

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

Form DEFM14A

December 18, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE

SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-2

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

(Name of Registrant as Specified In Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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- (1) Amount Previously Paid:

- (2) Form, Schedule or Registration Statement No.:

- (3) Filing Party:

- (4) Date Filed:

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Pacific Biosciences of California, Inc.

1305 O Brien Drive

Menlo Park, California 94025

December 17, 2018

Dear Pacific Biosciences Stockholder:

You are cordially invited to attend a special meeting of stockholders, which we refer to as the special meeting, of Pacific Biosciences of California, Inc., which we refer to as Pacific Biosciences, to be held on January 24, 2019, at 8:00 a.m., Pacific time, at the offices of Wilson Sonsini Goodrich & Rosati, Professional Corporation, located at 650 Page Mill Road, Palo Alto, California 94304.

At the special meeting, you will be asked to consider and vote on a proposal to adopt the Agreement and Plan of Merger, dated as of November 1, 2018, as it may be amended from time to time, which we refer to as the merger agreement, by and among Pacific Biosciences, Illumina, Inc., which we refer to as Illumina, and FC Ops Corp. We refer to the acquisition of Pacific Biosciences by Illumina as the merger. At the special meeting, you will also be asked to consider and vote on (1) a proposal for the adjournment of the special meeting to a later date or dates, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the time of the special meeting; and (2) a proposal to approve, on a non-binding, advisory basis, the compensation that will or may become payable by Pacific Biosciences to its named executive officers in connection with the merger.

If the merger is completed, you will be entitled to receive \$8.00 in cash, without interest and subject to any applicable withholding taxes, for each share of common stock that you own (unless you have properly exercised your appraisal rights), which represents a premium of approximately (1) 77 percent to the closing price of the common stock on November 1, 2018 (the last trading day before the announcement of the merger); (2) 75 percent to the volume-weighted average price per share of the common stock for the 30 trading day period up to and including November 1, 2018; and (3) 79 percent to the volume-weighted average price per share of the common stock for the 90 trading day period up to and including November 1, 2018.

Pacific Biosciences Board of Directors, after considering the factors more fully described in the enclosed proxy statement, has unanimously: (1) determined that the merger agreement, the merger and the other transactions contemplated by the merger agreement are fair to, advisable and in the best interests of Pacific Biosciences and its stockholders; and (2) adopted and approved the merger agreement, the merger and the other transactions contemplated by the merger agreement.

Pacific Biosciences Board of Directors unanimously recommends that you vote: (1) FOR the adoption of the merger agreement; (2) FOR the adjournment of the special meeting to a later date or dates, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the time of the special meeting; and (3) FOR the compensation that will or may become payable by Pacific Biosciences to our named executive officers in connection with the merger.

The enclosed proxy statement provides detailed information about the special meeting, the merger agreement and the merger. A copy of the merger agreement is attached as Annex A to this proxy statement.

This proxy statement also describes the actions and determinations of Pacific Biosciences Board of Directors in connection with its evaluation of the merger agreement and the merger. We encourage you to read this proxy statement and its annexes, including the merger agreement, carefully and in their entirety, as they contain important information.

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Whether or not you plan to attend the special meeting in person, please sign, date and return, as promptly as possible, the enclosed proxy card (a prepaid reply envelope is provided for your convenience) or grant your proxy electronically over the internet or by telephone (using the instructions found on the proxy card). If you attend the special meeting and vote in person by ballot, your vote will revoke any proxy that you have previously submitted. If you fail to return your proxy or to attend the special meeting in person, your shares will not be counted for purposes of determining whether a quorum is present at the special meeting and will have the same effect as a vote against the adoption of the merger agreement.

If your shares are held through a bank, broker or other nominee, you are considered the beneficial owner of shares held in street name. If you hold your shares in street name you should instruct your bank, broker or other nominee how to vote your shares in accordance with the voting instruction form that you will receive from your bank, broker or other nominee. Your bank, broker or other nominee cannot vote on any of the proposals to be considered at the special meeting without your instructions. Without your instructions, your shares will not be counted for purposes of a quorum or voted at the meeting, and that will have the same effect as voting against the adoption of the merger agreement.

Your vote is very important, regardless of the number of shares that you own.

If you have any questions or need assistance voting your shares, please contact our proxy solicitor:

Innisfree M&A Incorporated
501 Madison Avenue, 20th Floor
New York, New York 10022

Stockholders may call toll-free: (888) 750-5834

Banks and brokers may call collect: (212) 750-5833

On behalf of Pacific Biosciences Board of Directors, thank you for your support.

Very truly yours,

Michael Hunkapiller, Ph.D.

Chairman of the Board of Directors, President
and

Chief Executive Officer

The accompanying proxy statement is dated December 17, 2018, and, together with the enclosed form of proxy card, is first being mailed on or about December 17, 2018.

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Pacific Biosciences of California, Inc.

1305 O Brien Drive

Menlo Park, California 94025

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON JANUARY 24, 2019

Notice is hereby given that a special meeting of stockholders of Pacific Biosciences of California, a Delaware corporation (which is referred to as Pacific Biosciences), will be held on January 24, 2019, at 8:00 a.m., Pacific time, at the offices of Wilson Sonsini Goodrich & Rosati, Professional Corporation, located at 650 Page Mill Road, Palo Alto, California 94304, for the following purposes:

1. To consider and vote on the proposal to adopt the Agreement and Plan of Merger, dated as of November 1, 2018, as it may be amended from time to time, by and among Pacific Biosciences, Illumina, Inc. and FC Ops Corp. (this agreement is referred to as the merger agreement);
2. To consider and vote on any proposal to adjourn the special meeting to a later date or dates, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the time of the special meeting;
3. To consider and vote on the proposal to approve, on a non-binding, advisory basis, the compensation that will or may become payable by Pacific Biosciences to its named executive officers in connection with the merger; and
4. To transact any other business that may properly come before the special meeting.

Only stockholders as of the close of business on December 7, 2018, are entitled to notice of the special meeting and to vote at the special meeting.

Pacific Biosciences Board of Directors unanimously recommends that you vote: (1) FOR the adoption of the merger agreement; (2) FOR the adjournment of the special meeting to a later date or dates, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the time of the special meeting; and (3) FOR the compensation that will or may become payable by Pacific Biosciences to its named executive officers in connection with the merger.

Pacific Biosciences stockholders who do not vote in favor of the proposal to adopt the merger agreement will have the right to seek appraisal of the fair value of their shares of common stock (exclusive of any elements of value arising from the accomplishment or expectation of the merger and together with interest (as described in the accompanying proxy statement) to be paid on the amount determined to be fair value) in lieu of receiving the per share merger consideration if the merger is completed, as determined in accordance with Section 262 of the Delaware General Corporation Law (which we refer to as the DGCL). To do so, a Pacific Biosciences stockholder must properly demand appraisal before the vote is taken on the merger agreement and comply with all other requirements of Delaware law, including Section 262 of the DGCL, which are summarized in the accompanying proxy statement, and must meet

certain conditions. Section 262 of the DGCL is reproduced in its entirety in Annex C to the accompanying proxy statement and is incorporated in this notice by reference.

Whether or not you plan to attend the special meeting in person, please sign, date and return, as promptly as possible, the enclosed proxy card (a prepaid reply envelope is provided for your convenience) or grant your

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proxy electronically over the internet or by telephone (using the instructions found on the proxy card). If you attend the special meeting and vote in person by ballot, your vote will revoke any proxy that you have previously submitted. If you fail to return your proxy or to attend the special meeting in person, your shares will not be counted for purposes of determining whether a quorum is present at the special meeting and will have the same effect as a vote against the adoption of the merger agreement.

If your shares are held through a bank, broker or other nominee, you are considered the beneficial owner of shares held in street name. If you hold your shares in street name, you should instruct your bank, broker or other nominee how to vote your shares in accordance with the voting instruction form that you will receive from your bank, broker or other nominee. Your bank, broker or other nominee cannot vote on any of the proposals to be considered at the special meeting without your instructions. Without your instructions, your shares will not be counted for purposes of a quorum or voted at the meeting, and that will have the same effect as voting against the adoption of the merger agreement.

By Order of the Board of Directors,

Stephen M. Moore

*Vice President, General Counsel and
Corporate Secretary*

Dated: December 17, 2018

Menlo Park, CA

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IMPORTANT INFORMATION

Whether or not you plan to attend the special meeting in person, we encourage you to submit your proxy as promptly as possible: (1) over the internet; (2) by telephone; or (3) by signing and dating the enclosed proxy card (a prepaid reply envelope is provided for your convenience). You may revoke your proxy or change your vote at any time before your proxy is voted at the special meeting.

If your shares are held through a bank, broker or other nominee, you are considered the beneficial owner of shares held in street name. If you hold your shares in street name, you should instruct your bank, broker or other nominee how to vote your shares in accordance with the voting instruction form that you will receive from your bank, broker or other nominee. Your bank, broker or other nominee cannot vote on any of the proposals to be considered at the special meeting without your instructions. Without your instructions, your shares will not be counted for purposes of a quorum or voted at the meeting, and that will have the same effect as voting against the adoption of the merger agreement.

If you are a stockholder of record, voting in person by ballot at the special meeting will revoke any proxy that you previously submitted. If you hold your shares through a bank, broker or other nominee, you must obtain a legal proxy from the bank, broker or other nominee that holds your shares in order to vote in person by ballot at the special meeting.

We encourage you to read the accompanying proxy statement and its annexes, including all documents incorporated by reference into the accompanying proxy statement, carefully and in their entirety. If you have any questions concerning the merger, the special meeting or the accompanying proxy statement, would like additional copies of the accompanying proxy statement, or need help voting your shares, please contact our proxy solicitor:

Innisfree M&A Incorporated

501 Madison Avenue, 20th Floor

New York, New York 10022

Stockholders may call toll-free: (888) 750-5834

Banks and brokers may call collect: (212) 750-5833

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SUMMARY

Except as otherwise specifically noted in this proxy statement, Pacific Biosciences, we, our, us and similar words refer to Pacific Biosciences of California, Inc., including, in certain cases, our subsidiaries. Throughout this proxy statement, we refer to Pacific Biosciences Board of Directors as the Pacific Biosciences Board. Throughout this proxy statement, we refer to Illumina, Inc. as Illumina and FC Ops Corp. as Merger Sub. In addition, throughout this proxy statement we refer to the Agreement and Plan of Merger, dated as of November 1, 2018, as it may be amended from time to time, by and among Pacific Biosciences, Illumina and Merger Sub, as the merger agreement.

This summary highlights selected information from this proxy statement related to the proposed merger of Merger Sub (a wholly owned subsidiary of Illumina) with and into Pacific Biosciences. We refer to the transaction as the merger.

This proxy statement may not contain all of the information that is important to you. To understand the merger more fully and for a complete description of its legal terms, you should carefully read this proxy statement, including the annexes to this proxy statement and the other documents to which we refer in this proxy statement. You may obtain the information incorporated by reference in this proxy statement without charge by following the instructions in the section of this proxy statement captioned Where You Can Find More Information. A copy of the merger agreement is attached as Annex A to this proxy statement. We encourage you to read the merger agreement, which is the legal document that governs the merger, carefully and in its entirety.

Parties Involved in the Merger

Pacific Biosciences of California, Inc.

Pacific Biosciences offers sequencing systems to help scientists resolve genetically complex problems. Based on its novel Single Molecule, Real-Time (SMRT®) Technology, Pacific Biosciences 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. Pacific Biosciences technology provides high accuracy, ultra-long reads, uniform coverage, and the ability to simultaneously detect epigenetic changes.

Pacific Biosciences common stock is listed on the Nasdaq Stock Market (which we refer to as Nasdaq) under the symbol PACB. Pacific Biosciences corporate offices are located at 1305 O'Brien Drive, Menlo Park, California 94025, and its telephone number is (650) 521-8000.

Illumina, Inc.

Illumina is the global leader in sequencing- and array-based solutions for genetic analysis. Illumina's products and services serve customers in a wide range of markets, enabling the adoption of genomic solutions in research and clinical settings. Illumina's customers include leading genomic research centers, academic institutions, government laboratories, and hospitals, as well as pharmaceutical, biotechnology, commercial molecular diagnostic laboratories, and consumer genomics companies. Illumina's portfolio of integrated sequencing and microarray systems, consumables, and analysis tools is designed to accelerate and simplify genetic analysis. This portfolio addresses the range of genomic complexity, price points, and throughput, enabling customers to select the best solution for their research or clinical challenge.

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Illumina's common stock is listed on Nasdaq under the symbol ILMN. Illumina's principal executive offices are located at 5200 Illumina Way, San Diego, California 92122, and its telephone number is (858) 202-4500.

FC Ops Corp.

Merger Sub is a wholly owned subsidiary of Illumina and was formed on October 29, 2018, solely for the purpose of engaging in the transactions contemplated by the merger agreement. Merger Sub has not engaged in any business activities other than incidental to its formation and in connection with the transactions contemplated by the merger agreement. Upon completion of the merger, Merger Sub will cease to exist and Pacific Biosciences will continue as the surviving corporation.

Merger Sub's principal executive offices are located at c/o Illumina, Inc., 5200 Illumina Way, San Diego, California 92122, and its telephone number is (858) 202-4500.

Effect of the Merger

Upon the terms and subject to the conditions of the merger agreement, and in accordance with the Delaware General Corporation Law (which we refer to as the "DGCL"), at the effective time of the merger: (1) Merger Sub will merge with and into Pacific Biosciences; (2) the separate existence of Merger Sub will cease; and (3) Pacific Biosciences will continue as the surviving corporation in the merger and as a wholly owned subsidiary of Illumina. Throughout this proxy statement, we use the term "surviving corporation" to refer to Pacific Biosciences as the surviving corporation following the merger.

As a result of the merger, Pacific Biosciences will cease to be a publicly traded company. If the merger is completed, you will not own any shares of capital stock of the surviving corporation as a result of the merger.

The time at which the merger becomes effective (which we refer to as the "effective time of the merger") will occur upon the filing of a certificate of merger with, and acceptance of that certificate by, the Secretary of State of the State of Delaware (or at a later time as Pacific Biosciences, Illumina and Merger Sub may agree and specify in such certificate of merger).

Effect on Pacific Biosciences if the Merger is Not Completed

If the merger agreement is not adopted by Pacific Biosciences stockholders, or if the merger is not completed for any other reason, Pacific Biosciences stockholders will not receive any payment for their shares of common stock in connection with the merger. Instead: (1) Pacific Biosciences will remain an independent public company; (2) our common stock will continue to be listed and traded on Nasdaq and registered under the Securities Exchange Act of 1934 (which we refer to as the "Exchange Act"); and (3) we will continue to file periodic reports with the Securities and Exchange Commission (which we refer to as the "SEC").

Per Share Merger Consideration

Upon the terms and subject to the conditions of the merger agreement, at the effective time of the merger, each outstanding share of Pacific Biosciences' common stock (which we refer to as "common stock") (other than shares: (1) held by Pacific Biosciences as treasury stock; (2) owned by Illumina or Merger Sub; (3) owned by any direct or indirect wholly owned subsidiaries of Pacific Biosciences or Illumina (other than Merger Sub); or (4) stockholders who have properly and validly exercised, and not withdrawn or otherwise lost, their appraisal rights under Delaware law) will be canceled and automatically converted into the right to receive \$8.00 in cash, without interest and less any

applicable withholding taxes. We refer to this amount as the per share merger consideration.

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At or prior to the closing of the merger, a sufficient amount of cash will be deposited with a designated payment agent to pay the aggregate per share merger consideration. Once a Pacific Biosciences stockholder has provided the payment agent with his, her or its stock certificates (or an affidavit of loss in lieu of a stock certificate) or customary agent's message with respect to book-entry shares, appropriate letter of transmittal and the other items specified by the payment agent, then the payment agent will pay the stockholder the appropriate portion of the aggregate per share merger consideration. For more information, see the section of this proxy statement captioned "The Merger Agreement Payment Agent, Exchange Fund, and Exchange and Payment Procedures."

After the merger is completed, you will have the right to receive the per share merger consideration for each share of common stock that you own, but you will no longer have any rights as a stockholder (except that Pacific Biosciences stockholders who properly and validly exercise and perfect, and do not validly withdraw or otherwise lose, their appraisal rights will have the right to receive a payment for the fair value of their shares as determined pursuant to an appraisal proceeding as contemplated by Delaware law, as described below under the section of this proxy statement captioned "The Merger Appraisal Rights").

The Special Meeting

Date, Time and Place

A special meeting of Pacific Biosciences stockholders will be held on January 24, 2019, at 8:00 a.m., Pacific time, at the offices of Wilson Sonsini Goodrich & Rosati, Professional Corporation, 650 Page Mill Road, Palo Alto, California 94304. We refer to the special meeting, and any adjournment, postponement or other delay of the special meeting, as the special meeting.

Purpose

At the special meeting, we will ask stockholders to vote on proposals to: (1) adopt the merger agreement; (2) adjourn the special meeting to a later date or dates, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the time of the special meeting; and (3) approve, on a non-binding, advisory basis, the compensation that will or may become payable by Pacific Biosciences to our named executive officers in connection with the merger.

Record Date; Shares Entitled to Vote

You are entitled to vote at the special meeting if you owned shares of common stock as of the close of business on December 7, 2018 (which we refer to as the record date). For each share of common stock that you owned as of the close of business on the record date, you will have one vote on each matter submitted for a vote at the special meeting.

Quorum

As of the record date, there were 149,621,715 shares of common stock outstanding and entitled to vote at the special meeting. The holders of a majority of the stock issued and outstanding and entitled to vote, present in person or represented by proxy, shall constitute a quorum.

Required Vote

The proposals to be voted on at the special meeting require the following votes:

Proposal 1: Approval of the proposal to adopt the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of common stock entitled to vote at the special meeting.

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Proposal 2: Approval of the proposal to adjourn the special meeting to a later date or dates to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the time of the special meeting requires the affirmative vote of holders of a majority of the shares of common stock present in person or represented by proxy at the special meeting and entitled to vote on the proposal.

Proposal 3: Approval of the proposal to approve the compensation that will or may become payable by Pacific Biosciences to our named executive officers in connection with the merger requires the affirmative vote of holders of a majority of the shares of common stock present in person or represented by proxy at the special meeting and entitled to vote on the proposal. This vote will be on a non-binding, advisory basis.

Voting and Proxies

Any stockholder of record entitled to vote at the special meeting may vote in one of the following ways:

by proxy, by returning a signed and dated proxy card (a prepaid reply envelope is provided for your convenience);

by proxy, by granting a proxy electronically over the internet or by telephone (using the instructions found on the proxy card); or

in person, by appearing at the special meeting and voting by ballot.

If you are a stockholder of record, you may change your vote or revoke your proxy at any time before it is voted at the special meeting by (1) signing another proxy card with a later date and returning it prior to the special meeting; (2) submitting a new proxy electronically over the internet or by telephone after the date of the earlier submitted proxy; (3) delivering a written notice of revocation to our Corporate Secretary; or (4) attending the special meeting and voting in person by ballot.

If you are a beneficial owner and hold your shares of common stock in street name through a bank, broker or other nominee, you should instruct your bank, broker or other nominee on how you wish to vote your shares of common stock using the instructions provided by your bank, broker or other nominee. Under applicable stock exchange rules, banks, brokers or other nominees have the discretion to vote on routine matters, but not on non-routine matters. **The proposals to be considered at the special meeting are non-routine matters, and banks, brokers and other nominees cannot vote on these proposals without your instructions. Therefore, it is important that you cast your vote or instruct your bank, broker or nominee on how you wish to vote your shares.**

If you hold your shares of common stock in street name, you should contact your bank, broker or other nominee for instructions regarding how to change your vote. You may also vote in person by ballot at the special meeting if you obtain a legal proxy from your bank, broker or other nominee giving you the right to vote your shares at the special meeting.

Recommendation of the Pacific Biosciences Board and Reasons for the Merger

The Pacific Biosciences Board, after considering various factors described in the section of this proxy statement captioned The Merger Recommendation of the Pacific Biosciences Board and Reasons for the Merger, has

unanimously: (1) determined that the merger agreement, the merger and the other transactions contemplated by the merger agreement are fair to, advisable and in the best interests of Pacific Biosciences and its stockholders; and (2) adopted and approved the merger agreement, the merger and the other transactions contemplated by the merger agreement.

The Pacific Biosciences Board unanimously recommends that you vote: (1) FOR the adoption of the merger agreement; (2) FOR the adjournment of the special meeting to a later date or dates, if necessary or

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appropriate, to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the time of the special meeting; and (3) FOR the compensation that will or may become payable by Pacific Biosciences to our named executive officers in connection with the merger.

Opinion of Centerview Partners LLC

Pacific Biosciences retained Centerview Partners LLC (which we refer to as Centerview) as financial advisor to the Pacific Biosciences Board in connection with the merger and the other transactions contemplated by the merger agreement. In connection with this engagement, the Pacific Biosciences Board requested that Centerview evaluate the fairness, from a financial point of view, to the holders of shares of Pacific Biosciences common stock (other than common stock (1) held by Pacific Biosciences as treasury stock, (2) owned by Illumina or Merger Sub, (3) owned by any direct or indirect wholly owned subsidiaries of Pacific Biosciences or Illumina (other than Merger Sub) or (4) shares that are held by Pacific Biosciences stockholders who have properly exercised their respective demand for, and not effectively withdrawn, waived or lost their rights to, appraisal pursuant to Section 262 of the DGCL with respect to such shares (the shares referred to in clauses (1) and (2), together with any shares of Pacific Biosciences common stock held by any affiliate of Pacific Biosciences or Illumina, are collectively referred to as excluded shares)) of the per share merger consideration proposed to be paid to such holders pursuant to the merger agreement. On November 1, 2018, Centerview rendered to the Pacific Biosciences Board its oral opinion, which was subsequently confirmed by delivery of a written opinion dated November 1, 2018, that, as of such date and based upon and subject to the assumptions made, procedures followed, matters considered, and qualifications and limitations upon the review undertaken by Centerview in preparing its opinion, the merger consideration proposed to be paid to the holders of shares of Pacific Biosciences common stock (other than excluded shares) pursuant to the merger agreement was fair, from a financial point of view, to such holders.

The full text of Centerview s written opinion, dated November 1, 2018, which describes the assumptions made, procedures followed, matters considered, and qualifications and limitations upon the review undertaken by Centerview in preparing its opinion, is attached as Annex B to this proxy statement and is incorporated by reference. **Centerview s financial advisory services and opinion were provided for the information and assistance of the Pacific Biosciences Board (in their capacity as directors and not in any other capacity) in connection with and for purposes of its consideration of the merger, and Centerview s opinion addressed only the fairness, from a financial point of view, as of the date thereof, to the holders of shares of Pacific Biosciences common stock (other than excluded shares) of the merger consideration to be paid to such holders pursuant to the merger agreement. Centerview s opinion did not address any other term or aspect of the merger agreement or the merger and does not constitute a recommendation to any Pacific Biosciences stockholder or any other person as to how such stockholder or other person should vote with respect to the merger or otherwise act with respect to the merger or any other matter.**

The full text of Centerview s written opinion should be read carefully in its entirety for a description of the assumptions made, procedures followed, matters considered, and qualifications and limitations upon the review undertaken by Centerview in preparing its opinion.

Treatment of Equity Awards in the Merger

The merger agreement provides that Pacific Biosciences equity awards that are outstanding immediately prior to the effective time of the merger will be treated in the following manner in connection with the merger:

Company Options

At or immediately prior to the effective time of the merger, each award covering options to acquire shares of common stock (which we refer to as a company option) that is outstanding immediately prior to the effective

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time of the merger, whether vested or unvested, with an exercise price per share below the per share merger consideration (which we refer to as an in-the-money company option) will be canceled and converted into the right to receive a cash amount equal to the product of (1) the excess of the per share merger consideration over the applicable per share exercise price of the in-the-money company option, multiplied by (2) the aggregate number of shares of common stock subject to the in-the-money company option immediately before the effective time of the merger. Any company option that is not an in-the-money company option will be canceled as of the effective time of the merger without any amount payable in exchange. Holders of unvested company options (including company options that are not in-the-money company options) will be given an opportunity to exercise any unvested company option prior to, and contingent upon, the consummation of the transactions contemplated by the merger agreement.

Company RSUs

At or immediately before the effective time of the merger, each award covering restricted stock units that are not company PRSUs (as defined below) (which we refer to as a company RSU) that is outstanding immediately prior to the effective time of the merger and with vesting based only on continued service will be canceled and converted into the right to receive a cash amount equal to the product of (1) the per share merger consideration, multiplied by (2) the total number of shares of common stock subject to such company RSU award immediately before the effective time of the merger.

Company PRSUs

At or immediately before the effective time of the merger, each award covering restricted stock units with vesting that includes the achievement of performance-based criteria (which we refer to as a company PRSU) that is outstanding immediately prior to the effective time of the merger will be canceled and converted into the right to receive a cash amount equal to the product of (1) the per share merger consideration, multiplied by (2) the number of shares of common stock that would be payable if such company PRSU award had vested at target performance.

Employee Stock Purchase Plan

Our 2010 Employee Stock Purchase Plan (which we refer to as the ESPP) (and all outstanding rights thereunder) will be terminated no later than as of immediately prior to the effective time of the merger, contingent upon the consummation of the transactions contemplated by the merger agreement. From and after the date of the merger agreement, no new participants are permitted to participate in the ESPP and participants may not increase their payroll deductions or purchase elections from those in effect on the date of the merger agreement. Except for any offering or purchase period under the ESPP that is in effect on the date of the merger agreement (which we refer to as the final offering period), no new offering or purchase period will be authorized, continued or commenced following the date of the merger agreement. In addition, from and after the date of the merger agreement, both the maximum number of shares of common stock that a participant in the ESPP can purchase and the total number of shares of common stock available under the ESPP will not be increased. Unless otherwise agreed between Illumina and us, the final offering period will terminate no later than as of immediately following the next scheduled purchase date (to occur on March 1, 2019), and the exercise date under the final offering period will accelerate and occur on such termination date with respect to any then-outstanding purchase rights. Additionally, shares of common stock purchased under the terms of the ESPP for the final offering period will be canceled at the effective time of the merger in exchange for the right to receive the per share merger consideration in accordance with the merger agreement. As promptly as practicable following the purchase of shares of common stock under the final offering period, Pacific Biosciences will return to each participant the funds, if any, that remain in such participant's account after such purchase.

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Employee Benefits

For the period commencing on the effective time of the merger and ending one year later (or, if shorter, during the period of employment), Illumina will provide each employee of Pacific Biosciences or any of its subsidiaries immediately before the effective time of the merger whose employment with the surviving corporation, Illumina or any of their respective affiliates continues after the effective time of the merger (whom we refer to as continuing employees) with (1) an aggregate base salary or base wages and cash target bonus opportunity no less than the aggregate base salary or base wages and cash target bonus opportunity provided to such continuing employee immediately before the effective time of the merger; and (2) benefits (other than any equity or equity-based and change in control or transaction-based compensation or benefits or severance pay or benefits) that are substantially comparable in the aggregate to either (i) those offered to similarly situated employees of Illumina or its affiliates; or (ii) those offered by Pacific Biosciences to the continuing employees as of immediately before the effective time of the merger. The determination of the employee benefits under clause (2) will be made by Illumina, based on Illumina's evaluation of the nature and scope of the continuing employees' duties, principal locations, grade level and performance, among other things. However, Illumina will not have any obligation to issue, or adopt any plans or arrangements providing for the issuance of, shares of capital stock, warrants, options, stock appreciation rights or other rights in respect of any shares of capital stock of any entity or any securities convertible into, or exchangeable or exercisable for, such shares pursuant to any such plans or arrangements.

With respect to any employee benefit plan maintained by Illumina in which any continuing employee will participate on or after the effective time of the merger (which we refer to as Illumina benefit plans), (other than (1) any retiree healthcare or life insurance plans or programs maintained by Illumina and (2) any equity compensation arrangement) Illumina will recognize all service with us or any subsidiary of ours provided before the effective time of the merger by continuing employees who are active Pacific Biosciences employees immediately before the closing of the merger for purposes of vesting and eligibility (but not benefit accrual), to the extent such continuing employees otherwise would be eligible to participate or vest under the terms of such Illumina benefit plans. The service of a continuing employee before the effective time of the merger will not be recognized for the purpose of any entitlement to participate in, or receive benefits with respect to, (1) any retiree medical programs or other retiree welfare benefit programs maintained by Illumina or its affiliates; or (2) for purposes of early retirement subsidies under any Illumina benefit plan. In no event will these benefits result in any duplication of benefits for the same period of service. In addition, Illumina will use commercially reasonable efforts to (1) waive any limitations on benefits relating to pre-existing conditions to the same extent such limitations are waived under any comparable plan of Pacific Biosciences applicable to such continuing employee before the effective time of the merger; and (2) recognize, for purposes of satisfying the deductibles, out-of-pocket limits, offsets, co-payments, co-insurance, or similar costs or payments under its medical, dental and vision plans, the deductibles, out-of-pocket limits, offsets, co-payments, co-insurance, or similar costs or payments recognized under the corresponding employee plan with respect to a continuing employee (and his or her eligible dependents) for the plan year in which the effective time of the merger occurs.

Unless Illumina chooses otherwise, effective as of the date immediately before the closing date of the merger, Pacific Biosciences will terminate its 401(k) plan, subject to the completion of the merger.

Interests of Pacific Biosciences Directors and Executive Officers in the Merger

When considering the recommendation of the Pacific Biosciences Board that you vote to approve the proposal to adopt the merger agreement, you should be aware that our directors and executive officers may have interests in the merger that are different from, or in addition to, your interests as a stockholder. In (1) evaluating and negotiating the merger agreement, (2) approving the merger agreement and the merger and (3) recommending that the merger

agreement be adopted by Pacific Biosciences stockholders, the Pacific

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Biosciences Board was aware of and considered these interests to the extent that they existed at the time, among other matters. These interests include the following:

the accelerated vesting, at or immediately prior to the effective time of the merger, of company options, company RSUs and company PRSUs, and the treatment of outstanding rights under the ESPP, as described in more detail under the section of this proxy statement captioned "The Merger Interests of Pacific Biosciences Directors and Executive Officers in the Merger Treatment of Equity-Based Awards;

the entitlement of each of Dr. Hunkapiller, Ms. Barnes and Mr. Phillips to receive payments and benefits pursuant to his or her change in control severance agreement previously entered into with Pacific Biosciences (each, a "change in control agreement") if, on or within 12 months following the merger, Pacific Biosciences terminates his or her employment with Pacific Biosciences for a reason other than "cause," his or her death or "disability," or he o