Verastem, Inc. Form 10-O August 13, 2013

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES 0 **EXCHANGE ACT OF 1934**

For the transition period from to Commission file number: 001-35403

Verastem, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

215 First Street, Suite 440 Cambridge, MA (Address of principal executive offices)

(617) 252-9300

(Registrant's telephone number, including area code)

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

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

27-3269467 (I.R.S. Employer Identification Number)

> 02142 (Zip Code)

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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.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer ý	Smaller reporting company o
		(Do not check if a	
		smaller reporting company)	
Indicate by check mark whethe	r the registrant is a shell company	(as defined in Rule 12b-2 of the E	xchange Act). Yes o No ý
As of July 31, 2013 there were	25,593,992 shares of Common St	tock, \$0.0001 par value per share, o	utstanding.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements related to present facts or current conditions or of historical facts, contained in this Quarterly Report on Form 10-Q, including statements regarding our strategy, future operations, future financial position, future revenues, projected costs, prospects, plans and objectives of management, including the development of our compounds, the timeline for clinical development and regulatory approval of our compounds, the structure of our planned clinical trials and our ability to fund operations, are forward looking statements. The words "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "predict," "project," "target," "potential," "will," "would," "could," "should," "continue" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words.

Forward-looking statements are not guarantees of future performance and our actual results could differ materially from the results discussed in the forward-looking statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, our ability to raise additional capital to support our clinical development program and other operations, our ability to develop products of commercial value and to identify, discover and obtain rights to additional potential product candidates, our ability to protect and maintain our intellectual property and the ability of our licensors to obtain and maintain patent protection for the technology or products that we license from them, the outcome of research and development activities and the fact that the preclinical and clinical testing of our compounds may not be predictive of the success of later clinical trials, our reliance on third-parties, competitive developments, the effect of current and future legislation and regulation and regulatory actions, as well as other risks described in our Annual Report on Form 10-K and other filings with the Securities and Exchange Commission, or SEC.

As a result of these and other factors, 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. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make. We do not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

PART I FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited).

Verastem, Inc.

(A development stage company)

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands, except per share amounts)

	J	une 30, 2013	De	cember 31, 2012
Assets				
Current assets:				
Cash and cash equivalents	\$	13,880	\$	10,096
Short-term investments		43,571		46,480
Prepaid expenses and other current assets		841		506
Total current assets		58,292		57,082
Property and equipment, net		730		811
Long-term investments		20,558		34,944
Restricted cash		86		86
Other long-term assets		295		
Total assets	\$	79,961	\$	92,923
Liabilities, redeemable convertible preferred stock and stockholders' equity Current liabilities:				
	\$	2,034	¢	1 0 / 0
Accounts payable	Э	2,054	\$	1,848 551
Accrued expenses Other current liabilities		850		551
Total current liabilities		5,238		2,399
Deferred rent		16		2,399
Liability for shares subject to repurchase		16		20
Stockholders' equity		10		20
Preferred stock, \$0.0001 par value; 5,000 shares authorized; none issued				
Common stock, \$0.0001 par value; 100,000, shares authorized 20,794 and 20,364 shares issued and				
outstanding at June 30, 2013 and December 31, 2012, respectively		2		2
Additional paid-in capital		140,430		136,893
Accumulated other comprehensive (loss) income		(3)		22
Deficit accumulated during the development stage		(65,738)		(46,451)
Total stockholders' equity		74,691		90,466
Total liabilities, redeemable convertible preferred stock and stockholders' equity	\$	79,961	\$	92,923

See accompanying notes.

(A development stage company)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(unaudited)

(in thousands, except per share amounts)

	Three months ended, June 30,		Six Months ended June 30,				Period from August 4, 2010 (inception) to June 30,		
		2013	2012		2013		2012		2013
Operating expenses:									
Research and development	\$	6,045	\$ 4,683	\$	11,341	\$	9,486	\$	43,336
General and administrative		4,239	2,213		8,024		4,338		22,741
Total operating expenses		10,284	6,896		19,365		13,824		66,077
Loss from operations		(10,284)	(6,896)		(19,365)		(13,824)		(66,077)
Interest income		34	71		78		128		339
Net loss		(10,250)	(6,825)		(19,287)		(13,696)		(65,738)
Accretion of preferred stock							(6)		(40)
Net loss applicable to common stockholders	\$	(10, 250)	\$ (6,825)	\$	(19,287)	\$	(13,702)	\$	(65,778)
Net loss per share applicable to common stockholders basic and diluted	\$	(0.49)	\$ (0.34)	\$	(0.94)		(0.79)	\$	(6.20)
Weighted-average number of common shares used in net loss per share applicable to common stockholders basic and diluted		20,729	19,863		20,607		17,278		10,608
Comprehensive loss	\$	(10,271)	\$ (6,791)	\$	(19,312)	\$	(13,705)	\$	(65,741)

See accompanying notes.

3

(A development stage company)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

2013 2012 2013 Operating activities Net loss \$ (19,287) \$ (13,696) \$ (05,738) Adjustments to reconcile net loss to net cash used in operating activities: 112 94 402 Stock-based compensation expense 5,182 3,012 14,269 Obligation to issue a warrant in exchange for license 2,003 0439 Changes in operating assets and liabilities: 739 (1,136) Prepaid expenses and other current assets (630) (379) (1,136) Accounts payable 186 177 2,034 Accounte payable 186 (16,7) (1,134) Purchases of property and equipment (11,134) (16,923) (23,408) Mutrities of investments (61,479) (16,923) (23,408) Maurities of investments (14,209) (16,923) (23,408) Maurities of investments (61,479) (42,29) (16,923) Increase in restricted cash 30 33 33 Net cash provided by (used in) investing activities 17,239 (52,861) <			Six months ended June 30,			Au (Ir	Period from August 4, 2010 (Inception) to June 30,	
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Proceeds from issuance of redeemable convertible preferred stock68,107Proceeds from the exercise of stock options3033Net proceeds from the issuance of common stock and restricted common stock57,59956,878Cash used to settle restricted stock liability awards(829)(829)Net cash (used in) provided by financing activities(799)57,599124,189Increase (decrease) in cash and cash equivalents3,784(5,203)13,880Cash and cash equivalents at beginning of period10,09620,95413,880Cash and cash equivalents at end of period\$13,880\$15,751\$Supplemental disclosure of non-cash financing activity40Conversion of redeemable convertible preferred stock to redemption value\$\$6\$40			,					
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Net cash (used in) provided by financing activities(799)57,599124,189Increase (decrease) in cash and cash equivalents3,784(5,203)13,880Cash and cash equivalents at beginning of period10,09620,95413,880Cash and cash equivalents at end of period\$13,880\$15,751\$13,880Supplemental disclosure of non-cash financing activity40Conversion of redeemable convertible preferred stock upon initial public offering\$\$\$68,148\$68,148			(829)		,			
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Cash and cash equivalents at beginning of period10,09620,954Cash and cash equivalents at end of period\$ 13,880\$ 15,751\$ 13,880Supplemental disclosure of non-cash financing activity Accretion of redeemable convertible preferred stock to redemption value\$ \$ 6\$ 40Conversion of redeemable convertible preferred stock upon initial public offering\$ 68,148\$ 68,148	The cash (ased in) provided by manoing activities		(177)		51,577		12 1,105	
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Cash and cash equivalents at end of period\$ 13,880\$ 15,751\$ 13,880Supplemental disclosure of non-cash financing activity Accretion of redeemable convertible preferred stock to redemption value\$ \$ 6\$ 40Conversion of redeemable convertible preferred stock upon initial public offering\$ 68,148\$ 68,148							15,000	
Supplemental disclosure of non-cash financing activity Accretion of redeemable convertible preferred stock to redemption value \$ \$ 6 \$ 40 Conversion of redeemable convertible preferred stock upon initial public offering \$ 68,148 \$ 68,148	Cash and cash equivalents at beginning of period		10,070		20,754			
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Accretion of redeemable convertible preferred stock to redemption value\$\$6\$40Conversion of redeemable convertible preferred stock upon initial public offering\$68,148\$68,148	Courses and disclosure of your cost firms in a stirity							
Conversion of redeemable convertible preferred stock upon initial public offering \$ 68,148 \$ 68,148		¢		¢	6	¢	40	
	Accretion of redeemable convertible preferred stock to redemption value	Э		Э	0	\$	40	
		*		¢	(0.1.1)	A	(0.1.10	
Reclassification of obligation to issue warrant from liabilities to equity \$ \$837 \$ 837	Conversion of redeemable convertible preferred stock upon initial public offering	\$		\$	68,148	\$	68,148	
Reclassification of obligation to issue warrant from liabilities to equity\$\$837\$837								
	Reclassification of obligation to issue warrant from liabilities to equity	\$		\$	837	\$	837	

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See accompanying notes.

(A development stage company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies

Basis of presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial reporting and as required by Regulation S-X, Rule 10-01. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (including those which are normal and recurring) considered necessary for a fair presentation of the interim financial information have been included. When preparing financial statements in conformity with GAAP, the Company must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the date of the financial statements. Actual results could differ from those estimates. Additionally, operating results for the three months ended June 30, 2013 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending December 31, 2013. For further information, refer to the financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 as filed with the Securities and Exchange Commission ("SEC") on March 26, 2013.

Subsequent Events

In preparing the financial statements included in this Form 10-Q, the Company has evaluated all subsequent events that occurred after June 30, 2013 through the date of the filing of this Form 10-Q. In July 2013, the Company closed a public offering in which it sold 4,255,000 shares of its common stock at a price of \$15 per share (Note 7).

2. Fair value of financial instruments

The Company is required to disclose information on all assets and liabilities reported at fair value that enables an assessment of the inputs used in determining the reported fair values. The fair value hierarchy is now established that prioritizes valuation inputs based on the observable nature of those inputs. The fair value hierarchy applies only to the valuation inputs used in determining the reported fair value of the investments and is not a measure of the investment credit quality. The hierarchy defines three levels of valuation inputs:

Level 1 inputs	Quoted prices in active markets for identical assets or liabilities
Level 2 inputs	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3 inputs	Unobservable inputs that reflect the Company's own assumptions about the assumptions market participants would use in pricing the asset or liability

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(A development stage company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Fair value of financial instruments (Continued)

The following table presents information about the Company's financial assets and liabilities that have been measured at fair value at June 30, 2013 and indicates the fair value hierarchy of the valuation inputs utilized to determine such fair value (in thousands).

Quoted prices other Significant in active observable unobservable			Significant					
in active observable unobservable			Quoted prices	other	Significant			
in active observable unobservable			in active	observable	unobservable			
markets inputs inputs			markets	inputs	inputs			
DescriptionTotal(Level 1)(Level 2)(Level 3)	Description	Total	(Level 1)	(Level 2)	(Level 3)			