

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

Form 424B5

September 12, 2018

Table of Contents

Filed Pursuant to Rule 424(b)(5)  
Registration No. 333-219642

## PROSPECTUS SUPPLEMENT

(To Prospectus dated August 18, 2017)

14,117,647 Shares

Pacific Biosciences of California, Inc.

### Common Stock

We are offering 14,117,647 shares of our common stock. Our common stock is listed on The NASDAQ Global Select Market under the symbol PACB. On September 11, 2018, the last reported sale price for our common stock on The NASDAQ Global Select Market was \$4.565 per share.

Our business and an investment in our common stock involve significant risks. These risks are described under the caption Risk Factors beginning on page S-4 of this prospectus.

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

	<i>Per Share</i>	<i>Total</i>
Public Offering Price	\$ 4.250	\$ 59,999,999.75
Underwriting Discounts and Commissions <sup>(1)</sup>	\$ 0.255	\$ 3,599,999.99
Proceeds to Pacific Biosciences of California, Inc. (before expenses)	\$ 3.995	\$ 56,399,999.76

(1) See Underwriting beginning in page S-18 of this prospectus supplement for additional information regarding the compensation payable to the underwriters.

The underwriters may also purchase up to an additional 2,117,647 shares from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus.

The underwriters expect to deliver the shares against payment in New York, New York on September 14, 2018.

*Joint Book-running Managers*

**Cowen**  
September 11, 2018

**Cantor**

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**ABOUT THIS PROSPECTUS SUPPLEMENT**

This prospectus supplement and the accompanying prospectus relate to the offering of our common stock. Before buying any of the common stock that we are offering, we urge you to carefully read this prospectus supplement, the accompanying prospectus, any free writing prospectus that we have authorized for use in connection with this offering, and the information incorporated by reference as described under the headings **Where You Can Find More Information** and **Information Incorporated by Reference** in this prospectus supplement. These documents contain important information that you should consider when making your investment decision.

This document is comprised of two parts. The first part is this prospectus supplement, which describes the specific terms of this offering and also adds to, and updates information contained in, the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part, the accompanying prospectus, including the documents incorporated by reference into the accompanying prospectus, provides more general information, some of which may not apply to this offering. Generally, when we refer to this prospectus, we are referring to the combined document consisting of this prospectus supplement and the accompanying prospectus. In this prospectus supplement, as permitted by law, we incorporate by reference information from other documents that we file with the Securities and Exchange Commission, or the SEC. This means that we can disclose important information to you by referring to those documents. The information incorporated by reference is considered to be a part of this prospectus supplement and the accompanying prospectus and should be read with the same care. When we make future filings with the SEC to update the information contained in documents that have been incorporated by reference, the information included or incorporated by reference in this prospectus supplement is considered to be automatically updated and superseded. In other words, in case of a conflict or inconsistency between information contained in this prospectus supplement and information in the accompanying prospectus or incorporated by reference into this prospectus supplement, you should rely on the information contained in the document that was filed later.

You should rely only on the information contained in, or incorporated by reference into, this prospectus supplement, the accompanying prospectus, and in any free writing prospectus that we have authorized for use in connection with this offering. We have not authorized any other person to provide you with different information. We are not making an offer to sell or soliciting an offer to buy our securities in any jurisdiction in which an offer or solicitation is not authorized or in which the person making that offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make an offer or solicitation. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, the documents incorporated by reference into this prospectus supplement and the accompanying prospectus, and in any free writing prospectus that we have authorized for use in connection with this offering, is accurate only as of the date of those respective documents. Our business, financial condition, results of operations, and prospects may have changed since those dates.

Unless the context otherwise requires, as used in this prospectus supplement, **we**, **us**, **Pacific Biosciences**, **PacBio**, **Company** and **our** refer to Pacific Biosciences of California, Inc., a Delaware corporation. The names **Pacific Biosciences**, **PacBio**, **Sequel**, **SMRT**, **SMRTbell** and our logo are our trademarks.

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### **SUMMARY**

*This summary highlights selected information contained elsewhere or incorporated by reference in this prospectus supplement and does not contain all the information that you need to consider in making your investment decision. This summary sets forth the material terms of this offering, but does not contain all of the information you should consider before investing in our common stock. You should carefully read this entire prospectus supplement, the accompanying prospectus and any free writing prospectus, as well as the information to which we refer you and the information incorporated by reference herein, before deciding whether to invest in shares of our common stock. You should pay special attention to the Risk Factors section of this prospectus supplement to determine whether an investment in the shares of our common stock is appropriate for you.*

### **Our Company**

We design, develop and manufacture sequencing systems to help scientists resolve genetically complex problems. Based on our novel Single Molecule, Real-Time (SMRT<sup>®</sup>) sequencing technology, our products enable: de novo genome assembly to finish genomes in order to more fully identify, annotate and decipher genomic structures; full-length transcript analysis to improve annotations in reference genomes, characterize alternatively spliced isoforms in important gene families, and find novel genes; targeted sequencing to more comprehensively characterize genetic variations; and real-time kinetic information for epigenome characterization. Our technology provides high accuracy, ultra-long reads, uniform coverage and the ability to simultaneously detect epigenetic changes. PacBio<sup>®</sup> sequencing systems, including consumables and software, provide a simple and fast end-to-end workflow for SMRT sequencing.

Our most advanced products offered today include the Sequel instrument and the Sequel SMRT Cell 1M, which together are capable of sequencing up to approximately one million DNA molecules simultaneously. We are continuously developing new products including what we refer to as the SMRT Cell 8M, which is designed to have up to eight times as much throughput capability as the current Sequel SMRT Cell 1M. We anticipate starting beta testing of the SMRT Cell 8M in early 2019 and launching this new product more broadly some months thereafter.

### **Recent Developments**

As previously disclosed in our Quarterly Report on Form 10-Q, sales in China for the three-month period ended June 30, 2018 accounted for approximately 33% of our total revenue, as compared to 26% of our total revenue for the three-month period ended June 30, 2017. To capitalize upon our increasing opportunities in China, we have engaged in ongoing discussions regarding, but have not committed to, entering into strategic transactions with diagnostic and financing partners in China.

### **Corporate Information**

Pacific Biosciences of California, Inc., formerly Nanofluidics, Inc., was incorporated in the State of Delaware in 2000. Our executive offices are located at 1305 O'Brien Drive, Menlo Park, California 94025, and our telephone number is (650) 521-8000. We maintain a website at [www.pacb.com](http://www.pacb.com) where general information about us is available. Our website, and the information on or that can be accessed through our website, is not a part of this prospectus supplement, and the inclusion of our website address is an inactive textual reference only.



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**THE OFFERING**

Common stock offered by us	14,117,647 shares.
Common stock to be outstanding immediately after this offering	146,006,036 shares (or 148,123,683 shares if the underwriters exercise their option to purchase additional shares in full).
Option to purchase additional shares	2,117,647 shares.
Use of Proceeds	We currently intend to use the net proceeds from this offering, if any, for general corporate purposes, including capital expenditures and working capital. We may also use a portion of the net proceeds from this offering to acquire or invest in complementary businesses, technologies, product candidates or other intellectual property, although we have no present commitments or agreements to do so. See <u>Use of Proceeds</u> on page S-10 of this prospectus supplement.
Risk Factors	Before deciding to invest in shares of our common stock, you should read carefully the risks set forth under the caption <u>Risk Factors</u> beginning on page S-4 of this prospectus supplement and the risks described in our annual and periodic reports incorporated by reference into this prospectus supplement and the accompanying prospectus.

NASDAQ Global Select Market symbol

PACB

The number of shares of our common stock to be outstanding immediately after this offering is based upon 131,888,389 shares outstanding as of June 30, 2018. The number of shares does not include the shares subject to the underwriters' option to purchase additional shares and also excludes the following:

28,601,054 shares of our common stock issuable upon the exercise of stock options outstanding as of June 30, 2018, with a weighted average exercise price of \$5.61 per share;

355,000 shares of our common stock issuable upon the vesting of time-based restricted stock units, or RSUs, outstanding as of June 30, 2018;

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651,930 shares of our common stock issuable upon the vesting of performance-based restricted stock units, or PSUs, outstanding as of June 30, 2018;

42,500 shares of our common stock issuable upon the exercise of stock options granted subsequent to June 30, 2018 with a weighted average exercise price of \$3.77 per share;

561,170 shares of our common stock issued subsequent to June 30, 2018 under our Employee Stock Purchase Plan;

2,513,677 shares of our common stock reserved for future issuance as of June 30, 2018 under our Employee Stock Purchase Plan, inclusive of later issued shares; and

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an aggregate of 10,451,363 shares of our common stock reserved for future issuance as of June 30, 2018 under our 2010 Equity Incentive Plan and our 2010 Outside Director Equity Incentive Plan, inclusive of later granted awards and unvested restricted stock units.

Except as otherwise indicated, all information in this prospectus supplement assumes no exercise or settlement of the outstanding stock options, RSUs, PSUs or other equity awards described above, no issuance of shares under the Employee Stock Purchase Plan, no grant of additional awards under our 2010 Equity Incentive Plan and our 2010 Outside Director Equity Incentive Plan, and no repurchase of shares of our common stock subsequent to June 30, 2018 and no exercise of the underwriters' option to purchase additional shares of common stock.

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**RISK FACTORS**

*An investment in the shares of our common stock involves a high degree of risk. In addition to the other information contained in this prospectus supplement, the accompanying prospectus and the documents that we incorporate by reference, you should carefully consider the risks discussed below and under the section entitled Risk Factors contained in our Annual Report on Form 10-K for the year ended December 31, 2017 and in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2018 and June 30, 2018 before making a decision about investing in our securities. The risks and uncertainties discussed below, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, and in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2018 and June 30, 2018 are not the only ones facing us. Additional risks and uncertainties not presently known to us, or that we currently see as immaterial, may also harm our business. If any of these risks occur, our business, financial condition and operating results could be harmed, the trading price of our common stock could decline and you could lose part or all of your investment. This prospectus supplement also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this prospectus supplement and the accompanying prospectus.*

**The price of our common stock has been, is, and may continue to be, highly volatile, and you may be unable to sell your shares at or above the price you paid to acquire them.**

The market price of our common stock is highly volatile, and we expect it to continue to be volatile for the foreseeable future in response to many risk factors listed in this section, and others beyond our control, including:

actual or anticipated fluctuations in our financial condition and operating results;

announcements of new products, technological innovations or strategic partnerships by us or our competitors;

announcements by us, our customers, partners or suppliers relating directly or indirectly to our current and future products, services or technologies;

overall conditions in our industry and market;

addition or loss of significant customers;

changes in laws or regulations applicable to our products;

actual or anticipated changes in our growth rate relative to our competitors;

announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures, capital commitments or achievement of significant milestones;

additions or departures of key personnel;

competition from existing products or new products that may emerge;

issuance of new or updated research or reports by securities analysts;

fluctuations in the valuation of companies perceived by investors to be comparable to us;

disputes or other developments related to proprietary rights, including patents, litigation matters or our ability to obtain intellectual property protection for our technologies;

announcement or expectation of additional financing efforts;

sales of our common stock by us or our stockholders;

stock price and volume fluctuations attributable to inconsistent trading volume levels of our shares;

reports, guidance and ratings issued by securities or industry analysts; and

general economic and market conditions.

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

### **If our operating results and financial performance do not meet the guidance that we have provided to the public, our stock price may decline.**

We provide public guidance on our expected operating and financial results. Although we believe that this guidance provides our stockholders, investors and analysts with a better understanding of our expectations for the future, such guidance is comprised of forward-looking statements which are subject to the risks and uncertainties described in this report and in our other public filings and public statements. Our actual results may not meet the guidance we have provided. If our operating or financial results do not meet our guidance or the expectations of investment analysts, our stock price may decline.

### **Future sales of our common stock could cause our stock price to fall.**

We maintain a shelf registration statement on Form S-3 with the SEC pursuant to which we may, from time to time, sell up to an aggregate of \$150 million (less the gross proceeds of our prior sales of securities thereunder) of our common stock, preferred stock, depositary shares, warrants, debt securities or units. We have sold, and plan in the future to sell, shares of our common stock in underwritten offerings and have established, and may in the future establish, at-the-market offering programs pursuant to which we may offer and sell shares of our common stock. Sales of securities have resulted and will continue to result in dilution of our existing stockholders, and such sales could cause our stock price to fall.

In addition, if our existing stockholders sell, or indicate an intent to sell, a large number of shares of our common stock in the public market, it could cause our stock price to fall. We may also issue shares of common stock or securities convertible into our common stock from time to time in connection with financings, acquisitions, investments or otherwise. Any such issuance would result in dilution to our existing stockholders and could cause our stock price to fall.

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

Our existing principal stockholders, executive officers, directors and their affiliates beneficially own a significant number of our outstanding shares of common stock. In addition, such parties may acquire additional control by purchasing stock that we issue in connection with our future fundraising efforts. As a result, these stockholders may now and in the future be able to exercise a significant level of control over all matters requiring stockholder approval, including the election of directors. This control could have the effect of delaying or preventing a change of control of our company or changes in management and will make the approval of certain transactions difficult or impossible without the support of these stockholders.

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**Our large number of authorized but unissued shares of common stock may potentially dilute existing stockholders' stockholdings.**

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

**You may experience immediate dilution.**

Given effect to the issuance of common stock in this offering, the receipt of the expected net proceeds and the use of those proceeds, this offering may have a dilutive effect on our expected net income available to our common stockholders per share and funds from operations per share. The actual amount of dilution cannot be determined at this time and will be based on a number of factors. See "Dilution" on page S-13 of this prospectus supplement for additional information regarding potential dilution.

**You may experience future dilution as a result of future equity offerings.**

To the extent that we raise additional funds through the sale of equity or securities that are convertible into or exchangeable for, or that represent the right to receive, common stock or substantially similar securities, the issuance of such securities will result in dilution to our stockholders. We may sell shares or other securities in any other offering at a price per share that is less than the price per share paid by investors in this offering, and investors purchasing shares or other securities in the future could have rights superior to existing stockholders. The price per share at which we sell additional shares of our common stock, or securities that are convertible into or exchangeable for, or that represent the right to receive, common stock or substantially similar securities, in future transactions may be higher or lower than the price per share paid by investors in this offering.

**Management will have broad discretion as to the use of the proceeds from this offering and may not use the proceeds effectively.**

Because we have not designated the amount of net proceeds from this offering to be used for any particular purpose, our management will have broad discretion as to the application of the net proceeds from this offering and could use them for purposes other than those contemplated at the time of the offering. Our management may use the net proceeds for corporate purposes that may not improve our financial condition or market value.

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

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

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

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

authorize our board of directors to issue, without further action by the stockholders, up to 50,000,000 shares of undesignated preferred stock and up to approximately 1,000,000,000 shares of authorized but unissued shares of common stock;

require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;

specify that special meetings of our stockholders can be called only by our board of directors, the Chairman of the Board, the Chief Executive Officer or the President;

establish an advance notice procedure for stockholder approvals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to our board of directors;

establish that our board of directors is divided into three classes, Class I, Class II and Class III, with each class serving staggered terms;

provide that our directors may be removed only for cause; and

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

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

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**FORWARD-LOOKING STATEMENTS**

This prospectus supplement, the accompanying prospectus, the documents we have filed with the SEC that are incorporated by reference and any free writing prospectus that we have authorized for use in connection with this offering contain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, that involve risks and uncertainties, as well as assumptions, that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements generally are identified by the words may, will, project, might, expects, anticipates, believes, intends, estimates, should, strategy, goal, seek, potential, predict, plan, continue, pursue, or the negative of these words or other words or expressions of similar meaning. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. For example, forward-looking statements include statements about the attributes and sequencing advantages of SMRT® technology and the Sequel® System, including the Sequel SMRT Cell 1M and the SMRT Cell 8M, market opportunities, strategic and commercial plans, including strategy for our business and related financing, expectations regarding the conversion of backlog to revenue and the pricing and gross margin for products, manufacturing plans including developing and scaling of manufacturing and delivery of our products, research and development plans, product releases, product development including, among other things, statements relating to future uses, quality or performance of, or benefits of using, products or technologies, updates or improvements of our products, intentions regarding seeking regulatory approval for our products, competition, expectations regarding unrecognized income tax benefits, expectations regarding the impact of an increase in market rates on the value of our investment portfolio, the sufficiency of cash, cash equivalents and investments to fund projected operating requirements, the effects of recent accounting pronouncements on our financial statements and other future events, statements of belief and any statement of assumptions underlying any of the foregoing. We discuss in greater detail, and incorporate by reference into this prospectus supplement and the accompanying prospectus in their entirety, many of these risks and uncertainties under the heading Risk Factors beginning on page S-4 of this prospectus supplement. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Except as required by law, we assume no obligation to update forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

If any of these risks or uncertainties materializes or any of these assumptions proves incorrect, our results could differ materially from the expectations in these statements.

The forward-looking statements included in this prospectus supplement are made only as of the date of this prospectus supplement, and we are not under any obligation to update our respective forward-looking statements and do not intend to do so. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of this prospectus supplement or the accompanying prospectus, as applicable, or that any information incorporated by reference into this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date of the document so incorporated by reference.



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You should read this prospectus supplement, the accompanying prospectus, the documents we have filed with the SEC that are incorporated by reference and any free writing prospectus that we have authorized for use in connection with this offering completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of the forward-looking statements in the foregoing documents by these cautionary statements.

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**USE OF PROCEEDS**

We estimate the net proceeds from the sale of common stock by us in this offering will be approximately \$56.1 million (or approximately \$64.5 million if the underwriters' option to purchase additional shares is exercised in full) after deducting the underwriting discount and estimated offering expenses payable by us.

We currently intend to use the net proceeds from this offering, if any, for general corporate purposes, including capital expenditures and working capital. We may also use a portion of the net proceeds from this offering to acquire or invest in complementary businesses, technologies, product candidates or other intellectual property, although we have no present commitments or agreements to do so.

As of the date of this prospectus supplement, we cannot specify with certainty all of the particular uses for the net proceeds to us from this offering. As a result, our management will have broad discretion regarding the timing and application of the net proceeds from this offering. Pending the uses described above, we intend to invest the net proceeds in interest-bearing, investment-grade securities.

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Our common stock trades on The Nasdaq Global Select Market under the symbol PACB. The following table sets forth the range of high and low prices for our common stock as reported on The Nasdaq Global Select Market for the periods indicated.

	<b>High</b>	<b>Low</b>
<b>Year Ended December 31, 2016</b>		
First quarter	\$ 13.98	\$ 7.50
Second quarter	10.75	6.79
Third quarter	9.50	6.76
Fourth quarter	9.28	3.76
<b>Year Ended December 31, 2017:</b>		
First quarter	\$ 5.74	\$ 3.78
Second quarter	5.43	3.11
Third quarter	5.70	3.08
Fourth quarter	5.58	2.51
<b>Year Ending December 31, 2018:</b>		
First quarter	\$ 3.43	\$ 2.03
Second quarter	4.09	2.02
Third quarter (through September 11, 2018)	5.04	3.33
The last reported sale price of our common stock on The NASDAQ Global Select Market on September 11, 2018 was \$4.565 per share. Past price performance is not indicative of future price performance.		

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**DIVIDEND POLICY**

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

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The net tangible book value of our common stock on June 30, 2018 was approximately \$85.5 million, or approximately \$0.65 per share. Net tangible book value per share is equal to the amount of our total tangible assets, less total liabilities, divided by the number of shares of common stock outstanding. Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of common stock in this offering and the net tangible book value per share of our common stock immediately afterwards. After giving effect to the sale by us of 14,117,647 shares of common stock in this offering at the public offering price of \$4.25 per share and after deducting the underwriting discount and estimated offering expenses payable by us, our as adjusted net tangible book value at June 30, 2018 would have been approximately \$141.5 million, or \$0.97 per share. This represents an immediate increase in net tangible book value of \$0.32 per share to existing stockholders and an immediate dilution of \$3.28 per share to new investors purchasing shares of common stock in this offering. The following table illustrates this dilution:

Public offering price per share	\$ 4.25
Net tangible book value per share as of June 30, 2018	\$ 0.65
Increase per share attributable to new investors after giving effect to the offering	0.32
Net tangible book value per share after giving effect to the offering	0.97
Dilution in net tangible book value per share to new investors	\$ 3.28

If the underwriters' option to purchase additional shares is exercised in full to purchase additional shares of common stock in this offering, based upon the public offering price of \$4.25, the as adjusted net tangible book value per share after giving effect to the offering would be \$1.01 per share, the increase in the net tangible book value per share to existing stockholders would be \$0.36 per share and the dilution to the new investors would be \$3.24 per share.

The foregoing table does not take into effect further dilution to new investors that could occur upon the exercise of outstanding stock options having a per share exercise price less than the offering price per share in this offering or the release of restricted stock units. The foregoing table is based upon 131,888,389 shares outstanding as of June 30, 2018. The number of shares does not include the shares subject to the underwriters' option to purchase additional shares and also excludes the following:

28,601,054 shares of our common stock issuable upon the exercise of stock options outstanding as of June 30, 2018, with a weighted average exercise price of \$5.61 per share;

355,000 shares of our common stock issuable upon the vesting of time-based restricted stock units, or RSUs, outstanding as of June 30, 2018;

651,930 shares of our common stock issuable upon the vesting of performance-based restricted stock units, or PSUs, outstanding as of June 30, 2018;

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42,500 shares of our common stock issuable upon the exercise of stock options granted subsequent to June 30, 2018 with a weighted average exercise price of \$3.77 per share;

561,170 shares of our common stock issued subsequent to June 30, 2018 under our Employee Stock Purchase Plan;

2,513,677 shares of our common stock reserved for future issuance as of June 30, 2018 under our Employee Stock Purchase Plan, inclusive of later issued shares; and

an aggregate of 10,451,363 shares of our common stock reserved for future issuance as of June 30, 2018 under our 2010 Equity Incentive Plan and our 2010 Outside Director Equity Incentive Plan, inclusive of later granted awards and unvested restricted stock units.

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**MATERIAL U.S. FEDERAL INCOME AND ESTATE TAX CONSIDERATIONS FOR NON-U.S. HOLDERS**

The following is a summary of the material U.S. federal income and estate tax consequences of the ownership and disposition of our common stock to non-U.S. holders, but does not purport to be a complete analysis of all the potential tax considerations relating thereto. This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended, or the 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 or estate tax consequences different from those set forth below. We have not sought any ruling from the Internal Revenue Service, or the IRS, with respect to the statements made and the conclusions reached in the following summary, and there can be no assurance that the IRS will agree with such statements and conclusions.

This summary also does not address the tax considerations arising under the laws of any state of the United States or any local, non-U.S. or other taxing jurisdiction or under U.S. federal non-income tax laws, such as gift and estate tax laws, except to the limited extent set forth below, or under any applicable tax treaty. In addition, this discussion does not address any potential application of the Medicare contribution tax on net investment income or any 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 or accounts;

controlled foreign corporations, passive foreign investment companies or corporations that accumulate earnings to avoid U.S. federal income tax;

dealers in securities or currencies;

traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;

persons that own, or are deemed to own, more than five percent of our capital stock;

certain former citizens or long-term residents of the United States;

persons who hold our common stock as a position in a hedging transaction, straddle, conversion transaction or other risk reduction transaction;

persons who do not hold our common stock as a capital asset within the meaning of Section 1221 of the Code (generally, for investment purposes);

entities or arrangements treated as partnerships for U.S. federal income tax purposes and other pass-through entities (and investors therein);

persons subject to special tax accounting rules as a result of any item of gross income with respect to our common stock being taken into account in an applicable financial statement;

persons who hold or receive our common stock pursuant to the exercise of any employee stock option or otherwise as compensation; or

persons deemed to sell our common stock under the constructive sale provisions of the Code.

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



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**You are urged to consult your tax advisor with respect to the application of the U.S. federal income tax laws to your particular situation, as well as any tax consequences of the purchase, ownership and disposition of our common stock arising under the U.S. federal estate or gift tax rules or under the laws of any state of the United States or any local, non-U.S. or other taxing jurisdiction, or under any applicable tax treaty.**

### **Non-U.S. Holder Defined**

For purposes of this discussion, you are a non-U.S. holder if you are a beneficial owner of our common stock that is not, for U.S. federal income tax purposes, any of the following:

an individual who is a citizen or resident of the United States;

a corporation or other entity taxable as a corporation created or organized in the United States or under the laws of the United States, any state thereof or the District of Columbia;

an estate whose income is subject to U.S. federal income tax regardless of its source;

a trust (x) the administration of which is subject to the primary supervision of a U.S. court and that has one or more U.S. persons who have the authority to control all substantial decisions of the trust or (y) that has made an election to be treated as a U.S. person; or

an entity or arrangement, domestic or foreign, classified as a partnership for U.S. federal income tax purposes.

### **Distributions**

As described under *Dividend Policy*, above, we have not and do not anticipate paying dividends. However, if we make distributions on our common stock, those payments will constitute dividends for U.S. tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent those distributions exceed both our current and our accumulated earnings and profits, they will constitute a return of capital and will first reduce your basis in our common stock (determined separately with respect to each share of our common stock), but not below zero, and then will be treated as gain from the sale of that stock (subject to tax as described below under *Gain on Sale or Other Disposition of Common Stock* ).

Subject to the discussion below on effectively connected income, any dividend paid to you generally will be subject to U.S. withholding tax either at a rate of 30% of the gross amount of the dividend or such lower rate as may be specified by an applicable income tax treaty. In order to receive a reduced treaty rate, you must provide us or our paying agent with an IRS Form W-8BEN or IRS Form W-8BEN-E (including, if required, a foreign or U.S. taxpayer identification number) or other appropriate version of IRS Form W-8 certifying qualification for the reduced rate. If you hold our common stock through a financial institution or other agent acting on your behalf, you will be required to provide appropriate documentation to the agent, who then will be required to provide the required certification to us or our paying agent, either directly or through other intermediaries. You should consult your tax advisor regarding your entitlement to benefits under any applicable income tax treaty. 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.

Dividends received by you that are effectively connected with your conduct of a U.S. trade or business (and, if an income tax treaty applies, are attributable to a permanent establishment or fixed base maintained by you) are calculated based on the float factor and the weighting cap factor for each component company as of the time that the Underlying Asset is being calculated.

The divisor of the Underlying Asset is adjusted to maintain the continuity of the Underlying Asset's values across changes due to corporate actions, such as the deletion and addition of stocks, the substitution of stocks, stock dividends, and stock splits.

#### License Agreement

We have entered into a non-exclusive license agreement with STOXX, which grants us a license in exchange for a fee to use the Underlying Asset in connection with the issuance of certain securities, including the notes.

STOXX and its licensors (the "Licensors") have no relationship with us or BMOCM, other than the licensing of the Underlying Asset and the related trademarks for use in connection with the notes.

STOXX and its Licensors do not:

- sponsor, endorse, sell or promote the notes.
- recommend that any person invest in the notes or any other securities.
- have any responsibility or liability for or make any decisions about the timing, amount or pricing of the notes.
- have any responsibility or liability for the administration, management or marketing of the notes.

consider the needs of the notes or the owners of the notes in determining, composing or calculating the Underlying Asset or have any obligation to do so.

STOXX and its Licensors will not have any liability in connection with the notes. Specifically,

· STOXX and its Licensors do not make any warranty, express or implied, and disclaim any and all warranty about:

§ the results to be obtained by the notes, the owner of the notes or any other person in connection with the use of the Underlying Asset and the data included in the Underlying Asset;

§ the accuracy or completeness of the Underlying Asset and its data;

§ the merchantability and the fitness for a particular purpose or use of the Underlying Asset or its data;

STOXX and its Licensors will have no liability for any errors, omissions or interruptions in the Underlying Asset or its data; and

any lost profits or indirect, punitive, special or consequential damages or losses, even if STOXX knows that they might occur.

The licensing agreement among us, BMOCM and STOXX is solely for the benefit of the parties thereto and not for the benefit of the owner of the notes or any other third parties.

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## Historical Performance of the Underlying Asset

The following table sets forth the high and low closing levels for the Underlying Asset from the first quarter of 2008 through October 25, 2017.

The historical levels of the Underlying Asset are provided for informational purposes only. You should not take the historical levels of the Underlying Asset as an indication of its future performance, which may be better or worse than the levels set forth below.

## Closing Levels of the EURO STOXX 50® Index

	High	Low
2008 First Quarter	4,339.23	3,431.82
Second Quarter	3,882.28	3,340.27
Third Quarter	3,445.66	3,000.83
Fourth Quarter	3,113.82	2,165.91
2009 First Quarter	2,578.43	1,809.98
Second Quarter	2,537.35	2,097.57
Third Quarter	2,899.12	2,281.47
Fourth Quarter	2,992.08	2,712.30
2010 First Quarter	3,017.85	2,631.64
Second Quarter	3,012.65	2,488.50
Third Quarter	2,827.27	2,507.83
Fourth Quarter	2,890.64	2,650.99
2011 First Quarter	3,068.00	2,721.24
Second Quarter	3,011.25	2,715.88
Third Quarter	2,875.67	1,995.01
Fourth Quarter	2,476.92	2,090.25
2012 First Quarter	2,608.42	2,286.45
Second Quarter	2,501.18	2,068.66
Third Quarter	2,594.56	2,151.54
Fourth Quarter	2,659.95	2,427.32
2013 First Quarter	2,749.27	2,570.52
Second Quarter	2,835.87	2,511.83
Third Quarter	2,936.20	2,570.76
Fourth Quarter	3,111.37	2,902.12
2014 First Quarter	3,172.43	2,962.49
Second Quarter	3,314.80	3,091.52
Third Quarter	3,289.75	3,006.83
Fourth Quarter	3,277.38	2,874.65
2015 First Quarter	3,731.35	3,007.91
Second Quarter	3,828.78	3,424.30
Third Quarter	3,686.58	3,019.34

Fourth Quarter	3,506.45	3,069.05
2016 First Quarter	3,178.01	2,680.35
Second Quarter	3,151.69	2,697.44
Third Quarter	3,091.66	2,761.37
Fourth Quarter	3,290.52	2,954.53
2017 First Quarter	3,500.93	3,230.68
Second Quarter	3,658.79	3,409.78
Third Quarter	3,594.85	3,388.22
Fourth Quarter (through October 25, 2017)	3,619.65	3,591.46