Verastem, Inc.
Form 10-Q
November 12, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

OR

o **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)
215 First Street, Suite 440 Cambridge, MA	**02142**
(Address of principal executive offices)	(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 ý No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer ý (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of November 7, 2013 there were 25,647,732 shares of Common Stock, $0.0001 par value per share, outstanding.

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PART I FINANCIAL INFORMATION

PART II OTHER INFORMATION

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FORWARD-LOOKING STATEMENTS

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

Forward-looking statements are not guarantees of future performance and our actual results could differ materially from the results discussed in the forward-looking statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, our ability to raise additional capital to support our clinical development programs and other operations, our ability to develop products of commercial value and to identify, discover and obtain rights to additional potential product candidates, our ability to protect and maintain our intellectual property and the ability of our licensors to obtain and maintain patent protection for the technology or products that we license from them, the outcome of research and development activities and the fact that the preclinical and clinical testing of our compounds and preliminary data from clinical trials 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.

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PART I FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited).

Verastem, Inc.

(A development stage company)

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands, except per share amounts)

	September 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 22,640	$ 10,096
Short-term investments	77,290	46,480
Prepaid expenses and other current assets	1,077	506
Total current assets	101,007	57,082
Property and equipment, net	674	811
Long-term investments	30,340	34,944
Restricted cash	86	86
Other long-term assets	322	
Total assets	$ 132,429	$ 92,923
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 1,836	$ 1,848
Accrued expenses	3,457	551
Other current liabilities	413	
Total current liabilities	5,706	2,399
Other long-term liabilities	18	58
Stockholders' equity:		
Preferred stock, $0.0001 par value; 5,000 shares authorized; none issued		
Common stock, $0.0001 par value; 100,000 shares authorized, 25,214 and 20,364 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	3	2
Additional paid-in capital	202,951	136,893
Accumulated other comprehensive income	80	22
Deficit accumulated during the development stage	(76,329)	(46,451)
Total stockholders' equity	126,705	90,466
Total liabilities and stockholders' equity	$ 132,429	$ 92,923

See accompanying notes.

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Verastem, Inc.

(A development stage company)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(unaudited)

(in thousands, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,		Period from August 4, 2010 (inception) to September 30,
	2013	2012	2013	2012	2013
Operating expenses:					
Research and development	$ 6,789	$ 8,132	$ 18,130	$ 17,618	$ 50,125
General and administrative	3,855	2,298	11,879	6,636	26,596
Total operating expenses	10,644	10,430	30,009	24,254	76,721
Loss from operations	(10,644)	(10,430)	(30,009)	(24,254)	(76,721)
Interest income	53	63	131	191	392
Net loss	(10,591)	(10,367)	(29,878)	(24,063)	(76,329)
Accretion of preferred stock				(6)	(40)
Net loss applicable to common stockholders	$ (10,591)	$ (10,367)	$ (29,878)	$ (24,069)	$ (76,369)
Net loss per share applicable to common stockholders basic and diluted	$ (0.47)	$ (0.51)	$ (1.37)	$ (1.32)	$ (6.53)
Weighted-average number of common shares used in net loss per share applicable to common stockholders basic and diluted	22,437	20,160	21,797	18,246	11,694
Comprehensive loss	$ (10,508)	$ (10,335)	$ (29,820)	$ (24,039)	$ (76,249)

See accompanying notes.

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Verastem, Inc.

(A development stage company)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	Nine months ended September 30,		Period from August 4, 2010 (inception) to September 30,
	2013	2012	2013
Operating activities			
Net loss	$ (29,878)	$ (24,063)	$ (76,329)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	174	146	464
Stock-based compensation expense	7,976	4,627	17,063
Common stock issued in exchange for license		1,957	2,003
Obligation to issue a warrant in exchange for license			439
Change in fair value of obligation to issue warrant		431	398
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	(893)	(298)	(1,399)
Accounts payable	(12)	(536)	1,836
Accrued expenses and deferred rent	2,873	1,059	3,462
Net cash used in operating activities	(19,760)	(16,677)	(52,063)
Investing activities			
Purchases of property and equipment	(36)	(321)	(1,139)
Purchases of investments	(103,363)	(145,910)	(293,242)
Maturities of investments	77,214	95,479	185,693
Increase in restricted cash			(86)
Net cash used in investing activities	(26,185)	(50,752)	(108,774)
Financing activities			
Proceeds from issuance of redeemable convertible preferred stock			68,107
Proceeds from the exercise of stock options	30	2	33
Net proceeds from the issuance of common stock and restricted common stock	59,761	57,599	116,639
Cash used to settle restricted stock liability awards	(1,302)		(1,302)
Net cash provided by financing activities	58,489	57,601	183,477
Increase (decrease) in cash and cash equivalents	12,544	(9,828)	22,640
Cash and cash equivalents at beginning of period	10,096	20,954	
Cash and cash equivalents at end of period	$ 22,640	$ 11,126	$ 22,640
Supplemental disclosure of non-cash financing activity			
Accretion of redeemable convertible preferred stock to redemption value	$	$ 6	$ 40
Conversion of redeemable convertible preferred stock upon initial public offering	$	$ 68,148	$ 68,148
Reclassification of obligation to issue warrant from liabilities to equity	$	$ 837	$ 837

See accompanying notes.

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Verastem, Inc.

(A development stage company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies

Basis of presentation

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

Subsequent Events

In preparing the financial statements included in this Form 10-Q, the Company has evaluated all subsequent events that occurred after September 30, 2013 through the date of the filing of this Form 10-Q.

2. Fair value of financial instruments

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

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

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Verastem, Inc.

(A development stage company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Fair value of financial instruments (Continued)

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

Description	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets				
Cash equivalents	$ 21,069	$ 16,069	$ 5,000	$
Short-term investments	77,290		77,290	
Long-term investments	30,340		30,340	
Total financial assets	**$ 128,699**	**$ 16,069**	**$ 112,630**	**$**
Financial liabilities				
Liability classified stock-based compensation awards	$ 413	$ 413	$	$
Total financial liabilities	**$ 413**	**$ 413**	**$**	**$**

The following table presents information about the Company's financial assets that have been measured at fair value at December 31, 2012 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	$ 8,171	$ 8,171	$	$
Short-term investments	46,480		46,480	
Long-term investments	34,944		34,944	
Total financial assets	**$ 89,595**	**$ 8,171**	**$ 81,424**	**$**

The Company's cash equivalents and investments are comprised of money market accounts, government-sponsored enterprise securities and commercial paper of publicly traded companies secured by the U.S. government. 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

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Verastem, Inc.

(A development stage company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Fair value of financial instruments (Continued)

Company did not adjust or override any fair value measurements provided by the pricing services as of September 30, 2013.

The Company's liability classified stock-based compensation awards are comprised of restricted stock units 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.

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 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 income to the statement of operations. There were no charges taken for other-than-temporary declines in fair value of investments during the three and nine months ended September 30, 2013 and 2012 or for the period from August 4, 2010 (inception) to September 30, 2013. The Company recorded $58,000, $24,000, $83,000, $33,000 and $80,000 of unrealized gains during the nine months ended September 30, 2013 and 2012, three months ended September 30, 2013 and 2012, and the period from August 4, 2010 (inception) to September 30, 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 nine months ended September 30, 2013 or 2012 or for the period from August 4, 2010 (inception) to September 30, 2013. The Company utilizes the specific identification method as a basis to determine the cost of securities sold.

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 September 30, 2013, 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.

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Verastem, Inc.

(A development stage company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Investments (Continued)

Cash, cash equivalents and investments at September 30, 2013 and December 31, 2012 consist of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2013				
Cash and cash equivalents:				
Cash and money market accounts	$ 17,640	$	$	$ 17,640
Corporate bonds	5,000			5,000
Total cash and cash equivalents	$ 22,640	$	$	$ 22,640
Investments:				
Government-sponsored enterprise securities (due within 1 year)	$ 39,295	$ 16	$	$ 39,311
Government-sponsored enterprise securities (due within 1 - 2 years)	13,049	4		13,053
Corporate bonds (due within 1 year)	37,921	60	(2)	37,979
Corporate bonds (due within 1 - 2 years)	17,285	5	(3)	17,287
Total investments	$ 107,550	$ 85	$ (5)	$ 107,630
Total cash, cash equivalents, and investments	$ 130,190	$ 85	$ (5)	$ 130,270

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2012				
Cash and cash equivalents:				
Cash and money market accounts	$ 10,096	$	$	$ 10,096
Total cash and cash equivalents	$ 10,096	$	$	$ 10,096
Investments:				
Government-sponsored enterprise securities (due within 1 year)	$ 46,469	$ 14	$ (3)	$ 46,480
Government-sponsored enterprise securities (due within 1 - 2 years)	34,931	14	(1)	34,944
Total investments	$ 81,400	$ 28	$ (4)	$ 81,424
Total cash, cash equivalents, and investments	$ 91,496	$ 28	$ (4)	$ 91,520

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Verastem, Inc.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Accrued expenses

Accrued expenses consist of the following (in thousands):

	September 30, 2013	December 31, 2012
Compensation and related benefits	$ 1,191	$ 173
Contract research organizations	973	69
License milestones	765	
Professional fees	375	183
Other	110	54
Deferred rent	43	36
Consulting		36
	$ 3,457	$ 551

5. 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, unvested restricted stock and unvested restricted stock units 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 due to their anti-dilutive effect:

	Three Months ended		Nine Months ended		Period from August 4, 2010 (inception) to
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012	September 30, 2013
Outstanding stock options	2,313	1,152	2,313	1,152	2,313
Unvested restricted stock	434	1,018	434	1,018	434
Unvested restricted stock units	543	899	543	899	543

6. Stock-based compensation

In December 2011, the Company adopted the 2012 Incentive Plan (the 2012 Plan). The 2012 Plan became effective upon the closing of the Company's IPO in February 2012. The 2012 Plan provides for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock awards, restricted stock units (RSUs) and other stock-based and cash awards. Upon effectiveness, the number of shares of common stock reserved under the 2012 Plan was the sum of 3,428,571 shares plus the number of shares available under the 2010 Equity Incentive Plan (the 2010 Plan). The number of shares reserved under the 2012 Plan is increased by the number of shares of common stock (up to a maximum of 571,242 shares) subject to outstanding awards under the 2010 Plan that expire, terminate or are otherwise surrendered, cancelled, forfeited or repurchased. The 2012 Plan includes an "evergreen provision" that allows for an annual increase in the number of shares of common stock available for issuance under the 2012 Plan. The annual increase will be added on the first day of each

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Verastem, Inc.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Stock-based compensation (Continued)

year beginning in 2013 and each subsequent anniversary until the expiration of the 2012 Plan and is equal to the lowest of 1,285,714 shares of common stock, 4.0% of the number of shares of common stock outstanding or an amount determined by the board of directors. On January 1, 2013, the shares available under the 2012 Plan increased by 844,448 shares of common stock.

Restricted stock

A summary of the Company's non-vested restricted stock as of September 30, 2013 and changes during the nine months ended September 30, 2013 is as follows:

	Shares	Weighted-average purchase price per share
Non-vested at December 31, 2012	747,000	$ 0.027
Vested	(313,289)	0.022
Non-vested at September 30, 2013	433,711	$ 0.029

As of September 30, 2013, there was $3.1 million of total unrecognized stock-based compensation expense related to non-vested restricted stock. The expense is expected to be recognized over a weighted average period of 1.3 years.

A summary of the Company's non-vested RSUs as of September 30, 2013 and changes during the nine months ended September 30, 2013 is as follows:

	Shares	Weighted-average grant date fair value
Outstanding at December 31, 2012	899,204	$ 10.70
Settled	(317,869)	10.57
Canceled	(38,571)	11.00
Outstanding at September 30, 2013	542,764	$ 10.75

As of September 30, 2013, there was $5.3 million of total unrecognized stock-based compensation expense related to non-vested RSUs granted under the 2012 Plan. The expense is expected to be recognized over a weighted-average period of 2.3 years.

During the first quarter of 2013, the Company amended the terms of certain RSUs related to a total of 657,058 shares of common stock to allow for 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 nine months ended September 30, 2013, the Company

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Verastem, Inc.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Stock-based compensation (Continued)

deposited with tax authorities $395,000 and $1.2 million, respectively, to settle the tax liability for awards that settled during the respective periods. The liability related to these awards is recorded within other current liabilities on the consolidated balance sheet as of September 30, 2013.

Stock options

A summary of the Company's stock option activity and related information follows:

	Shares	Weighted-average price per share	Weighted-average remaining contractual term (years)	Aggregate intrinsic value
Outstanding at December 31, 2012	1,424,241	$ 6.90		
Granted	1,035,500	9.92		
Exercised	(71,795)	0.42		
Canceled	(74,884)	5.88		
Outstanding at September 30, 2013	2,313,062	$ 8.49	9.0	$ 9,246,235
Exercisable at September 30, 2013	618,567	$ 7.26	8.6	$ 3,210,462
Vested and expected to vest at September 30, 2013(1)	2,024,731	$ 8.84	9.1	$ 7,391,462

(1) This represents the number of vested options as of September 30, 2013, plus the number of unvested options expected to vest as of September 30, 2013 which is based on the unvested options at September 30, 2013, adjusted for the estimated forfeiture rate.

The fair value of each stock option is estimated on the grant date using the Black-Scholes option-pricing model using the following assumptions:

	Nine Months ended September 30,	
	2013	2012
Risk-free interest rate	1.1%	0.9%
Dividend yield		
Volatility	75%	76%
Expected term (years)	6.0	5.9

7. Stockholders' Equity

In July 2013, the Company closed a public offering in which it sold 4,255,000 shares of its common stock to the public at a price of $15.00 per share, including 555,000 shares issued pursuant to the exercise of the underwriters' option to purchase additional shares. This offering was completed under the shelf registration statement that was filed on Form S-3 and declared effective by the Securities Exchange Commission on February 14, 2013. The net proceeds from this offering were approximately $59.8 million, after deducting underwriting discounts and commissions and other offering expenses payable by the Company.

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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 financial statements and related notes appearing elsewhere in this quarterly report. 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 or in our annual report on Form 10-K.

OVERVIEW

We are a biopharmaceutical company focused on discovering and developing drugs to treat cancer by the targeted killing of cancer stem cells. A cancer stem cell is a particularly aggressive type of tumor cell, resistant to conventional cancer therapy, that we believe is an underlying cause of tumors, their recurrence and metastasis. We have proprietary technology to create a stable population of cancer stem cells that we use to screen for and identify small molecule compounds that target cancer stem cells. Our most advanced programs target the Focal Adhesion Kinase, or FAK, and the PI3K/mTOR signaling pathways. Our lead FAK inhibitor, VS-6063, has been assigned defactinib as the United States Adopted Name (USAN). We have received orphan drug designation for the use of VS-6063 in mesothelioma in the European Union and in the United States. VS-6063 is currently in a registration-directed trial (COMMAND) in patients with mesothelioma, a Phase 1b trial in combination with weekly paclitaxel for patients with ovarian cancer, a Phase 2 study in patients with non-small cell lung cancer and a Phase 1 trial in Japan. In addition to VS-6063, our FAK inhibitor VS-4718 is in a Phase 1 clinical trial in patients with advanced cancers and we expect our dual mTORC1/2 and PI3K inhibitor VS-5584 to enter a Phase 1 clinical trial in patients with advanced cancers by year end 2013.

We commenced active operations in the second half of 2010. Our operations to date have been limited to organizing and staffing our company, business planning, raising capital, acquiring and developing our technology, identifying potential product candidates, undertaking preclinical studies of our most advanced product candidates and conducting clinical trials for VS-6063 and VS-4718. As of September 30, 2013, we have not generated any revenues and have financed our operations with net proceeds from the private placement of our preferred stock and public offerings of our common stock.

As of September 30, 2013, we had a deficit accumulated during the development stage of $76.3 million. We had net losses of $29.9 million, $24.1 million and $76.3 million for the nine months ended September 30, 2013 and 2012 and for the period from August 4, 2010 (inception) to September 30, 2013. 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 continue the research and development and initiate and conduct additional clinical trials of, and seek marketing approval for, 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 future 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

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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, 2012 related to accrued research and development expenses and stock-based compensation. There were no changes to these critical accounting policies in the three and nine months ended September 30, 2013. 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 SEC on March 26, 2013.

The Company has elected to follow the extended transition period guidance provided for in Securities Act Section 7(a)(2)(B) for complying with new or revised accounting standards. The Company will disclose the date on which adoption of such standards is required for non-emerging growth companies and the date on which the Company will adopt the recently issued accounting standards.

RESULTS OF OPERATIONS

Comparison of the Three Months ended September 30, 2013 and September 30, 2012

Research and development expense. Research and development expense for the three months ended September 30, 2013 (2013 Quarter) was $6.8 million compared to $8.1 million for the three months ended September 30, 2012 (2012 Quarter). The $1.3 million decrease from the 2012 Quarter to the 2013 Quarter was primarily related to a decrease of $2.7 million in license fee expense related to our agreement with Pfizer, Inc., including the issuance of 192,012 shares of common stock in the 2012 Quarter. This was partially offset by an increase of approximately $534,000 in contract research organization expense for outsourced biology, chemistry and development services, an approximately $426,000 increase in personnel costs primarily due to increased headcount and an approximately $158,000 increase in stock-based compensation expense.

General and administrative expense. General and administrative expense for the 2013 Quarter was $3.9 million compared to $2.3 million for the 2012 Quarter. The $1.6 million increase from the 2012 Quarter to the 2013 Quarter primarily resulted from an increase of $1.0 million in stock-based compensation expense associated with restricted stock units and restricted stock units with performance-based vesting provisions, an increase in consulting costs of approximately $183,000 and an approximately $137,000 increase in personnel costs primarily due to increase in salaries and headcount.

Interest income. Interest income decreased to approximately $53,000 for the 2013 Quarter from approximately $63,000 for the 2012 Quarter. This decrease was due to lower coupon rates on investments for the 2013 Quarter compared to the 2012 Quarter.

Comparison of the Nine Months ended September 30, 2013 and September 30, 2012

Research and development expense. Research and development expense for the nine months ended September 30, 2013 (2013 Period) was $18.1 million compared to $17.6 million for the nine months ended September 30, 2012 (2012 Period). The approximately $513,000 increase from the 2012 Period to the 2013 Period was primarily related to an increase of $2.3 million in contract research organization expense for outsourced biology, chemistry and development services, a $1.2 million increase in personnel costs primarily due to increased headcount and an approximately $317,000 increase in stock-based compensation expense. These increases were partially offset by a decrease of $3.4 million in license fee expense related to our agreement with Pfizer, Inc., including the issuance of 192,012 shares of common stock.

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General and administrative expense. General and administrative expense for the 2013 Period was $11.9 million compared to $6.6 million for the 2012 Period. The $5.3 million increase from the 2012 Period to the 2013 Period primarily resulted from an increase of $3.0 million in stock-based compensation expense associated with restricted stock units, an increase in professional fees and other costs of $1.1 million, an increase in consulting fees of approximately $460,000, an approximately $244,000 increase in corporate franchise taxes and an approximately $137,000 increase in personnel costs primarily due to increase in salaries and headcount.

Interest income. Interest income decreased to approximately $131,000 for the 2013 Period from approximately $191,000 for the 2012 Period. This decrease was due to lower coupon rates on investments for the 2013 Period compared to the 2012 Period.

LIQUIDITY AND CAPITAL RESOURCES

Sources of liquidity

As of September 30, 2013, we have not generated any revenues. Since our inception in August 2010, we have financed our operations principally through private placements and public offerings of our common stock. As of September 30, 2013, we had $130.3 million in cash, cash equivalents, and investments. We primarily invest our cash, cash equivalents and investments in a U.S. Treasury money market fund, government-sponsored enterprise securities, corporate bonds and commercial paper.

In July 2013, we closed a public offering in which we sold 4,255,000 shares of common stock at a price of $15.00 per share, including 555,000 shares issued pursuant to the exercise of the underwriters' option to purchase additional shares. This offering was completed under the shelf registration statement that was filed on Form S-3 and declared effective by the Securities Exchange Commission on February 14, 2013. The net proceeds to the Company from this offering were approximately $59.8 million, after deducting underwriting discounts and commissions and other offering expenses payable by the Company.

Cash flows

Operating activities. The use of cash in all periods resulted primarily from our net losses adjusted for non-cash charges and changes in the components of working capital. The significant increase in cash used in operating activities for the 2013 Period compared to the 2012 Period is due to an increase in research and development expenses as we increased our research and development headcount and increased spending on external research and development costs.

Investing activities. The cash used in investing activities for the 2013 Period reflects the net purchases of investments of $26.2 million and the purchase of property and equipment totaling $36,000. The cash used in investing activities for the 2012 Period reflects the net purchases of investments of $50.4 million and the purchase of $321,000 of property and equipment.

Financing activities. The cash provided by financing activities in the 2013 Period reflects the net proceeds from the public offering of our common stock and cash paid to settle restricted stock awards. The cash provided by financing activities in the 2012 Period reflects the net proceeds from our initial public offering less issuance costs paid in prior periods.

Funding requirements

We expect our existing cash, cash equivalents and investments, will enable us to fund our current operating plan and capital expenditure requirements into the first half of 2016. We have based this estimate on assumptions that may prove to be wrong, and we could use our available capital resources sooner than we currently expect. Because of the numerous risks and uncertainties associated with the

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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, results and costs of compound discovery, preclinical development, laboratory testing and clinical trials for our product candidates;
- 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;
- the costs of future commercialization activities, including product sales, marketing, manufacturing and distribution, for any of 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. We do not have any committed external source of funds. 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 future commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

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 Securities and Exchange Commission 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, cash equivalents and investments of $130.3 million as of September 30, 2013, consisting of cash, U.S. Treasury money market fund, government-sponsored enterprise securities, corporate bonds and commercial paper. 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 in short-term securities. Our available-for-sale securities are subject to interest rate risk and will fall in value if market interest rates increase. Due to the short-term duration most of our investment portfolio and the low risk profile

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of our investments, an immediate 100 basis point change in interest rates would not have a material effect on the fair market value of our portfolio.

We contract with CROs and contract manufacturers globally. 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 September 30, 2013, approximately $209,000 of our total liabilities were denominated in currencies other than the functional currency.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2013. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the 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. Disclosure controls and procedures include, without limitation, controls and procedures 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 accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. 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 September 30, 2013, our Chief Executive Officer and 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

No change in our internal control over financial reporting occurred during the fiscal quarter ended September 30, 2013 that has materially affected, or is reasonably likely to materially affect, the Company's 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, 2012. There have been no material changes from the factors disclosed in our 2012 Annual Report on Form 10-K, although we may disclose changes to such factors or disclose additional factors from time to time in our future filings with the Securities and Exchange Commission.

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 registered equity securities during the period covered by this Quarterly Report on Form 10-Q.

USE OF PROCEEDS FROM REGISTERED SECURITIES

In February 2012, we completed an initial public offering of 6,325,000 shares of our common stock at a price of $10.00 per share for an aggregate offering price of $63.3 million. The offer and sale of all of the shares in the offering were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-177677), which was declared effective by the SEC on January 26, 2012, and a registration statement on Form S-1 (File No. 333-179910) filed pursuant to Rule 462(b) of the Securities Act.

As of September 30, 2013, we have used approximately $43.5 million of the net proceeds mentioned above primarily to fund the preclinical and clinical development of our lead product candidates, to advance and expand the research, preclinical and clinical development of additional product candidates and companion diagnostics and for working capital, capital expenditures and other general corporate purposes. We have invested the balance of the net proceeds from the offerings in a variety of capital preservation investments, including investment grade, interest bearing instruments, U.S. government securities and corporate bonds. There has been no material change in our planned use of the balance of the net proceeds from the offering as described in our final prospectus filed with the SEC pursuant to Rule 424(b) under the Securities Act.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

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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 November 12, 2013, Verastem, Inc. announced its financial results for the quarter ended September 30, 2013 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 (the "Exchange Act"), 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, or the Exchange Act, 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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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: November 12, 2013 By: /s/ ROBERT FORRESTER

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

Date: November 12, 2013 By: /s/ JOHN B. GREEN

John B. Green
Chief Financial Officer
(Principal financial and accounting officer)

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EXHIBIT INDEX

10.1	Letter Agreement, dated December 1, 2011, by and between Verastem, Inc. and Poniard Pharmaceuticals, Inc.
10.2	Letter Agreement, dated March 6, 2013, by and among Verastem, Inc., The Scripps Research Institute and Poniard Pharmaceuticals, Inc. (filed herewith).
10.3	Consent and Assumption Agreement, dated September 4, 2013, by and between Verastem, Inc. and Encarta, Inc. and joined in by Poniard, LLC (filed herewith).*
31.1	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 (filed herewith).
31.2	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 (filed herewith).
32.1	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 (furnished herewith).
32.2	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 (furnished herewith).
99.1	Press Release issued by Verastem, Inc. on November 12, 2013 (furnished herewith).
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

Submitted electronically herewith.

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Management contract or compensation plan, contract or agreement.

*
Portions of this exhibit have been omitted pursuant to a request for confidential treatment filed with the SEC.

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act, is deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.