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 June 30, 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	**81-1384762**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
200 Powder Mill Road **Wilmington, Delaware**	**19803**
(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	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	☐	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 August 1, 2023, the registrant had 54,808,715 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
(UNAUDITED)

(in thousands, except share data)	June 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 26,446	$ 30,605
Marketable securities	228,543	171,123
Prepaid expenses and other current assets	5,221	2,652
Total current assets	260,210	204,380
Restricted cash	4,044	4,044
Property and equipment, net	6,082	4,908
Right-of-use asset	918	1,792
Prepaid expenses and other non-current assets	9,357	5,376
Total assets	$ 280,611	$ 220,500
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 5,585	$ 6,777
Accrued expenses and other current liabilities	8,667	13,093
Operating lease liability	938	1,832
Total current liabilities	15,190	21,702
Other liabilities	3,361	3,361
Total liabilities	18,551	25,063
Commitments (Note 8)		
Stockholders' equity:		
Voting common stock, $0.0001 par value: 487,149,741 shares authorized; 41,958,456 and 36,496,994 shares issued and outstanding at June 30, 2023 and December 31, 2022, respectively	4	4
Non-voting common stock, $0.0001 par value: 12,850,259 shares authorized; 12,850,259 and 11,402,037 shares issued and outstanding at June 30, 2023 and December 31, 2022, respectively	1	1
Additional paid-in capital	655,473	531,682
Accumulated other comprehensive loss	(711)	(1,692)
Accumulated deficit	(392,707)	(334,558)
Total stockholders' equity	262,060	195,437
Total liabilities and stockholders' equity	$ 280,611	$ 220,500

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 June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Operating expenses:				
Research and development	$ 24,966	$ 21,310	$ 46,800	$ 44,131
General and administrative	7,432	8,151	14,713	15,618
Total operating expenses	32,398	29,461	61,513	59,749
Loss from operations	(32,398)	(29,461)	(61,513)	(59,749)
Other income, net	1,967	2,087	3,364	2,910
Net loss	$ (30,431)	$ (27,374)	$ (58,149)	$ (56,839)
Per share information:				
Net loss per share of common stock, basic and diluted	$ (0.54)	$ (0.58)	$ (1.12)	$ (1.20)
Weighted average common shares outstanding, basic and diluted	56,240,491	47,276,684	52,012,330	47,172,136
Comprehensive loss:				
Net loss	$ (30,431)	$ (27,374)	$ (58,149)	$ (56,839)
Unrealized (loss) gain on marketable securities, net of tax	(313)	19	981	(1,583)
Comprehensive loss	$ (30,744)	$ (27,355)	$ (57,168)	$ (58,422)

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 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

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, 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	36,293,331	$ 4	11,402,037	$ 1	$ 512,705	$ (2,313)	$ (248,585)	$ 261,812
Issuance of common stock upon exercise of stock options	31,253	—	—	—	59	—	—	59
Issuance of common stock under ESPP	68,080	—	—	—	300	—	—	300
Unrealized gain on marketable securities	—	—	—	—	—	19	—	19
Stock-based compensation expense, net of forfeitures of restricted stock awards	(23,416)	—	—	—	6,028	—	—	6,028
Net loss	—	—	—	—	—	—	(27,374)	(27,374)
Balance at June 30, 2022	36,369,248	$ 4	11,402,037	$ 1	$ 519,092	$ (2,294)	$ (275,959)	$ 240,844

See accompanying notes to unaudited interim financial statements.

PRELUDE THERAPEUTICS INCORPORATED

STATEMENTS OF CASH FLOWS
(UNAUDITED)

(in thousands)	Six months ended June 30, 2023	Six months ended June 30, 2022
Cash flows used in operating activities:		
Net loss	$ (58,149)	$ (56,839)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	559	625
Noncash lease expense	874	842
Stock-based compensation	12,989	12,857
Amortization of premium and discount on marketable securities, net	(805)	1,784
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(2,540)	1,557
Accounts payable	(1,333)	(838)
Accrued expenses and other liabilities	(4,493)	495
Long-term prepaid expenses and other long-term assets	(4,010)	—
Operating lease liabilities	(894)	(846)
Net cash used in operating activities	(57,802)	(40,363)
Cash flows (used in) provided by investing activities:		
Purchases of marketable securities	(128,134)	(27,140)
Proceeds from maturities of marketable securities	72,500	87,579
Purchases of property and equipment	(1,793)	(1,710)
Net cash (used in) provided by investing activities	(57,427)	58,729
Cash flows provided by financing activities:		
Proceeds from issuance of common stock and pre-funded warrants, net of offering costs	110,691	—
Proceeds from the issuance of common stock under ESPP	348	300
Proceeds from the issuance of common stock in connection with the exercise of stock options	31	212
Net cash provided by financing activities	111,070	512
Net (decrease) increase in cash, cash equivalents and restricted cash	(4,159)	18,878
Cash, cash equivalents, and restricted cash at beginning of period	34,649	35,872
Cash, cash equivalents, and restricted cash at end of period	$ 30,490	$ 54,750
Supplemental disclosures:		
Operating lease right-of-use assets obtained in exchange for operating lease liabilities	$ —	$ 928
Property and equipment in accounts payable	$ 30	$ 77
Offering costs in accrued expenses and other current liabilities	$ 67	$ —
Offering costs in accounts payable	$ 201	$ —
Unrealized gain (loss) on marketable securities	$ 981	$ (1,583)

See accompanying notes to unaudited interim financial statements.

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 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, 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 $392.7 million at June 30, 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 June 30, 2023 will be sufficient to fund its operating expenses and capital expenditure requirements for at least the next twelve months.

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 the Company's liquidity, business, financial condition and results of operations by increasing the Company's 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, the Company has experienced, and may continue to experience cost increases. Although the Company may take measures to mitigate the effects of inflation, if these measures are not effective, the Company's 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 the Company's 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 and six months ended June 30, 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 June 30, 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)	June 30, 2023	December 31, 2022
Cash and cash equivalents	$ 26,446	$ 30,605
Restricted cash	4,044	4,044
Total cash, cash equivalents, and restricted cash shown in statement of cash flows	$ 30,490	$ 34,649

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.

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 that were issued in a financing transaction in May 2023 (Note 7). 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:

	June 30,	
	2023	2022
Unvested restricted stock awards	81,044	356,432
Unvested restricted stock units	125,000	170,000
Stock options	12,083,788	8,915,289
	12,289,832	9,441,721

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.

Recently Adopted Accounting Pronouncements

In August 2020, the FASB issued ASU Update No. 2020-06, Debt — *Debt with Conversion and Other Options (Subtopic 470-20)* and *Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity (ASU 2020-06)* ("ASU 2020-06"). ASU 2020-06 eliminated the beneficial conversion and cash conversion accounting models in ASC 470-20 which required separate accounting for embedded conversion features and simplified the settlement assessment to determine whether an instrument qualifies for equity classification. The Company early adopted the new standard on January 1, 2023.

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
June 30, 2023				
Marketable securities:				
Agency securities	$ 8,381	$ —	$ (47)	$ 8,334
Corporate debt securities	123,789	14	(385)	123,418
U.S. government securities	97,084	3	(296)	96,791
Total	$ 229,254	$ 17	$ (728)	$ 228,543
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	$ 172,815	$ 7	$ (1,699)	$ 171,123

The Company's marketable securities generally have contractual maturity dates of 13 months or less. As of June 30, 2023, the Company had 39 securities with a total fair market value of $199.1 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:

	Fair value measurement at reporting date using		
(in thousands)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
June 30, 2023			
Assets:			
Cash equivalents (Money Market Funds)	$ 25,435	$ —	$ —
Marketable securities:			
Agency securities	—	8,334	—
Corporate debt securities	—	123,418	—
U.S. government securities	—	96,791	—
Total	$ 25,435	$ 228,543	$ —
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)	June 30, 2023	December 31, 2022
Compensation and related benefits	$ 5,043	$ 5,682
Research and development	2,815	6,887
Other	809	524
	$ 8,667	$ 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.

Second quarter 2023 financing

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 of $113.0 million. 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.

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 June 30, 2023, no pre-funded warrants had been exercised. 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.

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.

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 June 30, 2023 are as follows:

(in thousands)		
2023 (remaining)	$	964
Total undiscounted lease payments		964
Less imputed interest		(26)
Current lease liability	$	938

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 has provided an allowance towards the cost of completing tenant improvements for the Premises and improvements resulting from both the landlord's build-out and the Company's 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 June 30, 2023, the Company recorded $9.0 million of prepaid rent. Upon the Commencement Date, which is expected to happen in the third quarter of 2023, 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		1,299
2025		2,784
2026		2,986
2027		3,060
2028		3,137
Thereafter		29,371

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 June 30, 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 $0.6 million for both the three months ended June 30, 2023 and 2022. Rent expense was $1.1 million for both the six months ended June 30, 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 the three months ended June 30, 2023 and 2022, the Company made matching contributions of $0.2 million and $0.1 million, respectively. For the six months ended June 30, 2023 and 2022, the Company made matching contributions of $0.4 million and $0.3 million, respectively.

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 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 June 30, 2023, 4,823,436 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 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2023**	**2022**	**2023**	**2022**
Research and development	$ 3,234	$ 2,472	$ 6,225	$ 5,672
General and administrative	3,499	3,556	6,764	7,185
	$ 6,733	$ 6,028	$ 12,989	$ 12,857

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	2,977,898	$ 6.91	
Exercised	(17,685)	$ 1.77	
Forfeited	(267,355)	$ 17.72	
Outstanding at June 30, 2023	12,083,788	$ 10.70	8.25
Exercisable at June 30, 2023	4,941,993	$ 11.56	7.28

At June 30, 2023, the aggregate intrinsic value of outstanding options and exercisable options was $5.4 million and $4.8 million, respectively.

The following table summarizes information about stock options outstanding at June 30, 2023 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 - $4.88	2,925,468	7.12	$ 2.74	2,188,856	$ 2.34
$4.89 - $7.50	4,100,967	9.49	6.57	35,665	6.03
$7.51 - $13.04	3,218,825	7.80	11.85	1,755,910	12.28
$13.05 - $88.98	1,838,528	8.06	30.53	961,562	31.44
	12,083,788			4,941,993	

The weighted-average grant date fair value of options granted was $5.04 and $6.00 per option for the six months ended June 30, 2023 and 2022, respectively. The aggregate intrinsic value of options exercised was $80 thousand for the six months ended June 30, 2023. The Company recorded stock-based compensation expense of $6.5 million and $5.7 million for the three months ended June 30, 2023 and 2022, respectively, related to stock options. The Company recorded stock-based compensation expense of $12.4 million and $12.2 million for the six months ended June 30, 2023 and 2022, respectively, related to stock options. As of June 30, 2023, the total unrecognized compensation expense related to unvested stock option awards was $50.5 million, which the Company expects to recognize over a weighted-average period of 2.37 years.

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

	Six months ended June 30,	
	2023	**2022**
Expected volatility	83.51 %	84.82 %
Risk-free interest rate	3.80 %	2.39 %
Expected life (in years)	6.02	6.01
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	(120,672)	$ 2.50
Unvested balance at June 30, 2023	81,044	$ 3.26

The Company recorded stock-based compensation expense of $0.1 million and $0.2 million for the three months ended June 30, 2023 and 2022, respectively, related to RSAs. The Company recorded stock-based compensation expense of $0.3 million and $0.4 million for the six months ended June 30, 2023 and 2022, respectively, related to RSAs. As of June 30, 2023, the total unrecognized expense related to all RSAs was $0.3 million, which the Company expects to recognize over a weighted-average period of 0.74 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	(40,000)	$ 5.70
Unvested balance at June 30, 2023	125,000	$ 6.21

The Company recorded stock-based compensation expense of $0.1 million for both the three and six months ended June 30, 2023 and 2022, related to RSUs. At June 30, 2023, the total unrecognized expense related to the RSUs was $0.7 million, which the Company expects to recognize over 2.61 years.

Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan (the "ESPP"), which, as of June 30, 2023, had 1,698,350 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 June 30, 2023 and 2022, related to the ESPP. The Company recognized share-based compensation expense of $0.2 million and $0.1 million for the six months ended June 30, 2023 and 2022, respectively, 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 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. 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 m/mg2 QW dose of PRT2527 was selected for further evaluation in dose-confirmation cohort.

The overall safety profile observed in this study support further development of PRT2527 in hematologic malignancies.

A Phase 1 multi-dose escalation study of PRT2527 is currently ongoing in hematologic malignancies. Patient recruitment for hematological clinical trials in the US is highly competitive and this trial has recently been expanded to include global sites to support patient recruitment. As part of this Phase 1 multi-dose escalation trial, we intend to expand the Phase 1 clinical trial and evaluate PRT2527 in combination with zanubrutinib. Potential indications for PRT2527 include aggressive B-cell lymphoma subtypes, mantle cell lymphoma (MCL), chronic lymphocytic leukemia/small lymphocytic lymphoma (CLL/SLL) including Richter syndrome, and T-cell lymphoma subtypes.

We intend to provide a program update by year end on the CDK9 inhibitor program and present initial results at a future scientific meeting.

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. A significant number of patients were enrolled at the recommended expansion dose of 80 mg/m2 in a Phase 1 solid tumor dose escalation and confirmation study. 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.

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. A Phase 1 multi-dose escalation clinical trial of PRT1419 in patients with hematologic malignancies is ongoing. In this trial, PRT1419 is being evaluated as monotherapy for myeloid malignancies and in combination with azacitidine or venetoclax for patients with relapsed/refractory myeloid or B-cell malignancies.

We will provide a clinical update on PRT1419 by year end.

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 multi-dose escalation clinical trial of PRT3645 is underway and we expect to reach a biologically active dose confirmation in Q4 2023. Potential indications for PRT3645 in combination with other therapies, in addition to breast cancer with or without brain metastases, include endometrial, sarcomas, glioblastomas, non-small cell lung cancer, head and neck cancers.

We intend to provide a program update by year end and present initial results at a future scientific meeting.

In October 2022, we received clearance for PRT3789, 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. PRT3789 is efficacious and well tolerated in preclinical models of SMARCA4 deleted/mutated cancers as monotherapy and in combination with standards of care. We believe a selective SMARCA2 degrader has the potential to be of benefit in up to 70,000 US/EU cancer patients with the SMARCA4 mutation.

Patients with SMARCA4 mutations or deletions may have poor clinical outcomes and limited treatment options. Therefore, mutated, or deleted SMARCA4 cancers provides a potential biomarker to select those patients most likely to respond to treatment with a highly selective SMARCA2 degrader.

A Phase 1 multi-dose escalation clinical trial of PRT3789 is ongoing in biomarker selected SMARCA4 mutated cancers. We intend to evaluate PRT3789 as monotherapy as well as in combination.

We intend to provide a program update by year end and expect to reach confirmation dose in the first half of 2024.

We recently nominated a new chemical entity as a potent, orally bioavailable and highly selective SMARCA2 degrader candidate (>1000x over SMARCA4) and intend to file an IND early in 2024.

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, common stock and pre-funded warrants. Our net loss was $58.1 million and $56.8 million for the six months ended June 30, 2023 and 2022, respectively. As of June 30, 2023, we had an accumulated deficit of $392.7 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 June 30, 2023, we had $255.0 million in cash, cash equivalents, and marketable securities.

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 June 30, 2023 and 2022

The following table sets forth our results of operations.

(in thousands)	Three months ended June 30, 2023	Three months ended June 30, 2022	Change
Operating expenses:			
Research and development	$ 24,966	$ 21,310	$ 3,656
General and administrative	7,432	8,151	(719)
Total operating expenses	32,398	29,461	2,937
Loss from operations	(32,398)	(29,461)	(2,937)
Other income, net	1,967	2,087	(120)
Net loss	$ (30,431)	$ (27,374)	$ (3,057)

Research and Development Expenses

Research and development expenses increased from $21.3 million for the three months ended June 30, 2022 to $25.0 million for the three months ended June 30, 2023. Research and development expenses increased 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 preclinical and clinical trial-related activities.

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

(in thousands)	Three months ended June 30, 2023	Three months ended June 30, 2022
PRT1419 (Oral and IV)	$ 2,309	$ 2,387
PRT2527	1,724	853
PRT3789	2,035	—
PRT3645	1,913	—
PRMT5 (PRT543 and PRT811)	(378)	2,770
Discovery programs	4,487	5,439
Internal costs, including personnel related	12,876	9,861
	$ 24,966	$ 21,310

General and Administrative Expenses

General and administrative expenses decreased from $8.2 million for the three months ended June 30, 2022 to $7.4 million for three months ended June 30, 2023. General and administrative expenses decreased primarily due to our careful management of general and administrative expenses.

Other Income, net

Other income, net decreased from $2.1 million for the three months ended June 30, 2022, to $2.0 million for the three months ended June 30, 2023 primarily due to losses on foreign currency exchange.

Comparison of the Six Months Ended June 30, 2023 and 2022

The following table sets forth our results of operations.

(in thousands)	**Six months ended June 30, 2023**	**2022**	**Change**
Operating expenses:			
Research and development	46,800	44,131	2,669
General and administrative	14,713	15,618	(905)
Total operating expenses	61,513	59,749	1,764
Loss from operations	(61,513)	(59,749)	(1,764)
Other income, net	3,364	2,910	454
Net loss	(58,149)	(56,839)	(1,310)

Research and Development Expenses

Research and development expenses increased from $44.1 million for the six months ended June 30, 2022 to $46.8 million for the six months ended June 30, 2023. Research and development expenses increased 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 preclinical and clinical trial-related activities.

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

(in thousands)	**Six months ended June 30, 2023**	**2022**
PRT1419 (Oral and IV)	$ 4,161	$ 4,476
PRT2527	2,802	1,701
PRT3789	3,467	—
PRT3645	2,446	—
PRMT5 (PRT543 and PRT811)	58	6,055
Discovery programs	8,643	10,841
Internal costs, including personnel related	25,223	21,058
	$ 46,800	$ 44,131

General and Administrative Expenses

General and administrative expenses decreased from $15.6 million for the six months ended June 30, 2022 to $14.7 million for the six months ended June 30, 2023. General and administrative expenses decreased primarily due to our careful management of general and administrative expenses.

Other Income, net

Other income, net increased from $2.9 million for the six months ended June 30, 2022, to $3.4 million for the six months ended June 30, 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, common stock, and pre-funded warrants. As of June 30, 2023, we had $255.0 million in cash, cash equivalents and marketable securities and had an accumulated deficit of $392.7 million.

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.

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:

	Six months ended June 30,	
(in thousands)	**2023**	**2022**
Net cash used in operating activities	$ (57,802)	$ (40,363)
Net cash (used in) provided by investing activities	(57,427)	58,729
Net cash provided by financing activities	111,070	512
Net (decrease) increase in cash, cash equivalents and restricted cash	$ (4,159)	$ 18,878

Operating Activities

During the six months ended June 30, 2023, we used $57.8 million of cash in operating activities. Cash used in operating activities reflected our net loss of $58.1 million and a $13.3 million net increase in our operating assets and liabilities, offset by noncash charges of $13.6 million, which primarily consisted of $13.0 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 six months ended June 30, 2022, we used $40.4 million of cash in operating activities. Cash used in operating activities reflected our net loss of $56.8 million offset by noncash charges of $16.1 million, which consisted of $12.9 million in stock-based compensation, $1.8 million in amortization of premiums and discounts on marketable securities, $0.8 million noncash lease expense, and $0.6 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 six months ended June 30, 2023, net cash used in investing activities of $57.4 million consisted primarily of $128.1 million in purchases of marketable securities, partially offset by $72.5 million in proceeds from maturities of marketable securities. During the six months ended June 30, 2022, net cash provided by investing activities of $58.7 million consisted primarily of $87.6 million in proceeds from maturities of marketable securities partially offset by $27.1 million in purchases of marketable securities.

Financing Activities

During the six months ended June 30, 2023, net cash provided by financing activities was $111.1 million, which was primarily the result of $110.7 million in proceeds received from the sale of common stock and pre-funded warrants, net of issuance costs. For the six months ended June 30, 2022 net cash provided by financing activities was $0.5 million from the exercise of stock options and purchases of stock under our Employee Stock Purchase Plan.

Critical Accounting Policies

During the three months ended June 30, 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 June 30, 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 June 30, 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 June 30, 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 Certificate of Incorporation					X
4.1	Form of Pre-Funded Warrant	8-K	001-39527	4.1	May 18, 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: August 3, 2023	By:	/s/ Krishna Vaddi
		Krishna Vaddi, PhD
		Chief Executive Officer
		(Principal Executive Officer)
Date: August 3, 2023	By:	/s/ Laurent Chardonnet
		Laurent Chardonnet
		Chief Financial Officer
		(Principal Financial and Accounting Officer)

EXHIBIT 3.1

PRELUDE THERAPEUTICS INCORPORATED

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

Prelude Therapeutics Incorporated (the "***Corporation***"), a corporation organized and existing under and by virtue of the Delaware General Corporation Law, hereby certifies as follows:

1. The name of the Corporation is "Prelude Therapeutics Incorporated." The date of the filing of its original Certificate of Incorporation with the Secretary of State of the State of Delaware was February 5, 2016.

2. This Amended and Restated Certificate of Incorporation of the Corporation attached hereto as Exhibit A, which is incorporated herein by this reference, and which restates, integrates and further amends the provisions of the Restated Certificate of Incorporation of this Corporation, as previously amended and/or restated, has been duly adopted by this Corporation's Board of Directors and by the stockholders in accordance with Sections 242 and 245 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, said Corporation has caused this Amended and Restated Certificate of Incorporation to be signed by its duly authorized officer under the seal of the Corporation this 21st day of June, 2023.

PRELUDE THERAPEUTICS INCORPORATED

By: */s/ Krishna Vaddi*
Name: Krishna Vaddi
Title: Chief Executive Officer

EXHIBIT A

PRELUDE THERAPEUTICS INCORPORATED

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

ARTICLE I: NAME

The name of the corporation is Prelude Therapeutics Incorporated (the "***Corporation***").

ARTICLE II: AGENT FOR SERVICE OF PROCESS

The address of the registered office of this Company in the State of Delaware is 1201 North Market Street, 18th Floor, Post Office Box 1347, in the City of Wilmington, County of New Castle, Delaware 19801, and the name of the registered agent of this Corporation in the State of Delaware at such address is Delaware Corporation Organizers, Inc.

ARTICLE III: PURPOSE

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware (the "***General Corporation Law***").

ARTICLE IV: AUTHORIZED STOCK

1. Total Authorized. The total number of shares of all classes of stock that the Corporation has authority to issue is 510,000,000 shares, consisting of two classes: 500,000,000 shares of Common Stock, $0.0001 par value per share ("***Common Stock***"), and 10,000,000 shares of Preferred Stock, $0.0001 par value per share ("***Preferred Stock***").

487,149,741 shares of the Common Stock are voting and are hereby designated as "***Voting Common Stock***" and 12,850,259 shares of the Common Stock are non-voting and are hereby designated as "***Non-Voting Common Stock***," each with the following rights, preferences, powers, privileges and restrictions, qualifications and limitations. For the avoidance of doubt, each reference to "Common Stock" in this Amended and Restated Certificate of Incorporation (as the same may be amended and/or restated from time to time, including pursuant to the terms of any Certificate of Designation designating a series of Preferred Stock, this "***Certificate of Incorporation***"), shall be deemed to include both Voting Common Stock and Non-Voting Common Stock.

2. Designation of Additional Series.

2.1. The Board of Directors of the Corporation (the "***Board***") is authorized, subject to any limitations prescribed by the law of the State of Delaware, to provide for the issuance of the shares of Preferred Stock in one or more series, and, by filing a Certificate of Designation pursuant to the applicable law of the State of Delaware ("***Certificate of Designation***"), to establish from time to time the number of shares to be included in each such series, to fix the designation, vesting, powers (including voting powers), preferences and relative, participating, optional or other special rights, if any, of the shares of each such series and any qualifications, limitations or restrictions thereof, and, except where otherwise provided in the applicable Certificate of Designation, to thereafter increase (but not above the total number of authorized shares of the Preferred Stock) or decrease (but not below the number of shares of such series then outstanding) the number of shares of any such series. The number of authorized shares of Preferred Stock may also be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of two-thirds of the voting power of all then-outstanding shares of capital stock of the Corporation entitled to vote thereon, voting together as a single class, without a separate vote of the holders of the Preferred Stock, irrespective of the provisions of Section 242(b)(2) of the General Corporation Law, unless a separate vote of the holders of one or more series is required pursuant to the terms of any Certificate of Designation; *provided*, *however*, that if two-thirds of the Whole Board (as defined below) has approved such increase or decrease of the number of authorized shares of Preferred Stock, then only the affirmative vote of the holders of a majority of the voting power of all then-outstanding shares of the capital stock of the Corporation entitled to vote thereon, voting together as a single class, without a separate vote of the holders of the Preferred Stock, irrespective of the provisions of Section 242(b)(2) of the General Corporation Law, unless a separate vote of the holders of one or more series is required pursuant to the terms of any Certificate of Designation, shall be required to effect such increase or decrease. For purposes of this Certificate of Incorporation, the term "***Whole Board***" shall mean the total number of authorized directors whether or not there exist any vacancies in previously authorized directorships.

2.2 Except as otherwise expressly provided in any Certificate of Designation designating any series of Preferred Stock pursuant to the foregoing provisions of this Article IV, any new series of Preferred Stock may be designated, fixed and determined as provided herein by the Board without approval of the holders of Voting Common Stock or the holders of Pre ferred Stock, or any series thereof, and any such new series may have powers, preferences and rights, including, without limitation, voting powers, dividend rights, liquidation rights, redemption rights and conversion rights, senior to, junior to or pari passu with the rights of the Common Stock, any series of Preferred Stock or any future class or series of capital stock of the Corporation.

2.3 Each outstanding share of Voting Common Stock shall entitle the holder thereof to one vote on each matter properly submitted to the stockholders of the Corporation for their vote; *provided*, *that*, except as otherwise required by law, holders of Voting Common Stock shall not be entitled to vote on any amendment to this Certificate of Incorporation (including any Certificate of Designation relating to any series of Preferred Stock) that relates solely to the terms of one or more outstanding series of Preferred Stock if the holders of such affected series are entitled, either separately or together as a class with the holders of one or more other such series, to vote thereon pursuant to this Certificate of Incorporation (including any Certificate of Designation relating to any series of Preferred Stock).

2.4 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 Corporation; provided, however, that such shares of Non-Voting Common Stock may only be converted by a holder of Non-Voting Common Stock into shares of Voting Common Stock during such time or times as immediately prior to or as a result of such conversion would not result in such holder (when aggregated with affiliates with whom such holder is required to aggregate beneficial ownership for purposes of Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (collectively, the "***Exchange Act***")) being a beneficial owner (for purposes of Section

13(d) of the Exchange Act) (a "***Beneficial Owner***") in excess of the Beneficial Ownership Limitation (as defined in Section 6(b) below). Except for the fact that the Non-Voting Common Stock has no voting rights, the Non-Voting Common Stock is identical in all respects to the Voting Common Stock.

The "***Beneficial Ownership Limitation***" means initially 9.99% of any class of securities of the Corporation registered under the Exchange Act, which percentage may be increased (not to exceed 19.99%) or decreased to such other percentage as any holder may designate (solely with respect to such holder and not with respect to any other holder) in writing upon 61 days' notice to the Corporation, provided, however, that no holder may make such an election to change the percentage unless all holders managed by the same investment advisor as such electing holder make the same election.

ARTICLE V: AMENDMENT OF BYLAWS

The Board shall have the power to adopt, amend or repeal the Bylaws of the Corporation (as the same may be amended and/or restated from time to time, the "***Bylaws***"). Any adoption, amendment or repeal of the Bylaws by the Board shall require the approval of a majority of the Whole Board. The stockholders shall also have power to adopt, amend or repeal the Bylaws; *provided*, *that*, notwithstanding any other provision of this Certificate of Incorporation or any provision of law that might otherwise permit a lesser or no vote, but in addition to any vote of the holders of any class or series of stock of the Corporation required by applicable law or by this Certificate of Incorporation (including any Preferred Stock issued pursuant to a Certificate of Designation), the affirmative vote of the holders of at least two-thirds of the voting power of all then-outstanding shares of the capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required for the stockholders to adopt, amend or repeal any provision of the Bylaws; *provided*, *further*, that, in the case of any proposed adoption, amendment or repeal of any provisions of the Bylaws that is approved by the Board and submitted to the stockholders for adoption thereby, if two-thirds of the Whole Board has approved such adoption, amendment or repeal of any provisions of the Bylaws, then only the affirmative vote of the holders of a majority of the voting power of all then-outstanding shares of the capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class (in addition to any vote of the holders of any class or series of stock of the Corporation required by applicable law or by this Certificate of Incorporation (including any Preferred Stock issued pursuant to a Certificate of Designation)), shall be required to adopt, amend or repeal any provision of the Bylaws.

ARTICLE VI: MATTERS RELATING TO THE BOARD OF DIRECTORS

1. **Director Powers**. Except as otherwise provided by the General Corporation Law, the Bylaws of the Corporation or this Certificate of Incorporation, the business and affairs of the Corporation shall be managed by or under the direction of the Board.

2. **Number of Directors**. Subject to the special rights of the holders of any series of Preferred Stock to elect additional directors under specified circumstances, the total number of directors constituting the Whole Board shall be fixed from time to time exclusively by resolution adopted by a majority of the Whole Board.

3. **Classified Board**. Subject to the special rights of the holders of one or more series of Preferred Stock to elect additional directors under specified circumstances, the directors shall be divided, with respect to the time for which they severally hold office, into three classes designated as Class I, Class II and Class III, respectively (the "***Classified Board***"). The Board may assign members of the Board already in office to the Classified Board, which assignments shall become effective at the same time that the Classified Board becomes effective. Directors shall be assigned to each class in accordance with a resolution or resolutions adopted by the Board. The number of directors in each class shall be divided as nearly equal as is practicable. The initial term of office of the Class I directors shall expire at the Corporation's first annual meeting of stockholders following the closing of the Corporation's initial public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, relating to the offer and sale of Voting Common Stock to the public (the "***Initial Public Offering***"), the initial term of office of the Class II directors shall expire at the Corporation's second annual meeting of stockholders following the closing of the Initial Pub lic Offering and the initial term of office of the Class III directors shall expire at the Corporation's third annual meeting of stockholders following the closing of the Initial Public Offering. At each annual meeting of stockholders following the closing of the Initial Public Offering, directors elected to succeed those directors of the class whose terms then expire shall be elected for a term of office expiring at the third succeeding annual meeting of stockholders after their election.

4. **Term and Removal**. Each director shall hold office until the annual meeting at which such director's term expires and until such director's succes sor is duly elected and qualified, or until such director's earlier death, resignation, disqualification or removal. Any director may resign at any time by delivering a resignation in writing or by electronic transmission to the Corporation at its principal office or to the Chairperson of the Board, the Chief Executive Officer, or the Secretary. Subject to the special rights of the holders of any series of Preferred Stock, no director may be removed from the Board except for cause and only by the affirmative vote of the holders of at least two-thirds of the voting power of the then-outstanding shares of capital stock of the Corporation entitled to vote thereon, voting together as a single class. In the event of any increase or decrease in the authorized number of directors, (a) each director then serving as such shall nevertheless continue as a director of the class of which he or she is a member and (b) the newly created or eliminated directorships resulting from such increase or decrease shall be apportioned by the Board among the classes of directors so as to make all classes as nearly equal in number as is practicable, provided that no decrease in the number of directors constituting the Board shall shorten the term of any director.

5. **Board Vacancies and Newly Created Directorships**. Subject to the special rights of the holders of any series of Preferred Stock, any vacancy occurring in the Board for any cause, and any newly created directorship resulting from any increase in the authorized number of directors, shall, unless (a) the Board determines by resolution that any such vacancies or newly created directorships shall be filled by the stockholders or (b) as otherwise provided by law, be filled only by the affirmative vote of a majority of the directors then in office, even if less than a quorum, or by a sole remaining director, and shall not be filled by the stockholders. Any director elected in accordance with the preceding sentence shall hold office for a term expiring at the annual meeting of stockholders at which the term of office of the class to which the director has been assigned expires and until such director's successor shall have been duly elected and qualified, or until such director's earlier death, resignation, disqualification or removal.

6. **Vote by Ballot**. Election of directors need not be by written ballot unless the Bylaws shall so provide.

ARTICLE VII: LIMITATION OF LIABILITY

1. **Limitation of Liability**. To the fullest extent permitted by law, neither a director of the Corporation nor an officer of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director or officer, as applicable. Without limiting the effect of the preceding sentence, if the General Corporation Law is hereafter amended to authorize the further elimination or limitation of the liability of a director or officer, then the liability of a director or officer of the Corporation shall be eliminated or limited to the fullest extent permitted by the General Corporation Law, as so amended.

2. **Change in Rights**. Neither any amendment nor repeal of this Article VII, nor the adoption of any provision of this Certificate of Incorporation inconsistent with this Article VII, shall eliminate, reduce or otherwise adversely affect any limitation on the personal liability of a director or officer of the Corporation existing at the time of such amendment, repeal or adoption of such an inconsistent provision.

ARTICLE VIII: MATTERS RELATING TO STOCKHOLDERS

1. **No Action by Written Consent of Stockholders**. Subject to the rights of any series of Preferred Stock then outstanding, no action shall be taken by the stockholders of the Corporation except at a duly called annual or special meeting of stockholders and no action shall be taken by the stockholders of the Corporation by written consent in lieu of a meeting.

2. **Special Meeting of Stockholders.** Special meetings of the stockholders of the Corporation may be called only by the Chairperson of the Board, the Chief Executive Officer, the Lead Independent Director (as defined in the Bylaws), the President, or the Board acting pursuant to a resolution adopted by a majority of the Whole Board and may not be called by the stockholders or any other person or persons.

3. **Advance Notice of Stockholder Nominations and Business Transacted at Special Meetings**. Advance notice of stockholder nominations for the election of directors of the Corporation and of business to be brought by stockholders before any meeting of stockholders of the Corporation shall be given in the manner provided in the Bylaws. Business transacted at special meetings of stockholders shall be limited to the purpose or purposes stated in the notice of meeting.

ARTICLE IX: CHOICE OF FORUM

Unless the Corporation consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall, to the fullest extent permitted by law, be the sole and exclusive forum for: (a) any derivative action or proceeding brought on behalf of the Corporation; (b) any action asserting a claim of breach of a fiduciary duty owed by, or other wrongdoing by, any director, officer, stockholder, employee or agent of the Corporation to the Corporation or the Corporation’s stockholders; (c) any action asserting a claim against the Corporation or any director, officer, stockholder, employee or agent of the Corporation arising pursuant to any provision of the General Corporation Law, this Certificate of Incorporation or the Bylaws or as to which the General Corporation Law confers jurisdiction on the Court of Chancery of the State of Delaware; (d) any action to interpret, apply, enforce or determine the validity of this Certificate of Incorporation or the Bylaws; or (e) any action asserting a claim against the Corporation or any director, officer, stockholder, employee or agent of the Corporation governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring or holding any interest in shares of capital stock of the Corporation shall be deemed to have notice of and to have consented to the provisions of this Article IX.

ARTICLE X: AMENDMENT OF CERTIFICATE OF INCORPORATION

If any provision of this Certificate of Incorporation shall be held to be invalid, illegal, or unenforceable, then such provision shall nonetheless be enforced to the maximum extent possible consistent with such holding and the remaining provisions of this Certificate of Incorporation (including, without limitation, all portions of any section of this Certificate of Incorporation containing any such provision held to be invalid, illegal, or unenforceable, which is not invalid, illegal, or unenforceable) shall remain in full force and effect.

The Corporation reserves the right to amend or repeal any provision contained in this Certificate of Incorporation in the manner prescribed by the laws of the State of Delaware and all rights conferred upon stockholders are granted subject to this reservation; *provided*, *however*, that, notwithstanding any other provision of this Certificate of Incorporation or any provision of law that might otherwise permit a lesser vote or no vote (but subject to the rights of any series of Preferred Stock set forth in any Certificate of Designation), but in addition to any vote of the holders of any class or series of the stock of the Corporation required by law or by this Certificate of Incorporation, the affirmative vote of the holders of at least two-thirds of the voting power of all then-outstanding shares of the capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to amend or repeal this Article X or Article V, Article VI, Article VII or Article VIII; *provided*, *further*, that if two-thirds of the Whole Board has approved such amendment or repeal of any provisions of this Certificate of Incorporation, then only the affirmative vote of the holders of a majority of the voting power of all then-outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class (in addition to any other vote of the holders of any class or series of stock of the Corporation required by law of by this Certificate of Incorporation or any Certificate of Designation), shall be required to amend or repeal such provisions of this Certificate of Incorporation.

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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: August 3, 2023

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, 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: August 3, 2023

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

Exhibit 32.1

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 June 30, 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: August 3, 2023

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

Exhibit 32.2

**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 June 30, 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: August 3, 2023

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