

**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 **March 31, 2023**

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
(State or other jurisdiction of
incorporation or organization)

200 Powder Mill Road
Wilmington, Delaware
(Address of principal executive offices)

81-1384762
(I.R.S. Employer
Identification No.)

19803
(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	The Nasdaq Stock Market LLC

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

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

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

As of May 1, 2023, the registrant had 47,955,005 shares of voting and non-voting common stock, \$0.0001 par value per share, outstanding.

Table of Contents

	<u>Page</u>	
PART I.	<u>FINANCIAL INFORMATION</u>	
Item 1.	<u>Financial Statements</u>	1
	<u>Balance Sheets (Unaudited)</u>	1
	<u>Statements of Operations and Comprehensive Loss (Unaudited)</u>	2
	<u>Statements of Changes in Stockholders' Equity (Unaudited)</u>	3
	<u>Statements of Cash Flows (Unaudited)</u>	4
	<u>Notes to Unaudited Interim Financial Statements</u>	5
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	21
Item 4.	<u>Controls and Procedures</u>	21
PART II.	<u>OTHER INFORMATION</u>	
Item 1.	<u>Legal Proceedings</u>	22
Item 1A.	<u>Risk Factors</u>	22
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	22
Item 3.	<u>Defaults Upon Senior Securities</u>	22
Item 4.	<u>Mine Safety Disclosures</u>	22
Item 5.	<u>Other Information</u>	22
Item 6.	<u>Exhibits</u>	23
	<u>Signatures</u>	24

Item 1. Financial Statements.

PRELUDE THERAPEUTICS INCORPORATED

BALANCE SHEETS
(UNAUDITED)

(in thousands, except share data)	March 31, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 18,201	\$ 30,605
Marketable securities	154,054	171,123
Prepaid expenses and other current assets	3,008	2,652
Total current assets	175,263	204,380
Restricted cash	4,044	4,044
Property and equipment, net	5,371	4,908
Right-of-use asset	1,360	1,792
Prepaid expenses and other non-current assets	12,282	5,376
Total assets	<u>\$ 198,320</u>	<u>\$ 220,500</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 7,082	\$ 6,777
Accrued expenses and other current liabilities	11,190	13,093
Operating lease liability	1,390	1,832
Total current liabilities	19,662	21,702
Other liabilities	3,361	3,361
Total liabilities	<u>23,023</u>	<u>25,063</u>
Commitments (Note 8)		
Stockholders' equity:		
Voting common stock, \$0.0001 par value: 487,149,741 shares authorized; 36,514,218 and 36,496,994 shares issued and outstanding at March 31, 2023 and December 31, 2022, respectively	4	4
Non-voting common stock, \$0.0001 par value: 12,850,259 shares authorized; 11,402,037 and 11,402,037 shares issued and outstanding at March 31, 2023 and December 31, 2022, respectively	1	1
Additional paid-in capital	537,966	531,682
Accumulated other comprehensive loss	(398)	(1,692)
Accumulated deficit	(362,276)	(334,558)
Total stockholders' equity	<u>175,297</u>	<u>195,437</u>
Total liabilities and stockholders' equity	<u>\$ 198,320</u>	<u>\$ 220,500</u>

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 March 31,	
	2023	2022
Operating expenses:		
Research and development	\$ 21,834	\$ 22,821
General and administrative	7,281	7,467
Total operating expenses	29,115	30,288
Loss from operations	(29,115)	(30,288)
Other income, net	1,397	823
Net loss	\$ (27,718)	\$ (29,465)
Per share information:		
Net loss per share of common stock, basic and diluted	\$ (0.58)	\$ (0.63)
Weighted average common shares outstanding, basic and diluted	47,737,190	47,066,427
Comprehensive loss		
Net loss	\$ (27,718)	\$ (29,465)
Unrealized gain (loss) on marketable securities, net of tax	1,294	(1,602)
Comprehensive loss	\$ (26,424)	\$ (31,067)

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		Non-voting common stock		Additional paid-in capital	Accumulated Other Comprehensive Income (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	<u>36,514,218</u>	<u>\$ 4</u>	<u>11,402,037</u>	<u>\$ 1</u>	<u>\$ 537,966</u>	<u>\$ (398)</u>	<u>\$ (362,276)</u>	<u>\$ 175,297</u>

(in thousands, except shares)	Voting common stock		Non-voting common stock		Additional paid-in capital	Accumulated Other Comprehensive Income (Loss)	Accumulated deficit	Total
	Shares	Amount	Shares	Amount				
Balance at January 1, 2022	36,200,299	\$ 4	11,402,037	\$ 1	\$ 505,723	\$ (711)	\$ (219,120)	\$ 285,897
Issuance of common stock upon exercise of stock options	93,032	—	—	—	153	—	—	153
Unrealized loss on marketable securities, net of tax	—	—	—	—	—	(1,602)	—	(1,602)
Stock-based compensation expense	—	—	—	—	6,829	—	—	6,829
Net loss	—	—	—	—	—	—	(29,465)	(29,465)
Balance at March 31, 2022	<u>36,293,331</u>	<u>\$ 4</u>	<u>11,402,037</u>	<u>\$ 1</u>	<u>\$ 512,705</u>	<u>\$ (2,313)</u>	<u>\$ (248,585)</u>	<u>\$ 261,812</u>

See accompanying notes to unaudited interim financial statements.

PRELUDE THERAPEUTICS INCORPORATED

STATEMENTS OF CASH FLOWS
(UNAUDITED)

(in thousands)	Three months ended March 31,	
	2023	2022
Cash flows used in operating activities:		
Net loss	\$ (27,718)	\$ (29,465)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	278	307
Noncash lease expense	432	411
Stock-based compensation	6,256	6,829
Amortization of premium and discount on marketable securities, net	(446)	748
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(355)	93
Accounts payable	374	2
Accrued expenses and other liabilities	(1,903)	(401)
Long-term prepaid expenses and other long-term assets	(6,610)	—
Operating lease liabilities	(442)	(419)
Net cash used in operating activities	(30,134)	(21,895)
Cash flows provided by (used in) investing activities:		
Purchases of marketable securities	(7,191)	—
Proceeds from maturities of marketable securities	26,000	42,500
Purchases of property and equipment	(810)	(952)
Net cash provided by investing activities	17,999	41,548
Cash flows provided by financing activities:		
Payment of offering costs	(297)	—
Proceeds from the issuance of common stock in connection with the exercise of stock options	28	153
Net cash (used in) provided by financing activities	(269)	153
Net (decrease) increase in cash and cash equivalents	(12,404)	19,806
Cash, cash equivalents, and restricted cash at beginning of period	34,649	35,872
Cash, cash equivalents, and restricted cash at end of period	\$ 22,245	\$ 55,678
Supplemental disclosures:		
Operating lease right-of-use assets obtained in exchange for operating lease liabilities	\$ —	\$ 928
Property and equipment in accounts payable	\$ 21	\$ 354
Unrealized gain(loss) on marketable securities	\$ 1,294	\$ (1,602)

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 is subject to 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 pre-clinical 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, that adequate protection for the Company’s technology will be obtained, that any products developed will obtain necessary government regulatory approval, or that 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. In addition, the Company is dependent upon the services of its employees, consultants and contractors.

Since its inception, the Company has incurred operating losses and had an accumulated deficit of \$362.3 million at March 31, 2023. The Company has no 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 that its cash, cash equivalents, and marketable securities as of March 31, 2023 will be sufficient to fund its operating expenses and capital expenditure requirements into the fourth quarter of 2024.

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, the Company 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.

Inflation has the potential to adversely affect our liquidity, business, financial condition and results of operations by increasing our overall cost structure. The existence of inflation in the economy has resulted in, and may continue to result in, higher interest rates and capital costs, supply shortages, increased costs of labor, components, manufacturing and shipping, as well as weakening exchange rates and other similar effects. As a result of inflation, we have experienced, and may continue to experience cost increases. Although we may take measures to mitigate the effects of inflation, if these measures are not effective, our business, financial condition, results of operations and liquidity could be materially adversely affected. Even if such measures are effective, there could be a difference between the timing of when these beneficial actions impact our results of operations and when the costs of inflation are incurred.

3. Summary of significant accounting policies

The summary of significant accounting policies included in the Company's financial statements for the year ended December 31, 2022 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 March 15, 2023. Those policies have not materially changed.

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 months ended March 31, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023. 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, 2022 found in the Company's Annual Report on Form 10-K filed with the SEC on March 15, 2023. 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 March 31, 2023 and December 31, 2022.

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 with Silicon Valley Bank, a division of First Citizens Bank, 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)	March 31, 2023	December 31, 2022
Cash and cash equivalents	\$ 18,201	\$ 30,605
Restricted cash	4,044	4,044
Total cash, cash equivalents, and restricted cash shown in statement of cash flows	\$ 22,245	\$ 34,649

Marketable Securities

The Company's marketable securities consist of investments in corporate debt securities and United States ("U.S.") government debt 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 income (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.

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. 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:

	March 31,	
	2023	2022
Unvested restricted stock awards	131,468	514,641
Unvested restricted stock units	163,750	20,000
Stock options	11,868,020	8,541,017
Employee stock purchase plan	51,837	40,127
	<u>12,215,075</u>	<u>9,115,785</u>

Amounts in the above table reflect the common stock equivalents.

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.

4. Marketable Securities

The following is a summary of the Company's marketable securities.

(in thousands)	Amortized Cost	Gross unrealized gain	Gross unrealized loss	Fair Value
March 31, 2023:				
Marketable securities				
Corporate debt securities	\$ 144,740	\$ 387	\$ (766)	\$ 144,361
U.S. government securities	9,712	—	(19)	9,693
Total	<u>\$ 154,452</u>	<u>\$ 387</u>	<u>\$ (785)</u>	<u>\$ 154,054</u>
December 31, 2022				
Marketable securities				
Corporate debt securities	\$ 163,208	\$ 7	\$ (1,672)	\$ 161,543
U.S. government securities	9,607	—	(27)	9,580
Total	<u>\$ 172,815</u>	<u>\$ 7</u>	<u>\$ (1,699)</u>	<u>\$ 171,123</u>

The Company's marketable securities generally have contractual maturity dates of 10 months or less. As of March 31, 2023, the Company had 17 securities with a total fair market value of \$138.5 million in an unrealized loss position. The Company believes that any unrealized losses associated with the decline in value of its securities is temporary, is primarily related to market factors and believes that it is more likely than not that it will be able to hold its debt securities to maturity. Therefore, the Company anticipates a full recovery of the amortized cost basis of its debt 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)
March 31, 2023:			
Assets:			
Cash equivalents (Money Market Funds)	\$ 17,461	\$ —	\$ —
Marketable securities			
Corporate debt securities	—	144,361	—
U.S. government securities		9,693	
Total	\$ 17,461	\$ 154,054	\$ —
December 31, 2022			
Assets:			
Cash equivalents (Money Market Funds)	\$ 25,996	\$ —	\$ —
Marketable securities			
Corporate debt securities	—	161,543	—
U.S. government securities	—	9,580	—
Total	\$ 25,996	\$ 171,123	\$ —

6. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

(in thousands)	March 31, 2023	December 31, 2022
Compensation and related benefits	\$ 3,111	\$ 5,682
Research and development	7,191	6,887
Other	888	524
	\$ 11,190	\$ 13,093

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.

8. Commitments

Leases

The Company leases office and laboratory space in Wilmington, Delaware under a noncancelable lease (the “Lease”).

Future minimum annual lease payments under the Lease at March 31, 2023 are as follows:

(in thousands)	
2023 (remaining)	\$ 1,446
Total undiscounted lease payments	1,446
Less imputed interest	(56)
Current and noncurrent lease liability	\$ 1,390

In August 2022, we entered into an amendment (the “Lease Amendment”) to the lease agreement for office and lab space at Chestnut Run Plaza in Wilmington, Delaware (the “Chestnut Run Lease”). The Chestnut Run Lease has a commencement date of the earlier of (i) the Landlord Work Substantial Completion Date (as such term is defined in the Chestnut Run Lease), or (ii) the date the Company takes possession of the premises for the conduct of the Company’s business (the “Commencement Date”). The Chestnut Run Lease premises includes approximately 81,000 rentable square feet, located at Chestnut Run Plaza in Wilmington, Delaware (the Premises). Under the terms of the Chestnut Run Lease, the landlord will provide 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 the tenant improvements in excess of the landlord's allowance will be treated as prepaid rent and will increase the right-of-use asset once the accounting commencement date occurs. As of March 31, 2023, the Company recorded \$6.5 million of prepaid rent. Upon the Commencement Date, the Company will recognize a right-of-use asset and operating lease liability in accordance with ASC 842, Leases. The Chestnut Run Lease has an initial term of 162 months with 3 five-year extension options and certain expansion rights. The estimated rent payments related to the Chestnut Run Lease are as follows:

(in thousands)	
2023 (remaining)	\$ —
2024	1,712
2025	2,860
2026	2,998
2027	3,073
2028	3,149
Thereafter	28,844

The Company paid a security deposit for the Chestnut Run Lease in the form of a letter of credit with Silicon Valley Bank, a division of First Citizens Bank, of \$4.0 million, which is included in the balance sheet as restricted cash as of March 31, 2023. 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 \$5.5 million in reimbursements over three years for the development of lab space in addition to increasing jobs in Delaware to meet specific targeted levels through 2023. 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 of \$3.4 million from the grants for the development of lab space. The Company has deferred the recognition of these grant funds as they relate to capitalized costs and has classified them as long-term liabilities on the balance sheet. The Company will recognize the grant funds in other income as grant income over the useful life of the related assets. If, after two years from the disbursement date, the incurred costs for lab space are less than the \$3.4 million received, the Company is required to pay back the difference between total funds received and allowable costs incurred. 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.

Rent expense was \$0.5 million for both the three months ended March 31, 2023 and 2022.

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 both the three months ended March 31, 2023 and 2022, the Company made matching contributions of \$0.2 million.

Other Research and Development Arrangements

The Company enters into agreements with CROs to assist in the performance of research and development activities. Expenditures to CROs will 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 March 31, 2023, 5,040,915 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, commencing on January 1, 2021, and continuing for ten years, 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 board of directors or compensation committee to determine a lesser number of shares shall be added for such year. 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 March 31,	
	2023	2022
Research and development	\$ 2,991	\$ 3,200
General and administrative	3,265	3,629
	<u>\$ 6,256</u>	<u>\$ 6,829</u>

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, 2023	9,390,930	\$ 12.08	8.31
Granted	2,691,898	\$ 7.02	
Exercised	(15,974)	\$ 1.77	
Forfeited	(198,834)	\$ 19.69	
Outstanding at March 31, 2023	<u>11,868,020</u>	\$ 10.82	8.47
Exercisable at March 31, 2023	<u>4,106,669</u>	\$ 12.07	7.33

At March 31, 2023, the aggregate intrinsic value of outstanding options and exercisable options was \$9.1 million and \$6.6 million, respectively.

The following table summarizes information about stock options outstanding at March 31, 2023 under the Plan:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.31 - \$4.88	2,927,179	7.37	\$ 2.74	1,675,468	\$ 1.77
\$4.89 - \$7.50	3,889,718	9.71	6.62	18,700	5.97
\$7.51 - \$13.04	3,207,179	8.04	11.86	1,552,831	12.32
\$13.05 - \$88.98	1,843,944	8.31	30.66	859,670	31.80
	<u>11,868,020</u>			<u>4,106,669</u>	

The weighted-average grant date fair value of options granted was \$5.12 and \$7.62 per share for the three months ended March 31, 2023 and 2022, respectively. The aggregate intrinsic value of options exercised was \$72 thousand for the three months ended March 31, 2023. The Company recorded stock-based compensation expense of \$5.9 million and \$6.5 million for the three months ended March 31, 2023 and 2022, respectively, related to stock options. As of March 31, 2023, the total unrecognized compensation expense related to unvested stock option awards was \$56.0 million, which the Company expects to recognize over a weighted-average period of 2.56 years.

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

	Three months ended March 31,	
	2023	2022
Expected volatility	83.55 %	84.57 %
Risk-free interest rate	3.80 %	1.97 %
Expected life (in years)	6.05	6.06
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, 2023	201,716	\$ 2.81
Vested	(70,248)	\$ 2.41
Unvested balance at March 31, 2023	<u>131,468</u>	<u>\$ 3.02</u>

The Company recorded stock-based compensation expense of \$0.2 million for both the three months ended March 31, 2023 and 2022, related to RSAs. As of March 31, 2023, the total unrecognized expense related to all RSAs was \$0.4 million, which the Company expects to recognize over a weighted-average period of 0.92 years.

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, 2023	165,000	\$ 6.08
Vested	(1,250)	\$ 18.32
Unvested balance at March 31, 2023	<u>163,750</u>	<u>\$ 5.99</u>

The Company recorded stock-based compensation expense of \$72 thousand and \$24 thousand for the three months ended March 31, 2023 and 2022, respectively, related to RSUs. At March 31, 2023, the total unrecognized expense related to the RSUs was \$0.8 million, which the Company expects to recognize over 2.86 years.

Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan (the “ESPP”), which, as of March 31, 2023, had 1,789,149 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 board of directors or compensation committee to determine a lesser number of shares shall be added for such year. On January 1, 2023, 478,990 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 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 \$0.1 million for both the three months ended March 31, 2023 and 2022 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 March 15, 2023. These forward-looking statements may include, but are not limited to, statements regarding our future results of operations and financial position, the impact of the ongoing COVID-19 pandemic, inflation and interest rate risk, 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 “believe,” “may,” “will,” “potentially,” “estimate,” “continue,” “anticipate,” “strive,” “predict,” “target,” “intend,” “could,” “would,” “should,” “project,” “plan,” “expect,” and similar expressions that convey uncertainty of future events or outcomes 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

We are 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 rapidly advance into clinical trials. We believe our approach could result in better targeted cancer therapies. Our discovery excellence has been validated by our rapid progress in creating a wholly-owned, internally developed pipeline. 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 unique 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 spanning methyltransferases, kinases, protein-protein interactions and targeted protein degraders. 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 we believe we can generate proof-of-concept clinical data in the next 12 to 24 months to guide our future regulatory pathways to approval. Our CDK9 and MCL1 inhibitors are selective and potent, with potentially superior safety profiles. Our next generation CDK4/6 inhibitor is specifically designed to be a brain and tissue penetrant and our SMARCA2 molecule is a unique, first-in-class protein degrader, targeting specific patient populations.

Our CDK9 candidate, PRT2527, is designed to be a potent and selective CDK9 inhibitor. 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. A Phase 1 trial is underway

evaluating escalating IV doses of PRT2527 as a monotherapy in patients with selected solid tumors. On April 18, 2023 we presented the following findings at the 2023 American Association for Cancer Research annual meeting, or the 2023 AACR Annual Meeting:

- In adults with advanced solid tumors, PRT2527 was generally well-tolerated with manageable neutropenia and absence of significant gastrointestinal events or hepatotoxicity. The short half-life of PRT2527 enables acute CDK9 inhibition over a defined period making it potentially suitable for weekly administration without inducing significant toxicity. The observed dose-dependent downregulation of CDK9 transcriptional targets – MYC and MCL-1 mRNA expression in PBMCs isolated from patients treated with PRT2527 – was consistent with the degree of target engagement required for preclinical efficacy. The 15 mg/m² QW dose of PRT2527 was selected for further evaluation in dose-confirmation cohort.

The overall safety profile observed in this study supports further development of PRT2527 in combination with other targeted therapies, including in hematologic malignancies. We expect to present a recommended phase two dose, or RP2D, in hematologic malignancies in the second half of 2023.

Our MCL1 candidate, PRT1419, is designed to be a potent and selective inhibitor of the anti-apoptotic protein, MCL1. The potency and selectivity of PRT1419 is supported by preclinical data demonstrating nanomolar inhibition of MCL1 and no inhibition of related enzymes at 200 times higher concentration of our product candidate. The IV formulation of PRT1419 has demonstrated a desirable pharmacokinetic, pharmacodynamic and safety profile with potential for differentiation from competitor compounds. We are enrolling patients in a Phase 1 solid tumor dose escalation and confirmation study, including a significant number of patients at the recommended expansion dose of 80 mg/m². On April 18, 2023 we presented the following findings at 2023 AACR Annual Meeting:

- PRT1419 demonstrated acceptable safety and tolerability profile in patients with advanced and metastatic solid tumors, with the most common treatment-related adverse events of nausea, vomiting, and diarrhea. Neutropenia was deemed to be dose related. No cardiac toxicity was observed. Pharmacokinetics/pharmacodynamics and safety data in the 80 mg/m² QW PRT1419 dose cohort support further evaluation of this dose in future studies. Induction of activated-BAX and cleaved caspase-3 was observed at 80mg/m² and 120 mg/m² QW PRT1419, suggesting successful MCL-1 inhibition. No tumor reductions met response criteria. Further investigation of PRT1419 in patients with hematologic malignancy is ongoing. We intend to evaluate PRT1419 in hematology malignancies in combinations, with the goal of establishing safety, clinical activity and a RP2D in hematology malignancies in the second half of 2023.

The clinical pharmacodynamic profile of PRT1419 demonstrates the desired level of target engagement, as measured by caspase activation in peripheral mononuclear cells and reduction of CD14+ monocytes to levels associated with tumor regressions in preclinical models of hematological cancers. Advancement in hematological cancers will include monotherapy expansions in CLL and NHL based on a strong rationale for MCL1 inhibition and the need for novel treatments in second line.

In July 2022, we received IND clearance for PRT3645, a brain and tissue penetrant molecule that potently targets CDK4/6 with a biased selectivity for CDK4. A Phase 1 clinical trial has been initiated for PRT3645 in biomarker enriched patients with select tumor types including sarcomas, mesothelioma, gliomas, head and neck cancers and non-small cell lung cancer, in addition to breast cancer with or without brain metastases. The Company expects to provide an update on a dose escalation phase of PRT3645 by the end of 2023.

In October 2022, we received IND clearance for PRT3789, a potent and selective SMARCA2 protein degrader. SMARCA2 degradation has the greatest potential in patients with SMARCA4 deficient cancers, including approximately 5-10% of non-small cell lung cancers. A Phase 1 dose escalation study of PRT3789 is ongoing. Prelude's discovery team has also identified orally bioavailable and highly selective SMARCA2 degrader leads which were presented as a poster at the 2023 AACR Annual Meeting.

In November 2022, we announced that we will discontinue the internal development of our two clinical candidates that are designed to be oral, potent and selective inhibitors of protein arginine methyltransferase 5, or PRMT5. Discontinuation of the PRMT5 programs will allow us to focus our efforts on our CDK9, MCL1, CDK4/6 and SMARCA2 programs.

We were incorporated in February 2016 under the laws of the State of Delaware. 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 and common stock. Our net loss was \$27.7 million and \$29.5 million for the three months ended March 31, 2023 and 2022, respectively. As of March 31, 2023, we had an accumulated deficit of \$362.3 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. Furthermore, we expect to incur additional costs associated with operating as a public company, including significant legal, accounting, investor relations and other expenses that we did not incur as a private company. 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.

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 March 31, 2023, we had \$172.3 million in cash, cash equivalents, and marketable securities. We expect our existing cash, cash equivalents and marketable securities will enable us to fund our operating expense and capital expenditures into the fourth quarter of 2024.

Components of Results of Operations

Revenue

To date, we have not recognized any revenue from any sources, including 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.

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, and as a result of increased costs associated with operating as a public company. These increases will likely include increased costs related to the hiring of additional personnel and fees to outside consultants, legal support and accountants, 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 in the State of Delaware.

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 March 31, 2023 and 2022

The following table sets forth our results of operations for the three months ended March 31, 2023 and 2022.

(in thousands)	Three months ended March 31,		Change
	2023	2022	
Operating expenses:			
Research and development	\$ 21,834	\$ 22,821	\$ (987)
General and administrative	7,281	7,467	(186)
Total operating expenses	29,115	30,288	(1,173)
Loss from operations	(29,115)	(30,288)	1,173
Other income, net	1,397	823	574
Net loss	<u>\$ (27,718)</u>	<u>\$ (29,465)</u>	<u>\$ 1,747</u>

Research and Development Expenses

Research and development expenses decreased from \$22.8 million for the three months ended March 31, 2022 to \$21.8 million for the three months ended March 31, 2023. Research and development expenses decreased primarily due to the timing of our clinical research programs. Research and development expenses may fluctuate from period to period depending upon the stage of certain projects and the level of pre-clinical and clinical trial-related activities.

Research and development expenses by program are summarized in the table below:

(in thousands)	Three months ended March 31,	
	2023	2022
PRMT5 (PRT543 and PRT811)	\$ 436	\$ 3,285
PRT1419 (Oral and IV)	1,852	2,089
PRT2527	1,078	848
PRT3789	1,432	1,548
PRT3645	533	298
Discovery programs	4,156	3,556
Internal costs, including personnel related	12,347	11,197
	<u>\$ 21,834</u>	<u>\$ 22,821</u>

General and Administrative Expenses

General and administrative expenses were consistent for the three months ended March 31, 2023 as compared to the three months ended March 31, 2022.

Other Income, net

Other income, net increased from \$0.8 million for the three months ended March 31, 2022, to \$1.4 million for the three months ended March 31, 2023 primarily due to interest earned on the investment of our cash balance.

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. Since our inception, we have funded our operations through the sale of convertible preferred stock and common stock. As of March 31, 2023, we had \$172.3 million in cash, cash equivalents and marketable securities and had an accumulated deficit of \$362.3 million. We expect our existing cash, cash equivalents and marketable securities will enable us to fund our operating expenses and capital expenditure requirements into the fourth quarter of 2024. We have based these estimates on assumptions that may prove to be imprecise, and we could utilize our available capital resources sooner than we expect.

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.

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:

(in thousands)	Three months ended March 31,	
	2023	2022
Net cash used in operating activities	\$ (30,134)	\$ (21,895)
Net cash provided by investing activities	17,999	41,548
Net cash (used in) provided by financing activities	(269)	153
Net (decrease) increase in cash and cash equivalents	\$ (12,404)	\$ 19,806

Operating Activities

During the three months ended March 31, 2023, we used \$30.1 million of cash in operating activities. Cash used in operating activities reflected our net loss of \$27.7 million and a \$8.9 million net increase in our operating assets and liabilities, offset by noncash charges of \$6.5 million, which primarily consisted of \$6.3 million in stock-based compensation. The primary use of cash was to fund our operations related to the development of our product candidates.

During the three months ended March 31, 2022, we used \$21.9 million of cash in operating activities. Cash used in operating activities reflected our net loss of \$29.5 million and a \$0.7 million net increase in our operating assets and liabilities, offset by noncash charges of \$8.3 million, which consisted of \$6.8 million in stock-based compensation, \$0.7 million in amortization of premiums and discounts on marketable securities, \$0.4 million noncash lease expense, and \$0.3 million in depreciation. The primary use of cash was to fund our operations related to the development of our product candidates.

Investing Activities

During the three months ended March 31, 2023, net cash provided by investing activities of \$18.0 million consisted primarily of \$26.0 million in proceeds from maturities of marketable securities partially offset by \$7.2 million used for purchases of marketable securities. During the three months ended March 31, 2022, net cash provided by investing activities consisted primarily of \$42.5 million in proceeds from maturities of marketable securities.

Financing Activities

During the three months ended March 31, 2023, net cash used in financing activities was \$0.3 million related to the payment of offering costs as compared to net cash provided by financing activities of \$0.2 million for the three months ended March 31, 2022 from the exercise of stock options.

Critical Accounting Policies

During the three months ended March 31, 2023, there were no 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 Policies and Estimates” in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2023.

JOBS Act Accounting Election

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012, or 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.

We have 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 we (i) are no longer an emerging growth company or (ii) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. 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.

We will remain an emerging growth company until the earliest of (1) the last day of our first fiscal year (a) in which we have total annual gross revenues of at least \$1.235 billion, or (b) in which we are deemed to be a large accelerated filer, 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, (2) the date on which we have issued more than \$1.0 billion in non-convertible debt securities during the prior three-year period and (3) December 31, 2025.

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 IPO, (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 are a smaller reporting company at the time 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.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedure

As of March 31, 2023, 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 March 31, 2023, 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 March 31, 2023, 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

Risk factors that may affect our business and financial results are discussed within Item 1A “Risk Factors” of our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2023, or 2022 Form 10-K. There have been no material changes to the disclosures relating to this item from those set forth in our 2022 Form 10-K.

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

Unregistered Sales of Equity Securities

None.

Use of Proceeds

In the third quarter of 2020, we completed our IPO and sold 9,573,750 shares of common stock at an IPO price of \$19.00 per share. The offer and sale of all of the shares in the IPO were registered under the Securities Act pursuant to registration statements on Form S-1 (File No. 333-248628), which was declared effective by the SEC on September 24, 2020, as supplemented by a registration statement on Form S-1 filed pursuant to Rule 462(b) (File No. 333-248628). We received net proceeds from the IPO of approximately \$166.6 million, after deducting underwriting discounts and commissions of approximately \$12.7 million and offering expenses of approximately \$2.5 million. Morgan Stanley, Goldman Sachs & Co. LLC and BofA Securities acted as joint book-running managers of the offering and as representatives of the underwriters. None of the expenses associated with the IPO were paid to directors, officers, persons owning 10% or more of any class of equity securities, or to their associates, or to our affiliates.

There has been no material change in the planned use of proceeds from our IPO as described in the prospectus filed with the SEC pursuant to Rule 424(b)(4) under the Securities Act on September 25, 2020.

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
3.1	Amended and Restated Bylaws of Prelude Therapeutics Incorporated	8-K	001-39527	3.1	January 23, 2023	
10.1	Open Market Sale AgreementSM, dated March 15, 2023, by and between Prelude Therapeutics Incorporated and Jefferies LLC.	8-K	001-39527	1.1	March 15, 2023	
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					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document.					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.					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: May 8, 2023

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

Date: May 8, 2023

By: _____
/s/ Laurent Chardonnet
Laurent Chardonnet
Chief Financial Officer
(Principal Accounting Officer)

**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, Laurent Chardonnet, 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: May 8, 2023

By: _____
/s/ Laurent Chardonnet
Laurent Chardonnet
Chief Financial Officer
(Principal Accounting and Financial Officer)

**CERTIFICATION 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 March 31, 2023 (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: May 8, 2023

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

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

I, Laurent Chardonnet, 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 March 31, 2023 (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 result of operations of the Company.

Date: May 8, 2023

By: _____
/s/ Laurent Chardonnet
Laurent Chardonnet
Chief Financial Officer
(Principal Accounting and Financial Officer)
