Epizyme, Inc.
Form 10-Q
August 01, 2013
Table of Contents

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

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 July 26, 2013: 28,416,948 shares.

Table of Contents

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

PART II OTHER INFORMATION

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

EPIZYME, INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Amounts in thousands except share and per share data)

	June 30, 2013	December 31, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 148,689	$ 97,981
Accounts receivable	7,808	1,829
Prepaid expenses and other current assets	2,021	815
Total current assets	158,518	100,625
Property and equipment, net	2,007	2,140
Restricted cash and other assets	1,519	746
Total Assets	$ 162,044	$ 103,511
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current Liabilities:		
Accounts payable	$ 3,874	$ 2,967
Accrued expenses	4,517	4,328
Current portion of deferred revenue	24,003	28,208
Total current liabilities	32,394	35,503
Deferred revenue, net of current portion	32,934	41,237
Other long-term liabilities	589	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; 28,416,348 shares and 1,694,862 shares issued, respectively; 28,402,459 shares and 1,672,639 shares outstanding, respectively	3	
Treasury stock, at cost; 0 shares and 11,544 shares, respectively		
Additional paid-in capital	158,430	1,471
Accumulated deficit	(62,306)	(52,597)
Total stockholders equity (deficit)	96,127	(51,126)
Total Liabilities and Stockholders Equity (Deficit)	$ 162,044	$ 103,511

See notes to consolidated financial statements.

Table of Contents

EPIZYME, INC.

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

(Amounts in thousands except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Collaboration revenue	$ 14,839	$ 15,342	$ 23,721	$ 20,996
Operating expenses:				
Research and development	13,937	8,899	27,298	18,127
General and administrative	3,079	1,638	6,077	3,545
Total operating expenses	17,016	10,537	33,375	21,672
Operating (loss) income	(2,177)	4,805	(9,654)	(676)
Other (expense) income:				
Interest income	15	51	34	64
Other expense, net	(50)		(89)	
Other (expense) income, net	(35)	51	(55)	64
Net (loss) income	$ (2,212)	$ 4,856	$ (9,709)	$ (612)
Less: accretion of redeemable convertible preferred stock to redemption value	107	156	264	167
Less: income allocable to participating securities		4,354		
(Loss) income allocable to common stockholders basic	(2,319)	346	(9,973)	(779)
Undistributed income re-allocated to common stockholders		236		
(Loss) income allocable to common stockholders diluted	$ (2,319)	$ 582	$ (9,973)	$ (779)
(Loss) earnings per share allocable to common stockholders:				
Basic	$ (0.25)	$ 0.21	$ (1.82)	$ (0.48)
Diluted	$ (0.25)	$ 0.20	$ (1.82)	$ (0.48)
Weighted average shares outstanding:				
Basic	9,146	1,636	5,489	1,629
Diluted	9,146	2,913	5,489	1,629
Comprehensive (loss) income	$ (2,212)	$ 4,856	$ (9,709)	$ (612)

See notes to consolidated financial statements.

Table of Contents

EPIZYME, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in thousands)

	Six Months Ended June 30,	
	2013	**2012**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (9,709)	$ (612)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	363	292
Stock-based compensation	950	118
Loss on disposal of property and equipment		20
Changes in operating assets and liabilities:		
Accounts receivable	(5,979)	546
Prepaid expenses and other current assets	(1,206)	(387)
Accounts payable	290	(822)
Accrued expenses	39	1,918
Deferred revenue	(12,508)	55,014
Restricted cash and other assets	(773)	(495)
Other long-term liabilities	(1,152)	1,166
Net cash (used in) provided by operating activities	(29,685)	56,758
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(230)	(232)
Net cash used in investing activities	(230)	(232)
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	168	
Payment of redeemable convertible preferred stock issuance costs		(38)
Payment of initial public offering costs	(2,036)	
Net cash provided by financing activities	80,623	21,923
Net increase in cash and cash equivalents	50,708	78,449
Cash and cash equivalents, beginning of period	97,981	33,341
Cash and cash equivalents, end of period	$ 148,689	$ 111,790
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Conversion of redeemable convertible preferred stock to common stock	76,420	
Accretion of redeemable convertible preferred stock to redemption value	264	167
Vesting of restricted stock liability		9
Initial public offering costs incurred but unpaid at period end	767	

See notes to consolidated financial statements.

Table of Contents

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 the incorrect function of oncogenic HMTs in order 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 June 30, 2013 and 2012 are referred to as the second 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 June 30, 2013 was 28,416,348 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 for the next twelve months.

2. Summary of Significant Accounting Policies

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

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.

Table of Contents

The Company s financial instruments as of June 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 June 30, 2013 and December 31, 2012, the Company s financial assets recognized at fair value consisted of the following:

	Fair Value as of June 30, 2013			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Cash equivalents	$ 121,392	$ 121,392	$	$
Total	$ 121,392	$ 121,392	$	$

	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:

	June 30, 2013	December 31, 2012
	(In thousands)	
Employee compensation and benefits	$ 1,282	$ 1,880
Current portion of contract termination obligations	642	1,274
Research and development and professional expenses	2,593	1,174
Accrued expenses	$ 4,517	$ 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 six months ended June 30, 2013, the Company recorded a net non-cash liability reduction of $0.1 million and made cash payments of $2.1 million, resulting in total remaining contract termination obligations of $0.8 million as of June 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 six months ended June 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.

Table of Contents

6. 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. 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.

Collaboration Revenue Recorded

Through June 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 June 30, 2013, the Company has recognized $31.1 million of collaboration revenue in the consolidated statements of operations and comprehensive (loss) income related to this agreement, including $3.6 million and $7.2 million in the three and six months ended June 30, 2013, respectively, and $13.6 million in both the three and six months ended June 30, 2012. As of June 30, 2013 and December 31, 2012, the Company had deferred revenue of $36.9 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.

Table of Contents

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 achieved in June 2013 and received in July 2013, and cash and accounts receivable of $15.0 million for research and development services through June 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 Recorded

Through June 30, 2013, the Company has recorded a total of $31.0 million in cash and accounts receivable and has recognized $28.6 million of collaboration revenue in the consolidated statements of operations and comprehensive (loss) income related to this agreement, including $8.2 million and $10.5 million in the three and six months ended June 30, 2013, respectively, and $1.7 million and $7.4 million in the three and six months ended June 30, 2012, respectively, with a $6.0 million clinical development milestone achieved and recognized as collaboration revenue in the three and six months ended June 30, 2013 and a $4.0 million research milestone achieved and recognized as collaboration revenue in the six months ended June 30, 2012. As of June 30, 2013 and December 31, 2012, the Company had deferred revenue of $2.4 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 granted GSK the option to obtain exclusive worldwide license rights to HMT inhibitors directed to up to three targets. GSK selected and licensed three targets, and the term during which it was entitled to select targets expired in July 2012.

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 $5.3 million of fixed research funding through June 30, 2013. The Company is entitled to receive an additional $0.7 million in fixed research funding in 2013 and 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.

8

Table of Contents

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. The Company is responsible for providing research and development services with respect to the selected targets pursuant to agreed upon research plans during a research term that ends in January 2015. GSK is providing a fixed amount of research funding during the second and third years of the research term. GSK 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 Recorded

Through June 30, 2013, the Company has received a total of $33.3 million in payments under the GSK agreement and has recognized $15.7 million of collaboration revenue in the consolidated statements of operations and comprehensive (loss) income related to this agreement, including $3.0 million and $6.0 million in the three and six months ended June 30, 2013, respectively. The Company did not recognize any collaboration revenue in the three and six months ended June 30, 2012 related to this agreement as none of the delivered elements of the arrangement had standalone value at that time apart from the undelivered elements of the arrangement. As of June 30, 2013 and December 31, 2012, the Company had deferred revenue of $17.6 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.

7. Stock-Based Compensation

Total stock-based compensation expense related to stock options and restricted stock was $0.6 million and $0.1 million for the three months ended June 30, 2013 and 2012, respectively, and $1.0 million and $0.1 million for the six months ended June 30, 2013 and 2012, respectively. Stock-based compensation expense recorded in the three months ended June 30, 2013 includes $0.1 million of expense attributable to the first quarter of 2013 which was calculated based on a retrospective valuation of the Company s common stock completed in the second quarter of 2013 that was applied to the valuation of stock option awards granted in January and February 2013.

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)		(In thousands)	
Research and development	$ 246	$ 29	$ 401	$ 49
General and administrative	369	35	549	69
Total	$ 615	$ 64	$ 950	$ 118

Stock Options

The weighted-average fair value of options granted during the three months ended June 30, 2013 and 2012, estimated as of the grant date using the Black-Scholes option pricing model, was $18.10 and $1.70 per option, respectively, and $6.19 per option during the six months ended June 30, 2013. There were no stock options granted during the three months ended March 31, 2012. Key assumptions used to apply this pricing model were as follows:

	Six Months Ended June 30, 2013	Six Months Ended June 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	96.2%	98.8%
Expected dividend yield	0.0%	0.0%

The following is a summary of stock option activity for the six months ended June 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	1,344,978	5.21		
Exercised	(175,140)	0.96		
Forfeited or expired	(25,780)	2.74		
Outstanding at June 30, 2013	4,636,752	$ 2.14	7.9	$ 120,515
Exercisable at June 30, 2013	2,388,802	$ 0.68	6.9	$ 65,576

As of June 30, 2013, there was $8.3 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 2.9 years.

Table of Contents

Restricted Stock

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

	Number of Shares	Weighted Average Grant Date Fair Value per Share
Outstanding at December 31, 2012	22,223	$ 0.60
Vested	(8,334)	0.60
Outstanding at June 30, 2013	13,889	$ 0.60

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

8. (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 redeemable convertible preferred stock and restricted 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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands except per share data)			
Net (loss) income	$ (2,212)	$ 4,856	$ (9,709)	$ (612)
Less: accretion of redeemable convertible preferred stock to redemption value	107	156	264	167
Less: income allocable to participating securities		4,354		
(Loss) income allocable to common stockholders	$ (2,319)	$ 346	$ (9,973)	$ (779)
Weighted average shares outstanding	9,146	1,636	5,489	1,629
Basic (loss) earnings per share allocable to common stockholders	$ (0.25)	$ 0.21	$ (1.82)	$ (0.48)

Table of Contents

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands except per share data)			
Net (loss) income	$ (2,212)	$ 4,856	$ (9,709)	$ (612)
Less: accretion of redeemable convertible preferred stock to redemption value	107	156	264	167
Less: income allocable to participating securities		4,118		
(Loss) income allocable to common stockholders	$ (2,319)	$ 582	$ (9,973)	$ (779)
Weighted average shares outstanding	9,146	1,636	5,489	1,629
Effect of dilutive securities		1,277		
Diluted weighted average shares outstanding	9,146	2,913	5,489	1,629
Diluted (loss) earnings per share allocable to common stockholders	$ (0.25)	$ 0.20	$ (1.82)	$ (0.48)

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 weighted average shares outstanding for the three and six months ended June 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 for the next twelve months.

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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Redeemable convertible preferred stock				20,633
Stock options	4,637		4,637	3,134
Unvested restricted stock	14		14	37
	4,651		4,651	23,804

9. 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, during the Company s initial public offering, 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 initial public offering, 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 June 30, 2013, representing 10.1% of the Company s fully diluted equity and 11.7% of the voting interests of the Company as of June 30, 2013.

Under the Celgene collaboration agreement, the Company recognized $3.6 million and $7.2 million of collaboration revenue in the three and six months ended June 30, 2013, respectively, and $13.6 million of collaboration revenue in both the three and six months ended June 30, 2012. As of June 30, 2013 and December 31, 2012, the Company had recorded $36.9 million and $44.1 million of deferred revenue, respectively, related to this collaboration arrangement.

12

Table of Contents

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 the 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

Epizyme, Inc. (we, us, our, 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. 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 the incorrect function of oncogenic HMTs in order to treat the underlying causes of the associated genetically defined cancers. The three months ended June 30, 2013 and 2012 are referred to as the second quarter of 2013 and 2012, respectively. Unless the context indicates otherwise, all references herein to the Company, we, us and our, include the Company and its 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

Table of Contents

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, (the Securities Act) with the Securities and Exchange Commission (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 June 30, 2013, we have raised an aggregate of $283.3 million to fund our operations, of which $124.8 million was through our collaboration agreements, $82.5 million was from our initial public offering, 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 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. 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.

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

In the six months ended June 30, 2013 we continued enrollment in the dose escalation stage of our Phase I clinical trial of EPZ-5676, received notification that our clinical trial application was approved in France and enrolled the first patient in a Phase I/II clinical trial of EPZ-6438, which Eisai refers to as E7438, there, continued to identify additional indications for our clinical stage product candidates, such as the potential development of EPZ-6438 for the treatment of patients with malignant rhabdoid

14

Table of Contents

tumors, and 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. During the second half of 2013, we expect to complete the dose escalation stage of our Phase I clinical trial for EPZ-5676 and initiate the expansion stage of this trial which will only include patients with MLL-r.

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.

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. 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.

Collaboration Revenue Recorded

Through June 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 June 30, 2013, we have recognized $31.1 million of collaboration revenue in the consolidated statements of operations and comprehensive (loss) income related to this agreement, including $3.6 million and $7.2 million in the three and six months ended June 30, 2013, respectively, and $13.6 million in the three and six months ended June 30, 2012. As of June 30, 2013 and December 31, 2012, we had deferred revenue of $36.9 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.

Table of Contents

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 achieved in June 2013 and received in July 2013, and cash and accounts receivable of $15.0 million for research and development services through June 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.

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 Recorded

Through June 30, 2013, we have recorded a total of $31.0 million in cash and accounts receivable and have recognized $28.6 million of collaboration revenue in the consolidated statements of operations and comprehensive (loss) income related to this agreement, including $8.2 million and $10.5 million in the three and six months ended June 30, 2013, respectively, and $1.7 million and $7.4 million in the three and six months ended June 30, 2012, respectively, with a $6.0 million clinical development milestone achieved recognized as collaboration revenue in the three and six months ended June 30, 2013 and a $4.0 million research milestone achieved and recognized as collaboration revenue in the six months ended June 30, 2012. As of June 30, 2013 and December 31, 2012, we had deferred revenue of $2.4 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 the option to obtain exclusive worldwide license rights to HMT inhibitors directed to up to three targets. GSK selected three targets, and the term during which it was entitled to select targets expired in July 2012.

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 $5.3 million of fixed research funding through June 30, 2013. We are entitled to receive an additional $0.7 million in fixed research funding in 2013 and 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.

Table of Contents

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. We are responsible for providing research and development services with respect to the selected targets pursuant to agreed upon research plans during a research term that ends in January 2015. GSK is providing a fixed amount of research funding during the second and third years of the research term. GSK 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.

Collaboration Revenue Recorded

Through June 30, 2013, we received a total of $33.3 million in payments under the GSK agreement and have recognized $15.7 million of collaboration revenue in the consolidated statements of operations and comprehensive (loss) income related to this agreement, including $3.0 million and $6.0 million in the three and six months ended June 30, 2013, respectively. We did not recognize any collaboration revenue in the three and six months ended June 30, 2012 related to this agreement as none of the delivered elements of the arrangement had standalone value at that time apart from the undelivered elements of the arrangement. As of June 30, 2013 and December 31, 2012, we had deferred revenue of $17.6 million and $22.0 million, respectively, related to this agreement.

Collaboration Revenue

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2012	Decrease	2013	2012	Increase
	(In millions)			(In millions)		
Collaboration revenue	$ 14.8	$ 15.3	$ (0.5)	$ 23.7	$ 21.0	$ 2.7

Through June 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 second quarter of 2013, collaboration revenue consisted of $6.4 million recognized from deferred revenue related to upfront payments for licenses, $6.0 million in milestone payments and $2.4 million in research and development funding. This revenue compares to $14.0 million recognized from deferred revenue related to upfront payments for licenses and $1.3 million in research and development funding recognized in the second quarter of 2012.

Collaboration revenue recognized from deferred revenue in the second quarter of 2013 comprised $3.6 million under our Celgene agreement, $0.4 million under our Eisai agreement and $2.4 million under our GSK agreement, as compared to $13.6 million under our Celgene agreement and $0.4 million under our Eisai agreement in the second quarter of 2012. Milestone revenue in the second quarter of 2013 represents a $6.0 million clinical development milestone achieved under our Eisai agreement in June 2013. Collaboration revenue recognized for research and development services in the second quarter of 2013 comprised $1.8 million under our Eisai agreement and $0.6 million under our GSK agreement, as compared to $1.3 million under our Eisai agreement in the second quarter of 2012.

During the six months ended June 30, 2013, collaboration revenue consisted of $12.8 million recognized from deferred revenue related to upfront payments for licenses, $6.0 million in milestone payments and $4.9 million in research and development funding. This revenue compares to $14.4 million recognized from deferred revenue related to upfront payments for licenses, $4.0 million in milestone payments and $2.6 million in research and development funding recognized in the six months ended June 30, 2012.

Table of Contents

Collaboration revenue recognized from deferred revenue in the six months ended June 30, 2013 comprised $7.2 million under our Celgene agreement, $0.8 million under our Eisai agreement and $4.8 million under our GSK agreement, as compared to $13.6 million under our Celgene agreement and $0.8 million under our Eisai agreement in the same period of the prior year. Milestone revenue in the six months ended June 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 in the same period of the prior year. Collaboration revenue recognized for research and development services in the six months ended June 30, 2013 comprised $3.7 million under our Eisai agreement and $1.2 million under our GSK agreement, as compared to $2.6 million under our Eisai agreement in the same period of the prior year.

Research and Development

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2012	Increase	2013	2012	Increase
		(In millions)			(In millions)	
Research and development	$ 13.9	$ 8.9	$ 5.0	$ 27.3	$ 18.1	$ 9.2

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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In millions)		(In millions)	
External research and development expenses:				
EPZ-5676 (Phase I) and related DOT1L programs	$ 2.9	$ 2.3	$ 6.0	$ 5.3
EPZ-6438 (Phase I/II) and related EZH2 programs	1.1	0.7	2.3	1.6
Discovery and preclinical stage product programs, collectively	5.2	2.8	10.0	5.6
Internal research and development expenses	4.7	3.1	9.0	5.6
Total research and development expenses	$ 13.9	$ 8.9	$ 27.3	$ 18.1

During the three and six months ended June 30, 2013, our total research and development expenses increased by $5.0 million and $9.2 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.

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 $1.6 million and $3.4 million in the three and six months ended June 30, 2013, respectively, as compared to the same periods of the prior year as the number of our research and development employees grew from 38 employees as of June 30, 2012 to 51 employees as of June 30, 2013.

External research and development spending for DOT1L focused on the advancement of the EPZ-5676 Phase I clinical trial, with expenses increasing from $2.3 million in the second quarter of 2012 to $2.9 million in the second quarter of 2013.

18

Table of Contents

External research and development spending for EZH2 focused on the initiation of the EPZ-6438 Phase I/II clinical trial and increased from $0.7 million in the second quarter of 2012 to $1.1 million in the second quarter of 2013. External research and development spending for discovery and preclinical stage product programs, including the three target programs partnered with GSK, increased from $2.8 million in the second quarter of 2012 to $5.2 million in the second quarter of 2013 as we advanced the research and development of these programs. Research and development expenses in the six months ended June 30, 2013 reflect similar advancement and expansion of our product programs when compared to the same period of 2012.

External research and development spending from January 1, 2010 through June 30, 2013 was $25.2 million for EPZ-5676 and related DOT1L programs and $11.2 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 six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2012	Increase	2013	2012	Increase
		(In millions)			(In millions)	
General and administrative	$ 3.1	$ 1.6	$ 1.5	$ 6.1	$ 3.5	$ 2.6

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 six months ended June 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 preparations for 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 (Expense) Income, net

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

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 of accretion in the three and six months ended June 30, 2012 and $0.1 million and $0.3 million of accretion in the three and six months ended June 30, 2013, respectively, until the conversion into common stock. As a result of this conversion, as of June 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.

19

Table of Contents

Liquidity and Capital Resources

On June 5, 2013, we completed an initial public offering (IPO) 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 June 30, 2013, we have raised an aggregate of $283.3 million to fund our operations, of which $124.8 million was 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 June 30, 2013, we were eligible to receive a $6.0 million milestone payment, earned in June 2013, and $1.8 million for research and development services provided in the second quarter of 2013. As of June 30, 2013, we had $148.7 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 June 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 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.

Table of Contents

Cash Flows

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

	Six Months Ended June 30,	
	2013	2012
	(In millions)	
Net cash (used in) provided by operating activities	$ (29.7)	$ 56.8
Net cash used in investing activities	(0.2)	(0.2)
Net cash provided by financing activities	80.6	21.9

Net cash (used in) provided by operating activities

Net cash used in operating activities was $29.7 million during the six months ended June 30, 2013 compared to net cash provided by operating activities of $56.8 million during the six months ended June 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

Cash used in investing activities 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 $80.6 million during the six months ended June 30, 2013 primarily reflects net cash received from our initial public offering, whereas net cash provided by financing activities of $21.9 million during the six months ended June 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.

Contractual Obligations

During the second quarter of 2013, our obligation related to the termination of a research agreement was accelerated as a result of the closing of our IPO, and, as a result, this collaboration termination fee was paid in full in June 2013. Except for the payment of this collaboration termination fee, there were no material changes to our contractual obligations during the second 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 June 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 June 30, 2013 would not have a material effect on the fair market value of our cash equivalents.

21

Table of Contents

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 June 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 June 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.

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 $9.7 million for the six months ended June 30, 2013. As of June 30, 2013, we had an accumulated deficit of $62.3 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;

22

Table of Contents

- 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;
- 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, or the European Medicines Agency, or EMA, 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 the 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.

We believe that our existing cash and cash equivalents as of June 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;

Table of Contents

- the number and development requirements of 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.

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 bu