

Verastem, Inc.
Form 10-Q
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
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
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)

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

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

02142
(Zip Code)

(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 No

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 No

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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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a
smaller reporting company)

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

As of July 31, 2013 there were 25,593,992 shares of Common Stock, \$0.0001 par value per share, outstanding.

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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.

Table of Contents**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)**

	June 30, 2013	December 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:		
Accounts payable	\$ 2,034	\$ 1,848
Accrued expenses	2,354	551
Other current liabilities	850	
Total current liabilities	5,238	2,399
Deferred rent	16	38
Liability for shares subject to repurchase	16	20
Stockholders' equity		
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.

Table of Contents**Verastem, Inc.****(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
	2013	2012	2013	2012	
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.

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(A development stage company)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	Six months ended June 30,		Period from August 4, 2010 (Inception) to June 30, 2013
	2013	2012	
Operating activities			
Net loss	\$ (19,287)	\$ (13,696)	\$ (65,738)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	112	94	402
Stock-based compensation expense	5,182	3,012	14,269
Common stock issued in exchange for license			2,003
Obligation to issue a warrant in exchange for license			439
Change in fair value of obligation to issue warrant		431	398
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	(630)	(379)	(1,136)
Accounts payable	186	177	2,034
Accrued expenses and deferred rent	1,781	420	2,370
Net cash used in operating activities	(12,656)	(9,941)	(44,959)
Investing activities			
Purchases of property and equipment	(31)	(167)	(1,134)
Purchases of investments	(44,209)	(116,923)	(234,088)
Maturities of investments	61,479	64,229	169,958
Increase in restricted cash			(86)
Net cash provided by (used in) investing activities	17,239	(52,861)	(65,350)
Financing activities			
Proceeds from issuance of redeemable convertible preferred stock			68,107
Proceeds from the exercise of stock options	30		33
Net proceeds from the issuance of common stock and restricted common stock		57,599	56,878
Cash used to settle restricted stock liability awards	(829)		(829)
Net cash (used in) provided by financing activities	(799)	57,599	124,189
Increase (decrease) in cash and cash equivalents	3,784	(5,203)	13,880
Cash and cash equivalents at beginning of period	10,096	20,954	
Cash and cash equivalents at end of period	\$ 13,880	\$ 15,751	\$ 13,880
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
Reclassification of obligation to issue warrant from liabilities to equity	\$	\$ 837	\$ 837

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See accompanying notes.

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Verastem, Inc.

(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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Verastem, Inc.

(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).

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