

Verastem, Inc.
Form 10-Q
August 07, 2014

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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, 2014

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)

215 First Street, Suite 440

Cambridge, MA

(Address of principal executive offices)

27-3269467

(I.R.S. Employer
Identification Number)

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 ☐

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.

Accelerated filer ☒

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Large accelerated
filer ☐

Non-accelerated filer ☐
(Do not check if a
smaller reporting company)

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, 2014 there were 25,842,328 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 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, timeline for clinical development and regulatory approval of our compounds, the expected timing for the reporting of data from ongoing trials, prospects, plans and objectives of management, 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 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, the fact that the preclinical and clinical testing of our compounds may not be predictive of the success of ongoing or later clinical trials, that data may not be available when we expect it to be, 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.****CONDENSED CONSOLIDATED BALANCE SHEETS****(unaudited)****(in thousands, except per share amounts)**

	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 22,391	\$ 18,889
Short-term investments	76,204	82,423
Restricted cash	86	86
Prepaid expenses and other current assets	877	557
 Total current assets	 99,558	 101,955
Property and equipment, net	1,489	631
Long-term investments	5,757	22,344
Restricted cash	203	
Other assets	335	331
 Total assets	 \$ 107,342	 \$ 125,261
 Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 3,159	\$ 2,760
Accrued expenses	4,165	4,327
Liability classified stock-based compensation awards	547	717
 Total current liabilities	 7,871	 7,804
Other liabilities	292	11
Stockholders' equity:		
Convertible preferred stock, \$0.0001 par value; 5,000 shares authorized; none issued and outstanding		
Common stock, \$0.0001 par value; 100,000 shares authorized; 25,722 and 25,328 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	3	3
Additional paid-in capital	212,883	205,068
Accumulated other comprehensive income	29	28
Accumulated deficit	(113,736)	(87,653)
 Total stockholders' equity	 99,179	 117,446

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Total liabilities and stockholders' equity	\$	107,342	\$	125,261
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See accompanying notes.

Table of Contents**Verastem, Inc.****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,	
	2014	2013	2014	2013
Operating expenses:				
Research and development	\$ 8,305	\$ 6,045	\$ 16,716	\$ 11,341
General and administrative	4,782	4,239	9,505	8,024
Total operating expenses	13,087	10,284	26,221	19,365
Loss from operations	(13,087)	(10,284)	(26,221)	(19,365)
Interest income	65	34	137	78
Net loss	\$ (13,022)	\$ (10,250)	\$ (26,084)	\$ (19,287)
Net loss per share basic and diluted	\$ (0.51)	\$ (0.49)	\$ (1.02)	\$ (0.94)
Weighted-average number of common shares used in net loss per share basic and diluted	25,669	20,729	25,574	20,607
Comprehensive loss	\$ (13,015)	\$ (10,271)	\$ (26,083)	\$ (19,312)

See accompanying notes.

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Verastem, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	Six months ended June 30,	
	2014	2013
Operating activities		
Net loss	\$ (26,084)	\$ (19,287)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	141	112
Amortization of premiums and discounts on available for sale marketable securities	152	
Stock-based compensation expense	6,910	5,182
Common Stock issued to purchase technology rights	1,197	
Changes in operating assets and liabilities:		
Prepaid expenses, other current assets and other assets	(324)	(630)
Accounts payable	(187)	186
Accrued expenses and other liabilities	373	1,781
Liability classified stock-based compensation award	(170)	
 Net cash used in operating activities	 (17,992)	 (12,656)
 Investing activities		
Purchases of property and equipment	(412)	(31)
Purchases of investments	(26,640)	(44,209)
Maturities of investments	49,295	61,479
Increase in restricted cash	(203)	
 Net cash provided by investing activities	 22,040	 17,239
 Financing activities		
Proceeds from the exercise of stock options	11	30
Cash used to settle restricted stock liability awards	(557)	(829)
 Net cash used in financing activities	 (546)	 (799)
 Increase in cash and cash equivalents	 3,502	 3,784
Cash and cash equivalents at beginning of period	18,889	10,096
 Cash and cash equivalents at end of period	 \$ 22,391	 \$ 13,880

See accompanying notes.

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Verastem, Inc.

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 and related disclosures at the date of the financial statements. Actual results could differ from those estimates. Additionally, operating results for the three and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending December 31, 2014. 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, 2013 as filed with the Securities and Exchange Commission ("SEC") on March 6, 2014.

Recent Accounting Pronouncements

On June 10, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-10, which simplifies financial reporting for development stage entities by eliminating requirements specific to development stage entities. As a result, entities in a development stage will no longer need to present inception-to-date information about income statement line items, cash flows, and equity transactions. Instead, the new guidance clarifies how these entities should tailor existing disclosures to explain the risks and uncertainties related to their activities. This update is effective for annual periods beginning after December 15, 2014, and early application is permitted for any annual or interim period for which the entity's financial statements have not yet been issued. The Company adopted this guidance prior to issuing the financial statements in this Q2 2014 Form 10-Q. The adoption of ASU 2014-10 impacted disclosure only and did not have any impact on financial position or results of operations.

There have been no changes to the Company's significant accounting policies included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 as filed with the Securities and Exchange Commission on March 6, 2014.

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

Table of Contents**Verastem, Inc.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Fair value of financial instruments (Continued)**

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

The following table presents information about the Company's financial assets and liabilities that have been measured at fair value at June 30, 2014 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)
Financial assets				
Cash equivalents	\$ 20,732	\$ 14,732	\$ 6,000	\$
Short-term investments	76,204		76,204	
Long-term investments	5,757		5,757	
Total financial assets	\$ 102,693	\$ 14,732	\$ 87,961	\$

Financial liabilities

Liability classified stock-based compensation awards	\$ 547	\$ 547	\$	\$
Total financial liabilities	\$ 547	\$ 547	\$	\$

The following table presents information about the Company's financial assets and liabilities that have been measured at fair value at December 31, 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)
Financial assets				
Cash equivalents	\$ 17,000	\$ 17,000	\$	\$
Short-term investments	82,423		82,423	
Long-term investments	22,344		22,344	

Total financial assets	\$	121,767	\$	17,000	\$	104,767	\$
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Financial liabilities

Liability classified stock-based compensation awards	\$	717	\$	717	\$		\$
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Total financial liabilities	\$	717	\$	717	\$		\$
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Verastem, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Fair value of financial instruments (Continued)

The Company's cash equivalents and investments are comprised of money market accounts, government-sponsored enterprise securities, corporate bonds and commercial paper of publicly traded companies. These investments have been initially valued at the transaction price and subsequently valued, at the end of each reporting period, utilizing third party pricing services or other market observable data. The pricing services utilize industry standard valuation models, including both income and market based approaches and observable market inputs to determine value. These observable market inputs include reportable trades, benchmark yields, credit spreads, broker/dealer quotes, bids, offers, current spot rates and other industry and economic events. The Company validates the prices provided by third party pricing services by reviewing their pricing methods and matrices, obtaining market values from other pricing sources, analyzing pricing data in certain instances and confirming that the relevant markets are active. After completing its validation procedures, the Company did not adjust or override any fair value measurements provided by the pricing services as of June 30, 2014.

The Company's liability classified stock-based compensation awards are comprised of restricted stock units (RSUs) that allow for greater than minimum statutory tax withholdings. These awards are valued based on the fair value of the Company's common stock underlying the awards, which is traded on an active market. During the first quarter of 2013, the Company amended the terms of certain RSUs to allow for cash tax withholdings greater than the minimum required statutory withholding amount. As a result of this change in the terms of the awards, the outstanding RSUs are considered to be liability instruments. As a result of this modification, the Company records a liability for the fair value of the awards as of each reporting date with the change in fair value recorded through the statement of operations. The Company will record stock-based compensation expense equal to the greater of the original grant date fair value of the awards or the settlement date fair value. During the three and the six months ended June 30, 2014, the Company paid approximately \$58,000 and approximately \$557,000, respectively, to settle the tax liability for awards that settled during the periods.

3. Investments

The Company's investments are classified as available-for-sale pursuant to Accounting Standards Codification (ASC) 320, *Investments - Debt and Equity Securities*. The Company classifies investments available to fund current operations as current assets on its balance sheets. Investments are classified as long-term assets on the balance sheets if (i) the Company has the intent and ability to hold the investments for a period of at least one year and (ii) the contractual maturity date of the investments is greater than one year.

Investments are carried at fair value with unrealized gains and losses included as a component of accumulated other comprehensive (loss) income, until such gains and losses are realized. If a decline in the fair value is considered other-than-temporary, based on available evidence, the unrealized loss is transferred from other comprehensive loss to the statement of operations. There were no charges taken for other-than-temporary declines in fair value of short-term or long-term investments during the three and six months ended June 30, 2014 and 2013. The Company recorded approximate unrealized gains and losses of \$7,000, \$1,000, \$(21,000) and \$(25,000) during the three and six months ended June 30, 2014 and 2013, respectively. Realized gains and losses are included in interest income in the statement of operations. There were no realized gains or losses recognized during the three and six months ended June 30, 2014 or 2013. The Company utilizes the specific identification method as a basis to determine the cost of securities sold.

Table of Contents**Verastem, Inc.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3. Investments (Continued)**

The Company reviews investments for other-than-temporary impairment whenever the fair value of an investment is less than the amortized cost and evidence indicates that an investment's carrying amount is not recoverable within a reasonable period of time. To determine whether an impairment is other-than-temporary, the Company considers the intent to sell, or whether it is more likely than not that the Company will be required to sell, the investment before recovery of the investment's amortized cost basis. Evidence considered in this assessment includes reasons for the impairment, compliance with the Company's investment policy, the severity and the duration of the impairment and changes in value subsequent to year end. As of June 30, 2014, there were no investments with a fair value that was significantly lower than the amortized cost basis or any investments that had been in an unrealized loss position for a significant period.

Cash, cash equivalents and investments at June 30, 2014 and December 31, 2013 consist of the following (in thousands):

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
June 30, 2014				
Cash and cash equivalents:				
Cash and money market accounts	\$ 16,391	\$	\$	\$ 16,391
Corporate commercial paper	6,000			6,000
Total cash and cash equivalents	\$ 22,391	\$	\$	\$ 22,391
Investments:				
Government-sponsored enterprise securities (due within 1 year)	\$ 20,219	\$ 8	\$	\$ 20,227
Corporate bonds (due within 1 year)	55,955	25	(3)	55,977
Corporate bonds (due within 1 - 2 years)	5,758		(1)	5,757
Total investments	\$ 81,932	\$ 33	\$ (4)	\$ 81,961
Total cash, cash equivalents, and investments	\$ 104,323	\$ 33	\$ (4)	\$ 104,352

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Verastem, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Investments (Continued)

Amortized cost	Gross unrealized gains	Gross unrea
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