UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2024

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: 001-39527

PRELUDE THERAPEUTICS INCORPORATED

(Exact Name of Registrant as Specified in its Charter)

Delaware	**81-1384762**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
175 Innovation Boulevard Wilmington, Delaware	**19805**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (302) 467-1280

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, par value $0.0001 per share	PRLD	Nasdaq Global Select Market

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 (§232.405 of this chapter) 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, smaller reporting company, or an emerging growth company. See the 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	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☒

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 ☒

As of November 4, 2024, the registrant had 55,035,170 shares of voting and non-voting common stock, $0.0001 par value per share, outstanding.

Table of Contents

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

PRELUDE THERAPEUTICS INCORPORATED

BALANCE SHEETS

(in thousands, except share data)	September 30, 2024	December 31, 2023
Assets	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 11,134	$ 25,291
Marketable securities	142,492	207,644
Prepaid expenses and other current assets	2,761	2,654
Total current assets	156,387	235,589
Restricted cash	4,044	4,044
Property and equipment, net	7,202	7,325
Operating lease right-of-use asset	29,182	30,412
Other assets	405	295
Total assets	$ 197,220	$ 277,665
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 5,921	$ 4,580
Accrued expenses and other current liabilities	13,579	15,768
Operating lease liability	2,365	1,481
Finance lease liability	359	—
Total current liabilities	22,224	21,829
Other liabilities	3,153	3,339
Operating lease liability	15,412	15,407
Total liabilities	40,789	40,575
Commitments (Note 8)		
Stockholders' equity:		
Voting common stock, $0.0001 par value: 487,149,741 shares authorized; 42,178,012 and 42,063,995 shares issued and outstanding at September 30, 2024 and December 31, 2023, respectively	4	4
Non-voting common stock, $0.0001 par value: 12,850,259 shares authorized; 12,850,259 shares issued and outstanding at both September 30, 2024 and December 31, 2023	1	1
Additional paid-in capital	711,091	693,252
Accumulated other comprehensive income	167	223
Accumulated deficit	(554,832)	(456,390)
Total stockholders' equity	156,431	237,090
Total liabilities and stockholders' equity	$ 197,220	$ 277,665

See accompanying notes to unaudited interim financial statements.

PRELUDE THERAPEUTICS INCORPORATED

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(UNAUDITED)

(in thousands, except share and per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Revenue from license agreement	$ 3,000	$ —	$ 3,000	$ —
Operating expenses				
Research and development	29,457	26,261	86,375	73,061
General and administrative	7,919	7,124	22,508	21,837
Total operating expenses	37,376	33,385	108,883	94,898
Loss from operations	(34,376)	(33,385)	(105,883)	(94,898)
Other income, net	2,105	2,777	7,441	6,141
Net loss	$ (32,271)	$ (30,608)	$ (98,442)	$ (88,757)
Per share information:				
Net loss per share of common stock, basic and diluted	$ (0.43)	$ (0.45)	$ (1.30)	$ (1.55)
Weighted average common shares outstanding, basic and diluted	75,855,949	67,639,993	75,784,902	57,278,795
Comprehensive loss:				
Net loss	$ (32,271)	$ (30,608)	$ (98,442)	$ (88,757)
Unrealized gain (loss) on marketable securities, net of tax	457	106	(56)	1,087
Comprehensive loss	$ (31,814)	$ (30,502)	$ (98,498)	$ (87,670)

See accompanying notes to unaudited interim financial statements.

PRELUDE THERAPEUTICS INCORPORATED

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)

(in thousands, except shares)	Voting common stock Shares	Voting common stock Amount	Non-voting common stock Shares	Non-voting common stock Amount	Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total
Balance at January 1, 2024	42,063,995	$ 4	12,850,259	$ 1	$ 693,252	$ 223	$ (456,390)	$ 237,090
Issuance of common stock upon exercise of stock options & vesting of RSUs, net of 4,285 shares withheld for employee taxes	7,510	—	—	—	(14)	—	—	(14)
Unrealized loss on marketable securities, net of tax	—	—	—	—	—	(458)	—	(458)
Stock-based compensation expense	—	—	—	—	5,547	—	—	5,547
Net loss	—	—	—	—	—	—	(31,431)	(31,431)
Balance at March 31, 2024	42,071,505	$ 4	12,850,259	$ 1	$ 698,785	$ (235)	$ (487,821)	$ 210,734
Issuance of common stock upon exercise of stock options & vesting of RSU's, net of 3,722 shares withheld for employee taxes	7,803	—	—	—	(16)	—	—	(16)
Issuance of common stock under ESPP	78,916	—	—	—	255	—	—	255
Unrealized loss on marketable securities, net of tax	—	—	—	—	—	(55)	—	(55)
Stock-based compensation expense	—	—	—	—	6,098	—	—	6,098
Net loss	—	—	—	—	—	—	(34,740)	(34,740)
Balance at June 30, 2024	42,158,224	$ 4	12,850,259	$ 1	$ 705,122	$ (290)	$ (522,561)	$ 182,276
Issuance of common stock upon exercise of stock options & vesting of RSU's, net of 3,722 shares withheld for employee taxes	19,788	—	—	—	43	—	—	43
Unrealized gain on marketable securities	—	—	—	—	—	457	—	457
Stock-based compensation expense	—	—	—	—	5,926	—	—	5,926
Net loss	—	—	—	—	—	—	(32,271)	(32,271)
Balance at September 30, 2024	42,178,012	$ 4	12,850,259	$ 1	$ 711,091	$ 167	$ (554,832)	$ 156,431

See accompanying notes to unaudited interim financial statements.

PRELUDE THERAPEUTICS INCORPORATED

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (CONTINUED)
(UNAUDITED)

(in thousands, except shares)	Voting common stock		Non-voting common stock		Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total
	Shares	Amount	Shares	Amount				
Balance at January 1, 2023	36,496,994	$ 4	11,402,037	$ 1	$ 531,682	$ (1,692)	$ (334,558)	$ 195,437
Issuance of common stock upon exercise of stock options & vesting of RSUs	17,224	—	—	—	28	—	—	28
Unrealized gain on marketable securities, net of tax	—	—	—	—	—	1,294	—	1,294
Stock-based compensation expense	—	—	—	—	6,256	—	—	6,256
Net loss	—	—	—	—	—	—	(27,718)	(27,718)
Balance at March 31, 2023	36,514,218	$ 4	11,402,037	$ 1	$ 537,966	$ (398)	$ (362,276)	$ 175,297
Issuance of common stock and prefunded warrants, net of issuance costs of $2.6 million	5,312,978	—	1,448,222	—	110,423	—	—	110,423
Issuance of common stock upon exercise of stock options & vesting of RSU's	40,461	—	—	—	3	—	—	3
Issuance of common stock under ESPP	90,799	—	—	—	348	—	—	348
Unrealized loss on marketable securities, net of tax	—	—	—	—	—	(313)	—	(313)
Stock-based compensation expense	—	—	—	—	6,733	—	—	6,733
Net loss	—	—	—	—	—	—	(30,431)	(30,431)
Balance at June 30, 2023	41,958,456	$ 4	12,850,259	$ 1	$ 655,473	$ (711)	$ (392,707)	$ 262,060
Issuance of common stock upon vesting of RSU's, net of 3,609 shares withheld for employee taxes	7,016	—	—	—	(16)	—	—	(16)
Unrealized gain on marketable securities	—	—	—	—	—	106	—	106
Stock-based compensation expense, net of forfeitures of restricted stock awards	—	—	—	—	6,715	—	—	6,715
Net loss	—	—	—	—	—	—	(30,608)	(30,608)
Balance at September 30, 2023	41,965,472	$ 4	12,850,259	$ 1	$ 662,172	$ (605)	$ (423,315)	$ 238,257

See accompanying notes to unaudited interim financial statements.

PRELUDE THERAPEUTICS INCORPORATED

STATEMENTS OF CASH FLOWS
(UNAUDITED)

(in thousands)	Nine months ended September 30, 2024	2023
Cash flows used in operating activities:		
Net loss	$ (98,442)	$ (88,757)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,283	838
Noncash lease expense	1,203	1,328
Stock-based compensation	17,571	19,704
Amortization of premium and discount on marketable securities, net	(3,688)	(2,402)
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(107)	(2,053)
Accounts payable	1,495	(1,805)
Accrued expenses and other liabilities	(2,375)	(1,873)
Long-term prepaid expenses and other long-term assets	—	(7,108)
Operating lease liabilities	916	(1,357)
Net cash used in operating activities	(82,144)	(83,485)
Cash flows provided by investing activities:		
Purchases of marketable securities	(45,366)	(162,248)
Proceeds from maturities of marketable securities	114,150	122,250
Purchases of property and equipment	(711)	(2,384)
Net cash provided by (used in) investing activities	68,073	(42,382)
Cash flows used in financing activities:		
Payment of offering costs	(110)	—
Proceeds from issuance of common stock and pre-funded warrants, net of offering costs	—	110,795
Proceeds from the issuance of common stock under ESPP	255	348
Proceeds from the issuance of common stock in connection with the exercise of stock options	60	31
Payment of withholding taxes related to stock-based compensation to employees	(47)	(16)
Principal payments on finance lease liabilities	(244)	—
Net cash (used in) provided by financing activities	(86)	111,158
Net decrease in cash, cash equivalents and restricted cash	(14,157)	(14,709)
Cash, cash equivalents, and restricted cash at beginning of period	29,335	34,649
Cash, cash equivalents, and restricted cash at end of period	$ 15,178	$ 19,940
Supplemental disclosures of non-cash activities:		
Property and equipment in accounts payable and accrued expenses and other current liabilities	$ 9	$ 254
Offering costs in accrued expenses and other current liabilities	$ —	$ 28
Offering costs in accounts payable	$ —	$ 34
Unrealized (loss) gain on marketable securities	$ (56)	$ 1,087

See accompanying notes to unaudited interim financial statements.

PRELUDE THERAPEUTICS INCORPORATED

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

1. Background

Prelude Therapeutics Incorporated (the "Company") is a clinical-stage fully integrated oncology company built on a foundation of drug discovery excellence to deliver novel precision cancer medicines to underserved patients. Since beginning operations in 2016, the Company has devoted substantially all its efforts to research and development, conducting preclinical and clinical studies, recruiting management and technical staff, administration, and raising capital.

2. Risks and liquidity

The Company faces a number of risks common to early-stage companies in the biotechnology industry. Principal among these risks are the uncertainties in the development process, development of the same or similar technological innovations by competitors, protection of proprietary technology, dependence on key personnel, compliance with government regulations and approval requirements, and the need to obtain additional financing to fund operations. Product candidates currently under development will require significant additional research and development efforts, including extensive preclinical and clinical testing and regulatory approval, prior to commercialization. These efforts require significant amounts of additional capital, adequate personnel infrastructure, and extensive compliance-reporting capabilities. There can be no assurance that the Company's research and development will be successfully completed, adequate protection for the Company's technology will be obtained, any products developed will obtain necessary government regulatory approval, or any approved products will be commercially viable. The Company operates in an environment of rapid change in technology and substantial competition from pharmaceutical and biotechnology companies.

Since its inception, the Company has incurred operating losses and had an accumulated deficit of $554.8 million at September 30, 2024. The Company has no product revenue to-date and devotes its efforts to research and development. The Company anticipates incurring additional losses until such time, if ever, that it can generate significant sales of its product candidates currently in development.

The Company believes its cash, cash equivalents, and marketable securities as of September 30, 2024 will be sufficient to fund its operating expenses and capital expenditure requirements for at least the next twelve months from the filing date of this Quarterly Report on Form 10-Q.

To fund its operating expenses and capital expenditure requirements after that date, the Company plans to seek additional funding through public or private equity offerings, debt financings, collaborations, strategic alliances and licensing arrangements. The Company may not be able to obtain financing on acceptable terms, or at all, and the Company may not be able to enter into strategic alliances or other arrangements on favorable terms, or at all. The terms of any financing may adversely affect the holdings or the rights of the Company's stockholders. If the Company is unable to obtain funding, it could be required to delay, reduce or eliminate research and development programs, product portfolio expansion or future commercialization efforts, which could adversely affect its business prospects.

3. Summary of significant accounting policies

The complete summary of significant accounting policies included in the Company's financial statements for the year ended December 31, 2023 can be found in "Note 3. Summary of significant accounting policies" of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on February 15, 2024.

Basis of presentation

The accompanying unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. They do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2024 are not necessarily indicative of the results that may be expected for the year ending December 31, 2024. The accompanying unaudited interim financial statements should be read in conjunction with the annual audited financial statements and related notes as of and for the year ended December 31, 2023 found in the Company's Annual Report on Form 10-K filed with the SEC on February 15, 2024. Any reference in these notes to applicable guidance is meant to refer to GAAP as found in the Accounting Standards Codification ("ASC") and Accounting Standards Updates ("ASU") of the Financial Accounting Standards Board ("FASB").

Use of estimates

The preparation of the unaudited interim financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of the unaudited interim financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

Estimates and assumptions are periodically reviewed, and the effects of the revisions are reflected in the accompanying unaudited interim financial statements in the period they are determined to be necessary. The most significant estimate relates to accrued clinical trial expenses.

Income taxes

Based upon the historical and anticipated future losses, management has determined that the deferred tax assets generated by net operating losses and research and development credits do not meet the more likely than not threshold for realizability. Accordingly, a full valuation allowance has been recorded against the Company's net deferred tax assets as of September 30, 2024 and December 31, 2023.

Cash, Cash Equivalents and Restricted cash

The Company's cash equivalents include short-term highly liquid investments with an original maturity of 90 days or less when purchased and are carried at fair value in the accompanying balance sheets.

Restricted cash consists of a letter of credit for the benefit of the landlord in connection with the Company's Chestnut Run Lease. See Note 8 for further details.

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the balance sheet that total to the amounts shown in the statement of cash flows:

(in thousands)	**September 30, 2024**	**December 31, 2023**
Cash and cash equivalents	$ 11,134	$ 25,291
Restricted cash	4,044	4,044
Total cash, cash equivalents, and restricted cash shown in statement of cash flows	$ 15,178	$ 29,335

Marketable Securities

The Company's marketable securities consist of investments in corporate debt securities, United States ("U.S.") government debt securities, and agency securities that are classified as available-for-sale. The securities are carried at fair value with the unrealized gains and losses, net of tax, included in accumulated other comprehensive loss, a component of stockholders' equity. Realized gains and losses as well as credit losses, if any, on marketable securities are included in the Company's statements of operations. The Company classifies marketable securities that are available for use in current operations as current assets on the balance sheets.

Revenue Recognition

The Company recognizes revenue under Accounting Standard Codification 606 – *Revenue from Contracts with Customers*. Under ASC 606, the Company recognizes revenue when its 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. The Company's revenue recognition analysis consists of the following 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; and (v) recognition of revenue as we satisfy each performance obligation.

The Company evaluates all promised goods and services within a customer contract and determines which goods and services are separate performance obligations. This evaluation includes an assessment of whether the good or service is capable of being distinct and whether the good or service is separable from other promises in the contract.

The transaction price is determined based on the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer. The Company recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligations when (or as) the performance obligations are satisfied. The Company recognizes a liability when the Company has received payment but has not yet satisfied the related performance obligations.

Net Loss Per Share

Basic net loss per share of common stock is computed by dividing net loss by the weighted-average number of shares of common stock outstanding during each period, including pre-funded warrants to purchase shares of common stock. The weighted-average number of shares of common stock outstanding used in the basic net loss per share calculation does not include unvested restricted stock awards as these instruments are considered contingently issuable shares until they vest. Diluted net loss per share of common stock includes the effect, if any, from the potential exercise of securities, such as stock options, and the effect from unvested restricted stock awards and restricted stock units which would result in the issuance of incremental shares of common stock. For diluted net loss per share, the weighted-average number of shares of common stock is the same for basic net loss per share due to the fact that when a net loss exists, dilutive securities are not included in the calculation as the impact is anti-dilutive. The Company's unvested restricted stock awards entitle the holder to participate in dividends and earnings of the Company, and, if the Company were to recognize net income, it would have to use the two-class method to calculate earnings per share. The two-class method is not applicable during periods with a net loss, as the holders of the unvested restricted stock awards have no obligation to fund losses.

The following potentially dilutive securities have been excluded from the computation of diluted weighted-average shares of common stock outstanding, as they would be anti-dilutive:

	September 30,	
	2024	2023
Unvested restricted stock awards	—	54,026
Unvested restricted stock units	71,875	114,375
Stock options	15,036,871	12,134,205
Employee stock purchase plan	99,150	74,248
	15,207,896	12,376,854

Amounts in the above table reflect the common stock equivalents.

Recently Issued Accounting Pronouncements

Emerging Growth Company Status

The Company is an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act, until such time as those standards apply to private companies. The Company has elected to use this extended transition period for complying with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date that it (i) is no longer an emerging growth company or (ii) affirmatively and irrevocably opts out of the extended transition period provided in the JOBS Act. As a result, these unaudited interim financial statements may not be comparable to companies that comply with the new or revised accounting pronouncements as of public company effective dates.

Accounting guidance not yet adopted

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU"), 2023-07, Segment Reporting (Topic 280) – Improvements to Reportable Segment Disclosures. This ASU expands segment disclosures by requiring disclosure of significant segment expenses that are regularly provided to the chief operating decision maker and included within each reported measure of segment profit or loss, an amount for other segment items and a description of its composition, and interim disclosures of a reportable segment's profit or loss and assets. The disclosures required under ASU 2023-07 are also required for public entities with a single reportable segment. The amendments in this ASU are effective for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company is currently evaluating the impact of this standard but does not expect that it will have a material impact on the financial statements and related disclosures.

In December 2023, the FASB issued ASU 2023-09, Income Taxes - Improvements to Income Tax Disclosures. ASU 2023-09 requires enhanced income tax disclosures related to the rate reconciliation and income taxes paid information. For public business entities, the amendments in this ASU are effective for annual periods beginning after December 15, 2024 with early adoption permitted. The Company is currently evaluating the impact of this standard but does not expect that it will have a material impact on the financial statements and related disclosures.

4. Marketable Securities

The following provides detail of the Company's marketable securities.

(in thousands)	Amortized Cost	Gross unrealized gain	Gross unrealized loss	Fair Value
September 30, 2024				
Marketable securities:				
Agency securities	$ 8,570	$ 6	$ —	$ 8,576
Corporate debt securities	68,170	128	(7)	68,291
U.S. government securities	65,585	41	(1)	65,625
Total marketable securities	$ 142,325	$ 175	$ (8)	$ 142,492
December 31, 2023				
Marketable securities:				
Agency securities	$ 10,431	$ 19	$ —	$ 10,450
Corporate debt securities	67,806	193	(20)	67,979
U.S. government securities	129,184	72	(41)	129,215
Total marketable securities	$ 207,421	$ 284	$ (61)	$ 207,644

The Company's marketable securities generally have contractual maturity dates of 16 months or less. As of September 30, 2024, the Company had 9 securities with a total fair market value of $23.0 million in an unrealized loss position. The Company believes any unrealized losses associated with the decline in value of its securities is temporary and is primarily related to market factors. Furthermore, the Company believes it is more likely than not that it will be able to hold its marketable securities to maturity. Therefore, the Company anticipates a full recovery of the amortized cost basis of its marketable securities at maturity and an allowance for credit losses was not recognized.

5. Fair Value of Financial Instruments

Fair value is the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value determination in accordance with applicable accounting guidance requires that a number of significant judgments be made. Additionally, fair value is used on a nonrecurring basis to evaluate assets for impairment or as required for disclosure purposes by applicable accounting guidance on disclosures about fair value of financial instruments. Depending on the nature of the assets and liabilities, various valuation techniques and assumptions are used when estimating fair value. The Company follows the provisions of ASC 820, Fair Value Measurement, for financial assets and liabilities measured on a recurring basis. The guidance requires fair value measurements be classified and disclosed in one of the following three categories:

- *Level 1:* Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- *Level 2:* Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liabilities.
- *Level 3:* Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The following fair value hierarchy table presents information about the Company's assets and liabilities measured at fair value on a recurring basis:

(in thousands)	Fair value measurement at reporting date using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
September 30, 2024			
Assets			
Cash equivalents:			
Money Market Funds	$ 6,149	$ —	$ —
U.S. government securities	—	3,499	—
Total cash equivalents	6,149	3,499	—
Marketable securities:			
Agency securities	$ —	$ 8,576	$ —
Corporate debt securities	—	68,291	—
U.S. government securities	—	65,625	—
Total marketable securities	—	142,492	—
Total financial assets	$ 6,149	$ 145,991	$ —
December 31, 2023			
Assets			
Cash equivalents:			
Money Market Funds	$ 24,369	$ —	$ —
Marketable securities:			
Agency securities	$ —	$ 10,450	$ —
Corporate debt securities	—	67,979	—
U.S. government securities	—	129,215	—
Total marketable securities	—	207,644	—
Total financial assets	$ 24,369	$ 207,644	$ —

6. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

(in thousands)	September 30, 2024	December 31, 2023
Compensation and related benefits	$ 7,594	$ 9,157
Research and development	5,184	5,666
Other	801	945
	$ 13,579	$ 15,768

7. Common Stock

The Company has two classes of common stock: “voting common stock” and “non-voting common stock.” The holders of the voting common stock are entitled to one vote for each share of voting common stock held at all meetings of stockholders. Except as otherwise required by law, the holders of non-voting common stock shall not be entitled to vote at any meetings of stockholders (or written actions in lieu of meetings) and the shares of non-voting common stock shall not be included in determining the number of shares voting or entitled to vote on any matter. Unless required by law, there shall be no cumulative voting. Any holder of non-voting common stock may elect to convert each share of non-voting common stock into one fully paid and non-assessable share of voting common stock at any time by providing written notice to the Company; provided that as a result of such conversion, such holder, together with its affiliates and any members of a Schedule 13(d) group with such holder, would not beneficially own in excess of 9.99% of the Company’s common stock immediately prior to and following such conversion, unless otherwise as expressly provided for in the Company’s restated certificate of incorporation. However, this ownership limitation may be increased (not to exceed 19.99%) or decreased to any other percentage designated by such holder of non-voting common stock upon 61 days’ notice to the Company.

Shelf Registration Statements

In November 2021, the Company filed a shelf registration statement (the "2021 Shelf Registration Statement") which permits the offering of up to $400.0 million aggregate dollar amount of shares of our common stock or preferred stock, debt securities, warrants to purchase our common stock, preferred stock or debt securities, subscription rights to purchase our common stock, preferred stock or debt securities and/or units consisting of some or all of these securities, in one or more offerings and in any combination. The 2021 Shelf Registration Statement expires on November 24, 2024, and as of September 30, 2024, there was $187.0 million remaining under the 2021 Shelf Registration Statement.

In May 2024, the Company filed a shelf registration statement (the "2024 Shelf Registration Statement") with the SEC for the issuance of common stock, preferred stock, debt securities, warrants, subscription rights and units up to an aggregate amount of $400 million. The 2024 Shelf Registration statement was declared effective on June 10, 2024. The 2024 Shelf Registration statement expires in May 2027, and as of September 30, 2024, there was $400.0 million remaining under the 2024 Shelf Registration statement.

Open Market Sales Agreement

In March 2023, in connection with filing a prospectus supplement to its 2021 Shelf Registration Statement, the Company entered into an Open Market Sales Agreement (the "Sales Agreement") with Jefferies LLC, as the sales agent, pursuant to which the Company may offer and sell shares of its common stock having an aggregate offering amount of up to $75.0 million. The $75.0 million of common stock that may be issued and sold pursuant to the Sales Agreement is included in the $400.0 million of securities that may be issued and sold pursuant to the 2021 Shelf Registration Statement. The Company will pay Jefferies LLC a commission rate of up to 3.0% of the aggregate gross proceeds from the sale of any shares of common stock pursuant to the Sales Agreement. At September 30, 2024, there was $75.0 million remaining under the Sales Agreement.

2023 Financings

During the second quarter of 2023, the Company sold 6,761,200 shares of its common stock which comprised of (i) 5,312,978 shares of its voting common stock and (ii) 1,448,222 shares of its non-voting common stock at a price of $5.75 per share and to certain investors in lieu of common stock, the Company sold pre-funded warrants to purchase 12,895,256 shares of voting common stock at a price of $5.7499 per pre-funded warrant, resulting in gross proceeds to the Company of $113.0 million. Of the voting common stock issued, 2,264,456 shares were purchased by the Company’s underwriters in connection with a 30-day option at a price of $5.75 per share. Offering costs of $2.6 million, of which $0.3 million were previously paid and deferred, were recorded to additional paid-in capital in the accompanying balance sheets, resulting in net proceeds of $110.4 million.

During the fourth quarter of 2023, the Company sold in a private placement pre-funded warrants to purchase 7,936,759 shares of voting common stock at a price of $3.1499 per pre-funded warrant, resulting in net proceeds of $24.8 million after deducting offering costs of $0.2 million.

The purchase price per share of each pre-funded warrant represents the per share offering price for the common stock, minus the $0.0001 per share exercise price of such pre-funded warrant. As of September 30, 2024, no pre-funded warrants had been exercised.

The pre-funded warrants were classified as a component of permanent stockholders’ equity within additional paid-in capital and were recorded at the issuance date using a relative fair value allocation method. The pre-funded warrants are equity classified because they (i) are freestanding financial instruments that are legally detachable and separately exercisable from the equity instruments, (ii) are immediately exercisable, (iii) do not embody an obligation for the Company to repurchase its shares, (iv) permit the holders to receive a fixed number of shares of common stock upon exercise, (v) are indexed to the Company’s common stock and (vi) meet the equity classification criteria. In addition, such pre-funded warrants do not provide any guarantee of value or return.

The Company did not conduct any financings during the nine months ended September 30, 2024.

8. Commitments

Leases

The Company leases office and laboratory space in Wilmington, Delaware under a noncancelable lease (the "Chestnut Run Lease"). The premises include approximately 81,000 rentable square feet and has an initial term of 162 months with 3 five-year extension options and certain expansion rights. Neither the option to extend nor the expansion rights were recognized as part of the Company's measurement of the right-of-use ("ROU") asset and operating lease liability as of September 30, 2024. Under the terms of the Chestnut Run Lease, the landlord provided an allowance towards the cost of completing tenant improvements for the premises. The Company concluded that the improvements resulting from both the landlord's build-out and the tenant improvements are the landlord's assets for accounting purposes. Costs incurred by the Company related to tenant improvements in excess of the landlord's allowance were treated as prepaid rent and increased the right-of-use asset on the commencement date.

In April 2024, the Company entered into a 12 month finance lease for equipment.

Our operating lease costs for the three and nine months ended September 30, 2024 were $1.2 million and $3.3 million, respectively. Our operating lease costs for the three and nine months ended September 30, 2023 were $0.5 million and $1.6 million, respectively. Supplemental balance sheet and other information related to our operating and finance leases as of September 30, 2024 and December 31, 2023 were as follows:

(in thousands)

Leases	Classification	September 30, 2024	December 31, 2023
Assets			
Operating	Operating lease right-of-use assets	$ 29,182	$ 30,412
Finance	Property and equipment, net	553	—
Total leased assets		$ 29,735	$ 30,412
Liabilities			
Current:			
Operating	Current liabilities, operating lease liability	$ 2,365	$ 1,481
Finance	Current liabilities, finance lease liability	359	—
Non-Current:			
Operating	Operating lease liability	15,412	15,407
Total lease liabilities		$ 18,136	$ 16,888
Weighted-average discount rate			
Operating lease		15.0%	15.0%
Finance lease		10.5%	
Weighted-average remaining lease term (years)			
Operating lease		12.7	13.5
Finance lease		0.6	

Supplemental cash flow information related to our leases for the nine months ended September 30, 2024 and 2023 were as follows:

(in thousands)	Nine months ended September 30, 2024	2023
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating lease	$ 1,051	$ 1,446
Operating cash flows from finance lease	22	—
Financing cash flows from finance lease	244	—
Non-cash transaction		
Right-of-use asset obtained in exchange for lease obligations:		
Finance lease	603	—

Future minimum annual lease payments for operating and finance lease at September 30, 2024 are as follows:

(in thousands)	Operating lease	Finance lease
2024 (remaining)	$ 561	$ 159
2025	2,746	213
2026	2,979	-
2027	3,054	-
2028	3,130	-
2029	3,209	-
Thereafter	26,427	-
Total undiscounted lease payments	42,106	372
Less imputed interest	(24,329)	(13)
Lease liability	$ 17,777	$ 359

The Company paid a security deposit for the Chestnut Run Lease in the form of a letter of credit of $4.0 million, which is included in the accompanying balance sheet as restricted cash as of September 30, 2024. The security deposit may be reduced to $0.5 million over time in accordance with the terms of the Chestnut Run Lease.

In connection with the Company's expansion of operations in the State of Delaware, the Company was approved for a grant from the State of Delaware in 2021 that will provide up to $2.4 million in reimbursements over three years for the development of lab space and up to $3.1 million to increase jobs in Delaware to meet specific targeted levels through 2023, which was extended to 2026 during the second quarter of 2024. During the third quarter of 2022, the Company was approved for an additional grant from the State of Delaware for the development of lab space in the amount of $1.0 million. In 2022, the Company received cash grants of $3.4 million from the State of Delaware for the development of lab space. The Company has met the minimum requirements stated in the grant agreement in order to not be required to pay back any portion of the $3.4 million disbursed. The Company deferred the recognition of these grant funds as they relate to capitalized costs and has classified them as long-term liabilities in the accompanying balance sheet. The Company recognizes the grant funds in other income as grant income over the length of the lease term. Additionally, if the Company leaves the State of Delaware within five years of the disbursement, the Company is required to return an amount equal to the amount of grant funds disbursed on a pro-rated basis. As of September 30, 2024, the Company has received $0.5 million for increasing jobs since the date the grant was approved, which has been recorded in other income.

Employment Agreements

The Company entered into employment agreements with key personnel providing for compensation and severance in certain circumstances, as defined in the respective employment agreements.

401(k) Defined Contribution Plan

The Company sponsors a 401(k) defined-contribution plan covering all employees. Participants are permitted to contribute up to 100% of their eligible annual pretax compensation up to an established federal limit on aggregate participant contributions. The Company provides a match of a maximum amount of 3% of the participant's compensation. For the three months ended September 30, 2024 and 2023, the Company made matching contributions of $0.2 million and $0.1 million, respectively. For nine months ended September 30, 2024 and 2023, the Company made matching contributions of $0.6 million and $0.5 million, respectively.

Research Collaboration Agreement

In 2023, the Company entered into a multi-year, multi-program agreement with AbCellera Biologics Incorporated ("AbCellera") to jointly discover, develop, and commercialize novel oncology medicines for up to five programs. Under the terms of the agreement, AbCellera will lead manufacturing activities and the Company will lead clinical development and global commercialization, subject to AbCellera's option to co-promote any resulting commercial products in the United States. If, at any point one party in the collaboration opts-out of future co-development cost sharing, that party will be entitled to a royalty from commercialization of the collaboration target, dependent on the proportion of their co-development contributions compared to the total development costs of a target as defined within the agreement. The Company concluded that the agreement with AbCellera will be accounted for under the scope of ASC 808, Collaborative Arrangements, as both parties will actively participate in joint operating activities and are exposed to significant risks and rewards. Under ASC 808, certain transactions between collaborative arrangement participants should follow the accounting for revenue under ASC 606, Revenue from Contracts with Customers, when the collaborative arrangement participant is a customer for a distinct good or service. The Company determined that co-development arrangement as defined in our agreement with AbCellera does not meet the definition of a customer as defined by ASC 606. As a result, these activities will be accounted for as

research and development costs. Costs related to the AbCellera collaboration were not material for the three and nine months ended September 30, 2024.

License Agreement

In May 2024, the Company and Pathos AI, Inc. ("Pathos") entered into a license agreement under which the Company granted to Pathos an exclusive, sublicensable, world-wide license to its selective, brain-penetrant PRMT5 inhibitor, PRT811. Under the terms of the license agreement, the Company received a $3.0 million upfront, non-refundable payment. The agreement also includes a near term $4.0 million payment upon the earlier of 180 days following the effective date of the license agreement or the execution of a quality agreement between the parties pursuant to which the Company will transfer title to certain quantities of Active Pharmaceutical Ingredient (“API”). In addition, the Company may receive potential developmental milestone payments up to $37.0 million, potential sales milestone payments up to $100 million and a range of high single-digit to low double-digit royalties on PRT811 global net sales.

The Company assessed the license agreement with Pathos in accordance with ASC 606, *Revenue from Contracts with Customer,* and concluded that Pathos is a customer. The license agreement with Pathos includes the transfer of the following goods or services: (i) exclusive license to PRT811, (ii) transfer of licensed know-how and materials (i.e. datasets, regulatory and manufacturing documents, etc.), (iii) participation in a Joint Communication Committee ("JCC"), and (iv) execution of a quality agreement pursuant to which the Company will transfer title to certain API. The Company evaluated all of the promised goods or services within the contract and determined which goods and services were separate performance obligations. The Company determined that Pathos could not benefit from the license separately from the related know-how and materials, accordingly they represent one combined performance obligation. The execution of a quality agreement pursuant to which the Company will transfer title to certain API was identified as a separate performance obligation. The Company also determined the participation in the JCC is immaterial in the context of the license agreement as the Company has no decision-making ability through its participation in the JCC.

The transaction price is allocated to the performance obligation based upon relative standalone selling prices, which were estimated for (i) the exclusive license and know-how and materials at $3.0 million using an adjusted market approach and (ii) execution of a quality agreement pursuant to which the Company will transfer title to certain API at $4.0 million using a cost plus margin approach.

With respect to the accounting principles identified above, each performance obligation will be recognized at a point in time. The Company determined that the performance obligation for the license and transfer of related know-how and materials would be fully satisfied when the license is granted and key know-how and materials are transferred to Pathos as that is the point at which Pathos can fully use and benefit from the license to PRT811. The performance obligation for the execution of a quality agreement pursuant to which the Company will transfer title to certain API will be satisfied when the legal title to the API is transferred. During the third quarter of 2024, the Company satisfied the performance obligation related to the exclusive license and transfer of related know-how and materials which resulted in the recognition of revenue for $3.0 million previously deferred. The Company will recognize revenue of $4.0 million in the fourth quarter of 2024 as the performance obligation for the execution of the quality agreement pursuant to which the Company transferred title to certain API was completed in early October 2024.

Other Research and Development Arrangements

The Company enters into agreements with clinical research organizations ("CROs") to assist in the performance of research and development activities. Expenditures to CROs represent a significant cost in clinical development for the Company.

9. Stock-Based Compensation

The Company has two equity incentive plans: the 2016 Equity Incentive Plan, as amended, and the 2020 Equity Incentive Plan. New awards can only be granted under the 2020 Equity Incentive Plan (the “Plan”) and as of September 30, 2024, 4,591,896 shares were available for future grants. The number of shares of the Company’s common stock that may be issued pursuant to rights granted under the Plan shall automatically increase on January 1st of each year and continuing for ten years beginning on January 1, 2021, in an amount equal to five percent of the total number of shares of the Company’s common stock outstanding on December 31st of the preceding calendar year, subject to the discretion of the Company's board of directors or compensation committee to determine a lesser number of shares shall be added for such year. On January 1, 2024, 2,745,712 shares were added to the Plan. The Plan provides for the granting of common stock, incentive stock options, nonqualified stock options, restricted stock awards, restricted stock units and/or stock appreciation rights to employees, directors, and other persons, as determined by the Company’s board of directors. The Company’s stock options vest based on the terms in each award agreement, generally over four-year periods with 25% of options vesting after one year and then monthly thereafter, and have a term of ten years.

The Company measures stock-based awards at their grant-date fair value and records compensation expense on a straight-line basis over the vesting period of the awards. The Company recorded stock-based compensation expense in the following expense categories in its accompanying statements of operations:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Research and development	$ 3,403	$ 3,319	$ 9,834	$ 9,544
General and administrative	2,523	3,396	7,737	10,160
	$ 5,926	$ 6,715	$ 17,571	$ 19,704

Stock Options

The following table summarizes stock option activity for the periods indicated:

	Number of shares	Weighted average exercise price per share	Weighted average remaining contractual term (years)
Outstanding at January 1, 2024	11,898,446	$ 10.60	7.77
Granted	3,830,800	$ 4.48	
Exercised	(14,955)	$ 3.98	
Forfeited	(677,420)	$ 12.18	
Outstanding at September 30, 2024	15,036,871	$ 8.98	7.58
Exercisable at September 30, 2024	8,148,514	$ 11.04	6.57

At September 30, 2024, the aggregate intrinsic value of both outstanding options and exercisable options was $0.5 million.

The following table summarizes information about stock options outstanding at September 30, 2024 under the Plan:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.31 - $4.56	2,899,916	6.43	$ 2.48	2,008,650	$ 1.87
$4.57 - $5.13	4,105,590	8.89	4.68	768,257	4.86
$5.14 - $11.72	4,571,039	8.06	7.79	2,225,341	8.09
$11.73 - $88.98	3,460,326	6.35	21.10	3,146,266	20.49
	15,036,871			8,148,514	

The weighted-average grant date fair value of options granted was $3.31 and $4.97 per option for the nine months ended September 30, 2024 and 2023, respectively. The Company recorded stock-based compensation expense of $5.8 million and $6.5 million for the three months ended September 30, 2024 and 2023, respectively, related to stock options. The Company recorded stock-based compensation expense of $17.1 million and $18.9 million for the nine months ended September 30, 2024 and 2023, respectively, related to stock options. As of September 30, 2024, the total unrecognized compensation expense related to unvested stock option awards was $29.9 million, which the Company expects to recognize over a weighted-average period of 2.59 years.

The fair value of each option was estimated on the date of grant using the weighted average assumptions in the table below:

	Nine months ended September 30,	
	2024	2023
Expected volatility	84.97%	83.53%
Risk-free interest rate	4.19%	3.81%
Expected life (in years)	6.05	6.02
Expected dividend yield	—	—

Restricted Stock Awards and Units

The Company issues restricted stock awards ("RSA") to employees that generally vest over a four-year period with 25% of awards vesting after one year and then monthly thereafter. Any unvested shares will be forfeited upon termination of services. The fair value of an RSA is equal to the fair market value price of the Company's common stock on the date of grant. RSA expense is recorded on a straight-line basis over the vesting period.

The following table summarizes activity related to RSA stock-based payment awards:

	Number of shares	Weighted-average grant date fair value
Unvested balance at January 1, 2024	27,008	$ 3.26
Vested	(27,008)	$ 3.26
Unvested balance at September 30, 2024	—	$ —

The Company recorded stock-based compensation expense of $0.1 million and $0.4 million for the nine months ended September 30, 2024 and 2023, respectively, related to RSAs. As of September 30, 2024, there was no unrecognized expense related to RSAs.

The Company granted restricted stock units ("RSU") to employees that generally vest over a four-year period with 25% of awards vesting after one year and then quarterly thereafter. Any unvested units will be forfeited upon termination of services.

The following table summarizes activity related to RSU stock-based payment awards:

	Number of shares	Weighted-average grant date fair value
Unvested balance at January 1, 2024	103,750	$ 6.16
Vested	(31,875)	$ 6.44
Unvested balance at September 30, 2024	71,875	$ 6.03

The Company recorded stock-based compensation expense of $0.1 million for both the three months ended September 30, 2024 and 2023, related to RSUs. The Company recorded stock-based compensation expense of $0.2 million for both the nine months ended September 30, 2024 and 2023, related to RSUs. At September 30, 2024, the total unrecognized expense related to the RSUs was $0.4 million, which the Company expects to recognize over 1.38 years.

Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan (the "ESPP"), which, as of September 30, 2024, had 2,089,518 shares of common stock reserved for future issuance. The number of shares of the Company's common stock that may be issued pursuant to rights granted under the ESPP shall automatically increase on January 1st of each year and continuing for ten years beginning in 2021, in an amount equal to one percent of the total number of shares of all classes of the Company's common stock outstanding on December 31st of the preceding calendar year, subject to the discretion of the Company's board of directors or compensation committee to determine a lesser number of shares shall be added for such year. On January 1, 2024, 549,142 shares were added to the ESPP.

Under the ESPP, eligible employees can purchase the Company's common stock through accumulated payroll deductions at such times as are established by the Company's compensation committee. Eligible employees may purchase the Company's common stock at 85% of the lower of the fair market value of the Company's common stock on the first day of the offering period or on the last day of the offering period. Eligible employees may contribute up to 15% of their eligible compensation. Under the ESPP, a participant may not accrue rights to purchase more than $25,000 worth of the Company's common stock for each calendar year in which such right is outstanding.

The ESPP is considered compensatory under the FASB stock compensation rules. Accordingly, share-based compensation expense is determined based on the option's grant-date fair value as estimated by applying the Black Scholes option-pricing model and is recognized over the withholding period. The Company recognized share-based compensation expense of $0.2 million for both the nine months ended September 30, 2024 and 2023 related to the ESPP.

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

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and the related notes and other financial information included elsewhere in this Quarterly Report on Form 10-Q. In addition to historical financial information, this discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties, such as statements of our plans, objectives, expectations, intentions and belief. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in the section titled "Risk Factors" under Part I, Item 1A of our Annual Report on Form 10-K filed with the SEC on February 15, 2024, or our 2023 Annual Report on Form 10-K. These forward-looking statements may include, but are not limited to, statements regarding our future results of operations and financial position, our ability to develop our clinical candidates, inflation and interest rate risk, a potential recession, a potential temporary federal government shutdown, business strategy, market size, potential growth opportunities, preclinical and clinical development activities, efficacy and safety profile of our product candidates, use of net proceeds from our offerings, our ability to maintain and recognize the benefits of certain designations received by product candidates, the timing and results of preclinical studies and clinical trials, commercial collaborations with third parties and the receipt and timing of potential regulatory designations, approvals and commercialization of product candidates. The words "believes," "anticipates," "estimates," "plans," "expects," "intends," "may," "could," "should," "potential," "likely," "projects," "continue," "will," "schedule," and "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words.

These statements are based upon information available to us as of the date of this Quarterly Report on Form 10-Q, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely upon these statements.

Overview

Prelude is a clinical-stage fully integrated oncology company built on a foundation of drug discovery excellence to deliver novel precision cancer medicines to underserved patients. By leveraging our core competencies in cancer biology and medicinal chemistry, combined with our clinical development capabilities, we have built an efficient, fully-integrated drug discovery engine and the development expertise necessary to identify compelling biological targets and create new chemical entities, or NCEs, that we advance into clinical trials. We believe our approach could result in better targeted cancer therapies. Our discovery excellence has been validated by our steady progress in creating a wholly-owned, internally developed pipeline. We also began work with our partner AbCellera on an early-stage discovery program involving potent degraders as payloads for novel antibodies targeting tumor specific antigens. Since our inception in 2016, we have received clearance from the U.S. Food and Drug Administration, or the FDA, for multiple investigational new drug applications, or INDs, and successfully advanced several programs into clinical trials. In addition, we have other differentiated proprietary programs in various stages of preclinical development.

By focusing on developing molecules using broad mechanisms that have multiple links to oncogenic driver pathways in select patients, we have developed a diverse pipeline consisting of multiple distinct programs including kinases, targeted protein degraders, and precision antibody drug conjugates. Our pipeline is designed to serve patients with high unmet medical need, where there are limited or no treatment options. We believe we can best address these diseases by developing therapies that target primary and secondary resistance mechanisms.

We have several drug candidates in clinical development and our objective is to generate proof-of-concept clinical data to guide our future regulatory pathways to approval. Our SMARCA2 molecule is a unique, first-in-class protein degrader, targeting specific patient populations. Our CDK9 inhibitor is selective and potent, with a potentially superior safety profile over first-generation CDK9 inhibitors.

Our novel, first-in-class SMARCA2 degrader compounds and our potent, highly selective and potentially best-in-class CDK9 inhibitor represent our best opportunities for demonstrating clinical proof-of-concept in 2024 and advancing into potential Phase 2/3 registration studies. In 2023, we announced a global partnership with AbCellera Biologics Incorporated ("AbCellera") that will allow us to combine our small molecules and degraders expertise with their antibody expertise to develop precision antibody drug conjugates. We also intend to explore continued clinical development with external partners for our CDK4/6 inhibitor.

PRT3789 is a first-in-class, highly selective degrader of SMARCA2 protein, which along with SMARCA4 controls gene regulation through chromatin remodeling. Cancer cells with SMARCA4 mutations are dependent on SMARCA2 for their growth and survival and selectively degrading SMARCA2 induces cell death in cancer cells while sparing normal cells in preclinical models. PRT3789 has been shown to be efficacious and well tolerated in multiple preclinical models of SMARCA4 deleted/mutated cancers as monotherapy and in combination with standards of care therapies. We believe a selective SMARCA2 degrader has the potential to be of benefit in up to 10% of non-small cell lung cancer, or NSCLC, patients in the United States including many other tumor types with the SMARCA4 mutation.

Patients with SMARCA4 mutated cancer have a poor prognosis. This represents an area of high unmet medical need. Therefore, mutated or deleted SMARCA4 cancers provide a potential biomarker to select those patients most likely to respond to treatment with a highly selective SMARCA2 degrader.

PRT3789 is currently in Phase 1 clinical development in patients with biomarker selected SMARCA4 mutated cancers. Objectives for this first Phase 1 clinical trial are to establish the safety and tolerability profile of PRT3789 as both monotherapy and in combination with docetaxel, evaluate activity, pharmacokinetics and pharmacodynamics and determine a dose and potential indications for advancement into a registrational clinical trial. We presented the first interim clinical data updates of the Phase 1 dose escalation study at the European Society of Medical Oncology (ESMO) Congress 2024 and the 36th EORTC-NCI-AACR Symposium. As reported by investigators, PRT3789 was generally safe and well-tolerated at doses tested to date. Of the 26 advanced NSCLC or esophageal patients with Class 1 (loss of function) mutations who were evaluable for efficacy, RECIST confirmed partial responses (PRs) were observed in 4 patients (2 esophageal, 2 NSCLC). Of the 9 patients with Class 1 mutations treated at doses of 283 mg or higher, two had RECIST confirmed partial responses and both were NSCLC patients. Tumor shrinkage was observed in patients with both Class 1 and Class 2 SMARCA4 mutations. Additional patients on-study demonstrated clinical benefit as measured by prolonged SD, including one advanced NSCLC patient who remains stable and on study having been treated for more than a year. Initial observations of safety from evaluable patients in the PRT3789 plus docetaxel combination dose escalation arm of the trial were also presented. To date, PRT3789 in combination with docetaxel demonstrated an acceptable safety profile, with no dose limiting toxicities or study drug serious adverse events reported.

Enrollment remains on track, and the Company expects to conclude monotherapy dose escalation by year end 2024 and identify a dose for advancement to registrational trials. In addition, enrollment of patients into back-fill cohorts enriched for NSCLC and SMARCA4 loss-of-function mutations is ongoing, as is enrollment of the combination with docetaxel cohort.

The Company also initiated a Phase 2 clinical trial evaluating PRT3789 in combination with KEYTRUDA® (pembrolizumab) in patients with SMARCA4-mutated cancers, per the previously announced collaboration with Merck.

Our discovery team has identified a series of highly selective and orally bioavailable SMARCA2 degraders. In July 2024, we received IND clearance for the lead oral molecule, PRT7732. The Company initiated and enrolled our first patients in a phase 1 multi-dose escalation trial of PRT7732 (NCT06560645) in biomarker selected SMARCA4 mutated cancers.

As one of our first precision ADC programs, we and our partner AbCellera began work on an early-stage discovery program involving potent degraders of the SMARCA family of proteins as payloads for novel antibodies targeting tumor specific antigens. Given the potent anti-tumor activity of these molecules in pre-clinical models of cancers beyond those targeted by our SMARCA2 selective degraders, we believe that these precision ADCs have the potential to extend the therapeutic utility of this class. The partnership includes up to five precision ADC targets. Under the terms of the agreement, we and AbCellera will jointly discover, develop, and commercialize products emerging from the collaboration. AbCellera will lead manufacturing activities and we will lead clinical development and global commercialization, subject to AbCellera's option to co-promote any resulting commercial products in the United States.

The Company presented the first preclinical data from its precision ADC platform at the 36th EORTC-NCI-AACR Symposium in October 2024. The data demonstrated potent activity of a SMARCA 2/4 degrader payload when conjugated to a range of commercially available antibodies, including PSMA, TROP2, C-MET, CEACAM5, and CD33. The SMARCA2/4 degrader payload conjugated to an anti-PSMA antibody demonstrated tumor regressions and significantly better *in vivo* efficacy compared to a traditional PSMA-targeted cytotoxic ADC in xenograft models of prostate cancer at well tolerated doses.

Our CDK9 candidate, PRT2527, is designed to be a potent and selective CDK9 inhibitor. We believe PRT2527 has the potential to avoid off-target toxicities, achieve substantial clinical activity and to become the best-in-class CDK9 inhibitor for hematologic malignancies.

In preclinical studies, PRT2527 was shown to reduce MCL1 and MYC protein levels and was highly active in preclinical models at well-tolerated doses. Our preclinical studies suggest that PRT2527 demonstrates high kinase selectivity and potency, providing opportunity for a wider therapeutic index compared to less selective CDK9 inhibitors, allowing for rapid development in combinations. Preclinical data demonstrated that treatment with PRT2527 depleted oncogenic drivers with short half-lives, such as MYC and MCL1, and effectively induced apoptosis. PRT2527 treatment demonstrated robust efficacy in both hematological malignancies and solid tumor models with MYC dysregulation. Dose dependent increases in exposure and target engagement were observed as evidenced by MYC and MCL1 depletion to levels associated with tumor regression in preclinical models.

PRT2527 has completed a Phase 1 multi-dose escalation study (NCT05159518) in patients with solid tumors. In this study, PRT2527 was shown to achieve high levels of target inhibition and the potential to be better tolerated than existing CDK9 inhibitors, specifically, managing neutropenia and an absence of meaningful gastrointestinal events or hepatotoxicity.

The observed dose-dependent downregulation of MYC and MCL1 mRNA expression, CDK9 transcriptional targets, was consistent with the degree of target engagement required for preclinical efficacy. As predicted by the preclinical models, 12 mg/m2 QW dosing showed optimal target inhibition and has been selected as the optimal dose. The overall safety profile observed in this

study supports further development of PRT2527 in hematologic malignancies (NCT05665530). In this study, PRT2527 is advancing as monotherapy in both lymphoid and myeloid hematological malignancies and we have initiated the combination with zanubrutinib in B-cell malignancies. We expect to complete the monotherapy dose escalation in B-cell malignancies in 2024. Initiation of dose escalation in myeloid malignancies occurred in the first half of 2024. Interim phase 1 clinical data with potentially best-in-class CDK9 inhibitor, PRT2527 in hematological malignancies will be presented at the American Society of Hematology Annual Meeting in December 2024.

As discussed in our 2023 Annual Report on Form 10-K, last fiscal year, after concluding Phase 1 development of PRT1419, we decided to discontinue development of PRT1419 in order to prioritize our CDK9 inhibitor, PRT2527.

PRT3645 is a brain and tissue penetrant molecule that potently targets CDK4/6 with a biased selectivity for CDK4. A Phase 1 multi-dose escalation clinical trial of PRT3645 has been completed. At the 2023 AACR-NCI-EORTC International Conference on Molecular Targets and Cancer Therapeutics, we presented data, showing that treatment with PRT3645 was associated with a substantial decrease in pRb and Ki67 expression, indicating a high level of target engagement at the doses evaluated. Also, PRT3645 was generally well tolerated in the initial three dose cohorts of patients with no clinically meaningful gastrointestinal, hematologic or neurological events reported to date, leveraging its enhanced selectivity profile. Having completed the dose escalation portion of the Phase 1 clinical trial of PRT3645, we intend to continue to explore continued clinical development with external partners.

Components of Results of Operations

Since inception, we have devoted substantially all of our resources to developing product and technology rights, conducting research and development, organizing and staffing our company, business planning and raising capital. We have incurred recurring losses, the majority of which are attributable to research and development activities, and negative cash flows from operations. We have funded our operations primarily through the sale of convertible preferred stock, common stock and pre-funded warrants. Our net loss was $98.4 million and $88.8 million for the nine months ended September 30, 2024 and 2023, respectively. As of September 30, 2024, we had an accumulated deficit of $554.8 million. Our primary use of cash is to fund operating expenses, which consist primarily of research and development expenditures, and to a lesser extent, general and administrative expenditures. Our ability to generate product revenue sufficient to achieve profitability will depend heavily on the successful development and eventual commercialization of one or more of our current or future product candidates. We expect to continue to incur significant expenses and operating losses for the foreseeable future as we advance our product candidates through all stages of development and clinical trials and, ultimately, seek regulatory approval. In addition, if we obtain marketing approval for any of our product candidates, we expect to incur significant commercialization expenses related to product manufacturing, marketing, sales and distribution. Our net losses may fluctuate significantly from quarter-to-quarter and year-to-year, depending on the timing of our clinical trials and our expenditures on other research and development activities.

Revenue

To-date, we have not recognized any revenue from product sales, and we do not expect to generate any revenue from the sale of products in the foreseeable future. If our development efforts for our product candidates are successful and result in regulatory approval, or license agreements with third parties, we may generate revenue in the future from product sales. However, there can be no assurance as to when we will generate such revenue, if at all.

In May 2024, the Company and Pathos AI, Inc. ("Pathos") entered into a license agreement under which the Company granted to Pathos an exclusive, sublicensable, world-wide license to its selective, brain-penetrant PRMT5 inhibitor, PRT811. Under the terms of the license agreement, the Company received a $3.0 million upfront, non-refundable payment. The agreement also includes a near term $4.0 million payment upon the earlier of 180 days following the effective date of the license agreement or the execution of a quality agreement between the parties pursuant to which the Company will transfer title to certain quantities of Active Pharmaceutical Ingredient (“API”). In addition, the Company may receive potential developmental milestone payments up to $37.0 million, potential sales milestone payments up to $100 million and a range of high single-digit to low double-digit royalties on PRT811 global net sales.

The Company assessed the license agreement with Pathos in accordance with ASC 606, *Revenue from Contracts with Customer,* and concluded that Pathos is a customer. The Company evaluated all of the promised goods or services within the contract and determined which goods and services were separate performance obligations. The Company determined that the exclusive license and transfer of related know-how and materials represents one combined performance obligation. The execution of a quality agreement pursuant to which the Company will transfer title to certain API was identified as a separate performance obligation.

During the third quarter of 2024, the Company satisfied the performance obligation related to the exclusive license and transfer of related know-how and materials which resulted in the recognition of revenue for $3.0 million previously deferred. The Company

will recognize revenue of $4.0 million in the fourth quarter of 2024 as the performance obligation for the execution of the quality agreement pursuant to which the Company transferred title to certain API was completed in early October 2024.

Operating Expenses

Research and Development Expenses

Research and development expenses consist primarily of costs incurred in connection with the discovery and development of our product candidates. We expense research and development costs as incurred, including:

- expenses incurred to conduct the necessary discovery-stage laboratory work, preclinical studies and clinical trials required to obtain regulatory approval;
- personnel expenses, including salaries, benefits and stock-based compensation expense for our employees engaged in research and development functions;
- costs of funding research performed by third parties, including pursuant to agreements with clinical research organizations, or CROs, that conduct our clinical trials, as well as investigative sites, consultants and CROs that conduct our preclinical and nonclinical studies;
- expenses incurred under agreements with contract manufacturing organizations, or CMOs, including manufacturing scale-up expenses and the cost of acquiring and manufacturing preclinical study and clinical trial materials;
- fees paid to consultants who assist with research and development activities;
- expenses related to regulatory activities, including filing fees paid to regulatory agencies; and
- allocated expenses for facility costs, including rent, utilities, depreciation and maintenance.

We track outsourced development costs and other external research and development costs to specific product candidates on a program-by-program basis, fees paid to CROs, CMOs and research laboratories in connection with our preclinical development, process development, manufacturing and clinical development activities. However, we do not track our internal research and development expenses on a program-by-program basis as they primarily relate to compensation, early research and other costs which are deployed across multiple projects under development.

Research and development activities are central to our business model. Product candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical trials. We expect our research and development expenses to increase significantly over the next several years as we increase personnel costs, including stock-based compensation, conduct our clinical trials, including later-stage clinical trials, for current and future product candidates and prepare regulatory filings for our product candidates.

General and Administrative Expenses

General and administrative expenses consist primarily of personnel expenses, including salaries, benefits and stock-based compensation expense, for employees and consultants in executive, finance and accounting, legal, operations support, information technology and human resource functions. General and administrative expense also includes corporate facility costs not otherwise included in research and development expense, including rent, utilities, depreciation and maintenance, as well as legal fees related to intellectual property and corporate matters and fees for accounting and consulting services.

We expect that our general and administrative expense will increase in the future to support our continued research and development activities and potential commercialization efforts. These increases will likely include increased costs related to the hiring of additional personnel and fees to outside consultants and legal support, among other expenses. The costs associated with being a public company include expenses related to services associated with maintaining compliance with the requirements of Nasdaq and the Securities and Exchange Commission, or SEC, insurance and investor relations costs. If any of our current or future product candidates obtains U.S. regulatory approval, we expect that we would incur significantly increased expenses associated with building a sales and marketing team.

Other Income, Net

Other income, net consists primarily of interest earned on our cash equivalents and marketable securities and grant income received from the State of Delaware. We anticipate re-applying for grants from the State of Delaware from time to time as long as we maintain qualifying headcount levels.

Income Taxes

Since our inception, we have not recorded any income tax benefits for the net operating losses, or NOLs, we have incurred or for our research and development tax credits, as we believe, based upon the weight of available evidence, that it is more likely than not that all of our NOLs and tax credits will not be realized.

Results of Operations

Comparison of the Three Months Ended September 30, 2024 and 2023

The following table sets forth our results of operations.

	Three months ended September 30,		Change
(in thousands)	**2024**	**2023**	
Revenue from license agreement	$ 3,000	$ —	$ 3,000
Operating expenses:			
Research and development	29,457	26,261	3,196
General and administrative	7,919	7,124	795
Total operating expenses	37,376	33,385	3,991
Loss from operations	(34,376)	(33,385)	(991)
Other income, net	2,105	2,777	(672)
Net loss	$ (32,271)	$ (30,608)	$ (1,663)

Revenue

Revenue for the three months ended September 30, 2024 related to our license agreement. During the third quarter of 2024, we satisfied the performance obligation related to the exclusive license and transfer of related know-how and materials which resulted in the recognition of revenue for $3.0 million.

Research and Development Expenses

Research and development expenses increased from $26.3 million for the three months ended September 30, 2023 to $29.5 million for the three months ended September 30, 2024. Included in research and development expense for the three months ended September 30, 2024 was $3.4 million of non-cash expense related to stock-based compensation expense, including employee stock options, compared to $3.3 million for three months ended September 30, 2023. Research and development expenses increased primarily due to an increase in our chemistry, manufacturing, and controls ("CMC") costs supporting our pre-clinical and clinical programs. Research and development expenses may fluctuate from period to period depending upon the stage of certain projects and the level of preclinical and clinical trial-related activities.

Research and development expenses by program are summarized in the table below. Expenses for programs that have been discontinued are included in Other.

	Three months ended September 30,	
(in thousands)	**2024**	**2023**
PRT3789	$ 5,056	$ 2,684
PRT2527	3,719	2,181
PRT7732	1,903	—
Discovery programs	4,789	5,481
Other	(266)	2,678
Internal costs, including personnel related	14,256	13,237
	$ 29,457	$ 26,261

General and Administrative Expenses

General and administrative expenses increased from $7.1 million for the three months ended September 30, 2023 to $7.9 million for the three months ended September 30, 2024. Included in general and administrative expenses for the three months ended September 30, 2024, was $2.5 million of non-cash expense related to stock-based compensation expense, including employee stock options, compared to $3.4 million for three months ended September 30, 2023. General and administrative expenses increased primarily due to an increase in professional fees incurred to support our research and development efforts.

Other Income, net

Other income, net decreased from $2.8 million for the three months ended September 30, 2023, to $2.1 million for the three months ended September 30, 2024 primarily due to lower interest earned on the investment of our cash balance as a result of lower investment balances.

Comparison of the Nine Months Ended September 30, 2024 and 2023

The following table sets forth our results of operations.

(in thousands)	Nine months ended September 30, 2024	2023	Change
Revenue from license agreement	$ 3,000	$ —	$ 3,000
Operating expenses:			
Research and development	86,375	73,061	13,314
General and administrative	22,508	21,837	671
Total operating expenses	108,883	94,898	13,985
Loss from operations	(105,883)	(94,898)	(10,985)
Other income, net	7,441	6,141	1,300
Net loss	$ (98,442)	$ (88,757)	$ (9,685)

Revenue

Revenue for the nine months ended September 30, 2024 related to our license agreement as we satisfied the performance obligation related to the exclusive license and transfer of related know-how and materials which resulted in the recognition of revenue for $3.0 million.

Research and Development Expenses

Research and development expenses increased from $73.1 million for the nine months ended September 30, 2023 to $86.4 million for the nine months ended September 30, 2024. Research and development expenses increased primarily due to the timing of our clinical research programs as well as an increase in our CMC expense to support our pre-clinical and clinical programs. Research and development expenses may fluctuate from period to period depending upon the stage of certain projects and the level of preclinical and clinical trial-related activities.

Research and development expenses by program are summarized in the table below. Expenses for programs that have been discontinued are included in Other.

	Nine months ended September 30,	
(in thousands)	**2024**	**2023**
PRT3789	$ 13,931	$ 6,151
PRT2527	8,295	4,983
PRT7732	5,618	—
Discovery programs	15,475	14,124
Other	1,301	9,343
Internal costs, including personnel related	41,755	38,460
	$ 86,375	$ 73,061

General and Administrative Expenses

General and administrative expenses increased from $21.8 million for the nine months ended September 30, 2023 to $22.5 million for the nine months ended September 30, 2024 primarily due to an increase in professional fees incurred to support our research and development efforts. The increase was partially offset by a decrease in non-cash expense related to stock-based compensation from $10.2 million for nine months ended September 30, 2023 to $7.7 million for the nine months ended September 30, 2024.

Other Income, net

Other income, net increased from $6.1 million for the nine months ended September 30, 2023, to $7.4 million for the nine months ended September 30, 2024 primarily due to income earned our investments and higher grant income.

Liquidity and Capital Resources

Overview

Since our inception, we have not recognized any revenue and have incurred operating losses and negative cash flows from our operations. We have not yet commercialized any product and we do not expect to generate revenue from sales of any products for several years, if at all.

We will need to raise substantial additional capital to support our continuing operations and pursue our growth strategy. Until such time as we can generate significant revenue from product sales, if ever, we plan to finance our operations through the sale of equity, debt financings or other capital sources, which may include collaborations with other companies or other strategic transactions. There are no assurances that we will be successful in obtaining an adequate level of financing as and when needed to finance our operations on terms acceptable to us or at all. Any failure to raise capital as and when needed could have a negative impact on our financial condition and on our ability to pursue our business plans and strategies. If we are unable to secure adequate additional funding, we may have to significantly delay, scale back or discontinue the development and commercialization of one or more product candidates or delay our pursuit of potential in-licenses or acquisitions.

As of September 30, 2024, we had $153.6 million in cash, cash equivalents, and marketable securities. We believe that our cash, cash equivalents, and marketable securities as of September 30, 2024 will be sufficient to fund operating expenses and capital expenditure requirements into 2026. Since our inception, we have funded our operations through the sale of convertible preferred stock, common stock, and pre-funded warrants.

During the second quarter of 2023, we sold 6,761,200 shares of common stock which comprised of (i) 5,312,978 shares of voting common stock and (ii) 1,448,222 shares of non-voting common stock at a price of $5.75 per share and to certain investors in lieu of common stock, we sold pre-funded warrants to purchase 12,895,256 shares of voting common stock at a price of $5.7499 per pre-funded warrant, resulting in gross proceeds of $113.0 million. We incurred offering costs of $2.6 million, of which $0.3 million were previously paid and deferred, which resulted in net proceeds of $110.4 million. The purchase price per share of each pre-funded warrant represents the per share offering price for the common stock, minus the $0.0001 per share exercise price of such pre-funded warrant. Of the voting common stock sold, 2,264,456 were purchased by our underwriters in connection with a 30-day option at a price of $5.75 per share.

During the fourth quarter of 2023, we sold in a private placement pre-funded warrants to purchase 7,936,759 shares of voting common stock at a price of $3.1499 per pre-funded warrant, resulting in net proceeds of $24.8 million after deducting offering costs of $0.2 million.

We did not issue any securities during the nine months ended September 30, 2024.

Funding Requirements

Our primary use of cash is to fund operating expenses, primarily research and development expenditures. Cash used to fund operating expenses is impacted by the timing of when we pay these expenses, as reflected in the change in our outstanding accounts payable, accrued expenses and prepaid expenses.

Because of the numerous risks and uncertainties associated with research, development and commercialization of pharmaceutical products, we are unable to estimate the exact amount of our operating capital requirements. Our future funding requirements will depend on many factors, including, but not limited to:

- the scope, timing, progress and results of discovery, preclinical development, laboratory testing and clinical trials for our product candidates;
- the costs of manufacturing our product candidates for clinical trials and in preparation for marketing approval and commercialization;
- the extent to which we enter into collaborations or other arrangements with additional third parties in order to further develop our product candidates;
- the costs of preparing, filing and prosecuting patent applications, maintaining and enforcing our intellectual property rights and defending intellectual property-related claims;
- the costs and fees associated with the discovery, acquisition or in-license of additional product candidates or technologies;
- expenses needed to attract and retain skilled personnel;
- costs associated with being a public company;
- the costs required to scale up our clinical, regulatory and manufacturing capabilities;
- the costs of future commercialization activities, if any, including establishing sales, marketing, manufacturing and distribution capabilities, for any of our product candidates for which we receive marketing approval; and
- revenue, if any, received from commercial sales of our product candidates, should any of our product candidates receive marketing approval.

We will need additional funds to meet operational needs and capital requirements for clinical trials, other research and development expenditures, and business development activities. We currently have no credit facility or committed sources of capital. Because of the numerous risks and uncertainties associated with the development and commercialization of our product candidates, we are unable to estimate the amounts of increased capital outlays and operating expenditures associated with our current and anticipated clinical studies.

In May 2024, the Company filed a shelf registration statement (the "2024 Shelf Registration Statement") with the SEC for the issuance of common stock, preferred stock, debt securities, warrants, subscription rights and units up to an aggregate amount of $400 million. The 2024 Shelf Registration statement was declared effective on June 10, 2024. The 2024 Shelf Registration statement expires in May 2027, and as of September 30, 2024 there was $400.0 million remaining under the 2024 Shelf Registration Statement.

In March 2023, we filed a prospectus supplement to our existing shelf registration statement on Form S-3 (the "2021 Shelf Registration Statement"). The 2021 Shelf Registration Statement permits the offering of up to $400.0 million aggregate dollar amount of shares of our common stock or preferred stock, debt securities, warrants to purchase our common stock, preferred stock or debt securities, subscription rights to purchase our common stock, preferred stock or debt securities and/or units consisting of some or all of

these securities, in one or more offerings and in any combination. The 2021 Shelf Registration Statement expires on November 24, 2024, and as of September 30, 2024 there was $187.0 million remaining under the 2021 Shelf Registration Statement. In March 2023, in connection with filing a prospectus supplement to our 2021 Shelf Registration Statement, we entered into an Open Market Sales Agreement (the "Sales Agreement") with Jefferies LLC, as the sales agent, pursuant to which we may offer and sell shares of our common stock having an aggregate offering amount of up to $75.0 million. The $75.0 million of common stock that may be issued and sold pursuant to the Sales Agreement is included in the $400.0 million of securities that may be issued and sold pursuant to the 2021 Shelf Registration Statement. We will pay Jefferies LLC a commission rate of up to 3.0% of the aggregate gross proceeds from the sale of any shares of common stock pursuant to the Sales Agreement. We have $75.0 million remaining under the Sales Agreement as of September 30, 2024. Upon the expiry of the 2021 Shelf Registration Statement, we expect to file a prospectus supplement to the 2024 Shelf Registration Statement in order to continue to allow us to access the Sales Agreement.

Until such time, if ever, as we can generate substantial product revenue, we expect to finance our operations through a combination of equity offerings, debt financings, collaborations, strategic alliances and marketing, distribution or licensing arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities, ownership interests will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of 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 acquisitions or capital expenditures or declaring dividends. If we raise additional funds through collaborations, strategic alliances or marketing, distribution or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates, or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings or other arrangements when needed, we may be required to delay, limit, reduce or terminate our research, 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.

Cash Flows

The following table shows a summary of our cash flows for the periods indicated:

	Nine months ended September 30,	
(in thousands)	**2024**	**2023**
Net cash used in operating activities	$ (82,144)	$ (83,485)
Net cash provided by (used in) investing activities	68,073	(42,382)
Net cash (used in) provided by financing activities	(86)	111,158
Net decrease in cash, cash equivalents and restricted cash	$ (14,157)	$ (14,709)

Operating Activities

During the nine months ended September 30, 2024, we used $82.1 million of cash in operating activities. Cash used in operating activities reflected our net loss of $98.4 million offset by noncash charges of $16.4 million, which primarily consisted of stock-based compensation. The primary use of cash was to fund our operations related to the development of our product candidates.

During the nine months ended September 30, 2023, we used $83.5 million of cash in operating activities. Cash used in operating activities reflected our net loss of $88.8 million and a $14.2 million net increase in our operating assets and liabilities, offset by noncash charges of $19.5 million, which primarily consisted of $19.7 million in stock-based compensation. The primary use of cash was to fund our operations related to the development of our product candidates.

Investing Activities

During the nine months ended September 30, 2024, net cash provided by investing activities of $68.1 million consisted primarily of $114.2 million in proceeds from maturities of marketable securities, partially offset by $45.4 million in purchases of marketable securities. During the nine months ended September 30, 2023, net cash used in investing activities of $42.4 million consisted primarily of $162.2 million in purchases of marketable securities, partially offset by $122.3 million in proceeds from maturities of marketable securities.

Financing Activities

For the nine months ended September 30, 2024 net cash used in financing activities was primarily for principal payments on our finance lease and the payment of offering costs related to the shelf registration statement, partially offset by proceeds received from the issuance of common stock under the employee stock purchase plan. For the nine months ended September 30, 2023, net cash provided by financing activities was $111.2 million which was primarily the result of $110.8 million in proceeds received from the sale of common stock and pre-funded warrants, net of issuance costs.

Critical Accounting Estimates

Revenue Recognition

The Company recognizes revenue under Accounting Standard Codification 606 – *Revenue from Contracts with Customers*. Under ASC 606, 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. Our revenue recognition analysis consists of the following 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; and (v) recognition of revenue as we satisfy each performance obligation.

We apply significant judgment when we determine which goods and services are separate performance obligations, allocate the transaction price, and determine when a performance obligation has been satisfied. We recognize as revenue the amount of the transaction price that is allocated to the respective performance obligations when (or as) the performance obligations are satisfied. We recognize a liability when we have received payment but have not yet satisfied the related performance obligations.

During the three months ended September 30, 2024, there were no other material changes to our critical accounting policies and estimates from those described under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Estimates” in our 2023 Annual Report on Form 10-K.

Emerging Growth Company and Smaller Reporting Company Status

In April 2012, the JOBS Act was enacted. Section 107 of the JOBS Act provides that an “emerging growth company” can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended, for complying with new or revised accounting standards. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to avail ourselves of this exemption from complying with new or revised accounting standards and, therefore, will not be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies. As a result, our financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

Subject to certain conditions, as an emerging growth company, we may rely on certain other exemptions and reduced reporting requirements, including without limitation, exemption to the requirements for providing an auditor’s attestation report on our system of internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act. We will remain an emerging growth company until the earlier to occur of (a) the last day of the fiscal year (i) following the fifth anniversary of the completion of our initial public offering (i.e. December 31, 2025), (ii) in which we have total annual gross revenues of at least $1.235 billion or (iii) in which we are deemed to be a “large accelerated filer” under the rules of the SEC, which means the market value of our common stock that is held by non-affiliates exceeds $700.0 million as of the prior June 30th, or (b) the date on which we have issued more than $1.0 billion in non-convertible debt during the prior three-year period.

We are also a “smaller reporting company,” meaning that the market value of our stock held by non-affiliates is less than $700.0 million and our annual revenue is less than $100.0 million during the most recently completed fiscal year. We may continue to be a smaller reporting company after if either (i) the market value of our stock held by non-affiliates is less than $250.0 million or (ii) our annual revenue is less than $100.0 million during the most recently completed fiscal year and the market value of our stock held by non-affiliates is less than $700.0 million. If we remain a smaller reporting company once we cease to be an emerging growth company, we may continue to rely on exemptions from certain disclosure requirements that are available to smaller reporting companies. Specifically, as a smaller reporting company we may choose to present only the two most recent fiscal years of audited financial statements in our Annual Report on Form 10-K and, similar to emerging growth companies, smaller reporting companies have reduced disclosure obligations regarding executive compensation.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item with respect to the period ending September 30, 2024.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedure

As of September 30, 2024, management, with the participation of our Principal Executive Officer and Principal Financial and Accounting Officer, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including the Principal Executive Officer and the Principal Financial and Accounting Officer, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objective and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, our Principal Executive Officer and Principal Financial and Accounting Officer concluded that, as of September 30, 2024, the design and operation of our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

Management determined that, as of September 30, 2024, there were no changes in our internal control over financial reporting that occurred during the fiscal quarter then ended that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II— OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may be involved in legal proceedings arising in the ordinary course of our business. In addition, we may receive letters alleging infringement of patents or other intellectual property rights. We are not presently a party to any legal proceedings that, in the opinion of management, would have a material adverse effect on our business, operating results, cash flows or financial conditions should such litigation be resolved unfavorably. Regardless of outcome, litigation can have an adverse impact on us due to defense and settlement costs, diversion of management resources, negative publicity and reputational harm, and other factors.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. Before making your decision to invest in shares of our common stock, you should carefully consider the risks and uncertainties described under Part I, Item 1A, "Risk Factors" in our 2023 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 15, 2024, in addition to the risk factors that appear below.

Risks Related to Our Dependence on Third Parties

Changes in United States and China relations, as well as relations with other countries, and/or regulations may adversely impact our business, our operating results, our ability to raise capital and the market price of our shares.

The U.S. government, including the SEC, has made statements and taken certain actions that led to changes to United States and international relations, and will impact companies with connections to the United States or China, including imposing several rounds of tariffs affecting certain products manufactured in China, imposing certain sanctions and restrictions in relation to China and issuing statements indicating enhanced review of companies with significant China-based operations. It is unknown whether and to what extent new legislation, executive orders, tariffs, laws or regulations will be adopted, or the effect that any such actions would have on companies with significant connections to the U.S. or to China, our industry or on us. Any unfavorable government policies on cross-border relations and/or international trade, including increased scrutiny on companies with significant China-based operations and escalation of tensions between China and Taiwan, such as recent step up of military exercises around Taiwan by China, capital controls or tariffs, may affect our ability to raise capital and the market price of our shares.

There have been Congressional legislative proposals, such as the recent bill titled the Biosecure Act, to discourage contracting with Chinese companies on the development or manufacturing of pharmaceutical products. If any new legislation, executive orders, tariffs, laws and/or regulations are implemented, if existing trade agreements are renegotiated or if the U.S. or Chinese governments take retaliatory actions due to the recent U.S.-China tension, such changes could have an adverse effect on our business, financial condition and results of operations, our ability to raise capital and the market price of our shares.

We are no longer developing our PRMT5 inhibitor, PRT811, and are dependent on our license agreement with Pathos AI, Inc. to develop and commercialize the asset.

Pursuant to the terms of the license agreement with Pathos (the "Pathos License Agreement"), we granted an exclusive, world-wide license for our selective, brain-penetrant PRMT5 inhibitor, PRT811. Consequently, the commercial success of PRT811 will depend in significant part on the efforts of Pathos. Pathos will pay us milestone payments upon the achievement of specified development and sales milestone events, as well as royalties on sales of the licensed products. If Pathos is unable to commercialize PRT811, or determines not to pursue development or commercialization of PRT811, we will not receive any sales milestones or royalty payments under the Pathos License Agreement.

Risks Related to Our Business and Industry

The Company may be exposed to liabilities under the U.S. Foreign Corrupt Practices Act ("FCPA") and Chinese anti-corruption law.

The Company is subject to the FCPA, and other laws that prohibit improper payments or offers of payments to foreign governments, foreign government officials and political parties by U.S. persons as defined by the statute for purposes of obtaining or retaining businesses. The Company may have agreements with third parties who may make sales in mainland China and the U.S., during the process of which the Company may be exposed to corruption. Activities in Taiwan create the risk of unauthorized payments or offers of payments by an employee, consultant or agent of the Company, because these parties are not always subject to the Company's control.

Although the Company believes to date it has complied in all material aspects with the provisions of the FCPA and Chinese anti-corruption law, the existing safeguards and any future improvements may prove to be less than effective and any of the Company's employees, consultants or agents may engage in corruptive conduct for which the Company might be held responsible. Violations of the FCPA or Chinese anti-corruption law may result in severe criminal or civil sanctions against the Company and individuals and therefore could negatively affect the Company's business, operating results and financial condition. In addition, the Taiwanese government may seek to hold the Company liable as a successor for FCPA violations committed by companies in which the Company invests or acquires.

Artificial intelligence presents risks and challenges that can impact our business including by posing security risks to our confidential information, proprietary information, and personal data.

Issues in the development and use of artificial intelligence, combined with an uncertain regulatory environment, may result in reputational harm, liability, or other adverse consequences to our business operations. As with many technological innovations, artificial intelligence presents risks and challenges that could impact our business. We may adopt and integrate generative artificial intelligence tools into our systems for specific use cases reviewed by legal and information security. Our vendors may incorporate generative artificial intelligence tools into their offerings without disclosing this use to us, and the providers of these generative artificial intelligence tools may not meet existing or rapidly evolving regulatory or industry standards with respect to privacy and data protection and may inhibit our or our vendors' ability to maintain an adequate level of service and experience. If we, our vendors, or our third-party partners experience an actual or perceived breach or privacy or security incident because of the use of generative artificial intelligence, we may lose valuable intellectual property and confidential information and our reputation and the public perception of the effectiveness of our security measures could be harmed. Further, bad actors around the world use increasingly sophisticated methods, including the use of artificial intelligence, to engage in illegal activities involving the theft and misuse of personal information, confidential information, and intellectual property. Any of these outcomes could damage our reputation, result in the loss of valuable property and information, and adversely impact our business.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Furnish the exhibits required by Item 601 of Regulation S-K (§ 229.601 of this chapter).

Exhibit Number	Description	Form	File No.	Exhibit No.	Exhibit Filing Date	Filed/Furnished Herewith
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File as its XBRL tags are embedded within the Inline XBRL document					X
101.SCH	Inline XBRL Taxonomy Extension Schema With Embedded Linkbase Documents					X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					X

**The certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Form 10-Q and are not deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall they be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.*

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.

Prelude Therapeutics Incorporated

Date: November 6, 2024

By: /s/ Krishna Vaddi

Krishna Vaddi, PhD

Chief Executive Officer

(Principal Executive Officer)

Date: November 6, 2024

By: /s/ Bryant Lim

Bryant Lim

Interim Chief Financial Officer

(Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Krishna Vaddi, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Prelude Therapeutics Incorporated;

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: November 6, 2024

By: /s/ Krishna Vaddi
Krishna Vaddi, PhD
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Bryant Lim, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Prelude Therapeutics Incorporated;

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: November 6, 2024

By: /s/ Bryant Lim
Bryant Lim
Interim Chief Financial Officer
(Principal Accounting and Financial Officer)

Exhibit 32.1

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

I, Krishna Vaddi, Chief Executive Officer of Prelude Therapeutics Incorporated (the "Company"), do hereby certify, 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 my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended September 30, 2024 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 6, 2024

By: /s/ Krishna Vaddi

Krishna Vaddi, PhD
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

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

I, Bryant Lim, Chief Financial Officer of Prelude Therapeutics Incorporated (the "Company"), do hereby certify, 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 my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended September 30, 2024 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 6, 2024

By: /s/ Bryant Lim

Bryant Lim
Interim Chief Financial Officer
(Principal Accounting and Financial Officer)