated to perform the covenants of Lessor thereunder, then, upon any further transfer of Lessor's interest by Administrative Agent or Lenders, all of such obligations shall terminate as to Administrative Agent and Lenders.

6. **NON-DISTURBANCE.** In the event of a foreclosure under the Deed of Trust, so long as there shall then exist no breach, default, or event of default on the part of Lessee under the Lease, Administrative Agent and Lenders agree for themselves and their successors and assigns that the leasehold interest of Lessee under the Lease shall not be extinguished or terminated by reason of such foreclosure, but rather the Lease shall continue in full force and effect and Administrative Agent and Lenders shall recognize and accept Lessee as tenant under the Lease subject to the terms and provisions of the Lease

except as modified by this Agreement; provided, however, that Lessee, Administrative Agent and Lenders agree that the following provisions of the Lease (if any) shall not be binding on Administrative Agent or Lenders: any option to purchase with respect to the Property; any right of first refusal with respect to the Property; any provision regarding the use of insurance proceeds or condemnation proceeds with respect to the Property which is inconsistent with the terms of the Deed of Trust.

7. **MISCELLANEOUS.**

7.1 **Heirs, Successors, Assigns and Transferees.** The covenants herein shall be binding upon, and inure to the benefit of, the heirs, successors and assigns of the parties hereto; and

7.2 **Notices.** All notices or other communications required or permitted to be given pursuant to the provisions hereof shall be deemed served upon delivery or, if mailed, upon the first to occur of receipt or the expiration of three (3) days after deposit in United States Postal Service, certified mail, postage prepaid and addressed to the address of Owner, Lessee or Administrative Agent appearing below:

"OWNER"

Riata Holdings, L.P.
c/o Spear Street Capital, LLC
One Market Plaza
Spear Tower, Suite 4125
San Francisco, California 94105
Attention: John Grassi

and to:

Riata Holdings, L.P.
c/o Spear Street Capital, LLC
1114 Avenue of the Americas, 31st Floor
New York, New York 10036
Attention: Asset Manager

"ADMINISTRATIVE AGENT"

Wells Fargo Bank, National Association,
as Administrative Agent
Institutional & Metro Markets Group
600 California Street, 19th Floor
San Francisco, California 94108
Attention: Richard W. Daniel
Loan No. 1000531

"LESSEE"

Prior to Commencement Date (as defined in the Lease):

Veracyte, Inc.
7000 Shoreline Court, Suite 250
South San Francisco, California 94080
Attention: Chief Financial Officer

Following Commencement Date:

Veracyte, Inc.
12357 A Riata Trace Parkway, Building 5, Suite 100
Austin, Texas 78727
Attention:

provided, however, any party shall have the right to change its address for notice hereunder by the giving of written notice thereof to the other party in the manner set forth in this Agreement; and

7.3 **Counterparts.** This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute and be construed as one and the same instrument; and

7.4 **Remedies Cumulative.** All rights of Administrative Agent and Lenders herein to collect rents on behalf of Lessor under the Lease are cumulative and shall be in addition to any and all other rights and remedies provided by law and by other agreements between Administrative Agent and/or Lenders and Lessor or others; and

7.5 **Paragraph Headings.** Paragraph headings in this Agreement are for convenience only and are not to be construed as part of this Agreement or in any way limiting or applying the provisions hereof.

8. **INCORPORATION.** Exhibit A is attached hereto and incorporated herein by this reference.

[Signatures follow on next page]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

NOTICE: THIS SUBORDINATION AGREEMENT CONTAINS A PROVISION WHICH ALLOWS THE PERSON OBLIGATED ON YOUR REAL PROPERTY SECURITY TO OBTAIN A LOAN A PORTION OF WHICH MAY BE EXPENDED FOR OTHER PURPOSES THAN IMPROVEMENT OF THE LAND.

IT IS RECOMMENDED THAT, PRIOR TO THE EXECUTION OF THIS AGREEMENT, THE PARTIES CONSULT WITH THEIR ATTORNEYS WITH RESPECT HERETO.

"OWNER"

RIATA HOLDINGS, L.P.,
a Delaware limited partnership,
doing business in the State of Texas
as Riata Austin Holdings, L.P.

By: Riata Holdings General Partner, LLC,
a Delaware limited liability company,
doing business in the State of Texas
as Riata Austin Holdings General Partner, LLC,
General Partner

By: _____
Name: _____
Title: _____

"ADMINISTRATIVE AGENT"

WELLS FARGO BANK,
NATIONAL ASSOCIATION,
as Administrative Agent

By: _____
Name: Richard W. Daniel
Title: Vice President

"LESSEE"

VERACYTE, INC.,
a Delaware corporation

By: _____
Name: _____
Title: _____

(ALL SIGNATURES MUST BE ACKNOWLEDGED)

EXHIBIT A
LOAN NO. 1000531

DESCRIPTION OF PROPERTY

EXHIBIT A to Subordination Agreement; Acknowledgment of Lease Assignment, Estoppel, Attornment and Non-Disturbance Agreement dated as of , 2012, executed by RIATA HOLDINGS, L.P., a Delaware limited partnership, doing business in the State of Texas as Riata Austin Holdings, L.P., as "Owner", VERACYTE, INC., a Delaware corporation, as "Lessee", and WELLS FARGO BANK, NATIONAL ASSOCIATION, as "Administrative Agent".

All that certain real property located in the City of Austin, County of Travis, State of Texas, described as follows:

STATE OF CALIFORNIA
COUNTY OF ss.

On before me, (insert name and title of the officer), personally appeared , who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in

his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal

Signature _____

My commission expires .

STATE OF CALIFORNIA
COUNTY OF ss.

On before me, (insert name and title of the officer), personally appeared , who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal

Signature _____

My commission expires .

STATE OF
COUNTY OF ss.

[On before me, (insert name and title of the officer), personally appeared , who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.]

WITNESS my hand and official seal

Signature _____

My commission expires .

Exhibit 10.17

[Veracyte Letterhead]

April1, 2013

Shelly Guyer

Dear Shelly:

We are uniformly impressed with your abilities and experience, and we are excited to extend an offer of employment. We hope you find the opportunity to be compelling and we look forward to having you join us. We believe we can provide an environment in which you may continue your professional growth while making key contributions to the success of Veracyte. We are, therefore, pleased to offer you the position of Chief Financial Officer. This role will help the company achieve both short and long term business objectives. In this role, you will report to Bonnie Anderson, Chief Executive Officer. You should note that the Company may modify job titles and reporting relationships from time to time as it deems necessary.

The terms of this offer are as follows:

1. You will receive a base salary of $275,000 ($11,458.33 per pay period), less all applicable taxes and withholdings paid in accordance with Veracyte's established payroll schedule, presently semi-monthly. In addition, you will be eligible to participate in Veracyte's 2013 Executive Bonus Plan with a bonus target of 25 percent of annual base salary, prorated based on length of service.

2. You will be eligible to participate in Veracyte's Executive Change of Control and Severance program.

3. You will be eligible for medical, dental and vision benefits, and participation in the Company's 401(k) plan, which will be further detailed in a separate conversation with Human Resources.

4. You will be eligible for paid time off and company paid holidays in accordance with Veracyte's established policies. These and other policies are explained fully in the Company's employee handbook.

5. The Company's Board of Directors has agreed to offer significant equity participation to the members of its founding team. Consistent with this philosophy, if you decide to join the Company, you will be granted the option to purchase 600,000 shares of the Common Stock of Veracyte as recommended and approved by the Company's Board of Directors following commencement of your full-time employment with Veracyte. The price per share will be equal to the fair market value of the Common Stock on the date of grant, as determined by the Company's Board of Directors. The vesting schedule will be 1/4 of the shares vesting on the first anniversary of your employment, and then 1/48 of the shares vesting each month for the next 36 months.

6. In accordance with Federal immigration law, you will be required to provide the Company documentary evidence of your identity and eligibility for employment in the United States. This documentation must be provided to the Company within three (3) business days of your date of hire, or the Company may terminate its employment relationship with you.

7. In accordance with the law, employment with the Company is at-will, and may be terminated at any time by you or the Company, with or without cause and with or without notice. However, if employment is

terminated by you, the Company requests that you provide a minimum two weeks' notice, or as much notice as possible.

8. Employment with the Company is contingent upon your signature of, and compliance with, its At-Will Employment, Confidential Information and Invention Assignment and Arbitration Agreement which requires, among other provisions, the assignment of patent rights to any invention made during your employment with the Company, as well as non-disclosure of Company proprietary information. This agreement outlines, among other provisions, a requirement for resolution by binding arbitration of any dispute arising out of our employment relationship. This arbitration requirement is described in detail in the aforementioned agreement, a copy of which is enclosed with this offer. A signed copy of this agreement must be received by the Company prior to your first day of employment.

To accept the Company's offer, please sign and date this letter in the space provided below. A duplicate original is enclosed for your records. This offer of employment expires on April 8, 2013. A mutually acceptable start date is to be determined. This letter, together with any agreements relating to proprietary rights as herein described, sets forth the terms of your employment with the Company, and supersedes any prior representations or agreements including, but not limited to, any representations made during your recruitment, interviews or pre-employment negotiations, whether written or oral. This letter including, but not limited to, its at-will employment provision, may not be modified or amended except by written agreement signed by an Officer of the Company and you.

We look forward to your acceptance of this offer, and to working with you at Veracyte, Inc. If you have any questions about this offer or its terms, please feel free to contact me directly at 650-243-6302.

Sincerely,

/s/ Bonnie Anderson
Bonnie Anderson
Chief Executive Officer

Agreed to and accepted:

Signature: /s/ Shelly D. Guyer
Printed Name: Shelly D. Guyer

Date: 4/8/13

Enclosures: Duplicate Original letter, At-Will Employment, Confidential Information, Invention Assignment and Arbitration Agreement

7000 Shoreline Court, Suite 250 · South San Francisco, CA 94080 · T 650.243.6300 · F 650.243.6301 · www.veracyte.com

Exhibit 10.18

[Veracyte Letterhead]

January 27, 2010

Christopher Hall

Dear Chris,

We are uniformly impressed with your abilities and experience, and we are excited to extend an offer of employment. We hope you find the opportunity to be compelling and we look forward to having you join us as a member of our founding team. We believe we can provide an environment in which you may continue your professional growth while making key contributions to the success of Veracyte. We are, therefore, pleased to offer you the position of **Chief Commercial Officer.** Your responsibilities will be focused primarily on formulating and executing the Company's sales and marketing strategy, building a top-tier customer service organization to support the achievement of short- and long-term business objectives, and other duties as assigned. This role is pivotal in helping the company achieve success. In this role, you will report to me. You should note that the Company may modify job titles and reporting relationships from time to time as it deems necessary.

The terms of this offer are as follows:

1. You will receive a salary of $24,166.67 per month (which is $290,000 annually), less all applicable taxes and withholdings paid in accordance with Veracyte's established payroll schedule, presently semi-monthly.

2. Starting with the 2010 fiscal year and for each fiscal year thereafter, you will be eligible to receive an annual executive bonus of up to 20% of your then current annual salary. The bonus may be paid out in a combination of cash and stock option grants at the sole discretion of the Company's Board of Directors. Any stock options granted will be granted at the fair market value on the date of grant and the number of the options granted will be determined at the sole discretion of the Company's Board of Directors.

3. You will be eligible for medical, dental and vision benefits, and participation in the Company's 401(k) plan,which will be further detailed in a separate conversation with Human Resources.

4. You will be eligible for paid time off and company paid holidays in accordance with Veracyte's established policies. These and other policies are explained fully in the Company's employee handbook.

5. The Company's Board of Directors has agreed to offer significant equity participation to the members of its founding team. Consistent with this philosophy, if you decide to join the Company, you will be granted the option to purchase 450,000 shares of the Common Stock of Veracyte as recommended and approved by the Company's Board of Directors at its next regularly scheduled meeting following commencement of your full-time employment with Veracyte. The price per share will be equal to the

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fair market value of the Common Stock on the date of grant, as determined by the Company's Board of Directors. The vesting schedule will be 1/4 of the shares vesting on the first anniversary of your employment, and then 1/48 of the shares vesting each month for the next 36 months, subject to your continued service to the Company on each vesting date.

6. If the Company terminates your employment with the Company for any reason Other Than Cause (as defined below)[, death or disability] within 24 months of your hire date, then subject to you signing a release and waiver of claims with the Company and Sections 6(d) and (e) below, you shall be entitled to receive the following severance: (i) reimbursement of the COBRA premiums for continued health and other insurance coverage pursuant to COBRA at the Company's expense, for a period of six (6) months after such termination date; (ii) continuing payments of severance pay equal to your base salary, as then in effect, for a period of six (6) months from the date of such termination; and (iii) the unvested portion of your outstanding stock options that would normally vest over the following six (6) months from the date of such termination will immediately vest prior to such termination and become exercisable.

    a. ***"Other Them Cause"*** shall include, but not be limited to, the following: (A) any purported termination of your employment by the Company which is not affected for Cause or (B) your resignation from the Company within thirty (30) days following the expiration of any Company cure period (as discussed below) as a direct result of Constructive Termination as defined below.

    b. "***Constructive Termination***" shall be deemed to occur if there is, without your express written consent, a material reduction by more than twenty-five percent (25%) of your then current base compensation, provided, however, you may not resign for Constructive Termination without first providing the Company with written notice of such material reduction in your base compensation within ninety (90) days of such reduction and a reasonable cure period of not less than thirty (30) days following the date of such notice and such reduction in your base compensation has not been cured during such cure period.

    c. Termination shall be for "***Cause***" in the event of the occurrence of any of the following: (a) willful and repeated failure, after written notice, to follow the written policies of the Company or of the Board; (b) any conviction of a felony crime under the state or federal laws of the United States of America; (c) material breach of any material provision of any confidentiality agreements; or (d) your willful failure to comply with a material instruction of the Company or its Board given in good faith.

    d. The receipt of any severance benefits pursuant to this offer letter will be subject to your signing and not revoking a release and waiver of claims in a form reasonably acceptable to the Company (the "Release") and provided that such Release becomes effective and irrevocable no later than sixty (60) days following the termination date (such deadline, the "Release Deadline"). If the Release does not become effective and irrevocable by the Release Deadline, you will forfeit any rights to severance benefits under this offer letter. No severance benefits will be paid or provided until the Release becomes effective and irrevocable. Upon the Release becoming effective, any payments delayed from the date you terminate employment through the effective date of the Release will be payable in a lump sum without interest as soon as administratively practicable after the Release becomes effective and irrevocable and all other amounts will be payable in accordance with the payment schedule applicable to each payment or benefit. In the event the termination occurs at a time during the calendar year where the Release could become

effective in the calendar year following the calendar year in which your termination occurs, then any severance payments under this letter that would be considered Deferred Compensation (as defined below) will be paid on, or in the case of installments, will not

commence until, the 60th day after your termination date, or, if later, the Deferred Compensation Delayed Payment Date (as defined below).

e. The foregoing provisions are intended to comply with the requirements of Code Section 409A and the final regulations and official guidance promulgated thereunder ("Section 409A") so that none of the payments and benefits to be provided hereunder will be subject to the additional penalty tax imposed under Section 409A, and any ambiguous terms herein will be interpreted to so comply. The Company agrees to work together with you in good faith to consider any and all amendments to this offer letter and to take such reasonable actions which are necessary, appropriate or desirable to avoid imposition of any additional tax, interest penalty or accelerated income recognition prior to actual payment to you under Section 409A. Notwithstanding anything to the contrary in this offer letter, no severance payments or severance benefits payable to you upon termination of employment, if any, when considered together with any other severance payments or separation benefits that are considered deferred compensation ("Deferred Compensation") will be payable until you have a "separation from service" within the meaning of Section 409A. Further, if at the time of your termination of employment, you are a "specified employee" within the meaning of Section 409A, payment of such Deferred Compensation will be delayed to the extent necessary to avoid the imposition of the additional tax imposed under Section 409A, which generally means that you will receive payment on the first payroll date that occurs on or after the date that is 6 months and 1 day following your termination of employment, or your death, if earlier (the "Deferred Compensation Delayed Payment Date").

7. In accordance with Federal immigration law, you will be required to provide the Company documentary evidence of your identity and eligibility for employment in the United States. This documentation must be provided to the Company within three (3) business days of your date of hire, or the Company may terminate its employment relationship with you.

8. In accordance with the law, employment with the Company is at-will, and may be terminated at any time by you or the Company, with or without cause and with or without notice. However, if employment is terminated by you, the Company requests that you provide a minimum two weeks' notice, or as much notice as possible.

9. Employment with the Company is contingent upon your signature of, and compliance with, its At-Will Employment, Confidential Information and Invention Assignment and Arbitration Agreement which requires, among other provisions, the assignment of patent rights to any invention made during your employment with the Company, as well as non-disclosure of Company proprietary information. This agreement outlines, among other provisions, a requirement for resolution by binding arbitration of any dispute arising out of our employment relationship. This arbitration requirement is described in detail in the aforementioned agreement, a copy of which is enclosed with this offer. A signed copy of this agreement must be received by the Company prior to your first day of employment.

10. This offer is also contingent upon a successful completion of your background check.

To accept the Company's offer, please sign and date this letter in the space provided below. A duplicate original is enclosed for your records. This offer of employment expires on Monday, February 1, 2010. If you accept our offer, your start date is anticipated to be as soon as possible, but in no event later than Monday, March 15, 2010. This letter, together with any agreements relating to proprietary rights as herein described, sets forth the terms of your employment with the Company, and supersedes any prior representations or agreements

including, but not limited to, any representations made during your recruitment, interviews or pre-employment negotiations, whether written or oral. This letter including, but not limited to, its at-will employment provision, may not be modified or amended except by written agreement signed by an Officer of the Company and you.

We look forward to your acceptance of this offer, and to working with you at Veracyte, Inc. If you have any questions about this offer or its terms, please feel free to contact me directly at 650-243-6302.

Sincerely,

/s/ Bonnie Anderson
Bonnie Anderson
Chief Executive Officer

Agreed to and accepted:

Signature:	/s/ Christopher Hall
Printed Name:	Christopher Hall
Date:	Jan 28, 2010

Enclosures: Duplicate Original letter, At-Will Employment, Confidential Information, Invention Assignment and Arbitration Agreement

Exhibit 10.19

***** CONFIDENTIAL TREATMENT REQUESTED.**
Confidential portions of this document have been redacted and have been separately filed with the Commission.

PATHOLOGY SERVICES AGREEMENT

THIS PATHOLOGY SERVICES AGREEMENT ("Agreement") is made this 12th day of November, 2010 (the "Effective Date"), by and among **VERACYTE, INC.,** a California corporation ("Veracyte"), and **BRAZOS VALLEY PATHOLOGY, P.A. D/B/A REITPATH,** a Texas professional association ("Pathologists"). Veracyte and Pathologists are sometimes referred to in this Agreement as a **"Party"** or, collectively, as the **"Parties."**

RECITALS

A. Veracyte is engaged in the business of developing and marketing diagnostic testing utilizing Veracyte's proprietary molecular assays and procuring the related anatomic and cytologic pathology. Veracyte is not licensed to practice medicine, but does require the assistance of pathologists who are licensed in states in which Veracyte does business and in states in which patients who utilize Veracyte's services reside.

B. Brazos Valley Pathology, P.A. is a Texas professional association which is engaged in the practice of medicine and specializes in pathology.

C. Veracyte desires to retain the services of Pathologists to provide professional pathology services on the terms and conditions stated herein.

AGREEMENT

THE PARTIES AGREE AS FOLLOWS:

1. Engagement.

(a) Scope of Engagement. Veracyte hereby grants to Pathologists the exclusive right to provide cytopathologic studies of thyroid specimens referred to Veracyte for cytology testing, except as set forth in Exhibit A ("Exceptions to Exclusivity"). Unless otherwise agreed in writing, Pathologists shall have no responsibility or liability for:

(i) the processing of any pathology specimens or for the performance of any clinical laboratory tests by Veracyte or any third party; and

(ii) any services provided by third party pathologists engaged by Veracyte pursuant to Section 9(b) below.

(b) Approved Physicians. Pathologists will provide the services through individual physicians listed on Exhibit B ("Approved Physicians"). From time to time additional physicians may be engaged by Pathologists to furnish services under this Agreement; provided, however, that each additional physician must satisfy the professional standards and

qualifications set forth in this Agreement. Veracyte shall have the sole discretion to approve any such physician in writing prior to furnishing services.

(c) Geographic Limitation. Services will be provided in the Austin, Texas metropolitan area unless otherwise agreed.

(d) International Arrangements. The Parties shall meet and confer in good faith to negotiate the terms and conditions pursuant to which the Services may be provided by Pathologists for samples obtained outside of the United States by Veracyte. Veracyte may engage an additional service provider to provide the Services for patients located outside of the United States.

2. Duties and Responsibilities of Pathologists.

(a) Pathology Services. Pathologists shall provide physicians and other qualified professionals necessary to provide cytology testing on thyroid specimens from patients referred to Veracyte. Pathology services include (collectively, the "Services"):

(i) macroscopic and microscopic examinations of thyroid cytology specimens;

(ii) the reporting of these examinations and findings in accordance with Veracyte's laboratory information system and protocols;

(iii) CPT-4 coding in compliance with all applicable federal, state and local laws, rules and regulations (collectively, the "Laws") with respect to the Medicare and Medicaid programs and any other Federal health care program, as defined at 42 U.S.C. Section 1320a-7b(f) (collectively, the "Federal Health Care Programs"); and

(iv) any additional services to set forth on Exhibit C.

(b) Equipment. Pathologists shall provide all equipment required to perform the Services, including, but not limited to: microscopes, computers, telecommunications, networking capability, and other tools as necessary to provide the services. Veracyte shall provide or bear the cost of software for report generation and any additional hardware, software or computer system infrastructure required by Veracyte or needed to meet Veracyte's standards. If the Parties determine that transcription and dictation equipment and/or services are needed, the Parties shall, as soon as reasonably practicable, meet and confer in good faith to negotiate the responsibility for procurement and payment of such items.

(c) Consultation. Pathologists shall consult with Veracyte's laboratory director, if any, as clinically appropriate and in accordance with applicable licensing, accreditation and certification standards and requirements.

(d) Business Promotion. Pathologists shall assist Veracyte, at Veracyte's

expense (which expenses shall be approved in advance by Veracyte), with promotion of the business as mutually agreed upon by the Parties. Pathologists shall also participate in Veracyte's branding and marketing programs as necessary to establish a unity of purpose in providing high quality technical and professional services to Veracyte's clients, all in compliance with the Laws applicable to the provision of clinical laboratory and pathology services under this Agreement. All marketing and promotion activities (which shall not include Pathologist's physician recruiting activities) shall be conducted solely at the direction of, as approved by, and in consultation with Veracyte. Veracyte shall have sole right and authority to approve the content and placement of any and all marketing and promotional materials relating to the Services provided under this Agreement.

(e) Compliance Program. Pathologists shall participate in and abide by Veracyte's compliance program, policies and procedures, as established or adopted from time to time.

(f) Designation of Agent. Robert Flanakin shall serve as Pathologist's sole and exclusive agent for purposes of communicating with Veracyte concerning the rights of Pathologists pursuant to this Agreement. Pathologists shall be bound by all actions and agreements made by this agent. Pathologists may designate, from time to time, a new agent, pursuant to written notice to Veracyte.

(g) Physician Compensation Arrangements. Pathologists represent and warrant to Veracyte that the compensation paid or to be paid by Pathologists to any physician is and will at all times be fair market value for services and items actually provided by such physician, not taking into account the value or volume of referrals or other business generated by such physician for Veracyte. Pathologists further represent and warrant to Veracyte that Pathologists has and will at all times maintain a written agreement with each physician receiving compensation from Pathologists.

3. Qualifications of Approved Physicians.

(a) Licenses and Certifications. Pathologists shall ensure that each Approved Physician: (i) has and maintains an unrestricted license to practice medicine in one or more of the Covered States as set forth herein, (ii) is and remains board certified in pathology by the applicable medical specialty board approved by the American Board of Medical Specialties, (iii) is and remains a participating provider in all Federal Health Care Programs, (iv) participates in continuing education as necessary to maintain licensure, professional competence and skills commensurate with the standards of the medical community, (v) meets all other licensing, credentialing and certification standards as mutually defined and agreed to during the term of this Agreement.

(b) Covered States. Veracyte shall only provide specimens from the Covered States. For purposes of this Agreement, the "Covered States" are as listed in Exhibit D. Pathologists shall engage physicians who are licensed in one or more of the Covered States. Veracyte may request an expansion of the list of Covered States with one hundred twenty (120) days' written notice, but no more than ten (10) new states may be requested in

any ninety (90) day period unless mutually agreed upon by the Parties.

(c) Notification of Issues. Pathologists shall notify Veracyte in writing within two (2) business days after Pathologists becomes aware of any one or more of the following events:

(i) Any Approved Physician becomes the subject of any suit, action or other legal proceeding arising out of Pathologist's professional services;

(ii) Any Approved Physician is required to pay damages or any other amount in any malpractice action by way of judgment or settlement;

(iii) Any Approved Physician becomes the subject of any disciplinary proceeding or action before any state's medical board or similar agency responsible for professional standards or behavior;

(iv) Any Approved Physician becomes permanently incapacitated or disabled from practicing medicine;

(v) Any act of nature or any other event occurs which has a material adverse effect on any Approved Physician's ability to perform the Services;

(vi) Any Approved Physician is charged with or convicted of a felony, a misdemeanor involving fraud, dishonesty, or moral turpitude, or any crime relevant to the practice of medicine; or

(vii) Any Approved Physician is debarred, suspended, excluded or otherwise ineligible to participate in any federal or state health care program.

(d) Mandatory Removal. Pathologists shall immediately remove any Approved Physician from furnishing Services under this Agreement who:

(i) has his or her state license to practice medicine or board certification denied, suspended, restricted, terminated, revoked or relinquished for any reason, whether voluntarily or involuntarily, temporarily or permanently, regardless of the availability of civil or administrative hearing rights or judicial review with respect thereto;

(ii) is debarred, suspended, excluded or otherwise ineligible to participate in any Federal Health Care Program; or

(iii) fails to be covered by the professional liability insurance required to be maintained under this Agreement.

(e) Removal Upon Request. Upon written request by Veracyte, Pathologists shall immediately remove any Approved Physician from furnishing Services under this Agreement who:

(i) engages in conduct that, in Veracyte's good faith determination, jeopardizes or damages the reputation of Veracyte;

(ii) fails to satisfy any of the standards and qualifications set forth in this Agreement;

(iii) fails to comply with any other material terms or conditions of this Agreement after being given written notice of that failure and a reasonable opportunity to comply;

(iv) within a twelve (12) month period, has two (2) or more medical malpractice claims filed against him or her; or

(v) is charged with or convicted of a felony, a misdemeanor involving fraud, dishonesty, or moral turpitude, or any crime relevant to the practice of medicine.

4. Duties and Responsibilities of Veracyte.

(a) Laboratory. Veracyte shall be responsible for its cytology and molecular lab, its functions, quality and licensure.

(b) Slide Storage. Veracyte shall maintain and store all slides.

(c) Shipping. Veracyte shall ship specimens to Pathologists and pay for cost of return shipping to Veracyte for storage and reporting.

(d) Clinical Information. Veracyte shall provide all clinical information accompanying any specimens and a manifest of shipment contests.

(e) Software. Veracyte shall be responsible for dictation and reporting software. Veracyte shall also provide any billing or networking or other software needed.

(f) Managed Care Contracting. Except as otherwise provided in Section 9, below, Veracyte shall be responsible for all managed care contracting.

(g) Payment. Veracyte shall pay Pathologists in a timely manner as provided in the Agreement.

5. Practice of Medicine. Pathologists and Veracyte acknowledge that Veracyte is neither authorized nor qualified to engage in any activity which may be construed or deemed to constitute the practice of medicine. Accordingly, Veracyte shall not engage in the practice of medicine nor seek to provide the Services to be provided by Pathologists under this Agreement through its own physician employees or contractors. To the extent that any act or service required of, or reserved to, Veracyte in this Agreement is construed or deemed to constitute the practice of medicine, the performance of such act or service by Veracyte shall be deemed waived or unenforceable, unless this Agreement can be amended to comply with the law, in which case the Parties shall make such amendment.

6. Term. This Agreement shall become effective on the Effective Date, and shall continue until the last day of the thirty sixth (36th) full calendar month thereafter, unless terminated earlier as provided herein. The Agreement shall automatically renew for successive two (2) year terms unless either Party gives written notice of its intention not to renew this Agreement at least one hundred twenty (120) days prior to the end of the then current term.

7. Termination.

(a) Termination by Pathologists. Pathologists shall have the right to terminate this Agreement immediately upon the occurrence of the following:

(i) The insolvency of Veracyte;

(ii) The suspension, revocation, termination or other restriction on Veracyte's laboratory license;

(iii) Failure of Veracyte to pay any amounts due hereunder within ten (10) days after the receipt of written notice;

(iv) Breach of the Agreement by Veracyte and its failure to cure such breach within thirty (30) days after the delivery of written notice thereof; or

(v) Termination for any reason of the Services Agreement between Veracyte and Pathology Resource Consultants, L.P. ("PRC") dated November 12, 2010 (the "Services Agreement").

(b) Termination by Veracyte. Veracyte shall have the right to terminate this Agreement immediately upon the occurrence of any of the following:

(i) The insolvency of the Pathologists;

(ii) The suspension or termination of the Pathologists from any Federal Health Care Program;

(iii) Breach of the agreement by Pathologists and its failure to cure such breach within thirty (30) days after the delivery of written notice thereof;

(iv) Termination for any reason of the Services Agreement; or

(v) There is a "Substantial Change" in Pathologists, which Substantial Change has not received written approval, or subsequent ratification by Veracyte, whose approval or ratification shall not be unreasonably withheld. For purposes of this section, "Substantial Change" means the turnover ratio for Approved Physicians exceeds fifty percent (50%) in any one-year period commencing January 1, 2012, whether due to retirement, withdrawal, termination, suspension or otherwise.

8. Compensation, Billing and Collection.

(a) Right to Bill. Except as otherwise provided in Section 9 below:

(i) Veracyte shall have the sole and exclusive right to bill and collect for any and all Services rendered by Pathologists pursuant to this Agreement and shall have the sole and exclusive right, title and interest in and to accounts receivable with respect to such pathology services.

(ii) Pathologists shall seek and obtain compensation for the performance of the Services only from Veracyte. Pathologists shall not bill, assess or charge any fee, assessment or charge of any type against any patient or any other person or entity for Services rendered by Pathologists pursuant to this Agreement. Pathologists shall promptly deliver to Veracyte any and all compensation, in whatever form, that is received by Pathologists for Services rendered by Pathologists pursuant to this Agreement.

(b) Pathologists' Fee. Veracyte shall pay Pathologists for each specimen according to the fee schedule attached hereto as Exhibit E. For all professional cytopathology services completed by Pathologists on or before June 30, 2011, Pathologists shall be paid within sixty (60) days after the end of the calendar month in which the Pathologists complete the Services. For example, the fee for professional cytopathology services completed during the month of January 2011 shall be payable prior to April 1, 2011. For all professional cytopathology services completed by Pathologists after June 30, 2011, Pathologists shall be paid within forty (40) days after the end of the calendar month in which the Pathologists complete the Services. Veracyte may bill patients and/or their third party payors, and payment to Pathologists is not contingent upon Veracyte's receipt of payment.

(c) Assignment of Claims. Pathologists hereby assign (or reassigns, as the case may be) to Veracyte all claims, demands and rights of Pathologists for payment for any and all Services rendered by Pathologists pursuant to this Agreement. Pathologists shall take such action and execute such documents as may be reasonably necessary or appropriate to effectuate the assignment (or reassignment, as the case may be) to Veracyte of all claims, demands and rights of Pathologists for payment for any and all Services rendered by Pathologists pursuant to this Agreement.

(d) Expense Reimbursements.

(i) Veracyte shall reimburse Pathologists for all reasonable and necessary business expenses incurred by Pathologists in connection with the performance of the Services, including shipping, postage, transcription fees, external consults performed at Veracyte's request, etc.; provided that: (l) Pathologists have obtained prior written approval of Veracyte to incur expenses greater than Five Hundred Dollars ($500), (2) the expenses are directly related to the performance of the Services under this Agreement, (3) the expenses meet the requirements for reimbursement under Veracyte policies, and (4) Pathologists submit receipts to Veracyte within sixty (60) days of incurring the expenses. Receipts submitted to Veracyte after sixty (60) days may or may not be paid at the sole discretion of Veracyte.

(ii) Veracyte shall reimburse Pathologists for reasonable and necessary expenses incurred by Pathologists in connection with all sales and marketing activities to promote or represent Veracyte; provided that such sales and marketing activities and expenses are approved in advance by Veracyte.

(iii) Veracyte shall reimburse Pathologists for the annual cost of renewing state licenses (other than Texas) for Approved Physicians. Veracyte shall also reimburse Pathologists for the costs of acquiring licenses for Approved Physicians in states other than Texas in order to provide the Services hereunder; this will include, without, limitation, reimbursement of the costs incurred prior to the Effective Date of this Agreement for licenses acquired specifically in anticipation of the execution of the Agreement.

9. Third Party Payor Arrangements.

(a) Cooperation. Pathologists shall reasonably cooperate with Veracyte at Veracyte's expense in the billing and collection of fees with respect to Services rendered by Pathologists pursuant this Agreement. Without limiting the generality of the foregoing, Pathologists shall reasonably cooperate with Veracyte: (i) in providing information to permit Veracyte to complete such claim forms with respect to Services rendered by Pathologists pursuant to this Agreement as may be required by insurance carriers, health care service plans, governmental agencies, or other third party payors; and (ii) in all reasonable respects necessary to facilitate Veracyte's entry into or maintenance of any third party payor arrangements for the provision of services under Federal Health Care Programs or any other public or private health care programs, including insurance programs, self-funded employer health programs, health care service plans and preferred provider organizations.

(b) Enrollment as provider. If Veracyte is not permitted to participate in any third-party payor arrangement that includes the Services, Veracyte may request Pathologists to:

(i) Enroll as a provider, separate from Veracyte, in any third party payor arrangement designated by Veracyte, with respect to services provided pursuant to this Agreement;

(ii) Enter into an express contractual agreement with said third party payor, or with any intermediate organization, including any independent practice association, as required to effect Pathologist's enrollment as a provider; and/or

(iii) Enter into an express contractual agreement with Veracyte regarding global billing, capitation or other payment arrangements that cover Veracyte services and pathology services, as necessary to implement the third party payor arrangement.

Notwithstanding any other provision in this Agreement, upon Pathologists' failure for any reason to take any of the steps above within ten (10) business days after receipt of a written request, Veracyte may engage an additional service provider to provide the Services for patients covered by the third-party payor in question.

10. Insurance.

(a) Insurance. Pathologists shall at its own expense maintain professional errors and omissions policy with limits of at least One Million Dollars ($1,000,000) per claim and Three Million Dollars ($3,000,000) annual aggregate for each Approved Physician. Veracyte shall at its own expense maintain professional malpractice insurance for its laboratory operations with policy limits of at least Three Million Dollars ($3,000,000).

(b) Waiver of Subrogation. Whenever (a) any loss, cost, damage or expense resulting from professional malpractice is incurred by either Party and (b) such Party is then covered (or is required under this Agreement to be covered) in whole or in part by insurance with respect to such loss, cost, damage or expense, then the Party so insured hereby releases the other Party from any liability it may have on account of such loss, cost, damage or expense to the extent of any amount recovered by reason of such insurance, and waives any right of subrogation which might otherwise exist on account thereof, provided that such release of liability and waiver of the right to subrogation shall not be operative in any case where the effect thereof is to invalidate such insurance coverage or increase the cost thereof. The Parties shall use their respective best efforts to obtain such a release and waiver of subrogation from their respective insurance carriers and shall obtain any special endorsements, if required by their insurer, to evidence compliance with the aforementioned waiver. The releases granted herein shall include releases of claims caused by negligence.

11. Indemnity.

(a) Indemnity by Pathologists. Pathologists shall indemnify and defend Veracyte from and against any claims arising out of (i) the breach of this Agreement by Pathologists, and/or_(ii) from Pathologists' professional errors or omissions.

(b) Indemnity by Veracyte. Veracyte shall indemnify and defend Pathologists against any claims arising out of (i) the breach of this Agreement by Veracyte, (ii) the preparation of any pathology specimens by Veracyte, and/or (iii) the operation of the cytology or molecular laboratories, and/or (iv) the wrongful disclosure of any patient protected health information by Veraycte or as a result of any defects in any software or computer system provided or maintained by Veracyte.

12. Cooperation between the Parties.

(a) General Duty to Cooperate. The Parties: (1) shall interact professionally, positively and respectfully with each other and with all of their respective employees and contractors; (2) shall not in any way intentionally disparage or otherwise communicate to third parties negative facts, statements or opinions regarding the other and their respective Board members, partners, employees or business; and (3) shall at all times perform the Services in a manner that is in the best interests of Veracyte and in the best interests and safety of patients. Pathologists agree to reasonably cooperate with Veracyte in: any pending or future government or payor investigation; any litigation, arbitration or other dispute resolution involving Veracyte; and any internal investigation Veracyte may conduct. Veracyte shall reimburse Pathologists for all expenses reasonably incurred by Pathologists in compliance with this Section 12(a), except that Veracyte shall not pay Pathologists for Pathologists' expenses in any dispute resolution where Pathologists are a co-defendant in an action brought by a third party.

(b) Claim Resolution. The Parties recognize that, during the term of this Agreement and for a period thereafter, certain risk management issues, legal issues, claims or actions may arise that involve or could potentially involve the Parties and their respective employees and agents. The Parties further recognize the importance of cooperating with each other in good faith when such issues, claims or actions arise, to the extent such cooperation does not violate any applicable laws, cause the breach of any duties created by any policies of insurance or programs of self-insurance, or otherwise compromise the confidentiality of communications or information regarding the issues, claims or actions. As such, the Parties hereby agree to cooperate in good faith, using their best efforts, to address such risk management and claims handling issues in a manner that strongly encourages full cooperation between the Parties.

13. Noncompetition/Nonsolicitation.

(a) Noncompetition. During the term of this Agreement, Pathologists shall not, without first obtaining the prior written consent of Veracyte, provide cytopathologic studies of thyroid specimens unless the specimens are sourced from an entity listed on Exhibit F.

(b) Nonsolicitation of Employees. Each Party agrees that during the term of the Agreement and for two (2) years after the termination for any reason, it will not solicit the employment of any employee or contractor of the other Party. Furthermore, Veracyte may not directly or indirectly employ, engage or use the services of any physician who Veracyte

required that the Pathologists remove from providing Services hereunder.

14. Confidentiality.

(a) Confidential Information. Each Party recognizes and acknowledges that, by virtue of entering into this Agreement and performing their respective obligations hereunder, each Party may have access to certain information of the other Party that is confidential and constitutes proprietary, valuable, special and unique property of the other Party. The Parties agree that they shall not at any time, either during or subsequent to the term of this Agreement, disclose to others, use, copy or permit to be copied, without the express prior written consent of the other Party whose confidential information is so disclosed or used, except pursuant to the performance of such Party's duties thereunder, any confidential or proprietary information of the other Party, including, but not limited to, information which concerns clients and their respective patients, costs, or methods of operation or marketing, and which is not otherwise available to the public.

(b) Disclosure of Terms of this Agreement. Except for disclosure to a Party's legal counsel, accountants or financial advisors, neither Party shall disclose the terms of this Agreement to any person who is not a party or signatory, unless disclosure thereof is required by law or otherwise authorized by this Agreement or consented to in writing by the other Party.

(c) Patient Information. Pathologists shall not disclose to any third party, except where permitted or required by law or where such disclosure is expressly approved by Veracyte in writing, any patient or medical record information regarding patients of Veracyte, and Pathologists shall comply with all federal and state laws and regulations regarding the confidentiality of such information. Pathologists acknowledge and agree that it shall be deemed to constitute a "business associate" of Veracyte as such term is defined in the Health Insurance Portability and Accountability Act of 1996, as amended by the Health Information, Technology for Economic and Clinical Health Act of 2009 (collectively, "HIPAA"). Accordingly, Pathologists shall comply with all applicable provisions of HIPAA and the regulations and rules promulgated thereto, including, without limitation, executing and delivering to Veracyte a business associate agreement in the form as attached as Exhibit G hereto.

(d) Survival. The provisions of this Section 14 shall survive expiration or other termination of this Agreement, regardless of the cause of such termination.

15. Miscellaneous Provisions.

(a) Independent Contractor. In performance of all work, duties and obligations under this Agreement, Pathologists are at all times acting and performing as independent contractors practicing the profession of medicine. Veracyte shall have no control or direction over the methods by which Pathologists perform the work and functions required by this Agreement. Pathologists have sole responsibility for the recruitment, retention and compensation of physicians providing Services under this agreement.

(b) Tradename. To the extent that Pathologists adopt a legal name, tradename and/or servicemark that is derivative of "Veracyte," use of such derivative shall be subject to Veracyte's prior written approval and subject to a revocable license granted by Veracyte, which license shall be revoked and terminate upon termination or expiration of this Agreement.

(c) Governing Law. This Agreement will be governed by the laws of the State of Texas.

(d) Assignment. No assignment of this Agreement or the rights and obligation hereunder shall be valid without the specific written consent of both Parties hereto. This is not a third party beneficiary agreement. Notwithstanding the foregoing, the Parties agree that either Party may assign this Agreement to any entity which is controlled by or under common control with that Party.

(e) Notices. All notices, requests, demands and any other communications required or permitted hereunder shall be in writing and shall be deemed to have been duly delivered in person or if sent by registered or certified first class United States mail, postage prepaid to:

If to Veracyte:

Veracyte, Inc.
7000 Shoreline Court, Suite 250
South San Francisco, CA 94080
Attention: Bonnie Anderson

with copy to:

Wilson Sonsini Goodrich & Rosati
650 Page Mill Road
Palo Alto, CA 94304
Attention: Donna Petkanics

If to Pathologists:

Brazos Valley Pathology, P.A.
c/o Pathology Resource Consultants, L.P.
608 W. Overlook Mtn.
Buda, Texas 78610
Attention: Robert Flanakin

with copy to:

Selman, Munson & Lerner, P.C.
Barton Oaks Plaza Four, Suite 200
901 South Mopac Expressway
Austin, Texas 78746
Attention: Kenneth D. Lerner

Any of the undersigned may from time to time change said addresses by written notice to the other Party as provided in this Agreement.

(f) Entire Agreement. This Agreement contains the complete, full and exclusive understanding of the Parties with respect to the subject matter hereof and supersedes any and all other agreements between the Parties with respect to this subject matter.

(g) Headings. All headings are for convenience only and shall not be construed to modify the substance of this Agreement.

(h) Amendments. Any amendments, additions or supplements to this Agreement shall be effective and binding on the Parties only if in writing and signed by each Party to this Agreement.

(i) Severability. If any provision of this Agreement is found to be invalid or unenforceable, such provision shall be deemed stricken from this Agreement and the remainder of this Agreement shall remain in full force and effect. The Parties shall negotiate in good faith to amend the Agreement to replace any provision found to be invalid or unenforceable with a valid and enforceable provision which, as nearly as possible, accomplishes the original objectives of the Parties.

(j) Waivers. One or more waivers by either Party of a breach of this Agreement by the other Party shall not be construed as a waiver of further breaches of this Agreement.

(k) Inurement. This Agreement shall be binding upon and shall inure to the benefit of each of the Parties hereto, their heirs, estates, spouses, executors, administrators, partners, successors and assigns.

(l) Multiple Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original and each alone and all together shall constitute one and the same instrument.

(m) Arbitration.

(i) Any controversy or claim arising out of or relating to this Agreement shall be settled by binding arbitration in accordance with the applicable rules of the American Arbitration Association or a successor organization (the "Arbitration Company"), or such other rules as may be agreed upon by the Parties, and

judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof, subject to the following terms, conditions, and exceptions:

(ii) There shall be one (1) arbitrator agreed to by the Parties from the Arbitration Company or, if the Parties cannot agree on one arbitrator, there shall be three (3) arbitrators whose selection shall be made in accordance with the procedures then existing for the selection of such arbitrators by the Arbitration Company.

(iii) The venue of any arbitration shall be Travis County, Texas, and the arbitration shall be conducted in accordance with the laws of the State of Texas.

(iv) Notwithstanding any provision of Texas law or the applicable rules of the Arbitration Company to the contrary, each Party shall have all of the rights of discovery pertaining to civil litigation as provided in Texas law. Unless the Parties otherwise agree in writing, any arbitration hereunder shall be conducted in accordance with the rules of evidence existing in the State of Texas at the time of the arbitration.

(v) Each of the Parties will share equally in the costs and expenses of arbitration unless the arbitrators find that the position of the non-prevailing Party in such arbitration was without substantial justification, in which event the arbitrators may assess all or an unequal portion of such costs and expenses together with reasonable attorneys' fees against the non-prevailing Party, as the arbitrators deem equitable.

[signature page follows]

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed as of the day and year first written above.

PATHOLOGISTS	**VERACYTE, INC.**
BRAZOS VALLEY PATHOLOGY, P.A. D/B/A REITPATH	
By: /s/ Robert Flanakin	By: /s/ Bonnie Anderson
Its: President	Its: Chief Executive Officer

EXHIBIT A

EXCEPTIONS TO EXCLUSIVITY

NONE

EXHIBIT B

APPROVED PHYSICIANS

Dr. Jacki Abrams

Dr. Catherine McNeese

Dr. Katie O'Reilly

Dr. Stephen T. Traweek

Dr. Alex Van Amerongen

Dr. Carola Zalles

EXHIBIT C

ADDITIONAL PATHOLOGY SERVICES

NONE

EXHIBIT D

COVERED STATES

California
Colorado
Florida
North Carolina
New Jersey
Pennsylvania
Texas

By June 30, 2011
South Carolina
Arizona
Illinois
Ohio
Virginia
District of Columbia

By January 1, 2012
Georgia
Wisconsin
New York

By January 1, 2013
Minnesota
Tennessee

*** Confidential material redacted and filed separately with the Commission.**

EXHIBIT E

FEE SCHEDULE

CPT Code	Fee Per Specimen ("Fee")
88173	$ ***

Veracyte and the Pathologists agree to periodically review the fees and make adjustments, if necessary, in an attempt to keep such fee(s) fair and of value to both parties.

EXHIBIT F

PERMITTED REFERRAL SOURCES

St. Joseph Health System hospitals and clinics

Seton Healthcare Network hospitals and clinics

Trinity Mother Frances hospitals and clinics

College Station Medical Center

Central Texas Digestive Disease Association, P.A.

Lakeside Hospital at Bastrop

Clinical Pathology Laboratories, Inc.

Bellville General Hospital

The Brenham Clinic

Scott & White Hospital - Brenham

The Physician Centre Hospital

BioMat USA

Richards Memorial Hospital

EXHIBIT G

BUSINESS ASSOCIATE AGREEMENT

This Business Associate Agreement (the "Agreement") is made by and among **VERACYTE, INC.,** a California corporation (herein referred to as "Covered Entity") and **BRAZOS VALLEY PATHOLOGY, P.A. D/B/A REITPATH,** a Texas professional association (hereinafter referred to as "Business Associate"). Covered Entity and Business Associate shall be collectively referred to herein as the "Parties".

WHEREAS, Covered Entity is entering into a business relationship with Business Associate that is memorialized in that certain Pathology Services Agreement (the "Underlying Agreement") entered into as of even date herewith pursuant to which Business Associate may be considered a "business associate" of Covered Entity as defined in the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") including all pertinent regulations (45 CFR Parts 160 and 64) issued by the U.S. Department of Health and Human Services as either have been amended by Subtitle D of the Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), as Title XIII of Division A and Title IV of Division B of the American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5); and

WHEREAS, the nature of the prospective contractual relationship between Covered Entity and Business Associate may involve the exchange of Protected Health Information ("PHI") as that term is defined under HIPAA; and

For good and lawful consideration as set forth in the Underlying Agreement, Covered Entity and Business Associate enter into this agreement for the purpose of ensuring compliance with the requirements of HIPAA, its implementing regulations, the HITECH Act and relevant State law;

NOW THEREFORE, the premises having been considered and with acknowledgment of the mutual promises and of other good and valuable consideration herein contained, the Parties, intending to be legally bound, hereby agree as follows:

DEFINITIONS.

Individual. "Individual" shall have the same meaning as the term "individual" in 45 CFR §164.501 and shall include a person who qualifies as a personal representative in accordance with 45 CFR §164.502(g).

Breach. "Breach" shall have the same meaning as the term "breach" in § 13400 of the HITECH Act and shall include the unauthorized acquisition, access, use, or disclosure of PHI that compromises the security or privacy of such information.

Designated Record Set. "Designated Record Set" shall have the same meaning as the term "designated record set" in 45 CFR §164.501.

Privacy Rule. "Privacy Rule" shall mean the Standards for Privacy of Individually Identifiable Health Information at 45 CFR Part 160 and Part 164, Subparts A and E, as amended by the HITECH Act and as may otherwise be amended from time to time.

Protected Health Information. "Protected Health Information" or "PHI" shall have the same meaning as the term "protected health information" in 45 CFR §164.501, limited to the information created or received by Business Associate from or on behalf of Covered Entity.

Required by Law. “Required by Law” shall have the same meaning as the term “required by law” in 45 CFR §164.501.

Secretary. “Secretary” shall mean the Secretary of the U.S. Department of Health and Human Services or his or her designee.

Security Rule. The “Security Rule” shall mean the regulations found at 45 CFR Parts 160 and 164, Subpart C, as may be amended from time to time.

Unsecured Protected Health Information. “Unsecured Protected Health Information” or “Unsecured PHI” shall mean PHI that is not secured through the use of a technology or methodology specified by the Secretary in guidance or as otherwise defined in the §13402(h) of the HITECH Act.

USE OR DISCLOSURE OF PHI BY BUSINESS ASSOCIATE.

Except as otherwise limited in this Agreement, Business Associate may use or disclose Protected Health Information to perform functions, activities, or services for, or on behalf of, Covered Entity as specified in the Underlying Agreement, provided that such use or disclosure would not violate the Privacy Rule.

Business Associate shall only use and disclose PHI if such use or disclosure complies with each applicable requirement of 45 CFR §164.504(e).

DUTIES OF BUSINESS ASSOCIATE RELATIVE TO PHI.

Business Associate shall not use or disclose PHI other than as permitted or required by this Agreement or as Required by Law.

Business Associate shall be directly responsible for full compliance with the relevant requirements of the Privacy Rule to the same extent as Covered Entity.

Business Associate shall comply with the provisions of the Security Rule directing the implementation of administrative, physical and technical safeguards for electronic-PHI (“e-PHI”) and the development and enforcement of related policies, procedures, and documentation standards (including but not limited to designation of a security official).

In the event of an unauthorized use or disclosure of PHI or a Breach of Unsecured PHI, Business Associate shall mitigate, to the extent practicable, any harmful effects of said disclosure that are known to it.

Business Associate agrees to ensure that any agent, including a subcontractor, to whom it provides Protected Health Information received from, or created or received by Business Associate on behalf of Covered Entity, agrees to the same restrictions and conditions that apply through this Agreement to Business Associate with respect to such information.

To the extent applicable, Business Associate shall provide access to Protected Health Information in a Designated Record Set at reasonable times, at the request of Covered Entity or, as directed by Covered Entity, to an Individual in order to meet the requirements under 45 CFR §164.524.

Business Associate will, upon receipt of written notice from Covered Entity, promptly amend or permit Covered Entity access to amend any portion of Covered Entity’s PHI so that Covered Entity may meet its amendment obligations under 45 CFR §164.526.

Business Associate shall, upon request with reasonable notice, provide Covered Entity access to its premises for a review and demonstration of its internal practices and procedures for safeguarding PHI.

Business Associate agrees to document such disclosures of PHI and information related to such disclosures as would be required for a Covered Entity to respond to a request by an Individual for an accounting of disclosures of PHI in accordance with 45 C.F.R. §164.528. Should an Individual make a request to Covered Entity for an accounting of disclosures of his or her PHI pursuant to 45 C.F.R. §164.528, Business Associate agrees to promptly provide Covered Entity with information in a format and manner sufficient to respond to the Individual’s request.

Business Associate shall, upon request with reasonable notice, provide Covered Entity with an accounting of uses and disclosures of PHI provided to it by Covered Entity.

Business Associate shall make its internal practices, books, records, and any other material requested by the Secretary relating to the use, disclosure, and safeguarding of PHI received from Covered Entity available to the Secretary for the purpose of determining compliance with the Privacy Rule. The aforementioned information shall be made available to the Secretary in the manner and place as designated by the Secretary or the Secretary’s duly appointed delegate. Under this Agreement, Business Associate shall comply and cooperate with

any request for documents or other information from the Secretary directed to Covered Entity that seeks documents or other information held by Business Associate.

Business Associate may use Protected Health Information to report violations of law to appropriate Federal and State authorities, consistent with 42 C.F.R. §164.502(j)(1).

Except as otherwise limited in this Agreement, Business Associate may disclose PHI for the proper management and administration of Business Associate, provided that disclosures are Required by Law, or Business Associate obtains reasonable assurances from the person to whom the information is disclosed that it will remain confidential and used or further disclosed only as Required by Law or for the purpose for which it was disclosed to the person, and the person notifies Business Associate of any instances of which it is aware in which the confidentiality of the information has been breached.

REPORTING

A. Privacy Breach. Business Associate will report to Covered Entity any use or disclosure of Covered Entity's PHI that is not permitted by this Agreement or the Underlying Agreement. In addition, Business Associate will report to Covered Entity, following discovery and without reasonable delay, but in no event later than ten (10) days following discovery, any suspected or actual "Breach" of "Unsecured Protected Health Information" as these terms are defined by the HITECH Act and any implementing regulations. Business Associate shall cooperate with Covered Entity in investigating the potential or actual breach and in meeting Covered Entity's obligations under the HITECH Act and any other state or federal privacy or security breach notification laws. Any such report shall contain at a minimum the information set forth on Attachment A attached hereto and incorporated by reference. Since time is of the essence under the HITECH Act, in addition to providing the report in accordance with the notice provisions contained in Section XI below, a copy of the report shall be faxed to the Privacy Officer at (615)695-8426 or to such other person as Covered Entity shall request in writing of Business Associate.

TERM AND TERMINATION.

Term. The Term of this Agreement shall be effective as of the date the Underlying Agreement is effective, and shall terminate when all of the Protected Health Information provided by Covered Entity to Business Associate, or created or received by Business Associate on behalf of Covered Entity, is destroyed or returned to Covered Entity, or, if it is infeasible to return or destroy Protected Health Information, protections are extended to such information, in accordance with the termination provisions in this Section V.

Termination for Cause. Upon Covered Entity's knowledge of a material breach by Business Associate, Covered Entity shall:

Provide a reasonable opportunity for Business Associate to cure the breach or end the violation and, if Business Associate does not cure the breach or end the

violation within the reasonable time specified by Covered Entity, terminate this Agreement;

Immediately terminate this Agreement if Business Associate has breached a material term of this Agreement and cure is not possible; or

If neither termination nor cure is feasible, report the violation to the Secretary.

Effect of Termination.

Except as provided in paragraph C(2) of this section, upon termination of this Agreement, for any reason, Business Associate shall return or destroy (at Covered Entity's sole discretion) all Protected Health Information received from Covered Entity, or created or received by Business Associate on behalf of Covered Entity. This provision shall apply to Protected Health Information that is in the possession of subcontractors or agents of Business Associate. Business Associate shall not retain any copies of the Protected Health Information. Any information that is in electronic format shall be provided to Covered Entity at no additional charge. The format to be provided should be one that is commonly used for export (i.e. comma delimited, text file, Word, Excel or Access database) that is agreeable to Covered Entity.

In the event that Business Associate determines that returning or destroying the Protected Health Information is infeasible, Business Associate shall provide to Covered Entity written notification of the conditions that make return or destruction infeasible. After written notification that return or destruction of Protected Health Information is infeasible, Business Associate shall extend the protections of this Agreement to such Protected Health Information and limit further uses and disclosures of such Protected Health Information to those purposes that make the return or destruction infeasible, for so long as Business Associate maintains such Protected Health Information.

Should Business Associate make a disclosure of PHI in violation of this Agreement, Covered Entity shall have the right to immediately terminate any contract, other than this Agreement, then in force between the Parties, including the Underlying Agreement.

REMEDIES IN EVENT OF BREACH AND INDEMNIFICATION. Business Associate hereby recognizes that irreparable harm may result to Covered Entity, and to the business of Covered Entity, in the event of breach by Business Associate of any of the covenants and assurances contained in this Agreement. As such, in the event of breach of any of the covenants and assurances contained in Sections II, III or IV above, Covered Entity shall be entitled to enjoin and restrain Business Associate from any continued violation of Sections II, III or IV. Furthermore, Business Associate will indemnify, defend and hold harmless Covered Entity, its officers, directors, employees, agents, and assigns, from and against any and all losses, liabilities, damages, costs, and expenses (including reasonable attorneys' fees) arising out of or related to the Business Associate's breach of its obligations under this Agreement.

MODIFICATION. This Agreement may only be modified through a writing signed by the Parties. The Parties agree to take such action as is necessary to amend this Agreement from time to time as is necessary for Covered Entity to comply with the requirements of the Privacy Rule and HIPAA.

INTERPRETATION OF THIS CONTRACT IN RELATION TO OTHER CONTRACTS BETWEEN THE PARTIES. Should there be any conflict between the language of this contract and any other contract entered into between the Parties (either previous or subsequent to the date of this Agreement), the language and provisions of this Agreement shall control and prevail unless the Parties specifically refer in a subsequent written agreement to this Agreement by its title and date and specifically state that the provisions of the later written agreement shall control over this Agreement.

COMPLIANCE WITH STATE LAW. If the HIPAA Privacy or Security Rules and the law of the State in which Covered Entity is located conflict regarding the degree of protection provided for protected health information, Business Associate shall comply with the more restrictive protection requirement.

MISCELLANEOUS.

Ambiguity. Any ambiguity in this Agreement shall be resolved to permit Covered Entity to comply with the Privacy Rule.

Notice to Covered Entity. Any notice required under this Agreement to be given Covered Entity shall be made in writing to:

Veracyte, Inc.

7000 Shoreline Court, Suite 250
South San Francisco, CA 94080
Attention: Bonnie Anderson

with copy to:

Wilson Sonsini Goodrich & Rosati
650 Page Mill Road
Palo Alto, CA 94304
Attention: Donna Petkanics

Notice to Business Associate. Any notice required under this Agreement to be given Business Associate shall be made in writing to:

Brazos Valley Pathology, P.A.
c/o Pathology Resource Consultants, L.P.
608 W. Overlook Mtn.
Buda, Texas 78610
Attention: Robert Flanakin

with copy to:

Selman, Munson & Lerner, P.C.
Barton Oaks Plaza Four, Suite 200
901 South Mopac Expressway
Austin, Texas 78746
Attention: Kenneth D. Lerner

IN WITNESS WHEREOF and acknowledging acceptance and agreement of the foregoing, the Parties affix their signatures hereto.

COVERED ENTITY:		BUSINESS ASSOCIATE:	
By:	/s/ Bonnie Anderson	By:	/s/ Michael Cohen MD
Name:	Bonnie Anderson	Name:	Michael Cohen MD
Title:	CEO	Title:	President

ATTACHMENT A

FORM OF NOTIFICATION TO COVERED ENTITY OF

BREACH OF UNSECURED PHI

This notification is made pursuant to the Business Associate Agreement between **VERACYTE, INC.,** a California corporation ("Covered Entity"), and **BRAZOS VALLEY PATHOLOGY, P.A. D/B/A REITPATH,** a Texas professional association ("Business Associate").

Business Associate hereby notifies Covered Entity that there has been an actual or potential breach of unsecured (unencrypted) protected health information (PHI) that Business Associate has used or has had access to under the terms of the Business Associate Agreement.

Description of the breach:

Date of the breach: Date breach discovered:
Number of individuals affected by the breach:

Indicate type of breach:
o Theft
o Loss
o Improper Disposal
o Unauthorized Access
o Hacking/IT Incident
o Other:
o Unknown

Location of Breached Information:
o Laptop
o Desktop Computer
o Email
o Portable Media/Device

o EMR
o Paper
o Other:

A description of the types of unsecured PHI that were involved in the breach (Demographic - full or partial name, Social Security number, date of birth, home address, account number, or disability code; Financial — billing information, credit card # or check/bank account number; Clinical — any mention of diagnosis, procedure, treatment provided, or ICD-9-CM or CPT-codes; Other):

What safeguards were in place prior to the breach: (Circle all that apply) Firewalls, packet filtering, secure browser, strong authentication, encrypted wireless, physical security (explain), logic access control, anti-virus software (list product name), intrusion detection, biometrics, etc.:

Description of what Business Associate is doing to investigate the breach, to mitigate losses, and to protect against any further breaches:

Contact information to ask questions or learn additional information:

Name:

Title:

Address:

Email Address:

Phone Number:

Exhibit 10.20

APPROVAL OF VERACYTE, INC.

Reference is made to that certain Pathology Services Agreement (the "Contract") dated November 12, 2010 by and among Veracyte, Inc. ("Veracyte") and Brazos Valley Pathology, P.A. ("BVPPA"). As of May 18, 2011, Veracyte hereby consents to the assignment of the Contract from BVPPA to Thyroid Cytopathology Partners, P.A. ("TCP") as provided in that certain Assignment of Contract dated Dec 2, 2010.

VERACYTE, INC.

By: /s/ Bonnie Anderson

Bonnie Anderson

Chief Executive Officer

Exhibit 10.21

***** CONFIDENTIAL TREATMENT REQUESTED.**
Confidential portions of this document have been redacted and have been separately filed with the Commission.

FIRST AMENDMENT TO PATHOLOGY SERVICES AGREEMENT

THIS FIRST AMENDMENT TO PATHOLOGY SERVICES AGREEMENT (the **"Amendment"**) is made and entered into as of December 19, 2012, by and between VERACYTE, INC., a California corporation (**"Veracyte"**) and THYROID CYTOLOGY PARTNERS, P.A., a Texas professional association (**"Pathologists"**) with respect to the following:

RECITALS

A. Veracyte is engaged in the business of developing and marketing diagnostic testing utilizing Veracyte's proprietary molecular assays and procuring the related anatomic and cytologic pathology through contracted pathologists.

B. Brazos Valley Pathology, P.A., doing business as Reitpath, a Texas professional association, and Veracyte have entered into that certain Pathology Services Agreement dated November 10, 2010, as assigned to Pathologists on May 18, 2011 (the **"Agreement"**) pursuant to which Pathologists provide certain professional pathology services to Veracyte.

C. Veracyte and Pathologists desire to amend the Agreement.

AGREEMENT

IN CONSIDERATION of the foregoing recitals and the mutual promises and covenants contained herein, Veracyte and Pathologists agree as follows:

1. **Defined Terms.** Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Agreement.

2. **Section 1(b).** Section 1(b) to the Agreement is hereby amended and restated to read in its entirety as follows:

"(b) Approved Physicians. Pathologists will provide the services through individual physicians listed on Exhibit B ("**Approved Physicians**"). From time to time additional physicians may be engaged by Pathologists to furnish services under this Agreement; provided, however, that each additional physician must satisfy the professional standards and qualifications set forth in this Agreement. Veracyte shall have the sole discretion to approve any such physician in writing prior to furnishing services. Pathologists shall also undertake commercially reasonable efforts to hire a nationally recognized thyroid expert, on at least a part-time basis, to assist Pathologists in providing the Services (as defined below) pursuant to this Agreement."

3. **Section 1(d).** Section 1(d) to the Agreement is hereby amended and restated to read in its entirety as follows:

"(d) International Arrangements. The Parties shall meet and confer in good faith to negotiate the terms and conditions pursuant to which the Services may be provided by Pathologists for samples obtained outside of the United States by Veracyte. Veracyte may engage multiple service providers to provide the Services for patients located outside of the United States."

4. **Section 3(b).** Section 3(b) to the Agreement is hereby amended and restated to read in its entirety as follows:

"(b) Covered States. Veracyte may provide specimens from the fifty United States (the "Covered States")."

5. **Section 6.** Section 6 to the Agreement is hereby amended and restated to read in its entirety as follows:

"6. **Term.** This Agreement shall become effective on the Effective Date, and shall continue until December 31, 2015 (the **"Expiration Date")**, unless terminated earlier as provided herein. The Agreement shall automatically renew for successive one (1) year terms unless either Party gives written notice of its intention not to renew this Agreement at least twelve (12) months prior to the end of the then current term."

6. **Section 8(d)(iii).** Section 8(d)(iii) to the Agreement is hereby amended and restated to read in its entirety as follows:

"(iii) Veracyte shall reimburse Pathologists for the annual cost incurred prior to January 1, 2013 for renewing state licenses (other than Texas) for Approved Physicians. Veracyte shall also reimburse Pathologists for the costs incurred prior to January 1, 2013 for acquiring licenses for Approved Physicians in states other than Texas in order to provide the Services hereunder; this will include, without, limitation, reimbursement of the costs incurred prior to the Effective Date of this Agreement for licenses acquired specifically in anticipation of the execution of the Agreement. Pathologists shall assume all financial responsibility for the costs incurred on or after January 1, 2013 for licensing all Approved Physicians, including, without limitation, any patient compensation fund contribution requirements required by any applicable state law."

7. **New Section 8(d)(iv).** Section 8(d)(iv) is hereby added to the Agreement to read in its entirety as follows:

"(iv) Pathologists shall be entitled to use one or more offices as mutually agreed from time to time in office space leased by Veracyte at 12357 A Riata Trace Parkway, Building 5, Austin, Texas 78727. Commencing on January 1, 2013, Pathologists shall reimburse Veracyte the proportionate share, including common areas,(based on the ratio of office space used by Pathologists relative to the total space leased by Veracyte) of Veracyte's actual out-of-pocket rental costs for such space including base rent and operating expenses."

8. **Exhibit E.** Exhibit E is hereby amended and restated to read in its entirety as attached hereto as Exhibit E, effective January 1, 2013.

9. **Counterparts.** This Amendment may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

10. **Continuing Effect of Agreement.** Except as herein provided, all of the terms and conditions of the Agreement remain in full force and effect from the Effective Date of the Agreement.

11. **Reference.** After the date of this Amendment, any reference to the Agreement shall mean the Agreement as amended by this Amendment.

IN WITNESS WHEREOF, Veracyte and Pathologists have executed this Amendment as of the day and year first written above.

VERACYTE

VERACYTE, INC., a California corporation

/s/ Mark E. Spring
By: Mark E. Spring
Its CFO

THYROID CYTOLOGY PARTNERS, P.A., a Texas professional association

/s/ [ILLEGIBLE]
By:
Its President

EXHIBIT B

APPROVED PHYSICIANS

Dr. Katherine O'Reilly
Dr. Torn Traweek
Dr. Cherry Starling
Dr. Rose Matte
Dr. Kevin Stancoven
Dr. Alex Van Amerongen
Dr. Mike Cohen
Dr. Kelly Gilliland
Dr. Laura Been
Dr. Eric Harp
Dr. Nancy Ciau

***** Confidential material redacted and filed separately with the Commission.**

EXHIBIT E

FEE SCHEDULE

Monthly Billable Nodules	Price per Nodule
< ***	$ ***
≥*** - < ***	$ ***
≥*** - < ***	$ ***
≥*** - < ***	$ ***
≥*** - < ***	$ ***
≥*** - < ***	$ ***
≥ ***	$ ***