

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended June 30, 2020

OR

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

For the transition period from _____ to _____

Commission File Number: 001-35945

EPIZYME, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

400 Technology Square, Cambridge, Massachusetts
(Address of principal executive offices)

26-1349956
(I.R.S. Employer
Identification No.)

02139
(Zip code)

617-229-5872

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common stock, \$0.0001 par value	EPZM	Nasdaq Global Select Market

The number of shares outstanding of the registrant's common stock as of July 30, 2020: 101,478,267 shares.

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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Epizyme® and TAZVERIK® are registered trademarks of Epizyme, Inc. in the United States and other countries. Epizyme, Inc. has also submitted trademark applications for Epizyme™ and/or TAZVERIK™ in the United States and/or other countries. All other trademarks, service marks or other tradenames appearing in this Quarterly Report on Form 10-Q are the property of their respective owners.

Forward-looking Information

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

- our plans to develop and commercialize novel epigenetic therapies for patients with cancer and other serious diseases;
- the commercial launch of TAZVERIK;
- our ongoing and planned clinical trials, including the timing of initiation and enrollment in the trials, the timing of availability of data from the trials and the anticipated results of the trials;
- the timing of and our ability to apply for, obtain and maintain regulatory approvals for our product candidates;
- our ability to achieve anticipated milestones under our collaborations;
- the rate and degree of market acceptance and clinical utility of our products;
- our commercialization, marketing and manufacturing capabilities and strategy;
- the impact of the COVID-19 pandemic on our business, results of operations, and financial condition;
- our intellectual property position; and
- our estimates regarding expenses, future revenue, capital requirements and needs for additional financing.

All of our forward-looking statements are made 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 Securities and Exchange Commission, or 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.

Our management’s discussion and analysis of our financial condition and results of operations are based upon our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, which have been prepared by us in accordance with accounting principles generally accepted in the United States of America, or GAAP, for interim periods and with Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act. This discussion and analysis should be read in conjunction with these unaudited condensed consolidated financial statements and the notes thereto as well as in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, or our Annual Report. The three months ended June 30, 2020 and 2019 are referred to as the second quarter of 2020 and 2019, respectively.

Note regarding certain references in this Quarterly Report on Form 10-Q

Unless otherwise stated or the context indicates otherwise, all references herein to “Epizyme,” “Epizyme, Inc.,” “we,” “us,” “our,” “our company,” “the Company” and similar references refer to Epizyme, Inc. and its wholly owned subsidiary, Epizyme Securities Corporation.

In addition, unless otherwise stated or the context indicates otherwise, all references in this Quarterly Report on Form 10-Q to “TAZVERIK® (tazemetostat),” “TAZVERIK®” and “TAZVERIK” refer to tazemetostat in the context of the commercially-available product for which we received accelerated approval from the FDA in January 2020 for epithelioid sarcoma and in June 2020 for follicular lymphoma, as more fully described herein; whereas, unless otherwise stated or the context indicates otherwise, all references herein to “tazemetostat” refer to tazemetostat in the context of the product candidate for which we are exploring further applications and indications, as more fully described herein.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

EPIZYME, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(Amounts in thousands, except per share data)

	June 30, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 117,152	\$ 139,482
Marketable securities	204,910	241,605
Accounts receivable, net	1,747	2,567
Inventory	9,864	—
Prepaid expenses and other current assets	20,991	15,523
Total current assets	354,664	399,177
Property and equipment, net	2,268	2,219
Operating lease assets	19,448	21,206
Intangible assets, net	49,079	—
Restricted cash and other assets	1,924	1,987
Total assets	\$ 427,383	\$ 424,589
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,583	\$ 8,782
Accrued expenses	22,050	22,549
Current portion of operating lease obligation	3,878	3,039
Other current liabilities	144	16
Total current liabilities	30,655	34,386
Operating lease obligation, net of current portion	17,686	19,120
Deferred revenue, net of current portion	3,806	3,806
Long-term debt, net of debt discount	68,464	23,309
Other long-term liabilities	21	38
Liability related to sale of future royalties	13,388	12,793
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.0001 par value; 5,000 shares authorized; 338 shares and 350 shares issued and outstanding, respectively (equivalent to 3,378 shares and 3,500 shares of common stock, respectively, upon conversion at a 10:1 ratio)	36,127	37,432
Common stock, \$0.0001 par value; 150,000 shares and 125,000 shares authorized, respectively; 101,464 shares and 97,783 shares issued and outstanding, respectively	10	10
Additional paid-in capital	1,123,173	1,050,695
Accumulated other comprehensive income	460	19
Accumulated deficit	(866,407)	(757,019)
Total stockholders' equity	293,363	331,137
Total liabilities and stockholders' equity	\$ 427,383	\$ 424,589

See notes to condensed consolidated financial statements.

EPIZYME, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(UNAUDITED)
(Amounts in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenue:				
Product revenue, net	\$ 2,234	\$ —	\$ 3,519	\$ —
Collaboration revenue	233	5,900	303	13,791
Total revenue	<u>2,467</u>	<u>5,900</u>	<u>3,822</u>	<u>13,791</u>
Operating expenses:				
Cost of product revenue	1,022	—	1,637	—
Research and development	26,352	40,907	51,516	67,803
Selling, general and administrative	32,659	15,698	59,584	27,684
Total operating expenses	<u>60,033</u>	<u>56,605</u>	<u>112,737</u>	<u>95,487</u>
Operating loss	(57,566)	(50,705)	(108,915)	(81,696)
Other income, net:				
Interest (expense) income, net	(569)	2,253	187	3,911
Other (expense), net	(15)	(13)	(64)	(19)
Non-cash interest expense related to sale of future royalties	(301)	—	(596)	—
Other (expense) income, net	<u>(885)</u>	<u>2,240</u>	<u>(473)</u>	<u>3,892</u>
Net loss	<u>\$ (58,451)</u>	<u>\$ (48,465)</u>	<u>\$ (109,388)</u>	<u>\$ (77,804)</u>
Other comprehensive income (loss):				
Unrealized gain on available-for-sale securities	535	216	441	302
Comprehensive loss	<u>\$ (57,916)</u>	<u>\$ (48,249)</u>	<u>\$ (108,947)</u>	<u>\$ (77,502)</u>
Reconciliation of net loss to net loss attributable to common stockholders:				
Net loss	\$ (58,451)	\$ (48,465)	\$ (109,388)	\$ (77,804)
Accretion of convertible preferred stock	—	—	—	(2,940)
Net loss attributable to common stockholders	<u>\$ (58,451)</u>	<u>\$ (48,465)</u>	<u>\$ (109,388)</u>	<u>\$ (80,744)</u>
Net loss per share attributable to common stockholders:				
Basic	\$ (0.58)	\$ (0.53)	\$ (1.09)	\$ (1.04)
Diluted	\$ (0.58)	\$ (0.53)	\$ (1.09)	\$ (1.04)
Weighted-average common shares outstanding used in net loss per share attributable to common stockholders:				
Basic	101,104	90,876	100,360	77,315
Diluted	101,104	90,876	100,360	77,315

See notes to condensed consolidated financial statements.

EPIZYME, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Amounts in thousands)

	Six Months Ended June 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (109,388)	\$ (77,804)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,362	416
Stock-based compensation	14,802	7,939
Amortization of discount on investments	(362)	(1,759)
Amortization of debt discount	169	—
Loss on disposal of property and equipment	19	—
Non-cash interest expense associated with the sale of future royalties	596	—
Changes in operating assets and liabilities:		
Accounts receivable	820	6,794
Inventory	(9,864)	—
Prepaid expenses and other current assets	(5,468)	(1,942)
Accounts payable	(4,221)	2,092
Accrued expenses	(499)	(1,972)
Deferred revenue	128	(7,041)
Operating lease assets	1,758	1,255
Operating lease liabilities	(595)	(1,290)
Other assets and liabilities	47	(141)
Net cash used in operating activities	(110,696)	(73,453)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available-for-sale securities	(94,120)	(297,904)
Maturities of available-for-sale securities	131,616	168,548
Purchase of intangible asset	(50,000)	—
Purchases of property and equipment	(329)	(190)
Net cash used in investing activities	(12,833)	(129,546)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock, net of commissions	—	122,992
Proceeds from issuance of preferred stock, net of commissions	—	37,433
Payment of offering costs	(79)	(264)
Proceeds from the issuance of debt	45,000	—
Payment of debt issuance costs	(93)	—
Proceeds from the issuance of common stock in connection with the exercise of the put option, net of financing costs	49,915	—
Proceeds from stock options exercised	5,810	1,739
Issuance of shares under employee stock purchase plan	646	360
Net cash provided by financing activities	101,199	162,260
Net increase in cash, cash equivalents and restricted cash	(22,330)	(40,739)
Cash, cash equivalents and restricted cash, beginning of period	140,991	87,133
Cash, cash equivalents and restricted cash, end of period	<u>\$ 118,661</u>	<u>\$ 46,394</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for income taxes	<u>\$ —</u>	<u>\$ 45</u>
Interest paid	<u>\$ 2,182</u>	<u>\$ —</u>
Property and equipment included in accounts payable or accruals	<u>\$ 181</u>	<u>\$ 208</u>

See notes to condensed consolidated financial statements

EPIZYME, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY
(Amounts in thousands, except share amounts)

	Common Stock		Preferred Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2018	79,175,380	\$ 8	—	\$ —	\$ 819,779	\$ (586,724)	\$ (54)	\$ 233,009
Issuance of common stock (net of commissions and offering costs of \$284)	11,500,000	1	—	—	122,707	—	—	122,708
Issuance of series A convertible preferred stock, net of commissions and beneficial conversion charge	—	—	350,000	34,492	2,940	—	—	37,432
Accretion of series A convertible preferred stock	—	—	—	2,940	(2,940)	—	—	—
Exercise of stock options and vesting of restricted stock units	89,726	—	—	—	886	—	—	886
Stock-based compensation	—	—	—	—	3,211	—	—	3,211
Issuance of shares under employee stock purchase plan	37,972	—	—	—	360	—	—	360
Unrealized gain on available for sale securities	—	—	—	—	—	—	86	86
Net loss	—	—	—	—	—	(29,339)	—	(29,339)
Balance at March 31, 2019	90,803,078	\$ 9	350,000	\$ 37,432	\$ 946,943	\$ (616,063)	\$ 32	\$ 368,353
Exercise of stock options and vesting of restricted stock units	208,749	—	—	—	853	—	—	853
Stock-based compensation	—	—	—	—	4,681	—	—	4,681
Issuance of shares of common stock in lieu of board fees	3,812	—	—	—	47	—	—	47
Unrealized gain on available for sale securities	—	—	—	—	—	—	216	216
Net loss	—	—	—	—	—	(48,465)	—	(48,465)
Balance at June 30, 2019	91,015,639	\$ 9	350,000	\$ 37,432	\$ 952,524	\$ (664,528)	\$ 248	\$ 325,685
Balance at December 31, 2019	97,783,476	\$ 10	350,000	37,432	\$ 1,050,695	\$ (757,019)	\$ 19	\$ 331,137
Issuance of common stock in connection with the exercise of the put option (net of financing costs of \$85)	2,500,000	—	—	—	49,915	—	—	49,915
Issuance of common stock in connection with the conversion of series A convertible preferred stock	122,000	—	(12,200)	(1,305)	1,305	—	—	—
Exercise of stock options and vesting of restricted stock units	579,919	—	—	—	3,140	—	—	3,140
Stock-based compensation	—	—	—	—	6,475	—	—	6,475
Issuance of shares under employee stock purchase plan	60,576	—	—	—	646	—	—	646
Issuance of shares of common stock in lieu of board fees	1,404	—	—	—	35	—	—	35
Unrealized loss on available for sale securities	—	—	—	—	—	—	(94)	(94)
Net loss	—	—	—	—	—	(50,937)	—	(50,937)
Balance at March 31, 2020	101,047,375	\$ 10	337,800	\$ 36,127	\$ 1,112,211	\$ (807,956)	\$ (75)	\$ 340,317
Exercise of stock options and vesting of restricted stock units	414,150	—	—	—	2,670	—	—	2,670
Stock-based compensation	—	—	—	—	8,257	—	—	8,257
Issuance of shares of common stock in lieu of board fees	2,229	—	—	—	35	—	—	35
Unrealized gain on available for sale securities	—	—	—	—	—	—	535	535
Net loss	—	—	—	—	—	(58,451)	—	(58,451)
Balance at June 30, 2020	101,463,754	\$ 10	337,800	\$ 36,127	\$ 1,123,173	\$ (866,407)	\$ 460	\$ 293,363

See notes to condensed consolidated financial statements.

EPIZYME, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. The Company

Epizyme, Inc. (collectively referred to with its wholly owned, controlled subsidiary, Epizyme Securities Corporation, as “Epizyme” or the “Company”) is a commercial-stage biopharmaceutical company that is committed to rewriting treatment for people with cancer and other serious diseases through the discovery, development, and commercialization of novel epigenetic medicines. By focusing on the genetic drivers of disease, the Company’s science seeks to match targeted medicines with the patients who need them.

Through June 30, 2020, in addition to revenues from product sales, the Company has raised an aggregate of \$1,376.9 million to fund its operations. This includes \$243.3 million of non-equity funding through its collaboration agreements, \$218.1 million of funding received through agreements with RPI Finance Trust (“Royalty Pharma” or “RPI”), and BioPharma Credit Investments V (Master) LP, BPCR Limited Partnership and BioPharma Credit PLC (the “Lenders”), \$839.5 million from the sale of common stock and series A convertible preferred stock in the Company’s public offerings and \$76.0 million from the sale of redeemable convertible preferred stock in private financings prior to the Company’s initial public offering in May 2013. As of June 30, 2020, the Company had \$322.1 million in cash, cash equivalents and marketable securities.

In 2020, the Company’s EZH2 inhibitor, tazemetostat, was approved in the United States as TAZVERIK for the treatment of epithelioid sarcoma, or ES, and follicular lymphoma, or FL. Commercial sales of TAZVERIK for the treatment of ES commenced in the first quarter of 2020 and commercial sales of TAZVERIK for the treatment of two FL indications commenced near the end of the second quarter of 2020. The Company commenced active operations in early 2008. Since its inception, the Company has generated an accumulated deficit of \$866.4 million through June 30, 2020 and will require substantial additional capital to fund its research, development, and commercialization efforts. The Company is subject to risks common to companies in the biotechnology industry, including, but not limited to, risks of failure of commercialization, clinical trials and preclinical studies, the need to obtain additional financing to fund the future development and commercialization of tazemetostat and the rest of its pipeline, the need to obtain marketing approval for its product candidates, the need to successfully commercialize and gain market acceptance of its product candidates, dependence on key personnel, protection of proprietary technology, compliance with government regulations, development by competitors of technological innovations and ability to transition from clinical-stage manufacturing to commercial-stage production of products.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The condensed 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, or the 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 condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2019, or the Annual Report.

The unaudited condensed consolidated financial statements include the accounts of Epizyme, Inc. and its wholly owned, controlled subsidiary, Epizyme Securities Corporation. 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 condensed consolidated 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, 2020 and 2019 are referred to as the second quarter of 2020 and 2019, 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.

Significant Accounting Policies

The significant accounting policies used in preparation of these condensed consolidated financial statements for the three and six months ended June 30, 2020 are consistent with those discussed in Note 2 to the consolidated financial statements in the Annual Report and are updated below as necessary.

Going Concern

At each reporting period, the Company evaluates whether there are conditions or events that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued. The Company is required to make certain additional disclosures if it concludes substantial doubt exists and it is not alleviated by the Company's plans or when its plans alleviate substantial doubt about the Company's ability to continue as a going concern.

The Company's evaluation entails analyzing prospective operating budgets and forecasts for expectations of the Company's cash needs, and comparing those needs to the current cash, cash equivalent and marketable securities balances. After considering the Company's current research and development plans, commercialization activities, including the build out of its salesforce and commercial infrastructure to support the launch of TAZVERIK in the ES indication and an expansion of its infrastructure to support the commercial launch in FL, and the timing expectations related to the progress of its programs, and after considering its existing cash, cash equivalents and marketable securities as of June 30, 2020, anticipated revenues, and debt service obligations as they become due, the Company did not identify conditions or events that raise substantial doubt about the Company's ability to continue as a going concern within one year from the date these financial statements were issued. The Company's current operating plan is based on assumptions that may prove to be wrong, such as the revenue that the Company expects to generate from the sale of its products, and the Company could use its capital resources sooner than it expects.

Pending Accounting Pronouncements

In November 2018, the Financial Accounting Standards Board, or the FASB, issued ASU 2018-18, *Collaborative Arrangements, or ASC 808*, which clarifies certain transactions between collaborative arrangement participants should be accounted for as revenue when the collaborative arrangement participant is a customer in the context of a unit of account and precludes recognizing as revenue consideration received from a collaborative arrangement participant if the participant is not a customer. The ASU will be effective for the Company in the first quarter of fiscal 2021, with early adoption permitted. A retrospective adoption to the date the Company adopted ASC 606 is required by recognizing a cumulative-effect adjustment to the opening balance or retained earnings of the earliest period presented. The Company is currently evaluating the impact of the adoption of this standard on its financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes, or ASC 740*, which simplifies the accounting for income taxes. The ASU will be effective for the Company in the first quarter of fiscal 2021, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its financial statements.

Recently Adopted Accounting Pronouncements

Financial Instruments – Credit Losses

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses, or ASC 326*, which requires earlier recognition of credit losses on financing receivables and other financial assets in scope. The new standard is effective for annual reporting periods beginning after December 15, 2019.

Effective January 1, 2020, the Company adopted ASC 326 using the required modified retrospective approach and utilizing the effective date as its date of initial application, for which prior periods are presented in accordance with the previous guidance in ASC 326, *Financial Instruments – Credit Losses, or ASC 326*.

The adoption of this standard resulted in an immaterial allowance for credit losses on the Company's condensed consolidated balance sheet. The adoption of the standard did not have a material effect on the Company's condensed consolidated statements of operations and comprehensive loss or condensed consolidated statements of cash flows.

Revenue Recognition

The Company recognizes revenue when a customer obtains control of promised goods or services, in an amount that reflects the consideration which the Company expects to receive in exchange for those goods or services. To determine revenue recognition, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the Company will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. For a further discussion of accounting for net product revenue see Note 3, "Product Revenue, Net".

Accounts Receivable

The Company extends credit to customers based on its evaluation of the customer's financial condition. The Company records receivables for all billings when amounts are due under standard terms. Accounts receivable are stated at amounts due net of applicable prompt pay discounts and other contractual adjustments as well as an allowance for doubtful accounts. The Company assesses the need for an allowance for doubtful accounts by considering a number of factors, including the length of time trade accounts receivable are past due, the customer's ability to pay its obligation and the condition of the general economy and the industry as a whole. The Company will write off accounts receivable when the Company determines that they are uncollectible. In general, the Company has experienced no significant collection issues with its customers.

Inventories

The Company outsources the manufacturing of TAZVERIK and uses contract manufacturers to produce the raw and intermediate materials used in the production of TAZVERIK as well as the finished product. The Company currently has one supplier qualified for each step in the manufacturing process and is in the process of qualifying additional suppliers.

Inventories are composed of raw materials, intermediate materials, which are classified as work-in-process, and finished goods, which are goods that are available for sale. The Company states inventories at the lower of cost or net realizable value with the cost based on the first-in, first-out method. If the Company identifies excess, obsolete or unsalable items, it writes down its inventory to its net realizable value in the period in which the impairment is identified. These adjustments are recorded based upon various factors related to the product, including the level of product manufactured by the Company, the level of product in the distribution channel, current and projected demand, the expected shelf-life of the product and firm inventory purchase commitments. Shipping and handling costs incurred for inventory purchases are included in inventory costs and costs incurred for product shipments are recorded as incurred in cost of product revenue.

Prior to receiving its first approval from the U.S. Food and Drug Administration, or FDA, on January 23, 2020 to sell TAZVERIK, the Company expensed all costs incurred related to the manufacture of TAZVERIK as research and development expense because of the inherent risks associated with the development of a product candidate, the uncertainty about the regulatory approval process and the lack of history for the Company of regulatory approval of drug candidates.

Intangible Assets, Net

Intangible assets consist of capitalized milestone payments made to third parties under an in-license of patent rights upon receiving regulatory approval of TAZVERIK. The finite lived intangible assets are being amortized on a straight-line basis over the expected time period the Company will benefit from the in-licensed rights, which is generally the patent life. Intangible assets are recorded at cost at the time of their acquisition and are stated in the Company's condensed consolidated balance sheets net of accumulated amortization and impairments, if applicable. The amortization expense is recognized as cost of product revenue in the Company's condensed consolidated statement of operations. During the first quarter of 2020 the Company paid a \$25.0 million milestone payment under its agreement with Eisai upon regulatory approval of tazemetostat for ES. During the second quarter of 2020 the Company paid a \$25.0 million milestone payment under its agreement with Eisai upon regulatory approval of tazemetostat for two FL indications. Both regulatory milestones have been capitalized as intangible assets.

The following table presents intangible assets as of June 30, 2020 (in thousands):

	June 30, 2020	Estimated useful life (years)
In-licensed rights	\$ 50,000	12.2
Less: accumulated amortization	(921)	
Total intangible asset, net	<u>\$ 49,079</u>	

The Company recorded approximately \$0.6 million and \$0.9 million in amortization expense related to intangible assets, using the straight-line methodology, during the three and six months ended June 30, 2020. Estimated future amortization expense for intangible assets for the year ended December 31, 2020 is \$2.1 million and approximately \$4.2 million per year thereafter.

The Company assesses its intangible assets for impairment if indicators are present or changes in circumstance suggest that impairment may exist. Events that could result in an impairment, or trigger an interim impairment assessment, include the receipt of additional clinical or nonclinical data regarding one of the Company's drug candidates or a potentially competitive drug candidate, changes in the clinical development program for a drug candidate, or new information regarding potential sales for the drug. If

impairment indicators are present or changes in circumstance suggest that impairment may exist, the Company performs a recoverability test by comparing the sum of the estimated undiscounted cash flows of each intangible asset to its carrying value on the consolidated balance sheet. If the undiscounted cash flows used in the recoverability test are less than the carrying value, the Company would determine the fair value of the intangible asset and recognize an impairment loss if the carrying value of the intangible asset exceeds its fair value.

3. Product Revenue, Net

The Company sells TAZVERIK in the United States principally to a limited number of specialty pharmacies, which dispense the product directly to patients, and specialty distributors, which in turn sell the product to hospital pharmacies and community practice pharmacies (collectively, healthcare providers) for the treatment of patients. The specialty pharmacies and specialty distributors are referred to as the Company's customers.

Product revenue is recognized by the Company in an amount that reflects the consideration which the Company expects to receive in exchange for those goods or services when the customer obtains control of the product, which occurs at a point in time, typically when the product is received by the Company's customers. The Company provides a right of return to its customers for unopened product for a limited time before and after its expiration date, which lapses upon shipment to a patient. Healthcare providers to whom specialty distributors sell TAZVERIK hold limited inventory that is designated for patients, and the Company monitors inventory levels in the distribution channel, to limit the risk of return.

Reserves for Variable Consideration

Revenues from product sales are recorded as product revenue at the net sales price (transaction price), which includes estimates of variable consideration for which reserves are established and which result from discounts, returns, chargebacks, rebates, co-pay assistance and other allowances that are offered within contracts between the Company and its customers, health care providers, payors and other indirect customers relating to the Company's product sales. These reserves are based on the amounts earned or to be claimed on the related sales and are classified as reductions of accounts receivable (if the amount is payable to the customer) or a current liability (if the amount is payable to a party other than a customer). Where appropriate, these estimates take into consideration a range of possible outcomes that are probability-weighted for relevant factors such as the Company's historical experience, current contractual and statutory requirements, specific known market events and trends, industry data and forecasted customer buying and payment patterns. Overall, these reserves reflect the Company's best estimates of the amount of consideration to which the Company is entitled based on the terms of the contract. The amount of variable consideration that is included in the transaction price may be constrained, and is included in the net sales price only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized will not occur in a future period. Actual amounts of consideration ultimately received may differ from the Company's estimates. If actual results in the future vary from the Company's estimates, the Company will adjust these estimates, which would affect net product revenue and earnings in the period such variances become known.

Trade Discounts and Allowances: The Company generally provides customers with discounts that include incentive fees that are explicitly stated in customer contracts and are recorded as a reduction of revenue in the period the related product revenue is recognized. In addition, the Company receives sales order management, data and distribution services from certain customers. To the extent the services received are distinct from the Company's sale of products to the customer, these payments are classified in selling, general and administrative expenses in the consolidated statements of operations and comprehensive loss.

Product Returns: Consistent with industry practice, the Company generally offers customers a limited right of return based on the product's expiration date for product that has been purchased from the Company, which lapses upon shipment to a patient. The Company estimates the amount of product sales that may be returned by customers and records this estimate as a reduction of revenue in the period in which the related product revenue is recognized. The Company currently estimates product return liabilities using available industry data and the Company's own historical sales information, including its visibility into the inventory remaining in the distribution channel.

Provider Chargebacks and Discounts: Chargebacks for fees and discounts to healthcare providers represent the estimated obligations resulting from contractual commitments to sell products to qualified healthcare providers at prices lower than the list prices charged to customers who directly purchase the product from the Company. Customers charge the Company for the difference between what they pay for the product and the ultimate selling price to the qualified healthcare providers. These reserves are established in the same period that the related revenue is recognized, resulting in a reduction of product revenue and accounts receivable. Chargeback amounts are generally determined at the time of resale to the qualified healthcare provider by customers, and the Company generally issues credits for such amounts within a few weeks of the customer's notification to the Company of the resale. Reserves for chargebacks consist of credits that the Company expects to issue for units that remain in the distribution channel inventories at each reporting period end that the Company expects will be sold to qualified healthcare providers, and chargebacks that customers have claimed but for which the Company has not yet issued a credit.

Government Rebates: The Company is subject to discount obligations under state Medicaid programs and Medicare. The Company estimates its Medicaid and Medicare rebates based upon a range of possible outcomes that are probability-weighted for the estimated payor mix. These reserves are recorded in the same period in which the related revenue is recognized, resulting in a reduction of product revenue and the establishment of a current liability that is included in accrued expenses on the Company's consolidated balance sheet. For Medicare, the Company also estimates the number of patients in the prescription drug coverage gap for whom the Company will owe an additional liability under the Medicare Part D program. The Company's liability for these rebates consists of invoices received for claims from prior quarters that have not been paid or for which an invoice has not yet been received, estimates of claims for the current quarter, and estimated future claims that will be made for product that has been recognized as revenue, but remains in the distribution channel inventories at period end.

Payor Rebates: The Company may contract with various private payor organizations, primarily insurance companies and pharmacy benefit managers, for the payment of rebates with respect to utilization of the Company's products. The Company estimates these rebates and records such estimates in the same period the related revenue is recognized, resulting in a reduction of product revenue and the establishment of a current liability.

Other Incentives/Patient Assistance Programs: The Company also offers voluntary patient assistance programs such as co-pay assistance. Co-pay assistance programs are intended to provide financial assistance to qualified commercially insured patients with prescription drug co-payments required by payors. The calculation of the accrual for co-pay assistance is based on an estimate of claims and the cost per claim that the Company expects to receive associated with product that has been recognized as revenue, but remains in the distribution channel inventories at period end.

The following table summarizes activity in each of the above product revenue allowances and reserve categories for the six-months ended June 30, 2020:

	Chargebacks, Discounts, and Fees	Government and Other Rebates	Returns	Total
	(In thousands)			
Balance, January 1, 2020	\$ —	\$ —	\$ —	\$ —
Provision	288	420	21	729
Payments or credits	(160)	(83)	—	(243)
Balance, June 30, 2020	<u>\$ 128</u>	<u>\$ 337</u>	<u>\$ 21</u>	<u>\$ 486</u>

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist of accounts receivable from customers and cash held at financial institutions. The Company believes that such customers and financial institutions are of high credit quality.

For the three and six months ended June 30, 2020, net product revenue was primarily accounted from four individual customers. Revenue earned from each customer as a percentage of net product revenue is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Customer 1	51%	—	54%	—
Customer 2	19%	—	14%	—
Customer 3	12%	—	14%	—
Customer 4	11%	—	12%	—

There was no product revenue for the three and six-months ended June 30, 2019.

As of June 30, 2020, five individual customers were accounted for as a percentage of accounts receivable as follows:

	June 30, 2020	December 31, 2019
Customer 1	31%	—
Customer 2	21%	—
Customer 3	17%	—
Customer 4	12%	—
Customer 5	11%	—

No other customer accounted for more than 10 percent of net product revenue or accounts receivable.

4. Cash

A reconciliation of cash, cash equivalents, and restricted cash reported within the condensed consolidated balance sheets that sum to the total of the same such amounts shown in the condensed consolidated statements of cash flows, is as follows:

	As of June 30,	
	2020	2019
	(In thousands)	
Cash and cash equivalents	\$ 117,152	\$ 45,932
Restricted cash, as part of other assets	1,509	462
Total cash, cash equivalents, and restricted cash shown in the condensed consolidated statements of cash flows	<u>\$ 118,661</u>	<u>\$ 46,394</u>

The \$1.5 million in restricted cash as of June 30, 2020 is comprised of \$0.5 million in a letter of credit as a security deposit for the Company's office and laboratory lease at Technology Square in Cambridge, Massachusetts and \$1.0 million in a letter of credit as a security deposit for the Company's office lease at Hampshire Street in Cambridge, Massachusetts. As of June 30, 2019, restricted cash is comprised of \$0.5 million in a letter of credit as a security deposit for the Company's office and laboratory lease at Technology Square in Cambridge, Massachusetts. The Company has recorded cash held to secure these letters of credit as restricted cash in restricted cash and other assets on the condensed consolidated balance sheet. The restricted cash is classified as non-current based on the related lease terms.

5. Marketable Securities

The following table summarizes the available-for-sale securities held at June 30, 2020 (in thousands):

Description	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Commercial paper	\$ 91,554	\$ 139	\$ (9)	\$ 91,684
Corporate notes	102,403	339	(10)	102,732
U.S. government agency securities and U.S. Treasuries	10,493	1	—	10,494
Total	<u>\$ 204,450</u>	<u>\$ 479</u>	<u>\$ (19)</u>	<u>\$ 204,910</u>

The following table summarizes the available-for-sale securities held at December 31, 2019 (in thousands):

Description	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Commercial paper	\$ 96,952	\$ 27	\$ (16)	\$ 96,963
Corporate notes	140,634	49	(41)	140,642
U.S. government agency securities and U.S. Treasuries	4,000	—	—	4,000
Total	<u>\$ 241,586</u>	<u>\$ 76</u>	<u>\$ (57)</u>	<u>\$ 241,605</u>

Certain short-term debt securities with original maturities of less than 90 days are included in cash and cash equivalents within the consolidated balance sheets and are not included in the tables above.

The amortized cost of available-for-sale securities is adjusted for amortization of premiums and accretion of discounts to maturity. At June 30, 2020, the balance in the Company's accumulated other comprehensive loss was composed solely of activity related to the Company's available-for-sale marketable securities. There were no realized gains or losses recognized on the sale or maturity of available-for-sale securities during the three and six months ended June 30, 2020, and as a result, the Company did not reclassify any amounts out of accumulated other comprehensive loss for the same period.

The aggregate fair value of available-for-sale securities held by the Company in an unrealized loss position for less than twelve months as of June 30, 2020 was \$36.1 million, which consisted of 3 commercial paper securities and 5 corporate notes securities. The aggregate unrealized loss for those securities in an unrealized loss position for less than twelve months as of June 30, 2020 was less than \$0.1 million.

The Company does not intend to sell and it is unlikely that the Company will be required to sell the above investments before recovery of their amortized cost bases, which may be maturity. The Company determined that there was no material change in the credit risk of any of its investments. As a result, the Company determined it did not hold any investments with any other-than-temporary impairment as of June 30, 2020. The weighted-average maturity of the Company's portfolio was approximately four months at June 30, 2020.

6. Fair Value Measurements

The Company's financial instruments as of June 30, 2020 and December 31, 2019 consisted primarily of cash and cash equivalents, marketable securities and accounts receivable and accounts payable. As of June 30, 2020 and December 31, 2019, the Company's financial assets recognized at fair value consisted of the following:

	Fair Value as of June 30, 2020			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Cash equivalents	\$ 106,915	\$ 53,247	\$ 53,668	\$ —
Marketable securities:				
Commercial paper	91,684	—	91,684	—
Corporate notes	102,732	—	102,732	—
U.S. government agency securities and treasuries	10,494	—	10,494	—
Total	<u>\$ 311,825</u>	<u>\$ 53,247</u>	<u>\$ 258,578</u>	<u>\$ —</u>

	Fair Value as of December 31, 2019			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Cash equivalents	\$ 132,193	\$ 124,419	\$ 7,774	\$ —
Marketable securities:				
Commercial paper	96,963	—	96,963	—
Corporate notes	140,642	—	140,642	—
U.S. government agency securities and treasuries	4,000	—	4,000	—
Total	<u>\$ 373,798</u>	<u>\$ 124,419</u>	<u>\$ 249,379</u>	<u>\$ —</u>

Cash equivalents and marketable securities have been initially valued at the transaction price and subsequently valued, at the end of each reporting period, utilizing third-party pricing services or other market observable data.

The Company measures its cash equivalents at fair value on a recurring basis, which approximates the net asset value per share. The Company classifies some of its cash equivalents within Level 1 of the fair value hierarchy because they are valued using observable inputs that reflect quoted prices for identical assets in active markets. The Company measures its marketable securities at fair value on a recurring basis and classifies those instruments and some cash equivalents within Level 2 of the fair value hierarchy. The pricing services used by management utilize industry standard valuation models, including both income- and market- based approaches and observable market inputs to determine the fair value of marketable securities and those cash equivalents classified within Level 2 of the fair value hierarchy.

7. Inventory

All of the Company's inventories relate to the manufacturing of TAZVERIK. The following table sets forth the Company's inventories as of June 30, 2020 and December 31, 2019:

	June 30, 2020	December 31, 2019
	(In thousands)	
Raw materials	\$ 606	\$ —
Work in process	9,220	—
Finished goods	38	—
Total	<u>\$ 9,864</u>	<u>\$ —</u>

As of June 30, 2020 the Company has not capitalized inventory costs related to its other drug development programs.

8. Supplemental Balance Sheet Information

Accrued expenses consisted of the following:

	June 30, 2020	December 31, 2019
	(In thousands)	
Employee compensation and benefits	\$ 8,211	\$ 7,844
Research and development expenses	8,168	9,706
Professional services and other	5,671	4,999
Accrued expenses	<u>\$ 22,050</u>	<u>\$ 22,549</u>

9. Income Taxes

The Company did not record a federal or state income tax provision or benefit for the three and six months ended June 30, 2020 and 2019 due to the expected and known loss before income taxes to be incurred, or incurred, as applicable, for the years ended December 31, 2020 and 2019, as well as the Company's continued maintenance of a full valuation allowance against its net deferred tax assets, with the exception of the deferred tax asset related to alternative minimum tax credit.

10. Commitments and Contingencies

There have been no significant changes to the Company's commitments and contingencies, other than the minimum lease payments as disclosed in Note 11, *Leases*, in the three and six months ended June 30, 2020, as compared to those disclosed in Note 7, *Commitments and Contingencies*, included in its Annual Report.

11. Leases

The Company enters into lease arrangements for its facilities as well as certain equipment. A summary of the arrangements are as follows:

Operating Leases

The Company leases office and laboratory space at Technology Square in Cambridge, Massachusetts under a Lease Agreement, dated as of June 15, 2012, as amended, or the Technology Square Lease, with ARE-TECH Square, LLC, a Delaware limited liability company, or ARE, with a term that originally continued through May 31, 2018, and a Company option to extend the term of the lease at the then-current market rent, as defined in the Technology Square Lease, through November 30, 2022.

In May 2017, the Company entered into a Third Amendment to the Technology Square Lease, or the Third Amendment, with ARE, and a Fourth Amendment to the Technology Square Lease with ARE, or the Fourth Amendment, and, together with the Third Amendment, the Amendments.

Under the Amendments, the Company extended the term of the Technology Square Lease to November 30, 2022 but retained the right to terminate the Technology Square Lease, effective as of December 31, 2018, by giving written notice to ARE by December 31, 2017 and paying an early termination fee. The Company did not exercise this right. Under the Technology Square Lease as amended, the Company has agreed to pay a monthly base rent of approximately \$0.2 million for the period commencing December 1, 2017 through May 31, 2018, with an increase on June 1, 2018 of approximately \$33,000 and annual increases of approximately \$9,000 on December 1 of each subsequent year until December 1, 2021.

The Company has a \$0.5 million letter of credit as a security deposit for the Technology Square Lease and has recorded cash held to secure this letter of credit as restricted cash and other assets on the condensed consolidated balance sheet. In applying the ASU 2016-02, Leases, or ASC 842, transition guidance, the Company determined the classification of this lease to be operating and recorded a lease liability and a right-of-use asset on January 1, 2019.

On August 16, 2019, the Company entered into a lease, or the Hampshire Street Lease, with BMR-Hampshire LLC, or BMR. The Hampshire Street Lease is for 33,525 rentable square feet of office space in Cambridge, Massachusetts. The Hampshire Street Lease commenced as of December 1, 2019. The Hampshire Street Lease has an initial term of seven years and four months from the commencement date and provides the Company with an option to extend the lease term for one additional five-year period. After a four-month period during which base rent is not payable, the Hampshire Street Lease provides for monthly rent payments starting at \$0.2 million and increasing 2.5% per year. In the event that the Company exercises its option to extend the lease term, the Hampshire Street Lease provides for monthly rent payments during the additional five-year period at the greater of the base rent rate at the end of the initial term or the then-current market rent. In addition to base rent, the Hampshire Street Lease requires the Company to pay certain variable costs, including taxes, insurance, maintenance and other operating expenses.

The Company has a \$1.0 million letter of credit in favor of the BMR as a security deposit for the Hampshire Street Lease and has recorded cash held to secure this letter of credit as restricted cash and other assets on the consolidated balance sheet. In applying ASC 842, the Company determined the classification of the Hampshire Street Lease to be operating and recorded a lease liability and a right-of-use asset as of December 31, 2019.

The Company is required to pay certain variable costs to its landlords in addition to fixed rent. These costs include common area maintenance, real estate taxes, and parking and are included in lease expense.

The following table contains a summary of the lease costs recognized under ASC 842 and other information pertaining to the Company's operating leases for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(In thousands)			
Lease cost				
Operating lease cost	\$ 1,555	\$ 889	\$ 3,105	\$ 1,777
Variable lease cost	524	305	946	628
Total lease cost	\$ 2,079	\$ 1,194	\$ 4,051	\$ 2,405
Other information				
Operating cash flows used for operating leases	\$ 1,000	\$ 907	\$ 1,981	\$ 1,812
Weighted average remaining lease term	5.1 years	3.4 years	5.1 years	3.4 years
Weighted average discount rate	9.68%	8.55%	9.68%	8.55%

Future minimum lease payments under the Company's non-cancelable operating leases as of June 30, 2020, are as follows:

	(In thousands)
2020	\$ 2,603
2021	6,442
2022	6,262
2023	2,989
2024	3,059
Thereafter	6,716
Total lease payments	\$ 28,071
Less: imputed interest	(6,507)
Total operating lease liabilities at June 30, 2020	\$ 21,564

12. Collaborations

GSK

In January 2011, the Company entered into a collaboration and license agreement with Glaxo Group Limited (an affiliate of GlaxoSmithKline plc), or GSK, to discover, develop and commercialize novel small molecule HMT inhibitors directed to available targets from the Company's platform. Under the terms of the agreement, the Company granted GSK exclusive worldwide license rights to HMT inhibitors directed to three targets. Additionally, as part of the research collaboration, the Company agreed to provide research and development services related to the licensed targets pursuant to agreed-upon research plans during a research term that ended January 8, 2015. In March 2014, the Company and GSK amended certain terms of this agreement for the third licensed target, revising the license terms with respect to candidate compounds and amending the corresponding financial terms, including reallocating milestone payments and increasing royalty rates as to the third target. Subsequent to a GSK strategic portfolio prioritization, the Company received notice in October 2017 that GSK terminated the agreement with respect to the third target, effective December 31, 2017, which returned all rights to that target to the Company. The two other targets, PRMT5 and PRMT1, continue to be subject to the agreement and were not impacted by the termination with respect to the third target. The Company substantially completed all research obligations under this agreement by the end of the first quarter of 2015 and completed the transfer of the remaining data and materials for these programs to GSK in the second quarter of 2015.

Agreement Structure

Under the agreement, the Company has received and recognized as collaboration revenue totaling \$89.0 million, consisting of upfront payments, fixed research funding, research and development services and preclinical and research and development milestone payments. As of June 30, 2020, for the two remaining targets, the Company is eligible to receive up to \$50.0 million in clinical development milestone payments, up to \$197.0 million in regulatory milestone payments and up to \$128.0 million in sales-based milestone payments. As a result of the termination of the agreement as it relates to the third target, the Company will receive no additional payments related to that target. 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 drug development, the Company may not receive any additional milestone payments or royalty payments from GSK. GSK became solely responsible for development and commercialization for each licensed target in the collaboration when the research term ended on January 8, 2015.

Collaboration Revenue

Through June 30, 2020, the Company has earned a total of \$89.0 million in total collaboration revenue since inception of the GSK agreement, which the Company recognized as collaboration revenue in the condensed consolidated statements of operations and comprehensive loss. The Company did not recognize any collaboration revenue under the agreement in the three and six months ended June 30, 2020 and June 30, 2019, respectively. Any future revenues pursuant to this arrangement will relate to milestone payments and royalties received under the agreement with respect to the two remaining targets. All remaining milestone payments as of June 30, 2020 have been deemed not probable and therefore have not been recognized as revenue.

Eisai

In April 2011, the Company entered into a collaboration and license agreement with Eisai Co. Ltd., or 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 tazemetostat, while retaining an opt-in right to co-develop, co-commercialize and share profits with Eisai as to licensed products in the United States.

As of December 31, 2014, the Company had completed its performance obligations under the original agreement.

In March 2015, the Company entered into an amended and restated collaboration and license agreement with Eisai (the "Eisai License Agreement"), under which the Company reacquired worldwide rights, excluding Japan, to its EZH2 program, including tazemetostat. Under the Eisai License Agreement, the Company is responsible for global development, manufacturing and commercialization outside of Japan of tazemetostat and any other EZH2 product candidates, with Eisai retaining development and commercialization rights in Japan, as well as a right to elect to manufacture tazemetostat and any other EZH2 product candidates in Japan, and a right of first negotiation for the rest of Asia. Eisai waived its right of first negotiation for the rest of Asia in 2018.

Under the original collaboration and license agreement, Eisai was solely responsible for funding all research, development and commercialization costs for EZH2 compounds. Under the Eisai License Agreement, the Company is solely responsible for funding global development, manufacturing and commercialization costs for EZH2 compounds outside of Japan, including the remaining development costs due under a companion diagnostics agreement with Roche Molecular Systems, Inc., or Roche Molecular, which was amended to assign all of Roche Molecular's rights and obligations under the companion diagnostics agreement to Roche Sequencing Solutions, Inc., or Roche Sequencing, effective January 1, 2020. Eisai is solely responsible for funding Japan-specific development and commercialization costs for EZH2 compounds.

The Company recorded the reacquisition of worldwide rights, excluding Japan, to the EZH2 program, including tazemetostat, under the Eisai License Agreement, as an acquisition of an in-process research and development asset. As this asset was acquired without corresponding processes or activities that would constitute a business, had not achieved regulatory approval for marketing and, absent obtaining such approval, had no alternative future use, the Company recorded the \$40.0 million upfront payment made to Eisai in March 2015 as research and development expense in the consolidated statements of operations and comprehensive loss. The Company also agreed to pay Eisai up to \$20.0 million in clinical development milestone payments, including a \$10.0 million milestone upon the earlier of initiation of a first phase 3 clinical trial of any EZH2 product or the first submission of an NDA or Market Authorization Application, or MAA, and a \$10.0 million milestone upon the earlier of initiation of a first phase 3 clinical trial of an EZH2 product or the first submission of an NDA or MAA for an indication different from the previous indication, up to \$50.0 million in regulatory milestone payments, including a \$25.0 million milestone payment upon regulatory approval of the first NDA or MAA, and a \$25.0 million milestone payment upon regulatory approval of the next NDA or MAA of the different indication, and royalties at a percentage in the mid-teens on worldwide net sales of any EZH2 product, excluding net sales in Japan. The Company is eligible to receive from Eisai royalties at a percentage in the mid-teens on net sales of any EZH2 product in Japan. In the second quarter of 2019, the Company submitted its first NDA to the FDA, for the treatment of patients with ES, triggering the payment of the first \$10 million clinical development milestone to Eisai and the recording of this amount to research and development expense. The Company paid the \$10.0 million clinical development milestone to Eisai in June 2019. In the fourth quarter of 2019, the Company submitted its second NDA to the FDA, for the treatment of patients with FL, triggering the payment of the second \$10.0 million clinical development milestone to Eisai and the recording of this amount to research and development expense. The Company paid the \$10.0 million clinical development milestone to Eisai in December 2019. In January 2020, the Company triggered the payment of the \$25.0 million milestone payment upon regulatory approval of tazemetostat for ES, which was capitalized as an intangible asset on the Company's condensed consolidated balance sheet as of June 30, 2020. In June 2020, the Company triggered the payment of the \$25.0 million milestone payment upon regulatory approval of tazemetostat for FL, which was capitalized as an intangible asset on the Company's condensed consolidated balance sheet as of June 30, 2020. During the three and six months ended June 30, 2020 and 2019, Eisai purchased drug product from the Company at cost to facilitate development within Japan under the Eisai License Agreement and the Company recognized approximately \$0.3 million and \$0.7 million, respectively, and \$1.3 million and \$2.3 million, respectively, as a reduction to research and development expense. During the three and six months ended June 30, 2020, the Company recorded \$0.3 million and \$0.5 million, respectively, related to the world wide royalty due under the Eisai License Agreement in cost of product revenue based on U.S. sales of TAZVERIK and as of June 30, 2020, \$0.3 million in royalties were payable under the Eisai License Agreement. As of June 30, 2020 and December 31, 2019, the Company had accounts receivable of \$0.3 million and \$1.3 million, respectively, due from Eisai.

Roche

In December 2012, Eisai and the Company entered into a companion diagnostics agreement with Roche Molecular, under which Eisai and the Company engaged Roche Molecular to develop a companion diagnostic to identify patients who possess certain activating mutations of EZH2. In October 2013, this agreement was amended to include additional mutations in EZH2. The development costs due under the amended agreement with Roche Molecular were the responsibility of Eisai until the execution of the amended and restated collaboration and license agreement with Eisai in March 2015, at which time the Company assumed responsibility for the remaining development costs due under the agreement. In December 2015, the Company and Eisai entered into a second amendment to the companion diagnostics agreement with Roche Molecular. The agreement was further amended in March 2018. Under the amended agreement, the Company was responsible for remaining development costs of \$10.4 million due under the agreement as of March 2018 and Eisai has agreed to reimburse the Company \$0.9 million of this amount related to a regulatory milestone for Japan. In July 2019, the Company entered into a fourth amendment to the companion diagnostics agreement. Under the amended agreement, the Company and Roche Molecular agreed to divide a \$1.0 million regulatory milestone for the United States into two separate milestone payments, of which \$0.5 million was paid by the Company as part of the signed amendment, and the remaining \$0.5 million was paid by the Company in December 2019 upon the satisfaction of certain conditions set forth in the fourth amendment to the companion diagnostics agreement. As part of this fourth amendment, Roche Molecular also assigned all of its rights and obligations under the companion diagnostics agreement to Roche Sequencing due to a reorganization at Roche group, and this assignment became effective as of January 1, 2020. As of June 30, 2020, the Company is responsible for the remaining development costs of \$2.9 million due under the agreement. The \$0.9 million that Eisai has agreed to reimburse the Company related to a regulatory milestone for Japan was achieved as of June 30, 2020 with payment expected to be received in the third quarter of 2020. The Company anticipates the next payment of \$1.0 million for achievement of a development milestone will become due in the third quarter of 2020.

Under the agreement with Roche Sequencing, Roche Sequencing is obligated to use commercially reasonable efforts to develop and to make commercially available the companion diagnostic. Roche Sequencing has exclusive rights to commercialize the companion diagnostic.

The agreement with Roche Sequencing will expire when the Company is no longer developing or commercializing tazemetostat. The Company may terminate the agreement by giving Roche Sequencing 90 days' written notice if the Company discontinues development and commercialization of tazemetostat or determines, in conjunction with Roche Sequencing, that the companion diagnostic is not needed for use with tazemetostat. Either the Company or Roche Sequencing may also terminate the agreement in the event of a material breach by the other party, in the event of material changes in circumstances that are contrary to key assumptions specified in the agreement or in the event of specified bankruptcy or similar circumstances. Under specified termination circumstances, Roche Sequencing may become entitled to specified termination fees.

Boehringer Ingelheim

In November 2018, the Company entered into a collaboration and license agreement with Boehringer Ingelheim International GmbH ("Boehringer Ingelheim") to discover, research, develop and commercialize small molecule compounds that are inhibitors of an undisclosed histone acetyltransferase, or HAT, target and an undisclosed helicase target, along with associated predictive biomarkers (the "Target Projects"). Under the terms of the agreement, the Company granted to Boehringer Ingelheim an exclusive, world-wide license to the undisclosed target inhibitors technology. The agreement also includes reciprocal licenses to utilize each other's know-how, patents and technologies for activities under the agreement. Further, each party is granted the license to develop, manufacture, commercialize and otherwise exploit any compound or product that successfully achieves start of lead optimization ("SoLO"). The Company is also obligated to provide R&D services through SoLO approval for both Target Projects, and to serve on the Joint Steering Committee ("JSC") throughout the term of the contract. The parties will jointly research and develop the first target program and will share commercialization activities within the United States. Boehringer Ingelheim will assume responsibility for commercialization outside of the United States.

Agreement Structure

Under the terms of the agreement, the Company received a \$15.0 million upfront payment and \$5.0 million in research funding for the costs to be incurred by the Company in connection with its research activities, payable quarterly in four equal installments during 2019. At its discretion, Boehringer Ingelheim had the option to extend the research period by up to one year, subject to the Company's agreement to the specified research activities and additional research funding. During the third quarter of 2019, Boehringer Ingelheim's option to extend the research period expired unexercised, and therefore the research period ended on December 31, 2019. In March 2020, the Company and Boehringer Ingelheim amended the agreement to extend the research period for the shared program targeting enzymes within helicase families with Boehringer Ingelheim providing research funding of \$0.4 million. The additional research activities are expected to be completed prior to the end of 2020. Additionally, in March 2020, the Company received notice

of termination for the program targeting enzymes with HAT families, which program termination became effective in June 2020. With regards to the shared program targeting enzymes within helicase families, the Company is eligible to receive up to \$30.0 million in clinical development milestone payments, up to \$46.5 million in regulatory milestone payments and up to \$26.0 million in sales-based milestone payments. In addition, Boehringer Ingelheim is required to pay the Company tiered royalties, on a product by product, and country by country basis, at percentages ranging from the mid-single digits to low-double digits. Royalties will be payable on net product sales for therapies directed at the second target both in the United States and the rest of the world and net product sales outside of the United States for therapies directed at the first target.

Accounting Considerations of the Agreement

The Company assessed the arrangement in accordance with ASC 606 and concluded that the contract counterparty, Boehringer Ingelheim, is a customer based on the arrangement structure, through the satisfaction of each target's performance obligations. The Company identified the following performance obligations under the arrangement:

- the combination of the Epizyme license to the first undisclosed target inhibitor technology, associated research and development services through the research period; and,
- the combination of the Epizyme license to the second undisclosed target inhibitor technology, associated research and development services through the research period.

The Company determined that each Epizyme license was not distinct from the associated research and development services due to the limited economic benefit that Boehringer Ingelheim would derive from the Epizyme license if the research services were not provided by the Company. Accordingly, the Epizyme licenses and associated research and development services, for each Target Project, are each accounted for as a combined performance obligation.

Under the agreement, the Company determined that the total transaction price at execution was \$20.0 million, comprised of the following:

- \$15.0 million total upfront payment received under the agreement;
- \$5.0 million research funding payment to be received in 2019;

In addition, during 2019, the Company achieved a \$5.5 million development milestone for selection of a lead optimization candidate for the shared program targeting enzymes within helicase families, which was added to the transaction price. The next potential milestone payment that the Company might be entitled to receive under this agreement is a \$7.0 million milestone, for selection of a development candidate for the shared program targeting enzymes within the helicase families under the agreement. Due to the uncertainty of pharmaceutical development and the high historical failure rates generally associated with drug development, the Company may not receive any additional milestone or royalty payments from Boehringer Ingelheim.

The future potential milestone payments are excluded from the transaction price at inception, as the achievement of the milestone events are highly uncertain. As such, all milestone payments are fully constrained. The Company will reevaluate the transaction price at the end of each reporting period and as uncertain events are resolved or other changes in circumstances occur, and, if necessary, adjust its estimate of the transaction price.

The Company determined that a 50/50 allocation of transaction price between the two performance obligations is appropriate considering the following factors: (i) R&D components' standalone selling price estimated using the cost plus margin approach; based on cost plus 10%; (ii) the license rights granted for each program (world-wide or ex-U.S. only) and their potential market opportunities; (iii) the total potential milestone payments for each program; and (iv) the expected revenue recognition pattern for each program, which is expected to be relatively consistent. Therefore, \$10.0 million was allocated to the first undisclosed target license and associated research services and \$10.0 million was allocated to the second undisclosed target license and associated research services and was recognized through December 31, 2019. The \$5.5 million development milestone for selection of a lead optimization candidate for the shared program targeting enzymes within helicase families was allocated to the first undisclosed target license and associated research services and was recognized in the year ended December 31, 2019.

The allocation of the variable consideration, the development milestones, will be allocated to each performance obligation as described in the contract. The milestone payments are defined by program and are directly attributable to distinct achievements in each program. The recognition of revenue for each milestone will be based on progress to date in satisfying the applicable performance obligation.

During the first quarter of 2020, the Company added \$0.4 million in research funding for the shared program targeting enzymes within helicase families to the transaction price which will be recognized as the research performance obligation is performed prior to the end of 2020.

Collaboration Revenue

Through June 30, 2020, the Company has recognized \$25.8 million in total collaboration revenue since the inception of this collaboration, including \$0.2 million and \$0.3 million, respectively, during the three and six months ended June 30, 2020. During the three and six months ended June 30, 2019, the Company recognized \$5.9 million and \$13.8 million, respectively, in collaboration revenue under its agreement with Boehringer Ingelheim.

As of June 30, 2020 and December 31, 2019, the Company had \$0.1 million and \$0.0 million, respectively, of deferred revenue related to this agreement. As of June 30, 2020 and December 31, 2019, the Company had accounts receivable of \$0.0 million and \$1.3 million, respectively.

The Company will reevaluate the likelihood of achieving future milestones at the end of each reporting period. If the performance obligations have not been satisfied at the point at which the risk of significant revenue reversal is resolved, the transaction price will be adjusted and a cumulative catch up based on performance to date will be recorded. If the performance obligations have been satisfied, the milestone revenue from the arrangement will be recognized as revenue in the period the risk of significant reversal is relieved.

Celgene (a subsidiary of Bristol-Myers Squibb Company)

In April 2012, the Company entered into a collaboration and license agreement with Celgene Corporation, or Celgene. On July 8, 2015, the Company entered into an amendment and restatement of the collaboration and license agreement with Celgene.

All performance obligations, except for the three material rights were substantially satisfied as of the adoption of ASC 606 and therefore all of the transaction price allocated to those performance obligations has been recognized as revenue under ASC 606. Through June 30, 2020, the Company has recognized revenue of \$99.2 million under the agreement as collaboration revenue in the Company's consolidated statements of operations and comprehensive loss and in accumulated deficit as a result of the cumulative-effect recognition upon adoption of ASC 606. The amounts received that have not yet been recognized as revenue, relate to the material rights, and are recorded in deferred revenue on the Company's condensed consolidated balance sheet. Deferred revenue related to the agreement amounted to \$3.8 million as of June 30, 2020, all of which is included in noncurrent liabilities.

13. Sale of Future Royalties

On November 4, 2019, the Company entered into a loan agreement with BioPharma Credit PLC (the "Collateral Agent"), BioPharma Credit Investments V (Master) LP, and BPCR Limited Partnership (as transferee of the Collateral Agent's interest as a lender, and together with BioPharma Credit Investments V (Master) LP, the "Lenders"), providing for up to \$70.0 million in secured term loans to be advanced in up to three tranches (the "Loan Agreement"). As of June 30, 2020, the Company had borrowed an aggregate principal amount under the first tranche of \$25.0 million (the "Tranche A Note Payable"), the second tranche of \$25.0 million (the "Tranche B Note Payable"), and the third tranche of \$20.0 million (the "Tranche C Note Payable") under the Loan Agreement. The Company also has the right to request up to an additional \$300.0 million in secured term loans, subject to the approval of the Lenders, following FDA approval of tazemetostat for the treatment of FL in the United States, provided that the Company has not prepaid any outstanding term loans at the time of such request and such request is made before November 18, 2021. (See Note 14, *Long-Term Debt*).

On the same day, the Company executed a purchase agreement (the "RPI Purchase Agreement") with RPI. Pursuant to the RPI Purchase Agreement, the Company agreed to sell to RPI 6,666,667 shares of its common stock, a warrant to purchase up to 2,500,000 shares of common stock at an exercise price of \$20.00 per share (the "Common Stock Warrant"), and all of the Company's rights to receive royalties from Eisai with respect to net sales by Eisai of tazemetostat products in Japan pursuant to the Eisai License Agreement and any successor arrangement for Japan sales (the "Japan Royalty", and collectively, the "Transaction"). In consideration for the sale of shares of common stock, the Common Stock Warrant and the Japan Royalty, RPI paid the Company \$100.0 million upon the closing of the RPI Purchase Agreement. In addition, RPI agreed, in connection with RPI's acquisition from Eisai of the right to receive royalties from the Company under the Eisai License Agreement, to reduce the Company's royalty obligation by low single digits upon the achievement of specified annual net sales levels over \$1.5 billion. In addition, under the RPI Purchase Agreement, the Company has the right to sell, and RPI has the obligation to purchase, subject to certain conditions, including a maximum purchase price of \$20.00 per share, \$50.0 million of shares of common stock at the Company's option for an 18-month period from the date of execution of the RPI Purchase Agreement (the "Put Option"). In February 2020, the Company sold 2.5 million shares of its common

stock to RPI, for an aggregate of \$50.0 million in proceeds pursuant to the Put Option. Additionally, under the terms of the RPI Purchase Agreement, the founder and chief executive officer of RP Management, an affiliate of RPI, and a co-founder of Pharmakon Advisors LP, an affiliate of the Lenders, was elected as a director of the Company. As of June 30, 2020 and December 31, 2019, RPI and its affiliates owned 9.0% and 6.8% of the Company's common stock, respectively.

The Company accounted for the Loan Agreement and RPI Purchase Agreement as a single arrangement as RPI and the Lenders are related parties and the agreements were negotiated together. The aggregate proceeds of \$125.0 million were allocated on a relative fair value basis, which approximated their respective actual fair values, to the four units of accounting pursuant to the transaction as follows: (1) \$79.0 million to the common stock issued to RPI based on the closing price of the Company's common stock on the date of the transaction, (2) \$8.4 million to the Common Stock Warrant to purchase shares of common stock, based on the Black-Scholes option pricing model, (3) \$12.6 million to the liability related to the sale of future royalties based on a discounted cash flow model and (4) \$25.0 million to the Tranche A Note Payable based on the terms of the Loan Agreement. Transaction costs of \$2.0 million were allocated directly to the units of accounting it relates to.

The fair value for the liability related to the sale of future royalties at the time of the transaction was based on our current estimates of future royalties expected to be paid to RPI over the life of the arrangement, which are considered level 3 inputs.

The allocated fair value of the common stock and Common Stock Warrant have been recorded in additional paid-in-capital and the Tranche A Note Payable has been recorded as long-term debt (See Note 14, *Long-Term Debt*).

Under the terms of the RPI Purchase Agreement, although the Company sold all of its rights to receive the Japan Royalty, the Company continues to own all tazemetostat intellectual property rights and is responsible for the ongoing manufacturing and supply obligations related to the generation of these royalties. Due to the Company's continuing involvement, the Company will continue to account for any royalties due as revenue and recorded the proceeds from this transaction as a liability ("Royalty Obligation") that will be accreted using the effective interest method over the estimated life of the RPI Purchase Agreement.

As royalties are remitted to RPI from Eisai, the balance of the Royalty Obligation will be effectively repaid over the life of the Eisai License Agreement. In order to determine the accretion of the Royalty Obligation, the Company is required to estimate the total amount of future royalty payments to RPI over the life of the Eisai License Agreement. The \$12.6 million recorded at execution will be accreted to the total of these royalty payments as interest expense over the life of the Royalty Obligation. At execution, the Company's estimate of this total interest expense resulted in an effective annual interest rate of approximately 9.01%. This estimate contains significant assumptions that impact both the amount recorded at execution and the interest expense that will be recognized over the royalty period. The Company will periodically assess the estimated royalty payments to RPI from Eisai and to the extent the amount or timing of such payments is materially different than the original estimates, an adjustment will be recorded prospectively to increase or decrease interest expense. There are a number of factors that could materially affect the amount and timing of royalty payments to RPI from Eisai, and correspondingly, the amount of interest expense recorded by the Company, most of which are not within the Company's control. Such factors include, but are not limited to, delays or discontinuation of development of tazemetostat in Japan, regulatory approval, changing standards of care, the introduction of competing products, manufacturing or other delays, generic competition, intellectual property matters, adverse events that result in governmental health authority imposed restrictions on the use of the drug products, significant changes in foreign exchange rates as the royalties remitted to RPI are made in U.S. dollars (USD) while the underlying Japan sales of tazemetostat will be made in currencies other than USD, and other events or circumstances that are not currently foreseen as tazemetostat is still under development in Japan and subject to regulatory approval. Changes to any of these factors could result in increases or decreases to both royalty revenues and interest expense.

The following table shows the activity of the Royalty Obligation since the transaction inception through June 30, 2020:

	<u>As of June 30, 2020</u>	
	<u>(In thousands)</u>	
Proceeds from sale of future royalties	\$	12,601
Non-cash interest expense recognized		787
Liability related to the sale of future royalties - ending balance	\$	<u>13,388</u>

During the three and six months ended June 30, 2020, no non-cash royalties from net sales of tazemetostat in Japan were recorded and the Company recorded \$0.3 million and \$0.6 million, respectively, of related non-cash interest expense.

14. Long-Term Debt

On November 4, 2019, the Company entered into a Loan Agreement with the Collateral Agent, and BioPharma Credit Investments V (Master) LP, providing for up to \$70.0 million in secured term loans to be advanced in up to three tranches, or the Loan Agreement. The Company borrowed \$70.0 million in the aggregate under the three tranches pursuant to the Loan Agreement. With the FDA's June 2020 approval of tazemetostat for the treatment of FL in the United States, the Company also has the right, but not the obligation, to request up to an additional \$300.0 million in secured term loans, subject to the approval of the Lenders, provided the Company has not prepaid any outstanding term loans at the time of such request and such request is made before November 18, 2021. The Company is required to make interest only payments on the outstanding obligation through February 28, 2023, and thereafter eight quarterly payments of principal and interest.

The obligations under the Loan Agreement are secured by a first priority security interest in and lien upon substantially all of the Company's assets excluding its subsidiary, Epizyme Securities Corporation. The Loan Agreement contains negative covenants restricting the Company's activities, including prohibition on consolidation, liquidation or dissolution, mergers or acquisitions, or change in control transactions. It also prohibits any disposition of all or any part of its properties or assets. There are no financial covenants associated with the agreement. The obligations under the agreement are subject to acceleration upon the occurrence of specified events of default, including a material adverse change in the Company's business, operations or financial or other condition. The Company has determined that the risk of subjective acceleration under the material adverse events clause is not probable and therefore has classified the outstanding principal in current and non-current liabilities based on scheduled principal payments.

The Company has the following minimum aggregate future loan payments at June 30, 2020 (in thousands):

	<u>As of June 30, 2020</u>
	<u>(In thousands)</u>
2020	\$ —
2021	—
2022	—
2023	35,000
2024	35,000
Total minimum payments	70,000
Less amounts representing interest and discount	(1,536)
Less current portion	—
Long-term debt, net of current portion	<u>\$ 68,464</u>

For the three and six months ended June 30, 2020, interest expense related to the Company's Loan Agreement was approximately \$1.3 million and \$2.1 million, respectively. The total carrying value of debt is classified as long-term on the consolidated balance sheet as of June 30, 2020.

15. Stockholders' (Deficit) Equity

Common Stock

On March 24, 2020, the Company's board of directors adopted, subject to stockholder approval, an amendment to the Company's Restated Certificate of Incorporation to increase the number of authorized shares of common stock, \$0.0001 par value per share, from 125,000,000 to 150,000,000 (the "Charter Amendment"). During the quarter ended June 30, 2020, the stockholders of the Company approved the Charter Amendment, which was filed with the Secretary of State of the State of Delaware on May 29, 2020.

Each share of common stock entitles the holder to one vote on all matters submitted to a vote of the Company's stockholders. Common stockholders are entitled to dividends when and if declared by the board of directors.

In March 2019, the Company issued 11,500,000 shares of Common Stock in connection with a public offering. In November 2019, the Company issued to RPI 6,666,667 shares of Common Stock pursuant to a purchase agreement (for additional information refer to Note 13, *Sale of Future Royalties*). In February 2020, the Company sold 2,500,000 shares of its common stock in connection with the exercise of its put option to sell shares of its common stock for an aggregate of \$49.9 million in net proceeds after deducting financing costs of \$0.1 million.

The issuance of these shares contributed to significant increases in the Company's shares of common stock outstanding as of June 30, 2020 and 2019 and in the weighted average shares outstanding for the three and six months ended June 30, 2020 and 2019 when compared to the comparable prior year periods.

Convertible Preferred Stock

On March 6, 2019, the Company entered into an Underwriting Agreement, (the "Preferred Stock Agreement"), that related to the public offering of 350,000 shares of Series A Convertible Preferred Stock, par value \$0.0001 per share ("Series A Preferred Stock"), for a purchase price to the public of \$115.00 per share. All of the Series A Preferred Stock was sold by the Company for net proceeds of \$37.4 million.

Upon issuance, each share of Series A Preferred Stock included an embedded beneficial conversion feature because the market price of the Company's common stock on the date of issuance of the Series A Preferred Stock at \$12.34 per share as compared to an effective conversion price of the Series A Preferred Stock of \$11.50 per share. As a result, the Company recorded the intrinsic value of the beneficial conversion feature of \$2.9 million as a discount on the Series A Preferred Stock at issuance. Because the Series A Preferred Stock is immediately convertible upon issuance and does not include mandatory redemption provisions, the discount on the Series A Preferred Stock was immediately accreted.

The Company evaluated the Series A Preferred Stock for liability or equity classification in accordance with the provisions of ASC 480, Distinguishing Liabilities from Equity, and determined that equity treatment was appropriate because the Series A Preferred Stock did not meet the definition of the liability instruments defined thereunder for convertible instruments. Specifically, the Series A Preferred Stock is not mandatorily redeemable and does not embody an obligation to buy back the shares outside of the Company's control in a manner that could require the transfer of assets. Additionally, the Company determined that the Series A Preferred Stock would be recorded as permanent equity, not temporary equity, based on the guidance of ASC 480 given that the holders of equally and more subordinated equity would be entitled to also receive the same form of consideration upon the occurrence of the event that gives rise to the redemption or events of redemption are within the control of the Company.

Voting Rights

Shares of Series A Preferred Stock will generally have no voting rights except as required by law and except that the consent of the holders of a majority of the outstanding shares of Series A Preferred Stock will be required to amend the terms of the Series A Preferred Stock or take certain other actions with respect to the Series A Preferred Stock.

Dividends

Shares of Series A Preferred Stock will be entitled to receive dividends equal to (on an as-if-converted-to-common stock basis), and in the same form and manner as, dividends actually paid on shares of the Company's common stock.

Liquidation Rights

Subject to the prior and superior rights of the holders of any senior securities of the Company, upon liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, each holder of shares of Series A Preferred Stock shall be entitled to receive, in preference to any distributions of any of the assets or surplus funds of the Company to the holders of common stock, an amount equal to \$0.001 per share of Series A Preferred Stock, plus an additional amount equal to any dividends declared but unpaid on such shares, before any payments shall be made or any assets distributed to holders of any class of common stock.

If, upon any such liquidation, dissolution or winding up of the Company, the assets of the Company shall be insufficient to pay the holders of shares of the Series A Preferred Stock the amount required under the preceding sentence, then all remaining assets of the Company shall be distributed ratably to holders of the shares of the Series A Preferred Stock in proportion to the respective amounts which would otherwise be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.

Conversion

Each share of Series A Preferred Stock shall be convertible, at any time and from time to time from and after the issuance date, at the option of the holder thereof, into a number of shares of common stock equal to 10 shares of common stock, provided that the holder will be prohibited from converting Series A Preferred Stock into shares of the Company's common stock if, as a result of such conversion, the holder, together with its affiliates and attribution parties, would own more than 9.99% of the total number of shares of common stock then issued and outstanding. The holder can change this requirement to a higher or lower percentage, not to exceed 9.99% of the number of shares of common stock outstanding, upon 61 days' notice to the Company.

In February 2020, 12,200 shares of Series A Preferred Stock were converted to 122,000 shares of common stock.

Redemption

The Company is not obligated to redeem or repurchase any shares of Series A Preferred Stock. Shares of Series A Preferred Stock are not entitled to any redemption rights or mandatory sinking fund or analogous fund provisions.

Warrants

In November 2019, warrants to purchase up to 2,500,000 shares of Common Stock at an exercise price of \$20.00 per share (the “Common Stock Warrant”), were issued to RPI pursuant to the RPI Purchase Agreement (for additional information refer to Note 13, *Sale of Future Royalties*), which were classified as equity and recorded at their relative fair value of \$8.4 million to additional paid-in-capital on the consolidated balance sheets. All warrants remain outstanding as of June 30, 2020.

16. Stock-Based Compensation

Total stock-based compensation expense related to stock options, restricted stock units, shares issued under the employee stock purchase plan, and shares granted to non-employee directors in lieu of board fees was \$8.3 million and \$4.7 million for the three months ended June 30, 2020 and June 30, 2019, respectively, and \$14.8 million and \$6.3 million for the six months ended June 30, 2020 and June 30, 2019, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(In thousands)		(In thousands)	
Research and development	\$ 2,804	\$ 1,732	\$ 4,966	\$ 2,897
General and administrative	5,488	2,996	9,836	5,042
Total	<u>\$ 8,292</u>	<u>\$ 4,728</u>	<u>\$ 14,802</u>	<u>\$ 7,939</u>

Stock Options

The weighted-average grant date fair value of options, estimated as of the grant date using the Black-Scholes option pricing model, was \$9.29 and \$8.56 per option for those options granted during the three months ended June 30, 2020 and 2019, respectively, and \$12.25 and \$6.57 per option for those options granted during the six months ended June 30, 2020 and 2019, respectively. Key assumptions used to apply this pricing model were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Risk-free interest rate	0.3%	2.0%	1.1%	2.4%
Expected life of options	5.91 years	6.0 years	5.96 years	6.0 years
Expected volatility of underlying stock	72.0%	71.3%	70.7%	71.8%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%

The following is a summary of stock option activity for the six months ended June 30, 2020:

	Number of Options (In thousands)	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at December 31, 2019	8,087	\$ 12.86		
Granted	3,010	19.62		
Exercised	(523)	11.11		
Forfeited	(549)	15.22		
Outstanding at June 30, 2020	<u>10,025</u>	\$ 14.85	8.27	\$ 28,391
Exercisable at June 30, 2020	<u>3,563</u>	\$ 14.09	6.83	\$ 11,697

As of June 30, 2020, there was \$56.6 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 2.90 years.

Restricted Stock Units

During 2020, 525,470 restricted stock units (“RSUs”) were granted to executives and employees. The awards were service-based. Assuming all service conditions are achieved, 25% of the RSUs would vest annually for four years.

	Number of Service Based RSU Shares (in thousands)	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2019	284	\$ 9.34
Granted	525	19.85
Vested	(54)	9.51
Forfeited	(76)	12.37
Outstanding at June 30, 2020	<u>679</u>	<u>\$ 17.65</u>

Compensation expense totaling \$0.7 million and \$1.2 million was recognized for the service-based RSUs for the three and six months ended June 30, 2020, respectively. Compensation expense totaling \$0.0 million and \$0.2 million was recognized for the service-based RSUs for the three and six months ended June 30, 2019, respectively.

As of June 30, 2020, there was \$9.7 million of unrecognized compensation cost related to service-based RSUs that are expected to vest. These costs are expected to be recognized over a weighted average remaining vesting period of 3.30 years.

During 2019, the Company granted 604,000 RSUs to executives and employees, which contain performance conditions, 20% of the RSUs vested on June 30, 2019, 25% of the RSUs vested on January 23, 2020, 20% of the RSUs vested on March 24, 2020, and 30% of the RSUs vested on June 25, 2020 in connection with achievement of the final performance milestone.

	Number of Performance Based RSU Shares (in thousands)	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2019	443	\$ 12.16
Granted	17	16.14
Vested	(432)	12.38
Forfeited	(28)	11.95
Outstanding at June 30, 2020	<u>—</u>	<u>\$ —</u>

Compensation expense totaling \$2.1 million and \$3.5 million was recognized for the performance-based RSUs for the three and six months ended June 30, 2020, respectively.

There was no unrecognized compensation cost as of June 30, 2020, related to performance-based RSUs, as all of the performance conditions have been achieved.

17. Loss Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(In thousands except per share data)		(In thousands except per share data)	
Net loss	\$ (58,451)	\$ (48,465)	\$ (109,388)	\$ (77,804)
Accretion of convertible preferred stock	—	—	—	(2,940)
Net loss attributable to common stockholders	\$ (58,451)	\$ (48,465)	\$ (109,388)	\$ (80,744)
Weighted average shares outstanding	101,104	90,876	100,360	77,315
Basic and diluted loss per share allocable to common stockholders	\$ (0.58)	\$ (0.53)	\$ (1.09)	\$ (1.04)

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 and Six Months Ended June 30,	
	2020	2019
	(In thousands)	
Stock options	10,025	7,295
Restricted stock units	679	616
Shares issuable under employee stock purchase plan	33	26
Preferred stock (if converted)	3,378	3,500
Warrants	2,500	—
	<u>16,615</u>	<u>11,437</u>

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

Our management's discussion and analysis of our financial condition and results of operations are based upon our condensed 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, or GAAP, and with Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended. This discussion and analysis should be read in conjunction with these condensed consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q. Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. As a result of many factors, including those factors set forth in Part II, Item 1A. *Risk Factors* of this Quarterly Report on Form 10-Q, our actual results could differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Note on the COVID-19 Pandemic

Due to the evolving and uncertain global impacts of the COVID-19 pandemic, we cannot precisely determine or quantify the impact this pandemic will have on our business, operations and financial performance for the remainder of our fiscal year ending December 31, 2020 and beyond. We have established a remote operating model for all employees other than certain members of our laboratory and facilities staff, and we will continue to evaluate this policy for our offices based on guidance from federal, state and local government authorities. Although we currently remain on track for our clinical trial commitments for 2020, we are aware of the impact that COVID-19 has had on other clinical trials in our industry and there is a risk of material impact for our clinical trials as well. We are continuing to work with our clinical trial sites to ensure study continuity, enable medical monitoring, facilitate study procedures and maintain clinical data and records, including the use of local laboratories for testing, home delivery of study drug and remote data and records monitoring. To date, we have not had any material impact on our supply chain. However, the COVID-19 pandemic could materially adversely impact our suppliers and result in delays or disruptions in our current or future supply chain, so we are continuing to monitor and manage our supply chain. For our commercial activities for TAZVERIK, we have shifted commercial and medical affairs field activities toward virtual formats where possible in order to allow us to continue to serve the needs of healthcare providers, patients and other stakeholders during this critical time. We continue to assess the duration, scope and severity of the COVID-19 pandemic and its potential impacts on our business, operations and financial performance, and continue to work closely with our third-party vendors, collaborators and other parties in order to seek to advance our commercialization efforts with TAZVERIK as well as our pipeline as quickly as possible, while making the health and safety of our employees and their families, healthcare providers, patients and communities a top priority.

Please refer to our Risk Factors in Part II, Item 1A. of this Quarterly Report on Form 10-Q for further discussion of risks related to the COVID-19 pandemic.

Overview

We are a commercial-stage biopharmaceutical company that is committed to rewriting treatment for people with cancer and other serious diseases through the discovery, development, and commercialization of novel epigenetic medicines. By focusing on the genetic drivers of disease, our science seeks to match targeted medicines with the patients who need them.

In January 2020, the U.S. Food and Drug Administration, or FDA, granted accelerated approval of TAZVERIK® (tazemetostat) for the treatment of adult and pediatric patients aged 16 years and older with metastatic or locally advanced epithelioid sarcoma, or ES, not eligible for complete resection. This approval was based on overall response rate and duration of response shown in the ES cohort of our Phase 2 trial in patients with INI1-negative tumors. We have made TAZVERIK available to eligible patients and their physicians in the United States.

As part of the accelerated approval for epithelioid sarcoma, continued approval for this indication is contingent upon verification and description of clinical benefit in a confirmatory trial. To provide this confirmatory evidence to support a full approval of TAZVERIK for this indication, we are conducting a global, randomized, controlled Phase 1b/3 confirmatory trial assessing TAZVERIK in combination with doxorubicin compared with doxorubicin plus placebo as a front-line treatment for epithelioid sarcoma. The trial is expected to enroll approximately 152 patients. The safety run-in portion of the trial is underway, and we expect to complete this portion of the trial in the second half of 2020.

Subsequently, in June 2020, the FDA approved a supplemental New Drug Application, or sNDA, for TAZVERIK for the following follicular lymphoma, or FL, indications: (1) adult patients with relapsed or refractory FL whose tumors are positive for an EZH2 mutation as detected by an FDA-approved test and who have received at least two prior systemic therapies, and (2) adult patients with relapsed or refractory FL who have no satisfactory alternative treatment options. These indications were approved under accelerated approval with a priority review, based on overall response rate and duration of response shown in the FL cohort of our Phase 2 clinical trial in patients with EZH2 mutations and wild-type EZH2. We have made TAZVERIK available to eligible patients and their physicians in the United States.

As part of the accelerated approval for FL, continued approval for these indications is contingent upon verification and description of clinical benefit in a confirmatory trial. To provide confirmatory evidence to support a full approval of TAZVERIK for these indications, we are conducting a single global, randomized, adaptive Phase 1b/3 confirmatory trial to evaluate the combination of TAZVERIK with “R2” (Revlimid® plus rituximab), an approved chemotherapy-free treatment regimen, for FL patients in the second-line or later treatment setting. The trial is expected to enroll approximately 500 FL patients, stratified based on their EZH2 mutation status. The safety run-in portion of the trial is underway, and we expect to complete this portion of the trial in the second half of 2020. In addition, we plan to conduct post-marketing commitments, including expanding our Phase 2 clinical trial with a cohort of FL patients with wild-type EZH2 to evaluate tazemetostat as a monotherapy in patients who have been treated with at least one prior systemic treatment, in order to inform the label and potentially expand in the relapsed and refractory setting in the future.

Through our planned development efforts, our intention is to eventually make TAZVERIK available in all lines of treatment for patients with FL. We plan to leverage the confirmatory trial and post-marketing commitments to expand TAZVERIK into the second-line treatment setting. In collaboration with The Lymphoma Study Association, or LYSA, and based on clinical activity observed with TAZVERIK in combination with R-CHOP as a front-line treatment for patients with high risk diffuse large B-cell lymphoma, or DLBCL, we plan to investigate this combination as a front-line treatment for high-risk patients with FL. In addition, we are finalizing plans for investigator-sponsored studies to evaluate tazemetostat in combination with rituximab, venetoclax or BTK inhibitors for the treatment of patients with FL in the third-line or later treatment settings.

Tazemetostat is an oral, first in class, selective small molecule inhibitor of the EZH2 histone methyltransferase, or HMT, that we are developing for the treatment of a broad range of cancer types in multiple treatment settings. Tazemetostat has shown meaningful clinical activity as an investigational monotherapy in multiple cancer indications and has been generally well-tolerated across clinical trials to date. We believe tazemetostat is a “pipeline in a product” opportunity and plan to explore its utility as a monotherapy and in combinations through both company and investigator-sponsored studies in additional indications, including:

- Lymphomas and B-cell malignancies, such as DLBCL, mantle cell lymphoma, or MCL, chronic lymphocytic leukemia, or CLL, chronic myeloid leukaemia, or CML, and others;
- Mutationally defined solid tumors, such as chordoma, melanoma, mesothelioma, and tumors harboring an EZH2 or SWI/SNF alteration;
- Chemotherapy or treatment-resistant tumors, such as triple-negative breast cancer, small cell lung cancer, ovarian cancer, and metastatic castration-resistant prostate cancer; and,
- Immuno-oncology-sensitive tumors, such as colorectal cancer, bladder cancer, soft tissue sarcomas and non-small cell lung cancer.

We own the global development and commercialization rights to tazemetostat outside of Japan. Eisai Co. Ltd, or Eisai, holds the rights to develop and commercialize tazemetostat in Japan.

TAZVERIK is available to eligible patients in the United States via a specialty distribution network. To commercialize TAZVERIK for the ES and FL indications in the United States, we have built a focused field presence and marketing capabilities. This includes an efficiently sized field-based organization of 76 individuals. For geographies outside the United States, we are evaluating the most efficient path to reach patients, including through potential collaborations.

Tazemetostat is covered by claims of U.S. and European composition of matter patents, which are expected to expire in 2032, exclusive of any patent term or other extensions. Tazemetostat has been granted Fast Track designation by the FDA in patients with relapsed or refractory FL, relapsed or refractory DLBCL with EZH2 activating mutations and metastatic or locally advanced ES who have progressed on or following an anthracycline-based treatment regimen. The FDA has also granted orphan drug designation to tazemetostat for the treatment of patients with FL, malignant rhabdoid tumors, or MRT, soft tissue sarcoma, or STS, and mesothelioma. With the approval of TAZVERIK for the treatment of patients with FL, orphan drug designation provides us with a seven-year market exclusivity.

Beyond tazemetostat, we are progressing preclinical efforts to pursue additional development candidates for our pipeline and to further support our leadership position in epigenetics.

We have collaborations with Boehringer Ingelheim International GmbH, or Boehringer Ingelheim, focused on the research, development and commercialization of novel small molecule inhibitors, discovered by us, directed toward previously unaddressed epigenetic targets as potential therapies for people with cancer, with Glaxo Group Limited (an affiliate of GlaxoSmithKline plc), or GSK, focused on the development of PRMT inhibitors discovered by us, and with Celgene Corporation, which was recently acquired by Bristol-Myers Squibb Company, and Celgene RIVOT Ltd., an affiliate of Celgene Corporation, which we collectively refer to as

Celgene, focused on the development of pinometostat and small molecule inhibitors directed to three HMT targets. In March 2020, we and Boehringer Ingelheim amended the agreement to extend the research period for the shared program targeting enzymes within helicase families with Boehringer Ingelheim providing researching funding of \$0.4 million. Additionally, Boehringer Ingelheim terminated the program targeting enzymes with HAT families in June 2020.

Through June 30, 2020, in addition to revenues from product sales, we have raised an aggregate of \$1,376.9 million to fund our operations. This includes \$243.3 million of non-equity funding through our collaboration agreements, \$218.1 million of funding received through agreements with RPI Finance Trust (“Royalty Pharma” or “RPI”) and BioPharma Credit Investments V (Master) LP, BPCR Limited Partnership and BioPharma Credit PLC (the “Lenders”), \$839.5 million from the sale of common stock and series A convertible preferred stock in our public offerings and \$76.0 million from the sale of redeemable convertible preferred stock in private financings prior to our initial public offering in May 2013.

As of June 30, 2020, we had \$322.1 million in cash, cash equivalents and marketable securities.

We commenced active operations in early 2008, and since inception, have incurred significant operating losses. Our net loss was \$58.5 million and \$109.4 million, respectively, for the three and six months ended June 30, 2020. As of June 30, 2020, our accumulated deficit totaled \$866.4 million. Notwithstanding the initiation of sales of TAZVERIK, 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 expect our expenses to increase in connection with our ongoing activities, particularly as we expect to incur significant commercialization expenses related to product manufacturing, marketing, sales and distribution. In addition, we expect our expenses to increase as we fund our tazemetostat development program; continue our collaborations with Boehringer Ingelheim and Celgene; and continue research and development and initiate clinical trials of, and seek regulatory approval for, any future product candidates.

Funding Agreements with BioPharma Credit Investments V (Master) LP, BPCR Limited Partnership, BioPharma Credit PLC and RPI Finance Trust

We executed a purchase agreement with RPI on November 4, 2019, or the RPI Purchase Agreement. Pursuant to the RPI Purchase Agreement, we sold to RPI 6,666,667 shares of our common stock and a warrant to purchase up to 2,500,000 shares of our common stock at an exercise price of \$20.00 per share, or the Warrant. We also sold our rights to receive royalties from Eisai with respect to net sales by Eisai of tazemetostat products in Japan, or the Japan Royalty, pursuant to the amended and restated collaboration and license agreement between us and Eisai, dated as of March 12, 2015, or the Eisai License Agreement. In consideration for the sale of shares of our common stock, the Warrant and the Japan Royalty, RPI paid us \$100.0 million upon the closing of the RPI Purchase Agreement in November 2019. In addition, RPI agreed, in connection with RPI’s acquisition from Eisai of the right to receive royalties from us under the Eisai License Agreement, to reduce our royalty obligation by low single digits upon the achievement of specified annual net sales levels. We also had the option to sell to RPI \$50.0 million of shares of common stock for an 18-month period beginning November 4, 2019, or the Put Option. On February 11, 2020, we sold 2,500,000 shares of common stock to RPI for an aggregate of \$50.0 million in proceeds at a sale price of \$20.00 per share of common stock pursuant to the Put Option.

On November 4, 2019, we also entered into a Loan Agreement with the Collateral Agent, and the Lenders, providing for up to \$70.0 million in secured term loans to be advanced in up to three tranches, or the Loan Agreement. We borrowed \$70.0 million in the aggregate under the three tranches pursuant to the Loan Agreement. With the FDA’s June 2020 approval of tazemetostat for the treatment of FL in the United States, we also have the right, but not the obligation, to request up to an additional \$300.0 million in secured term loans, subject to the approval of the Lenders, provided that we have not prepaid any outstanding term loans at the time of such request and such request is made before November 18, 2021. We are required to make interest only payments on the outstanding obligation through February 28, 2023, and thereafter eight quarterly payments of principal and interest. The obligations under the Loan Agreement are secured by a first priority security interest in and a lien on substantially all of our assets, subject to certain exceptions.

The Loan Agreement contains certain customary representations and warranties, affirmative and negative covenants and events of default applicable to us and our subsidiaries. If an event of default occurs and is continuing, the Collateral Agent may, among other things, accelerate the loans and foreclose on the collateral.

Collaborations

Refer to Note 12, *Collaborations*, of the notes to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for a description of the key terms of our arrangements with Boehringer Ingelheim, Celgene, GSK, Eisai and Roche Sequencing Solutions, Inc., or Roche Sequencing.

Results of Operations

Revenues

The following is a comparison of total revenues for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	2020	2019	Change
	(In millions)			(In millions)		
Product revenues, net	\$ 2.2	\$ —	\$ 2.2	\$ 3.5	\$ —	\$ 3.5
Collaboration revenue	0.2	5.9	(5.7)	0.3	13.8	(13.5)
Total revenues	<u>\$ 2.4</u>	<u>\$ 5.9</u>	<u>\$ (3.5)</u>	<u>\$ 3.8</u>	<u>\$ 13.8</u>	<u>\$ (10.0)</u>

Product Revenues, net

Net product revenues represent U.S. sales from our sole commercial product, TAZVERIK, which was approved by the FDA on January 23, 2020. During the three and six months ended June 30, 2020, net product revenues were \$2.2 million and \$3.5 million, respectively. Sales allowances and accruals consisted of patient financial assistance, distribution fees, discounts, and chargebacks. We did not have product revenues in 2019.

Collaboration Revenue

Our revenue during the periods 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 services revenue earned and milestone payments earned under collaboration and license agreements with our collaboration partners.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	2020	2019	Change
	(In millions)			(In millions)		
Collaboration Partner						
Boehringer Ingelheim:	\$ 0.2	\$ 5.9	\$ (5.7)	\$ 0.3	\$ 13.8	\$ (13.5)
	<u>\$ 0.2</u>	<u>\$ 5.9</u>	<u>\$ (5.7)</u>	<u>\$ 0.3</u>	<u>\$ 13.8</u>	<u>\$ (13.5)</u>

In the three and six months ended June 30, 2020, we recognized \$0.2 million and \$0.3 million, respectively, in collaboration revenue. This collaboration revenue was earned as part of our Boehringer Ingelheim collaboration. The revenue recognized during the three and six months ended June 30, 2020 was related to an amendment to extend the research period under the collaboration agreement under which Boehringer Ingelheim agreed to fund up to \$0.4 million of additional research activities. Through June 30, 2020, we have recognized \$25.8 million in total collaboration revenue under our agreement with Boehringer Ingelheim.

In three and six months ended June 30, 2019, we recognized \$5.9 million and \$13.8 million, respectively, in collaboration revenue as part of our Boehringer Ingelheim collaboration. We recognized revenue as our research services were performed. Under the agreement we received \$15.0 million in an upfront payment from Boehringer Ingelheim for our license to inhibitor technology of two undisclosed targets, \$5.5 million for a development milestone for selection of a lead optimization candidate for the shared program targeting enzymes within helicase families and \$1.3 million in research funding in the second quarter of 2019. Through June 30, 2019, we had recognized \$15.5 million in total collaboration revenue under our agreement with Boehringer Ingelheim.

Cost of Product Revenue

The following is a comparison of cost of product revenue for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	2020	2019	Change
	(In millions)			(In millions)		
Cost of product revenue	\$ 1.0	\$ —	\$ 1.0	\$ 1.6	\$ —	\$ 1.6

The cost of product revenue consists of costs related to the sales of TAZVERIK. These costs include materials, labor, manufacturing overhead, amortization of milestone payments, and royalties payable on net sales of TAZVERIK. During the three months ended June 30, 2020, the cost of product revenue was \$1.0 million and consisted of \$0.1 million in costs associated with manufacturing TAZVERIK, \$0.6 million in amortization expense related to the two \$25.0 million milestone payments under our agreement with Eisai upon regulatory approval of tazemetostat for ES and upon regulatory approval of tazemetostat for follicular lymphoma, and \$0.3 million in world-wide royalties owed to Royalty Pharma on net sales of TAZVERIK in the three months ended June 30, 2020. During the six months ended June 30, 2020, the cost of product revenue was \$1.6 million and consisted of \$0.2 million in costs associated with manufacturing TAZVERIK, \$0.9 million in amortization expense related to the two \$25.0 million milestone payments under our agreement with Eisai upon regulatory approval of tazemetostat for epithelioid sarcoma and upon regulatory approval of tazemetostat for follicular lymphoma, and \$0.5 million in world-wide royalties owed to Royalty Pharma on net sales of TAZVERIK in the three months ended June 30, 2020. All product costs incurred prior to FDA approval of TAZVERIK in January 2020 were expensed as R&D expenses. We expect our cost of product revenues (excluding amortization of intangible assets) to continue to be positively impacted during 2020 and 2021, as we sell through certain inventory that was expensed prior to FDA approval of TAZVERIK in January 2020. We did not have cost of product revenues in 2019.

Research and Development

The following is a comparison of research and development expenses for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	2020	2019	Change
	(In millions)			(In millions)		
Research and development	\$ 26.4	\$ 40.9	\$ (14.5)	\$ 51.5	\$ 67.8	\$ (16.3)

During the three and six months ended June 30, 2020, total research and development expenses decreased by \$14.5 million and \$16.3 million compared to the three and six months ended June 30, 2019. The decrease in both the three and six months ended June 30, 2020 primarily relates to the payment of a \$10.0 million clinical development milestone to Eisai in 2019, decreases in tazemetostat manufacturing costs, in clinical trial expenses and discovery research activities related to tazemetostat in other indications, which were offset by increased costs associated with the buildout of our regulatory and late-stage development groups.

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

Product Program	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(In millions)		(In millions)	
External research and development expenses:				
Tazemetostat and related EZH2 programs	\$ 10.1	\$ 25.2	\$ 18.7	\$ 36.9
Pinometostat and related DOT1L programs	0.0	0.1	0.0	0.1
Discovery and preclinical stage product programs, collectively	3.1	4.3	6.8	9.2
Unallocated personnel and other expenses	13.2	11.3	26.0	21.6
Total research and development expenses	<u>\$ 26.4</u>	<u>\$ 40.9</u>	<u>\$ 51.5</u>	<u>\$ 67.8</u>

External research and development expenses for tazemetostat and related EZH2 programs decreased \$15.1 million and \$18.2 million for the three and six months ended June 30, 2020, respectively, compared to the three and six months ended June 30, 2019. The decrease for the three and six months ended June 30, 2020 relates to a decrease in tazemetostat manufacturing costs, as the Company began to capitalize the cost of manufacturing following the approval of TAZVERIK in January 2020, decreased clinical trial expenses and decreased discovery research activities related to tazemetostat in other indications, which were offset by increased costs associated with the buildout of our regulatory and late stage development groups.

There were no costs incurred related to pinometostat for the three and six months ended June 30, 2020. For the three and six months ended June 30, 2019, external research and development expenses for pinometostat and related DOT1L programs were \$0.1 million for each period, respectively. In general, costs related to pinometostat primarily associate with costs attributed to the Cooperative Research and Development Agreement, or CRADA, with the National Cancer Institute, or NCI, to evaluate tazemetostat in clinical trials in a variety of hematologic malignancies and solid tumors.

External research and development expenses for discovery and preclinical stage product programs decreased \$1.2 million and \$2.4 million during the three and six months ended June 30, 2020, respectively, compared to the three and six months ended June 30, 2019. This decrease is primarily related to reduced spending for discovery research activities and decreased development activities related to our G9a preclinical program.

Unallocated personnel and other expenses are comprised of compensation expenses for our full-time research and development employees and other general research and development expenses. Unallocated personnel and other expenses increased by \$1.9 million and \$4.4 million during the three and six months ended June 30, 2020, respectively, compared to the three and six months ended June 30, 2019, as a result of allocation of expenses to projects and increases in facilities and equipment related expenses offset by an increase in unallocated personnel costs.

We expect that research and development expenses will increase in 2020, as we increase our clinical trial activity for tazemetostat and utilize our drug discovery platform to progress preclinical efforts and pursue additional development candidates to expand our pipeline.

Selling, General and Administrative

The following is a comparison of selling, general and administrative expenses for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	2020	2019	Change
	(In millions)			(In millions)		
Selling, general and administrative	\$ 32.7	\$ 15.7	\$ 17.0	\$ 59.6	\$ 27.7	\$ 31.9

For the three months ended June 30, 2020, our selling, general and administrative expenses increased \$17.0 million compared to the three months ended June 30, 2019. For the six months ended June 30, 2020, our selling, general and administrative expenses increased \$31.9 million compared to the six months ended June 30, 2019. The increases in expenses for the three and six months ended June 30, 2020 compared to the three and six months ended June 30, 2019 are due to increased commercialization activities, including the build out of our salesforce and commercial infrastructure to support the launch of TAZVERIK in the ES indication, and an expansion of our infrastructure to support the commercial launch in FL, and increased personnel related expenses.

We expect that selling, general and administrative expenses will increase during the remainder of 2020, as we continue to increase our commercial activities for tazemetostat.

Other Income, Net

The following is a comparison of other (expense) income, net for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	2020	2019	Change
	(In thousands)			(In thousands)		
Other income, net						
Interest income	\$ 756	\$ 2,254	\$ (1,498)	\$ 2,246	\$ 3,913	\$ (1,667)
Interest expense	(1,325)	(1)	(1,324)	(2,059)	(2)	(2,057)
Other expense, net	(15)	(13)	(2)	(64)	(19)	(45)
Non-cash interest expense related to sale of future royalties	(301)	—	(301)	(596)	—	(596)
Other (expense) income, net	<u>\$ (885)</u>	<u>\$ 2,240</u>	<u>\$ (3,125)</u>	<u>\$ (473)</u>	<u>\$ 3,892</u>	<u>\$ (4,365)</u>

Other income, net consists of interest income earned on our cash equivalents and marketable securities, net of imputed interest expense paid under our capital lease obligation. The decrease in other income for the three months ended June 30, 2020 is principally due to an increase in interest expense of \$1.3 million incurred in connection with our long-term debt obligations, non-cash interest expense related to the sale of future royalties of \$0.3 million, and a decrease in net interest income of \$1.5 million during the three months ended June 30, 2020 compared to the three months ended June 30, 2019. The decrease in other income for the six months ended June 30, 2020 is principally due to an increase in interest expense of \$2.1 million incurred in connection with our long-term debt obligations, non-cash interest expense related to the sale of future royalties of \$0.6 million, and a decrease in net interest income of \$1.7 million during the six months ended June 30, 2020 compared to the six months ended June 30, 2019.

Income Tax Expense

We did not record a federal or state income tax provision or benefit for the three and six months ended June 30, 2020 and 2019 due to the expected and known loss before income taxes to be incurred, or incurred, as applicable, for the years ended December 31, 2020 and 2019, as well as our continued maintenance of a full valuation allowance against our net deferred tax assets, with the exception of the deferred tax asset related to alternative minimum tax credit.

Liquidity and Capital Resources

Through June 30, 2020, in addition to revenues from product sales, we have raised an aggregate of \$1,376.9 million to fund our operations. This includes \$243.3 million of non-equity funding through our collaboration agreements, \$218.1 million of funding received through agreements with RPI and the Lenders, \$839.5 million was from the sale of common stock and series A convertible preferred stock in our public offerings and \$76.0 million was from the sale of redeemable convertible preferred stock in private financings prior to our initial public offering in May 2013. As of June 30, 2020, we had \$322.1 million in cash, cash equivalents and marketable securities.

In November 2019, we raised approximately \$123.1 million in net proceeds from the sale to RPI of 6,666,667 shares of our common stock, the Warrant and the Japan Royalty for, as well as from proceeds of the Tranche A Loan borrowings under the Loan Agreement. On February 11, 2020, we sold 2,500,000 shares of common stock to RPI for an aggregate of \$50.0 million in proceeds at a sale price of \$20.00 per share of common stock pursuant to the Put Option. On March 27, 2020, we received proceeds of the Tranche B Loan borrowings of \$25.0 million under the Loan Agreement. On June 30, 2020, we received proceeds of the Tranche C Loan borrowings of \$20.0 million under the Loan Agreement.

In March 2019, we raised approximately \$122.7 million in net proceeds (after deducting underwriting discounts and commissions and estimated offering expenses, but excluding any expenses and other costs reimbursed by the underwriters) from the sale of 11,500,000 shares of our common stock in a public offering at a price of \$11.50 per share. We also raised approximately \$37.4 million in net proceeds (after deducting underwriting discounts and commissions and estimated offering expenses, but excluding any expenses and other costs reimbursed by the underwriters) from the sale of 350,000 shares of series A convertible preferred stock in a public offering at a price of \$115 per share. The series A convertible preferred stock is convertible into 3,500,000 shares of our common stock.

In October 2018, we raised approximately \$81.6 million in net proceeds (after deducting underwriting discounts and commissions and offering expenses, but excluding any expenses and other costs reimbursed by the underwriters) from the sale of 9,583,334 shares of our common stock in a public offering at a price of \$9.00 per share.

In addition to our existing cash, cash equivalents and marketable securities, we may receive research and development co-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.

Funding Requirements

Our primary uses of capital are clinical trial costs, third-party research and development services, expenses related to commercialization, compensation and related expenses, laboratory and related supplies, our potential future milestone payment obligations to Roche Sequencing under the amended Roche Sequencing companion diagnostics agreement, legal and other regulatory expenses and general overhead costs.

Because the continued approval of TAZVERIK both in the ES indication and in the FL indications is contingent upon verification and description of clinical benefit in confirmatory trials and, because we are developing tazemetostat for other indications and because our product candidates are in various stages of development and the outcome of these efforts is uncertain, we cannot estimate the actual amounts necessary to successfully complete the development and commercialization of TAZVERIK, for all indications we are exploring or plan to explore, or 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 arrangements. Except for any obligations of our collaborators to make license, milestone or royalty payments under our agreements with them, and remaining amounts available to us under the Loan Agreement with the Lenders, which are subject to certain conditions, 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 may be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our existing 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 collaboration arrangements 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 current operating plan, we expect that our existing cash, cash equivalents and marketable securities as of June 30, 2020, together with the cash we expect to generate from product sales, will be sufficient to fund our planned operating expenses and capital expenditure requirements and pay our debt service obligations as they become due into 2022, 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, such as the revenue that we expect to generate from the sale of our products, and 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.

Cash Flows

The following is a summary of cash flows for the three months ended June 30, 2020 and 2019:

	Six Months Ended June 30,		
	2020	2019	Change
	(In millions)		
Net cash (used in) operating activities	\$ (110.7)	\$ (73.5)	\$ (37.2)
Net cash provided by (used in) investing activities	(12.8)	(129.5)	116.7
Net cash provided by financing activities	101.2	162.3	(61.1)

Net Cash Used in Operating Activities

Net cash used in operating activities during the six months ended June 30, 2020 primarily relates to our net loss of \$109.4 million and changes in working capital of \$17.9 million, partially offset by net depreciation and amortization of \$1.2 million, non-cash stock-based compensation of \$14.8 million, and non-cash interest expense associated with the sale of future royalties of \$0.6 million.

Net cash used in operating activities for the six months ended June 30, 2019 primarily relates to our net loss of \$77.8 million, changes in working capital of \$2.3 million and net depreciation and amortization of \$1.3 million, partially offset by non-cash stock-based compensation of \$7.9 million.

Net Cash Provided by (Used in) Investing Activities

Net cash provided by investing activities during the six months ended June 30, 2020 reflects maturities of available-for-sale securities of \$131.6 million, offset by \$94.1 million of purchases of available-for-sale securities, a \$25.0 million milestone payment under the Eisai collaboration agreement upon regulatory approval of tazemetostat for ES, a \$25.0 million milestone payment under the Eisai collaboration agreement upon regulatory approval of tazemetostat for FL, and \$0.3 million of purchases of property and equipment.

Net cash used in investing activities during the six months ended June 30, 2019 reflects \$297.9 million of purchases of available-for-sale securities and \$0.2 million of purchases of property and equipment, offset by maturities of available-for-sale securities of \$168.5 million.

Net Cash Provided by Financing Activities

Net cash provided by financing activities of \$101.2 million during the six months ended June 30, 2020 primarily reflects cash received from the sale of common stock of \$50.0 million in connection with our exercise of our Put Option to sell shares of our common stock to Royalty Pharma, net cash received during the period from Tranche B Loan borrowings of \$25.0 million under the Loan Agreement, net cash received during the period from Tranche C Loan borrowings of \$20.0 million under the Loan Agreement, stock option exercises of \$5.8 million, and the purchases of shares under our employee stock purchase plan of \$0.6 million, partially offset by payments of debt issuance costs of \$0.1 million and offering costs of \$0.1 million.

Net cash provided by financing activities of \$162.3 million during the six months ended June 30, 2019 primarily reflects cash received from the sale of common and preferred stock of \$160.4 million, stock option exercises of \$1.8 million, and the purchases of shares under our employee stock purchase plan of \$0.4 million, partially offset by payments of public offering costs of \$0.3 million.

Contractual Obligations

There were no material changes to our contractual obligations and commitments described under “Management’s Discussion and Analysis and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

Critical Accounting Policies and Use of Estimates

Our management’s discussion and analysis of financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these condensed consolidated financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the balance sheets and the reported amounts of collaboration revenue, inventories and expenses during the reporting periods. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances at the time such estimates are made. Actual results and outcomes may differ materially from our estimates, judgments and assumptions. We periodically review our estimates in light of changes in circumstances, facts and experience. The effects of material revisions in estimates are reflected in the condensed consolidated financial statements prospectively from the date of the change in estimate.

We define our critical accounting policies as those accounting principles generally accepted in the United States of America that require us to make subjective estimates and judgments about matters that are uncertain and are likely to have a material impact on our financial condition and results of operations as well as the specific manner in which we apply those principles. Management has determined that our most critical accounting policies are those relating to revenue recognition, inventories, stock-based compensation and research and development expenses, including our accounting for clinical trial expense and accruals. As our clinical development plan for tazemetostat progresses, we expect research and development expenses and, in particular, our accounting for clinical trial accruals to be an increasingly important critical accounting policy.

Except as described below with respect to revenue recognition for product revenue, during the six months ended June 30, 2020, there have been no material changes with respect to our critical accounting policies disclosed in our Annual Report on Form 10-K for our fiscal year ended December 31, 2019.

Revenue Recognition

We recognize revenue when our customer obtains control of promised goods or services, in an amount that reflects the consideration which we expect to receive in exchange for those goods or services. To determine revenue recognition, we perform the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the

transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) we satisfy a performance obligation. We only apply the five-step model to contracts when it is probable that we will collect the consideration we are entitled to in exchange for the goods or services we transfer to the customer.

We sell TAZVERIK in the United States principally to a limited number of specialty pharmacies, which dispense the product directly to patients, and specialty distributors, which in turn sell the product to hospital pharmacies and community practice pharmacies (collectively, healthcare providers) for the treatment of patients. The specialty pharmacies and specialty distributors are referred to as our customers.

Revenue is recognized by us when the customer obtains control of the product, which occurs at a point in time, typically when the product is received by our customers. We provide a right of return to our customers for unopened product for a limited time before and after its expiration date, which lapses upon shipment to a patient. Healthcare providers to whom specialty distributors sell TAZVERIK hold limited inventory that is designated for patients, and we are able to monitor inventory levels in the distribution channel, thereby limiting the risk of return.

Reserves for Variable Consideration

Revenues from product sales are recorded at the net sales price (transaction price), which includes estimates of variable consideration for which reserves are established and which result from discounts, returns, chargebacks, rebates, co-pay assistance and other allowances that are offered within contracts between us and our customers, health care providers, payors and other indirect customers relating to our product sales. These reserves are based on the amounts earned or to be claimed on the related sales and are classified as reductions of accounts receivable (if the amount is payable to the customer) or a current liability (if the amount is payable to a party other than a customer). Where appropriate, these estimates take into consideration a range of possible outcomes that are probability-weighted for relevant factors such as our historical experience, current contractual and statutory requirements, specific known market events and trends, industry data and forecasted customer buying and payment patterns. Overall, these reserves reflect our best estimates of the amount of consideration to which we are entitled based on the terms of the contract. The amount of variable consideration that is included in the transaction price may be constrained, and is included in the net sales price only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized will not occur in a future period. Actual amounts of consideration ultimately received may differ from our estimates. If actual results in the future vary from our estimates, we will adjust these estimates, which would affect net product revenue and earnings in the period such variances become known.

Trade Discounts and Allowances: We generally provide customers with discounts that include incentive fees that are explicitly stated in our contracts and are recorded as a reduction of revenue in the period the related product revenue is recognized. In addition, we receive sales order management, data and distribution services from certain customers. To the extent the services received are distinct from our sale of products to the customer, these payments are classified in selling, general and administrative expenses in the consolidated statements of operations and comprehensive loss.

Product Returns: Consistent with industry practice, we generally offer customers a limited right of return based on the product's expiration date for product that has been purchased from us, which lapses upon shipment to a patient. We estimate the amount of our product sales that may be returned by our customers and record this estimate as a reduction of revenue in the period the related product revenue is recognized. We currently estimate product return liabilities using available industry data and our own historical sales information, including our visibility into the inventory remaining in the distribution channel.

Provider Chargebacks and Discounts: Chargebacks for fees and discounts to providers represent the estimated obligations resulting from contractual commitments to sell products to qualified healthcare providers at prices lower than the list prices charged to customers who directly purchase the product from us. Customers charge us for the difference between what they pay for the product and the ultimate selling price to the qualified healthcare providers. These reserves are established in the same period that the related revenue is recognized, resulting in a reduction of product revenue and accounts receivable. Chargeback amounts are generally determined at the time of resale to the qualified healthcare provider by customers, and we generally issue credits for such amounts within a few weeks of the customer's notification to us of the resale. Reserves for chargebacks consist of credits that we expect to issue for units that remain in the distribution channel inventories at each reporting period end that we expect will be sold to qualified healthcare providers, and chargebacks that customers have claimed but for which we have not yet issued a credit.

Government Rebates: We are subject to discount obligations under state Medicaid programs and Medicare. We estimate our Medicaid and Medicare rebates based upon a range of possible outcomes that are probability-weighted for the estimated payor mix. These reserves are recorded in the same period the related revenue is recognized, resulting in a reduction of product revenue and the establishment of a current liability that is included in accrued expenses on the consolidated balance sheet. For Medicare, we also

estimate the number of patients in the prescription drug coverage gap for whom we will owe an additional liability under the Medicare Part D program. Our liability for these rebates consists of invoices received for claims from prior quarters that have not been paid or for which an invoice has not yet been received, estimates of claims for the current quarter, and estimated future claims that will be made for product that has been recognized as revenue, but remains in the distribution channel inventories at period end.

Payor Rebates: We may contract with various private payor organizations, primarily insurance companies and pharmacy benefit managers, for the payment of rebates with respect to utilization of our products. We estimate these rebates and record such estimates in the same period the related revenue is recognized, resulting in a reduction of product revenue and the establishment of a current liability.

Other Incentives: Other incentives that we offer include voluntary patient assistance programs such as co-pay assistance. Co-pay assistance programs are intended to provide financial assistance to qualified commercially insured patients with prescription drug co-payments required by payors. The calculation of the accrual for co-pay assistance is based on an estimate of claims and the cost per claim that we expect to receive associated with product that has been recognized as revenue, but remains in the distribution channel inventories at period end.

Recently Adopted Accounting Pronouncements

For detailed information regarding recently issued accounting pronouncements and the expected impact on our condensed consolidated financial statements, see Note 2, *Summary of Significant Accounting Policies—Recently Adopted Accounting Pronouncements*, in the accompanying Notes to Condensed Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

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, 2020, we had cash and cash equivalents and marketable securities of \$322.1 million consisting of money market funds, corporate bonds, commercial paper and government-related obligations. Our primary exposure to market risk is interest rate sensitivity, which is affected by changes in the general level of U.S. interest rates. We estimate that a hypothetical 100-basis point change in market interest rates would impact the fair value of our investment portfolio as of June 30, 2020 by \$0.2 million.

We contract with contract research organizations and manufacturers globally. 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

We have established disclosure controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, or 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 and the principal financial officer, to allow timely decisions regarding required disclosure.

Our management, under the supervision and with the participation of the principal executive officer (our Chief Executive Officer) and the principal financial officer (our 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, 2020.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2020 that materially affected, or are reasonably likely to materially affect, our 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 our 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 our 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.

In addition, the impact of the COVID-19 pandemic may also exacerbate other risks discussed in this Quarterly Report on Form 10-Q, any of which could have a material effect on us. This situation is changing rapidly and additional impacts may arise.

Risks Related to Product Development and Commercialization

We are dependent on the successful development and commercialization of tazemetostat. If we are unable to develop and obtain marketing approval of tazemetostat for additional indications, either alone or through a collaboration, or if we experience significant delays in doing so, or we are unable to successfully commercialize tazemetostat, our business could be harmed.

Our EZH2 inhibitor, TAZVERIK®, is approved in the United States for the treatment of epithelioid sarcoma, or ES, and for follicular lymphoma, or FL. We have no other products approved for sale. We are investing a significant portion of our efforts and financial resources to fund the development and commercialization of tazemetostat. In January 2020, the U.S. Food and Drug Administration, or FDA, granted accelerated approval of TAZVERIK for the treatment of adults and pediatric patients aged 16 years and older with metastatic or locally advanced epithelioid sarcoma not eligible for complete resection.

In June 2020, the FDA granted accelerated approval of TAZVERIK for the following FL indications: (1) adult patients with relapsed or refractory FL whose tumors are positive for an EZH2 mutation as detected by an FDA-approved test and who have received at least two prior systemic therapies, and (2) adult patients with relapsed or refractory FL who have no satisfactory alternative treatment options.

In connection with the accelerated approval of our ES new drug application, or NDA and our FL supplemental NDA, or sNDA, continued approval is contingent upon verification and description of clinical benefit in a confirmatory program in each indication. We are conducting Phase 1b/3 trials to assess TAZVERIK in combination with doxorubicin compared with doxorubicin plus placebo as a front-line treatment for ES and to evaluate the combination of TAZVERIK with “R2” (Revlimid® plus rituximab), an approved chemotherapy-free treatment regimen, for FL patients in the second-line or later treatment setting. These trials are expensive and time-consuming and may not confirm such benefit and subject the NDAs to withdrawal. If a confirmatory program does not verify clinical benefit for an indication, we may have to withdraw our accelerated approval for that indication. If any of these outcomes occurs, either to TAZVERIK or to any future product candidate for which we may seek marketing approval, we may be forced to abandon our development efforts for tazemetostat or such future product candidates, which could significantly harm our business.

We and our collaborators are conducting clinical trials of tazemetostat in other indications and in combination with other products. All of our other product candidates are still in preclinical development. As a result, our prospects are substantially dependent on our ability, or the ability of any future collaborator, to successfully commercialize tazemetostat for ES and FL and to develop, obtain marketing approval for and successfully commercialize tazemetostat in one or more additional disease indications.

The success of tazemetostat will depend on several factors, including the following:

- successful launch of commercial sales of TAZVERIK for ES and FL in the approved indications, whether alone or in collaboration with other products;
- successful confirmatory trials of TAZVERIK in the approved indications that are satisfactory to the FDA and maintaining continued acceptable safety profiles of the products following approval;
- timely receipt of marketing approval from the European Medicines Agency, or EMA;
- the extent of any required post-marketing approval commitments to applicable regulatory authorities;
- successful enrollment in and completion of clinical trials for the treatment of additional indications;

- safety, tolerability and efficacy profiles that are satisfactory to the FDA, the EMA, or any comparable foreign regulatory authority for marketing approval for additional indications and maintaining a continued acceptable safety profile following approval;
- acceptance of the products, if and when approved, by patients, the medical community and third-party payors;
- effectively competing with other therapies;
- obtaining and maintaining healthcare coverage and adequate reimbursement;
- making arrangements with third-party manufacturers for, or establishing, clinical and commercial manufacturing capabilities;
- obtaining and maintaining patent and trade secret protection and regulatory exclusivity for our products and product candidates; and
- protecting our rights in our intellectual property portfolio.

Many of these factors are beyond our control, including clinical development, the regulatory review process, potential threats to our intellectual property rights and the manufacturing, marketing and sales efforts of any collaborator. If any of these factors adversely affects the development or commercialization of tazemetostat, we may not be able to successfully develop or commercialize tazemetostat on a timely basis or at all, which would materially harm our business.

The COVID-19 pandemic, which began in late 2019 and has spread worldwide, may affect our ability to initiate and complete preclinical studies and our ongoing and planned clinical trials, disrupt regulatory activities, disrupt commercialization of TAZVERIK, or have other adverse effects on our business and operations. In addition, the COVID-19 pandemic has caused substantial disruption in the financial markets and may adversely impact economies worldwide, both of which could result in adverse effects on our business and operations.

The COVID-19 pandemic, which began in late 2019 and has spread worldwide, is causing many governments to implement measures to slow the spread of the outbreak through quarantines, travel restrictions, heightened border scrutiny, and other measures. The outbreak and government measures taken in response have also had a significant impact, both direct and indirect, on businesses and commerce, as worker shortages have occurred; supply chains have been disrupted; facilities and production have been suspended; unemployment has increased; and demand for certain goods and services, such as medical services and supplies, has spiked, while demand for other goods and services, such as travel, has fallen. The future progression of the outbreak and its effects on our business and operations are uncertain.

We and our contract manufacturing organizations, or CMOs, and contract research organizations, or CROs, may face disruptions that may affect our ability to initiate and conduct preclinical studies and our planned and ongoing clinical trials, including disruptions in procuring items that are essential for our research and development activities, such as raw materials used in the manufacture of tazemetostat and/or our product candidates, laboratory supplies used in our preclinical studies and ongoing clinical trials, or animals that are used for preclinical testing for which there are shortages because of ongoing efforts to address the outbreak. We and our CROs and CMOs, as well as clinical trial sites, may face disruptions related to our ongoing clinical trials, planned clinical trials or future clinical trials arising from manufacturing disruptions, staffing disruptions and limitations on our activities and the activities of our CROs and CMOs, and delays in the ability to obtain necessary institutional review board or other necessary site approvals or delays in site initiations or site monitoring visits, as well as other delays at clinical trial sites. We may also face limitations on enrollment and patients withdrawing from our clinical trials or not complying with the protocol procedures, which could delay completion of our clinical trials or adversely affect the data generated by our clinical trials. The response to the COVID-19 pandemic may redirect resources with respect to regulatory and intellectual property matters in a way that could adversely impact our ability to progress regulatory approvals and protect our intellectual property. In addition, we may face impediments to regulatory meetings and approvals due to measures intended to limit in-person interactions. We commenced commercial sales of TAZVERIK in January 2020, and the pandemic and related government measures have limited our ability to access accounts and healthcare professionals, in person or at all, to provide medical information to promote TAZVERIK. The pandemic has significantly impacted economies worldwide, which could result in adverse effects on our business and operations. Moreover, the pandemic has also caused significant disruptions in the financial markets, and may continue to cause such disruptions, which could impact our ability to raise additional funds through public offerings and may also impact the volatility of our stock price and trading in our stock.

We have restricted access to our offices and requested that non-essential personnel continue to work remotely, while we slowly implement procedures to enable a gradual return to work in accordance with government guidelines, beginning with a subset of our laboratory employees. Our increased reliance on personnel working from home may negatively impact productivity, or disrupt, delay, or otherwise adversely impact our business. In addition, this could increase our cyber security risk, create data accessibility concerns,

and make us more susceptible to communication disruptions, any of which could adversely impact our business operations or delay necessary interactions with local and federal regulators, ethics committees, manufacturing sites, research or clinical trial sites and other important agencies and contractors, including our CROs and CMOs.

For instance, our employees and CROs conducting research and development activities continue to have limited access to our laboratories as a result of the restrictions of access to our offices. As a result, this could delay timely completion of preclinical activities and initiation of additional clinical trials for other of our development programs.

We cannot be certain what the overall impact of the COVID-19 pandemic will be on our business. However, it has the potential to adversely affect our business, financial condition, results of operations, and prospects.

Tazemetostat or any other product candidate that we develop may fail to achieve the degree of market acceptance by physicians, patients, third-party payors and others in the medical community necessary for commercial success.

Tazemetostat or any other product candidates that we develop may fail to gain sufficient market acceptance by physicians, patients, third-party payors and others in the medical community. If tazemetostat or any other such product candidate that we develop does not achieve an adequate level of acceptance, we may not generate significant product revenues and we may not become profitable. The degree of market acceptance of tazemetostat or any other product candidates that we develop will depend on a number of factors, including:

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

In addition, the potential market opportunity for tazemetostat is difficult to precisely estimate. Our estimates of the potential market opportunity for tazemetostat include several key assumptions based on our industry knowledge, industry publications, third-party research reports and other surveys. While we believe that our internal assumptions are reasonable, no independent source has verified such assumptions. If any of these assumptions proves to be inaccurate, then the actual market for tazemetostat could be smaller than our estimates of our potential market opportunity. If the actual market for tazemetostat is smaller than we expect, our product revenue may be limited and it may be more difficult for us to achieve or maintain profitability.

If we are unable to establish and maintain effective sales, marketing and distribution capabilities, we may not be successful in commercializing tazemetostat or any other product candidates that we develop if and when the product candidate is approved.

To achieve commercial success for any product for which we have obtained marketing approval, we will need to establish and maintain an effective sales and marketing organization.

We have recently established, and plan to continue to build, the infrastructure necessary to support the successful commercial launch and marketing of tazemetostat and other product candidates that may receive marketing approval. There are risks involved with establishing our own sales, marketing and distribution capabilities. For example, recruiting and training a sales force is expensive and time consuming and could delay any product launch. If the commercial launch of a product candidate for which we recruit a sales force and establish marketing capabilities is delayed or does not occur for any reason, we would have prematurely or unnecessarily incurred these commercialization expenses. These efforts may be costly, and our investment would be lost if we cannot retain or reposition our sales and marketing personnel.

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

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

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

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

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

In the relapsed and refractory FL patient setting, both current and near-term competition exists. Current competition includes CD20 combinations along with multiple Pi3K inhibitors. Near-term competition includes a number of companies currently evaluating investigational agents with varying mechanisms of action, some of which have recently been granted special designations from the FDA. In the ES patient setting, competition includes several clinical trials run by competitors that recruit patients with soft tissue sarcoma, which is inclusive of ES.

There are a large number of companies developing or marketing treatments for cancer, including many major pharmaceutical and biotechnology companies. Companies that are developing new epigenetic treatments for cancer that target histone methyltransferases, or HMTs, and protein arginine methyltransferases, or PRMTs, include GSK, Johnson & Johnson, Pfizer, Inc., Daiichi Sankyo Company Limited, and Constellation Pharmaceuticals. Further, companies which are known to have EZH2 inhibitor programs or related programs include: Constellation Pharmaceuticals, developing EZH2 inhibitors (CPI-1205, Phase 1/2, castration-resistant prostate cancer, solid tumors; CPI-0209, Phase 1/2, solid tumors), Novartis AG, developing an EED inhibitor which indirectly blocks EZH2 (MAK683, Phase 1/2, advanced malignancies), Daiichi Sankyo, developing a EZH1/EZH2 dual inhibitor (valemestostat, DS-3201, Phase 1, relapsed or refractory non-Hodgkin lymphomas, AML, ALL as well as Phase 2 for small cell lung cancer and relapsed or refractory adult T-cell leukemia/lymphoma), and Pfizer, developing EZH2 inhibitor PF-06821497, Phase 1, relapsed or refractory SCLC, castration-resistant prostate cancer, FL and diffuse large B-cell lymphoma. In addition, many companies are developing cancer therapeutics that work by targeting epigenetic mechanisms other than HMTs, and some including Celgene, Merck & Co., Inc., Secura Bio, Spectrum Pharmaceuticals, and Otsuka, are now marketing cancer treatments that work by targeting epigenetic mechanisms other than HMTs.

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

Many of the companies against which we are competing or against which we may compete in the future have significantly greater financial resources and expertise in research and development, manufacturing, preclinical testing, conducting clinical trials, obtaining regulatory approvals and marketing approved products than we do.

Mergers and acquisitions in the pharmaceutical and biotechnology industries may result in even more resources being concentrated among a smaller number of our competitors. Smaller and other early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. These third parties compete with us in recruiting and retaining qualified scientific and management personnel, establishing clinical trial sites and patient registration for clinical trials, as well as in acquiring technologies complementary to, or necessary for, our programs.

Tazemetostat and any other product candidate that we commercialize may become subject to unfavorable pricing regulations, third-party reimbursement practices or healthcare reform initiatives, which could harm our business.

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

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

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

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

We are conducting multiple clinical trials of tazemetostat. In addition, Glaxo Group Limited (an affiliate of GlaxoSmithKline plc), or GSK, has initiated a Phase 2 expansion clinical trial for GSK3326595, a PRMT5 inhibitor, and has initiated patient dosing in a Phase 1 clinical trial of GSK3368715, a PRMT1 inhibitor. The risk of failure is high. It is impossible to predict when or if any of our product candidates will prove effective or safe in humans or will receive regulatory approval. Before obtaining marketing approval from regulatory authorities for the sale of any product candidate, we must complete preclinical development, manufacture, and then conduct extensive clinical trials to demonstrate the safety and efficacy of our product candidates in humans.

Product candidates are subject to preclinical safety studies, which may be conducted prior to or concurrently with clinical testing, as well as continued clinical safety assessment throughout clinical testing. The outcomes of these safety studies or assessments may delay the launch of or enrollment in clinical studies. For example, in the course of our preclinical safety studies of tazemetostat, we observed the development of lymphoma in Sprague-Dawley rats. As a result of these findings, coupled with our limited clinical experience in FL, at the time of the IND submission in December 2015, we were unable to conduct our Phase 2 trial of tazemetostat in FL patients in the United States until the beginning of 2017. In addition, in the second quarter of 2018, following a safety report of a pediatric patient who developed a secondary T-cell lymphoma in our ongoing Phase 1 clinical trial of tazemetostat in pediatric patients, the FDA, the French National Agency for Medicines and Health Products Safety and Germany's Federal Institute for Drugs and Medical Devices each placed a partial clinical hold on new patient enrollment in our ongoing clinical trials of tazemetostat. In September 2018, the FDA lifted the partial clinical hold on new patient enrollment in the United States, in November 2018, Germany's Federal Institute for Drugs and Medical Devices lifted the partial clinical hold in Germany, and in January 2019, the partial clinical hold was lifted in France. We have subsequently resumed enrollment in our tazemetostat clinical trials in those countries. If we or our collaborators are unable to fully and adequately address matters such as the partial clinical hold when they arise, we may be unable to conduct clinical trials of our product candidates, our trials may be limited to certain patient populations or our ability to conduct other trials in the United States or in other countries may be delayed.

Clinical testing is expensive, difficult to design and implement, can take many years to complete and is uncertain as to outcome. A failure of one or more clinical trials can occur at any stage of testing. The outcome of preclinical testing and early clinical trials may not be predictive of the success of later clinical trials, and interim results of a clinical trial do not necessarily predict final results. Moreover, preclinical and clinical data are often susceptible to varying interpretations and analyses, and many companies that have believed their product candidates performed satisfactorily in preclinical studies and clinical trials have nonetheless failed to obtain marketing approval of their products.

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

- regulators or institutional review boards may not authorize us or our investigators to commence a clinical trial or conduct a clinical trial at a prospective trial site;
- we may experience delays in reaching, or fail to reach, agreement on acceptable clinical trial contracts or clinical trial protocols with prospective trial sites;
- clinical trials of our product candidates may produce negative or inconclusive results, and we may decide, or regulators may require us, to conduct additional clinical trials or abandon product development programs;

- preclinical testing may produce results based on which we may decide, or regulators may require us, to conduct additional preclinical studies before we proceed with certain clinical trials, limit the scope of our clinical trials, halt ongoing clinical trials or abandon product development programs;
- the number of patients required for clinical trials of our product candidates may be larger than we anticipate, enrollment in these clinical trials may be slower than we anticipate, or patients may drop out of these clinical trials at a higher rate than we anticipate;
- our third-party contractors may fail to comply with regulatory requirements or meet their contractual obligations to us in a timely manner, or at all;
- we may have to limit the scope of, suspend or terminate clinical trials of our product candidates for various reasons, including a finding that the patients are being exposed to unacceptable health risks;
- regulators or institutional review boards may require that we or our investigators suspend or terminate clinical research for various reasons, including noncompliance with regulatory requirements or a finding that the patients are being exposed to unacceptable health risks;
- the cost of clinical trials of our product candidates may be greater than we anticipate;
- the supply or quality of our product candidates or other materials necessary to conduct clinical trials of our product candidates may be insufficient or inadequate; and
- our product candidates may have undesirable side effects or other unexpected characteristics, causing us or our investigators, regulators or institutional review boards to suspend or terminate the trials.

We and our CROs and CMOs, as well as clinical trial sites, may face disruptions related to our ongoing clinical trials, planned clinical trials or future clinical trials arising from manufacturing disruptions, staffing disruptions and limitations on our activities and the activities of our CROs and CMOs, and delays in the ability to obtain necessary institutional review board or other necessary site approvals, as well as other delays at clinical trial sites. We may also face limitations on enrollment and patients withdrawing from our clinical trials or not complying with the protocols, which could delay completion of our clinical trials or adversely affect the data generated by our clinical trials. The impact of these disruptions on our clinical development activities and plans is uncertain and may depend on the length of the disruptions.

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

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

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

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

We may not be able to initiate or continue clinical trials for our product candidates if we are unable to locate and enroll a sufficient number of eligible patients to participate in these trials as required by the FDA or similar regulatory authorities outside of the United States. In particular, because certain of our product candidates may be focused on specific patient populations, our ability to enroll eligible patients may be limited or may result in slower enrollment than we anticipate. If the COVID-19 pandemic continues, patient recruitment and enrollment in our clinical trials may be adversely affected, delayed or interrupted. Patients may choose to withdraw from our studies or we may choose to or be required to pause enrollment and or patient dosing in our ongoing clinical trials in order to preserve health resources and protect trial participants. It is unknown how long these pauses or disruptions could continue. In addition, some of our competitors have ongoing clinical trials, and may in the future initiate new clinical trials, for product candidates being developed for the same diseases or indications as our products candidates or that may treat the broader patient populations within which our product candidates are being developed for the treatment of a subset of identifiable patients with cancer and other diseases, and patients who would otherwise be eligible for our clinical trials may instead enroll in clinical trials of our competitors' product candidates. For instance, our ongoing clinical trials of tazemetostat in adult and pediatric patients with INI1-negative tumors are targeting rare patient populations.

Patient enrollment may be affected by other factors including:

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

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

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

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

Our research and development is focused on the creation of novel epigenetic therapies for patients with cancer and other diseases, which is a rapidly evolving area of science, and the approach we are taking to discover and develop drugs is novel and may never lead to marketable products.

The discovery of novel epigenetic therapies for patients with cancer and other serious diseases is an emerging field, and the scientific discoveries that form the basis for our efforts to discover and develop product candidates are relatively new. Although epigenetic regulation of gene expression plays an essential role in biological function, few drugs premised on epigenetics have been discovered. Moreover, those drugs based on an epigenetic mechanism that have received marketing approval are in different target classes than the chromatin modifying protein, or CMP, inhibitors where our research and development is principally focused. Although preclinical studies suggest that genetic alterations can result in changes to the activity of CMPs making them oncogenic, to date no company has

translated these biological observations into systematic drug discovery that has yielded a drug that has received marketing approval. We believe that our first four inhibitors of histone methyltransferases, or HMTs, in the clinic are all the first molecules against these targets to enter clinical development. Therefore, we do not know if our approach of inhibiting HMTs or other CMPs to treat patients with cancer and other serious diseases will be successful.

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

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

If we are required to develop a companion or complementary diagnostic and if we or our collaborators are unable to successfully develop diagnostics for our therapeutic product candidates when needed, or experience significant delays in doing so, we may not achieve marketing approval or realize the full commercial potential of our therapeutic product candidates.

We may develop, or we may work with collaborators, to develop diagnostics for our therapeutic product candidates to identify patients for our clinical trials who have the specific cancers that we are seeking to treat as appropriate and when existing, available technology may not be sufficient to identify those patients. We do not have experience or capabilities in developing or commercializing diagnostics and plan to rely in large part on third parties to perform these functions. For example, we have entered into an agreement with Roche Sequencing to develop and commercialize a diagnostic for use with tazemetostat for non-Hodgkin lymphoma, or NHL, patients with EZH2 activating mutations. Companion or complementary diagnostics are subject to regulation by the FDA and similar regulatory authorities outside of the United States as medical devices and require separate regulatory approval prior to commercialization. If any third parties that we engage to assist us are unable to successfully develop companion or complementary diagnostics that are needed for our therapeutic product candidates, or experience delays in doing so:

- the development of our therapeutic product candidates may be adversely affected if we are unable to appropriately select patients for enrollment in our clinical trials;
- our therapeutic product candidates may not receive marketing approval if their safe and effective use depends on a companion or complementary diagnostic; and
- we may not realize the full commercial potential of any therapeutic product candidates that receive marketing approval if, among other reasons, we are unable to appropriately identify patients with the specific genetic alterations targeted by our therapeutic product candidates.

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

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

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

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

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

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

We currently hold \$20.0 million in product liability insurance coverage in the aggregate, with a per incident limit of \$20.0 million, which may not be adequate to cover all liabilities that we may incur. We will need to increase our insurance coverage as we expand our clinical trials and as we commercialize TAZVERIK, or any other product candidate that we develop. Insurance coverage is increasingly expensive. We may not be able to maintain insurance coverage at a reasonable cost or in an amount adequate to satisfy any liability that may arise.

Enhanced governmental and private scrutiny over, or investigations or litigation involving, pharmaceutical manufacturer donations to patient assistance programs offered by charitable foundations may require us to modify our patient support programs and could negatively impact our business practices, harm our reputation, divert the attention of management and increase our expenses.

To help patients afford tazemetostat, we are implementing a patient assistance program. These types of programs, designed to assist patients in affording pharmaceuticals, have become the subject of scrutiny. In recent years, some pharmaceutical manufacturers were named in class action lawsuits challenging the legality of their patient assistance programs and their support of independent charitable patient support foundations in connection with such programs under a variety of federal and state laws. Our patient assistance program could become the target of similar litigation. In addition, certain state and federal enforcement authorities and members of Congress have initiated inquiries about co-pay assistance programs. Some state legislatures have also been considering proposals that would restrict or ban co-pay coupons.

In addition, there has been regulatory review and enhanced government scrutiny of donations by pharmaceutical manufacturers to patient assistance programs operated by charitable foundations. For example, the Office of Inspector General of the U.S. Department of Health & Human Services, or OIG, has established specific guidelines permitting pharmaceutical manufacturers to make donations to charitable organizations which provide co-pay assistance to Medicare patients, provided that such organizations are bona fide charities, are entirely independent of and not in any way controlled or influenced by the manufacturer, provide aid to applicants on a first-come basis according to consistent financial criteria, and do not link aid to use of a donor's product. If we establish a program to donate to independent charitable patient support foundations and our vendors or donation recipients are deemed to fail to comply with laws or regulations in the operation of these programs, we could be subject to damages, fines, penalties or other criminal, civil or administrative sanctions or enforcement actions. Further, numerous organizations, including pharmaceutical manufacturers, have received subpoenas from the U.S. Department of Justice, or DOJ, and other enforcement authorities seeking information related to their patient assistance programs and support, and certain of these organizations have entered into, or have otherwise agreed to, significant civil settlements with applicable enforcement authorities. In connection with these civil settlements, the U.S. government has and may in the future require the affected companies to enter into complex corporate integrity agreements that impose significant reporting and other requirements on those companies. We cannot ensure that our compliance controls, policies and procedures will be sufficient to protect against acts of our employees, business partners or vendors that may potentially violate the laws or regulations of the jurisdictions in which we operate. Regardless of whether we have complied with the law, a government investigation could negatively impact our business practices, harm our reputation, divert the attention of management and increase our expenses.

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 \$109.4 million for the six months ended June 30, 2020, \$170.3 million for the year ended December 31, 2019, \$123.6 million for the year ended December 31, 2018, and \$134.3 million for the year ended December 31, 2017. As of June 30, 2020, we had an accumulated deficit of \$866.4 million. We have financed our operations primarily through our collaborations, our public offerings, private placements of our common and preferred stock, our loan facility with BioPharma Credit Investments V (Master) LP, BPCR Limited Partnership and BioPharma Credit PLC, and other funding transactions. Our total revenue consists of both product and collaboration revenue. We have devoted substantially all of our financial resources and efforts to research and development, including clinical and preclinical studies. We are still in the early to middle stages of development of our product candidates. 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 we will continue to incur significant expenses in connection with commercializing our products, seeking marketing approval for product candidates, building our commercial organization, conducting clinical trials of tazemetostat and manufacturing products. We anticipate that these expenses will continue to increase over the next several years if and as we:

- continue to establish a sales, marketing and distribution infrastructure and scale up external manufacturing capabilities to commercialize TAZVERIK and any other product candidate that is approved;
- grow our medical affairs organization to provide medical support for tazemetostat and any other product candidate that is approved;
- conduct our Phase 1b/3 confirmatory trials in ES and FL;
- design and conduct new and ongoing monotherapy and combination trials of tazemetostat in FL;
- conduct clinical trials or support investigator-sponsored trials to evaluate tazemetostat as a monotherapy or in combinations in additional indications;
- pay any milestone payments provided for and achieved under the amended and restated collaboration and license agreement with Eisai Co Ltd, or Eisai;
- pay interest and principal associated with our loan agreement with BioPharma Credit Investments V (Master) LP, BPCR Limited Partnership and BioPharma Credit PLC, or the Loan Agreement;
- assess potential development candidates in our G9a program;
- conduct research and development under our collaboration and license agreement with Boehringer Ingelheim International GmbH;
- continue the research and development of our other product candidates;
- seek to discover and develop additional product candidates or to expand our product candidates into additional lines of treatment;
- prepare NDA submissions as we seek regulatory approvals for any product candidates that successfully complete clinical trials;
- maintain, expand and protect our intellectual property portfolio;
- hire additional clinical, quality control, manufacturing 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 generate significant revenue. The ability to generate this revenue requires us to successfully commercialize TAZVERIK, which requires us to be effective in a range of challenging activities, including obtaining marketing approval for TAZVERIK from the FDA for indications in addition to ES and FL. 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, we are unable to accurately predict the timing or amount of increased expenses or when, or if, we will be able to achieve profitability.

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

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

We expect our expenses to increase in connection with our ongoing activities, particularly as we expect to incur significant commercialization expenses related to product manufacturing, marketing, sales, and distribution. In addition, we expect our expenses to increase as we fund our tazemetostat development program; make any milestone payments provided for and achieved under the amended and restated collaboration and license agreement with Eisai; continue our collaboration with Celgene; pay interest and principal associated with the Loan Agreement; and continue research and development and initiate clinical trials of, and seek regulatory approval for, any future product candidates. Accordingly, we may 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 our commercialization efforts.

Based on our current operating plan, we expect that our existing cash, cash equivalents and marketable securities and anticipated revenues will be sufficient to fund our planned operating expenses and capital expenditure requirements and debt service obligations as they become due into 2022, without giving effect to milestone payments we may receive under our collaboration agreements. We have based these expectations on assumptions that may prove to be wrong, such as the revenue that we expect to generate from the sale of our products, and we could use our capital resources sooner than we expect. Our future capital requirements will depend on many factors, including the following, as well as the uncertain impact of the COVID-19 pandemic on these factors:

- the costs of commercialization activities, including product manufacturing, marketing, sales and distribution and patient support programs for tazemetostat or any of our product candidates;
- revenue received from commercial sales of TAZVERIK;
- the progress and results of our ongoing and planned clinical trials of tazemetostat;
- the number and development requirements of additional indications for tazemetostat and other product candidates that we may pursue, including the scope, progress, results and costs of discovery research, preclinical development, laboratory testing and clinical trials for such product candidates;
- the costs, timing and outcome of regulatory review of tazemetostat and other product candidates we may pursue;
- royalties payable by us on sales of TAZVERIK under our amended and restated collaboration and license agreement with Eisai;
- our ongoing collaboration with Celgene;
- milestones, option exercise fees, license fees, and other revenues, if any, we may receive under our collaboration agreements;
- 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, defending any intellectual property-related claims, and challenging the intellectual property rights of others;
- the extent to which we acquire or in-license other products and technologies; and
- interest and principal payments under the Loan Agreement.

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 even if regulatory approval is obtained, we may never achieve commercial success. Accordingly, we may 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 amounts available pursuant to the Loan Agreement which amounts are subject to the satisfaction of specified conditions. 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. Additional 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. Our existing indebtedness and the pledge of our assets as collateral limit our ability to obtain additional debt financing.

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 commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

Our indebtedness resulting from our Loan Agreement could adversely affect our financial condition or restrict our future operations.

In November 2019, we entered into the Loan Agreement with BioPharma Credit Investments V (Master) LP and BioPharma Credit PLC, or the Collateral Agent, and together with BioPharma Credit Investments V (Master) LP, the Lenders, providing for up to \$70.0 million in secured term loans to be advanced in up to three tranches, or the Loan Agreement, of which \$25.0 million was drawn by us in November 2019, \$25.0 million was drawn by us in March 2020, and \$20.0 million was drawn by us in June 2020. The maturity date of the Loan Agreement is November 18, 2024, unless terminated earlier.

Subject to customary exceptions and exclusions, all obligations under the Loan Agreement are secured pursuant to the terms of the Loan Agreement, a guaranty and security agreement between us, certain of our subsidiaries, and the Collateral Agent, or the Pledge Agreement, and intellectual property and security agreements between us and Collateral Agent, or the IP Security Agreements, each dated November 18, 2019. Under the Loan Agreement, the Pledge Agreement, and the IP Security Agreements, we provided to the Lenders (i) a perfected, first-priority security interest in all of our personal property and (ii) a perfected, first-priority security interest in substantially all of our intellectual property related to tazemetostat.

A failure to comply with the conditions of the Loan Agreement could result in an event of default. An event of default under the term loan facility includes, among other things, a failure to pay any amount due under the Loan Agreement as well as the occurrence of events that could reasonably be expected to result in a material adverse change. In the event of an acceleration of amounts due under the Loan Agreement as a result of an event of default, we may not have sufficient funds or may be unable to arrange for additional financing to repay the term loans or to make any accelerated payments.

Risks Related to Our Dependence on Third Parties

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

Our resources for drug development are limited and we are actively building our sales, marketing, medical affairs and supply chain infrastructure. Accordingly, we have entered into therapeutic collaborations with other companies that we believe can provide such capabilities, including our collaboration and license agreements with Celgene, GSK, and Boehringer Ingelheim. We also rely on Genentech to manage our combination trial of tazemetostat and atezolizumab in relapsed or refractory DLBCL. With our reacquisition of tazemetostat rights under our amended and restated collaboration and license agreement with Eisai, we do not have access to Eisai's capabilities for tazemetostat except regarding Japan. Our collaborations have provided us with important funding for our development programs and product platform and we expect to receive additional funding under these collaborations in the future. Our existing therapeutic collaborations, and any future collaborations we enter into, may pose a number of risks, including the following:

- collaborators have significant discretion in determining the efforts and resources that they will apply to these collaborations;

- collaborators may not have the ability or the development capabilities to perform their obligations as expected, including as a result of the impact of the COVID-19 pandemic on our collaborators' operations or business;
- collaborators may not pursue commercialization of any product candidates that achieve regulatory approval or may elect not to continue or renew development or commercialization programs based on clinical trial results, changes in the collaborators' strategic focus or available funding, or external factors, such as an acquisition, that may divert resources or create competing priorities;
- collaborators may delay clinical trials, provide insufficient funding for a clinical trial program, stop a clinical trial or abandon a product candidate, not initiate or delay initiation of clinical trials, pause or stop enrollment in a clinical trial, terminate an ongoing clinical trial, repeat or conduct new clinical trials or require a new formulation of a product candidate for clinical testing;
- collaborators could independently develop, or develop with third parties, products that compete directly or indirectly with our products and product candidates if the collaborators believe that the competitive products are more likely to be successfully developed or can be commercialized under terms that are more economically attractive than ours;
- product candidates discovered in collaboration with us may be viewed by our collaborators as competitive with their own product candidates or products, which may cause collaborators to cease to devote resources to the commercialization of our product candidates;
- a collaborator may fail to comply with applicable regulatory requirements regarding the development, manufacture, distribution or marketing of a product candidate or product;
- a collaborator with marketing and distribution rights to one or more of our product candidates that achieve regulatory approval may not commit sufficient resources to the marketing and distribution of such product or products;
- disagreements with collaborators, including disagreements over proprietary rights, contract interpretation or the preferred course of development, might cause delays or terminations of the research, development or commercialization of product candidates, might lead to additional responsibilities for us with respect to product candidates, or might result in litigation or arbitration, any of which would be time-consuming and expensive;
- collaborators may not properly maintain or defend our intellectual property rights or may use our proprietary information in such a way as to invite litigation that could jeopardize or invalidate our intellectual property or proprietary information or expose us to potential litigation;
- collaborators may infringe the intellectual property rights of third parties, which may expose us to litigation and potential liability; and
- collaborations may be terminated for the convenience of the collaborator, and, if terminated, we could be required to raise additional capital to pursue further development or commercialization of the applicable product candidates.

If our therapeutic collaborations do not result in the successful development and commercialization of products or if one of our collaborators terminates its agreement with us, we may not receive any future research funding or milestone or royalty payments under the collaboration. If we do not receive the funding we expect under these agreements, our development of our product platform and product candidates could be delayed and we may need additional resources to develop product candidates and our product platform. All of the risks relating to product development, regulatory approval and commercialization described in our Annual Report on Form 10-K also apply to the activities of our therapeutic collaborators.

Our existing therapeutic collaborations contain restrictions on our ability to engage in activities that are the subject of the collaboration with third parties for specified periods of time. For example, under our collaboration agreement with Celgene, subject to specified exceptions, we may not, during the option period, research, develop or commercialize inhibitors directed to DOT1L and the three option targets covered by the agreement outside of the collaboration. These restrictions may have the effect of preventing us from undertaking development and other efforts that may appear to be attractive to us.

Additionally, subject to its contractual obligations to us, if a collaborator of ours is involved in a business combination, the collaborator might deemphasize or terminate the development or commercialization of any product candidate licensed to it by us. If one of our collaborators terminates its agreement with us, we may find it more difficult to attract new collaborators and our perception in the business and financial communities could be adversely affected.

For some of our product candidates or for some CMP targets, we may in the future collaborate with pharmaceutical and biotechnology companies for development and potential commercialization of therapeutic products. We face significant competition in seeking appropriate collaborators. Our ability to reach a definitive agreement for a collaboration will depend, among other things, upon our assessment of the collaborator's resources and expertise, the terms and conditions of the proposed collaboration and the proposed collaborator's evaluation of a number of factors. If we are unable to reach agreements with suitable collaborators on a timely basis, on acceptable terms, or at all, we may have to curtail the development of a product candidate, reduce or delay its development program or one or more of our other development programs, delay its potential commercialization or reduce the scope of any sales or marketing activities, or increase our expenditures and undertake development or commercialization activities at our own expense. If we elect to fund and undertake development or commercialization activities on our own, we may need to obtain additional expertise and additional capital, which may not be available to us on acceptable terms or at all. If we fail to enter into collaborations and do not have sufficient funds or expertise to undertake the necessary development and commercialization activities, we may not be able to further develop our product candidates or bring them to market or continue to develop our product platform and our business may be materially and adversely affected.

Failure of our third-party collaborators to successfully commercialize diagnostics, developed for use with our therapeutic product candidates, if and when needed, could harm our ability to commercialize these product candidates.

We do not plan to develop diagnostics internally and, as a result, we are dependent on the efforts of our third-party collaborators to successfully commercialize diagnostics when existing, available technology may not be sufficient to identify patients for treatment with our therapeutic product candidates. For example, Roche Sequencing has developed a companion or complementary diagnostic for detecting activating mutations in EZH2 in the tazemetostat NHL program. Our collaborators:

- may not perform their obligations as expected or have difficulty responding to accelerated approval timelines alongside the therapeutic product development;
- may encounter production difficulties that could constrain the supply of the diagnostics;
- may encounter delays or have difficulty obtaining regulatory approval for the diagnostic in target markets;
- may have difficulties gaining acceptance of the use of the diagnostics in the clinical community;
- may not pursue commercialization of any diagnostics that achieve regulatory approval;
- may elect not to continue or renew commercialization programs based on changes in the collaborators' strategic focus or available funding, or external factors such as an acquisition, that divert resources or create competing priorities;
- may not commit sufficient resources to the marketing and distribution of such product or products; and
- may terminate their relationship with us.

If diagnostics for use with our therapeutic product candidates fail to gain market acceptance, our ability to derive revenues from sales of our therapeutic product candidates could be harmed. If our collaborators fail to commercialize these diagnostics, we may not be able to enter into arrangements with another diagnostic company to obtain supplies of an alternative diagnostic test for use in connection with our therapeutic product candidates or do so on commercially reasonable terms, which could adversely affect and delay the development or commercialization of our therapeutic product candidates.

We rely, and expect to continue to rely, on third parties to conduct our clinical trials, and those third parties may not perform satisfactorily, including failing to meet deadlines for the completion of such trials.

We currently rely on third-party clinical research organizations to conduct our ongoing clinical trials. We do not plan to independently conduct clinical trials of any future product candidates. We expect to continue to rely on third parties, such as clinical research organizations, research collaborative groups, clinical data management organizations, medical institutions and clinical investigators, to conduct our clinical trials. These agreements might terminate for a variety of reasons, including a failure to perform by the third parties. If we need to enter into alternative arrangements, our product development activities might be delayed.

Our reliance on these third parties for research and development activities will reduce our control over these activities but will not relieve us of our responsibilities. For example, we will remain responsible for ensuring that each of our clinical trials is conducted in accordance with the general investigational plan and protocols for the trial. Moreover, the FDA requires us to comply with standards, commonly referred to as good clinical practices, for conducting, recording and reporting the results of clinical trials to assure that data and reported results are credible and accurate and that the rights, integrity and confidentiality of trial participants or patients are protected. We also are required to register ongoing clinical trials and post the results of completed clinical trials on a government-sponsored database, ClinicalTrials.gov, within specified timeframes. Failure to do so can result in fines, adverse publicity and civil and criminal sanctions.

Furthermore, these third parties may also have relationships with other entities, some of which may be our competitors. If these third parties do not successfully carry out their contractual duties, meet expected deadlines or conduct our clinical trials in accordance with regulatory requirements or our stated protocols, we will not be able to obtain, or may be delayed in obtaining, marketing approvals for our product candidates and will not be able to, or may be delayed in our efforts to, successfully commercialize our product candidates.

We also expect to rely on other third parties to store and distribute drug supply for our clinical trials and our commercial operations. Any performance failure on the part of our distributors could delay clinical development or marketing approval of our product candidates or commercialization of our products, producing additional losses and depriving us of potential product revenue.

We contract with third parties for the manufacture of tazemetostat for commercialization and clinical testing, and of any other product candidates that we develop for preclinical and clinical testing and for commercialization. This reliance on third parties increases the risk that we will not have sufficient quantities of our product candidates or products or such quantities at an acceptable cost or quality, which could delay, prevent or impair our development or commercialization efforts.

We do not have any manufacturing facilities and rely, and expect to continue to rely, on third parties for the manufacture of our product candidates for preclinical and clinical testing, as well as for commercial manufacture of tazemetostat and any other product candidates we develop that receive marketing approval. This reliance on third parties increases the risk that we will not have sufficient quantities of tazemetostat or any other product candidate or such quantities at an acceptable cost or quality, which could delay, prevent or impair our development or commercialization efforts.

We also expect to rely on third-party manufacturers or third-party collaborators for the manufacture of commercial supply of any other product candidates for which our collaborators or we obtain marketing approval. We may be unable to establish any agreements with third-party manufacturers or to do so on acceptable terms. Even if we are able to establish agreements with third-party manufacturers, reliance on third-party manufacturers entails additional risks, including:

- reliance on the third-party for regulatory compliance and quality assurance;
- the possible breach of the manufacturing agreement by the third party;
- the possible misappropriation of our proprietary information, including our trade secrets and know-how; and
- the possible termination or nonrenewal of the agreement by the third party at a time that is costly or inconvenient for us.

Third-party manufacturers may not be able to comply with current good manufacturing practices, or cGMP, regulations or similar regulatory requirements outside of the United States. Our failure, or the failure of our third-party manufacturers, to comply with applicable regulations could result in sanctions being imposed on us, including clinical holds, fines, injunctions, civil penalties, delays, suspension or withdrawal of approvals, license revocation, seizures or recalls of product candidates or products, operating restrictions and criminal prosecutions, any of which could significantly and adversely affect supplies of our products.

Tazemetostat and any other product candidate that we may develop may compete with other product candidates and products for access to manufacturing facilities. There are a limited number of manufacturers that operate under cGMP regulations and that might be capable of manufacturing for us.

Any performance failure on the part of our existing or future manufacturers could delay clinical development, or marketing approval, and could adversely impact our ability to sell our approved products. We have already built additional redundancy in our supply chain and have plans to continue to do so throughout 2020 for a second source for bulk drug substance and product. If our current contract manufacturers cannot perform as agreed, we may be required to replace such manufacturers. Although we believe that there are several potential alternative manufacturers who could manufacture tazemetostat, we may incur added costs and delays in identifying and qualifying any such replacement.

Our current and anticipated future dependence upon others for the manufacture of our product candidates or products may adversely affect our future profit margins and our ability to commercialize any products that receive marketing approval on a timely and competitive basis.

Risks Related to Our Intellectual Property

If we are unable to obtain and maintain patent protection for our technology and products or if the scope of the patent protection obtained is not sufficiently broad, our competitors could develop and commercialize technology and products similar or identical to ours, and our ability to successfully commercialize our technology and products may be impaired.

Our success depends in large part on our ability to obtain and maintain patent protection in the United States and other countries with respect to our proprietary technology and products. We seek to protect our proprietary position by filing patent applications in the United States and abroad related to our novel technologies and product candidates.

The patent prosecution process is expensive and time-consuming, and we may not be able to file and prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. It is also possible that we will fail to identify patentable aspects of our research and development output before it is too late to obtain patent protection. Moreover, in some circumstances, we do not have the right to control the preparation, filing and prosecution of patent applications, or to maintain the patents, covering technology that we license from third parties. Therefore, these patents and applications may not be prosecuted and enforced in a manner consistent with the best interests of our business.

The patent position of biotechnology and pharmaceutical companies generally is highly uncertain, involves complex legal and factual questions and has in recent years been the subject of much litigation. In addition, the laws of foreign countries may not protect our rights to the same extent as the laws of the United States. For example, European patent law restricts the patentability of methods of treatment of the human body more than United States law does. Publications of discoveries in the scientific literature often lag behind the actual discoveries, and patent applications in the United States and other jurisdictions are typically not published until 18 months after filing, or in some cases at all. Therefore, we cannot know with certainty whether we were the first to make the inventions claimed in our owned or licensed patents or pending patent applications, or that we were the first to file for patent protection of such inventions. As a result, the issuance, scope, validity, enforceability and commercial value of our patent rights are highly uncertain. Our pending and future patent applications may not result in patents being issued which protect our technology or products, in whole or in part, or which effectively prevent others from commercializing competitive technologies and products. Changes in either the patent laws or interpretation of the patent laws in the United States and other countries may diminish the value of our patents or narrow the scope of our patent protection.

In the United States, the patent term of a patent that covers an FDA-approved drug may also be eligible for patent term extension, which permits patent term restoration as compensation for the patent term lost during the FDA regulatory review process. The Hatch-Waxman Act permits a patent term extension of up to five years beyond the expiration of the patent. The length of the patent term extension is related to the length of time the drug is under regulatory review. Patent extension cannot extend the remaining term of a patent beyond a total of 14 years from the date of product approval and only one patent applicable to an approved drug may be extended. Similar provisions are available in Europe and other non-United States jurisdictions to extend the term of a patent that covers an approved drug. We have applied for patent term extension on a patent that covers the TAZVERIK drug substance based on the regulatory review of TAZVERIK for the treatment of adult and pediatric patients aged 16 years and older with metastatic or locally advanced ES not eligible for complete resection. In the future, if and when any additional product candidates receive FDA approval, we expect to apply for patent term extensions on patents covering those product candidates. We intend to seek patent term extensions for any of our issued patents in any jurisdiction where they are available, however there is no guarantee that the applicable authorities will agree with our assessment of whether such extensions should be granted, and even if granted, the length of such extensions.

Patent reform legislation such as the Leahy-Smith America Invents Act, or the Leahy-Smith Act, could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents. The Leahy-Smith Act includes a number of significant changes to United States patent law. These changes include provisions that affect the way patent applications are prosecuted, redefine prior art, provide more efficient and cost-effective avenues for competitors to challenge the validity of patents, and enable third-party submission of prior art to the U.S. Patent and Trademark Office during patent prosecution and additional procedures to attack the validity of a patent at U.S. Patent and Trademark Office administered post-grant proceedings, including post-grant review, *inter partes* review, and derivation proceedings. In addition, under the Leahy-Smith Act, the United States transitioned to a first inventor to file system in which, assuming that the other statutory requirements are met, the first inventor to file a patent application will be entitled to the patent on an invention regardless of whether a third party was the first to invent the claimed invention. As such, the Leahy-Smith Act and its implementation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents, all of which could have a material adverse effect on our business and financial condition.

Moreover, we may be subject to a third-party preissuance submission of prior art to the U.S. Patent and Trademark Office, or become involved in opposition, derivation, reexamination, *inter partes* review, post-grant review or interference proceedings challenging our patent rights or the patent rights of others. For example, we are involved in an opposition proceeding against one of our European patents, the claims of which cover a method for determining whether a cancer patient is a candidate for treatment with an EZH2 inhibitor based on their EZH2 mutation status. An adverse determination in any such submission, proceeding or litigation could reduce the scope of, or invalidate, our patent rights, allow third parties to commercialize our technology or products and compete directly with us, without payment to us, or result in our inability to manufacture or commercialize products without infringing third-party patent rights. In addition, if the breadth or strength of protection provided by our patents and patent applications is threatened, it could dissuade companies from collaborating with us to license, develop or commercialize current or future product candidates.

Even if our owned and licensed patent applications issue as patents, they may not issue in a form that will provide us with any meaningful protection, prevent competitors from competing with us or otherwise provide us with any competitive advantage.

Our competitors may be able to circumvent our owned or licensed patents by developing similar or alternative technologies or products in a non-infringing manner.

The issuance of a patent is not conclusive as to its inventorship, scope, validity or enforceability, and our owned and licensed patents may be challenged in the courts or patent offices in the United States and abroad. Such challenges may result in loss of exclusivity or freedom to operate or in patent claims being narrowed, invalidated or held unenforceable, in whole or in part, which could limit our ability to stop others from using or commercializing similar or identical technology and products, or limit the duration of the patent protection of our technology and products. Given the amount of time required for the development, testing and regulatory review of new product candidates, patents protecting such candidates might expire before or shortly after such candidates are commercialized. As a result, our owned and licensed patent portfolio may not provide us with sufficient rights to exclude others from commercializing products similar or identical to ours.

We may become involved in lawsuits to protect or enforce our patents or other intellectual property, which could be expensive, time consuming and unsuccessful.

Competitors may infringe our issued patents or other intellectual property. To counter infringement or unauthorized use, we may be required to file infringement claims, which can be expensive and time consuming. Any claims we assert against perceived infringers could provoke these parties to assert counterclaims against us alleging that we infringe their patents. In addition, in a patent infringement proceeding, a court may decide that a patent of ours is invalid or unenforceable, in whole or in part, construe the patent's claims narrowly or refuse to stop the other party from using the technology at issue on the grounds that our patents do not cover the technology in question. An adverse result in any litigation proceeding could put one or more of our patents at risk of being invalidated or interpreted narrowly.

We may need to license certain intellectual property from third parties, and such licenses may not be available or may not be available on commercially reasonable terms.

A third party may hold intellectual property, including patent rights, that are important or necessary to the development of our products. It may be necessary for us to use the patented or proprietary technology of third parties to commercialize our products, in which case we may be required to obtain a license from these third parties on commercially reasonable terms, or our business could be harmed, possibly materially.

Third parties may initiate legal proceedings alleging that we are infringing their intellectual property rights, the outcome of which would be uncertain and could have a material adverse effect on the success of our business.

Our commercial success depends upon our ability, and the ability of our collaborators, to develop, manufacture, market and sell our product candidates and use our proprietary technologies without infringing the proprietary rights of third parties. There is considerable intellectual property litigation in the biotechnology and pharmaceutical industries. We may become party to, or threatened with, litigation regarding intellectual property rights with respect to our products and technology. Third parties may assert infringement claims against us based on existing patents or patents that may be granted in the future. For example, with respect to tazemetostat, we are aware of U.S. patents held by a third party, which could be construed to cover tazemetostat and its use in certain clinical indications. We have preemptively requested *inter partes* review at the U.S. Patent and Trademark Office challenging the validity of two of such patents.

In the event that an owner of one or more of these patents were to bring an infringement action against us, we believe we have defenses that we could assert in such event, and additionally in the U.S. Patent & Trademark Office, including the invalidity of the relevant claims of such patents. However, we may not be successful in asserting these defenses, including proving invalidity, and could be found to infringe one or more of these third party patents.

If we are found to infringe a third party's intellectual property rights, we could be required to obtain a license from such third party to continue developing and marketing our products and technology. However, we may not be able to obtain any required license on commercially reasonable terms or at all. Even if we were able to obtain a license, it could be non-exclusive, thereby giving our competitors access to the same technologies licensed to us. We could be forced, including by court order, to cease commercializing the infringing technology or product. In addition, we could be found liable for monetary damages, including treble damages and attorneys' fees if we are found to have willfully infringed a patent. A finding of infringement could prevent us from commercializing our product candidates or force us to cease some of our business operations, which could materially harm our business. Claims that we have misappropriated the confidential information or trade secrets of third parties could have a similar negative impact on our business.

If we fail to comply with our obligations in our intellectual property licenses and funding arrangements with third parties, we could lose rights that are important to our business.

We are party to license and research agreements that impose, and we may enter into additional licensing and funding arrangements with third parties that may impose on us diligence, development and commercialization timelines, milestone payment, royalty, insurance and other obligations. Under our existing licensing and funding agreements, we are obligated to pay royalties on net product sales of product candidates or related technologies to the extent they are covered by the agreements. We also had diligence and development obligations under those agreements that we have satisfied. If we fail to comply with our obligations under current or future license and funding agreements, our counterparties may have the right to terminate these agreements, in which event we might not be able to develop, manufacture or market any product that is covered by these agreements or may face other penalties under the agreements. Such an occurrence could materially adversely affect the value of the product candidate being developed under any such agreement. Termination of these agreements or reduction or elimination of our rights under these agreements may result in our having to negotiate new or reinstated agreements with less favorable terms, or cause us to lose our rights under these agreements, including our rights to important intellectual property or technology.

We may be subject to claims by third parties asserting that our employees or we have misappropriated their intellectual property, or claiming ownership of what we regard as our own intellectual property.

Many of our employees were previously employed at universities or other biotechnology or pharmaceutical companies, including our competitors or potential competitors. Although we try to ensure that our employees do not use the proprietary information or know-how of others in their work for us, we may be subject to claims that these employees or we have used or disclosed intellectual property, including trade secrets or other proprietary information, of any such employee's former employer. Litigation may be necessary to defend against these claims.

In addition, while it is our policy to require our employees and contractors who may be involved in the development of intellectual property to execute agreements assigning such intellectual property to us, we may be unsuccessful in executing such an agreement with each party who in fact develops intellectual property that we regard as our own. Our and their assignment agreements may not be self-executing or may be breached, and we may be forced to bring claims against third parties, or defend claims they may bring against us, to determine the ownership of what we regard as our intellectual property.

If we fail in prosecuting or defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. Even if we are successful in prosecuting or defending against such claims, litigation could result in substantial costs and be a distraction to management.

Intellectual property litigation could cause us to spend substantial resources and distract our personnel from their normal responsibilities.

Even if resolved in our favor, litigation or other legal proceedings relating to intellectual property claims may cause us to incur significant expenses, and could distract our technical and management personnel from their normal responsibilities. In addition, there could be public announcements of the results of hearings, motions or other interim proceedings or developments and if securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our common stock. Such litigation or proceedings could substantially increase our operating losses and reduce the resources available for development activities or any future sales, marketing or distribution activities. We may not have sufficient financial or other resources to conduct such litigation or proceedings adequately. Some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively than we can because of their greater financial resources. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could compromise our ability to compete in the marketplace.

If we are unable to protect the confidentiality of our trade secrets, our business and competitive position would be harmed.

In addition to seeking patents for some of our technology and product candidates, we also rely on trade secrets, including unpatented know-how, technology and other proprietary information, to maintain our competitive position. We seek to protect these trade secrets, in part, by entering into non-disclosure and confidentiality agreements with parties who have access to them, such as our employees, corporate collaborators, outside scientific collaborators, contract manufacturers, consultants, advisors and other third parties. We also enter into confidentiality and invention or patent assignment agreements with our employees and consultants. Despite these efforts, any of these parties may breach the agreements and disclose our proprietary information, including our trade secrets, and we may not be able to obtain adequate remedies for such breaches. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive and time-consuming, and the outcome is unpredictable. In addition, some courts inside and outside of the United States are less willing or unwilling to protect trade secrets. If any of our trade secrets were to be lawfully obtained or independently developed by a competitor, we would have no right to prevent them, or those to whom they communicate it, from using that technology or information to compete with us. If any of our trade secrets were to be disclosed to or independently developed by a competitor, our competitive position would be harmed.

Risks Related to Regulatory Approval of Our Product Candidates and Other Legal Compliance Matters

The marketing approval process is expensive, time-consuming and uncertain and may prevent us from obtaining approvals for the commercialization of some or all of our product candidates. If we are not able to obtain, or if there are delays in obtaining, required regulatory approvals, we will not be able to commercialize tazemetostat for other indications or any other of our product candidates that we develop, and our ability to generate revenue will be materially impaired.

Our product candidates, including tazemetostat, and the activities associated with their development and commercialization, including their design, testing, manufacture, safety, efficacy, recordkeeping, labeling, storage, approval, advertising, promotion, sale and distribution, export and import are subject to comprehensive regulation by the FDA and other regulatory agencies in the United States and by the EMA and similar regulatory authorities outside of the United States.

In December 2019 we submitted an NDA to the FDA for TAZVERIK for the treatment of relapsed and refractory FL in patients who have received at least two prior systemic therapies. In February 2020, the NDA was accepted for filing by the FDA. In June 2020, the FDA granted accelerated approval of TAZVERIK for the treatment of adult patients with relapsed or refractory FL whose tumors are positive for an EZH2 mutation as detected by an FDA-approved test and who have received at least two prior systemic therapies, and for the treatment of adult patients with relapsed or refractory FL who have no satisfactory alternative treatment options.

Failure to obtain marketing approval for tazemetostat for any other indication or of any other product candidate will prevent us from commercializing the product candidate. We have only limited experience in filing and supporting the applications necessary to gain marketing approvals and rely on third-party clinical research organizations to assist us in this process.

Securing marketing approval requires the submission of extensive preclinical, clinical and manufacturing data and supporting information to regulatory authorities for each therapeutic indication to establish the product candidate's safety, efficacy and quality. Securing marketing approval also requires the submission of information about the product manufacturing process to, and inspection of manufacturing facilities by, the regulatory authorities. Our product candidates for which we seek approval may not be effective, may be only moderately effective or may prove to have undesirable or unintended side effects, toxicities or other characteristics that may preclude our obtaining marketing approval or prevent or limit commercial use. New cancer drugs frequently are indicated only for patient populations that have not responded to an existing therapy or have relapsed.

The process of obtaining marketing approvals, both in the United States and abroad, is expensive, may take many years if additional clinical trials are required, if approval is obtained at all, and can vary substantially based upon a variety of factors, including the type, complexity and novelty of the product candidates involved. Changes in marketing approval policies during the development period, changes in or the enactment of additional statutes or regulations, or changes in regulatory review for each submitted product application, may cause delays in the approval or rejection of an application. Regulatory authorities have substantial discretion in the approval process and may refuse to accept any application or may decide that our data is insufficient for approval and require additional preclinical, clinical or other studies, or additional manufacturing data. In addition, varying interpretations of the data obtained from preclinical and clinical testing could delay, limit or prevent marketing approval of a product candidate on an accelerated basis or at all. Any marketing approval we ultimately obtain may be limited or subject to restrictions or post-approval commitments that render the approved product not commercially viable.

We received accelerated approval of TAZVERIK in patients with ES and in patients with relapsed or refractory FL. In order to obtain accelerated approval for future indications in tazemetostat or any other product candidate, we must demonstrate that our product candidate provides meaningful therapeutic benefit over existing treatments. In addition, as a condition of accelerated approval of TAZVERIK in ES and FL, continued approval for these indications is contingent upon verification and description of clinical benefit in post-marketing confirmatory trials to verify and describe the anticipated effect on irreversible morbidity or mortality or other clinical benefit, and if the studies are unsuccessful for a given indication, TAZVERIK in ES or FL may be subject to withdrawal procedures.

Additionally, the FDA and comparable foreign regulatory agencies may have slower response times or be under-resourced to continue to monitor our future applications for accelerated approval or our ongoing clinical trials due to the COVID-19 pandemic and, as a result, review, inspection, and other timelines may be materially delayed. It is unknown how long these disruptions could continue, were they to occur. Any elongation or de-prioritization of our clinical trials or delay in regulatory review resulting from such disruptions could materially affect the development and study of our product candidates.

We may not be able to obtain, or may be delayed in obtaining, orphan drug exclusivity for our product candidates and, even if we do, that exclusivity may not prevent the FDA or the EMA from approving other competing products.

Regulatory authorities in some jurisdictions, including the United States and Europe, may designate drugs for relatively small patient populations as orphan drugs. Under the Orphan Drug Act, the FDA may designate a product as an orphan drug if it is a drug intended to treat a rare disease or condition, which is generally defined as a patient population of fewer than 200,000 individuals annually in the United States.

We have obtained orphan drug designations for tazemetostat for the treatment of patients with FL, chordoma, malignant rhabdoid tumors, or MRT, soft tissue sarcoma, or STS, and mesothelioma. The orphan drug designation for the treatment of MRT applies to INI1-negative MRT as well as SMARCA4-negative malignant rhabdoid tumor of ovary, or MRTO. We have also obtained orphan drug designations for tazemetostat for the treatment of patients with FL, DLBCL and malignant mesothelioma in Europe. We may not receive orphan drug designation for these product candidates for other indications, or for any other future clinical candidates we may develop.

Generally, if a product with an orphan drug designation subsequently receives the first marketing approval for the indication for which it has such designation, the product is entitled to a period of marketing exclusivity, which precludes the EMA or the FDA from approving another marketing application for the same drug for the same indication for that time period. The applicable period is seven years in the United States and ten years in Europe. The exclusivity period in Europe can be reduced to six years if a drug no longer meets the criteria for orphan drug designation or if the drug is sufficiently profitable so that market exclusivity is no longer justified. Orphan drug exclusivity may be lost if the FDA or EMA determines that the request for designation was materially defective or if the manufacturer is unable to assure sufficient quantity of the drug to meet the needs of patients with the rare disease or condition.

Even if we obtain orphan drug exclusivity for a product, that exclusivity may not effectively protect the product from competition because different drugs can be approved for the same condition. In addition, even after an orphan drug is approved, the FDA can subsequently approve the same drug for the same condition if the FDA concludes that the later drug is clinically superior in that it is shown to be safer, more effective or makes a major contribution to patient care.

On August 18, 2017, Congress passed the FDA Reauthorization Act of 2017, or FDARA. FDARA, among other things, codified the FDA's pre-existing regulatory interpretation, to require that a drug sponsor demonstrate the clinical superiority of an orphan drug that is otherwise the same as a previously approved drug for the same rare disease in order to receive orphan drug exclusivity. The new legislation reverses prior precedent holding that the Orphan Drug Act unambiguously requires that the FDA recognize the orphan exclusivity period regardless of a showing of clinical superiority. The FDA may further reevaluate the Orphan Drug Act and its regulations and policies. We do not know if, when, or how the FDA may change the orphan drug regulations and policies in the future, and it is uncertain how any changes might affect our business. Depending on what changes the FDA may make to its orphan drug regulations and policies, our business could be adversely impacted. In addition, FDARA amended section 505B "Research into pediatric uses for drugs and biological products" of the Federal Food, Drug and Cosmetic Act (21USC 355c). Previously, drugs that had been granted orphan drug designation were exempt from the requirements of the Pediatric Research Equity Act. Under the amended section 505B, beginning on August 18, 2020, the submission of a pediatric assessment, waiver or deferral will be required for certain molecularly targeted cancer indications with the submission of an NDA application or supplement to an NDA application. Under FDARA, products with orphan drug designation that fall under this category will no longer be exempt from the pediatric research requirement. In December 2019, the FDA issued draft guidance interpreting and implementing these provisions. FL qualifies for an automatic full pediatric waiver by the FDA because it rarely or never occurs in pediatric patients. However, our other indications in development or future product candidates may require a pediatric assessment, which could result in delays in obtaining orphan drug exclusivity and increased costs and delays in obtaining regulatory approval.

A Fast Track designation by the FDA, such as the Fast Track designation we received for tazemetostat, may not lead to a faster development or regulatory review or approval process.

We have announced that we have received Fast Track designation from the FDA for tazemetostat for patients with relapsed or refractory FL, relapsed or refractory DLBCL with EZH2 activating mutations, and metastatic or locally advanced ES who have progressed on or following an anthracycline-based treatment regimen. We intend to seek Fast Track designation for tazemetostat for other indications and for our other product candidates as appropriate. If a drug is intended for the treatment of a serious or life-threatening condition and the drug demonstrates the potential to address unmet medical needs for this condition, the drug sponsor may apply for FDA Fast Track designation. Drugs that have received Fast Track designation from the FDA are eligible for expedited development and priority review, and the opportunity for a rolling review, under certain circumstances. The FDA has broad discretion whether or not to grant this designation, so even if we believe a particular product candidate is eligible for this designation, we cannot assure that the FDA would decide to grant it. Even if we do receive Fast Track designation, as we have for tazemetostat, we may not experience a faster development process, review or approval compared to conventional FDA procedures. We or the FDA may withdraw Fast Track designation if either party believes that the designation is no longer supported by data from our clinical development program.

A breakthrough therapy designation by the FDA for our product candidates may not lead to a faster development or regulatory review or approval process, and it does not increase the likelihood that our product candidates will receive marketing approval.

A breakthrough therapy is defined as a drug that is intended, alone or in combination with one or more other drugs, to treat a serious or life-threatening disease or condition, and preliminary clinical evidence indicates that the drug may demonstrate substantial improvement over existing therapies on one or more clinically significant endpoints, such as substantial treatment effects observed early in clinical development. For drugs and biologics that have been designated as breakthrough therapies, interaction and communication between the FDA and the sponsor of the trial can help to identify the most efficient path for clinical development while minimizing the number of patients placed in ineffective control regimens. Drugs designated as breakthrough therapies by the FDA are also eligible for accelerated approval.

Designation as a breakthrough therapy is within the discretion of the FDA. Accordingly, even if we believe one of our product candidates meets the criteria for designation as a breakthrough therapy, the FDA may disagree and instead determine not to make such designation. Even if we receive breakthrough therapy designation, the receipt of such designation for a product candidate may not result in a faster development process, review or approval compared to drugs considered for approval under conventional FDA procedures and does not assure ultimate approval by the FDA. In addition, even if one or more of our product candidates qualify as breakthrough therapies, the FDA may later decide that the products no longer meet the conditions for qualification or decide that the time period for FDA review or approval will not be shortened.

Failure to obtain marketing approval in foreign jurisdictions would prevent our product candidates from being marketed in those jurisdictions.

In order to market and sell TAZVERIK or any other product candidate that we may develop in the European Union, or EU, and many other foreign jurisdictions, we or our third-party collaborators must obtain separate marketing approvals and comply with numerous and varying regulatory requirements. The approval procedure varies among countries and can involve additional testing. The time required to obtain approval may differ substantially from that required to obtain FDA approval. The regulatory approval process outside of the United States generally includes all of the risks associated with obtaining FDA approval. In addition, in many countries outside of the United States, a product must be approved for reimbursement before the product can be approved for sale in that country. We or our third-party collaborators may not obtain approvals from regulatory authorities outside of the United States on a timely basis, if at all. Approval by the FDA does not ensure approval by regulatory authorities in other countries or jurisdictions, and approval by one regulatory authority outside of the United States does not ensure approval by regulatory authorities in other countries or jurisdictions or by the FDA. We may not be able to file for marketing approvals and may not receive necessary approvals to commercialize our products in any market.

Additionally, on June 23, 2016, the electorate in the United Kingdom, or UK, voted in favor of leaving the EU, commonly referred to as Brexit. Following protracted negotiations, the UK left the EU on January 31, 2020. Under the withdrawal agreement, there is a transitional period until December 31, 2020 (extendable up to two years). Discussions between the UK and the EU have so far mainly focused on finalizing withdrawal issues and transition agreements but have been extremely difficult to date. To date, only an outline of a trade agreement has been reached. Much remains open but the Prime Minister has indicated that the UK will not seek to extend the transitional period beyond the end of 2020. If no trade agreement has been reached before the end of the transitional period, there may be significant market and economic disruption.

Since the regulatory framework for pharmaceutical products in the UK covering quality, safety, and efficacy of pharmaceutical products, clinical trials, marketing authorization, commercial sales, and distribution of pharmaceutical products is derived from EU directives and regulations, Brexit could materially impact the future regulatory regime that applies to products and the approval of product candidates in the UK. Any delay in obtaining, or an inability to obtain, any marketing approvals, as a result of Brexit or otherwise, may force us to restrict or delay efforts to seek regulatory approval in the UK and/or EU for our product candidates, which could significantly and materially harm our business.

If we are required by the FDA to obtain approval of a companion or complementary diagnostic in connection with approval of a candidate therapeutic product, and there are delays in obtaining FDA approval of a diagnostic device, we will not be able to commercialize the product candidate and our ability to generate revenue will be materially impaired.

According to FDA guidance, if the FDA determines that a companion diagnostic device is essential to the safe and effective use of a novel therapeutic product or indication, the FDA generally will not approve the therapeutic product or new therapeutic product indication if the companion or complementary diagnostic is not also approved or cleared for that indication. This is not the case for complementary diagnostics, which are not prerequisites for administration of a drug product. Under the Federal Food, Drug, and Cosmetic Act, companion or complementary diagnostics are regulated as medical devices, and the FDA has generally required companion or complementary diagnostics intended to select the patients who will respond to cancer treatment to obtain Premarket Approval, or a PMA, for the diagnostic. The PMA process, including the gathering of clinical, preclinical, and manufacturing data, and the submission to and review by the FDA, involves a rigorous premarket review during which the applicant must prepare and provide the FDA with reasonable assurance of the device's safety and effectiveness and information about the device and its components regarding, among other things, device design, manufacturing and labeling. A PMA is not guaranteed and may take considerable time, and the FDA may ultimately respond to a PMA submission with a "not approvable" determination based on deficiencies in the application and require additional clinical trial or other data that may be expensive and time-consuming to generate and that can substantially delay approval. As a result, if we are required by the FDA to obtain approval of a companion diagnostic for a candidate therapeutic product, and we do not obtain or there are delays in obtaining FDA approval of a diagnostic device, we may not be able to commercialize the product candidate on a timely basis or at all and our ability to generate revenue will be materially impaired.

Tazemetostat and any other product candidate for which we obtain marketing approval could be subject to post-marketing restrictions or withdrawal from the market and we may be subject to substantial penalties if we fail to comply with regulatory requirements or if we experience unanticipated problems with our products, when and if any of them are approved.

Tazemetostat and any other product candidate for which we obtain marketing approval, along with the manufacturing processes, post-approval clinical data, labeling, advertising and promotional activities for such product, will be subject to continual requirements of and review by the FDA and other regulatory authorities. These requirements include submissions of safety and other post-marketing information and reports, registration and listing requirements, cGMP requirements relating to manufacturing, quality control, quality assurance and corresponding maintenance of records and documents, requirements regarding the distribution of samples to physicians and recordkeeping. As a condition of accelerated approval, the FDA may require a sponsor to perform post-marketing confirmatory studies to verify and describe the predicted effect on irreversible morbidity or mortality or other clinical endpoint, and the drug may be subject to accelerated withdrawal procedures. Even if marketing approval of a product candidate is granted, the approval may be subject to limitations on the indicated uses for which the product may be marketed or to the conditions of approval, including the requirement to implement a risk evaluation and mitigation strategy. New cancer drugs frequently are indicated only for patient populations that have not responded to an existing therapy or have relapsed. If tazemetostat or any other product candidate that we may develop receives marketing approval, the accompanying label may limit the approved use of our drug in this way, which could limit sales of the product.

The FDA may also impose requirements for costly post-marketing studies or clinical trials and surveillance to monitor the safety or efficacy of the product for any approved indication. The FDA and other agencies, including the Department of Justice, or the DOJ, closely regulate and monitor the post-approval marketing and promotion of drugs to ensure they are marketed and distributed only for the approved indications and in accordance with the provisions of the approved labeling. The FDA and DOJ impose stringent restrictions on manufacturers' communications regarding off-label use, and if we do not market our products for their approved indications, we may be subject to enforcement action for off-label marketing. Violations of the Federal Food, Drug, and Cosmetic Act and other statutes, including the False Claims Act, relating to the promotion and advertising of prescription drugs may lead to investigations and enforcement actions alleging violations of federal and state health care fraud and abuse laws, as well as state consumer protection laws.

In addition, later discovery of previously unknown adverse events or other problems with our products, manufacturers or manufacturing processes, or failure to comply with regulatory requirements, may yield various results, including:

- restrictions on such products, manufacturers or manufacturing processes;
- restrictions on the labeling or marketing of a product;
- restrictions on product distribution or use;
- requirements to conduct post-marketing studies or clinical trials;
- warning letters or untitled letters;
- withdrawal of the products from the market;
- refusal to approve pending applications or supplements to approved applications that we submit;
- recall of products;
- fines, restitution or disgorgement of profits or revenues;
- suspension or withdrawal of marketing approvals;
- damage to relationships with any potential collaborators;
- unfavorable press coverage and damage to our reputation;
- refusal to permit the import or export of our products;
- product seizure;
- injunctions or the imposition of civil or criminal penalties; or
- litigation involving patients using our products.

We conduct a substantial portion of our clinical trials in the EU. Non-compliance with EU and UK requirements regarding safety monitoring or pharmacovigilance, and with requirements related to the development of products for the pediatric population, can also result in significant financial penalties.

Our relationships with healthcare providers and third-party payors are subject to applicable anti-kickback, fraud and abuse and other healthcare laws and regulations, which, in the event of a violation, could expose us to criminal sanctions, civil penalties, contractual damages, reputational harm and diminished profits and future earnings.

Healthcare providers and third-party payors play a primary role in the recommendation and prescription of TAZVERIK and will play a primary role in the recommendation and prescription of any future product candidates for which we obtain marketing approval. Our current and future arrangements with healthcare providers and third-party payors may expose us to broadly applicable fraud and abuse and other healthcare laws and regulations that may constrain the business or financial arrangements and relationships through which we market, sell and distribute any products for which we obtain marketing approval. Restrictions under applicable federal and state healthcare laws and regulations include the following:

- the federal Anti-Kickback Statute prohibits, among other things, persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in cash or in kind, to induce or reward, or in return for, either the referral of an individual for, or the purchase, order or recommendation or arranging of, any good or service, for which payment may be made under a federal healthcare program such as Medicare and Medicaid. Several courts have interpreted the statute's intent requirement to mean that if any one purpose of arrangement involving remuneration is to induce referrals of a federal healthcare covered business, the statute has been violated. In addition, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act, or collectively, the PPACA, amended the intent requirement of the federal Anti-Kickback Statute such that a person or entity no longer needs to have actual knowledge of the statute or specific intent to violate it to have committed a violation. The Anti-Kickback Statute is broad and prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. Penalties for violations of the federal Anti-Kickback Statute include criminal penalties and civil sanctions such as fines, imprisonment and possible exclusion from Medicare, Medicaid and other federal healthcare programs;

- the federal False Claims Act imposes criminal and civil penalties, including through civil whistleblower or *qui tam* actions, against individuals or entities for, among other things, knowingly presenting, or causing to be presented, false or fraudulent claims for payment by a federal healthcare program or making a false statement or record material to payment of a false claim or avoiding, decreasing or concealing an obligation to pay money to the federal government, with potential liability including mandatory treble damages and significant per-claim penalties, currently set at a minimum of \$11,665 and a maximum of \$23,331 per false claim;
- the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, imposes criminal and civil liability for executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters;
- HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act and its implementing regulations, also imposes obligations, including mandatory contractual terms, with respect to safeguarding the privacy, security and transmission of individually identifiable health information;
- the federal Physician Payments Sunshine Act requires applicable manufacturers of covered drugs to report payments and other transfers of value to physicians and teaching hospitals; and
- analogous state laws and regulations, such as state anti-kickback and false claims laws and transparency statutes, may apply to sales or marketing arrangements and claims involving healthcare items or services reimbursed by non-governmental third-party payors, including private insurers.

Some state laws require pharmaceutical companies to comply with the pharmaceutical industry's voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government and may require drug manufacturers to report information related to payments and other transfers of value to physicians and other healthcare providers or marketing expenditures. Federal, state and foreign laws also govern the privacy and security of health information in some circumstances, many of which differ from each other in significant ways and often are not preempted by HIPAA, thus complicating compliance efforts. For example, EU member states and other foreign jurisdictions, including Switzerland, have adopted data protection laws and regulations which impose significant compliance obligations. Moreover, the collection and use of personal health data in the EU is governed by the provisions of the EU General Data Protection Regulation, or the GDPR. The GDPR, which is wide-ranging in scope, imposes several requirements relating to the control over personal data by individuals to whom the personal data relates, the information provided to the individuals, the documentation we must maintain, the security and confidentiality of the personal data, data breach notification and the use of third-party processors in connection with the processing of personal data. The GDPR also imposes strict rules on the transfer of personal data out of the EU, provides an enforcement authority and authorizes the imposition of large penalties for noncompliance, including the potential for fines of up to €20 million or 4% of the annual global revenues of the non-compliant company, whichever is greater. The GDPR requirements apply not only to third-party transactions, but also to transfers of information between us and our subsidiaries, including employee information. The GDPR may increase our responsibility and potential liability in relation to personal data that we may process compared to prior EU law, including in clinical trials, and we may be required to put in place additional mechanisms to ensure compliance with the GDPR, which could divert management's attention and increase our cost of doing business.

The provision of benefits or advantages to physicians to induce or encourage the prescription, recommendation, endorsement, purchase, supply, order or use of medicinal products is also prohibited in the EU. The provision of benefits or advantages to physicians is governed by the national anti-bribery laws of EU Member States, and, in the UK, the U.K. Bribery Act 2010. Infringement of these laws could result in substantial fines and imprisonment.

Payments made to physicians in certain EU Member States must be publicly disclosed. Moreover, agreements with physicians often must be the subject of prior notification and approval by the physician's employer, his or her competent professional organization and/or the regulatory authorities of the individual EU Member States. These requirements are provided in the national laws, industry codes or professional codes of conduct applicable in the EU Member States. Failure to comply with these requirements could result in reputational risk, public reprimands, administrative penalties, fines or imprisonment.

Efforts to ensure that our business with third parties will comply with applicable healthcare laws and regulations will involve substantial costs. For instance, the U.S. Foreign Corrupt Practices Act, or FCPA, prohibits companies and individuals from engaging in specified activities to obtain or retain business or to influence a person working in an official capacity. Under the FCPA, it is illegal to pay, offer to pay, or authorize the payment of anything of value to any foreign government official, governmental staff members, political party or political candidate in an attempt to obtain or retain business or to otherwise influence a person working in an official capacity. The FCPA also requires public companies to make and keep books and records that accurately and fairly reflect the transactions of the corporation and to devise and maintain an adequate system of internal accounting controls.

In order to comply with these laws, we have implemented a compliance program to actively identify, prevent and mitigate risk through the implementation of compliance policies and systems and by promoting a culture of compliance. Although we take our obligation to maintain our compliance with these various laws and regulations seriously and our compliance program is designed to prevent the violation of these laws and regulations, we cannot guarantee that our compliance program will be sufficient or effective, that we will be able to integrate the operations of acquired businesses into our compliance program on a timely basis, that our employees will comply with our policies and that our employees will notify us of any violation of our policies, that we will have the ability to take appropriate and timely corrective action in response to any such violation, or that we will make decisions and take actions that will necessarily limit or avoid liability for whistleblower claims that individuals, such as employees or former employees, may bring against us or that governmental authorities may prosecute against us based on information provided by individuals. If we are found to be in violation of any of the laws and regulations described above or other applicable federal, state and foreign healthcare laws, we may be subject to penalties, including civil, criminal and administrative penalties, damages, fines, disgorgement, contractual damages, reputational harm, imprisonment, diminished profits and future earnings, exclusion from government healthcare reimbursement programs, additional reporting requirements and oversight if we become subject to a corporate integrity agreement or similar agreement to resolve allegations of non-compliance with these laws, and/or the curtailment or restructuring of our operations, any of which could have a material adverse effect on our business, results of operations and growth prospects. Any action against us for violation of these laws or regulations, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business. Moreover, achieving and sustaining compliance with applicable federal, state and foreign healthcare laws is costly and time-consuming for our management.

Recently enacted and future legislation may increase the difficulty and cost for us to obtain marketing approval of and commercialize our product candidates and affect the prices we may obtain.

In the United States and some foreign jurisdictions, there have been a number of legislative and regulatory changes and proposed changes regarding the healthcare system that could prevent or delay marketing approval of our product candidates, restrict or regulate post-approval activities and affect our ability to profitably sell any product candidates for which we obtain marketing approval. In the United States, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, or the MMA, changed the way Medicare covers and pays for pharmaceutical products. The legislation expanded Medicare coverage for drug purchases by the elderly and introduced a new reimbursement methodology based on average sales prices for physician-administered drugs. In addition, this legislation provided authority for limiting the number of drugs that will be covered in any therapeutic class. Cost reduction initiatives and other provisions of this legislation could decrease the coverage and price that we receive for any approved products. While the MMA applies only to drug benefits for Medicare beneficiaries, private payors often follow Medicare coverage policy and payment limitations in setting their own reimbursement rates. Therefore, any reduction in reimbursement that results from the MMA may result in a similar reduction in payments from private payors.

In March 2010, the U.S. Congress PPACA, a sweeping law which included changes to the coverage and reimbursement of drug products under government healthcare programs.

Among the provisions of the PPACA of importance to our potential product candidates are the following:

- an annual, nondeductible fee on any entity that manufactures or imports specified branded prescription drugs and biologic agents;
- an increase in the statutory minimum rebates a manufacturer must pay under the Medicaid Drug Rebate Program;
- expansion of healthcare fraud and abuse laws, including the False Claims Act and the Anti-Kickback Statute, new government investigative powers, and enhanced penalties for noncompliance;
- a Medicare Part D coverage gap discount program, in which manufacturers must agree to offer 50% point-of-sale discounts off negotiated prices;
- extension of manufacturers' Medicaid rebate liability;
- expansion of eligibility criteria for Medicaid programs;
- expansion of the entities eligible for discounts under the Public Health Service pharmaceutical pricing program;
- requirements to report financial arrangements with physicians and teaching hospitals;
- a requirement to annually report drug samples that manufacturers and distributors provide to physicians; and
- a Patient-Centered Outcomes Research Institute to oversee, identify priorities in, and conduct comparative clinical effectiveness research, along with funding for such research.

Further, other legislative changes have been proposed and adopted since the PPACA was enacted. These changes include aggregate reductions to Medicare payments to providers of up to 2% per fiscal year, starting in 2013. In January 2013, the American Taxpayer Relief Act of 2012 became law, which, among other things, reduced Medicare payments to several providers, and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. These new laws may result in additional reductions in Medicare and other healthcare funding and otherwise affect the prices we may obtain for any of our product candidates for which we may obtain regulatory approval or the frequency with which any such product candidate is prescribed or used. The CARES Act, which was signed into law on March 27, 2020 and designed to provide financial support and resources to individuals and businesses affected by the COVID-19 pandemic, suspended the 2% Medicare sequester from May 1, 2020 to December 31, 2020 and extended the sequester by one year, through 2030, in order to offset the added expense of the 2020 cancellation.

We expect that these healthcare reforms, as well as other healthcare reform measures that may be adopted in the future, may result in additional reductions in Medicare and other healthcare funding, more rigorous coverage criteria, new payment methodologies and additional downward pressure on the price that we receive for any approved product and/or the level of reimbursement physicians receive for administering any approved product we might bring to market. Reductions in reimbursement levels may negatively impact the prices we receive or the frequency with which our products are prescribed or administered. Any reduction in reimbursement from Medicare or other government programs may result in a similar reduction in payments from private payors.

Since enactment of the PPACA, there have been, and continue to be, numerous legal challenges and Congressional actions to repeal and replace provisions of the law. For example, with enactment of the Tax Cuts and Jobs Act of 2017, which was signed by President Trump on December 22, 2017, Congress repealed the “individual mandate.” The repeal of this provision, which requires most Americans to carry a minimal level of health insurance, will become effective in 2019. Additionally, the 2020 federal spending package permanently eliminated, effective January 1, 2020, the PPACA-mandated “Cadillac” tax on high-cost employer-sponsored health coverage and medical device tax and, effective January 1, 2021, also eliminates the health insurer tax. Further, the Bipartisan Budget Act of 2018, among other things, amended the PPACA, effective January 1, 2019, to increase from 50 percent to 70 percent the point-of-sale discount that is owed by pharmaceutical manufacturers who participate in Medicare Part D and to close the coverage gap in most Medicare drug plans, commonly referred to as the “donut hole.” The Congress may consider other legislation to replace elements of the PPACA during future Congressional session.

The Trump administration has also taken executive actions to undermine or delay implementation of the PPACA. Since January 2017, President Trump has signed two Executive Orders designed to delay the implementation of certain provisions of the PPACA or otherwise circumvent some of the requirements for health insurance mandated by the PPACA. One Executive Order directs federal agencies with authorities and responsibilities under the PPACA to waive, defer, grant exemptions from, or delay the implementation of any provision of the PPACA that would impose a fiscal or regulatory burden on states, individuals, healthcare providers, health insurers, or manufacturers of pharmaceuticals or medical devices. The second Executive Order terminates the cost-sharing subsidies that reimburse insurers under the PPACA. Several state Attorneys General filed suit to stop the Trump administration from terminating the subsidies, but their request for a restraining order was denied by a federal judge in California on October 25, 2017. In addition, Centers for Medicare & Medicaid Services, or CMS, has proposed regulations that would give states greater flexibility in setting benchmarks for insurers in the individual and small group marketplaces, which may have the effect of relaxing the essential health benefits required under the PPACA for plans sold through such marketplaces. On November 30, 2018, CMS announced a proposed rule that would amend the Medicare Advantage and Medicare Part D prescription drug benefit regulations to reduce out of pocket costs for plan enrollees and allow Medicare plans to negotiate lower rates for certain drugs. Among other things, the proposed rule changes would allow Medicare Advantage plans to use preauthorization, or PA, and step therapy, or ST, for six protected classes of drugs; with certain exceptions, permit plans to implement PA and ST in Medicare Part B drugs; and change the definition of “negotiated prices” and definition of “price concession” in the regulations. It is unclear whether these proposed changes will be accepted, and if so, what effect such changes will have on our business. Further, on June 14, 2018, U.S. Court of Appeals for the Federal Circuit ruled that the federal government was not required to pay more than \$12 billion in PPACA risk corridor payments to third-party payors who argued were owed to them. On April 27, 2020, that decision was reversed by the U.S. Supreme Court.

In addition, on December 14, 2018, a U.S. District Court judge in the Northern District of Texas ruled that the individual mandate portion of the PPACA is an essential and inseparable feature of the PPACA, and therefore because the mandate was repealed as part of the Tax Cuts and Jobs Act, the remaining provisions of the PPACA are invalid as well. The Trump administration and CMS have both stated that the ruling will have no immediate effect, and on December 30, 2018 the same judge issued an order staying the judgment pending appeal. The Trump Administration recently represented to the Court of Appeals considering this judgment that it does not oppose the lower court’s ruling. On July 10, 2019, the Court of Appeals for the Fifth Circuit heard oral argument in this case. On December 18, 2019, that court affirmed the lower court’s ruling that the individual mandate portion of the PPACA is unconstitutional and it remanded the case to the district court for reconsideration of the severability question and additional analysis of the provisions of the PPACA. On January 21, 2020, the U.S. Supreme Court declined to review this decision on an expedited basis,

but, on March 3, 2020, the Court agreed to hear the case. Thereafter, the Trump Administration filed a brief in this case supporting the decision of the Court of Appeals. Litigation and legislation over the PPACA are likely to continue, with unpredictable and uncertain results.

Specifically, there have been several recent U.S. congressional inquiries and proposed federal and proposed and enacted state legislation designed to, among other things, bring more transparency to drug pricing, review the relationship between pricing and manufacturer patient programs, reduce the costs of drugs under Medicare and reform government program reimbursement methodologies for drug products. At the federal level, Congress and the Trump administration have each indicated that it will continue to seek new legislative and/or administrative measures to control drug costs. For example, the Trump Administration's 2021 budget proposal includes a \$135 billion allowance to support legislative proposals seeking to reduce drug prices, increase competition, lower out-of-pocket drug costs for patients and increase patient access to lower cost of generic drugs and biosimilars. In addition, on December 23, 2019, the Trump Administration published a proposed rulemaking that, if finalized, would allow states or certain other non-federal government entities to submit importation program proposals to the FDA for review and approval. Applicants would be required to demonstrate their importation plans pose no additional risk to public health and safety and will result in significant cost savings for consumers. At the same time, the FDA issued draft guidance that would allow manufacturers to import their own FDA-approved drugs that are authorized for sale in other countries (multi-market approved products).

The costs of prescription pharmaceuticals in the United States has also been the subject of considerable discussion in the United States, and members of Congress and the Trump administration have stated that they will address such costs through new legislative and administrative measures.

Legislative and regulatory proposals have been made to expand post-approval requirements and restrict sales and promotional activities for pharmaceutical products. We cannot be sure whether additional legislative changes will be enacted, or whether the FDA regulations, guidance or interpretations will be changed, or what the impact of such changes on the marketing approvals of our product candidates, if any, may be. Increased scrutiny by the U.S. Congress of the FDA's approval process may significantly delay or prevent marketing approval, as well as subject us to more stringent product labeling and post-marketing testing and other requirements.

Governments outside of the United States tend to impose strict price controls, which may adversely affect our revenues, if any.

In some countries, particularly the countries of the EU, the pricing of prescription pharmaceuticals is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a product. To obtain reimbursement or pricing approval in some countries, we may be required to conduct a clinical trial that compares the cost-effectiveness of our product candidate to other available therapies. If reimbursement of our products is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, our ability to generate revenues and become profitable could be impaired, or our business could be harmed, possibly materially.

If we fail to comply with environmental, health and safety laws and regulations, we could become subject to fines or penalties or incur costs that could harm our business.

We are subject to numerous environmental, health and safety laws and regulations, including those governing laboratory procedures and the handling, use, storage, treatment and disposal of hazardous materials and wastes. Our operations involve the use of hazardous and flammable materials, including chemicals and biological materials. Our operations also produce hazardous waste products. We generally contract with third parties for the disposal of these materials and wastes. We cannot eliminate the risk of contamination or injury from these materials. In the event of contamination or injury resulting from our use of hazardous materials, we could be held liable for any resulting damages, and any liability could exceed our resources. We also could incur significant costs associated with civil or criminal fines and penalties for failure to comply with such laws and regulations.

Although we maintain workers' compensation insurance to cover us for costs and expenses we may incur due to injuries to our employees resulting from the use of hazardous materials, this insurance may not provide adequate coverage against potential liabilities. We do not maintain insurance for environmental liability or toxic tort claims that may be asserted against us in connection with our storage or disposal of biological, hazardous or radioactive materials.

In addition, we may incur substantial costs in order to comply with current or future environmental, health and safety laws and regulations. These current or future laws and regulations may impair our research, development or production efforts. Our failure to comply with these laws and regulations also may result in substantial fines, penalties or other sanctions.

Our employees may engage in misconduct or other improper activities, including non-compliance with regulatory standards and requirements, which could cause significant liability for us and harm our reputation.

We are exposed to the risk of employee fraud or other misconduct, including intentional failures to comply with FDA regulations or similar regulations of comparable foreign regulatory authorities, provide accurate information to the FDA or comparable foreign regulatory authorities, comply with manufacturing standards we have established, comply with federal and state healthcare fraud and abuse laws and regulations and similar laws and regulations established and enforced by comparable foreign regulatory authorities, report financial information or data accurately or disclose unauthorized activities to us. Employee misconduct could also involve the improper use of information obtained in the course of clinical trials, which could result in regulatory sanctions and serious harm to our reputation. It is not always possible to identify and deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws, standards or regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business and results of operations, including the imposition of significant fines or other sanctions.

Our internal information systems, or those of any collaborators, contractors, consultants, vendors, business partners or other third parties, may fail or suffer security breaches, which could result in a material disruption of our product development programs.

We collect, store and transmit large amounts of confidential information, including personal information and information relating to intellectual property, on internal information systems and through the information systems of our collaborators, contractors, consultants, vendors, business partners or other third parties.

Despite the implementation of security measures, our internal information systems and those of third parties are vulnerable to damage from computer viruses, malware, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. Such systems are also vulnerable to service interruptions or to security breaches from inadvertent or intentional actions by our employees, our collaborators, contractors, consultants, vendors, business partners and other third parties, or from cyberattacks by malicious third parties over the Internet or through other mechanisms. Cyberattacks are increasing in their frequency, sophistication and intensity, and have become increasingly difficult to detect. Cyberattacks could include the deployment of harmful malware, ransomware, denial of service attacks, social engineering and other means to affect service reliability and threaten the confidentiality, integrity and availability of information. Cyberattacks also could include phishing attempts or e-mail fraud to cause payments or information to be transmitted to an unintended recipient.

While we have not experienced any such material system failure, accident, cyber-attack or security breach to date, if such an event were to occur and cause interruptions in our operations, it could result in a material disruption of our development programs, clinical trials and business operations, whether due to a loss of our trade secrets or other proprietary information or other similar disruptions, in addition to possibly requiring substantial expenditures of resources to remedy. For example, the loss of clinical trial data from clinical trials could result in delays or termination of our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. In addition, as risks with respect to our information systems continue to evolve, we will incur additional costs to maintain the security of our information systems and comply with evolving laws and regulations pertaining to cybersecurity and related areas. To the extent that any disruption or security breach were to result in a loss of, or damage to, our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur liability, including regulatory fines and other losses with respect to privacy claims, enrollment in our clinical trials could be negatively affected, our competitive position and reputation could be harmed and the further development and commercialization of our product candidates could be delayed.

Risks Related to Employee Matters and Managing Growth

Our future success depends on our ability to retain key executives and to attract, retain and motivate qualified personnel.

We are highly dependent on the research and development, clinical and business expertise of our executive officers as well as the other principal members of our management, scientific and clinical teams. Although we have entered into employment letter agreements with our executive officers, each of them may terminate their employment with us at any time. For instance, since January 1, 2017, we have had multiple executive officers, including among others our former Executive Vice President and Chief Financial Officer, our former Chief Business Officer, our former President of Research and Chief Scientific Officer, and our former Executive Vice President and Chief Medical Officer terminate their employment with us. We do not maintain “key person” insurance for any of our executives or other employees.

Recruiting and retaining qualified scientific, clinical, manufacturing, regulatory, and sales and marketing personnel will also be critical to our success. The loss of the services of our executive officers or other key employees could impede the achievement of our research, development and commercialization objectives and seriously harm our ability to successfully implement our business strategy. Furthermore, replacing executive officers and key employees may be difficult and may take an extended period of time because of the limited number of individuals in our industry with the breadth of skills and experience required to successfully develop, gain regulatory approval of and commercialize products. Competition to hire from this limited pool is intense, and we may be unable to hire, train, retain or motivate these key personnel on acceptable terms given the competition among numerous pharmaceutical and biotechnology companies, universities and research institutions for similar personnel. In addition, we rely on consultants and advisors, including scientific and clinical advisors, to assist us in formulating our research and development and commercialization strategy. Our consultants and advisors may be employed by employers other than us and may have commitments under consulting or advisory contracts with other entities that may limit their availability to us. If we are unable to continue to attract and retain high quality personnel, our ability to pursue our growth strategy will be limited.

We expect to expand our development, regulatory, sales, marketing and distribution capabilities, and as a result, we may encounter difficulties in managing our growth, which could disrupt our operations.

We expect to experience significant growth in the number of our employees and the scope of our operations, particularly in the areas of drug development, regulatory affairs and, sales, marketing and distribution. To manage our anticipated future growth, we must continue to implement and improve our managerial, operational and financial systems, expand our facilities and continue to recruit and train additional qualified personnel. Due to our limited financial resources and the limited experience of our management team in managing a company with such anticipated growth, we may not be able to effectively manage the expansion of our operations or recruit and train additional qualified personnel. The expansion of our operations may lead to significant costs and may divert our management and business development resources. Any inability to manage growth could delay the execution of our business plans or disrupt our operations.

Risks Related to Our Common Stock

Provisions in our corporate charter documents, under Delaware law and in our collaboration agreements could make an acquisition of our company, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management.

Provisions in our certificate of incorporation, our bylaws and our collaboration agreements may discourage, delay or prevent a merger, acquisition or other change in control of our company that stockholders may consider favorable, including transactions in which stockholders might otherwise receive a premium for their shares. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock, thereby depressing the market price of our common stock. In addition, because our board of directors is responsible for appointing the members of our management team, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors. Among other things, these provisions:

- establish a classified board of directors such that only one of three classes of directors is elected each year;
- allow the authorized number of our directors to be changed only by resolution of our board of directors;
- limit the manner in which stockholders can remove directors from our board of directors;
- establish advance notice requirements for stockholder proposals that can be acted on at stockholder meetings and nominations to our board of directors;
- require that stockholder actions must be effected at a duly called stockholder meeting and prohibit actions by our stockholders by written consent;
- limit who may call stockholder meetings;
- authorize our board of directors to issue preferred stock without stockholder approval, which could be used to institute a “poison pill” that would work to dilute the stock ownership of a potential hostile acquirer, effectively preventing acquisitions that have not been approved by our board of directors; and
- require the approval of the holders of at least 75% of the votes that all our stockholders would be entitled to cast to amend or repeal specified provisions of our certificate of incorporation or bylaws.

Moreover, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which prohibits a person who owns in excess of 15% of our outstanding voting stock from merging or combining with us for a period of three years after the date of the transaction in which the person acquired in excess of 15% of our outstanding voting stock, unless the merger or combination is approved in a prescribed manner.

An active trading market for our common stock may not be sustained.

Although our common stock is listed on The Nasdaq Global Select Market, an active trading market for our shares may not be sustained. If an active market for our common stock does not continue, it may be difficult for our stockholders to sell their shares without depressing the market price for the shares or sell their shares at all. Any inactive trading market for our common stock may also impair our ability to raise capital to continue to fund our operations by selling shares and may impair our ability to acquire other companies or technologies by using our shares as consideration.

The price of our common stock has been and may in the future be volatile and fluctuate substantially.

Our stock price has been and may in the future be volatile. The stock market in general and the market for smaller biopharmaceutical companies in particular have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. From January 1, 2019 until July 30, 2020, the sale price of our common stock as reported on the Nasdaq Global Select Market ranged from a high of \$27.82 to a low of \$5.81. The market price for our common stock may be influenced by many factors, including:

- the commercial success of TAZVERIK;
- regulatory developments with respect to tazemetostat;
- the success of competitive products or technologies;
- results of clinical trials of our product candidates or those of our competitors;
- regulatory or legal developments in the United States and other countries;
- developments or disputes concerning patent applications, issued patents or other proprietary rights;
- the recruitment or departure of key personnel;
- the level of expenses related to any of our products, product candidates or clinical development programs;
- the results of our efforts to discover, develop, acquire or in-license additional product candidates or products;
- actual or anticipated changes in estimates as to financial results, development timelines or recommendations by securities analysts;
- variations in our financial results or the financial results of companies that are perceived to be similar to us;
- changes in the structure of healthcare payment systems;
- market conditions in the pharmaceutical and biotechnology sectors;
- general economic, industry and market conditions;
- disruptions in the financial markets caused by the COVID-19 pandemic; and
- the other factors described in this Risk Factors section.

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

Subject to certain restrictions in our Loan Agreement documents or in other third-party agreements we may enter into from time to time, our management has broad discretion to use our cash and cash equivalents to fund our operations and could spend these funds in ways that do not improve our results of operations or enhance the value of our common stock. The failure by our management to apply these funds effectively could result in financial losses that could have a material adverse effect on our business, cause the price of our common stock to decline, delay the development of our product candidates, or adversely impact the success of our commercialization efforts with respect to TAZVERIK. Pending their use to fund operations, we may invest our cash and cash equivalents in a manner that does not produce income or that loses value.

Changes in tax laws or in their implementation or interpretation could adversely affect our business and financial condition.

Recent changes in tax law may adversely affect our business or financial condition. On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act of 2017, or the TCJA, which significantly revised the Internal Revenue Code of 1986, as amended, or the Code. The TCJA, among other things, contained significant changes to corporate taxation, including a reduction of the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%, the limitation of the tax deduction for interest expense to 30% of adjusted taxable income (except for certain small businesses), the limitation of the deduction for net operating losses arising in taxable years beginning after December 31, 2017 to 80% of current year taxable income and elimination of net operating loss carrybacks for losses arising in taxable years ending after December 31, 2017 (though any such net operating losses may be carried forward indefinitely), the imposition of a one-time taxation of offshore earnings at reduced rates regardless of whether they are repatriated, the elimination of U.S. tax on foreign earnings (subject to certain important exceptions), the allowance of immediate deductions for certain new investments instead of deductions for depreciation expense over time, and the modification or repeal of many business deductions and credits.

As part of Congress' response to the COVID-19 pandemic, the Families First Coronavirus Response Act, or FFCR Act, was enacted on March 18, 2020, and the Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, was enacted on March 27, 2020. Both contain numerous tax provisions. In particular, the CARES Act retroactively and temporarily (for taxable years beginning before January 1, 2021) suspends application of the 80%-of-income limitation on the use of net operating losses, which was enacted as part of the TCJA. It also provides that net operating losses arising in any taxable year beginning after December 31, 2017, and before January 1, 2021 are generally eligible to be carried back up to five years. The CARES Act also temporarily (for taxable years beginning in 2019 or 2020) relaxes the limitation of the tax deductibility for net interest expense by increasing the limitation from 30 to 50% of adjusted taxable income.

Regulatory guidance under the TCJA, the FFCR Act and the CARES Act is and continues to be forthcoming, and such guidance could ultimately increase or lessen impact of these laws on our business and financial condition. It is also likely that Congress will enact additional legislation in connection with the COVID-19 pandemic, some of which could have an impact on our company. In addition, it is uncertain if and to what extent various states will conform to the TCJA, the FFCR Act or the CARES Act.

We will continue to incur increased costs as a result of operating as a public company, and our management will be required to devote substantial time to compliance initiatives and corporate governance practices.

As a public company, and particularly now that we are no longer an emerging growth company as of January 1, 2019, we will continue to incur significant legal, accounting and other expenses. The Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of The Nasdaq Global Select Market and other applicable securities rules and regulations impose various requirements on public companies, including establishment and maintenance of effective disclosure and financial controls and corporate governance practices. Our management and other personnel will need to continue to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations will increase our legal and financial compliance costs and make some activities more time-consuming and costly.

We cannot predict or estimate the amount of additional costs we may incur to continue to operate as a public company, nor can we predict the timing of such costs. These rules and regulations are often subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, we are required to furnish a report by our management on our internal control over financial reporting. Now that we are no longer an emerging growth company, we are also required to include an attestation report on internal control over financial reporting issued by our independent registered public accounting firm. To achieve compliance with Section 404 within the prescribed period, we are engaged in a process to document and evaluate our internal control over financial reporting, which is both costly and challenging. In this regard, we have and will need to continue to dedicate internal resources, engage outside consultants and adopt a detailed work plan to assess and document the adequacy of internal control over financial reporting, continue steps to improve control processes as appropriate, validate through testing that controls are functioning as documented and implement a continuous reporting and improvement process for internal control over financial reporting. If we or our auditors identify one or more material weaknesses, it could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements.

Because we do not anticipate paying any cash dividends on our capital stock in the foreseeable future, capital appreciation, if any, will be the sole source of gain for our stockholders.

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all of our future earnings, if any, to finance the growth and development of our business. The terms of our Loan Agreement restrict our ability to pay dividends. In addition, the terms of any future debt agreements may preclude us from paying dividends. As a result, capital appreciation, if any, of our common stock will be the sole source of gain for our stockholders for the foreseeable future.

If securities or industry analysts do not continue to publish research or publish inaccurate or unfavorable research about our business, our share price and trading volume could decline.

The trading market for our common stock may be impacted, in part, by the research and reports that securities or industry analysts publish about us or our business. There can be no assurance that analysts will cover us, continue to cover us or provide favorable coverage. If one or more analysts downgrade our stock or change their opinion of our stock, our share price may decline. In addition, if one or more analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

There is no public market for our series A convertible preferred stock.

There is no established public trading market for our series A convertible preferred stock, and we do not expect a market to develop. In addition, we do not intend to apply for listing of the series A convertible preferred stock on any national securities exchange or other nationally recognized trading system. Without an active market, the liquidity of the series A convertible preferred stock will be limited.

Item 6. Exhibits

The exhibits filed as part of this Quarterly Report on Form 10-Q are as follows:

Exhibit Number	Description of the Exhibit
3.1	Restated Certificate of Incorporation of the Company, as amended (1)
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (1)
31.2	Certification of Principal Financial Officer pursuant to Rules 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (1)
32.1	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, by Robert B. Bazemore, President and Chief Executive Officer of the Company, and Paolo Tombesi, Principal Financial Officer of the Company. (2)
101.INS	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Schema Document.
101.CAL	XBRL Calculation Linkbase Document.
101.LAB	XBRL Labels Linkbase Document.
101.PRE	XBRL Presentation Linkbase Document.
101.DEF	XBRL Definition Linkbase Document.
104	Cover Page Interactive Data (embedded within the Inline XBRL document).

(1) Filed with this Form 10-Q.

(2) This certification is being furnished solely to accompany this Quarterly Report on Form 10-Q pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing of the registrant under the Securities Act of 1933, as amended, or Securities Exchange Act of 1934, as amended, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: August 4, 2020

EPIZYME, INC.

By: /s/ Paolo Tombesi

Paolo Tombesi

Chief Financial Officer

(Principal Financial Officer)

RESTATED CERTIFICATE OF INCORPORATION

OF

EPIZYME, INC.

Epizyme, Inc. (the "Corporation"), a corporation organized and existing under the General Corporation Law of the State of Delaware (the "DGCL"), does hereby certify that:

That the name of the Corporation is Epizyme, Inc. The original Certificate of Incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on November 1, 2007, was amended on November 7, 2007, was further amended on November 16, 2007, was amended and restated on February 28, 2008, was further amended and restated on September 17, 2009, was further amended and restated on December 4, 2009, was further amended and restated on April 2, 2012 and was further amended on May 13, 2013.

A resolution was duly adopted by the Board of Directors of the Corporation pursuant to Sections 242 and 245 of the DGCL proposing this Restated Certificate of Incorporation and declaring the advisability of this Restated Certificate of Incorporation. The stockholders of the Corporation duly approved and adopted this Restated Certificate of Incorporation by written consent in accordance with Sections 228, 242 and 245 of the DGCL.

Accordingly, the Certificate of Incorporation of this Corporation, as previously amended and restated, is hereby further amended and restated in its entirety to read as follows.

FIRST: The name of the Corporation is Epizyme, Inc.

SECOND: The address of the Corporation's registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle, 19801. The name of its registered agent at that address is The Corporation Trust Company.

THIRD: The nature of the business or purposes to be conducted or promoted by the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

FOURTH: The total number of shares of all classes of stock which the Corporation shall have authority to issue is 130,000,000 shares, consisting of (i) 125,000,000 shares of Common Stock, \$.0001 par value per share ("Common Stock"), and (ii) 5,000,000 shares of Preferred Stock, \$.0001 par value per share ("Preferred Stock").

The following is a statement of the designations and the powers, privileges and rights, and the qualifications, limitations or restrictions thereof in respect of each class of capital stock of the Corporation.

A COMMON STOCK.

1. General. The voting, dividend and liquidation rights of the holders of the Common Stock are subject to and qualified by the rights of the holders of the Preferred Stock of any series as may be designated by the Board of Directors of the Corporation (the "Board of Directors") upon any issuance of the Preferred Stock of any series.

2. Voting. The holders of the Common Stock shall have voting rights at all meetings of stockholders, each such holder being entitled to one vote for each share thereof held by such holder; provided, however, that, except as otherwise required by law, holders of Common Stock shall not be entitled to vote on any amendment to this Certificate of Incorporation (which, as used herein, shall mean the certificate of incorporation of the Corporation, as amended from time to time, including the terms of any certificate of designations of any series of Preferred Stock) that relates solely to the terms of one or more outstanding series of Preferred Stock if the holders of such affected series are entitled, either separately or together as a class with the holders of one or more other such series, to vote thereon pursuant to this Certificate of Incorporation. There shall be no cumulative voting.

The number of authorized shares of Common Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the stock of the Corporation entitled to vote, irrespective of the provisions of Section 242(b)(2) of the General Corporation Law of the State of Delaware.

3. Dividends. Dividends may be declared and paid on the Common Stock from funds lawfully available therefor as and when determined by the Board of Directors and subject to any preferential dividend or other rights of any then outstanding Preferred Stock.

4. Liquidation. Upon the dissolution or liquidation of the Corporation, whether voluntary or involuntary, holders of Common Stock will be entitled to receive all assets of the Corporation available for distribution to its stockholders, subject to any preferential or other rights of any then outstanding Preferred Stock.

B PREFERRED STOCK.

Preferred Stock may be issued from time to time in one or more series, each of such series to have such terms as stated or expressed herein and in the resolution or resolutions providing for the issue of such series adopted by the Board of Directors as hereinafter provided. Any shares of Preferred Stock which may be redeemed, purchased or acquired by the Corporation may be reissued except as otherwise provided by law.

Authority is hereby expressly granted to the Board of Directors from time to time to issue the Preferred Stock in one or more series, and in connection with the creation of any such series, by adopting a resolution or resolutions providing for the issuance of the shares thereof and by filing a certificate of designations relating thereto in accordance with the General Corporation Law of the State of Delaware, to determine and fix the number of shares of such series and such voting powers, full or limited, or no voting powers, and such designations, preferences and relative participating, optional or other special rights, and qualifications, limitations or restrictions thereof, including without limitation thereof, dividend rights, conversion rights, redemption privileges and liquidation preferences, as shall be stated and expressed in such resolutions, all to the full extent now or hereafter permitted by the General Corporation Law of the State of Delaware. Without limiting the generality of the foregoing, the resolutions providing for issuance of any series of Preferred Stock may provide that such series shall be superior or rank equally or be junior to any other series of Preferred Stock to the extent permitted by law.

The number of authorized shares of Preferred Stock may be increased or decreased (but not below the number of shares then outstanding) by the affirmative vote of the holders of a majority of the voting power of the capital stock of the Corporation entitled to vote thereon, voting as a single class, irrespective of the provisions of Section 242(b)(2) of the General Corporation Law of the State of Delaware.

FIFTH: Except as otherwise provided herein, the Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute and this Certificate of Incorporation, and all rights conferred upon stockholders herein are granted subject to this reservation.

SIXTH: In furtherance and not in limitation of the powers conferred upon it by the General Corporation Law of the State of Delaware, and subject to the terms of any series of Preferred Stock, the Board of Directors shall have the power to adopt, amend, alter or repeal the By-laws of the Corporation by the affirmative vote of a majority of the directors present at any regular or special meeting of the Board of Directors at which a quorum is present. The stockholders may not adopt, amend, alter or repeal the By-laws of the Corporation, or adopt any provision inconsistent therewith, unless such action is approved, in addition to any other vote required by this Certificate of Incorporation, by the affirmative vote of the holders of at least seventy-five percent (75%) of the votes that all the stockholders would be entitled to cast in any annual election of directors or class of directors. Notwithstanding any other provisions of law, this Certificate of Incorporation or the By-laws of the Corporation, and notwithstanding the fact that a lesser percentage may be specified by law, the affirmative vote of the holders of at least seventy-five percent (75%) of the votes which all the stockholders would be entitled to cast in any annual election of directors or class of directors shall be required to amend or repeal, or to adopt any provision inconsistent with, this Article SIXTH.

SEVENTH: Except to the extent that the General Corporation Law of the State of Delaware prohibits the elimination or limitation of liability of directors for breaches of fiduciary duty, no director of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for any breach of fiduciary duty as a director, notwithstanding any provision of law imposing such liability. No amendment to or repeal of this provision shall apply to or have any effect on the liability or alleged liability of any director of the Corporation for or with respect to any acts or omissions of such director occurring prior to such amendment or repeal. If the General Corporation Law of the State of Delaware is amended to permit further elimination or limitation of the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the General Corporation Law of the State of Delaware as so amended.

EIGHTH: The Corporation shall provide indemnification as follows:

1. Actions, Suits and Proceedings Other than by or in the Right of the Corporation. The Corporation shall indemnify each person who was or is a party or threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he or she is or was, or has agreed to become, a director or officer of the Corporation, or is or was serving, or has agreed to serve, at the request of the Corporation, as a director, officer, partner, employee or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise (including any employee benefit plan) (all such persons being referred to hereafter as an "Indemnitee"), or by reason of any action alleged to have been taken or omitted in such capacity, against all expenses (including attorneys' fees), liabilities, losses, judgments, fines (including excise taxes and penalties arising under the Employee Retirement Income Security Act of 1974), and amounts paid in settlement actually and reasonably incurred by or on behalf of Indemnitee in connection with such action, suit or proceeding and any appeal therefrom, if Indemnitee acted in good faith and in a manner which Indemnitee reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his or her conduct was unlawful.

2. Actions or Suits by or in the Right of the Corporation. The Corporation shall indemnify any Indemnitee who was or is a party to or threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that Indemnitee is or was, or has agreed to become, a director or officer of the Corporation, or is or was serving, or has agreed to serve, at the request of the Corporation, as a director, officer, partner, employee or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise (including any employee benefit plan), or by reason of any action alleged to have been taken or omitted in such capacity, against all expenses (including attorneys' fees) and, to the extent permitted by law, amounts paid in settlement actually and reasonably incurred by or on behalf of Indemnitee in connection with such action, suit or proceeding and any appeal therefrom, if Indemnitee acted in good faith and in a manner which Indemnitee reasonably believed to be in, or not opposed to, the best interests of the Corporation, except that no indemnification shall be made under this Section 2 in respect of any claim, issue or matter as to which Indemnitee shall have been adjudged to be liable to the Corporation, unless, and only to the extent, that the Court of Chancery of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of such liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for such expenses (including attorneys' fees) which the Court of Chancery of Delaware or such other court shall deem proper.

3. Indemnification for Expenses of Successful Party. Notwithstanding any other provisions of this Article EIGHTH, to the extent that an Indemnitee has been successful, on the merits or otherwise, in defense of any action, suit or proceeding referred to in Sections 1 and 2 of this Article EIGHTH, or in defense of any claim, issue or matter therein, or on appeal from any such action, suit or proceeding, Indemnitee shall be indemnified against all expenses (including attorneys' fees) actually and reasonably incurred by or on behalf of Indemnitee in connection therewith. Without limiting the foregoing, if any action, suit or proceeding is disposed of, on the merits or otherwise (including a disposition without prejudice), without (i) the disposition being adverse to Indemnitee, (ii) an adjudication that Indemnitee was liable to the Corporation, (iii) a plea of guilty or nolo contendere by Indemnitee, (iv) an adjudication that Indemnitee did not act in good faith and in a manner he or she reasonably believed to be in or not opposed to the

best interests of the Corporation, and (v) with respect to any criminal proceeding, an adjudication that Indemnitee had reasonable cause to believe his or her conduct was unlawful, Indemnitee shall be considered for the purposes hereof to have been wholly successful with respect thereto.

4. Notification and Defense of Claim. As a condition precedent to an Indemnitee's right to be indemnified, such Indemnitee must notify the Corporation in writing as soon as practicable of any action, suit, proceeding or investigation involving such Indemnitee for which indemnity will or could be sought. With respect to any action, suit, proceeding or investigation of which the Corporation is so notified, the Corporation will be entitled to participate therein at its own expense and/or to assume the defense thereof at its own expense, with legal counsel reasonably acceptable to Indemnitee. After notice from the Corporation to Indemnitee of its election so to assume such defense, the Corporation shall not be liable to Indemnitee for any legal or other expenses subsequently incurred by Indemnitee in connection with such action, suit, proceeding or investigation, other than as provided below in this Section 4. Indemnitee shall have the right to employ his or her own counsel in connection with such action, suit, proceeding or investigation, but the fees and expenses of such counsel incurred after notice from the Corporation of its assumption of the defense thereof shall be at the expense of Indemnitee unless (i) the employment of counsel by Indemnitee has been authorized by the Corporation, (ii) counsel to Indemnitee shall have reasonably concluded that there may be a conflict of interest or position on any significant issue between the Corporation and Indemnitee in the conduct of the defense of such action, suit, proceeding or investigation or (iii) the Corporation shall not in fact have employed counsel to assume the defense of such action, suit, proceeding or investigation, in each of which cases the fees and expenses of counsel for Indemnitee shall be at the expense of the Corporation, except as otherwise expressly provided by this Article EIGHTH. The Corporation shall not be entitled, without the consent of Indemnitee, to assume the defense of any claim brought by or in the right of the Corporation or as to which counsel for Indemnitee shall have reasonably made the conclusion provided for in clause (ii) above. The Corporation shall not be required to indemnify Indemnitee under this Article EIGHTH for any amounts paid in settlement of any action, suit, proceeding or investigation effected without its written consent. The Corporation shall not settle any action, suit, proceeding or investigation in any manner which would impose any penalty or limitation on Indemnitee without Indemnitee's written consent. Neither the Corporation nor Indemnitee will unreasonably withhold or delay its consent to any proposed settlement.

5. Advance of Expenses. Subject to the provisions of Section 6 of this Article EIGHTH, in the event of any threatened or pending action, suit, proceeding or investigation of which the Corporation receives notice under this Article EIGHTH, any expenses (including attorneys' fees) incurred by or on behalf of an Indemnitee in defending an action, suit, proceeding or investigation or any appeal therefrom shall be paid by the Corporation in advance of the final disposition of such matter; provided, however, that the payment of such expenses incurred by or on behalf of Indemnitee in advance of the final disposition of such matter shall be made only upon receipt of an undertaking by or on behalf of Indemnitee to repay all amounts so advanced in the event that it shall ultimately be determined by final judicial decision from which there is no further right to appeal that Indemnitee is not entitled to be indemnified by the Corporation as authorized in this Article EIGHTH; and provided further that no such advancement of expenses shall be made under this Article EIGHTH if it is determined (in the manner described in Section 6) that (i) Indemnitee did not act in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the Corporation, or (ii) with respect to any criminal action or proceeding, Indemnitee had reasonable cause to believe his or her conduct was unlawful. Such undertaking shall be accepted without reference to the financial ability of Indemnitee to make such repayment.

6. Procedure for Indemnification and Advancement of Expenses. In order to obtain indemnification or advancement of expenses pursuant to Section 1, 2, 3 or 5 of this Article EIGHTH, an Indemnitee shall submit to the Corporation a written request. Any such advancement of expenses shall be made promptly, and in any event within 60 days after receipt by the Corporation of the written request of Indemnitee, unless (i) the Corporation has assumed the defense pursuant to Section 4 of this Article EIGHTH (and none of the circumstances described in Section 4 of this Article EIGHTH that would nonetheless entitle the Indemnitee to indemnification for the fees and expenses of separate counsel have occurred) or (ii) the Corporation determines within such 60-day period that Indemnitee did not meet the applicable standard of conduct set forth in Section 1, 2 or 5 of this Article EIGHTH, as the case may be. Any such indemnification, unless ordered by a court, shall be made with respect to requests under Section 1 or 2 only as authorized in the specific case upon a determination by the Corporation that the indemnification of Indemnitee is proper because Indemnitee has met the applicable standard of conduct set forth in Section 1 or 2, as the case may be. Such determination shall be made in each instance (a) by a majority vote of the directors of the Corporation consisting of persons who are not at that time parties to the action, suit or proceeding in question

("disinterested directors"), whether or not a quorum, (b) by a committee of disinterested directors designated by majority vote of disinterested directors, whether or not a quorum, (c) if there are no disinterested directors, or if the disinterested directors so direct, by independent legal counsel (who may, to the extent permitted by law, be regular legal counsel to the Corporation) in a written opinion, or (d) by the stockholders of the Corporation.

7. Remedies. The right to indemnification or advancement of expenses as granted by this Article EIGHTH shall be enforceable by Indemnitee in any court of competent jurisdiction. Neither the failure of the Corporation to have made a determination prior to the commencement of such action that indemnification is proper in the circumstances because Indemnitee has met the applicable standard of conduct, nor an actual determination by the Corporation pursuant to Section 6 of this Article EIGHTH that Indemnitee has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that Indemnitee has not met the applicable standard of conduct. In any suit brought by Indemnitee to enforce a right to indemnification, or brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the Corporation shall have the burden of proving that Indemnitee is not entitled to be indemnified, or to such advancement of expenses, under this Article EIGHTH. Indemnitee's expenses (including attorneys' fees) reasonably incurred in connection with successfully establishing Indemnitee's right to indemnification, in whole or in part, in any such proceeding shall also be indemnified by the Corporation. Notwithstanding the foregoing, in any suit brought by Indemnitee to enforce a right to indemnification hereunder it shall be a defense that the Indemnitee has not met any applicable standard for indemnification set forth in the General Corporation Law of the State of Delaware.

8. Limitations. Notwithstanding anything to the contrary in this Article EIGHTH, except as set forth in Section 7 of this Article EIGHTH, the Corporation shall not indemnify an Indemnitee pursuant to this Article EIGHTH in connection with a proceeding (or part thereof) initiated by such Indemnitee unless the initiation thereof was approved by the Board of Directors. Notwithstanding anything to the contrary in this Article EIGHTH, the Corporation shall not indemnify an Indemnitee to the extent such Indemnitee is reimbursed from the proceeds of insurance, and in the event the Corporation makes any indemnification payments to an Indemnitee and such Indemnitee is subsequently reimbursed from the proceeds of insurance, such Indemnitee shall promptly refund indemnification payments to the Corporation to the extent of such insurance reimbursement.

9. Subsequent Amendment. No amendment, termination or repeal of this Article EIGHTH or of the relevant provisions of the General Corporation Law of the State of Delaware or any other applicable laws shall adversely affect or diminish in any way the rights of any Indemnitee to indemnification under the provisions hereof with respect to any action, suit, proceeding or investigation arising out of or relating to any actions, transactions or facts occurring prior to the final adoption of such amendment, termination or repeal.

10. Other Rights. The indemnification and advancement of expenses provided by this Article EIGHTH shall not be deemed exclusive of any other rights to which an Indemnitee seeking indemnification or advancement of expenses may be entitled under any law (common or statutory), agreement or vote of stockholders or disinterested directors or otherwise, both as to action in Indemnitee's official capacity and as to action in any other capacity while holding office for the Corporation, and shall continue as to an Indemnitee who has ceased to be a director or officer, and shall inure to the benefit of the estate, heirs, executors and administrators of Indemnitee. Nothing contained in this Article EIGHTH shall be deemed to prohibit, and the Corporation is specifically authorized to enter into, agreements with officers and directors providing indemnification rights and procedures different from those set forth in this Article EIGHTH. In addition, the Corporation may, to the extent authorized from time to time by its Board of Directors, grant indemnification rights to other employees or agents of the Corporation or other persons serving the Corporation and such rights may be equivalent to, or greater or less than, those set forth in this Article EIGHTH.

11. Partial Indemnification. If an Indemnitee is entitled under any provision of this Article EIGHTH to indemnification by the Corporation for some or a portion of the expenses (including attorneys' fees), liabilities, losses, judgments, fines (including excise taxes and penalties arising under the Employee Retirement Income Security Act of 1974) or amounts paid in settlement actually and reasonably incurred by or on behalf of Indemnitee in connection with any action, suit, proceeding or investigation and any appeal therefrom but not, however, for the total amount thereof, the Corporation shall nevertheless indemnify Indemnitee for the portion of such expenses (including attorneys' fees), liabilities, losses, judgments, fines (including excise taxes and penalties arising under the Employee Retirement Income Security Act of 1974) or amounts paid in settlement to which Indemnitee is entitled.

12. Insurance. The Corporation may purchase and maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise (including any employee benefit plan) against any expense, liability or loss incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the General Corporation Law of the State of Delaware.

13. Savings Clause. If this Article EIGHTH or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each Indemnitee as to any expenses (including attorneys' fees), liabilities, losses, judgments, fines (including excise taxes and penalties arising under the Employee Retirement Income Security Act of 1974) and amounts paid in settlement in connection with any action, suit, proceeding or investigation, whether civil, criminal or administrative, including an action by or in the right of the Corporation, to the fullest extent permitted by any applicable portion of this Article EIGHTH that shall not have been invalidated and to the fullest extent permitted by applicable law.

14. Definitions. Terms used herein and defined in Section 145(h) and Section 145(i) of the General Corporation Law of the State of Delaware shall have the respective meanings assigned to such terms in such Section 145(h) and Section 145(i).

NINTH: This Article NINTH is inserted for the management of the business and for the conduct of the affairs of the Corporation.

1. General Powers. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors.

2. Number of Directors; Election of Directors. Subject to the rights of holders of any series of Preferred Stock to elect directors, the number of directors of the Corporation shall be established by the Board of Directors. Election of directors need not be by written ballot, except as and to the extent provided in the By-laws of the Corporation.

3. Classes of Directors. Subject to the rights of holders of any series of Preferred Stock to elect directors, the Board of Directors shall be and is divided into three classes, designated Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the total number of directors constituting the entire Board of Directors. The Board of Directors is authorized to assign members of the Board of Directors already in office to Class I, Class II or Class III at the time such classification becomes effective.

4. Terms of Office. Subject to the rights of holders of any series of Preferred Stock to elect directors, each director shall serve for a term ending on the date of the third annual meeting of stockholders following the annual meeting of stockholders at which such director was elected; provided that each director initially assigned to Class I shall serve for a term expiring at the Corporation's first annual meeting of stockholders held after the effectiveness of this Restated Certificate of Incorporation; each director initially assigned to Class II shall serve for a term expiring at the Corporation's second annual meeting of stockholders held after the effectiveness of this Restated Certificate of Incorporation; and each director initially assigned to Class III shall serve for a term expiring at the Corporation's third annual meeting of stockholders held after the effectiveness of this Restated Certificate of Incorporation; provided further, that the term of each director shall continue until the election and qualification of his or her successor and be subject to his or her earlier death, resignation or removal.

5. Quorum. The greater of (a) a majority of the directors at any time in office and (b) one-third of the number of directors fixed pursuant to Section 2 of this Article NINTH shall constitute a quorum of the Board of Directors. If at any meeting of the Board of Directors there shall be less than such a quorum, a majority of the directors present may adjourn the meeting from time to time without further notice other than announcement at the meeting, until a quorum shall be present.

6. Action at Meeting. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board of Directors unless a greater number is required by law or by this Certificate of Incorporation.

7. Removal. Subject to the rights of holders of any series of Preferred Stock, directors of the Corporation may be removed only for cause and only by the affirmative vote of the holders of at least seventy-five percent (75%) of the votes which all the stockholders would be entitled to cast in any annual election of directors or class of directors.

8. Vacancies. Subject to the rights of holders of any series of Preferred Stock, any vacancy or newly created directorship in the Board of Directors, however occurring, shall be filled only by vote of a majority of the directors then in office, although less than a quorum, or by a sole remaining director and shall not be filled by the stockholders. A director elected to fill a vacancy shall hold office until the next election of the class for which such director shall have been chosen, subject to the election and qualification of a successor and to such director's earlier death, resignation or removal.

9. Stockholder Nominations and Introduction of Business, Etc. Advance notice of stockholder nominations for election of directors and other business to be brought by stockholders before a meeting of stockholders shall be given in the manner provided by the By-laws of the Corporation.

10. Amendments to Article. Notwithstanding any other provisions of law, this Certificate of Incorporation or the By-laws of the Corporation, and notwithstanding the fact that a lesser percentage may be specified by law, the affirmative vote of the holders of at least seventy-five percent (75%) of the votes which all the stockholders would be entitled to cast in any annual election of directors or class of directors shall be required to amend or repeal, or to adopt any provision inconsistent with, this Article NINTH.

TENTH: Stockholders of the Corporation may not take any action by written consent in lieu of a meeting. Notwithstanding any other provisions of law, this Certificate of Incorporation or the By-laws of the Corporation, and notwithstanding the fact that a lesser percentage may be specified by law, the affirmative vote of the holders of at least seventy-five percent (75%) of the votes which all the stockholders would be entitled to cast in any annual election of directors or class of directors shall be required to amend or repeal, or to adopt any provision inconsistent with, this Article TENTH.

ELEVENTH: Special meetings of stockholders for any purpose or purposes may be called at any time by only the Board of Directors, the Chairman of the Board of Directors or the Chief Executive Officer of the Corporation, and may not be called by any other person or persons. Business transacted at any special meeting of stockholders shall be limited to matters relating to the purpose or purposes stated in the notice of meeting. Notwithstanding any other provisions of law, this Certificate of Incorporation or the By-laws of the Corporation, and notwithstanding the fact that a lesser percentage may be specified by law, the affirmative vote of the holders of at least seventy-five percent (75%) of the votes which all the stockholders would be entitled to cast in any annual election of directors or class of directors shall be required to amend or repeal, or to adopt any provision inconsistent with, this Article ELEVENTH.

IN WITNESS WHEREOF, this Restated Certificate of Incorporation, which restates, integrates and amends the certificate of incorporation of the Corporation, and which has been duly adopted in accordance with Sections 228, 242 and 245 of the General Corporation Law of the State of Delaware, has been executed by its duly authorized officer this fifth day of June, 2013.

EPIZYME, INC.

By: /s/ Robert J. Gould

Robert J. Gould

President and Chief Executive Officer

**CERTIFICATE OF AMENDMENT OF
RESTATED CERTIFICATE OF INCORPORATION
OF
EPIZYME, INC.**

(Pursuant to Section 242 of the
General Corporation Law of the State of Delaware)

Epizyme, Inc. (the "Corporation"), a corporation organized and existing under and by virtue of the provisions of the General Corporation Law of the State of Delaware, does hereby certify as follows:

A resolution was duly adopted by the Board of Directors of the Corporation pursuant to Section 242 of the General Corporation Law of the State of Delaware setting forth a proposed amendment to the Restated Certificate of Incorporation of the Corporation and declaring said amendment to be advisable. The stockholders of the Corporation duly approved said proposed amendment in accordance with Section 242 of the General Corporation Law of the State of Delaware. The resolution setting forth the amendment is as follows:

RESOLVED: That the first sentence of Article FOURTH of the Restated Certificate of Incorporation of the Corporation be and hereby is deleted in its entirety and the following is inserted in lieu thereof:

"FOURTH: The total number of shares of all classes of stock which the Corporation shall have the authority to issue is 155,000,000 shares, consisting of (i) 150,000,000 shares of Common Stock, \$0.0001 par value per share ("Common Stock"), and (ii) 5,000,000 shares of Preferred Stock, \$0.0001 par value per share ("Preferred Stock")."

IN WITNESS WHEREOF, this Certificate of Amendment has been executed by a duly authorized officer of the Corporation on this 29th day of May, 2020.

EPIZYME, INC.

By: /s/ Robert B. Bazemore

Name: Robert B. Bazemore

Title: Chief Executive Officer

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
RULE 13a-14(a) / RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Robert B. Bazemore, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Epizyme, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2020

/s/ Robert B. Bazemore

Robert B. Bazemore

President and Chief Executive Officer

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO
RULE 13a-14(a) / RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Paolo Tombesi, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Epizyme, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2020

/s/ Paolo Tombesi

Paolo Tombesi

Chief Financial Officer

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

In connection with this Quarterly Report on Form 10-Q of Epizyme, Inc. (the "Company") for the period ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, Robert B. Bazemore, President and Chief Executive Officer of the Company, and Paolo Tombesi, Chief Financial Officer, hereby certifies, pursuant to 18 U.S.C. (section) 1350, as adopted pursuant to (section) 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

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

Dated: August 4, 2020

/s/ Robert B. Bazemore

Robert B. Bazemore
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Paolo Tombesi

Paolo Tombesi
Chief Financial Officer
(Principal Financial Officer)