

Verastem, Inc.  
Form 10-Q  
May 03, 2018  
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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 March 31, 2018

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   | 27-3269467                              |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| 117 Kendrick Street, Suite 500                                 |   |
| Needham, MA  | 02494                                   |
| (Address of principal executive offices)                       | (Zip Code)                              |

(781) 292-4200

(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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer      Accelerated filer      Non accelerated filer  
(Do not check if a smaller reporting company)      Smaller reporting company      Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 April 30, 2018 there were 56,612,723 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, prospects, plans and objectives of management, are forward-looking statements. Such statements relate to, among other things, the development of our product candidates, including duvelisib and defactinib, and our Phosphoinositide 3-kinase (PI3K) and Focal Adhesion Kinase (FAK) programs generally, the timeline for clinical development and regulatory approval of our product candidates, the expected timing for the reporting of data from on-going trials, the structure of our planned or pending clinical trials, additional planned studies, our rights to develop or commercialize our product candidates and our ability to finance contemplated development and commercialization activities and fund operations for a specified period. The words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “predict,” “project,” “target,” “potentially,” “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 we make. Applicable risks and uncertainties include the risks that approval of our New Drug Application for duvelisib will not occur on the expected timeframe or at all, including by the U.S. Food and Drug Administration’s target action date; that a filing of a European Marketing Application may not be achieved in fiscal year 2018 or at all; that we may not enter into any partnerships or collaborations for the potential commercialization of duvelisib outside of the U.S.; that the full data from the Phase 3 DUO™ study will not be consistent with the previously presented results of the study; that the preclinical testing of our product candidates and preliminary or interim data from clinical trials may not be predictive of the results or success of ongoing or later clinical trials; that data may not be available when expected, including for the Phase 3 DUO study; that even if data from clinical trials is positive, regulatory authorities may require additional studies for approval and the product may not prove to be safe and effective; that the degree of market acceptance of product candidates, if approved, may be lower than expected; that the timing, scope and rate of reimbursement for our product candidates is uncertain; that there may be competitive developments affecting our product candidates; that data may not be available when expected; that enrollment of clinical trials may take longer than expected; that our product candidates will cause unexpected safety events or result in an unmanageable safety profile as compared to their level of efficacy; that duvelisib will be ineffective at treating patients with lymphoid malignancies; that we will be unable to successfully initiate or complete the clinical development and eventual commercialization of our product candidates; that the development and commercialization of our product candidates will take longer or cost more than planned; that we may not have sufficient cash to fund our contemplated operations; that we or Infinity Pharmaceuticals, Inc. will fail to fully perform under the duvelisib license agreement; that we may be unable to make additional draws under our debt facility or obtain adequate financing in the future through product licensing, co-promotional arrangements, public or private equity, debt financing or otherwise; that we will not pursue or submit regulatory filings for our product candidates, including for duvelisib in patients with chronic lymphocytic leukemia/small lymphocytic lymphoma (CLL/SLL) or indolent non-Hodgkin lymphoma (iNHL); and that our product candidates will not receive regulatory approval, become commercially successful products, or result in new treatment options being offered to patients. Other risks and uncertainties include those identified under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017 as filed with the Securities and Exchange Commission (SEC) on March 13, 2018 and in any subsequent filings with the SEC.

As a result of these and other factors, we may not 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. The forward-looking statements contained in this Quarterly Report on Form 10-Q reflect our views as of the date hereof. We do not assume and specifically disclaim any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

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## PART I—FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements (unaudited).

Verastem, Inc.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

|  | March 31,<br>2018<br>(unaudited) | December<br>31,<br>2017 |
|--|----------------------------------|-------------------------|
| Assets   |                                  |                         |
| Current assets:  |                                  |                         |
| Cash and cash equivalents  | \$ 64,215                        | \$ 82,176               |
| Short-term investments   | —                                | 4,496                   |
| Prepaid expenses and other current assets  | 1,815                            | 1,115                   |
| Total current assets   | 66,030                           | 87,787                  |
| Property and equipment, net  | 1,003                            | 861                     |
| Restricted cash  | 403                              | 162                     |
| Other assets   | 975                              | 981                     |
| Total assets   | \$ 68,411                        | \$ 89,791               |
| Liabilities and stockholders' equity   |                                  |                         |
| Current liabilities:   |                                  |                         |
| Accounts payable   | \$ 7,267                         | \$ 9,186                |
| Accrued expenses   | 7,578                            | 7,942                   |
| Total current liabilities  | 14,845                           | 17,128                  |
| Non-current liabilities:   |                                  |                         |
| Long-term debt   | 14,913                           | 14,828                  |
| Other non-current liabilities  | 101                              | 151                     |
| Total liabilities  | 29,859                           | 32,107                  |
| Stockholders' equity:  |                                  |                         |
| Preferred stock, \$0.0001 par value; 5,000 shares authorized, no shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively               | —                                | —                       |
| Common stock, \$0.0001 par value; 100,000 shares authorized, 50,968 and 50,801 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively | 5                                | 5                       |
| Additional paid-in capital   | 362,739                          | 360,823                 |
| Accumulated other comprehensive loss   | —                                | (2)                     |
| Accumulated deficit  | (324,192)                        | (303,142)               |

|  |           |           |
|--|-----------|-----------|
| Total stockholders' equity                 | 38,552    | 57,684    |
| Total liabilities and stockholders' equity | \$ 68,411 | \$ 89,791 |

See accompanying notes to the condensed consolidated financial statements.

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Verastem, Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(unaudited)

(in thousands, except per share amounts)

|   | Three months ended March |             |
|---|--------------------------|-------------|
|   | 31,<br>2018              | 2017        |
| Operating expenses:   |                          |             |
| Research and development  | \$ 10,934                | \$ 8,385    |
| General and administrative  | 9,827                    | 4,763       |
| Total operating expenses  | 20,761                   | 13,148      |
| Loss from operations  | (20,761)                 | (13,148)    |
| Interest income   | 191                      | 155         |
| Interest expense  | (480)                    | (12)        |
| Net loss  | \$ (21,050)              | \$ (13,005) |
| Net loss per share—basic and diluted  | \$ (0.41)                | \$ (0.35)   |
| Weighted-average number of common shares used in net loss per share—basic and diluted | 50,835                   | 36,992      |
| Net loss  | \$ (21,050)              | \$ (13,005) |
| Unrealized gain (loss) on available-for-sale securities                               | 2                        | (17)        |
| Comprehensive loss  | \$ (21,048)              | \$ (13,022) |

See accompanying notes to the condensed consolidated financial statements.



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Verastem, Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

|   | Three months ended March<br>31, |             |
|---|---------------------------------|-------------|
|   | 2018                            | 2017        |
| Operating activities  |                                 |             |
| Net loss  | \$ (21,050)                     | \$ (13,005) |
| Adjustments to reconcile net loss to net cash used in operating activities:   |                                 |             |
| Depreciation  | 125                             | 146         |
| Stock-based compensation expense  | 1,328                           | 1,197       |
| Amortization of deferred financing costs, debt discounts and premiums and discounts on available-for-sale marketable securities | 83                              | 46          |
| Gain on sale of fixed assets  | (33)                            | —           |
| Changes in operating assets and liabilities:  |                                 |             |
| Prepaid expenses, other current assets and other assets   | (694)                           | (1,092)     |
| Accounts payable  | (2,078)                         | 4,594       |
| Accrued expenses and other liabilities  | (135)                           | (2,538)     |
| Net cash used in operating activities   | (22,454)                        | (10,652)    |
| Investing activities  |                                 |             |
| Purchases of property and equipment   | (102)                           | —           |
| Sales of property and equipment   | 37                              | —           |
| Purchases of investments  | —                               | (6,461)     |
| Maturities of investments   | 4,500                           | 10,557      |
| Net cash provided by investing activities   | 4,435                           | 4,096       |
| Financing activities  |                                 |             |
| Proceeds from long-term debt, net   | —                               | 2,386       |
| Proceeds from the issuance of common stock, net   | 299                             | —           |
| Net cash provided by financing activities   | 299                             | 2,386       |
| Decrease in cash, cash equivalents and restricted cash  | (17,720)                        | (4,170)     |
| Cash, cash equivalents and restricted cash at beginning of period   | 82,338                          | 32,511      |
| Cash, cash equivalents and restricted cash at end of period   | \$ 64,618                       | \$ 28,341   |
| Supplemental disclosure of non-cash financing activities  |                                 |             |
| Purchases of property and equipment in accounts payable   | \$ 169                          | \$ —        |
| Common stock issuance costs included in accounts payable and accrued expenses   | \$ 35                           | \$ —        |
| Deferred financing costs in accounts payable and accrued expenses   | \$ —                            | \$ 140      |

See accompanying notes to the condensed consolidated financial statements.



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Verastem, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Nature of business

Verastem, Inc. (the Company) is a biopharmaceutical company focused on developing and commercializing drugs to improve outcomes for patients with cancer. The Company's operations to date have been limited to organizing and staffing the Company, business planning, raising capital, identifying and acquiring potential product candidates and undertaking preclinical studies and clinical trials of its product candidates.

The Company is subject to a number of risks similar to other life science companies, including, but not limited to, the need to obtain adequate additional funding, possible failure of preclinical testing or clinical trials, inability to obtain marketing approval of product candidates, competitors developing new technological innovations, market acceptance of the Company's products and protection of proprietary technology. If the Company does not successfully commercialize any of its product candidates, it will be unable to generate product revenue or achieve profitability.

As of March 31, 2018, the Company had cash and cash equivalents of \$64.2 million and accumulated deficit of \$324.2 million. The Company has historical losses from operations and anticipates that it will continue to incur losses for the foreseeable future as it continues the research and development and clinical trials of its product candidates, and seeks marketing approval for its lead product candidate, duvelisib. Without additional funding, the Company believes that it will not have sufficient funds to meet its obligations within the next twelve months from the date of issuance of these condensed consolidated financial statements. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The Company plans to continue to fund its operations through proceeds from sales of its common stock under its at-the-market equity offering program, public or private equity offerings, its loan and security agreement with Hercules Capital, Inc. (Hercules), or other strategic transactions. However, adequate additional financing may not be available to the Company on acceptable terms, or at all. If the Company is unable to raise capital when needed or on attractive terms, it may be forced to delay, reduce or eliminate its research and development programs or any commercialization efforts.

2. Summary of significant accounting policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States (GAAP) for interim financial reporting and as required by Regulation S-X, Rule 10-01 under the assumption that the Company will continue as a going concern for the next twelve months. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements, or any adjustments that might result from the uncertainty related to the Company's ability to continue as a going concern. 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 months ended March 31, 2018 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2018. 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, 2017 as filed with the Securities and Exchange Commission (SEC) on March 13, 2018.

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Recently Issued Accounting Standards Updates

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842), which supersedes the guidance under FASB Accounting Standards Codification (ASC) Topic 840, Leases, resulting in the creation of FASB ASC Topic 842, Leases. ASU 2016-02 requires lessees to recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term for both finance and operating leases. The guidance also eliminates the current real estate-specific provisions for all entities. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. The Company has not elected to early adopt this standard and is currently evaluating the impact the adoption of the standard will have on its condensed consolidated financial statements and related disclosures.

Recently Adopted Accounting Standards Updates

In May 2017, the FASB issued ASU 2017-09, Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting. ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based award require an entity to apply modification accounting under Topic 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions and classification of the awards are the same immediately before and after a modification. ASU 2017-09 was effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted. The Company adopted this standard prospectively effective January 1, 2018. The adoption of this ASU did not have an effect on the Company's condensed consolidated financial statements or related disclosures.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 was effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted. The Company adopted this standard effective January 1, 2018. Upon adoption of ASU 2016-18, the Company applied the retrospective transition method for each period presented and included approximately \$162,000 of restricted cash in the beginning-of-period and end-of-period cash, cash equivalents and restricted cash balance reflected in the condensed consolidated statement of cash flows for the three months ended March 31, 2017. A reconciliation of cash, cash equivalents and restricted cash for each period presented is provided in note 3 to the condensed consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 adds or clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. The standard was effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted. The Company adopted this standard effective January 1, 2018. The adoption of this ASU did not have an effect on the Company's condensed consolidated financial statements or related disclosures.

Significant accounting policies

There have been no material changes to the significant accounting policies included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 as filed with the SEC on March 13, 2018.

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## 3. Cash, cash equivalents and restricted cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the condensed consolidated balance sheets that sum to the total of the same such amounts shown in the condensed consolidated statements of cash flows (in thousands):

|  | March 31,<br>2018 | December<br>31, 2017 |
|--|-------------------|----------------------|
| Cash and cash equivalents                        | \$ 64,215         | \$ 82,176            |
| Restricted cash                                  | 403               | 162                  |
| Total cash, cash equivalents and restricted cash | \$ 64,618         | \$ 82,338            |

Amounts included in restricted cash represent cash held to collateralize outstanding letters of credit in the amount of approximately \$403,000 and \$162,000 as of March 31, 2018 and December 31, 2017, respectively, provided as a security deposit for the Company's office space located in Needham, Massachusetts.

## 4. Fair value of financial instruments

The Company determines the fair value of its financial instruments based upon the fair value hierarchy, which 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 that the Company can access at the measurement date.                              |
| 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. |

## Items Measured at Fair Value on a Recurring Basis

The following table presents information about the Company's financial instruments that are measured at fair value on a recurring basis (in thousands):

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| Description            | March 31, 2018 |           |         |         |
|------------------------|----------------|-----------|---------|---------|
|                        | Total          | Level 1   | Level 2 | Level 3 |
| Financial assets       |                |           |         |         |
| Cash equivalents       | \$ 62,731      | \$ 62,731 | \$ —    | \$ —    |
| Total financial assets | \$ 62,731      | \$ 62,731 | \$ —    | \$ —    |

| Description            | December 31, 2017 |           |          |         |
|------------------------|-------------------|-----------|----------|---------|
|                        | Total             | Level 1   | Level 2  | Level 3 |
| Financial assets       |                   |           |          |         |
| Cash equivalents       | \$ 80,894         | \$ 75,478 | \$ 5,416 | \$ —    |
| Short-term investments | 4,496             | —         | 4,496    | —       |
| Total financial assets | \$ 85,390         | \$ 75,478 | \$ 9,912 | \$ —    |

The Company's cash equivalents and investments are comprised of U.S. Government money market funds and corporate bonds and commercial paper of publicly traded companies. These investments and cash equivalents 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



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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 December 31, 2017.

## Fair Value of Financial Instruments

The fair value of the Company's long-term debt is determined using current applicable rates for similar instruments as of the condensed consolidated balance sheet dates and an assessment of the credit rating of the Company. The carrying value of the Company's long-term debt at March 31, 2018 approximates fair value because the Company's interest rate yield is near current market rates for comparable debt instruments. The fair value of the Company's long-term debt was determined using Level 3 inputs.

## 5. Investments

Cash, cash equivalents, and investments consist of the following (in thousands):

|                                 | March 31, 2018    |                              |                               |               |
|---------------------------------|-------------------|------------------------------|-------------------------------|---------------|
|                                 | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
| Cash and cash equivalents:      |                   |                              |                               |               |
| Cash and money market accounts  | \$ 64,215         | \$ —                         | \$ —                          | \$ 64,215     |
| Total cash and cash equivalents | \$ 64,215         | \$ —                         | \$ —                          | \$ 64,215     |

|                                | December 31, 2017 |                              |                               |               |
|--------------------------------|-------------------|------------------------------|-------------------------------|---------------|
|                                | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
| Cash and cash equivalents:     |                   |                              |                               |               |
| Cash and money market accounts | \$ 76,760         | \$ —                         | \$ —                          | \$ 76,760     |
|                                | 5,418             | \$ —                         | \$ (2)                        | \$ 5,416      |

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|   |           |      |        |           |
|---|-----------|------|--------|-----------|
| Corporate bonds and commercial paper (due within 90 days) |           |      |        |           |
| Total cash and cash equivalents                           | \$ 82,178 | \$ — | \$ (2) | \$ 82,176 |
| Investments:  |           |      |        |           |
| Corporate bonds and commercial paper (due within 1 year)  | \$ 4,496  | \$ — | \$ —   | \$ 4,496  |
| Total investments   | \$ 4,496  | \$ — | \$ —   | \$ 4,496  |
| Total cash, cash equivalents and investments              | \$ 86,674 | \$ — | \$ (2) | \$ 86,672 |

There were no realized gains or losses on investments for the three months ended March 31, 2018 or 2017, respectively. There were no investments in an unrealized loss position as of March 31, 2018. There were five investments in an unrealized loss position as of December 31, 2017. None of these investments had been in an unrealized loss position for more than 12 months. The aggregate unrealized loss on these securities as of December 31, 2017 was approximately \$2,000 and the fair value was \$9.9 million.

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## 6. Accrued expenses

Accrued expenses consist of the following (in thousands):

|                                      | March<br>31, 2018 | December<br>31, 2017 |
|--------------------------------------|-------------------|----------------------|
| Contract research organization costs | \$ 5,181          | \$ 3,774             |
| Compensation and related benefits    | 1,305             | 2,622                |
| Professional fees                    | 435               | 617                  |
| Consulting fees                      | 286               | 579                  |
| Deferred rent                        | 194               | 190                  |
| Other                                | 177               | 160                  |
| Total accrued expenses               | \$ 7,578          | \$ 7,942             |

## 7. Long-term debt

On March 21, 2017 (Closing Date), Verastem, Inc. (the Borrower) entered into a term loan facility of up to \$25.0 million with Hercules. The term loan facility is governed by a loan and security agreement, dated March 21, 2017 (the Original Loan Agreement), which was amended on January 4, 2018 and March 6, 2018 (the Amended Loan Agreement) to increase the total borrowing limit under the Original Loan Agreement from up to \$25 million to up to \$50.0 million (the Term Loan), pursuant to certain conditions of funding.

As of March 31, 2018, the Company has borrowed a total of \$15.0 million in term loans. The remaining \$35.0 million of borrowing capacity under the Amended Loan Agreement may be drawn in minimum increments of \$5.0 million in multiple tranches comprised of (i) term loans (each a Term E Loan Advance) in an aggregate principal amount of up to \$10.0 million and (ii) subject to Hercules' sole discretion, term loans (each a Term F Loan Advance) in an aggregate principal amount of up to \$25.0 million. The Amended Loan Agreement permits the Borrower to draw Term E Loan Advances subject to (i) the U.S. Food and Drug Administration accepting on or prior to September 30, 2018 the Company's New Drug Application for duvelisib and (ii) delivery of the Company's financial and business projections to Hercules in form and substance reasonably acceptable to Hercules. In addition, the Amended Loan Agreement allows the Borrower to draw Term F Loan Advances subject to the prior drawing of all other tranches and Hercules' sole discretion.

The Term Loan will mature on December 1, 2020 (Loan Maturity Date). Each advance accrues interest at a floating per annum rate equal to the greater of either (a) 10.5% or (b) the lesser of (i) 12.75% and (ii) the sum of (x) 10.5% plus (y) (A) the prime rate minus (B) 4.5%. The Term Loan provided for interest-only payments until November 1, 2018, which was extended to May 1, 2019 pursuant to the Amended Loan Agreement upon the Borrower's receipt of a minimum of \$20.0 million in cash proceeds from a sale of equity securities in December 2017. Thereafter,

amortization payments will be payable monthly in 20 installments of principal and interest (subject to recalculation upon a change in prime rates).

The Term Loan is secured by a lien on substantially all of the assets of the Borrower, other than intellectual property, and contains customary covenants and representations.

The Company assessed all terms and features of the Original Loan Agreement in order to identify any potential embedded features that would require bifurcation or any beneficial conversion features. As part of this analysis, the Company assessed the economic characteristics and risks of the Original Loan Agreement, including put and call features. The Company determined that all features of the Original Loan Agreement were clearly and closely associated with a debt host and did not require bifurcation as a derivative liability, or the fair value of the feature was immaterial to the Company's financial statements. The Company reassesses the features on a quarterly basis to determine if they require separate accounting. There have been no changes to the Company's original assessment through March 31, 2018.

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The future principal payments under the Loan Agreement are as follows as of March 31, 2018 (in thousands):

|                          |           |
|--------------------------|-----------|
| Remainder of 2018        | \$ —      |
| 2019                     | 3,609     |
| 2020                     | 11,391    |
| Total principal payments | \$ 15,000 |

## 8. Net loss per share

Basic and diluted net loss per common share is calculated by dividing net loss applicable to common stockholders by the weighted-average number of common shares outstanding during the period, without consideration for common stock equivalents. The Company's potentially dilutive shares, which include outstanding stock options and restricted stock units (RSUs), are considered to be common stock equivalents and are only included in the calculation of diluted net loss per share when their effect is dilutive.

The following potentially dilutive securities were excluded from the calculation of diluted net loss per share for the periods indicated because including them would have had an anti-dilutive effect:

|                                       | Three months ended March 31, |           |
|---------------------------------------|------------------------------|-----------|
|                                       | 2018                         | 2017      |
| Outstanding stock options             | 10,818,454                   | 7,337,655 |
| Outstanding restricted stock units    | 166,250                      | —         |
| Total potentially dilutive securities | 10,984,704                   | 7,337,655 |

## 9. Stock based compensation

Stock options

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A summary of the Company's stock option activity and related information for the three months ended March 31, 2018 is as follows:

|  | Shares     | Weighted-average exercise price per share | Weighted-average remaining contractual term (years) | Aggregate intrinsic value (in thousands) |
|--|------------|---|---|--|
| Outstanding at December 31, 2017                 | 8,719,978  | \$ 5.19                                   | 7.9   | \$ 6,150                                 |
| Granted  | 2,149,000  | \$ 3.10                                   |   |  |
| Exercised  | —          | \$ —                                      |   |  |
| Forfeited/cancelled                              | (50,524)   | \$ 2.30                                   |   |  |
| Outstanding at March 31, 2018                    | 10,818,454 | \$ 4.79                                   | 8.1   | \$ 5,734                                 |
| Vested at March 31, 2018                         | 5,315,689  | \$ 6.57                                   | 6.8   | \$ 3,135                                 |
| Vested and expected to vest at March 31, 2018(1) | 10,465,454 | \$ 4.85                                   | 8.0   | \$ 5,732                                 |

(1) This represents the number of vested options as of March 31, 2018, plus the number of unvested options expected to vest as of March 31, 2018.

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The fair value of each stock option granted during the three months ended March 31, 2018 and 2017 was estimated on the grant date using the Black-Scholes option-pricing model using the following weighted-average assumptions:

|                         | Three months ended |        |
|-------------------------|--------------------|--------|
|                         | March 31,          |        |
|                         | 2018               | 2017   |
| Risk-free interest rate | 2.38 %             | 2.06 % |
| Volatility              | 81 %               | 79 %   |
| Dividend yield          | —                  | —      |
| Expected term (years)   | 6.0                | 6.4    |

During the first quarter of 2018, the Company granted stock options to purchase a total of 582,500 shares of common stock to certain executives that vest only upon the achievement of specified performance conditions. The Company determined that a number of the performance conditions are considered probable of achievement as of March 31, 2018, and as a result recognized approximately \$350,000 of stock-based compensation expense related to these awards.

At March 31, 2018, there was \$9.5 million of total unrecognized compensation cost related to unvested stock options and the Company expects to recognize this cost over a remaining weighted-average period of approximately 3 years.

#### Restricted stock units

The Company awards RSUs to employees under its 2012 Incentive Plan. Each RSU entitles the holder to receive one share of the Company's common stock when the RSU vests. The RSUs vest in four substantially equal installments on each of the first four anniversaries of the vesting commencement date, subject to the employee's continued employment with, or service to, the Company on such vesting date. Compensation expense is recognized on a straight-line basis.

A summary of RSU activity during the three months ended March 31, 2018 is as follows:

|                                  | Shares | Weighted-average<br>grant date fair<br>value per share |
|----------------------------------|--------|--|
| Outstanding at December 31, 2017 | —      | \$ —   |

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|                               |         |    |      |
|-------------------------------|---------|----|------|
| Granted                       | 175,000 | \$ | 3.00 |
| Vested                        | —       | \$ | —    |
| Forfeited                     | (8,750) | \$ | 3.00 |
| Outstanding at March 31, 2018 | 166,250 | \$ | 3.00 |

At March 31, 2018, there was \$473,000 of total unrecognized compensation cost related to unvested RSUs and the Company expects to recognize this cost over a remaining weighted-average period of approximately 4 years.

10. Common stock

In March 2017, the Company terminated the at-the-market equity offering program established in December 2013 and established a new at-the-market equity offering program pursuant to which it was able to offer and sell up to \$35.0 million of its common stock at then current market prices from time to time through Cantor Fitzgerald & Co. (Cantor) as sales agent. In August 2017, the Company amended its sales agreement with Cantor to increase the maximum aggregate offering price of shares of common stock that can be sold under the at-the-market equity offering program to \$75.0 million.



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During the three months ended March 31, 2018, the Company sold 167,065 shares under this program for net proceeds of approximately \$588,000 (after deducting commissions and other offering expenses). Through March 31, 2018, the Company has sold a total of 5,203,944 shares under this program for net proceeds of approximately \$23.6 million (after deducting commissions and other offering expenses).

As of May 3, 2018, the Company sold an additional 5,903,073 shares of common stock under the at-the-market equity offering program with net proceeds of approximately \$21.9 million (after deducting commissions and other offering expenses).

#### 11. Commitments and contingencies

On April 15, 2014, the Company entered into a lease agreement for approximately 15,197 square feet of office and laboratory space in Needham, Massachusetts. Effective February 15, 2018, the Company amended its lease agreement to relocate within the facility to another location consisting of 27,810 square feet of office space (the Amended Lease Agreement). The Amended Lease Agreement extends the expiration date of the lease from September 2019 to the eighty-fourth full calendar month after the month during which the Company has access to relocate to the new office space, which is currently anticipated to be June 2018. Pursuant to the Amended Lease Agreement, the initial annual base rent amount is approximately \$660,000, which base rent increases during the lease term to \$1.1 million for the last twelve-month period. The deferred rent obligation is included in accrued expenses (current portion) and other liabilities (noncurrent portion) in the condensed consolidated balance sheets. The Company has also agreed to pay its proportionate share of increases in operating expenses and property taxes for the building in which the leased space is located.

The minimum aggregate future lease commitments as of March 31, 2018 are as follows (in thousands):

|                   |          |
|-------------------|----------|
| Remainder of 2018 | \$ 310   |
| 2019              | 716      |
| 2020              | 971      |
| 2021              | 1,020    |
| 2022              | 1,041    |
| Thereafter        | 2,600    |
| Total             | \$ 6,658 |

In conjunction with the execution of the Amended Lease Agreement, the Company increased its security deposit by increasing its existing letter of credit to approximately \$403,000 at March 31, 2018. The amount is included in long-term restricted cash on the condensed consolidated balance sheets.

#### 12. Subsequent events

The Company reviews all activity subsequent to the end of the quarter but prior to issuance of the condensed consolidated financial statements for events that could require disclosure or that could impact the carrying value of

assets or liabilities as of the balance sheet date. There are no material subsequent events to the three months ended March 31, 2018 other than those disclosed elsewhere in these notes to the condensed consolidated financial statements.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion and analysis of our financial condition and results of operations together with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q. The following discussion contains forward looking statements that involve risks and uncertainties. Our actual results and the timing of certain events could differ materially from those anticipated in these forward looking statements as a result of certain factors, including those discussed below and elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for our fiscal year ended December 31, 2017. Please also refer to the sections under headings "Forward Looking Statements" and "Risk Factors" in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for our fiscal year ended December 31, 2017.

OVERVIEW

We are a biopharmaceutical company focused on developing and commercializing drugs to improve the survival and quality of life of cancer patients. Our most advanced product candidates, duvelisib and defactinib, utilize a multi-faceted approach to treat cancers originating either in the blood or major organ systems. We are currently evaluating these compounds in both preclinical and clinical studies as potential therapies for certain cancers, including leukemia, lymphoma, lung cancer, ovarian cancer, mesothelioma, and pancreatic cancer. We believe that these compounds may be beneficial as therapeutics either as single agents or when used in combination with immuno-oncology agents or other current and emerging standard of care treatments in aggressive cancers that are poorly served by currently available therapies.

Duvelisib targets the Phosphoinositide 3-kinase (PI3K) signaling pathway. The PI3K signaling pathway plays a central role in cancer proliferation and survival. Duvelisib is an investigational oral therapy designed to attack both malignant B- and T-cells and disrupt the tumor microenvironment to help thwart their growth and proliferation through the dual inhibition of PI3K delta and gamma. Duvelisib is being developed for the treatment of patients with hematologic cancers including chronic lymphocytic leukemia and small lymphocytic lymphoma (CLL/SLL) and indolent non-Hodgkin lymphoma (iNHL), which includes follicular lymphoma (FL), and other subtypes of lymphoma, including peripheral T-cell lymphoma (PTCL). Duvelisib has U.S. Food and Drug Administration (FDA) Fast Track Designation for patients with CLL or PTCL who have received at least one prior therapy and for patients with FL who have received at least two prior therapies. In addition, duvelisib has orphan drug designation for patients with CLL/SLL and FL in the United States and European Union.

Duvelisib was evaluated in late- and mid-stage clinical trials, including DUO™, a randomized, Phase 3 monotherapy study in patients with relapsed or refractory CLL/SLL, and DYNAMO™, a single-arm, Phase 2 monotherapy study in patients with double-refractory iNHL, including FL, SLL, and marginal zone lymphoma (MZL). Both DUO and DYNAMO achieved their primary endpoints. Our New Drug Application (NDA) requesting the full approval of duvelisib for the treatment of patients with relapsed or refractory CLL/SLL and accelerated approval for the treatment of patients with relapsed or refractory FL is currently under regulatory review by the FDA with a target action date of October 5, 2018. Additionally, we plan to submit a marketing authorization application to the European Medicines Agency by the end of 2018. We are currently building our U.S. commercial capabilities for our potential product launch in 2018, and we intend to enter into one or more partnerships or collaborations for the potential commercialization of duvelisib outside of the U.S.

Defactinib is a targeted inhibitor of the Focal Adhesion Kinase (FAK) signaling pathway. FAK is a non-receptor tyrosine kinase encoded by the PTK-2 gene that is involved in cellular adhesion and, in cancer, metastatic capability. Similar to duvelisib, defactinib is also orally available and designed to be a potential therapy for patients to take at home under the advice of their physician. Defactinib has orphan drug designation in ovarian cancer in the United States and the European Union, and in mesothelioma in the United States, the European Union, and Australia.

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Defactinib is currently being evaluated in a Phase 1b study in combination with Merck & Co.'s PD-1 inhibitor pembrolizumab and gemcitabine in patients with advanced pancreatic cancer, a Phase 1/2 clinical collaboration with Pfizer Inc. (Pfizer) and Merck KGaA to evaluate defactinib in combination with avelumab, an anti-PD-L1 antibody, in patients with ovarian cancer, and a Phase 1/2 study in collaboration with Cancer Research UK and Merck & Co. for the combination of defactinib with pembrolizumab in patients with non-small cell lung cancer (NSCLC), mesothelioma or pancreatic cancer.

Our operations to date have been organizing and staffing our company, business planning, raising capital, identifying and acquiring potential product candidates and undertaking preclinical studies and clinical trials for our product candidates. To date, we have not generated any revenues. We have financed our operations to date through private placements of preferred stock, public offerings of our common stock, sales of common stock under our at-the-market equity offering programs, and our loan and security agreement executed with Hercules Capital, Inc. (Hercules) in March 2017, as amended.

As of March 31, 2018, we had an accumulated deficit of \$324.2 million. Our net loss was \$21.1 million and \$13.0 million for the three months ended March 31, 2018 and 2017, respectively. We expect to incur significant expenses and increasing operating losses for the foreseeable future. We expect our expenses to increase in connection with our ongoing activities, particularly as we seek marketing approval for our lead product candidate, duvelisib, and continue the research and development and clinical trials of all of our product candidates. In addition, if we obtain marketing approval for any of our product candidates, we expect to incur significant commercialization expenses related to product sales, marketing, manufacturing and distribution. Accordingly, we will need to obtain substantial additional funding in connection with our continuing operations. Adequate additional financing may not be available to us on acceptable terms, or at all. If we are unable to raise capital when needed or on attractive terms, we would be forced to delay, reduce or eliminate our research and development programs or any commercialization efforts. We will need to generate significant revenues to achieve profitability, and we may never do so.

## CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGMENTS AND ESTIMATES

We believe that several accounting policies are important to understanding our historical and future performance. We refer to these policies as “critical” because these specific areas generally require us to make judgments and estimates about matters that are uncertain at the time we make the estimate, and different estimates—which also would have been reasonable—could have been used, which would have resulted in different financial results.

The critical accounting policies we identified in our most recent Annual Report on Form 10-K for the fiscal year ended December 31, 2017 related to accrued research and development expenses and stock-based compensation. There were no material changes to these critical accounting policies in the three months ended March 31, 2018. It is important that the discussion of our operating results that follows be read in conjunction with the critical accounting policies disclosed in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission (SEC) on March 13, 2018.

RESULTS OF OPERATIONS

Comparison of the three months ended March 31, 2018 and 2017

Research and development expense. Research and development expense for the three months ended March 31, 2018 (2018 Quarter) was \$10.9 million compared to \$8.4 million for the three months ended March 31, 2017 (2017 Quarter). The \$2.5 million increase from the 2017 Quarter to the 2018 Quarter was primarily related to an increase of \$1.1 million in contract research organization (CRO) expense for outsourced biology, development and clinical services, which includes our clinical trial costs, an increase of approximately \$918,000 in personnel related costs, an increase of approximately \$204,000 in stock-based compensation, and an increase in consulting fees of approximately \$198,000.

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We allocate the expenses related to external research and development services, such as CROs, clinical sites, manufacturing organizations and consultants by project. The table below summarizes our allocation of research and development expenses to our clinical programs, including duvelisib and defactinib, for the 2018 Quarter and the 2017 Quarter. We use our employee and infrastructure resources across multiple research and development projects. Our project costing methodology does not allocate personnel and other indirect costs to specific clinical programs. These unallocated research and development expenses are summarized in the table below and include approximate personnel related costs of \$2.5 million and \$1.6 million for the 2018 Quarter and the 2017 Quarter, respectively.

|  | Three months ended<br>March 31, |          |
|--|---------------------------------|----------|
|  | 2018                            | 2017     |
|  | (in thousands)                  |          |
| Duvelisib  | \$ 5,992                        | \$ 4,047 |
| Defactinib   | 440                             | 608      |
| Unallocated and other research and development expense | 4,054                           | 3,486    |
| Unallocated stock-based compensation expense           | 448                             | 244      |
| Total research and development expense                 | \$ 10,934                       | \$ 8,385 |

**General and administrative expense.** General and administrative expense for the 2018 Quarter was \$9.8 million compared to \$4.8 million for the 2017 Quarter. The increase of \$5.0 million from the 2017 Quarter to the 2018 Quarter primarily resulted from increases in consulting and professional fees of \$2.5 million, including \$1.8 million related to commercial launch preparation, and personnel related costs of \$2.0 million

**Interest income.** Interest income remained relatively flat from the 2017 Quarter to the 2018 Quarter primarily as a result of higher interest rates on investments in the 2018 Quarter, offset by a lower investment cost basis.

**Interest expense.** Interest expense related to our loan and security agreement executed with Hercules in March 2017 was approximately \$480,000 for the 2018 Quarter compared to approximately \$12,000 for the 2017 Quarter. The increase was due to a higher principal balance and an increase in the number of days outstanding in the 2018 Quarter compared to the 2017 Quarter.

## LIQUIDITY AND CAPITAL RESOURCES

### Sources of liquidity

To date, we have not generated any revenues. We have financed our operations to date through private placements of preferred stock, public offerings of our common stock, sales of common stock under our at-the market equity offering

programs, and our loan and security agreement executed with Hercules in March 2017, as amended.

As of March 31, 2018, we had \$64.2 million in cash and cash equivalents. From April 1, 2018 to May 3, 2018, we sold 5,903,073 shares of common stock under our at-the-market equity offering program (ATM) for net proceeds of approximately \$21.9 million (after deducting commissions and other offering expenses). Giving effect to these sales under the ATM, our pro forma cash and cash equivalents balance at March 31, 2018 is approximately \$86.1 million.

#### Cash flows

The following table sets forth the primary sources and uses of cash for the 2018 Quarter and the 2017 Quarter (in thousands):

|  | Three months ended March |             |
|--|--------------------------|-------------|
|  | 2018                     | 2017        |
| Net cash (used in) provided by:                        |                          |             |
| Operating activities                                   | \$ (22,454)              | \$ (10,652) |
| Investing activities                                   | 4,435                    | 4,096       |
| Financing activities                                   | 299                      | 2,386       |
| Decrease in cash, cash equivalents and restricted cash | \$ (17,720)              | \$ (4,170)  |



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Operating activities. The use of cash in both quarters resulted primarily from our net losses adjusted for non-cash charges and changes in the components of working capital.

Investing activities. The cash provided by investing activities for the 2018 Quarter primarily reflects the maturities of investments of \$4.5 million, partially offset by approximately \$65,000 in net purchases of property and equipment. The cash provided in investing activities for the 2017 Quarter reflects the net maturities of investments of \$4.1 million.

Financing activities. The cash used by financing activities for the 2018 Quarter primarily represents approximately \$588,000 in net proceeds received under our ATM, offset by the payment of approximately \$289,000 of issuance costs related to our financing in December 2017. The cash used in financing activities for the 2017 Quarter represents \$2.4 million in net proceeds received from our loan and security agreement executed with Hercules.

In March 2017, we terminated the ATM established in December 2013 and established a new ATM pursuant to which we were able to offer and sell up to \$35.0 million of our common stock at then current market prices from time to time through Cantor Fitzgerald & Co. (Cantor), as sales agent. In August 2017, we amended our sales agreement with Cantor to increase the maximum aggregate offering price of shares of common stock that can be sold under the ATM to \$75.0 million.

During the three months ended March 31, 2018, we sold 167,065 shares under the ATM for net proceeds of approximately \$588,000 (after deducting commissions and other offering expenses). Through March 31, 2018, we sold a total of 5,203,944 shares under the ATM for net proceeds of approximately \$23.6 million (after deducting commissions and other offering expenses).

Funding requirements

We expect to continue to incur significant expenses and operating losses for the foreseeable future. We anticipate that our expenses and operating losses will increase substantially if and as we:

- prepare for the anticipated commercialization of duvelisib;
- continue our ongoing clinical trials, including with our most advanced product candidates duvelisib and defactinib;

add operational, financial and management information systems and personnel, including personnel to support our product development and planned commercialization efforts; and

establish a sales, marketing and distribution infrastructure to commercialize any products for which we may obtain marketing approval.

Without additional funding, we do not believe that we have sufficient funds to meet our obligations within the next twelve months from the date of issuance of these condensed consolidated financial statements. These factors raise substantial doubt about our ability to continue as a going concern. Because of the numerous risks and uncertainties associated with the development and commercialization of our product candidates, and the extent to which we may enter into collaborations with third parties for development and commercialization of our product candidates, we are unable to estimate the amounts of increased capital outlays and operating expenses associated with completing the development of our current product candidates. Our future capital requirements will depend on many factors, including:

- the scope, progress and results of our ongoing and potential future clinical trials;
- the extent to which we acquire or in-license other products and technologies;
- the costs, timing and outcome of regulatory review of our product candidates (including our efforts to seek approval and fund the preparation and filing of regulatory submissions);

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the costs and timing of commercialization activities for our product candidates, for which we receive marketing approval;  
revenue, if any, received from commercial sales of our product candidates, should any of our product candidates receive marketing approval;  
the costs of preparing, filing and prosecuting patent applications, maintaining and enforcing our intellectual property rights and defending intellectual property-related claims; and  
our ability to establish collaborations on favorable terms, if at all.

Until such time, if ever, as we can generate substantial product revenues, we expect to finance our cash needs through a combination of equity offerings, debt financings, collaborations, strategic alliances and licensing arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interest of our existing stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our existing stockholders. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we raise additional funds through collaborations, strategic alliances or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings when needed, we may be required to delay, limit, reduce or terminate our product development or commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The disclosure of our contractual obligations and commitments was reported in our Annual Report on Form 10-K for the year ended December 31, 2017. There have not been any material changes from the contractual obligations and commitments previously disclosed in such report other than a change in estimated obligations due to our landlord under the terms of our operating lease, entered into in April 2014, and amended in March 2018, for our office space located in Needham, Massachusetts. This change is more fully described in Note 11, Commitments and Contingencies, to our condensed consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-Q.

## OFF-BALANCE SHEET ARRANGEMENTS

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined under SEC rules.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risk related to changes in interest rates. We had cash and cash equivalents of \$64.2 million as of March 31, 2018, consisting of cash and U.S. Government money market funds. Our primary exposure to market risk is interest rate sensitivity, which is affected by changes in the general level of U.S. interest rates, particularly because most of our investments are interest bearing.

We contract with CROs and contract manufacturers globally which may be denominated in foreign currencies. We may be subject to fluctuations in foreign currency rates in connection with these agreements. Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. As of March 31, 2018, an immaterial amount of our total liabilities was denominated in currencies other than the functional currency.

As of March 31, 2018, we have borrowed \$15.0 million under the Amended Loan Agreement. The Amended Loan Agreement bears interest per annum equal to the greater of either (a) 10.5% or (b) the lesser of (i) 12.75% and (ii) the sum of (x) 10.5% plus (y) (A) the prime rate minus (B) 4.5%. Changes in interest rates can cause interest charges to fluctuate under the Amended Loan Agreement. A 10% increase in current interest rates would have resulted in an immaterial increase in the amount of cash interest expense for the three months ended March 31, 2018.

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Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2018. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934 (Exchange Act), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of March 31, 2018, our Chief Executive Officer and our Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in internal control over financial reporting

There have been no changes in our internal control over financial reporting during the three months ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

You should carefully review and consider the information regarding certain factors that could materially affect our business, financial condition or future results set forth under Item 1A. (Risk Factors) in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 as filed with the SEC on March 13, 2018. There have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, although we may disclose changes to such risk factors or disclose additional risk factors from time to time in our future filings with the SEC.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

RECENT SALES OF UNREGISTERED SECURITIES

None.

PURCHASE OF EQUITY SECURITIES

We did not purchase any of our equity securities during the period covered by this Quarterly Report on Form 10-Q.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

The following disclosure is provided in accordance with and in satisfaction of the requirements of Item 2.02 “Results of Operations and Financial Condition” of Form 8-K:

On May 3, 2018, Verastem, Inc. announced its financial results for the quarter ended March 31, 2018 and commented on certain corporate accomplishments and plans. The full text of the press release issued in connection with the announcement is furnished as Exhibit 99.1 hereto.

The information furnished in Item 5 (including Exhibit 99.1) shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such a filing.

Item 6. Exhibits.

The exhibits filed as part of this Quarterly Report on Form 10-Q are set forth on the Exhibit Index, which Exhibit Index is incorporated herein by reference.

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EXHIBIT INDEX

|         |  |
|---------|--|
| 10.1    | <u>First Amendment of Lease Agreement, dated February 15, 2018, between the Registrant and 117 Kendrick DE, LLC, as successor-in-interest to Intercontinental Fund III 117 Kendrick Street, LLC</u>    |
| 31.1    | <u>Certification of Chief Executive Officer pursuant to Rules 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| 31.2    | <u>Certification of Chief Financial Officer pursuant to Rules 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| 32.1    | <u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>  |
| 32.2    | <u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>  |
| 99.1    | * <u>Press Release issued by Verastem, Inc. on May 3, 2018.</u>  |
| 101.INS | XBRL Instance Document   |
| 101.SCH | XBRL Taxonomy Extension Schema Document  |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document   |

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\*Furnished herewith.



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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VERASTEM, INC.

Date: May 3, 2018 By: /s/ Robert Forrester

Robert Forrester  
President and Chief Executive Officer  
(Principal executive officer)

Date: May 3, 2018 By: /s/ Julie B. Feder

Julie B. Feder  
Chief Financial Officer  
(Principal financial and accounting officer)