Epizyme, Inc.
Form 10-Q
October 23, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

OR

¨ **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: 001-35945

EPIZYME, INC.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**26-1349956** **(I.R.S. Employer Identification No.)**
400 Technology Square, Cambridge, Massachusetts **(Address of principal executive offices)**	**02139** **(Zip code)**

617-229-5872

(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 x 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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 definitions of accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The number of shares outstanding of the registrant s common stock as of October 18, 2013: 28,419,288 shares.

PART I - FINANCIAL INFORMATION

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

EPIZYME, INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Amounts in thousands except share and per share data)

	September 30, 2013	December 31, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 139,575	$ 97,981
Accounts receivable	2,155	1,829
Prepaid expenses and other current assets	2,130	815
Total current assets	143,860	100,625
Property and equipment, net	2,028	2,140
Restricted cash and other assets	1,462	746
Total Assets	$ 147,350	$ 103,511
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current Liabilities:		
Accounts payable	$ 3,525	$ 2,967
Accrued expenses	5,384	4,328
Current portion of deferred revenue	21,556	28,208
Total current liabilities	30,465	35,503
Deferred revenue, net of current portion	29,150	41,237
Other long-term liabilities	452	1,741
Commitments and contingencies		
Redeemable convertible preferred stock, $0.0001 par value; 5,000,000 shares and 61,899,922 shares (Series A, B and C) authorized, respectively; 0 shares and 61,899,165 shares issued and outstanding, respectively; aggregate liquidation preference of $0 and $79,000, respectively		76,156
Stockholders Equity (Deficit):		
Common stock, $0.0001 par value; 125,000,000 shares and 90,000,000 shares authorized, respectively; 28,418,420 shares and 1,694,862 shares issued, respectively; 28,408,698 shares and 1,672,639 shares outstanding, respectively	3	
Treasury stock, at cost; 0 shares and 11,544 shares, respectively		
Additional paid-in capital	159,290	1,471
Accumulated deficit	(72,010)	(52,597)

Total stockholders equity (deficit)		87,283		(51,126)
Total Liabilities and Stockholders Equity (Deficit)	$	147,350	$	103,511

See notes to consolidated financial statements.

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EPIZYME, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME (UNAUDITED)

(Amounts in thousands except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Collaboration revenue	$ 8,444	$ 15,331	$ 32,165	$ 36,327
Operating expenses:				
Research and development	14,584	9,258	41,882	27,385
General and administrative	3,587	1,630	9,664	5,175
Total operating expenses	18,171	10,888	51,546	32,560
Operating (loss) income	(9,727)	4,443	(19,381)	3,767
Other income (expense):				
Interest income	20	44	54	108
Other income (expense), net	3	(39)	(86)	(39)
Other income (expense), net	23	5	(32)	69
Net (loss) income	$ (9,704)	$ 4,448	$ (19,413)	$ 3,836
Less: accretion of redeemable convertible preferred stock to redemption value		159	264	326
Less: income allocable to participating securities		3,972		3,239
(Loss) income allocable to common stockholders basic	(9,704)	317	(19,677)	271
Undistributed income re-allocated to common stockholders		229		147
(Loss) income allocable to common stockholders diluted	$ (9,704)	$ 546	$ (19,677)	$ 418
(Loss) earnings per share allocable to common stockholders:				
Basic	$ (0.34)	$ 0.19	$ (1.49)	$ 0.17
Diluted	$ (0.34)	$ 0.18	$ (1.49)	$ 0.16
Weighted average shares outstanding:				
Basic	28,406	1,651	13,212	1,637
Diluted	28,406	3,017	13,212	2,641
Comprehensive (loss) income	$ (9,704)	$ 4,448	$ (19,413)	$ 3,836

See notes to consolidated financial statements.

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EPIZYME, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in thousands)

	Nine Months Ended September 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (19,413)	$ 3,836
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	534	440
Stock-based compensation	1,819	210
Loss on disposal of property and equipment		20
Changes in operating assets and liabilities:		
Accounts receivable	(326)	(3,663)
Prepaid expenses and other current assets	(1,315)	(553)
Accounts payable	364	(517)
Accrued expenses	1,052	1,933
Deferred revenue	(18,739)	45,952
Restricted cash and other assets	(716)	(495)
Other long-term liabilities	(1,289)	1,190
Net cash (used in) provided by operating activities	(38,029)	48,353
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(230)	(239)
Net cash used in investing activities	(230)	(239)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of redeemable convertible preferred stock		21,961
Proceeds from initial public offering, net of commissions	82,491	
Proceeds from stock options exercised	171	3
Payment of redeemable convertible preferred stock issuance costs		(38)
Payment of initial public offering costs	(2,809)	
Net cash provided by financing activities	79,853	21,926
Net increase in cash and cash equivalents	41,594	70,040
Cash and cash equivalents, beginning of period	97,981	33,341
Cash and cash equivalents, end of period	$ 139,575	$ 103,381
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		

Purchases of property and equipment unpaid at period end	192	
Conversion of redeemable convertible preferred stock to common stock	76,420	
Accretion of redeemable convertible preferred stock to redemption value	264	326
Vesting of restricted stock liability		9
Initial public offering costs incurred but unpaid at period end	6	

See notes to consolidated financial statements.

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EPIZYME, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Overview and Basis of Presentation

Epizyme, Inc. (collectively referred to with its wholly owned, controlled subsidiary, Epizyme Securities Corporation, as Epizyme or the Company) is a clinical stage biopharmaceutical company that discovers develops and plans to commercialize innovative personalized therapeutics for patients with genetically defined cancers. The Company has built a proprietary product platform that it uses to create small molecule inhibitors of a 96-member class of enzymes known as histone methyltransferases (HMTs). Genetic alterations can result in changes to the activity of HMTs, making them oncogenic. The Company s therapeutic strategy is to inhibit oncogenic HMTs to treat the underlying causes of the associated genetically defined cancers.

The consolidated financial statements of the Company included herein have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted from this report, as is permitted by such rules and regulations. Accordingly, these consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company s Prospectus filed with the SEC pursuant to Rule 424(b)(4) on May 31, 2013 (the Prospectus).

The unaudited consolidated financial statements include the accounts of Epizyme and its subsidiary. All intercompany transactions and balances of subsidiaries have been eliminated in consolidation. In the opinion of management, the information furnished reflects all adjustments, all of which are of a normal and recurring nature, necessary for a fair presentation of the results for the reported interim periods. The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. The three months ended September 30, 2013 and 2012 are referred to as the third quarter of 2013 and 2012, respectively. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year or any other interim period.

On June 5, 2013, the Company completed an initial public offering (IPO) of its common stock, which resulted in the sale of 5,913,300 shares, including all additional shares available to cover over-allotments, at a price of $15.00 per share. The Company received net proceeds before expenses from the IPO of $82.5 million after deducting underwriting discounts and commissions paid by the Company. In preparation for the IPO, the Company s Board of Directors and stockholders approved a one-for-three reverse stock split of the Company s common stock effective May 13, 2013. All share and per share amounts in the consolidated financial statements and notes thereto have been retroactively adjusted, where necessary, to give effect to this reverse stock split. In connection with the closing of the IPO, all of the Company s outstanding redeemable convertible preferred stock automatically converted to common stock at a one-for-three ratio as of June 5, 2013, resulting in an additional 20,633,046 shares of common stock of the Company becoming outstanding. Following these transactions, the Company s total issued common stock as of September 30, 2013 was 28,418,420 shares. The significant increase in shares outstanding in June 2013 is expected to impact the year-over-year comparability of the Company s (loss) earnings per share calculations through 2014.

2. Summary of Significant Accounting Policies

There have been no material changes to the significant accounting policies previously disclosed in the Company s Prospectus.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. ASU 2013-11 amends Accounting Standards Codification (ASC) 740, *Income Taxes*, by providing guidance on the financial statement presentation of an unrecognized benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The ASU does not affect the recognition or measurement of uncertain tax positions under ASC 740. ASU 2013-11 will be effective for the Company for interim and annual periods beginning after December 15, 2013, with early adoption permitted. The Company does not expect the adoption of this ASU to have any impact on its consolidated financial statements.

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3. Fair Value Measurements

The Company classifies fair value based measurements using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows: Level 1, quoted market prices in active markets for identical assets or liabilities; Level 2, observable inputs other than quoted market prices included in Level 1 such as quoted market prices for markets that are not active or other inputs that are observable or can be corroborated by observable market data; and Level 3, unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities, including certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The Company s financial instruments as of September 30, 2013 and December 31, 2012 consisted primarily of cash and cash equivalents, accounts receivable and accounts payable. The Company believes the carrying value of its cash, accounts receivable and accounts payable approximates the fair value due to the short-term nature of these instruments. As of September 30, 2013 and December 31, 2012, the Company s financial assets recognized at fair value consisted of the following:

	Fair Value as of September 30, 2013			
	Total	**Level 1**	**Level 2**	**Level 3**
		(In thousands)		
Cash equivalents	$ 121,409	$ 121,409	$	$
Total	$ 121,409	$ 121,409	$	$

	Fair Value as of December 31, 2012			
	Total	**Level 1**	**Level 2**	**Level 3**
		(In thousands)		
Cash equivalents	$ 97,375	$ 97,375	$	$
Total	$ 97,375	$ 97,375	$	$

4. Accrued Expenses

Accrued expenses consisted of the following:

	September 30, 2013	**December 31, 2012**
	(In thousands)	
Employee compensation and benefits	$ 1,882	$ 1,880
Current portion of contract termination obligations	538	1,274
Research and development and professional expenses	2,964	1,174
Accrued expenses	$ 5,384	$ 4,328

Contract termination obligations include estimated repayments related to the termination of a research agreement in June 2012 and estimated lease exit charges related to the Company s former facility at 325 Vassar Street in Cambridge, Massachusetts. The Company s obligation related to its termination of a research agreement was accelerated as a result of the closing of the Company s IPO, and, as a result, this termination obligation was paid in full in June 2013. As of December 31, 2012, the Company had recorded contract termination obligations of $3.0 million. During the nine months ended September 30, 2013, the Company recorded a net non-cash liability reduction of $0.1 million and made cash payments of $2.3 million, resulting in total remaining contract termination obligations of $0.6 million as of September 30, 2013. The non-current portion of contract termination obligations is included in other long-term liabilities.

5. Income Taxes

The Company did not record a federal or state income tax provision or benefit for the three or nine months ended September 30, 2013 and 2012 due to the expected loss before income taxes to be incurred and the actual loss before income taxes incurred for the years ended December 31, 2013 and 2012, respectively, as well as the Company s continued maintenance of a full valuation allowance against its net deferred tax assets.

6. Commitments

In September 2013, the Company entered into an amendment to the operating lease agreement for its current office and laboratory facility in Cambridge, Massachusetts, under which the Company leased additional office space for aggregate rent payments of $2.5 million. These additional rent payments are expected to be paid from the commencement of the lease for this additional space, which is projected to be in the first quarter of 2014, through the end of the existing lease agreement, November 30, 2017.

7. Collaborations

Celgene

In April 2012, the Company entered into a collaboration and license agreement with Celgene Corporation and Celgene International Sàrl (collectively, Celgene) to discover, develop and commercialize, in all countries other than the United States, small molecule HMT inhibitors targeting the DOT1L HMT, including the Company s product candidate EPZ-5676, and any other HMT targets from the Company s product platform for patients with genetically defined cancers, excluding targets already selected by the Company s two other existing therapeutic collaborations (the available targets).

Agreement Structure

Under the terms of the agreement, the Company received a $65.0 million upfront payment and $25.0 million from the sale of its series C redeemable convertible preferred stock to an affiliate of Celgene, of which $3.0 million was considered a premium and included as collaboration arrangement consideration for a total upfront payment of $68.0 million. In addition, the Company is eligible to earn up to $60.0 million in substantive clinical development milestone payments and up to $100.0 million in substantive regulatory milestone payments related to DOT1L, where milestones are considered to be substantive if (a) the consideration is commensurate with either the Company s performance to achieve the milestone or the enhancement of the value of the delivered item(s) as a result of a specific outcome resulting from the Company s performance to achieve the milestone; (b) the consideration relates solely to past performance; and (c) the consideration is reasonable relative to all of the deliverables and payment terms within the arrangement. The Company is also eligible to earn up to $65.0 million in payments, including a combination of substantive clinical development milestone payments and an option exercise fee, and up to $100.0 million in substantive regulatory milestone payments for each available target as to which Celgene exercises its option during an initial option period ending in July 2015. Celgene has the right to extend the option period until July 2016 by making a significant option extension payment. As to DOT1L and each available target as to which Celgene exercises its option, the Company retains all product rights in the United States and is eligible to receive royalties for each target at defined percentages ranging from the mid-single digits to the mid-teens on net product sales outside of the United States subject to reduction in specified circumstances. Due to the uncertainty of pharmaceutical development and the high historical failure rates generally associated with pharmaceutical development, the Company may not receive any milestone or royalty payments from Celgene. The first potential milestone payment that the Company might be entitled to receive under this agreement is a $25.0 million substantive milestone for achieving proof-of-concept, as defined in the agreement, for its DOT1L inhibitor.

The Company is obligated to conduct and solely fund research and development costs of the Phase I clinical trials for the DOT1L target and through the effectiveness of the first investigational new drug application (IND) for an HMT inhibitor directed to each available target selected by Celgene, after which Celgene and the Company will equally co-fund global development and each party will solely fund territory-specific development costs for its territory. In the third quarter of 2013, the Company recorded accounts receivable of $0.7 million related to non-Phase I global development costs subject to the co-funding provisions of the agreement. Co-funded amounts receivable from Celgene are recorded net in research and development expense.

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Collaboration Revenue

Through September 30, 2013, in addition to amounts allocated to Celgene s purchase of shares of the Company s series C redeemable convertible preferred stock, the Company had received a total of $68.0 million in upfront payments under the Celgene agreement, including a $3.0 million implied premium on Celgene s purchase of shares of the Company s series C redeemable convertible preferred stock. Through September 30, 2013, the Company has recognized $34.7 million of collaboration revenue in the consolidated statements of operations and comprehensive (loss) income related to this agreement, including $3.5 million and $10.8 million in the three and nine months ended September 30, 2013, respectively, and $6.7 million and $20.3 million in the three and nine months ended September 30, 2012, respectively. Revenue recognized in the three and nine months ended September 30, 2013 reflects the Company s current plan to complete the ongoing Phase I study of EPZ-5676 in 2014. As a result, the remaining deferred revenue of approximately $2.1 million attributed to this deliverable as of September 30, 2013 will be recognized ratably through December 31, 2014. As of September 30, 2013 and December 31, 2012, the Company had deferred revenue of $33.3 million and $44.1 million, respectively, related to this agreement.

Eisai

In April 2011, the Company entered into a collaboration and license agreement with Eisai Co. Ltd. (Eisai) under which the Company granted Eisai an exclusive worldwide license to its small molecule HMT inhibitors directed to the EZH2 HMT, including the Company s product candidate EPZ-6438, while retaining an opt-in right to co-develop, co-commercialize and share profits with Eisai as to licensed products in the United States. Additionally, as part of the research collaboration, the Company agreed to provide research and development services related to the licensed compounds through December 31, 2014.

Agreement Structure

Under the terms of the agreement, the Company has recorded a $3.0 million upfront payment, $7.0 million in preclinical research and development milestone payments, a $6.0 million clinical development milestone payment and cash payments and accounts receivable totaling $16.5 million for research and development services through September 30, 2013. The Company is eligible to earn up to $25.0 million in additional clinical development milestone payments, including substantive milestone payments of up to $10.0 million, up to $55.0 million in regulatory milestone payments and up to $115.0 million in sales-based milestone payments. The Company is also eligible to receive royalties at a percentage in the mid-single digits on any net product sales outside of the United States and at a percentage from the mid-single digits to low double-digits on any product sales in the United States, subject to reduction in specified circumstances. Due to the uncertainty of pharmaceutical development and the high historical failure rates generally associated with pharmaceutical development, the Company may not receive any additional milestone payments or royalty or profit share payments from Eisai. The next potential milestone payment that the Company might be entitled to receive under this agreement is a $10.0 million substantive milestone for the initiation of the Phase II portion of the Phase I/II clinical trial.

Eisai solely funds all research, development and commercialization costs for licensed compounds, except for the cost obligations that the Company will undertake if it exercises its opt-in right to co-develop, co-commercialize and share profits with Eisai as to licensed products in the United States. If the Company exercises its opt-in right to a licensed compound, the licensed compound would become a shared product as to which Eisai s obligation to pay royalties to the Company as to such shared product in the United States will terminate; Eisai and the Company will share in net profits or losses with respect to such shared product in the United States; 25.0% of specified past development costs will become creditable by Eisai against future milestones or royalties due to the Company, subject to specified limitations; Eisai and the Company will share equally in subsequent development costs allocated to the United States;

and all subsequent milestone payments that become payable by Eisai to the Company based on the shared product will be decreased by 50.0%.

Collaboration Revenue

Through September 30, 2013, the Company has recorded a total of $32.5 million in cash and accounts receivable and has recognized $30.5 million of collaboration revenue in the consolidated statements of operations and comprehensive (loss) income related to this agreement, including $1.9 million and $12.4 million in the three and nine months ended September 30, 2013, respectively, and $1.9 million and $9.3 million in the three and nine months ended September 30, 2012, respectively, with a $6.0 million clinical development milestone achieved and recognized as collaboration revenue in the nine months ended September 30, 2013 and a $4.0 million research milestone achieved and recognized as collaboration revenue in the nine months ended September 30, 2012. As of September 30, 2013 and December 31, 2012, the Company had deferred revenue of $2.0 million and $3.2 million, respectively, related to this agreement.

GSK

In January 2011, the Company entered into a collaboration and license agreement with Glaxo Group Limited, an affiliate of GlaxoSmithKline (GSK), to discover, develop and commercialize novel small molecule HMT inhibitors directed to available targets from the Company s product platform. Under the terms of the agreement, the Company has granted GSK exclusive worldwide license rights to HMT inhibitors directed to three targets. Additionally, as part of the research collaboration provided for in the agreement, the Company agreed to provide research and development services related to the licensed targets pursuant to agreed upon research plans during a research term that ends January 8, 2015.

Agreement Structure

Under the agreement, the Company has received a $20.0 million upfront payment, $8.0 million in preclinical research and development milestone payments and $6.0 million of fixed research funding. The Company is eligible to receive up to $21.0 million in additional substantive preclinical research and development milestone payments, up to $99.0 million in clinical development milestone payments, up to $240.0 million in regulatory milestone payments and up to $270.0 million in sales-based milestone payments. In addition, GSK is required to pay the Company royalties, at percentages from the mid-single digits to the low double-digits, on a licensed product-by-licensed product basis, on worldwide net product sales, subject to reduction in specified circumstances. Due to the uncertainty of pharmaceutical development and the high historical failure rates generally associated with pharmaceutical development, the Company may not receive any additional milestone payments or royalty payments from GSK. The next potential milestone payment that the Company might be entitled to receive under this agreement is a substantive research milestone. However, due to the varying stages of development of each licensed target, the Company is not able to determine the next milestone that might be achieved, if any.

For each selected target in the collaboration, the Company is primarily responsible for research until the selection of the development candidate, and GSK will be solely responsible for subsequent development and commercialization. GSK provided a fixed amount of research funding during the second and third years of the research term and is obligated to provide research funding equal to 100.0% of research and development costs, subject to specified limitations, for any research activities conducted by the Company in the fourth year of the research term.

Collaboration Revenue

Through September 30, 2013, the Company has received a total of $34.0 million in payments under the GSK agreement and has recognized $18.7 million of collaboration revenue in the consolidated statements of operations and comprehensive (loss) income related to this agreement, including $3.0 million and $9.0 million in the three and nine months ended September 30, 2013, respectively, and $6.7 million in both the three and nine months ended September 30, 2012, with $4.0 million in preclinical research and development milestones achieved and recognized as collaboration revenue in the three and nine months ended September 30, 2012. As of September 30, 2013 and December 31, 2012, the Company had deferred revenue of $15.3 million and $22.0 million, respectively, related to this agreement.

Companion Diagnostics

Roche

In December 2012, Eisai and the Company entered into an agreement with Roche Molecular Systems, Inc. (Roche) under which Eisai and the Company are funding Roche s development of a companion diagnostic to identify patients who possess certain point mutations in EZH2. The development costs under the agreement with Roche are the responsibility of Eisai until such time, if any, as the Company exercises its opt-in right under the collaboration agreement with Eisai. Under the terms of the agreement, Eisai has agreed to pay Roche defined milestone payments of up to $21.0 million to develop and make commercially available the companion diagnostic. As a result, the cost of the companion diagnostic agreement, prior to the Company s potential future exercise of its opt-in right under the Eisai collaboration, will not be reflected in the Company s consolidated statements of operations and comprehensive (loss) income. If the Company exercises its opt-in right to co-develop, co-commercialize and share profits in the United States as to EPZ-6438, Eisai will be entitled to offset up to 25.0% of the funding amount it has previously paid to Roche against future milestone payments and royalties that Eisai may be obligated to pay to the Company under the Eisai collaboration and license agreement, and the Company will become obligated to fund up to half of the defined milestones that remain payable to Roche as of the time the Company opts-in.

Abbott

In February 2013, the Company entered into an agreement with Abbott Molecular Inc. (Abbott) under which the Company agreed to fund Abbott s development of a companion diagnostic to identify patients with the mixed lineage leukemia (MLL-r) genetic alteration targeted by the Company s EPZ-5676 product candidate. Under the terms of the agreement, the Company paid Abbott an upfront payment of $0.9 million upon the execution of the agreement, is obligated to make aggregate milestone-based development payments of up to $6.0 million and is obligated to reimburse Abbott for specified costs expected to be incurred in connection with Abbott conducting clinical trials to obtain the necessary regulatory approvals for the companion diagnostic (the reimbursable costs). The reimbursable costs are not to exceed $0.9 million unless any excess costs are agreed to in advance by both the Company and Abbott. In addition to the upfront payment, the Company expects to pay an aggregate of approximately $1.5 million in milestone-base development payments under this agreement during 2013.

8. Stock-Based Compensation

Total stock-based compensation expense related to stock options, restricted stock and the employee stock purchase plan was $0.9 million and $0.1 million for the three months ended September 30, 2013 and 2012, respectively, and $1.8 million and $0.2 million for the nine months ended September 30, 2013 and 2012, respectively.

Stock-based compensation expense is classified in the consolidated statements of operations and comprehensive (loss) income as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)		(In thousands)	
Research and development	$ 294	$ 55	$ 695	$ 104
General and administrative	575	37	1,124	106
Total	$ 869	$ 92	$ 1,819	$ 210

Stock Options

The weighted-average fair value of options, estimated as of the grant date using the Black-Scholes option pricing model, was $21.81 per option for those options granted during the three months ended September 30, 2013 and $7.57 and $1.70 per option for those options granted during the nine months ended September 30, 2013 and 2012, respectively. There were no stock options granted during the three months ended September 31, 2012. Key assumptions used to apply this pricing model were as follows:

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Risk-free interest rate	0.9%	0.7%
Expected life of options	6.0 years	6.0 years
Expected volatility of underlying stock	94.7%	98.8%
Expected dividend yield	0.0%	0.0%

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The following is a summary of stock option activity for the nine months ended September 30, 2013:

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at December 31, 2012	3,492,694	$ 0.90		
Granted	1,483,328	7.51		
Exercised	(177,212)	0.97		
Forfeited or expired	(25,780)	2.74		
Outstanding at September 30, 2013	4,773,030	$ 2.94	7.7	$ 176,875
Exercisable at September 30, 2013	2,557,179	$ 0.70	6.7	$ 100,489

As of September 30, 2013, there was $10.4 million of unrecognized compensation cost related to stock options that are expected to vest. These costs are expected to be recognized over a weighted average remaining vesting period of 2.8 years.

Restricted Stock

The following is a summary of restricted stock activity for the nine months ended September 30, 2013:

	Number of Shares	Weighted Average Grant Date Fair Value per Share
Outstanding at December 31, 2012	22,223	$ 0.60
Vested	(12,501)	0.60
Outstanding at September 30, 2013	9,722	$ 0.60

As of September 30, 2013, there was an insignificant amount of unrecognized compensation cost related to restricted stock that is expected to vest.

9. (Loss) Earnings Per Share

Basic (loss) earnings per share is computed by dividing (loss) income allocable to common stockholders by the weighted average number of common shares outstanding. During periods of income, participating securities are allocated a proportional share of income determined by dividing total weighted average participating securities by the sum of the total weighted average common shares and participating securities (the two-class method). The Company s restricted stock and, prior to its automatic conversion, redeemable convertible preferred stock participate in any dividends declared by the Company and are therefore considered to be participating securities. Participating securities have the effect of diluting both basic and diluted earnings per share during periods of income. During periods of loss, no loss is allocated to participating securities since they have no contractual obligation to share in the losses of the Company. Diluted (loss) earnings per share is computed after giving consideration to the dilutive effect of stock options that are outstanding during the period, except where such non-participating securities would be anti-dilutive.

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Basic and diluted (loss) earnings per share allocable to common stockholders are computed as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands except per share data)			
Net (loss) income	$ (9,704)	$ 4,448	$ (19,413)	$ 3,836
Less: accretion of redeemable convertible preferred stock to redemption value		159	264	326
Less: income allocable to participating securities		3,972		3,239
(Loss) income allocable to common stockholders	$ (9,704)	$ 317	$ (19,677)	$ 271
Weighted average shares outstanding	28,406	1,651	13,212	1,637
Basic (loss) earnings per share allocable to common stockholders	$ (0.34)	$ 0.19	$ (1.49)	$ 0.17

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands except per share data)			
Net (loss) income	$ (9,704)	$ 4,448	$ (19,413)	$ 3,836
Less: accretion of redeemable convertible preferred stock to redemption value		159	264	326
Less: income allocable to participating securities		3,743		3,092
(Loss) income allocable to common stockholders	$ (9,704)	$ 546	$ (19,677)	$ 418
Weighted average shares outstanding	28,406	1,651	13,212	1,637
Effect of dilutive securities		1,366		1,004
Diluted weighted average shares outstanding	28,406	3,017	13,212	2,641
Diluted (loss) earnings per share allocable to common stockholders	$ (0.34)	$ 0.18	$ (1.49)	$ 0.16

In June 2013, the Company issued an additional 5,913,300 shares of common stock in connection with its IPO and 20,633,046 shares of common stock in connection with the automatic conversion of its redeemable convertible preferred stock upon the closing of the IPO. The issuance of these shares resulted in a significant increase in the Company s shares outstanding, to 28,408,698 shares as of September 30, 2013, and weighted average shares outstanding for the three and nine months ended September 30, 2013 when compared to the comparable prior year periods and is expected to continue to impact the year-over-year comparability of the Company s (loss) earnings per share calculations through 2014.

The following common stock equivalents were excluded from the calculation of diluted loss per share allocable to common stockholders because their inclusion would have been anti-dilutive:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2013	**2012**	**2013**	**2012**
	(In thousands)			
Stock options	4,773		4,773	
Unvested restricted stock	10		10	
Shares issuable under employee stock purchase plan	2		2	
	4,785		4,785	

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10. Related Party Transactions

In connection with its entry into the collaboration and license agreement with Celgene, on April 2, 2012, the Company sold Celgene 9,803,922 shares of its series C redeemable convertible preferred stock. As a result of this transaction, Celgene owned 12.5% of the Company s fully diluted equity as of December 31, 2012. Refer to Note 6, *Collaborations*, for additional information regarding this collaboration agreement. In the second quarter of 2013, in connection with the IPO, Celgene made an additional investment in the Company, acquiring an additional 66,666 shares of the Company s common stock. Additionally, as a result of the IPO, Celgene s shares of series C redeemable convertible preferred stock automatically converted to common stock of the Company at a one-for-three ratio, collectively resulting in Celgene owning 3,334,640 shares of the Company s common stock as of September 30, 2013, representing 10.0% of the Company s fully diluted equity and 11.7% of the voting interests of the Company as of September 30, 2013.

Under the Celgene collaboration agreement, the Company recognized $3.5 million and $10.8 million of collaboration revenue in the three and nine months ended September 30, 2013, respectively, and $6.7 million and $20.3 million of collaboration revenue in the three and nine months ended September 30, 2012, respectively. Additionally, in the three and nine months ended September 30, 2013, the Company recorded $0.7 million in co-funded accounts receivable from Celgene net in research and development expense. Accordingly, as of September 30, 2013 and December 31, 2012, the Company had recorded $33.3 million and $44.1 million of deferred revenue, respectively, and, as of September 30, 2013, the Company had accounts receivable of $0.7 million related to this collaboration arrangement.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
Forward-looking Information

This Quarterly Report on Form 10-Q contains forward-looking statements that involve substantial risks and uncertainties. These statements may be identified by such forward-looking terminology as anticipate, believe, estimate, expect, intend, may, plan, predict, project, target, potential, will, would, could, should, continue, and similar statements or variations of such terms. Our forward-looking statements are based on a series of expectations, assumptions, estimates and projections about our company, are not guarantees of future results or performance and involve substantial risks and uncertainty. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in these forward-looking statements. Our business and our forward-looking statements involve substantial known and unknown risks and uncertainties, including the risks and uncertainties inherent in our statements regarding:

our plans to develop and commercialize personalized therapeutics for patients with genetically defined cancers;

our ongoing and planned clinical trials, including the timing of anticipated results;

our ability to receive research funding and achieve anticipated milestones under our collaborations;

the timing of and our ability to obtain and maintain regulatory approvals for our product candidates;

the rate and degree of market acceptance and clinical utility of our products;

our commercialization, marketing and manufacturing capabilities and strategy;

our intellectual property position;

our ability to identify additional products or product candidates with significant commercial potential that are consistent with our commercial objectives; and

our estimates regarding expenses, future revenue, capital requirements and needs for additional financing.
All of our forward-looking statements are as of the date of this Quarterly Report on Form 10-Q only. In each case, actual results may differ materially from such forward-looking information. We can give no assurance that such expectations or forward-looking statements will prove to be correct. An occurrence of or any material adverse change in one or more of the risk factors or risks and uncertainties referred to in this Quarterly Report on Form 10-Q or included in our other public disclosures or our other periodic reports or other documents or filings filed with or

furnished to the SEC could materially and adversely affect our business, prospects, financial condition and results of operations. Except as required by law, we do not undertake or plan to update or revise any such forward-looking statements to reflect actual results, changes in plans, assumptions, estimates or projections or other circumstances affecting such forward-looking statements occurring after the date of this Quarterly Report on Form 10-Q, even if such results, changes or circumstances make it clear that any forward-looking information will not be realized. Any public statements or disclosures by us following this Quarterly Report on Form 10-Q which modify or impact any of the forward-looking statements contained in this Quarterly Report on Form 10-Q will be deemed to modify or supersede such statements in this Quarterly Report on Form 10-Q.

Management Overview

We are a clinical stage biopharmaceutical company that discovers, develops and plans to commercialize innovative personalized therapeutics for patients with genetically defined cancers. We have built a proprietary product platform that we use to create small molecule inhibitors of a 96-member class of enzymes known as histone methyltransferases, or HMTs. Genetic alterations can result in changes to the activity of HMTs, making them oncogenic. Our therapeutic strategy is to inhibit oncogenic HMTs to treat the underlying causes of the associated genetically defined cancers. The three months ended September 30, 2013 and 2012 are referred to as the third quarter of 2013 and 2012, respectively. Unless the context indicates otherwise, all references herein to our company include our wholly-owned subsidiary.

Our management s discussion and analysis of our financial condition and results of operations are based upon our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q, which have been prepared by us in accordance with accounting principles generally accepted in the United States of America, or GAAP, for interim periods and with Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended. This discussion and analysis should be read in conjunction with these unaudited consolidated financial statements and the notes thereto as well as in conjunction with our Prospectus filed pursuant to Rule 424(b)(4) under the Securities Act of 1933, as amended, or the Securities Act, with the Securities and Exchange Commission, or SEC, on May 31, 2013, which we refer to as the Prospectus.

We commenced active operations in early 2008, and since inception, have incurred significant operating losses. As we are a clinical stage company, we expect to continue to incur significant expenses and operating losses over the next several years. Since our inception and through September 30, 2013, we have raised an aggregate of $291.8 million to fund our operations, of which $133.3 million was non-equity funding through our collaboration agreements, $82.5 million was from our initial public offering, or IPO, which we completed in June 2013, and $76.0 million was from the sale of redeemable convertible preferred stock, which automatically converted to common stock upon the closing of our initial public offering. Until such time, if ever, as we can generate substantial product revenues, we expect to finance our cash needs through a combination of equity or debt financings and collaboration agreements.

We are a leader in the translation of the science of epigenetics into first-in-class personalized therapeutics for patients with genetically defined cancers and believe we are the first company to conduct a clinical trial of an HMT inhibitor. We are conducting both a Phase I clinical trial of our most advanced product candidate, EPZ-5676, an inhibitor targeting the DOT1L HMT, for the treatment of mixed lineage leukemia, or MLL-r, a genetically defined subtype of the two most common forms of acute leukemia, as well as a Phase I/II clinical trial of our second most advanced product candidate, EPZ-6438, an inhibitor targeting the EZH2 HMT, for the treatment of a genetically defined subtype of non-Hodgkin lymphoma. In 2014, we plan to pursue additional clinical studies for both EPZ-5676 and EPZ-6438 beyond the primary indications, including an expansion cohort for adult acute myeloid leukemia with a partial tandem duplication in the MLL gene, or MLL-PTD, for EPZ-5676, and an expansion cohort in synovial sarcoma and other INI1-deficient tumors for EPZ-6438. We also have a pipeline of other HMT inhibitors that are in preclinical development.

The clinical development plan for each of our therapeutic product candidates is directed towards patients with a particular genetically defined cancer. For each therapeutic product candidate, we intend to develop a companion diagnostic. We plan to include patients with the particular genetically defined cancer in our clinical trials beginning in Phase I with a view to assessing possible early evidence of potential therapeutic effect. As we are tailoring our personalized therapeutics for discrete patient populations with genetically defined cancers, we believe that many of our products may qualify for orphan drug designation in the United States and the European Union.

We have entered into strategic collaborations for certain of our therapeutic programs and corresponding companion diagnostics. Our three primary collaboration partners for our therapeutic programs are Celgene Corporation and Celgene International Sàrl, collectively, Celgene; Eisai Co., Ltd., or Eisai; and Glaxo Group Limited, an affiliate of GlaxoSmithKline, or GSK. We retain all product rights in the United States under the Celgene collaboration and an opt-in right to co-develop, co-commercialize and share profits as to licensed products in the United States under the Eisai collaboration.

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The following table summarizes key information about our two most advanced clinical programs, including the role of our collaboration partners:

Product Candidate	Description	Indication (Genetic Alteration)	Stage of Development	Commercial Rights	Diagnostic Collaborator
EPZ-5676	DOT1L inhibitor	MLL-r subtype of acute myeloid leukemia, or AML, and acute lymphoblastic leukemia, or ALL (Chromosomal translocation involving the MLL gene)	Phase I clinical trial ongoing	Epizyme: United States Celgene: Rest of world	Abbott Molecular Inc., or Abbott
EPZ-6438	EZH2 inhibitor	Non-Hodgkin lymphoma and potentially other solid tumors (Point mutation in EZH2)	Phase I/II clinical trial ongoing	Eisai: Worldwide rights, subject to Epizyme s opt-in on 50.0% of United States rights	Roche Molecular Systems, Inc., or Roche

Program highlights for the nine months ended September 30, 2013 include:

For EPZ-5676, we are nearing completion of the dose escalation stage of our Phase I clinical trial without any dose-limiting toxicities to date and plan to disclose top-line dose escalation data in the fourth quarter of 2013. Based on the data from the dose escalation stage, we plan to initiate an expansion cohort stage of this trial in the fourth quarter of 2013 that will be limited to patients with MLL-r and is expected to provide an initial assessment of therapeutic effect in MLL-r patients. We added five clinical sites, bringing the total number of clinical sites participating in this study to six, were granted orphan drug designation in the United States and were issued a notice of allowance from the United States Patent and Trademark Office with respect to our patent application covering the composition of matter of EPZ-5676. Further, we initiated plans to expand our clinical evaluation of EPZ-5676 in 2014 to include a Phase I trial of EPZ-5676 in pediatric patients with MLL-r and a clinical study in adult AML patients with MLL-PTD. MLL-PTD accounts for an estimated 5 to 7% of adult AML cases, with an estimated annual incidence of MLL-PTD in all patients in the major pharmaceutical markets of approximately 2,300 patients.

For EPZ-6438 (which Eisai refers to as E7438), we received notification that our clinical trial application was approved in France and are enrolling patients in a Phase I/II clinical trial without any dose-limiting toxicities observed to date. Based on the data from the dose escalation phase, we plan to initiate the Phase II portion of this study in 2014. Further, we initiated plans to expand our clinical evaluation of EPZ-6438 after the completion of the ongoing Phase I study in 2014 to include studies in patients with INI1-deficient tumors, such as synovial sarcoma and malignant rhabdoid tumors. In the major pharmaceutical markets, synovial sarcoma has an estimated annual incidence of approximately 1,700 patients, and other INI1-deficient tumors have an estimated annual incidence of 700 patients.

For our discovery and preclinical stage product programs, we continued to progress the three target programs partnered with GSK as well as a number of other research programs directed to high priority HMTs in our pipeline.

Collaborations

The key terms of our primary collaboration agreements are as follows:

Celgene

In April 2012, we entered into a collaboration and license agreement with Celgene, to discover, develop and commercialize, in all countries other than the United States, small molecule HMT inhibitors targeting DOT1L, including EPZ-5676, and any other HMT targets from our product platform for patients with genetically defined cancers, excluding targets already selected by our two other existing collaborations, which we refer to as the available targets.

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Agreement Structure

Under the terms of the agreement, we received a $65.0 million upfront payment and $25.0 million from the sale of our series C redeemable convertible preferred stock to an affiliate of Celgene, of which $3.0 million was considered a premium and included as collaboration arrangement consideration for a total upfront payment of $68.0 million. In addition, we are eligible to earn up to $60.0 million in clinical development milestone payments and up to $100.0 million in regulatory milestone payments related to DOT1L. We are also eligible to earn up to $65.0 million in payments, including a combination of clinical development milestone payments and an option exercise fee, and up to $100.0 million in regulatory milestone payments for each available target as to which Celgene exercises its option during an initial option period ending in July 2015. Celgene has the right to extend the option period until July 2016 by making a significant option extension payment. As to DOT1L and each available target as to which Celgene exercises its option, we retain all product rights in the United States and are eligible to receive royalties for each target at defined percentages ranging from the mid-single digits to the mid-teens on net product sales outside of the United States, subject to reductions in specified circumstances. Due to the uncertainty of pharmaceutical development and the high historical failure rates generally associated with pharmaceutical development, we may not receive any milestone or royalty payments from Celgene. The first potential milestone payment that we might be entitled to receive under this agreement is $25.0 million for achieving proof-of-concept, as defined in the agreement, for our DOT1L inhibitor.

We are obligated to conduct and solely fund research and development costs of the Phase I clinical trials for the DOT1L target and through the effectiveness of the first investigational new drug application for an HMT inhibitor directed to each available target selected by Celgene, after which Celgene and we will equally co-fund global development and each party will solely fund territory-specific development costs for its territory. In the third quarter of 2013, we recorded accounts receivable of $0.7 million related to non-Phase I global development costs subject to the co-funding provisions of this agreement. Co-funded amounts receivable from Celgene are recorded net in research and development expense.

Collaboration Revenue

Through September 30, 2013, in addition to amounts allocated to Celgene s purchase of shares of our series C redeemable convertible preferred stock, we had received a total of $68.0 million in upfront payments under the Celgene agreement, including a $3.0 million implied premium on Celgene s purchase of our series C redeemable convertible preferred stock. Through September 30, 2013, we have recognized $34.7 million of collaboration revenue in the consolidated statements of operations and comprehensive (loss) income related to this agreement, including $3.5 million and $10.8 million in the three and nine months ended September 30, 2013, respectively, and $6.7 million and $20.3 million in the three and nine months ended September 30, 2012, respectively. As of September 30, 2013 and December 31, 2012, we had deferred revenue of $33.3 million and $44.1 million, respectively, related to this agreement.

Eisai

In April 2011, we entered into a collaboration and license agreement with Eisai under which we granted Eisai an exclusive worldwide license to our small molecule HMT inhibitors directed to EZH2, including EPZ-6438, while retaining an opt-in right to co-develop, co-commercialize and share profits with Eisai as to licensed products in the United States. Additionally, as part of the research collaboration, we agreed to provide research and development services related to the licensed compounds through December 31, 2014.

Agreement Structure

Under the terms of the agreement, we have recorded a $3.0 million upfront payment, $7.0 million in preclinical research and development milestone payments, a $6.0 million clinical development milestone payment and cash payments and accounts receivable totaling $16.5 million for research and development services through September 30, 2013. We are eligible to earn up to $25.0 million in additional clinical development milestone payments, up to $55.0 million in regulatory milestone payments and up to $115.0 million in sales-based milestone payments. We are also eligible to receive royalties at a percentage in the mid-single digits on any net product sales outside of the United States and at a percentage from the mid-single digits to low double-digits on any net product sales in the United States, subject to reduction in specified circumstances. Due to the uncertainty of pharmaceutical development and the high historical failure rates generally associated with pharmaceutical development, we may not receive any additional milestone payments or royalty or profit share payments from Eisai. The next potential milestone payment that we might be entitled to receive under this agreement is $10.0 million for the initiation of the Phase II portion the Phase I/II clinical trial.

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Eisai solely funds all research, development and commercialization costs for licensed compounds, except for the cost obligations that we will undertake if we exercise our opt-in right to co-develop, co-commercialize and share profits with Eisai as to licensed products in the United States. If we exercise our opt-in right as to a licensed compound, the licensed compound would become a shared product as to which Eisai s obligation to pay royalties to us as to such shared product in the United States will terminate; Eisai and we will share in net profits or losses with respect to such shared product in the United States; 25.0% of specified past development costs will become creditable by Eisai against future milestones or royalties due to us, subject to specified limitations; Eisai and we will share equally in subsequent development costs allocated to the United States; and all subsequent milestone payments that become payable by Eisai to us based on the shared product will be decreased by 50.0%.

Collaboration Revenue

Through September 30, 2013, we have recorded a total of $32.5 million in cash and accounts receivable and have recognized $30.5 million of collaboration revenue in the consolidated statements of operations and comprehensive (loss) income related to this agreement, including $1.9 million and $12.4 million in the three and nine months ended September 30, 2013, respectively, and $1.9 million and $9.3 million in the three and nine months ended September 30, 2012, respectively, with a $6.0 million clinical development milestone achieved recognized as collaboration revenue in the nine months ended September 30, 2013 and a $4.0 million research milestone achieved and recognized as collaboration revenue in the nine months ended September 30, 2012. As of September 30, 2013 and December 31, 2012, we had deferred revenue of $2.0 million and $3.2 million, respectively, related to this agreement.

GSK

In January 2011, we entered into a collaboration and license agreement with GSK to discover, develop and commercialize novel small molecule HMT inhibitors directed to available targets from our product platform. Under the terms of the agreement, we granted GSK exclusive worldwide license rights to HMT inhibitors directed to three targets. Additionally, as part of the research collaboration provided for in the agreement, the Company agreed to provide research and development services related to the licensed targets pursuant to agreed upon research plans during a research term that ends January 8, 2015.

Agreement Structure

Under the agreement, we have received a $20.0 million upfront payment, $8.0 million in preclinical research and development milestone payments and $6.0 million of fixed research funding. We are eligible to receive up to $21.0 million in additional preclinical research and development milestone payments, up to $99.0 million in clinical development milestone payments, up to $240.0 million in regulatory milestone payments and up to $270.0 million in sales-based milestone payments. In addition, GSK is required to pay us royalties at percentages from the mid-single digits to the low double-digits, on a licensed product-by-licensed product basis, on worldwide net product sales, subject to reductions in specified circumstances. Due to the uncertainty of pharmaceutical development and the high historical failure rates generally associated with pharmaceutical development, we may not receive any additional milestone payments or royalty payments from GSK. The next potential milestone payment that we might be entitled to receive under this agreement is a research milestone. However, due to the varying stages of development of each licensed target, we are not able to determine the next milestone that might be achieved, if any.

For each selected target in the collaboration, we are primarily responsible for research until the selection of the development candidate, and GSK will be solely responsible for subsequent development and commercialization. GSK provided a fixed amount of research funding during the second and third years of the research term and is obligated to provide research funding equal to 100.0% of research and development costs, subject to specified limitations, for any research activities we conduct in the fourth year of the research term.

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Collaboration Revenue

Through September 30, 2013, we received a total of $34.0 million in payments under the GSK agreement and have recognized $18.7 million of collaboration revenue in the consolidated statements of operations and comprehensive (loss) income related to this agreement, including $3.0 million and $9.0 million in the three and nine months ended September 30, 2013, respectively, and $6.7 million in both the three and nine months ended September 30, 2012, with $4.0 million in preclinical research and development milestones achieved and recognized as collaboration revenue in the three and nine months ended September 30, 2012. As of September 30, 2013 and December 31, 2012, we had deferred revenue of $15.3 million and $22.0 million, respectively, related to this agreement.

Results of Operations

Collaboration Revenue

The following is a comparison of collaboration revenue for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	2012	Decrease	2013	2012	Decrease
	(In millions)			(In millions)		
Collaboration revenue	$ 8.4	$ 15.3	$ (6.9)	$ 32.2	$ 36.3	$ (4.1)

Through September 30, 2013, our revenue consisted of collaboration revenue, including amounts recognized from deferred revenue related to upfront payments for licenses or options to obtain licenses in the future, research and development funding and milestone payments earned under collaboration and license agreements with our collaboration partners.

During the third quarter of 2013, collaboration revenue consisted of $6.3 million recognized from deferred revenue related to upfront payments for licenses and $2.1 million in research and development funding. This revenue compares to $9.3 million recognized from deferred revenue related to upfront payments for licenses, $4.0 million in milestone revenue and $2.0 million in research and development funding recognized in the third quarter of 2012.

Collaboration revenue recognized from deferred revenue in the third quarter of 2013 comprised $3.5 million under our Celgene agreement, $0.4 million under our Eisai agreement and $2.4 million under our GSK agreement, as compared to $6.7 million under our Celgene agreement, $0.4 million under our Eisai agreement and $2.2 million under our GSK agreement in the third quarter of 2012. Milestone revenue in the third quarter of 2012 represents $4.0 million in preclinical research and development milestone achieved under our GSK agreement. Collaboration revenue recognized for research and development services in the third quarter of 2013 comprised $1.5 million under our Eisai agreement and $0.6 million under our GSK agreement, as compared to $1.5 million under our Eisai agreement and $0.5 million under our GSK agreement in the third quarter of 2012.

During the nine months ended September 30, 2013, collaboration revenue consisted of $19.2 million recognized from deferred revenue related to upfront payments for licenses, $6.0 million in milestone revenue and $7.0 million in research and development funding. This revenue compares to $23.7 million recognized from deferred revenue related to upfront payments for licenses, $8.0 million in milestone revenue and $4.6 million in research and development funding recognized in the nine months ended September 30, 2012.

Collaboration revenue recognized from deferred revenue in the nine months ended September 30, 2013 comprised $10.8 million under our Celgene agreement, $1.2 million under our Eisai agreement and $7.2 million under our GSK agreement, as compared to $20.3 million under our Celgene agreement, $1.2 million under our Eisai agreement and $2.2 million under our GSK agreement in the same period of the prior year. Milestone revenue in the nine months ended September 30, 2013 represents a $6.0 million clinical development milestone achieved under our Eisai agreement, as compared to a $4.0 million preclinical research and development milestone achieved under Eisai agreement and $4.0 million in preclinical research and development milestones achieved under our GSK agreement in the same period of the prior year. Collaboration revenue recognized for research and development services in the nine months ended September 30, 2013 comprised $5.2 million under our Eisai agreement and $1.8 million under our GSK agreement, as compared to $4.1 million under our Eisai agreement and $0.5 million under our GSK agreement in the same period of the prior year.

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Research and Development

The following is a comparison of research and development expenses for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	2012	Increase	2013	2012	Increase
	(In millions)			(In millions)		
Research and development	$ 14.6	$ 9.3	$ 5.3	$ 41.9	$ 27.4	$ 14.5

Research and development expenses consist of expenses incurred in performing research and development activities, including compensation and benefits for full-time research and development employees, facilities expenses, overhead expenses, clinical trial and related clinical manufacturing expenses, fees paid to third party clinical research organizations, or CROs, and other outside expenses. As we advance our product platform, we are conducting research on several prioritized HMT targets. Our research and development team is organized such that the strategy, design, management and evaluation of results of all of our research and development plans is accomplished internally while some of our research and development activities are executed using our multinational network of CROs. In the early phases of development, our research and development costs are often devoted to enhancing our product platform and are not necessarily allocable to specific targets.

The following table illustrates the components of our research and development expenses:

Product Program (Phase as of the latest period end)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In millions)		(In millions)	
External research and development expenses:				
EPZ-5676 (Phase I) and related DOT1L programs	$ 3.4	$ 1.2	$ 9.4	$ 6.5
EPZ-6438 (Phase I/II) and related EZH2 programs	0.8	0.8	3.1	2.4
Discovery and preclinical stage product programs, collectively	6.0	4.3	16.0	9.9
Internal research and development expenses	4.4	3.0	13.4	8.6
Total research and development expenses	$ 14.6	$ 9.3	$ 41.9	$ 27.4

During the three and nine months ended September 30, 2013, our total research and development expenses increased by $5.3 million and $14.5 million, respectively, compared to the same periods of 2012, primarily due to the expansion of our product platform and the advancement of our research and development on specific targets, principally DOT1L, EZH2 and the three target programs partnered with GSK. Research and development expenses for the three and nine months ended September 30, 2013 are net $0.7 million of co-funded amounts receivable from Celgene.

Most of our research and development costs have been external costs, which we began tracking on a program-by-program basis in the first quarter of 2010. Our internal research and development costs are primarily compensation expenses for our full-time research and development employees. We do not track internal research and development costs on a program-by-program basis. However, by employing a multinational network of CROs, our employees are able to dedicate significant amounts of their time to the expansion and development of our product platform while managing the research performed by our CROs. Our internal research and development expenses increased by $1.4 million and $4.8 million in the three and nine months ended September 30, 2013, respectively, as compared to the same periods of the prior year as the number of our research and development employees grew from 42 employees as of September 30, 2012 to 54 employees as of September 30, 2013.

External research and development expenses for DOT1L focused on the advancement of the EPZ-5676 Phase I clinical trial, with expenses increasing from $1.2 million in the third quarter of 2012 to $3.4 million in the third quarter of 2013. External research and development expenses for EZH2 focused on the EPZ-6438 Phase I/II clinical trial, with expenses of $0.8 million in both the third quarter of 2012 and 2013. External research and development expenses for discovery and preclinical stage product programs, including the three target programs partnered with GSK, increased from $4.3 million in the third quarter of 2012 to $6.0 million in the third quarter of 2013 as we advanced the research and development of these programs. Research and development expenses in the nine months ended September 30, 2013 reflect similar advancement and expansion of our product programs when compared to the same period of 2012.

External research and development expenses from January 1, 2010 through September 30, 2013 was $28.6 million for EPZ-5676 and related DOT1L programs and $12.0 million for EPZ-6438 and related EZH2 programs. We did not maintain program-specific external cost information prior to January 1, 2010. We expect to continue to increase our research and development expenses as the EPZ-5676 and EPZ-6438 programs continue to progress through clinical testing, as we continue to build our product platform and as we continue to work on our other programs, such as the product candidates being developed under our GSK collaboration. We are solely responsible for all research and development costs for any programs not selected by Celgene and not subject to license under our other collaboration agreements. We expect total research and development expenses in 2013 to be up to $65.0 million based on our current research plan.

General and Administrative

The following is a comparison of general and administrative expenses for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	**2012**	**Increase**	**2013**	**2012**	**Increase**
		(In millions)			**(In millions)**	
General and administrative	$ 3.6	$ 1.6	$ 2.0	$ 9.7	$ 5.2	$ 4.5

General and administrative expenses consist primarily of salaries and related benefits, including stock-based compensation, related to our executive, finance, intellectual property, business development and support functions. Other general and administrative expenses include allocated facility-related costs not otherwise included in research and development expenses, travel expenses and professional fees for auditing, tax and legal services, including intellectual property-related legal services.

For the three and nine months ended September 30, 2013, our general and administrative expenses increased compared to the same periods of the prior year, primarily related to additional professional fees, insurance and other costs associated with public company operation as well as increased stock-based compensation expense and other costs to support our growing organization.

We expect that general and administrative expenses will increase in the future as we expand our operating activities and incur additional costs associated with being a publicly traded company. These increases will likely include legal, auditing and filing fees, additional insurance premiums, costs associated with maintaining investor relations services and general compliance and consulting expenses.

Other Income (Expense), net

Other income (expense), net consists of interest income earned on our cash equivalents, offset by interest and other expense. The change to other expense, net in the nine months ended September 30, 2013 from other income in the nine months ended September 30, 2012 reflects the recognition of interest expense on a contract termination obligation that we incurred in the second quarter of 2012 and paid in full in the second quarter of 2013.

Accretion of Redeemable Convertible Preferred Stock to Redemption Value

Our redeemable convertible preferred stock automatically converted into common stock upon the closing of our initial public offering in June 2013. Our preferred stock was redeemable beginning in 2017 at its original issue prices per share plus any declared but unpaid dividends upon a specified vote of the preferred stockholders. Accretion of preferred stock reflected the periodic accretion of issuance costs and premiums on each series of preferred stock, where applicable, to their respective redemption values. We recorded $0.2 million and $0.3 million of accretion in the three and nine months ended September 30, 2012, respectively, and $0.3 million of accretion in the nine months ended September 30, 2013, until the conversion into common stock. As a result of this conversion, as of September 30, 2013, we do not have any preferred stock outstanding and will not record any additional accretion of preferred stock related to the shares of redeemable convertible preferred stock previously issued.

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Liquidity and Capital Resources

On June 5, 2013, we completed an initial public offering of our common stock, which resulted in the sale of 5,913,300 shares, including all additional shares available to cover over-allotments, at a price of $15.00 per share. We received net proceeds before expenses from the IPO of $82.5 million after deducting underwriting discounts and commissions paid by us. In connection with the closing of the IPO, all of our outstanding redeemable convertible preferred stock automatically converted to common stock at a one-for-three ratio as of June 5, 2013.

Since our inception and through September 30, 2013, we have raised an aggregate of $291.8 million to fund our operations, of which $133.3 million was non-equity funding through our collaboration agreements, $82.5 million was from our initial public offering and $76.0 million was from the sale of redeemable convertible preferred stock. In addition, as of September 30, 2013, we were entitled to receive $2.2 million for research and development services provided in the third quarter of 2013. As of September 30, 2013, we had $139.6 million in cash and cash equivalents.

In addition to our existing cash and cash equivalents, we receive research and development funding and are eligible to earn a significant amount of option exercise and milestone payments under our collaboration agreements. Our ability to earn these payments and the timing of earning these payments is dependent upon the outcome of our research and development activities and is uncertain at this time. Our rights to payments under our collaboration agreements are our only committed external sources of funds.

Funding Requirements

Our primary uses of capital are, and we expect will continue to be, compensation and related expenses, third party clinical research and development services, laboratory and related supplies, clinical costs, legal and other regulatory expenses and general overhead costs. We believe our multinational network of CROs provides us with flexibility in managing our spending and limits our cost commitments at any point in time.

Because our product candidates are in various stages of clinical and preclinical development and the outcome of these efforts is uncertain, we cannot estimate the actual amounts necessary to successfully complete the development and commercialization of our product candidates or whether, or when, we may achieve profitability. Until such time, if ever, as we can generate substantial product revenues, we expect to finance our cash needs through a combination of equity or debt financings and collaboration agreements. Except for any obligations of our collaborators to fund or reimburse us for research and development expenses or to make option exercise, milestone or royalty payments under our agreements with them, we do not have any committed external sources of liquidity. To the extent that we raise additional capital through the future sale of equity or debt, the ownership interest of our stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our existing stockholders. Our ability to enter into collaboration agreements for additional HMT targets is significantly limited until the end of the option period under the Celgene agreement and may continue to be limited after the end of the option period depending on how many other HMT targets Celgene elects to license, if any. If we raise additional funds through new collaboration agreements in the future, we may have to relinquish valuable rights to our technologies, future revenue streams or product candidates or grant licenses on terms that may not be favorable to us. If we are unable to raise any additional funds that may be needed through equity or debt financings when needed, we may be required to delay, limit, reduce or terminate our product development or future commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

Outlook

Based on our research and development plans and our timing expectations related to the progress of our programs, we expect that our existing cash and cash equivalents as of September 30, 2013 and research funding that we expect to receive under our existing collaborations will enable us to fund our operating expenses and capital expenditure requirements until at least mid-2015, without giving effect to any potential option exercise fees or milestone payments we may receive under our collaboration agreements. We have based this estimate on assumptions that may prove to be wrong, particularly as the process of testing drug candidates in clinical trials is costly and the timing of progress in these trials is uncertain. As a result, we could use our capital resources sooner than we expect.

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Cash Flows

The following is a summary of cash flows for the nine months ended September 30, 2013 and 2012:

	Nine Months Ended September 30,	
	2013	2012
	(In millions)	
Net cash (used in) provided by operating activities	$ (38.0)	$ 48.4
Net cash used in investing activities	(0.2)	(0.2)
Net cash provided by financing activities	79.9	21.9

Net cash (used in) provided by operating activities

Net cash used in operating activities was $38.0 million during the nine months ended September 30, 2013 compared to net cash provided by operating activities of $48.4 million during the nine months ended September 30, 2012. The change from net cash provided by operating activities to net cash used in operating activities reflects the $68.0 million received from Celgene and allocated to our collaboration agreement in April 2012, as well as increased spending in 2013.

Net cash used in investing activities

Net cash used in investing activities of $0.2 million during each of the nine months ended September 30, 2013 and 2012 relates solely to purchases of property and equipment in both periods presented and represents general maintenance capital.

Net cash provided by financing activities

Net cash provided by financing activities of $79.9 million during the nine months ended September 30, 2013 primarily reflects net cash received from our initial public offering, including the payment of $2.8 million in initial public offering costs. Net cash provided by financing activities of $21.9 million during the nine months ended September 30, 2012 primarily reflects net cash received from our sale of series C redeemable convertible preferred stock to an affiliate of Celgene in April 2012.

Critical Accounting Policies

Our critical accounting policies are those policies which require the most significant judgments and estimates in the preparation of our consolidated financial statements. Management has determined that our most critical accounting policies are those relating to revenue recognition and stock-based compensation. There have been no significant changes to our critical accounting policies discussed in the Prospectus.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. ASU 2013-11 amends Accounting Standards Codification (ASC) 740, *Income Taxes*, by providing guidance on the financial statement presentation of an unrecognized benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The ASU does not affect the recognition or measurement of uncertain tax positions under ASC 740. ASU 2013-11 will be effective for us for interim and annual periods beginning after December 15, 2013, with early adoption permitted. We do not expect the adoption of this ASU to have any impact on our consolidated financial statements.

Contractual Obligations

In September 2013, we entered into an amendment to the operating lease agreement for our current office and laboratory facility in Cambridge, Massachusetts, under which we leased an additional 10,500 square feet of office space for aggregate rent payments of $2.5 million. These additional rent payments are expected to be paid from the commencement of our lease for this additional space, which is projected to be in the first quarter of 2014, through the end of our existing lease agreement,

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November 30, 2017. Except for the additional space leased in our current office and laboratory facility, there were no material changes to our contractual obligations during the third quarter of 2013. For a complete discussion of our contractual obligations, please refer to our *Management s Discussion and Analysis of Financial Condition and Results of Operations* in the Prospectus.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The market risk inherent in our financial instruments and in our financial position represents the potential loss arising from adverse changes in interest rates. As of September 30, 2013, we had cash equivalents of $121.4 million consisting of interest-bearing money market accounts and prime money market funds. Our primary exposure to market risk is interest rate sensitivity, which is affected by changes in the general level of U.S. interest rates. Due to the short-term maturities of our cash equivalents and the low risk profile of these investments, an immediate 100 basis point change in interest rates at levels as of September 30, 2013 would not have a material effect on the fair market value of our cash equivalents.

We contract with CROs and manufacturers internationally. Transactions with these providers are predominantly settled in U.S. dollars and, therefore, we believe that we have only minimal exposure to foreign currency exchange risks. We do not hedge against foreign currency risks.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company has established disclosure controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934, as amended (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and is accumulated and communicated to management, including the principal executive officer (our Chief Executive Officer) and principal financial officer (our Chief Financial Officer), to allow timely decisions regarding required disclosure.

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives. Our disclosure controls and procedures have been designed to provide reasonable assurance of achieving their objectives. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2013.

Changes in Internal Control over Financial Reporting

No change in the Company s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the three months ended September 30, 2013 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

Item 1A. Risk Factors

Careful consideration should be given to the following risk factors, in addition to the other information set forth in this Quarterly Report on Form 10-Q and in other documents that we file with the SEC, in evaluating the Company and our business. Investing in our common stock involves a high degree of risk. If any of the following risks and uncertainties actually occurs, our business, prospects, financial condition and results of operations could be materially and adversely affected. The risks described below are not intended to be exhaustive and are not the only risks facing the Company. New risk factors can emerge from time to time, and it is not possible to predict the impact that any factor or combination of factors may have on our business, prospects, financial condition and results of operations.

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Risks Related to Our Financial Position and Need For Additional Capital

We have incurred significant losses since our inception. We expect to incur losses over the next several years and may never achieve or maintain profitability.

Since inception, we have incurred significant operating losses. Our net loss was $19.4 million for the nine months ended September 30, 2013. As of September 30, 2013, we had an accumulated deficit of $72.0 million. To date, we have financed our operations primarily through our collaborations, our initial public offering and private placements of our preferred stock. All of our revenue to date has been collaboration revenue. We have devoted substantially all of our financial resources and efforts to research and development, including preclinical studies and, beginning in 2012, clinical trials. We are still in the early stages of development of our product candidates, and we have not completed development of any drugs. We expect to continue to incur significant expenses and operating losses over the next several years. Our net losses may fluctuate significantly from quarter to quarter and year to year. We anticipate that our expenses will increase substantially over the next several years as we:

- continue our Phase I clinical trial of EPZ-5676, our most advanced product candidate, for treatment of patients with mixed lineage leukemia, or MLL-r, a genetically defined subtype of the two most common forms of acute leukemia, and seek to treat additional indications;
- continue, together with Eisai, the Phase I/II clinical trial of EPZ-6438, our second most advanced product candidate, for treatment of patients with a genetically defined subtype of non-Hodgkin lymphoma, and seek to treat additional indications;
- continue the research and development of our other product candidates;
- seek to discover and develop additional product candidates;
- seek regulatory approvals for any product candidates that successfully complete clinical trials;
- ultimately establish a sales, marketing and distribution infrastructure and scale up external manufacturing capabilities to commercialize any products for which we may obtain regulatory approval;
- maintain, expand and protect our intellectual property portfolio;
- hire additional clinical, quality control and scientific personnel; and

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

To become and remain profitable, we must succeed in developing, and eventually commercializing, products that generate significant revenue. The ability to achieve this success will require us to be effective in a range of challenging activities, including completing preclinical testing and clinical trials of our product candidates, discovering additional product candidates, obtaining regulatory approval for these product candidates and manufacturing, marketing and selling any products for which we may obtain regulatory approval. We are only in the preliminary stages of most of these activities. We may never succeed in these activities and, even if we do, may never generate revenues that are significant enough to achieve profitability.

Because of the numerous risks and uncertainties associated with pharmaceutical product development, we are unable to accurately predict the timing or amount of increased expenses or when, or if, we will be able to achieve profitability. If we are required by the United States Food and Drug Administration, or FDA, the European Medicines Agency, or EMA, or other regulatory authorities to perform studies in addition to those currently expected, or if there are any delays in completing our clinical trials or the development of any of our product candidates, our expenses could increase.

Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. Our failure to become and remain profitable would depress the value of our company and could impair our ability to raise capital, expand our business, maintain our research and development efforts, diversify our product offerings or even continue our operations. A decline in the value of our company could cause our stockholders to lose all or part of their investment in our company.

We will need substantial additional funding. If we are unable to raise capital when needed, we could be forced to delay, reduce or eliminate our product development programs or commercialization efforts.

We expect our expenses to increase in connection with our ongoing activities, particularly as we continue the Phase I clinical trial of EPZ-5676 and the Phase I/II clinical trial of EPZ-6438, and continue research and development and initiate additional clinical trials of, and seek regulatory approval for, these product candidates and other product candidates. In addition, if we obtain regulatory approval for any of our product candidates, we expect to incur significant commercialization expenses related to product manufacturing, marketing, sales and distribution. Accordingly, we will need to obtain substantial additional funding in connection with our continuing operations. If we are unable to raise capital when needed or on acceptable terms, we could be forced to delay, reduce or eliminate our research and development programs or any future commercialization efforts.

Based on our research and development plans and our timing expectations related to the progress of our programs, we believe that our existing cash and cash equivalents as of September 30, 2013 and research funding that we expect to receive under our existing collaborations, will enable us to fund our operating expenses and capital expenditure requirements until at least mid-2015, without giving effect to any potential option exercise fees or milestone payments we may receive under our collaboration agreements. We have based this estimate on assumptions that may prove to be wrong, and we could use our capital resources sooner than we expect. Our future capital requirements will depend on many factors, including:

- our collaboration agreement remaining in effect and our ability to obtain research funding and achieve milestones under these agreements;
- the progress and results of the Phase I clinical trial of EPZ-5676 and the Phase I/II clinical trial of EPZ-6438;
- the number and development requirements of additional indications for EPZ-5676 and EPZ-6438 and other product candidates that we may pursue, including the scope, progress, results and costs of preclinical development, laboratory testing and clinical trials for such product candidates;
- the costs, timing and outcome of regulatory review of our product candidates;
- the costs and timing of future commercialization activities, including product manufacturing, marketing, sales and distribution for any of our product candidates for which we receive marketing approval;
- the revenue, if any, received from commercial sales of our product candidates for which we receive marketing approval;
- the costs and timing of preparing, filing and prosecuting patent applications, maintaining and enforcing our intellectual property rights and defending any intellectual property-related claims; and
- the extent to which we acquire or in-license other products and technologies.

Identifying potential product candidates and conducting preclinical testing and clinical trials is a time-consuming, expensive and uncertain process that takes years to complete, and we may never generate the necessary data or results required to obtain regulatory approval and achieve product sales. In addition, our product candidates, if approved, may not achieve commercial success. Our commercial revenues, if any, will be derived from sales of products that we do not expect to be commercially available for many years, if at all. Accordingly, we will need to continue to rely on additional financing to achieve our business objectives. Adequate additional financing may not be available to us on acceptable terms, or at all. In addition, we may seek additional capital due to favorable market conditions or strategic considerations, even if we believe we have sufficient funds for our current or future operating plans.

Raising additional capital may cause dilution to our stockholders, restrict our operations or require us to relinquish rights to our technologies or product candidates.

Until such time, if ever, as we can generate substantial product revenues, we expect to finance our cash needs through a combination of equity offerings, debt financings and license and development agreements with collaboration partners. We do not have any committed external source of funds other than research funding under our existing collaborations. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interest of our existing stockholders will be diluted and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our common stockholders. Debt financing and preferred equity financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends.

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If we raise additional funds through collaborations, strategic alliances or marketing, distribution or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings when needed, we may be required to delay, limit, reduce or terminate our product development or future commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

Our limited operating history may make it difficult to evaluate the success of our business to date and to assess our future viability.

We commenced active operations in early 2008, and our operations to date have been limited to organizing and staffing our company, business planning, raising capital, developing our technology, identifying potential product candidates, undertaking preclinical studies and, beginning in 2012, conducting clinical trials. All but two of our product candidates are still in preclinical development. We are conducting a Phase I clinical trial of EPZ-5676, our most advanced product candidate, and a Phase I/II clinical trial of EPZ-6438, our second most advanced product candidate, but have not completed enrollment in either of these trials. We have not yet demonstrated our ability to successfully complete any clinical trials, obtain regulatory approvals, manufacture a commercial scale product, or arrange for a third party to do so on our behalf, or conduct sales and marketing activities necessary for successful product commercialization. Consequently, any predictions about our future success or viability may not be as accurate as they could be if we had a longer operating history.

In addition, as a young business, we may encounter unforeseen expenses, difficulties, complications, delays and other known and unknown factors. We will need to transition at some point from a company with a research and development focus to a company capable of supporting commercial activities. We may not be successful in such a transition.

We expect our financial condition and operating results to continue to fluctuate significantly from quarter-to-quarter and year-to-year due to a variety of factors, many of which are beyond our control. Accordingly, the results of any quarterly or annual periods should not be relied upon as indications of future operating performance.

We have broad discretion over the use of our cash and cash equivalents and may not use them effectively.

Our management has broad discretion to use our cash and cash equivalents to fund our operations and could spend these funds in ways that do not improve our results of operations or enhance the value of our common stock. The failure by our management to apply these funds effectively could result in financial losses that could have a material adverse effect on our business, cause the price of our common stock to decline and delay the development of our product candidates. Pending their use to fund operations, we may invest our cash and cash equivalents in a manner that does not produce income or that loses value.

Risks Related to the Discovery and Development of Our Product Candidates

Our research and development is focused on the creation of personalized therapeutics for patients with genetically defined cancers, which is a rapidly evolving area of science, and the approach we are taking to discover and develop drugs is novel and may never lead to marketable products.

The discovery of personalized drug therapeutics for patients with genetically defined cancers is an emerging field, and the scientific discoveries that form the basis for our efforts to discover and develop product candidates are relatively new. The scientific evidence to support the feasibility of developing product candidates based on these discoveries is both preliminary and limited. Although epigenetic regulation of gene expression plays an essential role in biological function, very few drugs premised on epigenetics have been discovered. Moreover, those drugs based on an epigenetic mechanism that have received marketing approval are in a different target class than HMTs, where our research and development is focused. Although preclinical studies suggest that genetic alterations in HMTs cause them to drive particular human cancers, to date no company has translated these biological observations into systematic drug discovery that has yielded a drug that has received marketing approval. We believe that we are the first company to conduct a clinical trial of an HMT inhibitor. Therefore, we do not know if our approach of inhibiting HMTs to treat patients with genetically defined cancers will be successful.

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We are early in our development efforts and have only two product candidates in clinical trials. All of our other product candidates are still in preclinical development. If we are unable to commercialize our product candidates or experience significant delays in doing so, our business will be materially harmed.

We are very early in our development efforts and have only two product candidates in early phases of clinical trials. All of our other product candidates are still in preclinical development. We have invested substantially all of our efforts and financial resources in the identification and preclinical development of HMT inhibitors. Our ability to generate product revenues, which we do not expect will occur for many years, if ever, will depend heavily on the successful development and eventual commercialization of our product candidates. The success of our product candidates will depend on several factors, including the following:

- successful completion of preclinical studies and clinical trials;
- receipt of marketing approvals from applicable regulatory authorities;
- obtaining and maintaining patent and trade secret protection and regulatory exclusivity for our product candidates;
- making arrangements with third party manufacturers for, or establishing, commercial manufacturing capabilities;
- launching commercial sales of the products, if and when approved, whether alone or in collaboration with others;
- acceptance of the products, if and when approved, by patients, the medical community and third party payors;
- effectively competing with other therapies;
- obtaining and maintaining healthcare coverage and adequate reimbursement;
- protecting our rights in our intellectual property portfolio; and
- maintaining a continued acceptable safety profile of the products following approval.

If we do not achieve one or more of these factors in a timely manner or at all, we could experience significant delays or an inability to successfully commercialize our product candidates, which would materially harm our business.

We may not be successful in our efforts to use and expand our product platform to build a pipeline of product candidates.

A key element of our strategy is to use and expand our product platform to build a pipeline of small molecule inhibitors of HMT targets and progress these product candidates through clinical development for the treatment of a variety of different types of cancer. Although our research and development efforts to date have resulted in a pipeline of programs directed at specific HMT targets, we may not be able to develop product candidates that are safe and effective HMT inhibitors. Even if we are successful in continuing to build our pipeline, the potential product candidates that we identify may not be suitable for clinical development, including as a result of being shown to have harmful side effects or other characteristics that indicate that they are unlikely to be products that will receive marketing approval and achieve market acceptance. If we do not successfully develop and commercialize product candidates based upon our technological approach, we will not be able to obtain product revenues in future periods, which likely would result in significant harm to our financial position and adversely affect our stock price.

Clinical drug development involves a lengthy and expensive process, with an uncertain outcome. We may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of our product candidates.

Two of our product candidates are in early clinical development, and our remaining product candidates are in preclinical development. The risk of failure for each of our product candidates is high. It is impossible to predict when or if any of our product candidates will prove effective or safe in humans or will receive regulatory approval. Before obtaining marketing approval from regulatory authorities for the sale of any product candidate, we must complete preclinical development and then conduct extensive clinical trials to demonstrate the safety and efficacy of our product candidates in humans. Clinical testing is expensive, difficult to design and implement, can take many years to complete and is uncertain as to outcome. A failure of one or more clinical trials can occur at any stage of testing. The outcome of preclinical testing and early clinical trials may not be predictive of the success of later clinical trials, and interim results of a clinical trial do not necessarily predict final results. For example, it is important to note that the biological effect observed in our Phase I clinical trial of EPZ-5676, as described in the Prospectus, was achieved by only a single patient in an open-label setting, is not statistically significant, might not represent

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any clinical benefit and might not be achieved by any other patient treated with EPZ-5676. In addition, it is important to note that, notwithstanding the reduction in blast count that was observed, the disease did progress in this patient. Moreover, preclinical and clinical data are often susceptible to varying interpretations and analyses, and many companies that have believed their product candidates performed satisfactorily in preclinical studies and clinical trials have nonetheless failed to obtain marketing approval of their products.

We may experience numerous unforeseen events during, or as a result of, clinical trials that could delay or prevent our ability to receive marketing approval or commercialize our product candidates, including:

- regulators or institutional review boards may not authorize us or our investigators to commence a clinical trial or conduct a clinical trial at a prospective trial site;

- we may experience delays in reaching, or fail to reach, agreement on acceptable clinical trial contracts or clinical trial protocols with prospective trial sites;

- clinical trials of our product candidates may produce negative or inconclusive results, and we may decide, or regulators may require us, to conduct additional clinical trials or abandon product development programs;

- the number of patients required for clinical trials of our product candidates may be larger than we anticipate, enrollment in these clinical trials may be slower than we anticipate or participants may drop out of these clinical trials at a higher rate than we anticipate;

- our third party contractors may fail to comply with regulatory requirements or meet their contractual obligations to us in a timely manner, or at all;

- we may have to suspend or terminate clinical trials of our product candidates for various reasons, including a finding that the participants are being exposed to unacceptable health risks;

- regulators or institutional review boards may require that we or our investigators suspend or terminate clinical research for various reasons, including noncompliance with regulatory requirements or a finding that the participants are being exposed to unacceptable health risks;

- the cost of clinical trials of our product candidates may be greater than we anticipate;

- the supply or quality of our product candidates or other materials necessary to conduct clinical trials of our product candidates may be insufficient or inadequate; and

- our product candidates may have undesirable side effects or other unexpected characteristics, causing us or our investigators, regulators or institutional review boards to suspend or terminate the trials.

If we are required to conduct additional clinical trials or other testing of our product candidates beyond those that we currently contemplate, if we are unable to successfully complete clinical trials of our product candidates or other testing, if the results of these trials or tests are not positive or are only modestly positive or if there are safety concerns, we may:

- be delayed in obtaining marketing approval for our product candidates;
- not obtain marketing approval at all;
- obtain approval for indications or patient populations that are not as broad as intended or desired;
- obtain approval with labeling that includes significant use or distribution restrictions or safety warnings;
- be subject to additional post-marketing testing requirements; or
- have the product removed from the market after obtaining marketing approval.

Our product development costs will also increase if we experience delays in testing or gaining marketing approvals. We do not know whether any of our preclinical studies or clinical trials will begin as planned, will need to be restructured or will be completed on schedule, or at all. Significant preclinical or clinical trial delays also could shorten any periods during which we may have the exclusive right to commercialize our product candidates or allow our competitors to bring products to market before we do and impair our ability to successfully commercialize our product candidates and may harm our business and results of operations.

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If we experience delays or difficulties in the enrollment of patients in clinical trials, our receipt of necessary regulatory approvals could be delayed or prevented.

We may not be able to initiate or continue clinical trials for our product candidates if we are unable to locate and enroll a sufficient number of eligible patients to participate in these trials as required by the FDA or similar regulatory authorities outside of the United States. In particular, because we are focused on patients with genetically defined cancers, our ability to enroll eligible patients may be limited or may result in slower enrollment than we anticipate. For example, enrollment in our Phase I clinical trial of EPZ-5676 had been slower than we expected because of delays in establishing trial sites. In addition, some of our competitors have ongoing clinical trials for product candidates that treat the same general patient populations as our product candidates, and patients who would otherwise be eligible for our clinical trials may instead enroll in clinical trials of our competitors product candidates.

Patient enrollment is affected by other factors including:

- the severity of the disease under investigation;
- the eligibility criteria for the study in question;
- the perceived risks and benefits of the product candidate under study;
- the efforts to facilitate timely enrollment in clinical trials;
- the patient referral practices of physicians;
- the ability to monitor patients adequately during and after treatment; and
- the proximity and availability of clinical trial sites for prospective patients.

Our inability to enroll a sufficient number of patients for our clinical trials would result in significant delays and could require us to abandon one or more clinical trials altogether. Enrollment delays in our clinical trials may result in increased development costs for our product candidates, which would cause the value of our company to decline and limit our ability to obtain additional financing.

Following our general product development strategy, we have designed our existing clinical trials of EPZ-5676 and EPZ-6438, and expect to design future trials, to include some patients with the applicable genetic alteration that causes the disease with a view to assessing possible early evidence of potential therapeutic effect. If we are unable to include patients with the applicable genetic alteration, this could compromise our ability to seek participation in FDA expedited review and approval programs, including breakthrough therapy and fast track designation, or otherwise to seek to accelerate clinical development and regulatory timelines.

If serious adverse or unacceptable side effects are identified during the development of our product candidates, we may need to abandon or limit our development of some of our product candidates.

If our product candidates are associated with undesirable side effects in clinical trials or have characteristics that are unexpected, we may need to abandon their development or limit development to more narrow uses or subpopulations in which the undesirable side effects or other characteristics are less prevalent, less severe or more acceptable from a risk-benefit perspective. In pharmaceutical development, many compounds that initially show promise in early stage testing for treating cancer are later found to cause side effects that prevent further development of the compound.

We may expend our limited resources to pursue a particular product candidate or indication and fail to capitalize on product candidates or indications that may be more profitable or for which there is a greater likelihood of success.

Because we have limited financial and managerial resources, we focus on research programs and product candidates that we identify for specific indications. As a result, we may forego or delay pursuit of opportunities with other product candidates or for other indications that later prove to have greater commercial potential. Our resource allocation decisions may cause us to fail to capitalize on viable commercial products or profitable market opportunities. Our spending on current and future research and development programs and product candidates for specific indications may not yield any commercially viable products. If we do not accurately evaluate the commercial potential or target market for a particular product candidate, we may relinquish valuable rights to that product candidate through collaboration, licensing or other royalty arrangements in cases in which it would have been more advantageous for us to retain sole development and commercialization rights to such product candidate.

If we are unable to successfully develop companion diagnostics for our therapeutic product candidates, or experience significant delays in doing so, we may not achieve marketing approval or realize the full commercial potential of our therapeutic product candidates.

We plan to develop companion diagnostics for our therapeutic product candidates. We expect that, at least in some cases, the FDA and similar regulatory authorities outside of the United States may require the development and regulatory approval of a companion diagnostic as a condition to approving our therapeutic product candidates. We do not have experience or capabilities in developing or commercializing diagnostics and plan to rely in large part on third parties to perform these functions. For example, in December 2012, Eisai and we entered into an agreement with Roche to develop and commercialize a companion diagnostic for use with EPZ-6438. In February 2013, we entered into a similar agreement with Abbott to develop and commercialize a companion diagnostic for use with EPZ-5676. We generally expect to enter into similar agreements for our other therapeutic product candidates and possible expansion indications for EPZ-5676 and EPZ-6438. Companion diagnostics are subject to regulation by the FDA and similar regulatory authorities outside of the United States as medical devices and require separate regulatory approval prior to commercialization.

If we, or any third parties that we engage to assist us, are unable to successfully develop companion diagnostics for our therapeutic product candidates, or experience delays in doing so:

- the development of our therapeutic product candidates may be adversely affected if we are unable to appropriately select patients for enrollment in our clinical trials;

- our therapeutic product candidates may not receive marketing approval if their safe and effective use depends on a companion diagnostic; and

- we may not realize the full commercial potential of any therapeutic product candidates that receive marketing approval if, among other reasons, we are unable to appropriately identify patients with the specific genetic alterations targeted by our therapeutic product candidates.

If any of these events were to occur, our business would be harmed, possibly materially.

Risks Related to the Commercialization of Our Product Candidates

Even if any of our product candidates receives marketing approval, it may fail to achieve the degree of market acceptance by physicians, patients, third party payors and others in the medical community necessary for commercial success.

If any of our product candidates receives marketing approval, it may nonetheless fail to gain sufficient market acceptance by physicians, patients, third party payors and others in the medical community. For example, current cancer treatments like chemotherapy and radiation therapy are well established in the medical community, and doctors may continue to rely on these treatments. If our product candidates do not achieve an adequate level of acceptance, we may not generate significant product revenues and we may not become profitable. The degree of market acceptance of our product candidates, if approved for commercial sale, will depend on a number of factors, including:

- the efficacy and potential advantages compared to alternative treatments;
- our ability to offer our products for sale at competitive prices;
- the convenience and ease of administration compared to alternative treatments;
- the willingness of the patient population to try new therapies and of physicians to prescribe these therapies;
- the strength of marketing and distribution support;
- the availability of third party coverage and adequate reimbursement;
- the prevalence and severity of any side effects; and
- any restrictions on the use of our products together with other medications.

If we are unable to establish sales, marketing and distribution capabilities, we may not be successful in commercializing our product candidates if and when they are approved.

We do not have a sales or marketing infrastructure and have no experience in the sale, marketing or distribution of pharmaceutical products. To achieve commercial success for any product for which we have obtained marketing approval, we will need to establish a sales and marketing organization.

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In the future, we expect to build a focused sales and marketing infrastructure to market or co-promote some of our product candidates in the United States, if and when they are approved. There are risks involved with establishing our own sales, marketing and distribution capabilities. For example, recruiting and training a sales force is expensive and time consuming and could delay any product launch. If the commercial launch of a product candidate for which we recruit a sales force and establish marketing capabilities is delayed or does not occur for any reason, we would have prematurely or unnecessarily incurred these commercialization expenses. These efforts may be costly, and our investment would be lost if we cannot retain or reposition our sales and marketing personnel.

Factors that may inhibit our efforts to commercialize our products on our own include:

- our inability to recruit, train and retain adequate numbers of effective sales and marketing personnel;
- the inability of sales personnel to obtain access to physicians or persuade adequate numbers of physicians to prescribe any future products;
- the lack of complementary products to be offered by sales personnel, which may put us at a competitive disadvantage relative to companies with more extensive product lines; and
- unforeseen costs and expenses associated with creating an independent sales and marketing organization.

If we are unable to establish our own sales, marketing and distribution capabilities and enter into arrangements with third parties to perform these services, our product revenues and our profitability, if any, are likely to be lower than if we were to market, sell and distribute any products that we develop ourselves. In addition, we may not be successful in entering into arrangements with third parties to sell, market and distribute our product candidates or may be unable to do so on terms that are acceptable to us. We likely will have little control over such third parties, and any of them may fail to devote the necessary resources and attention to sell and market our products effectively. If we do not establish sales, marketing and distribution capabilities successfully, either on our own or in collaboration with third parties, we will not be successful in commercializing our product candidates.

We face substantial competition, which may result in others discovering, developing or commercializing products before or more successfully than we do.

The development and commercialization of new drug products is highly competitive. We face competition with respect to our current product candidates, and will likely face competition with respect to any product candidates that we may seek to develop or commercialize in the future, from major pharmaceutical companies, specialty pharmaceutical companies and biotechnology companies worldwide. There are a number of large pharmaceutical and biotechnology companies that currently market and sell products or are pursuing the development of products for the treatment of the disease indications for which we are developing our product candidates. Some of these competitive products and therapies are based on scientific approaches that are the same as or similar to our approach, and others are based on entirely different approaches. Potential competitors also include academic institutions, government agencies and other public and private research organizations that conduct research, seek patent protection and establish collaborative arrangements for research, development, manufacturing and commercialization.

Specifically, there are a large number of companies developing or marketing treatments for cancer, including many major pharmaceutical and biotechnology companies. In addition, many companies are developing cancer therapeutics that work by targeting epigenetic mechanisms other than HMTs, and some companies, including Celgene and Eisai, are marketing such treatments. There are also a number of companies believed to be developing new epigenetic treatments for cancer that target HMTs, including GSK, Novartis AG, Pfizer, Inc. and Genentech, Inc.

Our commercial opportunity could be reduced or eliminated if our competitors develop and commercialize products that are safer, more effective, have fewer or less severe side effects, are more convenient or are less expensive than any products that we may develop. Our competitors also may obtain FDA or other regulatory approval for their products more rapidly than we may obtain approval for ours, which could result in our competitors establishing a strong market position before we are able to enter the market. In addition, our ability to compete may be affected in many cases by insurers or other third party payors seeking to encourage the use of generic products. Generic products are currently on the market for the indications that we are pursuing, and additional products are expected to become available on a generic basis over the coming years. If our product candidates achieve marketing approval, we expect that they will be priced at a significant premium over competitive generic products.

Many of the companies against which we are competing or against which we may compete in the future have significantly greater financial resources and expertise in research and development, manufacturing, preclinical testing, conducting clinical trials, obtaining regulatory approvals and marketing approved products than we do. Mergers and acquisitions in the pharmaceutical and biotechnology industries may result in even more resources being concentrated among a smaller number of our competitors. Smaller and other early stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. These third parties compete with us in recruiting and retaining qualified scientific and management personnel, establishing clinical trial sites and patient registration for clinical trials, as well as in acquiring technologies complementary to, or necessary for, our programs.

Even if we are able to commercialize any product candidates, the products may become subject to unfavorable pricing regulations, third party reimbursement practices or healthcare reform initiatives, which could harm our business.

The regulations that govern marketing approvals, pricing, coverage and reimbursement for new drug products vary widely from country to country. Current and future legislation may significantly change the approval requirements in ways that could involve additional costs and cause delays in obtaining approvals. Some countries require approval of the sale price of a drug before it can be marketed. In many countries, the pricing review period begins after marketing or product licensing approval is granted. In some foreign markets, prescription pharmaceutical pricing remains subject to continuing governmental control even after initial approval is granted. As a result, we might obtain marketing approval for a product in a particular country, but then be subject to price regulations that delay our commercial launch of the product, possibly for lengthy time periods, and negatively impact the revenues we are able to generate from the sale of the product in that country. Adverse pricing limitations may hinder our ability to recoup our investment in one or more product candidates, even if our product candidates obtain marketing approval.

Our ability to commercialize any product candidates successfully also will depend in part on the extent to which coverage and adequate reimbursement for these products and related treatments will be available from government health administration authorities, private health insurers and other organizations. Government authorities and third party payors, such as private health insurers and health maintenance organizations, decide which medications they will pay for and establish reimbursement levels. A primary trend in the U.S. healthcare industry and elsewhere is cost containment. Government authorities and third party payors have attempted to control costs by limiting coverage and the amount of reimbursement for particular medications. Increasingly, third party payors are requiring that drug companies provide them with predetermined discounts from list prices and are challenging the prices charged for medical products. Coverage and reimbursement may not be available for any product that we commercialize and, even if these are available, the level of reimbursement may not be satisfactory. Reimbursement may affect the demand for, or the price of, any product candidate for which we obtain marketing approval. Obtaining and maintaining adequate reimbursement for our products may be difficult. We may be required to conduct expensive pharmacoeconomic studies to justify coverage and reimbursement or the level of reimbursement relative to other therapies. If coverage and adequate reimbursement are not available or reimbursement is available only to limited levels, we may not be able to successfully commercialize any product candidate for which we obtain marketing approval.

There may be significant delays in obtaining reimbursement for newly approved drugs, and coverage may be more limited than the purposes for which the drug is approved by the FDA or similar regulatory authorities outside of the United States. Moreover, eligibility for reimbursement does not imply that a drug will be paid for in all cases or at a rate that covers our costs, including research, development, manufacture, sale and distribution. Interim reimbursement levels for new drugs, if applicable, may also not be sufficient to cover our costs and may not be made permanent. Reimbursement rates may vary according to the use of the drug and the clinical setting in which it is used, may be based on reimbursement levels already set for lower cost drugs and may be incorporated into existing payments for other services. Net prices for drugs may be reduced by mandatory discounts or rebates required by government healthcare programs or private payors and by any future relaxation of laws that presently restrict imports of drugs from countries where they may be sold at lower prices than in the United States. Third party payors often rely upon Medicare coverage policy and payment limitations in setting their own reimbursement policies. Our inability to promptly obtain coverage and adequate reimbursement rates from both government-funded and private payors for any approved products that we develop could have a material adverse effect on our operating results, our ability to raise capital needed to commercialize products and our overall financial condition.

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Product liability lawsuits against us could cause us to incur substantial liabilities and to limit commercialization of any products that we may develop.

We face an inherent risk of product liability exposure related to the testing of our product candidates in human clinical trials and will face an even greater risk if we commercially sell any products that we may develop. If we cannot successfully defend ourselves against claims that our product candidates or products caused injuries, we will incur substantial liabilities. Regardless of merit or eventual outcome, liability claims may result in:

- decreased demand for any product candidates or products that we may develop;
- injury to our reputation and significant negative media attention;
- withdrawal of clinical trial participants;
- significant costs to defend any related litigation;
- substantial monetary awards to trial participants or patients;
- loss of revenue;
- reduced resources of our management to pursue our business strategy; and
- the inability to commercialize any products that we may develop.

We currently hold $5.0 million in product liability insurance coverage in the aggregate, with a per incident limit of $5.0 million, which may not be adequate to cover all liabilities that we may incur. We may need to increase our insurance coverage as we expand our clinical trials or if we commence commercialization of our product candidates. Insurance coverage is increasingly expensive. We may not be able to maintain insurance coverage at a reasonable cost or in an amount adequate to satisfy any liability that may arise.

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Risks Related to Our Dependence on Third Parties

Our existing therapeutic collaborations are important to our business, and future collaborations may also be important to us. If we are unable to maintain any of these collaborations, or if these collaborations are not successful, our business could be adversely affected.

We have limited capabilities for drug development and do not yet have any capability for sales, marketing or distribution. Accordingly, we have entered into therapeutic collaborations with other companies that we believe can provide such capabilities, including our collaboration and license agreements with Celgene, Eisai and GSK. These collaborations also have provided us with important funding for our development programs and product platform and we expect to receive additional funding under these collaborations in the future. Our existing therapeutic collaborations, and any future collaborations we enter into, may pose a number of risks, including the following:

- collaborators have significant discretion in determining the efforts and resources that they will apply to these collaborations;
- collaborators may not perform their obligations as expected;
- collaborators may not pursue development and commercialization of any product candidates that achieve regulatory approval or may elect not to continue or renew development or commercialization programs based on clinical trial results, changes in the collaborators strategic focus or available funding, or external factors, such as an acquisition, that may divert resources or create competing priorities;
- collaborators may delay clinical trials, provide insufficient funding for a clinical trial program, stop a clinical trial or abandon a product candidate, repeat or conduct new clinical trials or require a new formulation of a product candidate for clinical testing;
- collaborators could independently develop, or develop with third parties, products that compete directly or indirectly with our products and product candidates if the collaborators believe that the competitive products are more likely to be successfully developed or can be commercialized under terms that are more economically attractive than ours;
- product candidates discovered in collaboration with us may be viewed by our collaborators as competitive with their own product candidates or products, which may cause collaborators to cease to devote resources to the commercialization of our product candidates;
- a collaborator may fail to comply with applicable regulatory requirements regarding the development, manufacture, distribution or marketing of a product candidate or product;