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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 September 30, 2012

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-35403

**Verastem, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

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

**02142**  
(Zip Code)

**(617) 252-9300**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a  
smaller reporting company)

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

As of November 9, 2012 there were 21,255,058 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 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, are forward looking statements. The words "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "predict," "project," "target," "potential," "will," "would," "could," "should," "continue" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words.

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

As a result of these and other factors, we may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make. We do not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

## PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited).

## Verastem, Inc.

(A development stage company)

## CONDENSED BALANCE SHEETS

(unaudited)

(in thousands, except per share amounts)

	September 30, 2012	December 31, 2011
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 11,126	\$ 20,954
Short-term investments	35,726	26,857
Prepaid expenses and other current assets	429	130
Total current assets	47,281	47,941
Property and equipment, net	884	709
Investments, net of current portion	50,579	8,994
Other assets	—	1,307
Restricted cash	86	86
Total assets	<u>\$ 98,830</u>	<u>\$ 59,037</u>
<b>Liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)</b>		
Current liabilities:		
Accounts payable	\$ 1,737	\$ 2,273
Accrued expenses	1,412	873
Total current liabilities	3,149	3,146
Deferred rent, net of current portion	47	74
Liability for shares subject to repurchase	22	36
Obligation to issue warrant	—	406
Series A redeemable convertible preferred stock, \$0.0001 par value; no shares and 16,000 shares authorized, issued and outstanding at September 30, 2012 and December 31, 2011, respectively	—	15,939
Series B redeemable convertible preferred stock, \$0.0001 par value; no shares and 16,025 shares authorized, issued and outstanding at September 30, 2012 and December 31, 2011, respectively	—	31,948
Series C redeemable convertible preferred stock, \$0.0001 par value; no shares and 9,068 shares authorized, issued and outstanding at September 30, 2012 and December 31, 2011, respectively	—	20,254
Stockholders' equity (deficit):		
Preferred stock, \$0.0001 par value; 5,000 shares authorized; none issued	—	—
Common stock, \$0.0001 par value; 100,000 and 53,093 shares authorized at September 30, 2012 and December 31, 2011, respectively, 21,255 and 1,559 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively	2	1
Additional paid-in capital	134,118	1,702
Accumulated other comprehensive income (loss)	22	(2)
Deficit accumulated during the development stage	(38,530)	(14,467)
Total stockholders' equity (deficit)	95,612	(12,766)
Total liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)	<u>\$ 98,830</u>	<u>\$ 59,037</u>

See accompanying notes.

## Verastem, Inc.

(A development stage company)

## CONDENSED 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, 2012
	2012	2011	2012	2011	
Operating expenses:					
Research and development	\$ 8,132	\$ 3,082	\$ 17,618	\$ 5,483	\$ 27,901
General and administrative	2,298	965	6,636	2,195	10,835
Total operating expenses	10,430	4,047	24,254	7,678	38,736
Loss from operations	(10,430)	(4,047)	(24,254)	(7,678)	(38,736)
Interest income	63	—	191	—	206
Net loss	(10,367)	(4,047)	(24,063)	(7,678)	(38,530)
Accretion of preferred stock	—	(10)	(6)	(18)	(40)
Net loss applicable to common stockholders	\$ (10,367)	\$ (4,057)	\$ (24,069)	\$ (7,696)	\$ (38,570)
Net loss per share applicable to common stockholders— basic and diluted	\$ (0.51)	\$ (2.98)	\$ (1.32)	\$ (6.27)	\$ (5.39)
Weighted-average number of common shares used in net loss per share applicable to common stockholders—basic and diluted	20,160	1,361	18,246	1,226	7,161
Comprehensive loss	\$ (10,335)	\$ (4,047)	\$ (24,039)	\$ (7,678)	\$ (38,508)

See accompanying notes.

**Verastem, Inc.**
**(A development stage company)**
**CONDENSED STATEMENTS OF CASH FLOWS**
**(unaudited)**
**(in thousands)**

	Nine months ended September 30,		Period from August 4, 2010 (inception) to September 30,
	2012	2011	2012
<b>Operating activities</b>			
Net loss	\$ (24,063)	\$ (7,678)	\$ (38,530)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	146	43	229
Stock-based compensation expense	4,627	742	6,314
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	(298)	6	(428)
Other assets	—	(132)	—
Accounts payable	(536)	967	1,737
Accrued expenses and deferred rent	1,059	754	1,459
Net cash used in operating activities	<u>(16,677)</u>	<u>(5,298)</u>	<u>(26,379)</u>
<b>Investing activities</b>			
Purchases of property and equipment	(321)	(754)	(1,114)
Purchases of investments	(145,910)	—	(181,761)
Maturities of investments	95,479	—	95,479
Increase in restricted cash	—	(86)	(86)
Net cash used in investing activities	<u>(50,752)</u>	<u>(840)</u>	<u>(87,482)</u>
<b>Financing activities</b>			
Proceeds from issuance of redeemable convertible preferred stock	—	43,937	68,107
Proceeds from the exercise of stock options	2	—	2
Net proceeds from the issuance of common stock and restricted common stock	57,599	38	56,878
Net cash provided by financing activities	<u>57,601</u>	<u>43,975</u>	<u>124,987</u>
(Decrease) increase in cash and cash equivalents	(9,828)	37,837	11,126
Cash and cash equivalents at beginning of period	20,954	3,584	—
Cash and cash equivalents at end of period	<u>\$ 11,126</u>	<u>\$ 41,421</u>	<u>\$ 11,126</u>
<b>Supplemental disclosure of non-cash financing activity</b>			
Accretion of redeemable convertible preferred stock to redemption value	<u>\$ 6</u>	<u>\$ 18</u>	<u>\$ 40</u>
Conversion of redeemable convertible preferred stock upon initial public offering	<u>\$ 68,148</u>	<u>\$ —</u>	<u>\$ 68,148</u>
Reclassification of obligation to issue warrant from liabilities to equity	<u>\$ 837</u>	<u>\$ —</u>	<u>\$ 837</u>

See accompanying notes.

## Verastem, Inc.

## (A development stage company)

## NOTES TO CONDENSED FINANCIAL STATEMENTS

## 1. Summary of significant accounting policies

*Basis of presentation*

The accompanying unaudited condensed 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, consisting only of normal and recurring adjustments, 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 and nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending December 31, 2012. 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, 2011 as filed with the Securities and Exchange Commission ("SEC") on March 30, 2012.

## 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

The following table presents information about the Company's financial assets that have been measured at fair value at September 30, 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)
<b>Financial assets</b>				
Cash equivalents	\$ 6,720	\$ 6,720	\$ —	\$ —
Investments	86,305	—	86,305	—
<b>Total financial assets</b>	<b>\$ 93,025</b>	<b>\$ 6,720</b>	<b>\$ 86,305</b>	<b>\$ —</b>

## Verastem, Inc.

## (A development stage company)

## NOTES TO CONDENSED 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 December 31, 2011 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)
<b>Financial assets</b>				
Cash equivalents	\$ 4,102	\$ 3,102	\$ 1,000	\$ —
Investments	35,851	—	35,851	—
<b>Total financial assets</b>	<b>\$ 39,953</b>	<b>\$ 3,102</b>	<b>\$ 36,851</b>	<b>\$ —</b>
<b>Financial liabilities</b>				
Obligation to issue warrant	\$ 406	\$ —	\$ —	\$ 406
<b>Total financial liabilities</b>	<b>\$ 406</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 406</b>

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 Company did not adjust or override any fair value measurements provided by the pricing services as of September 30, 2012 or December 31, 2011.

In connection with the license with Poniard Pharmaceuticals Inc., the Company is obligated to issue a warrant to Poniard for the purchase of the Company's common stock upon the first patient dosing using a product licensed under the agreement with Poniard; such warrant will have a three year term from the date of issuance. Prior to an initial public offering, the exercise price of the warrant would have been equal to the fair value of the common stock on the date of the most recent preferred stock financing prior to the issuance of the warrant. Upon the completion of the Company's initial public offering in January 2012, the exercise price of the warrant will be equal to the average closing price of the Company's common stock during the five trading days preceding the issuance of the warrant.

Prior to January 2012, the obligation to issue the warrant is a level 3 liability because its value measurement is based, in part, on significant inputs not observed in the market and reflects the Company's assumptions as to the expected warrant exercise price and the expected volatility of the Company's common stock. The obligation to issue the warrant was initially recorded at fair value and,



## Verastem, Inc.

## (A development stage company)

## NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

## 2. Fair value of financial instruments (Continued)

prior to the Company's initial public offering, was revalued at the end of each reporting period, with the change in the fair value reported in research and development expense within the statement of operations. Upon the completion of the Company's initial public offering, the obligation to issue the warrant met the definition of an equity-classified derivative instrument since the remaining variable inputs were consistent with those in a fixed forward option agreement, and was therefore revalued as of January 26, 2012 with the change in fair value reported in research and development expense within the statement of operations. The fair value of the obligation to issue the warrant was then reclassified from liabilities to additional paid-in-capital on the Company's balance sheet. The Company will reassess the equity classification of the obligation to issue the warrant upon a change in facts and circumstances in future reporting periods. Since the Company's initial public offering in the first quarter of 2012, there have been no changes in facts or circumstances which would impact the equity classification of the obligation to issue the warrant.

As of December 31, 2011, the most recent issuance of the Company's preferred stock had been the issuance of the Series C Preferred Stock in November 2011. The Company estimated the value of the obligation to issue the warrant using a probability-weighted scenario analysis that incorporated the probability of the completion of an initial public offering. The analysis included estimating the stock price on each measurement date assuming that achievement of the milestone would be 100% probable. The estimated stock price contingent upon milestone achievement was determined by analyzing the post-announcement returns for public companies that progressed to Phase 1 clinical trials. The following inputs were used to determine the fair value of the obligation to issue the warrant:

	January 26, 2012	December 31, 2011	
		Non-IPO	IPO
Exercise price	\$ 11.09	\$ 6.86	\$ 10.00
Estimated stock price contingent upon milestone achievement	\$ 12.60	\$ 3.22	\$ 8.54
Expected term	4.0 years	4.1 years	4.1 years
Volatility	75%	70%	70%
Dividend yield	0.00%	0.00%	0.00%
Risk-free rate	0.54%	0.60%	0.60%
Probability of achieving milestone	80%	80%	80%
Probability of scenario	100%	20%	80%

As of December 31, 2011, the fair value of the obligation to issue the warrant was recorded at \$406,000. As a result of the change in inputs to the valuation model, the fair value of the obligation to issue the warrant increased by \$431,000 to \$837,000 at January 26, 2012. Reasonable changes in the assumptions used to calculate the fair value of the obligation to issue the warrant would not result in significant changes in the fair value.

## 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

**Verastem, Inc.****(A development stage company)****NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)****3. Investments (Continued)**

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 (loss), until such gains and losses are realized. If a decline in the fair value is considered other-than-temporary, based on available evidence, the unrealized loss is transferred from other comprehensive loss to the statement of operations. There were no charges taken for other-than-temporary declines in fair value of investments during the three and nine months ended September 30, 2012 and 2011. 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, 2012 or 2011. 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, 2012, there were no investments with a fair value that was significantly lower than the amortized cost basis or any investments that had been in an unrealized loss position for a significant period.

Cash, cash equivalents and investments at September 30, 2012 and December 31, 2011 consist of the following (in thousands):

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b>September 30, 2012</b>				
Cash and cash equivalents:				
Cash and money market accounts	\$ 11,126	\$ —	\$ —	\$ 11,126
Investments:				
Government-sponsored enterprise securities (due within 1 - 2 years)	\$ 80,273	\$ 32	\$ (10)	\$ 80,295
Commercial paper secured by the U.S. government (due within 1 year)	6,011	—	—	6,011
<b>Total investments</b>	<b>\$ 86,284</b>	<b>\$ 32</b>	<b>\$ (10)</b>	<b>\$ 86,306</b>
Total cash, cash equivalents, and investments	<u>\$ 97,410</u>	<u>\$ 32</u>	<u>\$ (10)</u>	<u>\$ 97,432</u>

## Verastem, Inc.

(A development stage company)

## NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

## 3. Investments (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2011</b>				
Cash and cash equivalents:				
Cash and money market accounts	\$ 19,954	\$ —	\$ —	\$ 19,954
Government-sponsored enterprise securities	1,000	—	—	1,000
<b>Total cash and cash equivalents</b>	<b>\$ 20,954</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 20,954</b>
Investments:				
Government-sponsored enterprise securities (due within 1 year)	\$ 10,900	\$ 2	\$ (1)	\$ 10,901
Government-sponsored enterprise securities (due within 1 - 2 years)	8,998	1	(5)	8,994
Commercial paper secured by the U.S. government (due within 1 year)	15,954	3	(1)	15,956
<b>Total investments</b>	<b>\$ 35,852</b>	<b>\$ 6</b>	<b>\$ (7)</b>	<b>\$ 35,851</b>
<b>Total cash, cash equivalents, and investments</b>	<b>\$ 56,806</b>	<b>\$ 6</b>	<b>\$ (7)</b>	<b>\$ 56,805</b>

## 4. Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following (in thousands):

	September 30, 2012	December 31, 2011
Prepaid contract research organizations	\$ 154	\$ —
Interest receivable	125	53
Prepaid insurance	102	—
Prepaid other expense	48	77
	<b>\$ 429</b>	<b>\$ 130</b>

## 5. Accrued expenses

Accrued expenses consist of the following (in thousands):

	September 30, 2012	December 31, 2011
Compensation and related benefits	\$ 766	\$ 86
Contract research organizations	314	217
Professional fees	252	520
Other expenses	46	23
Deferred rent	34	27
	<b>\$ 1,412</b>	<b>\$ 873</b>

**Verastem, Inc.**
**(A development stage company)**
**NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)**
**6. 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 redeemable convertible preferred stock, outstanding stock options, unvested restricted stock and 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 table reconciles net loss to net loss applicable to common shareholders (in thousands, except per share data):

	Three Months ended September 30,		Nine Months ended September 30,		Period from August 4, 2010 (inception) to September 30, 2012
	2012	2011	2012	2011	
Net loss	\$ (10,367)	\$ (4,047)	\$ (24,063)	\$ (7,678)	\$ (38,530)
Accretion of redeemable convertible preferred stock	—	(10)	(6)	(18)	(40)
Net loss applicable to common stockholders	<u>\$ (10,367)</u>	<u>\$ (4,057)</u>	<u>\$ (24,069)</u>	<u>\$ (7,696)</u>	<u>\$ (38,570)</u>
Weighted-average number of common shares used in net loss per share applicable to common stockholders—basic and diluted	20,160	1,361	18,246	1,226	7,161
Net loss per share applicable to common stockholders—basic and diluted	\$ (0.51)	\$ (2.98)	\$ (1.32)	\$ (6.27)	\$ (5.39)

The following potentially dilutive securities were excluded from the calculation of diluted net loss per share due to their anti-dilutive effect (in thousands):

	Three Months ended		Nine Months ended		Period from August 4, 2010 (inception) to September 30, 2012
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011	
Preferred stock	—	9,150	—	9,150	—
Outstanding stock options	1,152	405	1,152	405	1,152
Unvested restricted stock	1,018	1,569	1,018	1,569	1,018
Unvested restricted stock units	899	—	899	—	899

**7. Redeemable convertible preferred stock**

In November 2010, the Company sold 4 million shares of Series A redeemable convertible preferred stock (Series A Preferred Stock) at a price of \$1.00 per share for gross proceeds of \$4 million. In accordance with the terms of the Series A Stock Purchase Agreement, the Company sold an additional 12 million shares at \$1.00 per share in a second subsequent closing when the milestones necessary to achieve the subsequent closing were met in April 2011. The Company incurred approximately \$79,000 of issuance costs as part of the first closing of the Series A Preferred Stock. No additional issuance costs were incurred as part of the second closing.

**Verastem, Inc.**

**(A development stage company)**

**NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)**

**7. Redeemable convertible preferred stock (Continued)**

In July 2011, the Company sold approximately 16 million shares of series B redeemable convertible preferred stock (Series B Preferred Stock) at a price of \$2.00 per share for gross proceeds of approximately \$32 million. The Company incurred approximately \$113,000 of issuance costs as part of the closing of the Series B Preferred Stock.

In November 2011, the Company sold approximately 9.1 million shares of Series C redeemable convertible preferred stock (Series C Preferred Stock) at a price of \$2.25 per share for gross proceeds of \$20.4 million. The Company incurred approximately \$153,000 of issuance costs as part of the closing of the Series C Preferred Stock. The issuance costs associated with the Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock (collectively, the Preferred Stock) were accreted through the earliest redemption date.

In connection with the Company's initial public offering, as discussed below, all shares of the Company's Preferred Stock were converted into 11,740,794 shares of common stock.

**8. Common stock**

***Reverse Stock Split***

In January 2012, the Company's board of directors and stockholders approved a one-for-3.5 reverse stock split of the Company's common stock. The reverse stock split became effective on January 10, 2012. All share and per share amounts in the financial statements have been retroactively adjusted for all periods presented to give effect to the reverse stock split, including reclassifying an amount equal to the reduction in par value to additional paid-in capital.

***Initial Public Offering***

In February 2012, the Company closed the initial public offering (IPO) of its common stock pursuant to a registration statement on Form S-1, as amended. An aggregate of 6,325,000 shares of common stock registered under the registration statement were sold at a public offering price of \$10.00 per share, including the over-allotment option. Net proceeds of the IPO were \$56.8 million.

**9. 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 that are reserved under the 2012 Plan is the sum of 3,428,571 shares plus the number of shares that remained 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 year beginning in 2013 and each subsequent anniversary until the expiration of the

## Verastem, Inc.

## (A development stage company)

## NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

## 9. Stock-based compensation (Continued)

2012 Plan, equal to the lowest of 1,285,714 shares of common stock, 4.0% of the number of shares of common stock outstanding and an amount determined by the board of directors.

**Restricted stock**

A summary of the Company's unvested restricted stock as of September 30, 2012 and changes during the nine months ended September 30, 2012 is as follows (in thousands, except per share data):

	Shares	Weighted- average purchase price per share
Unvested at December 31, 2011	1,435	\$ 0.025
Vested	(417)	0.039
Unvested at September 30, 2012	<u>1,018</u>	<u>\$ 0.022</u>

As of September 30, 2012, there was \$6.5 million of total unrecognized stock-based compensation expense related to unvested restricted stock. The expense is expected to be recognized over a weighted average period 2.0 years.

A summary of the Company's unvested RSUs as of September 30, 2012 and changes during the nine months ended September 30, 2012 is as follows (in thousands, except per share data):

	Shares	Weighted- average grant date fair value per share
Unvested at December 31, 2011	—	\$ —
Granted	910	10.61
Cancelled	(11)	11.10
Unvested at September 30, 2012	<u>899</u>	<u>\$ 10.61</u>

As of September 30, 2012, there was \$7.4 million of total unrecognized stock-based compensation expense related to unvested RSUs granted under the 2012 Plan. The expense is expected to be recognized over a weighted-average period of 3.3 years.

During the three and nine months ended September 30, 2012, the Company issued 103,306 RSUs that vest upon the achievement of certain performance based milestones through 2015. The Company has determined that achievement of these milestones is not probable and therefore has not recorded any stock-based compensation expense. The Company will access if achievement of these milestones becomes probable on an ongoing basis.

## Verastem, Inc.

## (A development stage company)

## NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

## 9. Stock-based compensation (Continued)

## Stock options

A summary of the Company's stock option activity and related information follows (in thousands, except per share data and years):

	Shares	Weighted-average price per share	Weighted-average remaining contractual term (years)	Aggregate intrinsic value
Outstanding at December 31, 2011	405	\$ 0.75	9.9	\$ 176
Granted	758	9.80		
Exercised	(4)	0.43		
Cancelled	(7)	0.95		
Outstanding at September 30, 2012	1,152	\$ 6.71	9.4	\$ 3,411
Exercisable at September 30, 2012	178	\$ 2.84	8.6	\$ 1,232
Vested and expected to vest at September 30, 2012	1,152	\$ 6.71	9.4	\$ 3,411

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

	Nine Months ended September 30,	
	2012	2011
Risk-free interest rate	0.8 - 2.7%	1.1 - 2.7%
Dividend yield	—	—
Volatility	69 - 77%	69%
Expected term (years)	5.3 - 6.1	6.1

## 10. Significant Transactions

On May 11, 2012, the Company acquired from S\*Bio Pte Ltd, or S\*Bio, compounds identified as dual inhibitors of PI3K and mTOR (each an "Acquired Compound"), including related patent rights. PI3K and mTOR are members of a network of proteins, or signaling pathway, that promotes cancer cell proliferation and survival. Under the agreement, the Company paid S\*Bio an upfront fee of \$350,000 and has agreed to pay S\*Bio milestone payments of up to an aggregate of approximately \$21.0 million upon the achievement of specified development and regulatory milestones. In addition, the Company agreed to pay to S\*Bio tiered, low to mid single digit royalties as a percentage of annual net sales of each product containing an Acquired Compound as an ingredient. The obligation to pay royalties continues on a product by product and country by country basis until the expiration of all acquired patent rights covering the product in such country. If the Company obtains a license from a third party in order to commercialize a product containing an Acquired Compound in a particular country, then the Company may deduct up to 50% of the amount paid to such third party from the royalty payments that Company owes to S\*Bio for such product. The deduction is subject to specified limitations, including that in no event will any such deduction reduce a royalty payment owed to S\*Bio

**Verastem, Inc.**

**(A development stage company)**

**NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)**

**10. Significant Transactions (Continued)**

by more than 50% as a result of all such deductions in the aggregate. There were no ongoing clinical trials at the time of the acquisition of the compounds, and the compounds acquired do not have alternative future uses, nor have they reached a stage of technological feasibility. As no process or activities were acquired, the transaction was accounted for as an asset acquisition by recording the \$350,000 payment made to S\*Bio to research and development expense in the nine months ended September 30, 2012.

On July 11, 2012, the Company entered into a license agreement with Pfizer Inc., or Pfizer, under which Pfizer granted the Company worldwide, exclusive rights to research, develop, manufacture and commercialize products containing certain of Pfizer's inhibitors of focal adhesion kinase (the "Products") for all therapeutic, diagnostic and prophylactic uses in humans. The Company is solely responsible, at its own expense, for the clinical development of the Products, which is to be conducted in accordance with an agreed-upon development plan. The Company is also responsible for all manufacturing and commercialization activities at its own expense. Pfizer is required to provide the Company with an initial quantity of clinical supply of one of the Products for an agreed upon price. Under the agreement, the Company made a one-time cash payment to Pfizer in the amount of \$1.5 million and issued to Pfizer 192,012 shares of the Company's common stock which were valued at \$2.0 million on the date of issuance. Pfizer is also eligible to receive up to \$2 million in developmental milestones and up to an additional \$125 million based on the successful attainment of regulatory and commercial sales milestones. Pfizer is also eligible to receive high single to mid double digit royalties on future net sales of Products. The Company's royalty obligations with respect to each Product in each country begin on the date of first commercial sale of the Product in that country, and end on the later of 10 years after the date of first commercial sale of the Product in that country or the date of expiration or abandonment of the last claim contained in any issued patent or patent application licensed by Pfizer to the Company that covers the Product in that country.

The Company accounted for the license agreement as the licensing of in-process research and development with no alternative future use. Accordingly, the Company recorded research and development expense of \$3.5 million in the three and nine months ended September 30, 2012 associated with the cash payment and the issuance of shares of common stock to Pfizer.

**11. 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, 2012 through the date of the filing of this Form 10-Q. The Company did not have any material recognizable or unrecognizable subsequent events during this period.



## **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 proprietary small molecule drugs targeting cancer stem cells in breast and other cancers along with proprietary companion diagnostics. 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 tumor recurrence and metastasis. Our scientific co-founders, Robert Weinberg, Ph.D., Eric Lander, Ph.D., and Piyush Gupta, Ph.D. made discoveries on the underlying biology of cancer stem cells. We are building on these discoveries to identify and develop small molecule compounds that target cancer stem cells.

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 and undertaking preclinical studies of our most advanced product candidates. To date, we have not generated any revenues and have financed our operations with net proceeds from the private placement of our preferred stock and our initial public offering. In February 2012, we completed an initial public offering of 6,325,000 shares of our common stock at a public offering price of \$10.00 per share and received net proceeds of approximately \$56.8 million, after deducting underwriting discounts and commissions and offering expenses.

As of September 30, 2012, we had a deficit accumulated during the development stage of \$38.5 million. We had net losses of \$24.1 million, \$7.7 million and \$38.5 million for the nine months ended September 30, 2012 and 2011 and for the period from August 4, 2010 (inception) to September 30, 2012. 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 later initiate 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. Furthermore, we expect to incur additional costs associated with operating as a public company. 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 expect our existing cash, cash equivalents and investments will enable us to fund our current operating plan and capital expenditure requirements into late 2015 or early 2016. This is based on our current estimates, and we could use our available capital resources sooner than we currently expect. 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, 2011 related to accrued research and development expenses and stock-based compensation. There were no changes to these critical accounting policies in the three or nine months ended September 30, 2012. 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 30, 2012.

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, 2012 and 2011

*Research and development expense.* Research and development expense for the three months ended September 30, 2012 (2012 Quarter) was \$8.1 million compared to \$3.1 million for the three months ended September 30, 2011 (2011 Quarter). The \$5.0 million increase from the 2011 Quarter to the 2012 Quarter is primarily related to an increase of \$3.4 million in license fees due to our agreement with Pfizer, Inc., including the issuance of 192,012 shares of common stock, an increase of \$1.3 million in contract research organization expense and an increase of \$528,000 for personnel costs, including stock-based compensation of \$325,000, primarily due to increased headcount and a higher fair value of our common stock. These expenses are partially offset by decreases in consulting expense of \$146,000 and lab supplies of \$114,000.

*General and administrative expense.* General and administrative expense for the 2012 Quarter was \$2.3 million compared to \$965,000 for the 2011 Quarter. The \$1.3 million increase from the 2011 Quarter to the 2012 Quarter principally resulted from an increase of \$821,000 for personnel costs, including stock-based compensation of \$640,000, primarily due to a higher fair value of our common stock, an increase of \$385,000 in professional fees primarily related to additional legal and accounting fees for being a publicly traded company and an increase of \$100,000 in insurance costs primarily related to being a publicly traded company.

*Interest income.* Interest income increased to \$63,000 for the 2012 Quarter from none for the 2011 Quarter. During the 2011 Quarter, our cash was deposited in non-interest bearing accounts.

*Accretion of preferred stock.* We did not record accretion in the 2012 Quarter due to our initial public offering and the related conversion of all preferred stock into common stock in February 2012 compared to \$10,000 in the 2011 Quarter reflecting the periodic accretion of issuance costs associated with our series A and B preferred stock.

### Comparison of the Nine Months ended September 30, 2012 and September 30, 2011

*Research and development expense.* Research and development expense for the nine months ended September 30, 2012 (2012 Period) was \$17.6 million compared to \$5.5 million for the nine months ended September 30, 2011 (2011 Period). The \$12.1 million increase from the 2011 Period to the 2012 Period is primarily related to an increase of \$4.3 million in license fees due to our agreement with Pfizer, Inc., including the issuance of 192,012 shares of common stock, our Asset Purchase Agreement with S\*Bio Pte Ltd and the revaluation of the obligation to issue the warrant to Poniard

Pharmaceuticals, an increase of \$3.8 million in contract research organization expense, an increase of \$3.1 million for personnel costs, including stock-based compensation of \$1.9 million, primarily due to increased headcount and a higher fair value of our common stock, an increase of \$402,000 for laboratory supplies and an increase of \$180,000 in occupancy and depreciation due to costs of a new facility in May 2011.

*General and administrative expense.* General and administrative expense for the 2012 Period was \$6.6 million compared to \$2.2 million for the 2011 Period. The \$4.4 million increase from the 2011 Period to the 2012 Period principally resulted from an increase of \$2.7 million for personnel costs, including stock-based compensation of \$2.0 million, primarily due to higher fair value of our common stock, an increase of \$976,000 in professional fees primarily related to additional legal and accounting fees for being a publicly traded company, an increase of \$293,000 in insurance costs primarily related to being a publicly traded company and an increase of \$266,000 in consulting fees.

*Interest income.* Interest income increased to \$191,000 for the 2012 Period from none for the 2011 Period. During the 2011 Period, our cash was deposited in non-interest bearing accounts.

*Accretion of preferred stock.* We recorded \$6,000 of accretion in the 2012 Period reflecting the periodic accretion of issuance costs associated with our series A, series B and series C preferred stock from December 31, 2011 through the date of our initial public offering and conversion of all outstanding shares of preferred stock into common stock upon consummation of our initial public offering compared to \$18,000 in the 2011 Period reflecting the periodic accretion of issuance costs associated with our series A and B preferred stock.

## LIQUIDITY AND CAPITAL RESOURCES

### Sources of liquidity

To date, we have not generated any revenues. Since our inception in August 2010, we have financed our operations principally through private placements and through our initial public offering, which we completed in February 2012. As of September 30, 2012, we had \$97.4 million in cash, cash equivalents, and investments. We primarily invest our cash equivalents and investments in a U.S. Treasury money market fund, government-sponsored enterprise securities and commercial paper.

### Cash flows

*Operating activities.* The use of cash in all periods resulted primarily from our net losses adjusted for non-cash charges and favorable changes in the components of working capital. The significant increase in cash used in operating activities for the 2012 Period compared to the 2011 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 2012 Period reflects the net purchases of investments of \$50.8 million and the purchase of \$321,000 of property and equipment. For the 2011 Period, cash used in investing activities reflects the purchase of \$754,000 of property and equipment.

*Financing activities.* The cash provided by financing activities in the 2012 Period reflects the \$56.8 million of net proceeds from our initial public offering less issuance costs paid in prior periods. The cash provided in the 2011 Period reflects \$43.9 million of net proceeds from the sale and issuance of shares of our series A and B preferred stock in April and July 2011, respectively.

## **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 late 2015 or early 2016.

## **Contractual obligations**

There have been no material changes to our contractual obligations outside the ordinary course of business from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011, except for potential milestones and royalties under new agreements with Pfizer and S\*Bio. We may be obligated to pay Pfizer up to \$2 million in developmental milestones and up to \$125 million based on the successful attainment of regulatory and commercial milestones. We may also be obligated to pay Pfizer a high single to mid double digit royalty on future net sales of products containing Pfizer's inhibitors of focal adhesion kinase. We may be obligated to pay S\*Bio up to \$21 million based on the successful attainment of development and regulatory milestones. We may also be obligated to pay S\*Bio a low to mid single digit royalty on future net sales of products containing any S\*Bio compounds.

## **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 \$97.4 million as of September 30, 2012, consisting of cash, U.S. Treasury money market fund, government-sponsored enterprise securities 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 securities guaranteed by the U.S. government. 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 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, 2012, approximately \$6,000 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 Operating Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2012. 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, or persons performing similar functions, 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, 2012, our Chief Executive Officer and Chief Operating 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, 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

None.

### Item 1A. Risk Factors.

There have been no material changes to the risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

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

#### RECENT SALES OF UNREGISTERED SECURITIES

Set forth below is information regarding securities sold by us during the nine months ended September 30, 2012, that were not registered under the Securities Act of 1933, as amended, or the Securities Act. Also included is the consideration, if any, received by us for the securities and information relating to the section of the Securities Act, or rule of the Securities and Exchange Commission, under which exemption from registration was claimed.

#### *Issuances of securities*

On July 11, 2012, in connection with a license agreement we entered into with Pfizer, we issued 192,012 shares of our common stock to Pfizer. The issuance of common stock to Pfizer was made pursuant to the exemption from registration requirements of the Securities Act of 1933, as amended, contained in Section 4(a)(2) on the basis that the issuance does not involve a public offering.

#### PURCHASE OF EQUITY SECURITIES

None.

#### 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 public offering 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, 2012, we have used approximately \$16.6 million of the net proceeds primarily to fund the preclinical development of VS-507, VS-4718 and VS-5095, to advance and expand the research and preclinical development of additional product candidates and companion diagnostics and for working capital, capital expenditures and other general corporate purposes. We have not used any of the net proceeds from the offering to make payments, directly or indirectly, to any director or officer of ours, or any of their associates, to any person owning 10 percent or more of our common stock or to any affiliate of ours. We have invested the balance of the net proceeds from the offering in a variety of capital preservation investments, including short-term, investment grade, interest bearing instruments and U.S. government securities. 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 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 13, 2012, Verastem, Inc. announced its financial results for the quarter ended September 30, 2012 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.

**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 13, 2012

By:           /s/ CHRISTOPH WESTPHAL, M.D., PH.D.

Christoph Westphal, M.D., Ph.D.  
*On behalf of the Registrant as  
President and Chief Executive Officer  
(Principal executive officer)*

Date: November 13, 2012

By:           /s/ ROBERT FORRESTER

Robert Forrester  
*Chief Operating Officer  
(Principal financial and accounting officer)*



**EXHIBIT INDEX**

- 10.1† Offer Letter, dated as of September 18, 2012, by and between the Company and Christoph Westphal, M.D., Ph.D.
- 10.2† Restricted Stock Unit Agreement, dated as of September 18, 2012, by and between the Company and Christoph Westphal, M.D., Ph.D.
- 10.3† Restricted Stock Unit Agreement, dated as of September 18, 2012, by and between the Company and Christoph Westphal, M.D., Ph.D.
- 10.4† Employment Agreement, dated as of October 23, 2012, by and between the Company and Joanna Horobin.
- 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.
- 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.
- 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.
- 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.
- 99.1† Press Release issued by Verastem, Inc. on November 13, 2012.
  
- 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

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† Submitted electronically herewith.

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.





September 18, 2012

Christoph Westphal, M.D., Ph.D.  
17 Hawes Street  
Brookline, MA 02446

Dear Christoph:

It is my pleasure to confirm the terms of your continued employment with Verastem, Inc. (the "Company"). On behalf of the Company, I set forth below the terms of your employment, which has been approved by our Board of Directors:

1. **Employment.** You will be employed to serve as the Company's President and Chief Executive Officer. You shall report to the Company's Board of Directors (the "Board") and shall perform the duties of your position, with responsibility for all aspects of the Company's business and operations, and such other duties as reasonably may be assigned to you by the Board. You agree to devote the majority of your full business time and your reasonable commercial efforts, business judgment, skill and knowledge to the advancement of the business and interests of the Company and to the discharge of your duties and responsibilities for the Company. You agree to abide by the rules, regulations, instructions, personnel practices and policies of the Company and any changes therein that may be adopted from time to time by the Company.
2. **Cash Compensation and Benefits.** You will not be entitled, in connection with your services as the Company's President and Chief Executive Officer, to receive any cash compensation or to participate in any employee benefit plans from time to time in effect for employees of the Company, except in each case as otherwise determined by the Board.
3. **Equity Awards.** The Company will grant to you, effective upon execution of this letter by you and the Company, the following equity awards:
  - (a) An option to purchase 625,000 shares of the Company's common stock that will become exercisable based upon satisfaction of applicable vesting conditions, as set forth in the form of Stock Option Agreement attached hereto as Exhibit A, with an exercise price per share equal to the fair market value of the Company's common stock as of the date of grant. The stock options granted pursuant to this Section 3(a) shall continue to vest for so long as you remain an employee or occupy the position of Executive Chairman of the Company or any other position with the Company that the Company may request. In the event the Company terminates your employment or position (in any capacity) for any reason other than Cause (as defined below), or in the event you resign your employment or position (in any capacity) for Good Reason (as defined below), the unvested portion of such option that would have otherwise vested during the twelve (12) month period following your termination shall immediately vest, and at your election the vested portion

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of your option may be exercised at any time during such twelve (12) month period. If the Company terminates your employment or position (in any capacity) at any time for Cause, or if you resign your employment or position (in any capacity) at any time without Good Reason, no portion of such stock option shall vest following the date of such termination.

- (b) A restricted stock unit award representing the right to receive 206,612 shares of the Company's common stock upon satisfaction of applicable vesting conditions, as set forth in the form of Restricted Stock Unit Agreement attached hereto as Exhibit B.
- (c) A restricted stock unit award representing the right to receive 103,306 shares of the Company's common stock upon satisfaction of applicable vesting conditions, including performance criteria to be determined by the Board (or a committee thereof), as set forth in the form of Restricted Stock Unit Agreement attached hereto as Exhibit C.

All restricted stock units granted pursuant to this Section 3 shall continue to vest for so long as you serve as President or CEO of the Company; and, if your position as President or CEO has not been terminated for Cause by the Company and you have not resigned such position without Good Reason, such vesting shall continue through the date that is twelve (12) months after you cease to serve as President or CEO of the Company. If, at the end of such twelve (12) month period, you are continuing to serve the Company as Executive Chairman of the Company or in any other position that the Company may request (any such position, including the Executive Chairman position, a "Successor Position"), fifty percent (50%) of such restricted stock units that would otherwise have vested on any subsequent vesting date shall vest on such date. For so long as you continue to serve in a Successor Position, and provided the Company has not terminated your service for Cause and you have not voluntarily terminated your service without Good Reason, such vesting shall continue for a period of twelve (12) months after you cease to serve in such Successor Position. If the Company terminates your service at any time for Cause, or if you voluntarily terminate your service at any time without Good Reason, no restricted stock units shall vest following the date of such termination.

Upon a Change of Control, as defined below, all unvested restricted stock units granted pursuant to this Section 3 that do not vest based on satisfaction of performance criteria, and the unvested portion of the stock option granted pursuant to this Section 3, shall immediately vest.

You and the Company agree that in the event it shall be determined that any of the benefits received or to be received by you in connection with a Change of Control or your termination of service would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code, together with any interest or penalties imposed with respect to such excise tax (the "Excise Tax"), then you shall be entitled to receive promptly from the Company an additional lump sum cash payment (the "Gross-Up Payment") in an amount such that, after payment by you of all taxes related to such benefits, including any income taxes and the Excise Tax imposed upon the Gross-Up Payment, you retain an amount of the Gross-Up Payment

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4. **Vacation.** Vacation may be taken at such times and intervals as are consistent with the business needs of the Company, and otherwise shall be subject to the policies of the Company, as in effect from time to time.
5. **Non-Solicitation, Non-Competition, Confidential Information and Inventions Assignment.** It is understood and agreed that, coincident with the date hereof, you will execute the Company's standard Employee Non-Solicitation, Non-Competition, Confidential Information and Inventions Assignment Agreement (the "NDA").
6. **Other Obligations.**
- (a) You represent and warrant that your signing of this letter and the performance of your obligations hereunder will not breach or be in conflict with any other agreement to which you are a party or are bound, and that you are not now subject to any covenants against competition or similar covenants or any court order that could affect the performance of your obligations hereunder.
- (b) The Company acknowledges that you are a managing director of, and occupy other positions with, Longwood Fund, LLC and its successors and affiliates (collectively, "Longwood"), a venture capital fund that invests in the Company, and that in such capacity certain business opportunities may be presented to you and certain information may be furnished to you by third parties that relate to the business and affairs of the Company. Pursuant to Section 122(17) of the Delaware General Corporation Law, the Company acknowledges and agrees that it has no interest or expectancy in any such opportunities, or in being offered an opportunity to participate in any such opportunities, and that you will be free to pursue any such opportunities on behalf of Longwood. The Company hereby waives, and agrees not to enforce, any fiduciary obligations that you might otherwise have to the Company under Delaware law in connection with any such opportunities, and agrees to indemnify and hold you harmless (and advance fees, costs and expenses) in the event any claim is made or action commenced against you alleging a breach of duty to the Company under Delaware law as a result of your pursuit of any such opportunities for the benefit of Longwood or your failure to pursue such opportunities for the benefit of the Company. The agreement of the Company set forth in this Section 6(b) shall continue in full force and effect following the termination of your employment as President or CEO, and shall apply to all Successor Positions you may hold with the Company (including without limitation as a member of the Board of Directors of the Company). For the avoidance of doubt, nothing in this Section 6(b) shall derogate from your obligation to comply with the terms of the NDA, and the Company shall have all contractual remedies available to it in the event of a breach of the NDA, and shall have no obligation to indemnify you or hold you harmless in the event that it takes any action to enforce, or recover any damages for breach of, the terms of the NDA.
7. **At-Will Employment.** This letter shall not be construed as an agreement, either express or implied, to employ you for any stated term. Both the Company and you remain free to end the employment relationship for any reason, at any time, with or without cause or notice. Although

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your job duties, title, compensation and benefits, as well as the Company's personnel policies and procedures, may change from time to time, the "at-will" nature of your employment may only be changed by a written agreement signed by you and an authorized representative of the Company that expressly states the intention to modify the at-will nature of your employment. Similarly, nothing in this letter shall be construed as an agreement, either express or implied, to pay you any compensation or grant you any benefit beyond the termination of your employment with the Company.

8. **Definitions.** For purposes of this Agreement, the terms below shall have the following assigned meanings:
- (a) "**Affiliates**" means all persons and entities directly or indirectly controlling, controlled by or under common control with the Company, where control may be by management authority, equity interest or otherwise.
- (b) "**Cause**." The following, as determined by the Company's Board of Directors in good faith and using its reasonable judgment, shall constitute "Cause" for termination of employment:
- (i) Your willful failure to perform, or gross negligence in the performance of, your material duties and responsibilities to the Company and its Affiliates, which failure or negligence is not remedied within thirty (30) days of written notice thereof;
- (ii) Your material breach of any material provision of this Agreement or any other agreement with the Company or any of its Affiliates, which breach is not remedied within thirty (30) days of written notice thereof;
- (iii) Fraud, embezzlement or other dishonesty with respect to the Company or any of its Affiliates, taken as a whole, which, in the case of such other dishonesty, causes or could reasonably be expected to cause material harm to the Company or any of its Affiliates, taken as a whole; or
- (iv) Your conviction of a felony.
- (c) "**Change of Control**" shall mean (i) the acquisition of beneficial ownership (as defined in Rule 13-3 under the Exchange Act) directly or indirectly by any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), of securities of the Company representing a majority or more of the combined voting power of the Company's then outstanding securities, other than in an acquisition of securities for investment purposes pursuant to a bona fide financing of the Company; (ii) a merger or consolidation of the Company with any other corporation in which the holders of the voting securities of the Company prior to the merger or consolidation do not own more than 50% of the total voting securities of the surviving corporation; or (iii) the sale or disposition by the Company of all or substantially all of the Company's assets other than a sale or disposition of assets to an Affiliate of the Company or a holder of securities of the

Company; notwithstanding the foregoing, no transaction or series of transactions shall constitute a Change of Control unless such transaction or series of transactions constitutes a "change in control event" within the meaning of Treasury Regulation Section 1.409A-3(i)(5)(i).

- (d) "Good Reason" shall mean, without your consent, the occurrence of any one or more of the following events, provided you have furnished written notice to the Company of the condition giving rise to the claimed Good Reason no later than thirty (30) days following the occurrence of such condition, and the Company has failed to remedy the condition within thirty (30) days thereafter:
- (i) a material diminution in the nature or scope of your responsibilities, duties or authority, provided that in the absence of a Change of Control neither (x) the Company's failure to continue your appointment or election as a director or officer of any of its Affiliates, nor (y) any diminution in the nature or scope of your responsibilities, duties or authority that is reasonably related to a diminution of the business of the Company or any of its Affiliates, nor (z) any diminution in the nature or scope of your responsibilities, duties or authority that arises out of or relates to your contemplated transition to the position of Executive Chairman, shall constitute "Good Reason";
  - (ii) a failure of the Company to provide you equity awards in accordance with Section 3 hereof after thirty (30) days' notice during which the Company does not cure such failure; or
  - (iii) relocation of your office more than forty (40) miles from the location of the Company's principal offices as of July, 2012.

9. **Miscellaneous.** This letter, together with the Employee Non-Solicitation, Non-Competition, Confidential Information and Inventions Assignment Agreement, sets forth the entire agreement between you and the Company and replaces all prior communications, agreements and understandings, written or oral, with respect to the terms and conditions of your employment. If any portion or provision of this letter shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this letter, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this letter shall be valid and enforceable to the fullest extent permitted by law. This letter shall be governed and construed in accordance with the laws of the Commonwealth of Massachusetts, without regard to the conflict-of-laws principles thereof. All disputes arising out of or related to this Agreement shall be resolved in the state or federal courts of the Commonwealth of Massachusetts, to whose exclusive personal jurisdiction the parties hereby consent. You and the Company hereby irrevocably waive, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this letter or the transactions contemplated hereby.

If this letter correctly sets forth the terms under which you will be employed by the Company, please sign the enclosed duplicate of this letter in the space provided below and return it to me, along with a signed copy of the Employee Non-Solicitation, Non-Competition, Confidential Information and Inventions Assignment Agreement.

Sincerely,

By: /s/ Henri Termeer  
 Henri Termeer  
 Chair, Compensation Committee

The foregoing correctly sets forth the terms of my at-will employment with Verastem, Inc. I am not relying on any representations other than those set forth above.

/s/ Christoph Westphal, M.D., Ph.D.  
 Christoph Westphal, M.D., Ph.D.

September 18, 2012  
 Date

## VERASTEM, INC.

Restricted Stock Unit Agreement  
 Performance-Vesting Restricted Stock Unit  
Granted under 2012 Incentive Plan

## NOTICE OF GRANT

This Restricted Stock Unit Agreement (this "Agreement") is made as of the Agreement Date between Verastem, Inc. (the "Company"), a Delaware corporation, and the Participant.

**I. Agreement Date**

Date: September 18, 2012

**II. Participant Information**

Participant: Christoph Westphal, M.D., Ph.D.  
 Participant Address: 17 Hawes Street  
 Brookline, MA 02446

**III. Grant Information**

Grant Date: September 18, 2012  
 Restricted Stock Units: 103,306

**IV. Vesting**

Up to 25% of the Participant's Restricted Stock Units shall vest annually at the time that cash bonuses are awarded to the other executive officers of the Company for each of the 12-month periods ending December 31, 2012, 2013, 2014 and 2015. The specific number of Restricted Stock Units that vest for each such 12-month period shall be equal to 25% of the Participant's Restricted Stock Units multiplied by the level of achievement of specified annual corporate goals (consistent with those applicable to other executives) and/or individual goals that have been established for the Company and, if applicable, the Participant by the Compensation Committee of the Board of Directors of the Company (such individual goals, if applicable, to be established after consultation with the Participant), such level of achievement to be expressed as a percentage and based on a determination of the Compensation Committee of the Board of Directors of the Company in its sole discretion; provided, that such percentage of achievement shall not exceed 100% in any given year.

This Agreement includes this Notice of Grant and the following General Terms and Conditions (attached as Exhibit A), which are expressly incorporated by reference in their entirety herein.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Agreement Date.

VERASTEM, INC.

PARTICIPANT

By: /s/ Robert Forrester  
 Name: Robert Forrester  
 Title: Chief Operating Officer

/s/ Christoph Westphal, M.D., Ph.D.  
 Name: Christoph Westphal, M.D., Ph.D.

**Restricted Stock Unit Agreement****EXHIBIT A****GENERAL TERMS AND CONDITIONS**

For valuable consideration, receipt of which is acknowledged, the parties hereto agree as follows:

1. **Grant of RSUs; Condition of Grant.** In consideration of services rendered to the Company by the Participant, the Company has granted to the Participant, subject to the terms and conditions set forth in this Agreement and in the Company's 2012 Incentive Plan (the "Plan"), an award of Restricted Stock Units (the "RSUs"), representing an award of the number of RSUs (the "Share Number") set forth in the Notice of Grant that forms part of this Agreement (the "Notice of Grant"). The RSUs entitle the Participant to receive, upon and subject to the vesting of the RSUs (as described in Section 2 below), one share of common stock, \$0.0001 par value per share, of the Company (the "Common Stock") for each RSU that vests. The shares of Common Stock that are issuable upon vesting of the RSUs are referred to in this Agreement as the "Shares."

2. **Vesting of the RSUs; Issuance of Shares.**

(a) **Vesting of the RSUs.** Subject to the other provisions of this Section 2, the RSUs shall vest in accordance with the Vesting Table set forth in the Notice of Grant (the "Vesting Table"). Any fractional RSU resulting from the application of the percentages in the Vesting Table shall be rounded down to the nearest whole number of RSUs. The vesting of your RSU's shall be subject to such further terms and conditions as are set forth in the offer letter, dated September 18, 2012, between the Company and the Participant, which are incorporated herein by reference.

(b) Issuance of Shares. Within thirty days of each vesting date shown in the Vesting Table (the “Vesting Dates”), the Company will issue to the Participant, in certificated or uncertificated form, such number of Shares as is equal to the number of RSUs that vested on such Vesting Date and shall deliver such Shares to the Participant, or to the broker designated by the Participant.

3. Dividends. The RSUs shall have no rights with respect to dividends declared by the Company with respect to its capital stock, provided that the foregoing shall not prohibit or otherwise limit the adjustment of the terms of this Agreement in accordance with Section 9 of the Plan.

4. Taxes.

(a) Acknowledgments; No Section 83(b) Election. The Participant acknowledges that he is responsible for obtaining the advice of the Participant’s own tax advisors with respect to the grant of the RSUs and the Shares upon vesting thereof and the Participant is relying solely on such advisors and not on any statements or representations of the Company or any of its agents with respect to the tax consequences relating to the RSUs or Shares. The

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Participant understands that the Participant (and not the Company) shall be responsible for the Participant’s tax liability that may arise in connection with the acquisition, vesting and/or disposition of the RSUs and the Shares underlying the RSUs. The Participant acknowledges that no election under Section 83(b) of the Internal Revenue Code, as amended, is available with respect to the issuance of the RSUs and the Shares underlying the RSUs.

(b) Withholding. As a condition to the granting of the RSUs and the vesting thereof, the Participant acknowledges and agrees that he is responsible for the payment of income and employment taxes (and any other taxes required to be withheld) payable in connection with the grant or vesting of, or otherwise in connection with, the RSUs. Accordingly, the Participant agrees to remit to the Company or any applicable subsidiary an amount sufficient to pay such taxes. Such payment shall be made to the Company or the applicable subsidiary of the Company in a form that is reasonably acceptable to the Company, as the Company may determine in its discretion. The Company in its discretion may retain and withhold from delivery at the time of vesting that number of shares of Common Stock having a fair market value equal to the statutory minimum withholding taxes owed by the Participant, which retained shares shall fund the payment of such taxes by the Company on behalf of the Participant. Alternatively, the Company may require the Participant to provide a designated broker with irrevocable instructions directing the designated broker to, on the date of the designated broker’s receipt of any shares of Common Stock in accordance with Section 2, sell in accordance with ordinary principles of best execution that number of such shares of Common Stock as is necessary to yield net proceeds to the Participant equal to the amount of withholding taxes with respect to the income recognized by the Participant as a result of the vesting of the RSUs (based on the minimum statutory withholding rates for all tax purposes, including payroll and social taxes, that are applicable to such income) and remit such proceeds to the Company in satisfaction of such tax withholding obligations of the Company.

5. Transferability.

(a) Restrictions on Transfer. The Participant shall not sell, assign, transfer, pledge, hypothecate or otherwise encumber, by operation of law or otherwise, any RSUs, or any interest therein, until such RSUs have vested and the Shares underlying the RSUs have been issued.

(b) Agreement in Connection with Public Offering. The Participant agrees, in connection with an underwritten public offering of the Common Stock pursuant to a registration statement under the Securities Act, (i) not to (a) offer, pledge, announce the intention to sell, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any other securities of the Company or (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of shares of Common Stock or other securities of the Company, whether any transaction described in clause (a) or (b) is to be settled by delivery of securities, in cash or otherwise, during the period beginning on the date of the filing of such registration statement with the Securities and Exchange Commission and ending 360 days after the date of the final prospectus relating to the offering (plus up to an additional 34 days to the extent requested by the managing underwriters for such offering in order to address FINRA Rule 2711(f)(4) or any similar successor provision), except, in the discretion of the Company, to the

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extent required to satisfy the tax withholding obligations set forth in Section 4(b) of this Agreement, and (ii) to execute any agreement reflecting clause (i) above as may be requested by the Company or the managing underwriters at the time of such offering. The Company may impose stop-transfer instructions with respect to the shares of Common Stock or other securities subject to the foregoing restriction until the end of the “lock-up” period.

6. Miscellaneous.

(a) No Rights to Employment. The Participant acknowledges and agrees that the grant of the RSUs and their vesting pursuant to Section 2 do not constitute an express or implied promise of continued employment for any period.

(b) Section 409A. This Agreement is intended to comply with or be exempt from the requirements of Section 409A and shall be construed consistently therewith. In any event, the Company makes no representations or warranties and will have no liability to the Participant or to any other person, if any of the provisions of or payments under this Agreement are determined to constitute nonqualified deferred compensation subject to Section 409A but that do not satisfy the requirements of that Section.

(c) Entire Agreement. This Agreement and the Plan constitute the entire agreement between the parties, and supersede all prior agreements and understandings, relating to the subject matter of this Agreement; provided that any separate employment or severance agreement between the Company and the Participant that includes terms relating to the acceleration of vesting of equity awards shall not be superseded by this Agreement. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

(d) Governing Law. This Agreement shall be construed, interpreted and enforced in accordance with the internal laws of the State of Delaware, without regard to any applicable conflict of law principles.

(e) Authority of Compensation Committee. In making any decisions or taking any actions with respect to the matters covered by this Agreement, the Compensation Committee shall have all of the authority and discretion, and shall be subject to all of the protections, provided for in the Plan.

All decisions and actions by the Compensation Committee with respect to this Agreement shall be made in the Compensation Committee's discretion and shall be final and binding on the Participant.

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## VERASTEM, INC.

Restricted Stock Unit Agreement  
Time-Vesting Restricted Stock Unit  
Granted under 2012 Incentive Plan

## NOTICE OF GRANT

This Restricted Stock Unit Agreement (this "Agreement") is made as of the Agreement Date between Verastem, Inc. (the "Company"), a Delaware corporation, and the Participant.

**I. Agreement Date**

Date: September 18, 2012

**II. Participant Information**

Participant: Christoph Westphal, M.D., Ph.D.  
Participant Address: 17 Hawes Street  
Brookline, MA 02446

**III. Grant Information**

Grant Date: September 18, 2012  
Restricted Stock Units: 206,612

**IV. Vesting Table**

<u>Vesting Date</u>	<u>RSUs that Vest</u>
December 31, 2012 (the "First Vesting Date")	25%
Quarterly on each Three-Month Anniversary of the First Vesting	6.25%
Date until the Third Anniversary of the First Vesting Date	

This Agreement includes this Notice of Grant and the following General Terms and Conditions (attached as Exhibit A), which are expressly incorporated by reference in their entirety herein.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Agreement Date.

VERASTEM, INC.

PARTICIPANT

By: /s/ Robert Forrester  
Name: Robert Forrester  
Title: Chief Operating Officer

/s/ Christoph Westphal, M.D., Ph.D.  
Name: Christoph Westphal, M.D., Ph.D.

**Restricted Stock Unit Agreement****EXHIBIT A****GENERAL TERMS AND CONDITIONS**

For valuable consideration, receipt of which is acknowledged, the parties hereto agree as follows:

1. **Grant of RSUs; Condition of Grant.** In consideration of services rendered to the Company by the Participant, the Company has granted to the Participant, subject to the terms and conditions set forth in this Agreement and in the Company's 2012 Incentive Plan (the "Plan"), an award of Restricted Stock Units (the "RSUs"), representing an award of the number of RSUs (the "Share Number") set forth in the Notice of Grant that forms part of this Agreement (the "Notice of Grant"). The RSUs entitle the Participant to receive, upon and subject to the vesting of the RSUs (as described in Section 2 below), one share of common stock, \$0.0001 par value per share, of the Company (the "Common Stock") for each RSU that vests. The shares of Common Stock that are issuable upon vesting of the RSUs are referred to in this Agreement as the "Shares."

2. **Vesting of the RSUs; Issuance of Shares.**

(a) **Vesting of the RSUs.** Subject to the other provisions of this Section 2, the RSUs shall vest in accordance with the Vesting Table set forth in the Notice of Grant (the "Vesting Table"). Any fractional RSU resulting from the application of the percentages in the Vesting Table shall be rounded down to the nearest whole number of RSUs. The vesting of your RSU's shall be subject to such further terms and conditions as are set forth in the offer letter, dated September 18, 2012, between the Company and the Participant, which are incorporated herein by reference.

(b) **Issuance of Shares.** Within thirty days of each vesting date shown in the Vesting Table (the "Vesting Dates"), the Company will issue to the Participant, in certificated or uncertificated form, such number of Shares as is equal to the number of RSUs that vested on such Vesting Date and

shall deliver such Shares to the Participant, or to the broker designated by the Participant.

3. Dividends. The RSUs shall have no rights with respect to dividends declared by the Company with respect to its capital stock, provided that the foregoing shall not prohibit or otherwise limit the adjustment of the terms of this Agreement in accordance with Section 9 of the Plan.

4. Taxes.

(a) Acknowledgments; No Section 83(b) Election. The Participant acknowledges that he is responsible for obtaining the advice of the Participant's own tax advisors with respect to the grant of the RSUs and the Shares upon vesting thereof and the Participant is relying solely on such advisors and not on any statements or representations of the Company or any of its agents with respect to the tax consequences relating to the RSUs or Shares. The Participant understands that the Participant (and not the Company) shall be responsible for the

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Participant's tax liability that may arise in connection with the acquisition, vesting and/or disposition of the RSUs and the Shares underlying the RSUs. The Participant acknowledges that no election under Section 83(b) of the Internal Revenue Code, as amended, is available with respect to the issuance of the RSUs and the Shares underlying the RSUs.

(b) Withholding. As a condition to the granting of the RSUs and the vesting thereof, the Participant acknowledges and agrees that he is responsible for the payment of income and employment taxes (and any other taxes required to be withheld) payable in connection with the grant or vesting of, or otherwise in connection with, the RSUs. Accordingly, the Participant agrees to remit to the Company or any applicable subsidiary an amount sufficient to pay such taxes. Such payment shall be made to the Company or the applicable subsidiary of the Company in a form that is reasonably acceptable to the Company, as the Company may determine in its discretion. The Company in its discretion may retain and withhold from delivery at the time of vesting that number of shares of Common Stock having a fair market value equal to the statutory minimum withholding taxes owed by the Participant, which retained shares shall fund the payment of such taxes by the Company on behalf of the Participant. Alternatively, the Company may require the Participant to provide a designated broker with irrevocable instructions directing the designated broker to, on the date of the designated broker's receipt of any shares of Common Stock in accordance with Section 2, sell in accordance with ordinary principles of best execution that number of such shares of Common Stock as is necessary to yield net proceeds to the Participant equal to the amount of withholding taxes with respect to the income recognized by the Participant as a result of the vesting of the RSUs (based on the minimum statutory withholding rates for all tax purposes, including payroll and social taxes, that are applicable to such income) and remit such proceeds to the Company in satisfaction of such tax withholding obligations of the Company.

5. Transferability.

(a) Restrictions on Transfer. The Participant shall not sell, assign, transfer, pledge, hypothecate or otherwise encumber, by operation of law or otherwise, any RSUs, or any interest therein, until such RSUs have vested and the Shares underlying the RSUs have been issued.

(b) Agreement in Connection with Public Offering. The Participant agrees, in connection with an underwritten public offering of the Common Stock pursuant to a registration statement under the Securities Act, (i) not to (a) offer, pledge, announce the intention to sell, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any other securities of the Company or (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of shares of Common Stock or other securities of the Company, whether any transaction described in clause (a) or (b) is to be settled by delivery of securities, in cash or otherwise, during the period beginning on the date of the filing of such registration statement with the Securities and Exchange Commission and ending 360 days after the date of the final prospectus relating to the offering (plus up to an additional 34 days to the extent requested by the managing underwriters for such offering in order to address FINRA Rule 2711(f)(4) or any similar successor provision), except, in the discretion of the Company, to the extent required to satisfy the tax withholding obligations set forth in Section 4(b) of this

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Agreement, and (ii) to execute any agreement reflecting clause (i) above as may be requested by the Company or the managing underwriters at the time of such offering. The Company may impose stop-transfer instructions with respect to the shares of Common Stock or other securities subject to the foregoing restriction until the end of the "lock-up" period.

6. Miscellaneous.

(a) No Rights to Employment. The Participant acknowledges and agrees that the grant of the RSUs and their vesting pursuant to Section 2 do not constitute an express or implied promise of continued employment for any period.

(b) Section 409A. This Agreement is intended to comply with or be exempt from the requirements of Section 409A and shall be construed consistently therewith. In any event, the Company makes no representations or warranties and will have no liability to the Participant or to any other person, if any of the provisions of or payments under this Agreement are determined to constitute nonqualified deferred compensation subject to Section 409A but that do not satisfy the requirements of that Section.

(c) Entire Agreement. This Agreement and the Plan constitute the entire agreement between the parties, and supersede all prior agreements and understandings, relating to the subject matter of this Agreement; provided that any separate employment or severance agreement between the Company and the Participant that includes terms relating to the acceleration of vesting of equity awards shall not be superseded by this Agreement. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

(d) Governing Law. This Agreement shall be construed, interpreted and enforced in accordance with the internal laws of the State of Delaware, without regard to any applicable conflict of law principles.

(e) Authority of Compensation Committee. In making any decisions or taking any actions with respect to the matters covered by this Agreement, the Compensation Committee shall have all of the authority and discretion, and shall be subject to all of the protections, provided for in the Plan. All decisions and actions by the Compensation Committee with respect to this Agreement shall be made in the Compensation Committee's discretion and shall be final and binding on the Participant.



## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement"), dated October 23, 2012, is by and between Verastem, Inc. (the "Company"), a Delaware corporation with its principal place of business at 215 First Street, Suite 440, Cambridge, MA 02142, and Joanna Horobin (the "Executive") of 47 Norwich Road, Wellesley, MA 02481.

WHEREAS, the Executive has certain experience and expertise that qualify her to provide management direction and leadership for the Company.

WHEREAS, the Company wishes to employ the Executive to serve as its Chief Medical Officer.

NOW, THEREFORE, in consideration of the mutual covenants and promises contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company offers and the Executive accepts employment upon the following terms and conditions:

1. **Position and Duties.** Upon the terms and subject to the conditions set forth in this Agreement, the Company hereby offers and the Executive hereby accepts employment with the Company to serve as its Chief Medical Officer, reporting initially to the Company's Chief Operating Officer. The Executive agrees to perform the duties of the Executive's position and such other duties as reasonably may be assigned to the Executive from time to time. The Executive also agrees that while employed by the Company, the Executive will devote one hundred percent (100%) of the Executive's business time and the Executive's reasonable commercial efforts, business judgment, skill and knowledge exclusively to the advancement of the business and interests of the Company and to the discharge of the Executive's duties and responsibilities for it. Subject to prior approval of the Chief Operating officer, with such approval not to be unreasonably withheld, the Executive may maintain a consulting relationship with her previous employer for up to 12 months and join the board of directors of one company.

2. **Compensation and Benefits.** During the Executive's employment, as compensation for all services performed by the Executive for the Company and subject to her performance of her duties and responsibilities for the Company, pursuant to this Agreement or otherwise, the Company will provide the Executive the following pay and benefits:

(a) **Base Salary; Annual Bonus.** From the period of the date hereof until December 31, 2013, the Company will pay the Executive a base salary at the rate of Three Hundred Fifty Thousand Dollars (\$350,000) per year. Such amount shall be payable in accordance with the regular payroll practices of the Company for its executives, as in effect from time to time, and subject to increase from time to time by the Board in its discretion. The Executive shall have the opportunity to earn an annual target bonus measured against performance criteria to be determined by the Board (or a committee thereof) of 35% of the Executive's then current annual base salary. Any bonus amount payable by the Company, if any, shall be paid no later than March 15 of the year following the year in which such bonus is earned.

(b) **Stock Option.** Subject to Board approval, the Company will grant the Executive a stock option to purchase Two Hundred Thousand (200,000) shares of the Company's Common Stock at fair market value on the date of grant. The stock option will vest over four years at the rate of 25% on the one year anniversary of the Executive's date of hire subject to her continuing employment with the Company, and no shares shall vest before such date, except as provided below. The remaining shares shall vest quarterly over the next three years in equal quarterly amounts subject to the Executive's continuing employment with the Company, except as noted below.

(c) **Participation in Employee Benefit Plans.** The Executive will be entitled to participate in all Employee Benefit Plans from time to time in effect for employees of the Company generally, except to the extent such plans are duplicative of benefits otherwise provided the Executive under this Agreement (e.g., severance pay) or under any other agreement. The Executive's participation will be subject to the terms of the applicable plan documents and generally applicable Company policies. The Company may alter, modify, add to or delete its Employee Benefit Plans at any time as it, in its sole judgment, determines to be appropriate, without recourse by the Executive. For purposes of this Agreement, "Employee Benefit Plan" shall have the meaning ascribed to such term in Section 3(3) of ERISA, as amended from time to time.

(d) **Vacation.** The Executive will accrue three weeks paid vacation per year (or such greater amount as is generally made available to the Company's executive officers) in accordance with the Company's policies from time to time in effect and receive paid holidays in accordance with the Company holiday schedule. Vacation may be taken at such times and intervals as the Executive shall determine, subject to the business needs of the Company, and otherwise shall be subject to the policies of the Company, as in effect from time to time.

(e) **Business Expenses.** The Company will pay or reimburse the Executive for all reasonable business expenses incurred or paid by the Executive in the performance of her duties and responsibilities for the Company, subject to any maximum annual limit and other restrictions on such expenses set by the Company and to such reasonable substantiation and documentation as it may specify from time to time. Any such reimbursement that would constitute nonqualified deferred compensation subject to Section 409A shall be subject to the following additional rules: (i) no reimbursement of any such expense shall affect the Executive's right to reimbursement of any other such expense in any other taxable year; (ii) reimbursement of the expense shall be made, if at all, not later than the end of the calendar year following the calendar year in which the expense was incurred; and (iii) the right to reimbursement shall not be subject to liquidation or exchange for any other benefit.

3. **Confidential Information, Non-Competition and Proprietary Information.** The Executive has executed or will execute the Company's standard Employee Non-Solicitation, Non-Competition, Confidential Information and Inventions Assignment Agreement. It is understood and agreed that breach by the Executive of the Employee Non-Solicitation, Non-Competition, Confidential Information and Inventions Assignment Agreement shall constitute a material breach of this Agreement.

4. **Termination of Employment.** The Executive's employment under this Agreement shall continue until terminated pursuant to this Section 4.

(a) The Company may terminate the Executive's employment for "Cause" upon written notice to the Executive received at least five business days prior to such termination setting forth in reasonable detail the nature of the Cause. The following, as determined by the Board in good faith and using its reasonable judgment, shall constitute Cause for termination: (i) the Executive's willful failure to perform, or gross negligence in the performance of, the Executive's material duties and responsibilities to the Company and its Affiliates which is not remedied within thirty (30) days of written notice thereof; (ii) material breach by the Executive of any material provision of this Agreement or any other agreement with the Company or any of its Affiliates which is not remedied within thirty (30) days of written notice thereof; (iii) fraud, embezzlement or other dishonesty with respect to the Company and any of its Affiliates, taken as a whole, which, in the case of such other dishonesty, causes or could reasonably be expected to cause material harm to the Company and any of its Affiliates, taken as a whole; or (iv) the Executive's conviction of a felony.

(b) The Company may terminate the Executive's employment at any time other than for Cause upon one month's written notice to the Executive.

(c) The Executive may terminate her employment hereunder for Good Reason by providing notice to the Company of the condition giving rise to the Good Reason no later than thirty (30) days following the occurrence of the condition, by giving the Company thirty (30) days to remedy the condition and by terminating employment for Good Reason within thirty (30) days thereafter if the Company fails to remedy the condition. For purposes of this Agreement, "Good Reason" shall mean, without the Executive's consent, the occurrence of anyone or more of the following events: (i) material diminution in the nature or scope of the Executive's responsibilities, duties or authority, provided that in the absence of a Change of Control neither (x) the Company's failure to continue the Executive's appointment or election as a director or officer of any of its Affiliates nor (y) any diminution in the nature or scope of the Executive's responsibilities, duties or authority that is reasonably related to a diminution of the business of the Company or any of its Affiliates shall constitute "Good Reason"; (ii) a material reduction in the Executive's base salary other than one temporary reduction of not more than 120 days and not in excess of 20% of the Executive's base salary in connection with and in proportion to a general reduction of the base salaries of the Company's executive officers; (iii) failure of the Company to provide the Executive the salary or benefits in accordance with Section 2 hereof after thirty (30) days' notice during which the Company does not cure such failure; or (iv) relocation of the Executive's office more than forty (40) miles from the location of the Company's principal offices as of the date of Employee's hire.

(d) The Executive may terminate her employment with the Company other than for Good Reason at any time upon one month's notice to the Company.

(e) This Agreement shall automatically terminate in the event of the Executive's death during employment. The Company may terminate the Executive's employment, upon notice to the Executive, in the event the Executive becomes disabled during employment and, as a result, is unable to continue to perform substantially all of her material

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duties and responsibilities under this Agreement for one-hundred and fifty (150) days during any period of three hundred and sixty-five (365) consecutive calendar days. If any question shall arise as to whether the Executive is disabled to the extent that the Executive is unable to perform substantially all of her material duties and responsibilities for the Company and its Affiliates, the Executive shall, at the Company's request and expense, submit to a medical examination by a physician selected by the Company to whom the Executive or the Executive's guardian, if any, has no reasonable objection to determine whether the Executive is so disabled and such determination shall for the purposes of this Agreement be conclusive of the issue. If such a question arises and the Executive fails to submit to the requested medical examination, the Company's determination of the issue shall be binding on the Executive.

5. **Severance Payments and Other Matters Related to Termination.**

(a) **Termination pursuant to Section 4(b) or 4(c).**

i. Except as provided in Section 5(c) below, in the event of termination of the Executive's employment either by the Company other than for Cause pursuant to Section 4(a) of this Agreement or by the Executive for Good Reason pursuant to Section 4(c) of this Agreement, (I) all unvested options, restricted stock, and restricted stock unit and which, by their terms, vest only based on the passage of time (disregarding any acceleration of the vesting of such options, restricted stock or restricted stock units based on individual or Company performance) shall vest as of the date of termination (notwithstanding anything to the contrary in Section 2(b) of this Agreement) with respect to an additional nine (9) months of vesting; and (II) the Company shall pay the Executive's then-current annual base salary for a period of nine (9) months in accordance with the Company's payroll practice then in effect, beginning on the Payment Commencement Date.

ii. If the Executive is participating in the Company's group health plan and/or dental plan at the time the Executive's employment terminates, and the Executive exercises her right to continue participation in those plans under the federal law known as COBRA, or any successor law, the Company will pay or, at its option, reimburse the Executive, for the full premium cost of that participation for nine (9) months following the date on which the Executive's employment with the Company terminates or, if earlier, until the date the Executive becomes eligible to enroll in the health (or, if applicable, dental) plan of a new employer, payable in accordance with regular payroll practices for benefits beginning on the Payment Commencement Date. The Company will also pay the Executive on the date of termination any base salary earned but not paid through the, date of termination and pay for any vacation time accrued but not used to that date. In addition, the Company will pay the Executive any bonus which has been awarded to the Executive, but not yet paid on the date of termination of her employment, payable in a lump sum on the Payment Commencement Date.

iii. Any obligation of the Company to provide the Executive severance payments or other benefits under this Section 5(a) is conditioned on the Executive's signing an effective and reasonable release of claims in the form provided by the Company (the "Employee Release") within 60 days following the termination of the Executive's employment, which release shall not apply to (i) claims for indemnification in the Executive's capacity as an officer or director of the Company under the Company's Certificate of Incorporation, By-laws or

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agreement, if any, providing for director or officer indemnification, (ii) rights to receive insurance coverage and payments under any policy maintained by the Company and (iii) rights to receive retirement benefits that are accrued and fully vested at the time of the Executive's termination and rights under such plans protected by ERISA. Any severance payments to be made in the form of salary continuation pursuant to the terms of this Agreement shall be payable in accordance with the normal payroll practices of the Company, and will begin at the Company's next regular payroll period following the effective date of the Employee Release, but shall be retroactive to the date of termination. The Executive agrees to provide the Company prompt notice of the Executive's eligibility to participate in the health plan and, if applicable, dental plan of any employer. The Executive further agrees to repay any overpayment of health benefit premiums made by the Company hereunder.

(b) **Termination other than pursuant to Section 4(b) or 4(c).** In the event of any termination of the Executive's employment, other than a termination by the Company pursuant to Section 4(b) of this Agreement or a termination by the Executive for Good Reason pursuant to Section 4(c) of this Agreement, the Company will pay the Executive any base salary earned but not paid through the date of termination and pay for any vacation time accrued but not used to that date. In addition, the Company will pay the Executive any bonus which has been awarded to the Executive, but not yet paid on the date of termination of the Executive's employment. The Company shall have no other payment obligations to the Executive under this Agreement.

(c) **Upon a Change of Control.**

i. If, within ninety (90) days prior to the Change of Control or within eighteen (18) months following a Change of Control (as defined in Section 6 hereof), the Company or any successor thereto terminates the Executive's employment other than for Cause, or the Executive terminates her employment for Good Reason, then, in lieu of any payments to the Executive or on the Executive's behalf under Section 5(a) hereof, (i) all of the Executive's then remaining unvested options, restricted stock and restricted stock units which, by their terms, vest only based on the passage of time (disregarding any acceleration of the vesting of such options, restricted stock or restricted stock units based on individual or Company performance) shall automatically vest as of the date of termination (notwithstanding anything to the contrary in Section 2(b) of this Agreement) and (ii) the Company shall pay, within thirty (30) days of such termination, a lump sum payment equal to the Executive's then-current annual base salary for a period of twelve (12) months; provided, however, that if such termination occurs prior to a Change of Control, such severance payments shall be made at the time and in the manner set forth in Section 5(a)(i) during the period beginning on the date of termination through the date of the Change of Control with any severance remaining to be paid under this Section 5(c)(i) payable in a lump sum on the closing date of the Change of Control; and,

ii. If the Executive is participating in the Company's group health plan and/or dental plan at the time the Executive's employment terminates (whether such termination is as described in (i) above), and the Executive exercises her right to continue participation in those plans under the federal law known as COBRA, or any successor law, the Company will pay or, at its option, reimburse the Executive, for the full premium cost of that participation for twelve (12) following the date on which the Executive's employment with the

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Company terminates or, if earlier, until the date the Executive becomes eligible to enroll in the health (or, if applicable, dental) plan of a new employer, with such amount payable on a pro-rata basis in accordance with the Company's regular payroll practices for benefits. The Company will also pay the Executive on the date of termination any base salary earned but not paid through the, date of termination and pay for any vacation time accrued but not used to that date. In addition, the Company will pay the Executive any bonus which has been awarded to the Executive, but not yet paid on the date of termination of her employment, payable within 30 days of the date of termination

iii. Any obligation of the Company to provide the Executive severance payments or other benefits under this Section 5(c) is conditioned on the Executive's signing an effective and reasonable release of claims in the form provided by the Company (the "Employee Release") within 60 days following the termination of the Executive's employment, which release shall not apply to (i) claims for indemnification in the Executive's capacity as an officer or director of the Company under the Company's Certificate of Incorporation, By-laws or agreement, if any, providing for director or officer indemnification, (ii) rights to receive insurance coverage and payments under any policy maintained by the Company and (iii) rights to receive retirement benefits that are accrued and fully vested at the time of the Executive's termination and rights under such plans protected by ERISA.

(d) Except for any right the Executive may have under applicable law to continue participation in the Company's group health and dental plans under COBRA, or any successor law, benefits shall terminate in accordance with the terms of the applicable benefit plans based on the date of termination of the Executive's employment, without regard to any continuation of base salary or other payment to the Executive following termination.

(e) Provisions of this Agreement shall survive any termination if so provided in this Agreement or if necessary or desirable to accomplish the purposes of other surviving provisions, including without limitation the Executive's obligations under Section 3 of this Agreement and under the Employee Non-Solicitation, Non- Competition, Confidential Information and Inventions Assignment Agreement. The obligation of the Company to make payments to the Executive or on the Executive's behalf under Section 5 of this Agreement is expressly conditioned upon the Executive's continued full performance of the Executive's obligations under Section 3 hereof, under the Employee Non-Solicitation, Non-Competition, Confidential Information and Inventions Assignment Agreement to be executed herewith, and under any subsequent agreement between the Executive and the Company or any of its Affiliates relating to confidentiality, non-competition, proprietary information or the like; provided however that any future agreement that Executive is asked to execute does not impose any greater restrictions or obligations upon Executive or upon her post-termination activities than the agreements signed at the outset of her employment with the Company.

6. **Definitions.** For purposes of this agreement; the following definitions apply:

"Affiliates" means all persons and entities directly or indirectly controlling, controlled by or under common control with the Company, where control may be by management authority, equity interest or otherwise.

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"Change of Control" shall mean (i) the acquisition of beneficial ownership (as defined in Rule 13d-3 under the Exchange Act) directly or indirectly by any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), of securities of the Company representing a majority or more of the combined voting power of the Company's then outstanding securities, other than an acquisition of securities for investment purposes pursuant to a bona fide financing of the Company; (ii) a merger or consolidation of the Company with any other corporation in which the holders of the voting securities of the

Company prior to the merger or consolidation do not own more than 50% of the total voting securities of the surviving corporation; or (iii) the sale or disposition by the Company of all or substantially all of the Company's assets other than a sale or disposition of assets to an Affiliate of the Company or a holder of securities of the Company; notwithstanding the foregoing, no transaction or series of transactions shall constitute a Change of Control unless such transaction or series of transactions constitutes a "change in control event" within the meaning of Treasury Regulation Section 1.409A-3(i)(5)(i).

"Person" means an individual, a corporation, an association, a partnership, an estate, a trust and any other entity or organization, other than the Company or any of its Affiliates.

7. **Conflicting Agreements.** The Executive hereby represents and warrants that her signing of this Agreement and the performance of her obligations under it will not breach or be in conflict with any other agreement to which the Executive is a party or is bound and that the Executive is not now subject to any covenants against competition or similar covenants or any court order that could affect the performance of the Executive's obligations under this Agreement. The Executive agrees that she will not disclose to or use on behalf of the Company any proprietary information of a third party without that party's consent.

8. **Withholding; Other Tax Matters.** Anything to the contrary notwithstanding, (a) all payments required to be made by the Company hereunder to Executive shall be subject to the withholding of such amounts, if any, relating to tax and other payroll deductions as the Company may reasonably determine it should withhold pursuant to any applicable law or regulation, and (b) all severance payments and benefits payable pursuant to Sections 5(a) and 5(c) hereof shall be subject to the terms and conditions set forth on Exhibit A attached hereto.

9. **Assignment.** Neither the Executive nor the Company may make any assignment of this Agreement or any interest in it, by operation of law or otherwise, without the prior written consent of the other; provided, however, that the Company may assign its rights and obligations under this Agreement without the Executive's consent to one of its Affiliates or to any Person with whom the Company shall hereafter affect a reorganization, consolidate with, or merge into or to whom it transfers all or substantially all of its properties or assets. This Agreement shall inure to the benefit of and be binding upon the Executive and the Company, and each of our respective successors, executors, administrators, heirs and permitted assigns.

10. **Severability.** If any portion or provision of this Agreement shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this Agreement, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

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11. **Miscellaneous.** This Agreement, together with the Employee Non-Solicitation, Non-Competition, Confidential Information and Inventions Assignment Agreement, sets forth the entire agreement between the Executive and the Company and replaces all prior communications, agreements and understandings, written or oral, with respect to the terms and conditions of the Executive's employment. This Agreement may not be modified or amended, and no breach shall be deemed to be waived, unless agreed to in writing by the Executive and an expressly authorized representative of the Board. The headings and captions in this Agreement are for convenience only and in no way define or describe the scope or content of any provision of this Agreement. This Agreement may be executed in two or more counterparts, each of which shall be an original and all of which together shall constitute one and the same instrument. This is a Massachusetts contract and shall be governed and construed in accordance with the laws of the Commonwealth of Massachusetts, without regard to the conflict-of-laws principles thereof.

12. **Notices.** Any notices provided for in this Agreement shall be in writing and shall be effective when delivered in person, consigned to a reputable national courier service for overnight delivery or deposited in the United States mail, postage prepaid, and addressed to the Executive at the Executive's last known address on the books of the Company or, in the case of the Company, to it by notice to the Chairman of the Board of Directors, c/o Verastem, Inc. at its principal place of business, or to such other addressees) as either party may specify by notice to the other actually received.

[Remainder of page intentionally left blank.]

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IN WITNESS WHEREOF, this Agreement has been executed as a sealed instrument by the Company, by its duly authorized representative, and by the Executive, as of the date first stated above.

THE EXECUTIVE

THE COMPANY

/s/ Joanna Horobin  
Joanna Horobin

/s/ Robert Forrester  
Robert Forrester  
Chief Operating Officer

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**Exhibit A**

**Payments Subject to Section 409A**

1. Subject to this Exhibit A, any severance payments that may be due under the Agreement shall begin only upon the date of the Executive's "separation from service" (determined as set forth below) which occurs on or after the termination of Executive's employment. The following rules shall

apply with respect to distribution of the severance payments, if any, to be provided to Executive under the Agreement, as applicable:

(a) It is intended that each installment of the severance payments under the Agreement provided under shall be treated as a separate “payment” for purposes of Section 409A. Neither the Company nor Executive shall have the right to accelerate or defer the delivery of any such payments except to the extent specifically permitted or required by Section 409A.

(b) If, as of the date of Executive’s “separation from service” from the Company, Executive is not a “specified Executive” (within the meaning of Section 409A), then each installment of the severance payments shall be made on the dates and terms set forth in the Agreement.

(c) If, as of the date of Executive’s “separation from service” from the Company, Executive is a “specified Executive” (within the meaning of Section 409A), then:

(i) Each installment of the severance payments due under the Agreement that, in accordance with the dates and terms set forth herein, will in all circumstances, regardless of when Executive’s separation from service occurs, be paid within the short-term deferral period (as defined under Section 409A) shall be treated as a short-term deferral within the meaning of Treasury Regulation Section 1.409A-1(b)(4) to the maximum extent permissible under Section 409A and shall be paid on the dates and terms set forth in the Agreement; and

(ii) Each installment of the severance payments due under the Agreement that is not described in this Exhibit A, Section 1(c)(i) and that would, absent this subsection, be paid within the six-month period following Executive’s “separation from service” from the Company shall not be paid until the date that is six months and one day after such separation from service (or, if earlier, Executive’s death), with any such installments that are required to be delayed being accumulated during the six-month period and paid in a lump sum on the date that is six months and one day following Executive’s separation from service and any subsequent installments, if any, being paid in accordance with the dates and terms set forth herein; provided, however, that the preceding provisions of this sentence shall not apply to any installment of payments if and to the maximum extent that that such installment is deemed to be paid under a separation pay plan that does not provide for a deferral of compensation by reason of the application of Treasury Regulation 1.409A-1(b)(9)(iii) (relating to separation pay upon an involuntary

separation from service). Any installments that qualify for the exception under Treasury Regulation Section 1.409A-1(b)(9)(iii) must be paid no later than the last day of Executive’s second taxable year following the taxable year in which the separation from service occurs.

2. The determination of whether and when Executive’s separation from service from the Company has occurred shall be made and in a manner consistent with, and based on the presumptions set forth in, Treasury Regulation Section 1.409A-1(h). Solely for purposes of this Exhibit A, Section 2, “Company” shall include all persons with whom the Company would be considered a single employer under Section 414(b) and 414(c) of the Code.

3. The Company makes no representation or warranty and shall have no liability to Executive or to any other person if any of the provisions of the Agreement (including this Exhibit) are determined to constitute deferred compensation subject to Section 409A but that do not satisfy an exemption from, or the conditions of, that section.



## CERTIFICATIONS

I, Christoph Westphal, M.D., Ph.D. certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Verastem, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ CHRISTOPH WESTPHAL, M.D., PH.D.

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Christoph Westphal, M.D., Ph.D.  
*President and Chief Executive Officer*

Date: November 13, 2012

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QuickLinks

[Exhibit 31.1](#)

[CERTIFICATIONS](#)

**CERTIFICATIONS**

I, Robert Forrester, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Verastem, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ ROBERT FORRESTER

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Robert Forrester  
*Chief Operating Officer*

Date: November 13 , 2012

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QuickLinks

[Exhibit 31.2](#)

[CERTIFICATIONS](#)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Verastem, Inc. (the "Company") for the period ended September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Christoph Westphal, M.D., Ph.D., President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ CHRISTOPH WESTPHAL, M.D., PH.D.

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Christoph Westphal, M.D., Ph.D.  
*President and Chief Executive Officer*

Date: November 13, 2012

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## QuickLinks

[Exhibit 32.1](#)

[CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002](#)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Verastem, Inc. (the "Company") for the period ended September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Robert Forrester, Chief Operating Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ROBERT FORRESTER

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Robert Forrester  
*Chief Operating Officer*

Date: November 13, 2012

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QuickLinks

[Exhibit 32.2](#)

[CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002](#)



## Verastem Reports Third Quarter 2012 Financial and Corporate Results

CAMBRIDGE, MA — November 13, 2012— Verastem, Inc., (NASDAQ: VSTM) a clinical-stage biopharmaceutical company focused on discovering and developing drugs to treat cancer by the targeted killing of cancer stem cells, today reported financial results for the quarter ended September 30, 2012 and also commented on certain corporate accomplishments and plans.

“We have made key strategic moves in the third quarter to position Verastem as a leader in therapeutic development targeting cancer stem cells,” said Christoph Westphal, M.D., Ph.D., Chairman and Chief Executive Officer of Verastem.

“We have appointed Joanna Horobin as Chief Medical Officer to lead our clinical development across multiple programs and trials,” said Robert Forrester, Verastem Chief Operating Officer. “Recent data presented at the EORTC meeting provide a clinical proof-of-concept for the utility of FAK inhibition in mesothelioma and indicate a particular sensitivity in tumors lacking the tumor suppressor Merlin. We intend to quickly move into a potential registration study with our lead FAK inhibitor, VS-6063, in mesothelioma midyear 2013.”

### Recent Accomplishments

Our significant recent accomplishments include the following:

#### *Focal Adhesion Kinase (FAK) Inhibition*

- Accelerated the FAK program with the in-license of FAK inhibitor VS-6063
  - VS-6063 has completed a Phase 1 study in advanced solid tumors, where it was well tolerated and demonstrated signs of clinical activity
  - VS-6063 is expected to enter into a potential registration study in mesothelioma midyear 2013
- 2012 International Mesothelioma Interest Group
  - Presented data demonstrating that loss of the tumor suppressor Merlin confers increased susceptibility to FAK inhibition. Approximately 50% of patients with mesothelioma are Merlin-negative
- 2012 EORTC Symposium on Molecular Targets and Cancer Therapeutics
  - Presented data demonstrating strong single agent activity of FAK inhibition in Merlin-negative triple negative breast cancer models
  - GSK reported data from a Phase 1 trial where it saw positive activity in mesothelioma in response to FAK inhibition and a particular sensitivity in tumors lacking the tumor suppressor Merlin. These findings corroborate Verastem’s research on FAK inhibition’s importance for the treatment of mesothelioma

#### *Dual PI3K/mTOR Inhibition*

- 2012 EORTC Symposium on Molecular Targets and Cancer Therapeutics
  - Presented data on the targeted killing of cancer stem cells by VS-5584 in models of triple negative breast cancer

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### *Corporate*

- Appointed Joanna Horobin, M.B., Ch.B., as Chief Medical Officer
- Appointed S. Louise Phanstiel to the Board of Directors
- Established a research collaboration with Eisai to discover next-generation small molecule inhibitors of Wnt signaling

### Third Quarter 2012 Financial Results

As of September 30, 2012, Verastem had cash, cash equivalents and investments of \$97.4 million compared to \$56.8 million on December 31, 2011.

Net loss for the three months ended September 30, 2012 (the “2012 Quarter”) was \$10.4 million, or \$0.51 per share applicable to common shareholders, as compared to net loss of \$4.0 million, or \$2.98 per share, for the three months ending September 30, 2011 (the “2011 Quarter”). Net loss for the 2012 Quarter includes license fees of \$3.5 million, including the issuance of 192,012 shares of common stock, and stock-based compensation expense of \$1.6 million compared to stock-based compensation expense of \$652,000 for the 2011 Quarter.

Research and development expense for the 2012 Quarter was \$8.1 million compared to \$3.1 million for the 2011 Quarter. The \$5.0 million increase from the 2011 Quarter to the 2012 Quarter principally resulted from an increase of \$3.4 million in license fees due to our agreement with Pfizer, including the issuance of 192,012 shares of common stock, an increase of \$1.3 million in contract research organization expense and an increase of \$528,000 for personnel costs, including stock-based compensation of \$325,000, primarily due to increased headcount and a higher fair value of our common stock. These expenses are partially offset by decreases in consulting expense of \$146,000 and lab supplies of \$114,000.

General and administrative expense for the 2012 Quarter was \$2.3 million compared to \$965,000 for the 2011 Quarter. The \$1.3 million increase from the 2011 Quarter to the 2012 Quarter principally resulted from an increase of \$821,000 for personnel costs, including stock-based compensation of \$640,000, primarily due to a higher fair value of our common stock, an increase of \$385,000 in professional fees primarily related to additional legal and accounting fees for being a publicly traded company and an increase of \$100,000 in insurance costs primarily related to being a publicly traded company.

### About Verastem, Inc.

Verastem, Inc. (NASDAQ: VSTM) is a clinical-stage biopharmaceutical company focused on discovering and developing drugs to treat cancer by the targeted killing of cancer stem cells. Cancer stem cells are an underlying cause of tumor recurrence and metastasis. Verastem is developing small molecule inhibitors of signaling pathways that are critical to cancer stem cell survival and proliferation: FAK, PI3K/mTOR and Wnt. For more information, please visit [www.verastem.com](http://www.verastem.com).

**Forward-looking statements:**

This press release includes forward-looking statements about the Company's strategy, future plans and prospects, including statements regarding the development of the Company's compounds, including VS-6063, VS-4718 and VS-5584, and the Company's FAK PI3K/mTOR, Wnt and diagnostic programs generally, the timeline for clinical development and regulatory approval of the Company's compounds, the structure of the Company's planned clinical trials and the ability of the Company to finance

contemplated development activities.. 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. Each forward-looking statement is subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in such statement. Applicable risks and uncertainties include the risks that the preclinical testing of the Company's compounds may not be predictive of the success of later clinical trials, that the Company will be unable to successfully complete the clinical development of its compounds, including VS-6063, VS-4718 and VS-5584, that the development of the Company's compounds will take longer or cost more than planned, and that the Company's compounds will not receive regulatory approval or become commercially successful products. Other risks and uncertainties include those identified under the heading "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 and in any subsequent SEC filings. The forward-looking statements contained in this presentation reflect the Company's current views with respect to future events, and the Company does not undertake and specifically disclaims any obligation to update any forward-looking statements.

**Verastem, Inc.**

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**Verastem, Inc.**  
**(A development-stage company)**

**Unaudited Selected Balance Sheet Information**

(in thousands)

	September 30, 2012	December 31, 2011
Cash and cash equivalents	\$ 11,126	\$ 20,954
Short-term investments	35,726	26,857
Working capital	44,132	44,795
Long-term investments	50,579	8,994
Total assets	98,830	59,037
Stockholders' equity (deficit)	95,612	(12,766)

**Verastem, Inc.**

**(A development-stage company)**

**Unaudited Condensed Statements of Operations**

(in thousands, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Operating expenses:				
Research and development	\$ 8,132	\$ 3,082	\$ 17,618	\$ 5,483
General and administrative	2,298	965	6,636	2,195
Total operating expenses	10,430	4,047	24,254	7,678
Loss from operations	(10,430)	(4,047)	(24,254)	(7,678)
Interest income	63	—	191	—
Net loss	(10,367)	(4,047)	(24,063)	(7,678)

Accretion of preferred stock	—	(10)	(6)	(18)
Net loss applicable to common stockholders	<u>\$ (10,367)</u>	<u>\$ (4,057)</u>	<u>\$ (24,069)</u>	<u>\$ (7,696)</u>
Net loss per share applicable to common stockholders—basic and diluted	<u>\$ (0.51)</u>	<u>\$ (2.98)</u>	<u>\$ (1.32)</u>	<u>\$ (6.27)</u>
Weighted-average number of common shares used in net loss per share applicable to common stockholders-basic and diluted	<u>20,160</u>	<u>1,361</u>	<u>18,246</u>	<u>1,226</u>