INFINITY PHARMACEUTICALS, INC.
Form 10-Q
November 09, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
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 000-31141
INFINITY PHARMACEUTICALS, INC.
(Exact name of registrant as specified in its charter)

Delaware	33-0655706
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

784 Memorial Drive, Cambridge, Massachusetts 02139
(Address of principal executive offices) (zip code)
(617) 453-1000
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ý	Accelerated filer ¨	Non-accelerated filer ¨ (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 ý

Number of shares of the registrant's Common Stock, $0.001 par value, outstanding on October 31, 2016: 49,729,719

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FOR THE QUARTER ENDED SEPTEMBER 30, 2016

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PART I. FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

INFINITY PHARMACEUTICALS, INC.

Condensed Consolidated Balance Sheets
(unaudited)
(in thousands, except share and per share amounts)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 98,507	$ 188,170
Available-for-sale securities	13,791	57,061
Prepaid expenses and other current assets	11,178	9,466
Total current assets	123,476	254,697
Property and equipment, net	24,451	28,240
Restricted cash	1,182	1,681
Long-term receivable (note 11)	2,453	1,821
Other assets	340	2,382
Total assets	$ 151,902	$ 288,821
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 4,786	$ 9,628
Accrued expenses	20,679	24,604
Deferred revenue, current	—	35,408
Financing obligation, current (note 11)	435	416
Total current liabilities	25,900	70,056
Deferred revenue, less current portion	—	95,531
Deferred rent (note 11)	4,527	4,632
Financing obligation, less current portion (note 11)	19,262	19,591
Other liabilities	92	454
Total liabilities	49,781	190,264
Commitments and contingencies		
Stockholders' equity:		
Preferred Stock, $0.001 par value; 1,000,000 shares authorized, no shares issued and outstanding at September 30, 2016 and December 31, 2015	—	—
Common Stock, $0.001 par value; 100,000,000 shares authorized, and 49,587,998 and 49,305,136 shares issued and outstanding, at September 30, 2016 and December 31, 2015, respectively	50	49
Additional paid-in capital	704,829	694,051
Accumulated deficit	(602,759)	(595,588)
Accumulated other comprehensive income	1	45
Total stockholders' equity	102,121	98,557
Total liabilities and stockholders' equity	$ 151,902	$ 288,821

The accompanying notes are an integral part of these unaudited, condensed consolidated financial statements.

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INFINITY PHARMACEUTICALS, INC.

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
(unaudited)
(in thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Collaboration revenue	$—	$ 90,743	$ 18,723	$ 99,987
Operating expenses:				
Research and development	12,814	37,729	104,949	160,220
General and administrative	7,120	9,754	33,648	27,713
Total operating expenses	19,934	47,483	138,597	187,933
Gain on AbbVie Opt-Out (note 9)	—	—	112,216	—
Income (loss) from operations	(19,934)	43,260	(7,658)	(87,946)
Other income (expense):				
Interest expense	(305)	(311)	(921)	(1,058)
Investment and other income	741	75	1,408	298
Total other income (expense)	436	(236)	487	(760)
Income (loss) before income taxes	(19,498)	43,024	(7,171)	(88,706)
Income taxes	—	(480)	—	(480)
Net income (loss)	$(19,498)	$ 42,544	$(7,171)	$(89,186)
Earnings (loss) per common share:				
Basic	$(0.39)	$ 0.85	$(0.15)	$(1.82)
Diluted	$(0.39)	$ 0.84	$(0.15)	$(1.82)
Weighted average number of common shares outstanding:				
Basic	49,583,776	49,188,443	49,448,725	49,051,836
Diluted	49,583,776	49,764,910	49,448,725	49,051,836
Other comprehensive loss:				
Net unrealized holding losses on available-for-sale securities arising during the period	(1)	(104)	(44)	(115)
Comprehensive income (loss)	$(19,499)	$ 42,440	$(7,215)	$(89,301)

The accompanying notes are an integral part of these unaudited, condensed consolidated financial statements.

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INFINITY PHARMACEUTICALS, INC.

Condensed Consolidated Statements of Cash Flows
(unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2016	2015
Operating activities		
Net loss	$(7,171)	$(89,186)
Adjustments to reconcile net loss to net cash used in operating activities:		
Non-cash gain on AbbVie Opt-Out	(112,216)	—
Depreciation	2,566	1,557
Stock-based compensation including 401(k) match	10,317	11,180
Impairment of property and equipment	771	—
Loss (gain) on sale of fixed assets	(488)	—
Amortization of loan commitment asset	—	647
Other, net	137	182
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	654	4,095
Due from AbbVie	—	(130,000)
Accounts payable, accrued expenses and other liabilities	(9,126)	10,093
Due to Takeda	—	(6,667)
Deferred revenue	(18,723)	30,012
Deferred rent	(109)	1,666
Net cash used in operating activities	(133,388)	(166,421)
Investing activities		
Purchases of property and equipment	(661)	(5,416)
Proceeds from sale of assets	1,146	—
Purchases of available-for-sale securities	(52,490)	(64,440)
Proceeds from maturities of available-for-sale securities	11,953	63,841
Proceeds from sales of available-for-sale securities	83,625	464
Net cash provided by (used in) investing activities	43,573	(5,551)
Financing activities		
Proceeds from issuances of common stock related to stock incentive plans and awards	444	1,788
Proceeds from issuances of common stock related to employee stock purchase plan	18	472
Payments on construction liability	—	(273)
Payments on financing obligation	(310)	(136)
Net cash provided by financing activities	152	1,851
Net decrease in cash and cash equivalents	(89,663)	(170,121)
Cash and cash equivalents at beginning of period	188,170	307,405
Cash and cash equivalents at end of period	$98,507	$137,284
Supplemental cash flow information		
Cash paid for interest	$921	$411
Cash paid for income taxes	$—	$175
Supplemental schedule of noncash investing and financing activities		
Property and equipment in accrued expenses	$—	$189
Increase in property and equipment for amount paid by landlord	$—	$5,059

The accompanying notes are an integral part of these unaudited, condensed consolidated financial statements.

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Infinity Pharmaceuticals, Inc.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Organization

Infinity Pharmaceuticals, Inc. is an innovative biopharmaceutical company dedicated to developing best-in-class medicines to patients with difficult-to-treat diseases. As used throughout these unaudited, condensed consolidated financial statements, the terms “Infinity,” “we,” “us,” and “our” refer to the business of Infinity Pharmaceuticals, Inc. and its wholly-owned subsidiaries.

2. Basis of Presentation

These condensed consolidated financial statements include the accounts of Infinity and its wholly-owned subsidiaries. We have eliminated all significant intercompany accounts and transactions in consolidation.

The accompanying condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals and revisions of estimates, considered necessary for a fair presentation of the accompanying condensed consolidated financial statements have been included. Interim results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2016.

The information presented in the condensed consolidated financial statements and related footnotes at September 30, 2016, and for the three and nine months ended September 30, 2016 and 2015, is unaudited, and the condensed consolidated balance sheet amounts and related footnotes at December 31, 2015 have been derived from our audited financial statements. For further information, please refer to the consolidated financial statements and accompanying footnotes included in our annual report on Form 10-K for the fiscal year ended December 31, 2015, which was filed with the U.S. Securities and Exchange Commission on February 23, 2016 (our “2015 Annual Report on Form 10-K”).

Liquidity

We have generated an accumulated deficit of $602.8 million and will require substantial additional capital to fund operations. Our future success is dependent on our ability to develop IPI-549 and ultimately upon our ability to attain profitable operations. We are in the process of reviewing a range of strategic alternatives that could result in potential changes to our current business strategy and future operations. We are subject to a number of risks similar to other life science companies, including, but not limited to, successful development of IPI-549 and our need for additional funding, which may not be available.

On October 29, 2016, we and Verastem, Inc., or Verastem, entered into a license agreement, which we and Verastem amended and restated on November 1, 2016, effective as of October 29, 2016. We refer to the amended and restated license agreement as the Verastem Agreement. Under the Verastem Agreement, we granted to Verastem an exclusive worldwide license for the research, development, commercialization, and manufacture in oncology indications of products containing duvelisib, an investigational, oral, dual inhibitor of phosphoinositide-3 kinase (PI3K)-delta and PI3K-gamma, or the Licensed Products (see Note 13).

As of September 30, 2016, we had cash, cash equivalents and short-term investments of $112.3 million. Excluding the potential $6 million and $22 million contingent payments in cash or stock from Verastem, we believe that our existing cash, cash equivalents and available-for-sale securities at September 30, 2016, will be adequate to satisfy our capital

needs into the first quarter of 2018 based on our operational plans, which do not include duvelisib expenses beyond the first quarter of 2017. Our operational plans also include lower 2017 monthly cash burn as a result of the restructuring plan announced in June 2016 and our restructuring plans in both September 2016 (see Note 12) and October 2016 (see Note 13).

On June 24, 2016, AbbVie Inc., or AbbVie, delivered to us a written notice to terminate the collaboration and license agreement, dated September 2, 2014, between us and AbbVie (the "AbbVie Agreement") unilaterally upon 90 days' written notice. The termination of the AbbVie Agreement became effective on September 23, 2016 (see Note 9). We will not receive

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additional payments from AbbVie. For more information, refer to the section titled “Liquidity and Capital Resources” in Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations.

3. Significant Accounting Policies

Our significant accounting policies are described in Note 2, “Summary of Significant Accounting Policies,” in our 2015 Annual Report on Form 10-K.

Segment Information

We operate in one business segment, which focuses on drug development. We make operating decisions based upon performance of the enterprise as a whole and utilize our consolidated financial statements for decision making.

All of our revenues since September 2006 have been generated under research collaboration agreements.

Basic and Diluted Net Income (Loss) per Common Share

Basic net income (loss) per share is based upon the weighted average number of common shares outstanding during the period, excluding restricted stock that has been issued but has not yet vested. Diluted net income (loss) per share is based upon the weighted average number of common shares outstanding during the period plus the effect of additional weighted average common equivalent shares outstanding during the period when the effect of adding such shares is dilutive. Common equivalent shares result from the assumed exercise of outstanding stock options and the exercise of outstanding warrants (the proceeds of which are then assumed to have been used to repurchase outstanding stock using the treasury stock method). In addition, the assumed proceeds under the treasury stock method include the average unrecognized compensation expense of stock options that are in-the-money. This results in the “assumed” buyback of additional shares, thereby reducing the dilutive impact of stock options. The two-class method is used for outstanding warrants as it is considered to be a participating security, and it is more dilutive than the treasury stock method. The following outstanding shares of common stock equivalents were excluded from the computation of net income (loss) per share attributable to common stockholders for the periods presented because including them would have been antidilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Stock options	7,795,707	5,755,283	7,795,707	8,216,230
Warrants (excluded from treasury stock method)	1,000,000	1,000,000	1,000,000	1,000,000
Unvested restricted stock	1,341,600	—	1,341,600	—

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Basic and diluted earnings (loss) per common share were determined as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands, except share and per share amounts)			
Basic				
Net income (loss)	$(19,498)	$ 42,544	$(7,171)	$(89,186)
Undistributed earnings allocated to warrants	—	(848)	—	—
Net income (loss)	$(19,498)	$ 41,696	$(7,171)	$(89,186)
Weighted average common shares outstanding	49,583,776	49,188,443	49,448,725	49,051,836
Basic earnings (loss) per common share	$(0.39)	$ 0.85	$(0.15)	$(1.82)
Diluted				
Net income (loss)	$(19,498)	$ 42,544	$(7,171)	$(89,186)
Undistributed earnings allocated to warrants	—	(838)	—	—
Net income (loss)	$(19,498)	$ 41,706	$(7,171)	$(89,186)
Weighted average common shares outstanding	49,583,776	49,188,443	49,448,725	49,051,836
Effect of dilutive options	—	576,467	—	—
Weighted average common shares outstanding assuming dilution	49,583,776	49,764,910	49,448,725	49,051,836
Diluted earnings (loss) per common share	$(0.39)	$ 0.84	$(0.15)	$(1.82)

Research and Development Expense

Research and development expense consists of expenses incurred in performing research and development activities, including salaries and benefits, overhead expenses including facilities expenses, materials and supplies, preclinical expenses, clinical trial and related clinical manufacturing expenses, comparator drug expenses, stock-based compensation expense, depreciation of equipment, contract services, and other outside expenses. We also include as research and development expense upfront license payments related to acquired technologies which have not yet reached technological feasibility and have no alternative use. We expense research and development costs as they are incurred. Prepaid comparator drug expenses are capitalized and then recognized as expense when title transfers to us. We have been a party to collaboration agreements in which we were reimbursed for work performed on behalf of the collaborator, as well as one in which we reimbursed the collaborator for work it had performed. We record all appropriate expenses under our collaborations as research and development expense. If the arrangement provides for reimbursement of research and development expenses incurred by us, we evaluate the terms of the arrangement to determine whether the reimbursement should be recorded as revenue or as an offset to research and development expense. If the arrangement provides for us to reimburse the collaborator for research and development expenses or for the achievement of a development milestone for which a payment is due, we record the reimbursement or the achievement of the development milestone as research and development expense. Revisions in the scope of a contract are recognized in expense in the period in which the facts that give rise to the revision become reasonably certain. During the three and nine months ended September 2016, we recognized a credit to research and development expense of $2.8 million as a result of negotiations with one of our clinical research organizations. This reduced our research and development expense and net loss by $2.8 million during the three and nine months ended September 30, 2016.

New Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standard Update (“ASU”) No. 2014-15, Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (“ASU No. 2014-15”), which provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern. ASU No. 2014-15 is effective for the annual period ending after December 15,

2016, and for annual periods and interim periods thereafter. Early application is permitted. The adoption of this guidance would not have resulted in additional disclosure in our financial statements as of September 30, 2016 had we adopted. See Note 2 for additional information on our existing cash, cash equivalents and available-for-sale securities. We will continue to evaluate the potential impact that ASU No. 2014-15 may have.

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In February 2016, the FASB issued ASU No. 2016-02, Leases ("ASU No. 2016-02"), which requires lessees to recognize the assets and liabilities arising from leases on the balance sheet. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the method of adoption and the potential impact that ASU No. 2016-02 may have on our financial position and results of operations.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting ("ASU No. 2016-09"), which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. ASU No. 2016-09 is effective for annual periods beginning after December 15, 2016, and for interim periods within those annual periods. Early adoption is permitted in any interim or annual period. We are currently evaluating the method of adoption and the potential impact that ASU No. 2016-09 may have on our financial position and results of operations.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments ("ASU No. 2016-15"). The new standard clarifies classification of certain cash receipts and cash payments on the statement of cash flows to reduce existing diversity in practice. The new accounting guidance will be effective on January 1, 2018. We are currently evaluating the method of adoption and the potential impact that ASU No. 2016-15 may have on our financial position and results of operations.

4. Stock-Based Compensation

Total stock-based compensation expense related to all equity awards for the three and nine months ended September 30, 2016 and 2015 was comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Research and development	$1,075	$2,102	$5,041	$6,474
General and administrative	1,714	1,713	5,276	4,706
Total stock-based compensation expense	$2,789	$3,815	$10,317	$11,180

As of September 30, 2016, we had approximately $8.0 million of total unrecognized compensation cost, net of estimated forfeitures, related to unvested stock options, which are expected to be recognized over a weighted-average period of 2.0 years.

Restricted Stock

In July 2016, our board of directors approved grants of 1,486,600 shares of restricted common stock to eligible employees who continue employment with us to explore and execute our future strategic options. Our board of directors approved additional grants of 35,000 shares of restricted common stock in September 2016. The restricted stock was granted pursuant to our 2010 stock incentive plan, is subject to forfeiture and will vest based on the achievement of specified performance conditions. The grant date fair value of the restricted stock is based on the closing price of our common stock on each of the grant dates. During the nine months ended September 30, 2016, 180,000 shares of restricted stock were forfeited, and no restricted stock vested. As of September 30, 2016, 1,341,600 shares are issued and unvested. We did not recognize any expense for the three months ended September 30, 2016. See Note 13, Subsequent Events, for additional detail on restricted stock.

Stock Options

During the nine months ended September 30, 2016, we granted options to purchase 1,617,472 shares of our common stock at a weighted average fair value of $3.75 per share and a weighted average exercise price of $6.14 per share. During the nine months ended September 30, 2015, we granted options to purchase 2,322,891 shares of our common stock at a weighted average fair value of $8.77 per share and a weighted average exercise price of $14.57 per share. For the nine months ended September 30, 2016 and 2015, the fair values were estimated using the Black-Scholes valuation model using the following weighted-average assumptions:

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	Nine Months Ended September 30,	
	2016	2015
Risk-free interest rate	1.8 %	1.5 %
Expected annual dividend yield	—	—
Expected stock price volatility	73.0 %	70.9 %
Expected term of options	5.4 years	5.3 years

During the nine months ended September 30, 2016, options to purchase 67,077 shares of common stock were exercised, with a weighted-average exercise price of $5.57.

Employee Stock Purchase Plan

The weighted-average fair value of each purchase right granted during the nine months ended September 30, 2016 and 2015 was $2.91 and $4.24, respectively. We suspended the Employee Stock Purchase Plan program on June 24, 2016. For the nine months ended September 30, 2016 and 2015, the fair values were estimated using the Black-Scholes valuation model using the following weighted-average assumptions:

	Nine Months Ended September 30,	
	2016	2015
Risk-free interest rate	0.8 %	0.4 %
Expected annual dividend yield	—	—
Expected stock price volatility	63.5 %	60.3 %
Expected term	1.3 years	1.3 years

5. Cash, Cash Equivalents and Available-for-Sale Securities

The following is a summary of cash, cash equivalents and available-for-sale securities:

	September 30, 2016			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Cash and cash equivalents due in 90 days or less	$98,507	$ —	$ —	$98,507
Available-for-sale securities:				
U.S. government-sponsored enterprise obligations due in one year or less	13,790	1	—	13,791
Total available-for-sale securities	13,790	1	—	13,791
Total cash, cash equivalents and available-for-sale securities	$112,297	$ 1	$ —	$112,298

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	December 31, 2015			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Cash and cash equivalents due in 90 days or less	$188,170	$ —	$ —	$188,170
Available-for-sale securities:				
Corporate obligations due in one year or less	46,049	52	(4)	46,097
Asset-backed securities due in one year or less	10,967	—	(3)	10,964
Total available-for-sale securities	57,016	52	(7)	57,061
Total cash, cash equivalents and available-for-sale securities	$245,186	$ 52	$ (7)	$245,231

We held five debt securities at September 30, 2016 that had been in an unrealized loss position for less than 12 months and no debt securities that had been in an unrealized loss position for 12 months or greater. The fair value of these securities was $9.4 million. There were no material unrealized losses from these securities. As of September 30, 2016, we held no securities in foreign financial institutions. We evaluated our securities for other-than-temporary impairments based on quantitative and qualitative factors. We considered the decline in market value for these securities to be primarily attributable to current economic and market conditions. It is not more likely than not that we will be required to sell these securities, and we do not intend to sell these securities before the recovery of their amortized cost basis. Based on our analysis, we do not consider these investments to be other-than-temporarily impaired as of September 30, 2016.

We had no material realized gains or losses on our available-for-sale securities for the three and nine months ended September 30, 2016 and 2015. There were no other-than-temporary impairments recognized for the three and nine months ended September 30, 2016 and 2015.

6. Fair Value

We use a valuation hierarchy for disclosure of the inputs used to measure fair value. This hierarchy prioritizes the inputs into three broad levels. Level 1 inputs, which we consider the highest level inputs, are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value. The classification of a financial asset or liability within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. For our fixed income securities, we reference pricing data supplied by our custodial agent and nationally known pricing vendors, using a variety of daily data sources, largely readily-available market data and broker/dealer quotes. We validate the prices provided by our third party pricing services by reviewing their pricing methods and obtaining market values from other pricing sources. After completing our validation procedures, we did not adjust or override any fair value measurements provided by our pricing services as of September 30, 2016 and December 31, 2015.

The following table provides the assets carried at fair value measured on a recurring basis as of September 30, 2016:

	Level 1	Level 2
	(in thousands)	
Assets:		
Cash and cash equivalents	$88,143	$10,364
U.S. government-sponsored enterprise obligations	—	13,791
Total	$88,143	$24,155

The fair value of the available-for-sale securities and cash and cash equivalents (including asset types listed below with maturities of three months or less at the time of purchase) is based on the following inputs:

- U.S. Government-Sponsored Enterprise Obligations: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including TRACE® reported trades.

The carrying amounts reflected in the condensed consolidated balance sheets for prepaid expenses and other current assets, other assets, accounts payable and accrued expenses approximate their fair value due to their short-term maturities.

There have been no changes to our valuation methods during the nine months ended September 30, 2016. We evaluate transfers between levels at the end of each reporting period. There were no transfers of assets or liabilities between Level 1 and Level 2 during the nine months ended September 30, 2016. We had no available-for-sale securities that were classified as Level 3 at any point during the nine months ended September 30, 2016 or during the year ended December 31, 2015.

7. Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following:

	September 30, 2016	December 31, 2015
	(in thousands)	
Other prepaid expenses	$9,256	$ 6,898
Other current assets	1,422	1,383
Restricted cash	500	—
Short-term receivable (note 11)	—	1,185
Total prepaid expenses and other current assets	$11,178	$ 9,466

8. Other assets

Other assets consist of the following:

	September 30, 2016	December 31, 2015
	(in thousands)	
Long term prepaid expenses	$235	$ 284
Long term value-added tax receivable	60	2,034
Other assets	45	64
Total other assets	$340	$ 2,382

9. Collaborations

AbbVie

The AbbVie Agreement

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On September 2, 2014, we entered into the AbbVie Agreement. Under the AbbVie Agreement, we and AbbVie agreed to develop and commercialize in oncology indications products containing duvelisib, an oral, dual inhibitor of the delta and gamma isoforms of phosphoinositide-3-kinase, or PI3K. We refer to products containing duvelisib as Duvelisib Products. IPI-549, an orally administered, selective PI3K-gamma inhibitor, was excluded from the collaboration.

Under the terms of the AbbVie Agreement, we and AbbVie agreed to share equally commercial profits or losses of Duvelisib Products in the United States, including sharing equally the existing royalty obligations to Mundipharma and Purdue for sales of Duvelisib Products in the United States, as well as sharing equally the existing U.S. milestone payment obligations to Takeda Pharmaceutical Company Limited, or Takeda, our PI3K program licensor. For more information about such obligations, refer to the section below titled “Takeda.”

AbbVie agreed to pay us tiered royalties on net sales of Duvelisib Products outside the United States ranging from 23.5% to 30.5%, depending on annual net sales of Duvelisib Products by AbbVie, its affiliates and its sublicensees. This tiered royalty could have been further reduced based on specified factors, including patent expiry, generic entry, and royalties paid to third parties.

We and AbbVie shared oversight of development and agreed to use diligent efforts, as defined in the AbbVie Agreement, to carry out our development activities under an agreed upon development plan. We had primary responsibility for the conduct of development of Duvelisib Products, unless otherwise agreed, and AbbVie had responsibility for the conduct of certain contemplated combination clinical studies, including those examining duvelisib and venetoclax, a selective first-in-class B-cell lymphoma 2 inhibitor, which we refer to as the AbbVie Studies. The development and manufacturing costs for the AbbVie Studies were shared equally. During the nine months ended September 30, 2016, we recognized an expense of $1.0 million in research and development expense related to our share of the AbbVie Studies cost. During the three and nine months ended September 30, 2015, we recognized an expense of $0.4 million and $0.6 million, respectively, in research and development expense related to our share of the AbbVie Studies cost.

We had the responsibility to manufacture Duvelisib Products until the transition of manufacturing responsibility to AbbVie, which we expected to occur as promptly as practicable while ensuring continuity of supply. Excluding the AbbVie Studies, we were responsible for all costs to develop and manufacture Duvelisib Products up to a maximum amount of $667 million. During the nine months ended September 30, 2016, we recognized an expense of $6.6 million in research and development expense related to costs incurred by AbbVie for other than the AbbVie Studies. During the three and nine months ended September 30, 2015, we recognized an expense of $1.8 million and $6.0 million, respectively, in research and development expense related to costs incurred by AbbVie for other than the AbbVie Studies.

We and AbbVie shared operational responsibility and decision making authority for commercialization of Duvelisib Products in the United States. Prior to commercialization and regulatory approval, we recognized the cost of manufacturing as a component of research and development and the cost of commercialization as a component of general and administrative expenses. During the three and nine months ended September 30, 2016 and 2015, we accounted for AbbVie’s share of the costs as a reduction of the related expense. We recognized a credit of approximately $0.1 million and $2.6 million in research and development expense and general and administrative expense, respectively, related to these costs during the nine months ended September 30, 2016. We recognized credits of $0.1 million and $0.5 million during the three and nine months ended September 30, 2015, respectively, in research and development expense related to these costs. We recognized credits of $0.6 million and $0.9 million during the three and nine months ended September 30, 2015, respectively, in general and administrative expense related to these costs.

Under the AbbVie Agreement, AbbVie paid us a non-refundable $275 million upfront payment in 2014 and a $130 million milestone payment in November 2015 associated with the completion of enrollment of DYNAMO, our Phase 2 clinical study evaluating the efficacy and safety of duvelisib in patients with refractory indolent non-Hodgkin

lymphoma, or iNHL. Of the total $405 million received from AbbVie, we allocated $234.3 million to the license which was recognized as revenue upon receipt of the upfront payment and achievement of the milestone payment. Revenue related to development services and committee services was recognized using the proportionate performance method. We initially estimated that services would be performed through 2019.

The AbbVie Agreement was intended to remain in effect until all development, manufacturing and commercialization of Duvelisib Products ceased, unless terminated earlier. AbbVie had the right to terminate the AbbVie Agreement for convenience after a specified notice period as described below.

AbbVie Opt-Out

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On June 24, 2016, AbbVie delivered to us a written notice that AbbVie was exercising its right to terminate the AbbVie Agreement unilaterally upon 90 days' written notice, which we refer to as the AbbVie Opt-Out. The termination of the AbbVie agreement was effective on September 23, 2016.

The AbbVie Opt-Out was irrevocable, and we had no obligation to continue to provide AbbVie any services related to Duvelisib Products after June 24, 2016. We did not recognize revenue during the three months ended September 30, 2016. We recognized revenue of $18.7 million during the nine months ended September 30, 2016 related to the development and committee services provided through June 24, 2016. We recorded the remaining amounts already received from AbbVie and allocated to development and committee services of $112.2 million as a gain during the nine months ended September 30, 2016, reflecting the fact that we are no longer obligated to provide any such services and have no obligation to refund any of the payments received to date.

Upon formal termination of the AbbVie Agreement on September 23, 2016, we received all rights to the regulatory filings related to duvelisib, our license to AbbVie terminated, and AbbVie granted us an exclusive, perpetual, irrevocable, royalty-free license, under certain patent rights and know-how controlled by AbbVie, to develop, manufacture and commercialize in oncology indications worldwide products containing duvelisib, excluding any compound which is covered by patent rights controlled by AbbVie or its affiliates.

Other than pursuant to the wind-down plan described below, which did not include any development or committee service obligations for us, neither party has any financial obligation to the other. In connection with the AbbVie Opt-Out, AbbVie will not pay any royalties or any of the additional $400 million in milestone payments that we could have potentially earned under the AbbVie Agreement.

Wind-Down Plan

During the three months ended September 30, 2016, we and AbbVie finalized the wind-down plan to ensure a smooth transition of the responsibilities of the parties to us.

We recorded $1.9 million in research and development expense for AbbVie's clinical wind-down services during the three months ended September 30, 2016 for services rendered during the quarter. In connection with finalization of the wind-down plan, we received $2.7 million from AbbVie for reimbursement of our wind-down activities in medical affairs and commercial services, which was recorded as a credit to research and development expense of $0.9 million and a credit to general and administrative expense of $1.8 million during the three months ended September 30, 2016.

We do not expect to receive any other proceeds from AbbVie for our wind-down activities, and we do not expect to incur any additional expenses for their clinical wind-down services.

Takeda

In July 2010, we entered into a development and license agreement with Intellikine, Inc., or Intellikine, under which we obtained rights to discover, develop and commercialize pharmaceutical products targeting the delta and/or gamma isoforms of PI3K, which covers duvelisib and IPI-549. In January 2012, Intellikine was acquired by Takeda, acting through its Millennium business unit. In December 2012, we amended and restated our development and license agreement with Takeda. We refer to our PI3K inhibitor program licensor as Takeda and to the amended and restated development and license agreement as the Takeda Agreement.

Under the terms of the Takeda Agreement, as amended by the July 2014 and September 2016 amendments described in more detail below, we are obligated to pay Takeda an aggregate of up to $5 million in success-based milestone payments for the development of a product candidate other than duvelisib, which could include IPI-549. We are also

obligated to pay Takeda up to an aggregate of $165 million in success-based milestone payments related to the approval and commercialization of one product, which could be IPI-549.

Except for duvelisib in oncology indications, we are obligated to pay Takeda tiered royalties ranging from 7% to 11% on worldwide net sales of products described in the agreement, which could include IPI-549 if successfully developed and commercialized. Such royalties are payable until the later to occur of the expiration of specified patent rights and the expiration of non-patent regulatory exclusivities in a country, subject to reduction of the royalties and, in certain circumstances, limits on the number of products subject to a royalty obligation.

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The Takeda Agreement expires on the later of the expiration of certain patents and the expiration of the royalty payment terms for the products, unless earlier terminated in accordance with its terms. Either party may terminate the Takeda Agreement on 75 days' prior written notice if the other party materially breaches the agreement and fails to cure such breach within the applicable notice period, provided that the notice period is reduced to 30 days where the alleged breach is non-payment. Takeda may also terminate the Takeda Agreement if we are not diligent in developing or commercializing the licensed products and do not, within three months after notice from Takeda, demonstrate to Takeda's reasonable satisfaction that we have not failed to be diligent. The foregoing periods are subject to extension in certain circumstances. Additionally, Takeda may terminate the Takeda Agreement upon 30 days' prior written notice if we or a related party bring an action challenging the validity of any of the licensed patents, provided that we have not withdrawn such action before the end of the 30-day notice period. We may terminate the agreement at any time upon 180 days' prior written notice. The Takeda Agreement also provides for customary reciprocal indemnification obligations of the parties.

September 2016 Amendment

In September 2016, we entered into a second amendment with Takeda. Under the second amendment, effective upon our license, sublicense or asset sale of duvelisib, which we refer to as a qualifying transaction, we are no longer obligated to pay Takeda any remaining milestone payments for the development, approval or commercialization of duvelisib. Additionally, upon entry into a qualifying transaction, our obligation to use diligent efforts to develop products is reduced from two products to one product. In return, we are obligated to pay Takeda 50 percent of all revenue arising from each qualifying transaction for duvelisib, subject to certain exceptions. We believe the Verastem Agreement constitutes a qualifying transaction.

July 2014, Amendment

On March 31, 2015, we paid a $52.5 million fee to exercise an option that we purchased from Takeda in July 2014 for a one-time upfront payment of $5 million. As a result of our exercise of this option, we are no longer obligated under the Takeda Agreement to pay to Takeda tiered royalties with respect to worldwide net sales in oncology indications of products containing or comprised of duvelisib. We recognized the $5 million upfront payment and the $52.5 million exercise payment as research and development expense during the year ended December 31, 2014 and the year ended December 31, 2015, respectively, as there is no alternative future use beyond the existing research and development activities.

10. Accrued Expenses

Accrued expenses consisted of the following:

	September 30, 2016	December 31, 2015
	(in thousands)	
Accrued restructuring	$7,998	$ —
Accrued compensation and benefits	2,749	8,732
Accrued drug manufacturing costs	304	3,494
Accrued clinical studies	6,375	8,531
Accrued preclinical studies	142	539
Deferred rent, current	258	261
Other	2,853	3,047
Total accrued expenses	$20,679	$ 24,604

11. Leases

We lease our facilities under two separate lease agreements with BHX, LLC, as trustee of 784 Realty Trust for space in Cambridge, Massachusetts at 784 Memorial Drive and ARE-770/784/790 Memorial Drive, LLC for space at 780 and 790 Memorial Drive.

784 Memorial Drive Lease Arrangement

On September 25, 2014, we entered into a lease agreement, or the Lease, with BHX, LLC, as trustee of 784 Realty Trust, or the Landlord, for the lease of office space at 784 Memorial Drive. The term of the Lease commenced on November 1, 2014, the Commencement Date, and expires on March 31, 2025. Pursuant to the Lease, on the Commencement Date we agreed to lease 61,000 square feet of the leased premises, which represents the entire building, the Leased Premises. We provided a

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security deposit to BHX, LLC in the form of a letter of credit in the initial amount of $1.0 million, which may be reduced by up to $750,000 over time in accordance with the terms of the Lease. The letter of credit plus the associated bank fee of $30,000 have been included in our accompanying condensed consolidated balance sheets as prepaid expenses and other current assets and restricted cash (see Note 7). We have two consecutive rights to extend the term of the Lease for five years under each extension, provided that we provide notice to the Landlord no earlier than 18 months and no later than 12 months prior to the expiration of the Lease.

On the Commencement Date, building construction was initiated to suit our then-anticipated future needs. We were responsible for the construction project, including having responsibility to pay for a portion of the structural elements of the building and bearing the risk of cost overruns. As such, we were deemed the owner of the building for accounting purposes, and we recorded the building in our fixed asset balance, although legal ownerships remains with BHX, LLC. Our balance sheet also reflects a financing obligation related to this building. Depreciation on the building and building improvements commenced in June 2015.

At September 30, 2016, future minimum payments under the Lease for 784 Memorial Drive were approximately $18.6 million, which is comprised of $0.5 million for the remainder of 2016, $2.0 million for each of calendar years 2017 through 2019, $2.3 million for the calendar year 2020 and $9.8 million through March 2025.

We divide our future payments under the Lease into a portion that is allocated to the financing obligation and a portion that is allocated to the land on which the building is located. The portion of the lease obligation allocated to the land is treated for accounting purposes as an operating lease which commenced in November 2014 and is recorded on a straight-line basis over the initial term of the Lease. Rent expense pertaining to the land was approximately $0.1 million and $0.3 million for the three and nine months ended September 30, 2016 and September 30, 2015, respectively.

780/790 Memorial Drive Lease Arrangement
On November 6, 2014, we entered into a Seventh Amendment to Lease, or the Lease Amendment, by and between us and ARE-770/784/790 Memorial Drive, LLC, or ARE, the landlord, which amends the original lease agreement dated July 2, 2002, as amended to date, or the Original Lease. We refer to the Original Lease together with the Lease Amendment as the Memorial Drive Lease. We refer to the area rented under the Memorial Drive Lease as the Premises.

Under the Lease Amendment: (i) the Premises consist of 54,837 square feet, of which 51,000 square feet are located at 780 Memorial Drive, or the 780 Premises, and the remaining 3,837 square feet are located at 790 Memorial Drive, or the 790 Premises; effective February 1, 2016, we surrendered 13,183 square feet of the previously leased 17,020 square feet at the 790 Premises; (ii) we have extended the base term of the Memorial Drive Lease through March 31, 2025; and (iii) we have two separate five-year options to extend the term of the Memorial Drive Lease to 2035 on the same terms and conditions (other than with respect to base rent or any work letter).

At September 30, 2016, future minimum payments under the lease for 780 / 790 Memorial Drive were approximately $31.9 million, which is comprised of $0.9 million for the remainder of 2016, $3.6 million for each of calendar years 2017 through 2018, $3.8 million for each of the calendar years 2019 through 2024 and $1.0 million through March 2025.

We also received the right to receive allowances totaling $3.0 million for the design and construction of tenant improvements. Upon execution of the Lease Amendment, the allowances totaling $3.0 million were reflected on our condensed consolidated balance sheets as a receivable, with a corresponding amount included in deferred rent liability. See Note 12 for Restructuring Activities.

Pursuant to the terms of the Lease Amendment, the security deposit in the form of a letter of credit has been reduced from $1.1 million to $0.6 million. The security deposit has been included in our accompanying condensed consolidated balance sheets as restricted cash.

On November 8, 2016, we and ARE entered into an agreement for termination of lease and voluntary surrender of premises effective October 31, 2016. See Note 13, Subsequent Events, for additional detail on the lease termination agreement.

12. Restructuring Activities

In June 2016, we reported the top line data from DYNAMO™, a registration-focused Phase 2 monotherapy study evaluating the efficacy and safety of duvelisib, an investigational, oral, dual inhibitor of phosphoinositide-3-kinase (PI3K)-delta and PI3K-gamma, in patients with refractory indolent non-Hodgkin lymphoma (iNHL). The study met its primary endpoint

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with an overall response rate of 46 percent, all of which were partial responses, among 129 patients with iNHL. On June 24, 2016, AbbVie delivered to us a written notice that AbbVie was exercising its right to terminate the AbbVie Agreement unilaterally upon 90 days' written notice, which we refer to as the AbbVie Opt-Out.

June 2016 Restructurings

As a result of our discussions with AbbVie regarding our collaboration and the subsequent AbbVie Opt-Out, our board of directors approved a strategic restructuring in order to preserve our resources as we determine future strategic plans, which included significant employee headcount reductions during June 2016. We recognized a credit of $1.0 million and additional expense of $0.7 million in total restructuring charges for the three months ended September 30, 2016 in research and development expenses and general and administrative expenses, respectively. We recognized $10.9 million and $5.5 million in total restructuring charges for the nine months ended September 30, 2016 in research and development expenses and general and administrative expenses, respectively.

We continue to evaluate the leases for the various facilities that we currently occupy at this time. See Note 13 for Subsequent Event regarding our facility lease at 780 / 790 Memorial Drive and our future additional cash outlays. If we pursue and successfully restructure the 784 Memorial Drive facility lease later in 2016 or 2017, we could potentially incur additional charges upon our exit from the space. Such potential future charges could include further impairments and lease exit payments related to our office space at 784 Memorial Drive in Cambridge, Massachusetts. At September 30, 2016 and December 31, 2015, the accompanying condensed consolidated balance sheets reflect the 784 Memorial Drive building and accumulated construction costs of $22.3 million and $23.0 million, respectively, and a total financing obligation of approximately $19.7 million and $20.0 million, respectively.

We reduced our employee headcount by approximately 66 percent compared to our employee headcount as of December 31, 2015. We have existing severance plans which outline contractual termination benefits. We recognized all contractual severance and benefits outlined in the plan when termination was probable and reasonably estimable in accordance with FASB ASC Topic 712, Compensation - Nonretirement Postemployment Benefits.

In June 2016, we made strategic decisions to close BRAVURA, a Phase 3 study of duvelisib in patients with relapsed iNHL, and decided not to enroll additional patients in CONTEMPO, a Phase 1b/2 study of duvelisib in treatment-naïve patients with follicular lymphoma. We incurred approximately $1.0 million during the three months ended September 30, 2016 related to BRAVURA and CONTEMPO clinical and development expenses. On October 29, 2016, we and Verastem entered into a license agreement, which we and Verastem amended and restated on November 1, 2016, effective as of October 29, 2016 (see Note 13). Under the Verastem Agreement, we will assume financial responsibility for the shutdown of certain specified clinical studies up to a maximum of $4.5 million, including the CONTEMPO and BRAVURA studies.

Approximately $0.5 million and $1.7 million of expense was recorded during the three and nine months ended September 30, 2016, respectively, related to the write-off of prepaid expenses that were not expected to continue and other payments that were due as a result of early terminations.

We identified and recorded the impairment of approximately $1.0 million of unique and identifiable laboratory equipment, as well as $0.4 million in furniture and fixtures during the three months ended June 30, 2016. During the three months ended September 30, 2016, we realized proceeds of $1.6 million related to sale of the laboratory equipment and recognized a credit of $1.1 million in research and development expense and $0.5 million in investment and other income.

In performing the recoverability test for the 780 / 790 Memorial Drive asset group, we concluded that the asset group was not recoverable. We recorded an impairment charge of $0.1 million and $0.8 million related to 780 / 790 Memorial Drive assets, including the related tenant improvement allowance (see Note 11), after comparing the fair value (using probability weighted scenarios with discounted cash flows) to the asset group's carrying value, for the three and nine months ended September 30, 2016, respectively.

In performing the recoverability test for the 784 Memorial Drive asset group, we concluded that the asset group was not recoverable. We had an independent appraisal performed for the 784 Memorial building and improvements. We concluded no impairment was needed as the fair market value (considering the cost approach, sales comparison approach and the income approach) exceeded the asset group's carrying value.

September 2016 Restructuring

As a result of our progress on strategic initiatives with duvelisib in September 2016, our board of directors approved further headcount reductions during September 2016. The September 2016 restructuring reduced our employee headcount by approximately four percent compared to our employee headcount as of December 31, 2015. Included in the table below, we recognized $0.4 million and $0.2 million in total restructuring charges for the three months ended September 30, 2016 in

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research and development expenses and general and administrative expenses, respectively, related to the September restructuring.

Summary Table

The following table summarizes the impact of the June 2016 and September 2016 restructuring activities on our operating expenses and payments for the nine months ended September 30, 2016 and the current liability remaining on our balance sheet as of September 30, 2016, in thousands:

	Charges incurred during the nine months ended September 30, 2016 (in thousands)	Amounts paid through September 30, 2016	Less non-cash charges during the nine months ended September 30, 2016	Amounts accrued at September 30, 2016
Employee severance, benefits and related costs for work force reduction	$ 13,791	$ 5,226	$ 907	$ 7,658
Long-lived asset impairment	1,324	—	1,324	—
Contract termination, prepaid expense write-offs and other related costs	1,806	424	1,042	340
Total restructuring	$ 16,921	$ 5,650	$ 3,273	$ 7,998

13. Subsequent Events

Verastem

On October 29, 2016, we and Verastem entered into a license agreement, which we and Verastem amended and restated on November 1, 2016, effective as of October 29, 2016. We refer to the amended and restated license agreement as the Verastem Agreement. Under the Verastem Agreement, we granted to Verastem an exclusive worldwide license for the research, development, commercialization, and manufacture in oncology indications of products containing duvelisib, an investigational, oral, dual inhibitor of PI3K-delta and PI3K-gamma, or the Licensed Products. Upon entry into the Verastem Agreement, Verastem assumed financial responsibility for activities that were part of our ongoing duvelisib program, including a randomized, Phase 3 monotherapy clinical study in patients with relapsed/refractory chronic lymphocytic leukemia which we refer to as the DUO Study. We will assume financial responsibility for the shutdown of certain specified clinical studies up to a maximum of $4.5 million. Following a short transition period, Verastem will assume all operational responsibility for the duvelisib program. Verastem is obligated to use diligent efforts to develop and commercialize one Licensed Product. During the term of the Verastem Agreement, we have agreed not to research, develop, manufacture or commercialize duvelisib in any indication in humans or animals.

Pursuant to the terms of the Verastem Agreement, Verastem is required to make the following payments to us in cash or, at Verastem’s election, in whole or in part, in shares of Verastem common stock: (i) $6 million upon the completion of the DUO Study if the results of the DUO Study meet certain pre-specified criteria and (ii) $22 million upon the approval of a new drug application in the United States or an application for marketing authorization with a regulatory authority outside of the United States for a Licensed Product. For any portion of any of the foregoing payments which

Verastem elects to issue in shares of common stock in lieu of cash, the number of shares of common stock to be issued would be determined by multiplying (1) 1.025 by (2) the number of shares of common stock equal to (a) the amount of the payment to be paid in shares of common stock divided by (b) the average closing price of a share of common stock as quoted on NASDAQ for a twenty day period following the public announcement of the applicable milestone event. The shares of common stock would be issued as unregistered securities, and Verastem would have an obligation to promptly file a registration statement with the SEC to register such shares for resale. Any issuance of shares would be subject to the satisfaction of closing conditions, including that all material authorizations, consents, approvals and the like necessary for such issuance shall have been obtained.

Verastem is also obligated to pay us royalties on worldwide net sales of Licensed Products ranging from the mid-single digits to the high single-digits. The royalties will expire on a product-by-product and country-by-country basis until the latest to occur of (i) the last-to-expire patent right covering the applicable Licensed Product in the applicable country, (ii) the last-to-expire patent right covering the manufacture of the applicable Licensed Product in the country of manufacture of such Licensed Product, (iii) the expiration of non-patent regulatory exclusivity in such country and (iv) ten years following the first commercial sale of a Licensed Product in a country, provided that if royalties on net sales for a Licensed Product in the United States are payable solely on the basis of non-patent regulatory exclusivity, the applicable royalty on net sales for such Licensed

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Product in the United States will be reduced by 50%. The royalties are also subject to reduction by 50% of certain third-party royalty payments or patent litigation damages or settlements which might be required to be paid by Verastem if litigation were to arise, with any such reductions capped at 50% of the amounts otherwise payable during the applicable royalty payment period.

In addition to the foregoing, Verastem is obligated to pay us an additional royalty of 4% on worldwide net sales of Licensed Products to cover the reimbursement of research and development costs owed by us to Mundipharma International Corporation Limited, or Mundipharma and Purdue Pharmaceutical Products L.P., or Purdue. Once we have fully reimbursed Mundipharma and Purdue, the royalty obligations will be reduced to 1% of net sales in the United States, which we refer to as the Trailing Mundipharma Royalties. The Trailing Mundipharma Royalties are payable until the later to occur of the last-to-expire of specified patent rights and the expiration of non-patent regulatory exclusivities in a country. Each of the above royalty rates is reduced by 50% on a product-by-product and country-by-country basis if the applicable royalty is payable solely on the basis of non-patent regulatory exclusivity. In addition, the Trailing Mundipharma Royalties are subject to reduction by 50% of certain third-party royalty payments or patent litigation damages or settlements which might be required to be paid by Verastem if litigation were to arise, with any such reductions capped at 50% of the amounts otherwise payable during the applicable royalty payment period.

We and Verastem have made customary representations and warranties and have agreed to certain customary covenants, including confidentiality and indemnification.

The Verastem Agreement expires when each party no longer has any obligations to the other party. Verastem has the right to terminate the Verastem Agreement upon at least 180 prior written notice to us at any time following the determination that the DUO Study has or has not met its pre-specified primary endpoint. Each party can terminate the Verastem Agreement if the other party materially breaches or defaults in the performance of its obligations. If we terminate the Verastem Agreement for Verastem's material breach, patent challenge, or insolvency, or if Verastem terminates for convenience, then, at our request and subject to our execution of a waiver of certain types of damages, Verastem will transition the duvelisib program back to us at Verastem's cost. If Verastem terminates for our breach or insolvency, Verastem will effect a more limited transition of the duvelisib program to us at our request and cost, subject to our execution of a waiver of certain types of damages, and we will thereafter pay to Verastem a low single-digit royalty on net sales of Licensed Products.

October Restructuring

On October 28, 2016, our Board of Directors approved a strategic restructuring in connection with and subject to the entry into the Verastem Agreement. The restructuring included workforce reductions of 19 positions across the organization representing approximately 54 percent of our workforce at the time of the restructuring. We expect the workforce restructuring to be fully completed by January 6, 2017. We currently expect to incur severance, benefits and related costs of approximately $5 million, to be paid during the year ended December 31, 2017. We are continuing to review the potential impact of the restructuring and is unable to estimate any additional restructuring costs or charges at this time.

Restricted Stock

On October 31, 2016, our board of directors approved the vesting of restricted stock with performance conditions related to strategic options for duvelisib. 751,789 shares of restricted stock vested as of October 31, 2016, and the resulting expense will be recorded in the three months ended December 31, 2016.

In October 2016 and November 2016, our board of directors approved grants of 205,400 shares and 65,250 shares, respectively, of restricted common stock to eligible employees who continue employment with us to explore and execute our future strategic options. The restricted stock was granted pursuant to our 2010 stock incentive plan, is subject to forfeiture and will vest based on the achievement of specified performance or other conditions.

780/ 790 Memorial Drive Lease Termination

On November 8, 2016, we and ARE-770/784/790 Memorial Drive, LLC, or ARE, entered into an agreement for termination of lease and voluntary surrender of premises effective October 31, 2016, or the 780 / 790 Memorial Drive Termination Agreement. Under the 780 / 790 Memorial Drive Termination Agreement, we and ARE terminated by mutual consent our lease agreement, by and between us and ARE, dated as of July 2, 2002, as amended, which we refer to as the 780 / 790 Memorial Drive Lease Agreement, regarding our facilities at 780 Memorial Drive and 790 Memorial Drive, Cambridge, MA 02139, which we refer to as the Leased Properties. We have elected to terminate the 780 / 790 Memorial Drive Lease Agreement to consolidate our facilities as part of our strategic restructuring efforts.

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The 780 / 790 Memorial Drive Lease Agreement was previously scheduled to expire on May 31, 2025. Under the 780 / 790 Memorial Drive Lease Agreement, we also had two separate five-year options to extend our possession of the Leased Properties until 2035. Pursuant to the 780 / 790 Memorial Drive Termination Agreement, subject to our surrender of the Leased Properties, the Lease Agreement expiration date will be accelerated to October 31, 2016, which we refer to as the Termination Date.

As a result of our early termination, we owe to ARE a termination payment of approximately $1.8 million, comprised of a $1.7 million fee as consideration for ARE's agreement to enter into the 780 / 790 Memorial Drive Termination Agreement and a payment of approximately $64 thousand by us to ARE in lieu of our performance of certain restoration requirements with regards to the Leased Properties. Pursuant to the terms of the 780 / 790 Memorial Drive Lease Agreement, ARE will refund a portion of our $0.6 million security deposit.

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

The following discussion of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this report. Some of the information contained in this discussion and analysis and set forth elsewhere in this report, including information with respect to our plans and strategy for our business, the possible achievement of discovery and development goals and milestones, our future discovery and development efforts, our collaborations, and our future operating results and financial position, includes forward-looking statements that involve risks and uncertainties. We often use words such as "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "predict," "proje