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

FORM 10-Q

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

For the quarterly period ended September 30, 2021

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: 001-40187

PROMETHEUS BIOSCIENCES, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**82-4282653**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
9410 Carroll Park Drive San Diego, California	**92121**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (858) 684-1300

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.0001 par value per share	RXDX	Nasdaq Global Select Market

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

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes ☑ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☑	Smaller reporting company	☑
Emerging growth company	☑		

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

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

As of November 8, 2021, the registrant had 38,939,220 shares of common stock ($0.0001 par value) outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

PROMETHEUS BIOSCIENCES, INC.
Unaudited Condensed Consolidated Balance Sheets
(in thousands, except share and par value amounts)

	September 30, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	$ 279,116	$ 54,201
Accounts receivable	679	1,086
Prepaid expenses and other current assets	7,313	2,169
Total current assets	287,108	57,456
Equipment, net	1,362	447
Deferred financing costs	—	1,730
Other assets	468	—
Total assets	$ 288,938	$ 59,633
Liabilities, Convertible Preferred Stock and Stockholders' Equity (Deficit)		
Current liabilities		
Accounts payable	$ 1,663	$ 958
Accrued compensation	3,311	2,722
Accrued expenses and other current liabilities	6,083	2,894
Amounts due to Nestlé, current—related party	—	5,675
Payable to PLI	475	1,130
Deferred revenue	3,561	1,876
Total current liabilities	15,093	15,255
Long-term debt, net	—	7,399
Deferred revenue, non-current	11,745	4,597
Preferred stock purchase right liability	—	3,900
Total liabilities	26,838	31,151
Commitments and contingencies (Note 9)		
Convertible preferred stock—$0.0001 par value; No shares and 254,983,985 shares authorized at September 30, 2021 and December 31, 2020, respectively; No shares and 160,864,434 shares issued and outstanding at September 30, 2021 and December 31, 2020, respectively; liquidation preferences of $0 and $130,487 at September 30, 2021 and December 31, 2020, respectively	—	126,023
Stockholders' equity (deficit):		
Preferred stock—$0.0001 par value; 40,000,000 shares and no shares authorized at September 30, 2021 and December 31, 2020, respectively; No shares issued and outstanding at September 30, 2021 and December 31, 2020	—	—
Common stock—$0.0001 par value; 400,000,000 shares and 325,000,000 shares authorized as of September 30, 2021 and December 31, 2020, respectively; 38,907,081 shares and 1,768,325 shares issued at September 30, 2021 and December 31, 2020, respectively; 38,884,536 shares and 1,713,622 shares outstanding at September 30, 2021 and December 31, 2020, respectively;	4	—
Additional paid-in capital	421,519	1,605
Accumulated deficit	(159,423)	(99,146)
Total stockholders' equity (deficit)	262,100	(97,541)
Total liabilities, convertible preferred stock and stockholders' equity (deficit)	$ 288,938	$ 59,633

See accompanying notes.

PROMETHEUS BIOSCIENCES, INC.
Unaudited Condensed Consolidated Statements of Operations
(in thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Collaboration revenue	$ 1,006	$ 359	$ 2,092	$ 766
Operating expenses:				
Research and development	17,551	4,652	38,863	13,840
General and administrative	10,248	3,173	21,088	7,370
Total operating expense	27,799	7,825	59,951	21,210
Loss from operations	(26,793)	(7,466)	(57,859)	(20,444)
Other income (expense), net:				
Interest income	27	3	82	8
Interest expense	(13)	(364)	(861)	(1,493)
Loss on early extinguishment of debt	(554)	—	(554)	—
Change in fair value of preferred stock purchase right liability	—	—	(980)	—
Change in fair value of preferred stock warrant liability	—	1	(105)	(2)
Total other income (expense), net	(540)	(360)	(2,418)	(1,487)
Loss from continuing operations	(27,333)	(7,826)	(60,277)	(21,931)
Income (loss) from discontinued operations	—	879	—	(6,584)
Net loss	$ (27,333)	$ (6,947)	$ (60,277)	$ (28,515)
Net loss per share, basic and diluted:				
Continuing operations	$ (0.70)	$ (5.13)	$ (2.09)	$ (15.21)
Discontinued operations	—	0.58	—	(4.57)
Net loss per share, basic and diluted	$ (0.70)	$ (4.55)	$ (2.09)	$ (19.78)
Weighted average shares outstanding, basic and diluted	38,848,412	1,526,122	28,778,814	1,441,516

See accompanying notes.

PROMETHEUS BIOSCIENCES, INC.
Unaudited Condensed Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit)
(in thousands, except share amounts)

	Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount			
Balance at December 31, 2020	160,864,434	$ 126,023	1,713,622	$ —	$ 1,605	$ (99,146)	$ (97,541)
Issuance of Series D-2 convertible preferred stock for cash, net of issuance costs of $94	86,775,740	73,763	—	—	—	—	—
Issuance of Series D-2 convertible preferred stock for settlement of deferred purchase price	7,219,560	6,144	—	—	—	—	—
Reclassification of convertible preferred stock purchase right liability	—	4,880	—	—	—	—	—
Conversion of convertible preferred stock into common stock at initial public offering	(254,859,734)	(210,810)	25,485,955	3	210,807	—	210,810
Issuance of shares of common stock in initial public offering for cash, net of issuance costs of $18,662	—	—	11,500,000	1	199,837	—	199,838
Reclassification of convertible preferred stock warrants			—	—	169	—	169
Issuance of common stock in exchange for services	—	—	500	—	3	—	3
Issuance of common stock upon exercise of stock options	—	—	56,645	—	64	—	64
Vesting of early exercised stock options	—	—	12,981	—	9	—	9
Stock-based compensation	—	—	—	—	792	—	792
Net loss	—	—	—	—	—	(13,945)	(13,945)
Balance at March 31, 2021	—	$ —	38,769,703	$ 4	$ 413,286	$ (113,091)	$ 300,199
Issuance costs related to initial public offering	—	—	—	—	(46)	—	(46)
Issuance of common stock upon exercise of stock options	—	—	54,561	—	62	—	62
Vesting of early exercised stock options	—	—	10,803	—	9	—	9
Stock-based compensation	—	—	—	—	1,203	—	1,203
Net loss	—	—	—	—	—	(18,999)	(18,999)
Balance at June 30, 2021	—	$ —	38,835,067	$ 4	$ 414,514	$ (132,090)	$ 282,428
Issuance of common stock upon exercise of stock options	—	—	12,995	—	33	—	33
Issuance of common stock for consulting services	—	—	28,100	—	715	—	715
Vesting of early exercised stock options	—	—	8,374	—	7	—	7
Stock-based compensation	—	—	—	—	6,250	—	6,250
Net loss	—	—	—	—	—	(27,333)	(27,333)
Balance at September 30, 2021	—	$ —	38,884,536	$ 4	$ 421,519	$ (159,423)	$ 262,100

	Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount			
Balance at December 31, 2019	58,145,867	$ 43,740	1,351,380	$ —	$ 483	$ (37,451)	$ (36,968)
Issuance of Series C convertible preferred stock for cash, net of issuance costs of $62	28,063,500	28,001	—	—	—	—	—
Vesting of common shares issued to founders	—	—	18,281	—	—	—	—
Issuance of common stock upon exercise of stock options	—	—	23,750	—	12	—	12
Vesting of early exercised stock options	—	—	8,800	—	3	—	3
Stock-based compensation	—	—	—	—	147	—	147
Net loss	—	—	—	—	—	(13,128)	(13,128)
Balance at March 31, 2020	86,209,367	$ 71,741	1,402,211	$ —	$ 645	$ (50,579)	$ (49,934)
Issuance of Series C convertible preferred stock upon release of escrow of acquisition-related contingent consideration	3,500,000	3,500	—	—	—	—	—
Issuance of Series C convertible preferred stock for deferred purchase price	5,000,000	5,000	—	—	—	—	—
Series C convertible preferred stock issuance costs	—	(12)	—	—	—	—	—
Vesting of common shares issued to founders	—	—	18,281	—	—	—	—
Issuance of common stock upon exercise of stock options	—	—	51,666	—	48	—	48
Vesting of early exercised stock options	—	—	8,609	—	3	—	3
Stock-based compensation	—	—	—	—	164	—	164
Net loss	—	—	—	—	—	(8,440)	(8,440)
Balance at June 30, 2020	94,709,367	$ 80,229	1,480,767	$ —	$ 860	$ (59,019)	$ (58,159)
Vesting of common shares issued to founders	—	—	12,188	—	—	—	—
Issuance of common stock upon exercise of stock options	—	—	1,200	—	4	—	4
Vesting of common shares issued for licensing rights	—	—	111,667	—	1	—	1
Issuance of common stock for consulting services	—	—	36,200	—	112	—	112
Vesting of early exercised stock options	—	—	8,609	—	2	—	2
Stock-based compensation	—	—	—	—	202	—	202
Net loss	—	—	—	—	—	(6,947)	(6,947)
Balance at September 30, 2020	94,709,367	$ 80,229	1,650,631	$ —	$ 1,181	$ (65,966)	$ (64,785)

See accompanying notes.

PROMETHEUS BIOSCIENCES, INC.
Unaudited Condensed Consolidated Statements of Cash Flows
(in thousands)

	Nine Months Ended September 30,	
	2021	2020
Cash flows from operating activities		
Net loss	$ (60,277)	$ (28,515)
Loss from continuing operations	(60,277)	(21,931)
Loss from discontinued operations, net of income taxes	—	(6,584)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	173	79
Stock-based compensation expenses	8,245	440
Loss on early extinguishment of debt	554	—
Change in fair value of preferred stock purchase right liability	980	—
Change in fair value of preferred stock warrant liability	105	2
Common stock issued in exchange for services	718	113
Noncash interest expense	553	1,075
Changes in operating assets and liabilities:		
Accounts receivable	407	(589)
Prepaid expenses and other current assets	(5,144)	(1,075)
Other assets	(468)	212
Accounts payable	618	(1,210)
Accrued compensation	589	1,082
Accrued expenses and other current liabilities	3,441	655
Payments made to PLI	—	(2,967)
Payable to PLI	(655)	—
Deferred revenue	8,833	2,603
Net cash used in operating activities – continuing operations	(41,328)	(21,511)
Net cash used in operating activities – discontinued operations	—	(1,190)
Net cash used in operating activities	(41,328)	(22,701)
Cash flows from investing activities		
Purchase of property and equipment	(946)	(225)
Net cash used in investing activities – continuing operations	(946)	(225)
Net cash used in investing activities – discontinued operations	—	(1,485)
Net cash used in investing activities	(946)	(1,710)
Cash flows from financing activities		
Proceeds from issuance of convertible preferred stock, net of issuance costs	73,749	27,986
Proceeds from issuance of long-term debt, net of issuance costs	—	7,338
Repayment of debt	(7,963)	—
Proceeds from sale of common stock in initial public offering	218,500	—
Payment of financing costs	(17,256)	(1,014)
Proceeds from issuance of common stock upon stock option exercises	159	61
Net cash provided by financing activities	267,189	34,371
Net increase in cash and cash equivalents	224,915	9,960
Cash and cash equivalents at beginning of period – continuing operations	54,201	4,450
Cash and cash equivalents at beginning of period – discontinued operations	—	3,921
Cash and cash equivalents cash at end of period	279,116	18,331
Cash and cash equivalents at end of period – discontinued operations	—	1,246
Cash and cash equivalents at end of period – continuing operations	$ 279,116	$ 17,085
Supplemental schedule of non-cash investing and financing activities		
Conversion of convertible preferred stock into common stock upon completion of initial public offering	$ 210,810	$ —
Reclassification of preferred stock purchase right liability to equity due to issuance of Series D convertible preferred stock	$ 4,880	$ —
Reclassification of warrant liability to equity due to conversion from preferred stock warrant to common stock warrant upon completion of initial public offering	$ 169	$ —
Issuance of Series D-2 convertible preferred stock for the settlement of deferred purchase price	$ 6,144	$ —
Acquisition-related consideration held in escrow	$ —	$ (3,500)
Issuance of Series C convertible preferred stock for deferred purchase price	$ —	$ 5,000
Vesting of unvested issued common stock	$ 24	$ 10
Costs incurred, but not paid, in connection with capital expenditures included in accounts payable	$ 145	$ 100

See accompanying notes.

1. Organization

Prometheus Biosciences, Inc. (the Company) was incorporated in the state of Delaware on October 26, 2016 under the name Precision IBD, Inc. and is headquartered in San Diego, California. The Company changed its name to Prometheus Biosciences, Inc. on October 1, 2019. The Company's business is focused on the discovery, development and commercialization of novel therapeutic and companion diagnostic products for the treatment of immune-mediated diseases, starting first with inflammatory bowel disease (IBD).

In June 2019, the Company acquired Prometheus Laboratories, Inc. (PLI) and the related intangible assets used by PLI. PLI was wholly owned by Nestlé Health Science US Holdings, Inc. and the related intangible assets were owned by Societé Des Produits Nestlé S.A (together, Nestlé) (see Note 6). PLI markets and conducts several laboratory developed tests useful to gastroenterologists in monitoring their IBD patients' disease state and informing their therapeutic decisions.

On December 31, 2020, the Company completed the spinoff of PLI by making an in-kind distribution of 100% of its interest in PLI to the Company's stockholders of record on December 30, 2020 (see Note 6).

Reverse Stock Split

On March 5, 2021, the Company effected a one-for-ten reverse stock split of the Company's common stock (the Reverse Stock Split). The par value and the authorized shares of the common stock were not adjusted as a result of the Reverse Stock Split. All issued and outstanding common stock and the conversion prices and ratio of the convertible preferred stock have been retroactively adjusted to reflect this Reverse Stock Split for all periods presented.

Initial Public Offering

On March 16, 2021, the Company completed its initial public offering (IPO) with the sale of 11,500,000 shares of common stock, which included the exercise in full by the underwriters of their option to purchase 1,500,000 additional shares, at an initial public offering price of $19.00 per share and received gross proceeds of $218.5 million, which resulted in net proceeds to the Company of approximately $199.8 million, after deducting underwriting discounts and commissions of approximately $15.3 million and offering-related transaction costs of approximately $3.4 million.

In addition, in connection with the completion of the IPO, all outstanding shares of convertible preferred stock were converted into 25,485,955 shares of the Company's common stock; outstanding warrants to purchase 148,848 shares of convertible preferred stock were converted into warrants to purchase 14,884 shares of the Company's common stock; and the Company's certificate of incorporation was amended and restated to authorize 400,000,000 shares of common stock and 40,000,000 shares of undesignated preferred stock.

Liquidity

The Company has incurred net losses since inception, experienced negative cash flows from operations, and as of September 30, 2021, has an accumulated deficit of $159.4 million. The Company has historically financed its operations primarily through the sale of common stock and private placements of convertible preferred stock. The Company expects operating losses and negative cash flows from operations to continue for the foreseeable future. The Company believes its current capital resources will be sufficient for the Company to continue as a going concern for at least one year from the issuance date of these condensed consolidated financial statements.

The Company will be required to raise additional capital, however, there can be no assurance as to whether additional financing will be available on terms acceptable to the Company, if at all. If sufficient funds on acceptable terms are not available when needed, it would have a negative impact on the Company's financial condition and could force the Company to delay, limit, reduce, or terminate product development or future commercialization efforts or grant rights to develop and market product candidates or testing products that the Company would otherwise plan to develop.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that impact the reported amounts of assets, liabilities, and expenses

and the disclosure of contingent assets and liabilities in the Company's condensed consolidated financial statements and accompanying notes. Although these estimates are based on the Company's knowledge of current events and actions it may undertake in the future, actual results may materially differ from these estimates and assumptions.

On December 31, 2020, the Company completed the spinoff of PLI. The results of operations for the three and nine months ended September 30, 2021 have been presented as discontinued operations in the accompanying condensed consolidated financial statements in accordance with Accounting Standards Codification (ASC) 205-20, *Presentation of Financial Statements—Discontinued Operations*. Unless otherwise noted, discussion within these notes to the condensed consolidated financial statements relates to continuing operations (see Note 6 for additional information on discontinued operations).

On an ongoing basis, management evaluates its estimates, primarily related to revenue recognition, stock-based compensation, accrued research and development costs, and for periods prior to its IPO, the fair value of common stock, the fair value of the convertible preferred stock, and the fair value of the preferred stock purchase right liability. These estimates are based on historical data and experience, as well as various other factors that management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Estimates relating to the valuation of stock require the selection of appropriate valuation methodologies and models, and significant judgment in evaluating ranges of assumptions and financial inputs.

Unaudited Interim Financial Information

The unaudited financial statements at September 30, 2021, and for the three and nine months ended September 30, 2021 and 2020, have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC), and with GAAP applicable to interim financial statements. These unaudited financial statements have been prepared on the same basis as the audited financial statements and include all adjustments, consisting of only normal recurring accruals, which in the opinion of management are necessary to present fairly the Company's financial position as of the interim date and results of operations for the interim periods presented. Interim results are not necessarily indicative of results for a full year or future periods. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ materially from those estimates. These unaudited financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2020, included in the Prospectus dated March 11, 2021 filed pursuant to Rule 424(b) under the Securities Act of 1933, as amended, with the SEC on March 12, 2021.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and until December 31, 2020, the date at which the spinoff was completed, its wholly-owned subsidiary, PLI, and have been prepared in conformity with GAAP. All intercompany accounts and transactions have been eliminated in consolidation.

Segment Reporting

The Company's Chief Executive Officer, who is considered to be the chief operating decision maker (CODM), reviews financial information presented on a consolidated basis, accompanied by information about operating segments for purposes of making operating decisions and assessing financial performance. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the CODM in deciding how to allocate resources and in assessing performance.

Prior to the spinoff of PLI in December 2020, the Company determined its operating segments to be the therapeutics and diagnostic services businesses. The therapeutics business derives substantially all of its revenue from collaboration agreements and devotes all of its efforts to development of product candidates and companion diagnostics in the IBD space. The diagnostic services business, which is recorded as discontinued operations, derived its revenue from diagnostic services in the IBD space generated from the conduct of laboratory developed tests. Since the spinoff, the Company has operated solely within the therapeutics segment. The Company operates solely in the United States.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The cash and cash equivalents balance at September 30, 2021 and December 31, 2020 represents cash in readily available checking and money market accounts.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentration of credit risk, consist primarily of cash, cash equivalents, and accounts receivable. The Company maintains deposits in federally insured financial institutions in excess of federally insured limits. Management believes that the Company is not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held.

Deferred Financing Costs

At December 31, 2020, financing costs, consisting of legal, accounting, printer and filing fees related to the Company's IPO, totaled $1.7 million. Upon the completion of the IPO in March 2021, all of these expenses were offset against the proceeds from the IPO.

Revenue Recognition

The Company recognizes revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers* (ASC 606). In accordance with ASC 606, the Company performs the following steps in determining the appropriate amount of revenue to be recognized as it fulfills its obligations under each of these agreements: (i) identification of the promised goods or services in the contract; (ii) determination of whether the promised goods or services are performance obligations including whether they are distinct in the context of the contract; (iii) measurement of the transaction price, including the constraint on variable consideration; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue when, or as, the Company satisfies each performance obligation. At contract inception, once the contract is determined to be within the scope of ASC 606, the Company assesses the goods or services promised within each contract and determines those that are performance obligations and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

To date, all of the Company's collaboration revenue has been derived from its collaboration agreement with Millennium Pharmaceuticals, Inc., a subsidiary of Takeda Pharmaceutical Company Limited (collectively, Takeda) and its collaboration agreement with Dr. Falk Pharma GmbH as described in Note 5. The terms of these arrangements include the following types of payments to the Company: non-refundable, up-front license fees; development, regulatory and commercial milestone payments; payments for research and development services provided by the Company; and royalties on net sales of licensed products. At the initiation of an agreement, the Company analyzes whether each unit of account results in a contract with a customer under ASC 606 or in an arrangement with a collaborator subject to guidance under ASC 808, *Collaborative Arrangements* (ASC 808).

The Company considers a variety of factors in determining the appropriate estimates and assumptions under these arrangements, such as whether the elements are distinct performance obligations, whether there are observable stand-alone prices, and whether any licenses are functional or symbolic. The Company evaluates each performance obligation to determine if it can be satisfied and recognized as revenue at a point in time or over time. Typically, license fees, non-refundable upfront fees, and funding of research activities are considered fixed, while milestone payments are identified as variable consideration which must be evaluated to determine if it is constrained and, therefore, excluded from the transaction price. The Company estimates the amount of variable consideration using the most likely amount, as milestone payments typically only have two possible outcomes. The Company recognizes revenue for sales-based royalty promised in exchange for the license of intellectual property only when the subsequent sale occurs.

The Company may allocate transaction price using a number of methods including estimating standalone selling price of performance obligations and using the residual approach when the standalone selling price of the license is highly variable or uncertain, and observable standalone selling prices exist for the other goods or services promised in the contract.

The Company receives payments from its collaborators based on terms established in each contract. Upfront payments and other payments may require deferral of revenue recognition to a future period until the Company is unconditional. The Company does not assess whether a contract has a significant financing component if the expectation at contract inception is such that the payment by the customer is akin to a deposit for research and development services.

Research and Development and Clinical Trial Accruals

Research and development costs are charged to expense as incurred. Research and development expenses include certain payroll and personnel expenses, laboratory supplies, consulting costs, external contract research and development expenses, and allocated overhead, including rent, equipment depreciation and utilities. Advance payments for goods or services for future research and development activities are deferred and expensed as the goods are delivered or the related services are performed.

The Company estimates preclinical studies and clinical trial expenses based on the services performed pursuant to contracts with research institutions and clinical research organizations that conduct and manage preclinical studies and clinical trials on the Company's behalf. In addition, clinical study and trial materials are manufactured by contract manufacturing organizations. In accruing for these services, the Company estimates the time period over which services will be performed and the level of effort to be expended in each period. These estimates are based on communications with the third-party service providers and the Company's estimates of accrued expenses and on information available at each balance sheet date. If the actual timing of the performance of services or the level of effort varies from the estimate, the Company will adjust the accrual accordingly.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability.

Stock-Based Compensation

The Company expenses stock-based compensation to employees and non-employees over the requisite service period (usually the vesting period) on a straight-line basis, net of actual forfeitures during the period, based on the estimated grant-date fair value of the awards. The Company estimates the fair value of stock option grants using the Black-Scholes option pricing model, and the assumptions used in calculating the fair value of stock-based awards represent management's best estimates and involve inherent uncertainties and the application of management's judgment.

Valuation of Common Stock

Prior to the IPO, given the absence of a public trading market for the Company's common stock, its board of directors exercised their judgment and considered a number of objective and subjective factors to determine the best estimate of the fair value of the Company's common stock, such as: contemporaneous valuations performed by independent third-party specialists, its stage of development, including the status of its research and development efforts of its product candidates, the material risks related to its businesses and industry, its results of operations before discontinued operations and financial position, including its levels of capital resources, the prices at which its sold shares of its convertible preferred stock, the rights, preferences and privileges of its convertible preferred stock relative to those of its common stock, the conditions in the biotechnology industry and the economy in general, the stock price performance and volatility of comparable life sciences public companies, as well as recently completed mergers and acquisitions of peer companies, the likelihood of achieving a liquidity event for the holders of its common stock or convertible preferred stock, such as an IPO or a sale of the Company given prevailing market conditions, trends and developments in its industry, external market conditions affecting the life sciences and biotechnology sectors, and the lack of liquidity of its common stock, among other factors.

After the completion of the IPO, the fair value of each share of common stock is based on the closing price of the Company's common stock as reported by Nasdaq.

Preferred Stock Purchase Right Liabilities

From time to time, the Company enters into convertible preferred stock financings where, in addition to the initial closing, investors agree to buy, and the Company agrees to sell, additional shares of that convertible preferred stock at a fixed price in the event that certain conditions are met or agreed upon milestones are achieved. The Company evaluates this purchase right and assesses whether it meets the definition of a freestanding instrument and, if so, determines the fair value of the purchase right liability and records it on the balance sheet with the remainder of the proceeds raised allocated to convertible preferred stock. The preferred stock purchase right liability is revalued at each reporting period with changes in the fair value of the liability recorded as change in fair value of preferred stock purchase right liability in the statements of operations. Upon the issuance of the shares of Series D-2 convertible preferred stock in January 2021, the preferred stock purchase right liability no longer required liability accounting and the then fair value of the preferred stock purchase right liability was reclassified into stockholders' equity.

The Company performed the final remeasurement of the preferred stock purchase right liability as of the issuance of the shares of Series D-2 convertible preferred stock and recorded a $1.0 million change in fair value into other income (expense) for the nine months ended September 30, 2021.

Net Loss Per Share

Basic net loss per share attributable to common stockholders is calculated by dividing the net loss attributable to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net loss per share attributable to common stockholders is computed by dividing the net loss attributable to common stockholders by the weighted-average number of common stock equivalents outstanding for the period determined using the treasury-stock method. The Company has excluded 26,641 and 36,591 weighted-average shares subject to repurchase or forfeiture from the weighted-average number of common shares outstanding for the three and nine months ended September 30, 2021, respectively, and 140,136 and 179,917 weighted-average shares subject to repurchase or forfeiture from the weighted-average number of common shares outstanding for the three and nine months ended September 30, 2020, respectively. Dilutive common stock equivalents are comprised of convertible preferred stock and options outstanding under the Company's stock option plan.

Basic and diluted net loss attributable to common holders per share is presented in conformity with the two- class method required for participating securities as the convertible preferred stock are considered participating securities. The Company's participating securities do not have a contractual obligation to share in the Company's losses. As such, the net loss was attributed entirely to common stockholders. Accordingly, for the three and nine months ended September 30, 2021 and 2020, there is no difference in the number of shares used to calculate basic and diluted shares outstanding.

Potentially dilutive securities not included in the calculation of diluted net loss per share because to do so would be anti-dilutive are as follows (in common stock equivalent shares):

	September 30,	
	2021	2020
Convertible preferred stock outstanding	—	9,470,926
Common stock options issued and outstanding	5,392,052	2,020,559
Warrants to purchase common stock	14,884	—
Warrants to purchase convertible preferred stock outstanding	—	11,250
ESPP shares pending issuance	24,279	—
Total	5,431,215	11,502,735

Recent Accounting Standards

From time to time, new accounting standards are issued by the Financial Accounting Standards Board (FASB) or other standard setting bodies and adopted by the Company as of the specified effective date. Unless otherwise discussed, the impact of recently issued standards that are not yet effective will not have a material impact on the Company's financial position or results of operations upon adoption.

In April 2012, the Jump-Start Our Business Startups Act (the JOBS Act) was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for an emerging growth company. As an emerging growth company, the Company may elect to adopt new or revised accounting standards when they become effective for non-public companies, which typically is later than when public companies must adopt the standards. The Company has elected to take advantage of the extended transition period afforded by the JOBS Act and, as a result, will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for emerging growth companies, which are the dates included below.

Adoption of New Accounting Standards

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, which supersedes FASB ASC Topic 840, *Leases (Topic 840)*, and provides principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method for finance leases or on a straight-line basis over the term of the lease for operating leases. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of classification. The Company early adopted this standard on January 1, 2021 by applying the modified retrospective approach (see Note 9). The Company made accounting policy elections to exclude leases with terms of 12 months or less from the recognition requirements and to not separate lease and non-lease components.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses: Measurement of credit Losses on Financial Instruments (ASU 2016-13)*, which amends the impairment model by requiring entities to use a forward looking approach

based on expected losses to estimate credit losses on certain types of financial instruments, including trade receivables and available-for sale debt securities. The Company early adopted this standard on January 1, 2021 by applying the modified retrospective approach and determined there was no cumulative-effect transition adjustment required to the opening balance of accumulated deficit for the recognition of additional credit losses upon adoption of this standard based on its outstanding accounts receivable, the composition and credit quality of its short-term investments, and current economic conditions as of that date.

In August 2020, the FASB issued ASU No. 2020-06, *Debt – Debt with Conversion and Other options (Subtopic 470-20) and Derivative and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40).* The amendments in this ASU reduce the number of accounting models for convertible debt instruments and convertible preferred stock, as well as, amend the guidance for the derivatives scope exception for contracts in an entity's own equity to reduce form-over-substance-based accounting conclusion. In addition, this ASU improves and amends the related EPS guidance. The amendments in this ASU are effective for the Company on January 1, 2024, including interim periods within those fiscal years. The Company early adopted this standard on January 1, 2021 by applying the modified retrospective approach. The adoption of ASU 2020-06 had no material impact on the Company's condensed financial statements and accompanying footnotes.

3. Fair Value Measurements and Fair Value of Financial Instruments

The accounting guidance defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the accounting guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1— Quoted prices in active markets for identical assets or liabilities.

Level 2— Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3— Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires management to make judgments and consider factors specific to the asset or liability.

The carrying amounts of cash and cash equivalents, prepaid and other assets, accounts payable and accrued liabilities are considered to be representative of their respective fair values because of the short-term nature of those instruments. Based on the borrowing rates currently available to the Company for loans with similar terms, which is considered a Level 2 input, the Company believes that the fair value of long-term debt approximates its carrying value.

The Company's financial instruments that are carried at fair value consist of Level 3 liabilities. There were no transfers within the hierarchy during the three and nine months ended September 30, 2021 and 2020. At December 31, 2020, Level 3 liabilities that were measured at fair value on a recurring basis consisted of warrants to purchase shares of convertible preferred stock and a preferred stock purchase right liability. The Company had no Level 3 liabilities at September 30, 2021 as the liabilities for the warrants to purchase shares of convertible preferred stock and the preferred stock purchase right was remeasured and reclassified to stockholders' equity upon the closing of the Company's IPO in March 2021 and the issuance of shares of Series D-2 convertible preferred stock in January 2021, respectively.

Convertible Preferred Stock Warrant Liability

The convertible preferred stock warrant liability was recorded at fair value utilizing the Black-Scholes option pricing model using significant unobservable inputs consistent with the inputs used for the Company's stock-based compensation expense adjusted for the preferred stock warrants' expected term and the fair value of the underlying preferred stock.

The assumptions used in the Black-Scholes option pricing model to determine the fair value of the convertible preferred stock warrant liability at the date of the IPO and December 31, 2020 were as follows:

	IPO Date	December 31, 2020
Fair value of underlying preferred stock	$ 1.90	$ 0.83
Risk-free interest rate	1.70%	1.70%
Expected volatility	70.00%	70.00%
Expected term (in years)	9.0	9.2
Expected dividend yield	—%	—%

Preferred Stock Purchase Right Liability

At December 31, 2020, the preferred stock purchase right liability was determined using a valuation model that considered: (i) the risk-free rate commensurate with the expected milestone timing of 0.09%; (ii) the probability of the Series D-2 tranche of 80.0%; (iii) volatility of 80.0%; (iv) consideration received for the Series D-1 preferred stock; (v) the number of shares to be issued to satisfy the preferred stock purchase right and at what price; and (vi) certain implied and provided assumptions needed to calibrate the Series D-1 value and the Series D-2 purchase right. Upon the issuance of the shares of Series D-2 convertible preferred stock in January 2021, the liability was remeasured and as a result of closing the sale of shares of Series D-2 convertible preferred stock, a charge of $1.0 million was recorded in the statement of operations for the nine months ended September 30, 2021.

Activity of Liabilities Using Fair Value Level 3 Measurements

The following table summarizes the activity of the financial instruments valued using Level 3 inputs (in thousands):

	Convertible Preferred Stock Warrant Liability	Series D Convertible Preferred Stock Purchase Right Liability
Balance at December 31, 2020	$ 64	$ 3,900
Change in fair value	105	980
Conversion/Settlement during 2021	(169)	(4,880)
Balance at September 30, 2021	$ —	$ —

4. Balance Sheet Details

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following (in thousands):

	September 30, 2021	December 31, 2020
Prepaid research and development	5,761	1,894
Other prepaid expenses	1,552	275
Total	$ 7,313	$ 2,169

Equipment, Net

Equipment, net, consist of the following (in thousands):

	September 30, 2021	December 31, 2020
Laboratory equipment	$ 1,660	$ 572
Office equipment and furniture	24	24
	1,684	596
Less accumulated depreciation	(322)	(149)
Total	$ 1,362	$ 447

Depreciation expense related to property and equipment was $0.1 million and $29,000 for the three months ended September 30, 2021 and 2020, respectively, and $0.2 million and $0.1 million for the nine months ended September 30, 2021 and 2020, respectively.

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following (in thousands):

	September 30, 2021	December 31, 2020
Accrued research and development	$ 5,490	$ 1,940
Accrued legal expenses	70	490
Unvested early exercise liability	42	67
Accrued other	481	397
Total	$ 6,083	$ 2,894

5. Collaboration and License Agreements

Cedars-Sinai Medical Center

In September 2017, the Company entered into an Exclusive License Agreement with Cedars-Sinai Medical Center (Cedars-Sinai), a related party, as amended and restated (the Cedars-Sinai Agreement). Under the terms of the Cedars-Sinai Agreement, Cedars-Sinai granted the Company an exclusive, worldwide, royalty bearing license with respect to certain patent rights, information and materials related to therapeutic targets and companion diagnostic products, in each case to conduct research, develop, and commercialize therapeutic and diagnostic products for human use. The licensed technology includes information and materials arising out of Cedars-Sinai's database and biobank, as well as exclusive access to this database and biobank, which is an integral part of the Company's Prometheus360 platform. In August 2021, the Company and Cedars-Sinai amended and restated the Cedars-Sinai Agreement to, among other things, add a joint steering committee and cover new intellectual property.

As consideration for the license rights, in September 2017 the Company issued (i) 257,500 shares of fully vested common stock, and (ii) 335,000 shares of unvested restricted common stock, all of which is vested as of December 31, 2020. The fair value of all of the shares were measured at the date of issuance. Additionally, the Company is obligated to pay Cedars-Sinai low- to mid-single digit percentage royalties on net sales of products covered under the Cedars-Sinai Agreement. In 2017, the Company and Cedars-Sinai also entered into Research agreements, under which the parties can provide research services to each other at pricing specified in individual statements of work. During the three and nine months ended September 30, 2021 and 2020, no services were provided under the agreements.

Collaboration Agreement with Millennium Pharmaceuticals, Inc., a subsidiary of Takeda Pharmaceutical Company Limited

In March 2019, the Company entered into a Companion Diagnostics Development and Collaboration Agreement (the Takeda Agreement) with Millennium Pharmaceuticals, Inc., a wholly-owned subsidiary of Takeda, pursuant to which the Company agreed to develop a companion diagnostic product for certain drug targets selected by Takeda, and Takeda agreed to develop and commercialize any therapeutic clinical candidates that it develops directed against any selected drug targets for the treatment of IBD (Takeda Drugs).

In consideration of the rights granted to Takeda under the Takeda Agreement, the Company received a one-time upfront payment of $1.5 million and is eligible to receive, for any targets selected by Takeda, future development and regulatory milestone payments of up to $47.9 million, commercial milestone payments of up to $25.0 million, sales milestone payments of up to $75.0 million, and low-single digit percentage royalties on net sales of all Takeda Drugs, subject to the terms and conditions set forth in the Takeda Agreement.

At inception and through September 30, 2021, the Company has identified one performance obligation per each target for all the deliverables under the agreement since the delivered elements are not distinct within the context of the contract. Accordingly, the Company will recognize revenue for the transaction price in an amount proportional to the collaboration expenses incurred and the total estimated collaboration expenses over the four-year period over which it expects to satisfy its performance obligations. The Company included one milestone in the transaction price as it was deemed not probable of significant reversal at the inception of the agreement. Due to the uncertainty in the achievement of the developmental and commercial milestones, the variable consideration associated with these future milestone payments has been fully constrained (excluded) from the transaction price until such time that the Company concludes that it is probable that a significant reversal of previously recognized revenue will not occur. These estimates will be re-assessed at each reporting period. In connection with the Takeda Agreement, the Company recognized revenue of $0.1 million and $0.2 million for the three months ended September 30, 2021 and 2020, respectively, and $0.3 million and $0.6

million for the nine months ended September 30, 2021 and 2020, respectively, and had deferred revenue of $1.2 million, $1.7 million as of September 30, 2021 and December 31, 2020, respectively. The Company expects to recognize $0.2 million of the deferred revenue balance during the remainder of 2021.

Dr. Falk Pharma GmbH Collaboration Agreement

In July 2020, the Company entered into a Co-Development and Manufacturing Agreement (the Falk Agreement) with Dr. Falk Pharma GMBH (Falk), pursuant to which the parties agreed to co-develop and commercialize, exclusively in their respective territories, therapeutic product candidates targeting members of the TNF super family for the treatment of UC and CD under the Company's PR600 program. Under the Falk Agreement, the Company is responsible for regulatory approvals and commercialization of any products in the United States and the rest of the world, other than the Falk territory. Falk is responsible for regulatory approvals and commercialization of any products in the European Union, United Kingdom, Switzerland, the countries of the European Economic Area (excluding Malta and the Republic of Cyprus), Australia and New Zealand (Falk territory).

In consideration of the rights granted to Falk under the Falk Agreement, the Company received a one-time upfront payment of $2.5 million upon execution of the Falk Agreement in July 2020, and has received two subsequent preclinical development milestone payments of $2.5 million and $10.0 million. The first development milestone payment was paid when the underlying development plan was finalized in December 2020. The second development milestone payment was paid upon selection of a clinical candidate for the Company's PR600 program in June 2021. The Company remains eligible to receive an additional preclinical development milestone payment of $5.0 million and low-single to low-double digit percentage royalties on net sales of all products incorporating antibodies covered by the agreement in the Falk territory, subject to the terms of the Falk Agreement. The Company agreed to pay Falk a low-single digit royalty on net sales for such products in the Company's territory. Falk agreed to fund 25% of the Company's third-party development costs set forth in the development plan.

At inception and through September 30, 2021, the Company has identified one performance obligation for all the deliverables under the Falk Agreement. Accordingly, the Company is recognizing revenue for the transaction price allocated to the performance obligation in an amount proportional to the collaboration expenses incurred and the total estimated collaboration expenses over the seven year period over which it expects to satisfy its performance obligation. The Company included the upfront payment and all milestone payments in the transaction price as it was deemed not probable of significant reversal at the inception of the agreement. In connection with the Falk Agreement, the Company recognized revenue of $0.2 million and $0.2 million for the three and nine months ended September 30, 2020, respectively, $0.9 million and $1.8 million for the three and nine months ended September 30, 2021, respectively, and had deferred revenue of $14.1 million and $4.8 million as of September 30, 2021 and December 31, 2020, respectively. This deferred revenue balance is expected to be recognized proportionally as expenses are incurred over the estimated seven-year term. The Company expects to recognize $1.0 million of the deferred revenue balance during the remainder of 2021.

A reconciliation of deferred revenue related to the Takeda Agreement and the Falk Agreement for the nine months ended September 30, 2021 is as follows (in thousands):

	Takeda Agreement	Falk Agreement	Total
Balance at December 31, 2020	$ 1,710	$ 4,763	$ 6,473
Amounts received in 2021	(150)	11,075	10,925
Revenue recognized in 2021	(324)	(1,768)	(2,092)
Balance at September 30, 2021	$ 1,236	$ 14,070	$ 15,306

6. Discontinued Operations

On June 30, 2019, the Company acquired 100% of the common stock of PLI and the related intangible assets used by PLI for total consideration of approximately $31.7 million, consisting of the issuance of 16.5 million shares of the Company's Series C convertible preferred stock with a fair value of $16.5 million, the present value of $15.0 million in deferred cash payments due as follows: $5.0 million due on June 30, 2020 and $10.0 million due on June 30, 2021, and acquisition-related contingent consideration consisting of 3,500,000 shares of the of the Company's Series C convertible preferred stock with a fair value of $3.5 million. The deferred cash payments totaling $15.0 million were not contingent upon any event and to reflect the interest component were discounted at 12%. In June 2020, $5.0 million of deferred cash payments were converted to 5,000,000 shares of Series C convertible preferred stock and in October 2020, $3.8 million of deferred cash payments were converted to 5,088,851 shares of Series D convertible preferred stock. In addition, in January 2021, $6.1 million of deferred cash payments were converted to 7,219,560 shares of Series D-2 shares of convertible preferred stock. As of September 30, 2021 and December 31, 2020, a total of $0 and $5.7 million, respectively, is recorded as Amounts due to Nestlé, current—related party in the accompanying condensed consolidated balance

sheets. The acquisition-related contingent consideration stipulated certain revenue thresholds for the Anser® test during the first calendar year following the acquisition. The shares were released from escrow on June 30, 2020.

In December 2020, in order to achieve the Company's strategic objectives, the Company's board of directors approved the spinoff of PLI by making an in-kind distribution of 100% of its interest in PLI to the Company's stockholders of record on December 30, 2020. In connection with the spinoff, which was effected on December 31, 2020, the Company assigned PLI specific intellectual property to PLI; entered into a transition services agreement whereby the Company agreed to provide PLI with certain transition services including general and administrative, finance and clinical operations support; and entered into a sublease agreement under which the Company will continue to occupy approximately 40,000 square feet in the PLI facility for a term of one year, with an option to renew for an additional year. Post spinoff, the Company retained obligations under the Oxford Loan (see Note 7) and for the deferred cash payments to Nestlé.

The major line items constituting the loss of PLI for the three and nine months ended September 30, 2020, which are reflected in the accompanying condensed consolidated statements of operations as discontinued operations, are as follows:

	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020
Diagnostic services revenue	$ 9,569	$ 27,509
Operating expenses:		
Cost of diagnostic services revenue	3,064	9,800
Research and development	1,145	3,953
Sales and marketing	2,102	9,244
General and administrative	2,100	7,943
Restructuring	—	2,274
Amortization of intangible assets	279	879
Total operating expenses	8,690	34,093
Income (loss) from discontinued operations	$ 879	$ (6,584)

Commitments and Contingencies

At the acquisition date, PLI was involved with several legal proceedings and claims against it. All claims against PLI remained obligations of PLI and effective upon the spinoff, the Company has no remaining obligations with respect to these claims.

7. Long Term Debt

In January 2020, the Company entered into a Loan and Security Agreement (the Loan Agreement) with Oxford Finance LLC and its affiliates (Oxford) (the Oxford Loan) which provided for total borrowings of up to $25.0 million, of which $7.5 million was drawn upon execution of the agreement. Interest accrued at an annual rate at the greater of (a) the 30-day U.S. LIBOR rate reported the last business day of the month that immediately precedes the month in which the interest will accrue, or (b) 2.01%, plus 5.98%, with a minimum annual rate of 7.99%. From March 1, 2020 through February 28, 2023, the Company was required to make interest only payments. Beginning March 1, 2023, in addition to interest payments, the monthly payments were to include an amount equal to the outstanding principal divided by 24 months. At maturity (or earlier prepayment), the Company was also required to make a final payment equal to 4.0% of the original principal amount borrowed and 3% of the future amount to be funded.

The Oxford Loan was collateralized by a first priority security interest in substantially all of the Company's current and future assets, other than its intellectual property, and contains customary conditions of borrowing, events of default and covenants, including covenants that restricted the Company's ability to dispose of assets, merge with or acquire other entities, incur indebtedness and make distributions to holders of the Company's capital stock. Should an event of default occur, including the occurrence of a material adverse change, the Company could have been liable for immediate repayment of all obligations under the Oxford Loan. In December 2020, the Oxford Loan Agreement was amended to allow the PLI spinoff and to release PLI from all obligations pursuant to the Oxford Loan.

In addition, warrants to purchase 112,500 shares of Series C convertible preferred stock were issued to Oxford in conjunction with the execution of the agreement at an exercise price of $1.00 per share. The warrants have a ten-year life and are exercisable immediately. The warrant became exercisable for an aggregate of 14,884 shares of the Company's common stock at an exercise price

of $7.558 per share upon the completion of the IPO. The fair value of the warrant, the debt issuance costs and the final payment totaling approximately $0.6 million were amortized to interest expense using the effective interest method over the term of the debt.

In July 2021, the Company voluntarily prepaid the aggregate outstanding principal balance of $7.5 million plus an additional $0.5 million consisting of the prepayment penalty, accrued interest, and final payment due under the terms of the Oxford Loan, and the Loan Agreement was terminated in accordance with its terms. All liens and security interests securing the Oxford Loan were released upon termination. The Company recognized a $0.6 million loss on extinguishment on the Company's condensed consolidated statements of operations for the three and nine months ended September 30, 2021.

8. Stockholders' Equity (Deficit)

Amended Certificate of Incorporation

In March 2021, the Company amended its Certificate of Incorporation to authorize 400,000,000 shares of common stock and 40,000,000 shares of preferred stock.

Convertible Preferred Stock

In connection with the completion of the Company's IPO on March 16, 2021, all outstanding shares of convertible preferred stock were converted into 25,485,955 shares of the Company's common stock and outstanding warrants to purchase 148,848 shares of convertible preferred stock were converted into warrants to purchase 14,884 shares of the Company's common stock.

As of December 31, 2020, the Company's convertible preferred stock was classified as temporary equity on the accompanying balance sheet in accordance with authoritative guidance for the classification and measurement of potentially redeemable securities whose redemption is based upon certain change in control events outside of the Company's control.

Series C Convertible Preferred Stock

In March 2020, the Company sold 28,063,500 shares of Series C convertible preferred stock and received net cash proceeds totaling $28.0 million.

Series D Convertible Preferred Stock

In October 2020, the Company entered into a Series D convertible preferred stock purchase agreement (Series D SPA) under which it issued 61,066,216 shares of Series D-1 convertible preferred stock, for cash, at a price of $0.7558 per share, for net proceeds of $46.2 million (the Initial Series D Closing). In addition, 5,088,851 shares of Series D-1 convertible preferred stock were issued to Nestlé in satisfaction of a deferred purchase price obligation of $3.8 million. The Series D SPA contained provisions that potentially obligated the Company to issue an additional 94,007,051 shares of Series D-2 convertible preferred stock at $0.8510 per share in an additional closing, 7,231,311 of which was issuable to Nestlé for satisfaction of deferred purchase price obligations of $6.2 million, upon the approval by the Company's board of directors, or at the option of the investors who participated in the Initial Series D Closing, or upon the achievement of certain milestones as defined in the Series D SPA, which purchase right terminates upon certain specified events, including an initial public offering of the Company, if any.

The Company determined its obligation to issue additional shares of the Company's Series D-2 convertible preferred stock in the Initial Series D Closing represented a freestanding financial instrument that required liability accounting. This freestanding preferred stock purchase right liability for the additional closing was recorded at fair value, with changes in fair value recognized in the statements of operations. As of the Initial Series D Closing, the estimated fair value of the preferred stock purchase right liability was $3.9 million. In January 2021, 93,995,300 shares of Series D-2 convertible preferred stock were issued, of which, 7,219,560 were issued to Nestlé for the satisfaction of deferred purchase price obligations of $6.1 million. Upon the closing of the sale of these shares, the preferred stock purchase right liability was remeasured to fair value and the change in fair value of $1.0 million was recorded in the statement of operations for the three and nine months ended September 30, 2021. The liability was then reclassified to stockholders' equity.

The authorized, issued and outstanding shares of convertible preferred stock as of December 31, 2020 consisted of the following (in thousands, except share and per share amounts):

	Shares Authorized	Shares Issued and Outstanding	Per Share Original Issue Price	Liquidation Value	Carrying Value
Series A	14,979,200	14,979,200	$ 0.50	$ 7,490	$ 7,391
Series B	26,666,667	26,666,667	0.75	20,000	19,901
Series C	53,176,000	53,063,500	1.00	53,064	52,937
Series D-1	66,155,067	66,155,067	0.76	49,933	45,794
Series D-2	94,007,051	—	—	—	—
Total	254,983,985	160,864,434		$ 130,487	$ 126,023

Equity Incentive Plans

In 2017, the Company adopted the 2017 Equity Incentive Plan (the 2017 Plan), which as amended, had 5,524,354 shares of common stock reserved for issuance. Under the 2017 Plan, the Company could grant stock options, stock appreciation rights, restricted stock, restricted stock units and other awards to individuals who are employees, non-employee directors or consultants of the Company or its subsidiaries. The maximum term of the options granted under the 2017 Plan was no more than ten years. Grants generally vested at 25% one year from the vesting commencement date and ratably each month thereafter for a period of 36 months, subject to continuous service. The 2017 Plan allowed for the early exercise of all stock options granted if authorized by the board of directors at the time of grant.

In February 2021, the board of directors adopted, and the Company's stockholders approved, the 2021 Incentive Award Plan (the 2021 Plan), which became effective in connection with the IPO. Pursuant to the 2021 Plan, the Company ceased granting awards under the 2017 Plan. Under the 2021 Plan, the Company may grant stock options, restricted stock, dividend equivalents, restricted stock units, stock appreciation rights, and other stock or cash-based awards to individuals who are then employees, officers, non-employee directors or consultants of the Company. The number of shares initially available for issuance under awards granted pursuant to the 2021 Plan is the sum of (1) 3,600,000 shares of common stock, plus (2) any shares subject to outstanding awards under the 2017 Plan as of the effective date of the 2021 Plan that become available for issuance under the 2021 Plan thereafter in accordance with its terms. In addition, the number of shares of common stock available for issuance under the 2021 Plan will be increased annually on the first day of each fiscal year during the term of the 2021 Plan, beginning with the 2022 fiscal year, by an amount equal to the lesser of (a) 5% of the shares of common stock outstanding on the final day of the immediately preceding calendar year or (b) such smaller number of shares as determined by the Company's board of directors. At September 30, 2021, 3,074,775 shares remain available for issuance under the 2021 Plan.

The Company's stock option activity for the nine months ended September 30, 2021 is summarized in the following table:

	Number	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in Years)	Weighted-Average Grant Date (Fair Value)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2020	2,930,246	$ 2.90	9.3		$ 2,290
Granted	2,632,621	$ 9.56		$ 5.93	
Exercised	(124,201)	$ 1.29			
Cancelled/forfeited	(46,614)	$ 6.43			
Outstanding at September 30, 2021	5,392,052	$ 6.17	8.3		$ 95,010
Vested or expected to vest at September 30, 2021	5,392,052	$ 6.17	8.3		$ 95,010
Exercisable at September 30, 2021	1,141,561	$ 3.23	4.8		$ 23,385

The total intrinsic value of options exercised during the three months ended September 30, 2021 and 2020 was $0.3 million and $0, respectively. The total intrinsic value of options exercised during the nine months ended September 30, 2021 and 2020 was $1.7 million and $0.1 million, respectively. The total intrinsic value of options vested during the three months ended September 30, 2021 and 2020 was $8.8 million and $0.1 million, respectively. The total intrinsic value of options vested during the nine months ended September 30, 2021 and 2020 was $11.7 million and $0.2 million, respectively.

The grant date fair value of stock options was determined using the Black-Scholes option pricing model with the following assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Risk-free interest rate	1.0 – 1.1%	0.5%	0.6 – 1.1%	0.5 – 1.4%
Expected volatility	73.0 – 74.2%	68.1%	73.0 – 95.2%	61.5 – 68.1%
Expected term (in years)	5.8 – 6.1	6.1	5.8 – 6.1	6.1
Expected dividend yield	—%	—%	—%	—%

Expected Term—The expected term of options granted represents the period of time that the options are expected to be outstanding. Due to the lack of historical exercise history, the expected term of the Company's employee stock options has been determined utilizing the simplified method for awards that qualify as plain-vanilla options.

Expected Volatility—The estimated volatility was based on the historical volatility of the common stock of a group of publicly traded companies deemed comparable to the Company.

Risk-Free Interest Rate—The risk-free interest rate is the implied yield in effect at the time of the option grant based on U.S. Treasury securities with contract maturities similar to the expected term of the Company's stock options.

Dividend Rate—The Company has not paid any cash dividends on common stock since inception and does not anticipate paying any dividends in the foreseeable future. Consequently, an expected dividend yield of zero was used.

Early Exercise Liability

The unvested shares of the early-exercised options are held in escrow until the stock option becomes fully vested or until the employee's termination, whichever occurs first. The right to repurchase these shares lapses over the four-year vesting period. As of September 30, 2021 and December 31, 2020, the early exercise liability was $42,000 and $0.1 million, respectively. For accounting purposes, the early exercise of options is not considered to be a substantive exercise until the underlying awards vest.

The following table summarizes the activity of the unvested common stock issued pursuant to an early exercise of stock option awards for the nine months ended September 30, 2021:

Unvested at beginning of period	54,703
Vested or cancelled during the period	(32,158)
Unvested at end of period	22,545

Employee Stock Purchase Plan

In February 2021, the Company's board of directors approved the 2021 Employee Stock Purchase Plan (the ESPP), which became effective upon the pricing of the Company's IPO on March 16, 2021. The ESPP permits participants to purchase common stock through payroll deductions of up to 20% of their eligible compensation. Initially, a total of 360,000 shares of common stock were reserved for issuance under the ESPP. In addition, the number of shares of common stock available for issuance under the ESPP will be annually increased on the first day of each fiscal year during the term of the ESPP, beginning with the 2022 fiscal year, by an amount equal to the lessor of: (i) 1% of the total number of shares of common stock outstanding on December 31st of the preceding calendar year; or (ii) such other amount as the Company's board of directors may determine. Stock compensation expense for the three and nine months ended September 30, 2021 related to the ESPP was $0.1 million and $0.3 million, respectively. As of September 30, 2021, the Company has not issued any shares under the ESPP. The Company had an outstanding liability of $0.4 million at September 30, 2021, which is included in accrued compensation on the condensed consolidated balance sheet, for employee contributions to the ESPP for shares pending issuance at the end of the offering period.

The fair value of stock of the stock purchase right under the ESPP was determined using the Black-Scholes option pricing model with the following assumptions:

	Nine Months Ended September 30,
	2021
Risk-free interest rate	0.03– 0.11%
Expected volatility	71.6 – 80.9%
Expected term (in years)	0.64 – 1.64
Expected dividend yield	—%

Stock-Based Compensation Expense

The following table summarizes the components of stock-based compensation expense recognized in the accompanying statements of operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Research and development	$ 534	$ 27	$ 972	$ 58
General and administrative	5,716	149	7,273	382
Discontinued operations	—	26	—	73
Total stock-based compensation	$ 6,250	$ 202	$ 8,245	$ 513

The total unrecognized compensation cost related to unvested stock-based awards as of September 30, 2021 was $17.7 million and is expected to be recognized over a weighted average period of 3.3 years.

Stock Option Modification

In August 2021, in connection with the passing of the Company's former Chairman of the board of directors, the Company fully accelerated all of the former Chairman's outstanding equity awards, which resulted in a charge of $4.6 million to stock-based compensation expense for the three months ended September 30, 2021.

9. Commitments and Contingencies

Leases

As a result of the PLI spinoff on December 31, 2020, the Company entered into a sublease agreement with PLI for approximately 40,000 square feet currently occupied in the PLI facility. The sublease agreement is for one year with an option to renew for an additional year. The monthly payment is $80,000 and total remaining payment obligations at September 30, 2021 and December 31, 2020 are $0.2 million and $1.0 million, respectively.

In March 2021, the Company executed a non-cancellable lease agreement for office and laboratory space in San Diego, California. The lease has an initial term of ten years, following the commencement date with an option to extend the lease for an additional five-year term. The lease provides for initial monthly rental payments of approximately $0.2 million with rent escalation and the Company is also responsible for certain operating expenses and taxes throughout the lease term. In addition, the Company is entitled to up to $6.3 million of tenant improvement allowance, of which the Company received $0.9 million as of September 30, 2021.

In October 2021, the Company executed an amendment to the lease agreement to expand the leased premises. The amended lease extends the initial term of the original lease to 127 months following the commencement date of the expansion premises, with an option to extend the lease term for an additional five-year term. The amended lease provides for initial monthly rental payments for the expansion premises of an additional approximately $0.2 million with rent escalation and the Company is also responsible for certain operating expenses and taxes throughout the lease term. In addition, the Company is entitled to up to an additional $6.3 million of tenant improvement allowance for the expansion premises.

At September 30, 2021, as the Company had not taken control of the space and the lease term had not yet commenced, no operating lease right-of-use assets or operating lease liabilities for the space has been recorded. The Company expects the lease to commence in 2022.

Litigation

From time to time, the Company may become involved in legal proceedings or be subject to claims arising in the ordinary course of its business. Regardless of outcome, legal proceedings or claims can have an adverse impact on the company because of defense and settlement costs, diversion of resources and other factors, and there can be no assurances that favorable outcomes will be obtained.

Indemnification Agreements

In the ordinary course of business, the Company may provide indemnification of varying scope and terms to vendors, lessors, business partners and other parties with respect to certain matters including, but not limited to, losses arising out of breech of such agreements or from intellectual property infringement claims made by third parties. In addition, the Company has entered into indemnification agreements with officers and members of its board of directors that will require the Company, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is, in many cases, unlimited. To date, the Company has not incurred any material costs as a result of such indemnifications. At September 30, 2021, no claims exist under indemnification arrangements and accordingly, no amounts have been accrued in its condensed consolidated financial statements as of September 30, 2021.

10. Related Party Transactions

As discussed in Note 5, in September 2017, the Company entered into the Cedars-Sinai Agreement. As consideration for the license rights, the Company issued (i) 257,500 common stock shares at par value of $0.0001 per share, and (ii) 335,000 unvested restricted common stock shares at par value of $0.0001 per share. The parties also entered into additional license agreements as well as research agreements, under which the parties can provide research services to each other at pricing specified in the individual statements of work. During the three and nine months ended September 30, 2021 and 2020, no services were provided under the research agreements.

During the three and nine months ended September 30, 2021, the Company incurred compensation related expenses for one employee who is an immediate family member of a former member of the Company's board of directors. These expenses totaled $0.2 million and $0.5 million for the three and nine months ended September 30, 2021, respectively, which is included in in research and development expenses in the accompanying condensed consolidated statement of operations. During the three and nine months ended September 30, 2020, the Company incurred compensation related expenses for two employees, each of whom is an immediate family member of a different former member of the Company's board of directors. These expenses totaled $0.1 million and $0.6 million for the three and nine months ended September 30, 2020, respectively, of which $0.2 million and $0.2 million are included in general and administrative expenses in the accompanying condensed consolidated statement of operations and $0.1 million and $0.4 million are included in research and development expenses, respectively.

As of December 31, 2020, the Company has a $5.7 million liability recorded within Amounts due to Nestlé, current—related party in the condensed consolidated balance sheet. As disclosed in Notes 6 and 8, this amount relates to deferred consideration for the acquisition of PLI and was satisfied with the issuance of 7,219,560 shares of Series D-2 convertible preferred stock in January 2021.

The Company has an ongoing collaboration with Regents of the University of California, where a former member of its board of directors is employed. During the three and nine months ended September 30, 2021, the Company incurred $0.1 million and $0.3 million, respectively, in expense related to this collaboration that was recorded in research and development expenses in the accompanying condensed consolidated statement of operations for the three and nine months ended September 30, 2021. During the three and nine months ended September 30, 2020, the Company incurred $0.1 million and $0.2 million, respectively, in expense related to this collaboration that was recorded in Loss from discontinued operations in the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2020.

As a result of the PLI spinoff on December 31, 2020, the Company entered into a transition services agreement under which it assumed a $1.1 million liability related to the payout of PLI employee bonuses for the year ended December 31, 2020. This amount is included in the amount payable to PLI in the accompanying condensed consolidated balance sheets. Additionally, pursuant to this agreement, the Company is providing PLI certain transitional services, including general and administrative, finance and clinical operations support, and PLI is providing the Company with certain transitional services, including providing for the use of facilities under a sublease, in each case for specified monthly service fees. The initial term of the agreement is for one year, subject to earlier

termination and extension thereafter. During the three and nine months ended September 30, 2021, the Company paid PLI $0.5 million and $2.7 million, respectively, in accordance with the terms of this agreement.

11. 401(K) Plan

Effective January 1, 2018, the Company maintains a defined contribution 401(k) plan available to eligible employees. Employee contributions are voluntary and are determined on an individual basis, limited to the maximum amount allowable under federal tax regulations. The Company, at its discretion, may make certain contributions to the 401(k) plan. Company contributions made during the three months ended September 30, 2021 and 2020 were $0.1 million and $0, respectively. Company contributions made during the nine months ended September 30, 2021 and 2020 were $0.2 million and $46,000, respectively.

12. COVID-19 Pandemic

The current COVID-19 pandemic, which is impacting worldwide economic activity, poses the risk that the Company or its employees, contractors, suppliers, and other partners may be prevented from conducting business activities for an indefinite period of time, including due to shutdowns that may be requested or mandated by governmental authorities. The extent to which the COVID-19 pandemic may impact the Company's business will depend on future developments that are highly uncertain and cannot be predicted at this time.

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

The following discussion and analysis and the unaudited interim condensed consolidated financial statements included in this Quarterly Report on Form 10-Q should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2020 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in the Prospectus dated March 11, 2021 filed pursuant to Rule 424(b) under the Securities Act of 1933, as amended (the Securities Act), with the Securities and Exchange Commission (SEC) on March 12, 2021 (the Prospectus).

Forward-Looking Statements

This Quarterly Report on Form 10-Q (Quarterly Report) contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements other than statements of historical facts contained in this Quarterly Report, including statements regarding our future results of operations and financial position, business strategy, research and development plans, the anticipated timing, costs, design and conduct of our ongoing and planned preclinical studies and clinical trials for our product candidates, our plans to use our Prometheus360 product platform to expand our pipeline of product candidates and develop marketable products, the anticipated timing and costs of our development of companion diagnostics, the potential benefits from our collaboration arrangements with third parties and our plans to enter into additional arrangements, the timing and likelihood of regulatory filings and approvals for our product candidates and companion diagnostics, our ability to commercialize our product candidates, if approved, the impact of COVID-19 on our business, the pricing and reimbursement of our product candidates, if approved, and testing products, the potential to develop future product candidates, the timing and likelihood of success, plans and objectives of management for future operations, and future results of anticipated product development efforts, are forward-looking statements. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expect," "plan," "anticipate," "could," "intend," "target," "project," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other similar expressions. The forward-looking statements in this Quarterly Report are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements speak only as of the date of this Quarterly Report and are subject to a number of risks, uncertainties and assumptions, including those described in Part II, Item 1A, "Risk Factors" of this report. The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Moreover, we operate in an evolving environment. New risk factors and uncertainties may emerge from time to time, and it is not possible for management to predict all risk factors and uncertainties. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.

Overview

We are a clinical-stage biotechnology company pioneering a precision medicine approach to the discovery, development, and commercialization of novel therapeutic and companion diagnostic products for the treatment of immune-mediated diseases, starting first with inflammatory bowel disease (IBD). We leverage our proprietary precision medicine platform, Prometheus360™, which includes one of the world's largest GI bioinformatics databases, to identify novel therapeutic targets and develop therapeutic candidates to engage those targets. In parallel, we are developing companion diagnostic tests designed to identify patients more likely to respond to our therapeutic candidates. We have a robust pipeline of therapeutic development programs for the treatment of IBD. Our goal is to revolutionize the treatment of IBD with a precision medicine approach for patients with significant unmet medical needs.

Our lead product candidate, PRA023, is an IgG1 humanized mAb that has been shown to block TL1A, a target associated with both intestinal inflammation and fibrosis that was clinically validated in a third-party Phase 2a clinical trial in ulcerative colitis (UC). PRA023 has the potential to substantially improve outcomes for moderate-to-severe IBD patients predisposed to increased TL1A expression. We are developing PRA023 for the treatment of UC and Crohn's disease (CD). In June 2021, we completed the dosing phase of the Phase 1a clinical trial of PRA023, a single center, double-blind, placebo-controlled study to determine the safety, tolerability, pharmacokinetics, and pharmacodynamics of PRA023 in normal healthy volunteers. Topline results from the Phase 1a trial of PRA023 are expected in the fourth quarter of 2021. In July 2021, we initiated a Phase 2 randomized placebo-controlled clinical trial of PRA023 in patients with moderate-to-severe UC (ARTEMIS-UC) and an open-label Phase 2a clinical trial in patients with moderate-to-severe CD (APOLLO-CD), with topline results from both of these clinical trials expected in the fourth quarter of 2022.

We have also been considering potential additional indications for PRA023 in other immune-mediated diseases, beyond IBD, and plan to provide an update in the fourth quarter of 2021.

Our PR600 program targets a member of the TNF super family. It has been shown that blocking this target inhibits disease in multiple third-party IBD animal models. We have identified multiple genetic variants linked to patient subpopulations with a complicated course of disease and intend to leverage Prometheus360 in combination with functional assays to identify patients with these genetic variants. In June 2021, we selected a clinical candidate for PR600 and initiated investigational new drug application (IND) enabling studies. We expect to submit an IND for this clinical candidate in the third quarter of 2022.

In addition, we have several additional discovery programs with different mechanisms of action targeting UC and/or CD that are in the discovery stage of development. We also continue to evaluate numerous other drug targets identified through Prometheus360 for therapeutic utility for potential drug discovery development. The research and development of therapeutic product candidates and companion diagnostics comprises our therapeutics business segment.

On June 30, 2019, we acquired from Nestlé Prometheus Laboratories, Inc. (PLI), which markets and conducts several laboratory developed tests useful to gastroenterologists in monitoring their IBD patients' disease state. Prior to our acquisition of PLI in June 2019, we had devoted substantially all of our resources to organizing and staffing our company, business planning, raising capital, developing our Prometheus360 platform, discovering and identifying potential product candidates, establishing our intellectual property portfolio and conducting research and preclinical studies, and providing other general and administrative support for these operations.

On December 31, 2020, we completed the spinoff of PLI by making an in-kind distribution of 100% of our interest in PLI to our stockholders of record on December 30, 2020. Except as specifically indicated, the discussion of our operations excludes the operations of PLI, which are reported as a discontinued operation in the accompanying condensed consolidated financial statements included elsewhere in this Quarterly Report and in the following discussion.

We do not expect to generate any revenue from therapeutic product sales until we successfully complete development and obtain regulatory approval for one or more of our therapeutic product candidates and companion diagnostics, which we expect will take a number of years and may never occur.

We have incurred operating losses in each year since inception. Our net losses, including those generated from PLI, were $37.1 million and $29.7 million for the years ended December 31, 2020 and 2019, respectively, and $27.3 million and $60.3 million for the three and nine months ended September 30, 2021, respectively. As of September 30, 2021, we had an accumulated deficit of $159.4 million. We expect our expenses and operating losses will increase substantially as we conduct our ongoing and planned preclinical studies and clinical trials, continue our research and development activities, develop and validate companion diagnostics, utilize third parties to manufacture our product candidates and related raw materials, hire additional personnel, protect our intellectual property and incur additional costs associated with being a public company, including audit, legal, regulatory, and tax-related services associated with maintaining compliance with exchange listing and SEC requirements, director and officer insurance premiums, and investor relations costs. Our net losses may fluctuate significantly from quarter-to-quarter and year-to-year, depending on the timing of our preclinical studies and clinical trials and our expenditures on other research and development activities, as well as the generation of any services and collaboration revenue.

From inception and to the date of our initial public offering (IPO) in March 2021, we had raised a total of $175.6 million to fund our operations from gross proceeds from the sale and issuance of convertible preferred stock and $7.5 million from proceeds under our loan and security agreement (Loan Agreement) with Oxford Finance LLC and its affiliates (Oxford). In March 2021, we completed our IPO with the sale of 11,500,000 shares of common stock, which included the exercise in full by the underwriters of their option to purchase 1,500,000 additional shares, at an initial public offering price of $19.00 per share and received net of approximately $199.8 million. In July 2021, we voluntarily prepaid the aggregate outstanding principal balance of the Oxford Loan of $7.5 million plus an additional $0.5 million consisting of the prepayment penalty, accrued interest, and final payment due under the terms of the Loan Agreement and Oxford released all liens against our assets and terminated our other applicable obligations. As of September 30, 2021, we had cash and cash equivalents of $279.1 million.

If we obtain regulatory approval for any of our therapeutic product candidates and companion diagnostics, we expect to incur significant commercialization expenses related to product sales, marketing, manufacturing and distribution. As we continue to advance our pipeline of diagnostic products, we expect to incur additional costs associated with conducting clinical studies to demonstrate the utility of our products and support reimbursement efforts. Accordingly, until such time as we can generate significant revenue from sales of our product candidates, if ever, we expect to finance our cash needs through equity offerings, debt financings or other capital sources, including potential additional collaborations, licenses and other similar arrangements. However, we may be unable to raise additional funds or enter into such other arrangements when needed on favorable terms or at all. Our failure to raise capital or enter

into such other arrangements when needed would have a negative impact on our financial condition and could force us to delay, limit, reduce or terminate our product development or future commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

COVID-19

The current COVID-19 worldwide pandemic has presented substantial public health and economic challenges and is affecting our employees, patients, physicians and other healthcare providers, communities and business operations, as well as the U.S. and global economies and financial markets. International and U.S. governmental authorities in impacted regions are taking actions in an effort to slow the spread of COVID-19, including issuing varying forms of "stay-at-home" orders, restricting business functions outside of one's home, and implementing vaccination requirements. While it is not possible at this time to estimate the impact that COVID-19 could have on our business in the future, particularly as we advance our product candidates to clinical development, the continued spread of COVID-19 and the measures taken by the governmental authorities could disrupt the supply chain and the manufacture or shipment of drug substances and finished drug products for our product candidates for use in our research, preclinical studies and clinical trials, delay, limit or prevent our employees and CROs from continuing research and development activities, impede our clinical trial initiation and recruitment and the ability of patients to continue in clinical trials, impede testing, monitoring, data collection and analysis and other related activities, any of which could delay our preclinical studies and clinical trials and increase our development costs, and have a material adverse effect on our business, financial condition and results of operations. The COVID-19 outbreak could also potentially affect the business of the U.S. Food and Drug Administration (FDA), European Medicines Agency (EMA) or other regulatory authorities, which could result in delays in meetings related to our ongoing and planned clinical trials. The COVID-19 pandemic and mitigation measures have had and may continue to have an adverse impact on global economic conditions which could have an adverse effect on our business and financial condition, including impairing our ability to raise capital when needed. The extent to which the COVID-19 pandemic impacts our results will depend on future developments that are highly uncertain and cannot be predicted, including new information that may emerge concerning the virus and the actions to contain its impact.

License and Collaboration Agreements

Our Collaboration with Cedars-Sinai Medical Center

In September 2017, we entered into an exclusive license agreement with Cedars-Sinai Medical Center (Cedars-Sinai), as amended and restated (the Cedars-Sinai Agreement), pursuant to which Cedars-Sinai granted us an exclusive, worldwide license with respect to certain patents, information and materials related to therapeutic targets and companion diagnostic products, to conduct research, develop, and commercialize therapeutic and diagnostic products for human use. The licensed technology includes information and materials arising out of Cedars-Sinai's database and biobank, as well as exclusive access to this database and biobank, which is an integral part of our Prometheus360 platform. As upfront consideration for the license agreement, we issued to Cedars-Sinai 257,500 shares of fully vested common stock and 335,000 shares of restricted common stock, which shares fully vested in September 2020. We are obligated to pay Cedars-Sinai low- to mid-single digit percentage royalties on net sales of therapeutic and diagnostic products covered under the agreement, including any related companion diagnostic products, subject to the terms and conditions set forth in the Cedars-Sinai Agreement. In August 2021, we amended and restated the Cedars-Sinai Agreement to, among other things, add a joint steering committee and cover new intellectual property.

Our Collaboration with Takeda

In March 2019, we entered into a companion diagnostics development and collaboration agreement (the Takeda Agreement) with Millennium Pharmaceuticals, Inc., a wholly owned subsidiary of Takeda Pharmaceutical Company Limited (Takeda). Pursuant to this agreement, we agreed to develop a companion diagnostic product for certain drug targets selected by Takeda and Takeda agreed to develop and commercialize any therapeutic clinical candidate that it develops directed against any selected drug targets for the treatment of IBD (Takeda Drugs). The Company is eligible to receive, for any targets selected by Takeda, certain contingent development and regulatory milestone payments, commercial milestone payments, sales milestone payments, and low-single digit percentage royalties on net sales of all Takeda Drugs, subject to the terms and conditions set forth in the Takeda Agreement.

Our Collaboration with Dr. Falk Pharma

In July 2020, we entered into a co-development and manufacturing agreement (the Falk Agreement) with Dr. Falk Pharma GmbH (Falk), pursuant to which we will co-develop and commercialize, exclusively in our respective territories, therapeutic product candidates targeting members of the TNF super family for the treatment of UC and CD under our PR600 development program. We are responsible for regulatory approvals and commercialization of any products in the United States and the rest of the world, other than the Falk territory. Falk is responsible for regulatory approvals and commercialization of any products in the European Union,

United Kingdom, Switzerland, the countries of the European Economic Area (excluding Malta and the Republic of Cyprus), Australia and New Zealand (Falk territory). Under the Falk Agreement, Falk agreed to fund 25% of our third-party development costs. In June 2021, we received a $10.0 million milestone payment from Falk upon our selection of a clinical candidate for our PR600 program and we remain eligible to receive an additional pre-clinical development milestone payment of $5.0 million, subject to the terms of the Falk Agreement. In addition, Falk is obligated to pay a mid-single digit to low-double digit royalty on net sales of all products incorporating antibodies covered by the agreement in the Falk territory and we agreed to pay Falk a low-single digit royalty on net sales of such products in our territory, subject to the terms and conditions set forth in the Falk Agreement.

For additional information regarding the Cedars-Sinai Agreement, Takeda Agreement and Falk Agreement, as well as other agreements pursuant to which we in-license certain intellectual property rights, see "Business—License and Collaboration Agreements" in our Prospectus.

Components of Results of Operations

Revenue

Collaboration revenue

We currently derive all of our revenue from our collaboration agreements. For the foreseeable future, we expect to generate revenue from services performed under the Takeda Agreement and Falk Agreement. We may receive a combination of upfront payments and milestone payments under our current and/or future collaboration agreements.

We do not expect to generate any revenue from the sale of therapeutic products unless and until such time that our therapeutic product candidates and companion diagnostics have advanced through clinical development and regulatory approval, if ever. We expect that any revenue we generate, if at all, will fluctuate from quarter-to-quarter as a result of the timing and amount of payments relating to such services and milestones and the extent to which any of our therapeutic product candidates are approved and successfully commercialized. If we fail to complete preclinical and clinical development of therapeutic product candidates or obtain regulatory approval for them, our ability to generate future revenues, and our results of operations and financial position would be adversely affected.

Operating Expenses

Research and Development

Research and development expenses consist of external and internal costs associated with our research and development activities, including our discovery and research efforts, the preclinical and clinical development of our product candidates and the development and validation of our companion diagnostics. Our research and development expenses include:

- external costs, including expenses incurred under arrangements with third parties, such as CROs, contract manufacturers, consultants and our scientific advisors; and
- internal costs, including:
- employee-related expenses, including salaries, benefits, and stock-based compensation; the costs of laboratory supplies and acquiring, developing and manufacturing preclinical study materials; and
- facilities, information technology and depreciation, which include direct and allocated expenses for rent and maintenance of facilities and depreciation of equipment.

The following table summarizes our research and development expenses by product candidate for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
PRA023	$ 11,366	$ 3,927	$ 27,153	$ 12,081
PR600	3,105	481	6,309	826
Other preclinical programs	3,080	244	5,401	933
Total research and development	$ 17,551	$ 4,652	$ 38,863	$ 13,840

We expect our research and development expenses to increase for the foreseeable future as we continue to progress our Phase 2 clinical trials of PRA023 globally, advance PR600 into IND-enabling studies, develop companion diagnostics, and continue to

advance several preclinical research and development programs. The process of conducting preclinical studies and clinical trials necessary to obtain regulatory approval is costly and time consuming. We may never succeed in achieving marketing approval for any of our product candidates.

The timelines and costs with research and development activities are uncertain and can vary significantly for each product candidate and development program and are difficult to predict. We anticipate we will make determinations as to which programs to pursue and how much funding to direct to each program on an ongoing basis in response to preclinical and clinical results, regulatory developments, ongoing assessments as to each program's commercial potential, and our ability to maintain or enter into new collaborations, to the extent we determine the resources or expertise of a collaborator would be beneficial for a given program. We will need to raise substantial additional capital in the future. In addition, we cannot forecast which development programs may be subject to future collaborations, when such arrangements will be secured, if at all, and to what degree such arrangements would affect our development plans and capital requirements.

Our development costs may vary significantly based on factors such as:

- the number and scope of preclinical and IND-enabling studies;
- per patient trial costs;
- the number of trials required for approval;
- the number of sites included in the trials;
- the countries in which the trials are conducted;
- the length of time required to enroll eligible patients;
- the number of patients that participate in the trials;
- the number of doses that patients receive;
- the drop-out or discontinuation rates of patients;
- the number, costs and timing of developing companion diagnostics and scope of validation studies;
- potential additional safety monitoring requested by regulatory agencies;
- the duration of patient participation in the trials and follow-up;
- the cost and timing of manufacturing our product candidates;
- the phase of development of our product candidates; and
- the efficacy and safety profile of our product candidates and effectiveness of our companion diagnostics.

General and Administrative

General and administrative expenses consist primarily of employee-related expenses, including salaries, benefits and stock-based compensation, for employees in our finance, accounting, legal, business development and support functions. Other general and administrative expenses include allocated facility, information technology and depreciation related costs not otherwise included in research and development expenses and professional fees for auditing, tax, intellectual property and legal services. Costs related to filing and pursuing patent applications are recognized as general and administrative expenses as incurred since recoverability of such expenditures is uncertain.

We expect our general and administrative expenses will increase for the foreseeable future to support our increased research and development activities and increased costs of operating as a public company. These increased costs will likely include increased expenses related to audit, legal, regulatory and tax services associated with maintaining compliance with exchange listing and SEC requirements, director and officer insurance premiums and investor relations costs associated with operating as a public company.

Interest and Other Income (Expense)

Interest income

Interest income consists primarily of interest earned on our cash and cash equivalents.

Interest expense

Interest expense consists of interest expense incurred in connection with our borrowings under the Loan Agreement and non-cash interest expense associated with the deferred purchase payments for PLI.

Loss on early extinguishment of debt

Loss on early extinguishment of debt consists of the unamortized debt issuance costs, prepayment penalty and final payment due under the terms of the Loan Agreement.

Change in fair value of preferred stock purchase liability

In connection with the issuance of our Series D convertible preferred stock in 2020, the investors agreed to buy, and we agreed to sell, additional shares of such preferred convertible stock at the original issue price upon the achievement of pre-defined milestones. These contractual obligations were required to be accounted for as liabilities and remeasured to fair value at each reporting date, with any change in the fair value reported as a component of other income (expense). In January 2021, with the issuance of the Series D-2 convertible preferred stock, this contractual obligation was settled and the preferred stock purchase right liability was remeasured to fair value on the purchase date and reclassified to permanent equity.

Change in fair value of preferred stock warrant liability

Changes in the fair value of preferred stock warrant liabilities relates to warrants for the purchase of convertible preferred stock issued in connection with our Loan Agreement. These warrants were converted into warrants for the purchase of common stock in connection with our IPO and were reclassified into stockholders' equity. Accordingly, no further fair value adjustments for these warrants are expected.

Loss From Discontinued Operations

On December 31, 2020, we completed the spinoff of PLI by making an in-kind distribution of 100% of our interest in PLI to our stockholders of record on December 30, 2020. The results of PLI have been classified as discontinued operations for the three and nine months ended September 30, 2020.

Results of Operations

Comparison of the Three Months Ended September 30, 2021 and 2020

The following table summarizes our results of operations for the three months ended September 30, 2021 and 2020 (in thousands):

	Three Months Ended September 30,		
	2021	2020	Change
Collaboration revenue	$ 1,006	$ 359	$ 647
Operating expenses:			
Research and development	17,551	4,652	12,899
General and administrative	10,248	3,173	7,075
Total operating expenses	27,799	7,825	19,974
Loss from operations	(26,793)	(7,466)	(19,327)
Other income (expense), net:			
Interest income	27	3	24
Interest expense	(13)	(364)	351
Loss on early extinguishment of debt	(554)	—	(554)
Change in fair value of preferred stock warrant liability	—	1	(1)
Total other income (expense), net	(540)	(360)	(180)
Loss from continuing operations	(27,333)	(7,826)	(19,507)
Income (Loss) from discontinued operations	—	879	(879)
Net loss	$ (27,333)	$ (6,947)	$ (20,386)

Revenue

Revenue was $1.0 million for the three months ended September 30, 2021 compared to $0.4 million for the three months ended September 30, 2020 due to additional revenue generated from the Falk Agreement.

Research and Development Expenses

Research and development expenses were $17.6 million for the three months ended September 30, 2021 compared to $4.7 million for the three months ended September 30, 2020. The increase of $12.9 million for the three months ended September 30, 2021 compared to the three months ended September 30, 2020 was primarily driven by a $4.7 million increase in expenses related to our Phase 1a clinical trial of PRA023 and the initiation of our global Phase 2 clinical trials of PRA023, a $3.9 million increase in expense related to our contract manufacturing activities to support our clinical trials, a $1.9 million increase in expenses related to personnel costs due to increased headcount to support increased development activities, with the remainder due to increases in expenses related to research and development expenses for our other pre-clinical development programs.

General and Administrative Expenses

General and administrative expenses were $10.2 million for the three months ended September 30, 2021 compared to $3.2 million for the three months ended September 30, 2020. The increase of $7.1 million for the three months ended September 30, 2021 compared to the three months ended September 30, 2020 was primarily driven by $5.6 million increase in stock compensation expense, out of which $4.6 million related to equity awards modification in connection with the passing of the Company's former Chairman of the board of directors, with the remainder due to an increase in expenses related to operating as a public company.

Other Income (Expense), Net

Interest expense

Interest expense was $0.0 million for the three months ended September 30, 2021 compared to interest expense of $0.4 million for the three months ended September 30, 2020. The decrease of $0.4 million for the three months ended September 30, 2021 compared to the three months ended September 30, 2020 was primarily related to reduction of non-cash interest expense incurred in connection with the deferred purchase price of PLI that was settled through conversion into Series D-2 preferred stock in January 2021 as well as the payoff of debt under the Loan Agreement in the third quarter of 2021.

Loss on early extinguishment of debt

Loss on early extinguishment of debt of $0.6 million consists of the unamortized debt issuance costs, prepayment penalty and final payment due under the terms of the Loan Agreement.

Loss from discontinued operations

For the three months ended September 30, 2020, revenue from PLI totaled $9.6 million and operating expenses totaled $8.7 million.

Comparison of the Nine Months Ended September 30, 2021 and 2020

The following table summarizes our results of operations for the nine months ended September 30, 2021 and 2020 (in thousands):

	Nine Months Ended September 30,		
	2021	2020	Change
Collaboration revenue	$ 2,092	$ 766	$ 1,326
Operating expenses:			
Research and development	38,863	13,840	25,023
General and administrative	21,088	7,370	13,718
Total operating expenses	59,951	21,210	38,741
Loss from operations	(57,859)	(20,444)	(37,415)
Other income (expense), net:			
Interest income	82	8	74
Interest expense	(861)	(1,493)	632
Loss on early extinguishment of debt	(554)	—	(554)
Change in fair value of preferred stock purchase right liability	(980)	—	(980)
Change in fair value of preferred stock warrant liability	(105)	(2)	(103)
Total other income (expense), net	(2,418)	(1,487)	(931)
Loss from continuing operations	(60,277)	(21,931)	(38,346)
Loss from discontinued operations	—	(6,584)	6,584
Net loss	$ (60,277)	$ (28,515)	$ (31,762)

Revenue

Revenue was $2.1 million for the nine months ended September 30, 2021 compared to $0.8 million for the nine months ended September 30, 2020 due to additional revenue generated from the Falk Agreement.

Research and Development Expenses

Research and development expenses were $38.9 million for the nine months ended September 30, 2021 compared to $13.8 million for the nine months ended September 30, 2020. The increase of $25.0 million for the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020 was primarily driven by a $11.5 million increase in expenses related to our Phase 1a clinical trial of PRA023 and the initiation of our global Phase 2 clinical trials of PRA023, a $3.3 million increase in expense related to our contract manufacturing activities to support our clinical trials, a $3.7 million increase in expenses related to personnel costs due to increased headcount to support increased development activities, with the remainder due to increases in expenses related to research and development expenses for our other preclinical development programs.

General and Administrative Expenses

General and administrative expenses were $21.1 million for the nine months ended September 30, 2021 compared to $7.4 million for the nine months ended September 30, 2020. The increase of $13.7 million for the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020 was primarily driven by $6.9 million increase in stock compensation expense, out of which $4.6 million related to the equity awards modification in connection with the passing of our former Chairman of the board of directors, $2.2 million increase in expenses related to personnel costs due to expansion of our executive team, with the remainder due to increases in expenses related to operating as a public company, including one-time transaction costs indirectly related to our IPO of $1.8 million.

Other Income (Expense), Net

Interest expense

Interest expense was $0.9 million for the nine months ended September 30, 2021 compared to interest expense of $1.5 million for the nine months ended September 30, 2020. The decrease of $0.6 million for the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020 was primarily related to reduction of non-cash interest expense incurred in connection with the deferred purchase price of PLI that was settled through conversion into Series D-2 preferred stock in January 2021 as well as the payoff of debt under the Loan Agreement in the third quarter of 2021.

Loss on extinguishment of debt

Loss on early extinguishment of debt of $0.6 million consists of the unamortized debt issuance costs, prepayment penalty, and final payment due under the terms of the Loan Agreement.

Change in Fair Value of Convertible Preferred Stock Purchase Right Liability

The change in fair value of convertible preferred stock purchase right liability increased $1.0 million due to the increase in the fair value of the outstanding Series D-2 preferred stock purchase right liability as a result of closer time proximity to achieving different outcome scenarios and higher probabilities of occurrence. Upon the exercise of the preferred stock purchase right with the issuance of Series D-2 convertible preferred stock in January 2021, we remeasured the Series D-2 preferred stock purchase right liability to fair value and reclassified the resulting value to temporary equity on the balance sheet.

Loss from discontinued operations

For the for the nine months ended September 30, 2020, revenue from PLI totaled $27.5 million and operating expenses totaled $34.1 million.

Liquidity and Capital Resources

Sources of Liquidity

From our inception and to the date of our IPO, we received aggregate gross proceeds of $175.6 million from the sale of convertible preferred stock, $7.5 million from borrowings under our Loan Agreement with Oxford and $8.2 million from amounts received under the Takeda and Falk Agreements. In March 2021, we completed our IPO with the sale of 11,500,000 shares of common stock, which included the exercise in full by the underwriters of their option to purchase 1,500,000 additional shares, at an initial public offering price of $19.00 per share and received gross proceeds of $218.5 million, which resulted in net proceeds to us of approximately $199.8 million, after deducting underwriting discounts and commissions of approximately $15.3 million and offering-

related transaction costs of approximately $3.4 million. As of September 30, 2021, we had cash and cash equivalents of $279.1 million.

Oxford Loan and Security Agreement

In January 2020, we entered into the Loan Agreement with Oxford, which provided for total borrowings of up to $25.0 million, of which $7.5 million was drawn upon execution of the agreement. No additional amounts remain available for borrowing. Interest accrued at an annual rate equal to the sum of (I) the greater of (a) the 30-day U.S. LIBOR rate reported the last business day of the month that immediately preceded the month in which the interest will accrue, and (b) 2.01%, *plus* (II) 5.98%. Notwithstanding the foregoing, the annual rate was at no time to be less than 7.99%. From March 1, 2020 through February 28, 2023, we were required to make interest only payments. Beginning March 1, 2023, in addition to interest payments, the monthly payments were to include an amount equal to the outstanding principal divided by 24 months. At maturity (or earlier prepayment), we were also required to make a final payment equal to 4.0% of the original principal amount borrowed and 3% of the future amount to be funded.

The Loan Agreement was collateralized by substantially all of our assets, excluding intellectual property, which was subject to a negative pledge. The Loan Agreement contained customary affirmative and negative covenants and events of default applicable to us. The affirmative covenants included, among others, covenants requiring us to maintain governmental approvals, deliver certain financial reports, maintain insurance coverage and protect material intellectual property. The negative covenants included, among others, restrictions on us transferring collateral, incurring additional indebtedness, engaging in mergers or acquisitions, paying cash dividends or making other distributions, making investments, creating liens, selling assets and making any payment on subordinated debt, in each case subject to certain exceptions.

In July 2021, we voluntarily prepaid the aggregate outstanding principal balance of $7.5 million plus an additional $0.5 million consisting of the prepayment penalty, final payment, and accrued interest due under the terms of the Loan Agreement, and the Loan Agreement was terminated in accordance with its terms. All liens and security interests securing the Oxford Loan were released upon termination.

In connection with execution of the Loan Agreement, we issued Oxford a warrant to purchase 112,500 shares of our Series C convertible preferred stock at an exercise price of $1.00 per share, exercisable at any time following issuance. The preferred stock warrant has a term of ten years. The warrant became exercisable for an aggregate of 14,884 shares of our common stock at an exercise price of $7.558 per share upon the completion of our IPO.

Future Capital Requirements

As of September 30, 2021, we had cash and cash equivalents in the amount of $279.1 million. Based upon our current operating plans, we believe that our existing cash and cash equivalents, will be sufficient to fund our operations for at least the next 24 months. However, our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward looking statement that involves risks and uncertainties, and actual results could vary materially. We have based this estimate on assumptions that may prove to be wrong, and we could deplete our capital resources sooner than we expect. Additionally, the process of conducting preclinical studies and testing product candidates in clinical trials is costly, and the timing of progress and expenses in these studies and trials is uncertain.

Our future capital requirements are difficult to forecast and will depend on many factors, including but not limited to:

- the type, number, scope, progress, expansions, results, costs and timing of, discovery, preclinical studies and clinical trials of our product candidates which we are pursuing or may choose to pursue in the future;
- the costs and timing of manufacturing for our product candidates and commercial manufacturing if any product candidate is approved;
- the costs, timing and outcome of regulatory review of our product candidates;
- the costs and timing of developing our companion diagnostics, and the outcome of regulatory review;
- the success of our current and any future collaborations, including the timing and amount of the milestone or other payments made to us under the Takeda Agreement, the Falk Agreement or any future collaboration agreements;
- the costs of obtaining, maintaining and enforcing our patents and other intellectual property rights;
- the additional costs we may incur as a result of operating as a public company, including our efforts to enhance operational systems and hire additional personnel, including enhanced internal controls over financial reporting;

- the timing and amount of payments that we must make to the licensors and other third parties from whom we have in-licensed intellectual property rights related to our Prometheus360 platform and product candidates;
- the costs associated with hiring additional personnel and consultants as our preclinical and clinical activities increase;
- the costs and timing of maintaining our sales and marketing capabilities and any expansion thereof, including if any product candidate is approved;
- our ability to achieve sufficient market acceptance, coverage and adequate reimbursement from third-party payors and adequate market share and revenue for any approved products and companion diagnostics;
- the terms and timing of establishing and maintaining collaborations, licenses and other similar arrangements; and
- costs associated with any products or technologies that we may in-license or acquire.

Other than our collaboration agreements, we have no other committed sources of capital. Until we can generate a sufficient amount of product revenue to finance our cash requirements, if ever, we expect to finance our future cash needs primarily through equity offerings, debt financings or other capital sources, including potential collaborations, licenses and other similar arrangements. However, we may be unable to raise additional funds or enter into such other arrangements when needed on favorable terms or at all. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interest of our stockholders will be or could be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our common stockholders. Any future debt financing and preferred equity financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we raise additional funds through other collaborations or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings when needed, we may be required to delay, limit, reduce or terminate our product development or commercialization efforts or grant rights to develop and market product candidates to third parties 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 presented (in thousands):

	Nine Months Ended September 30,	
	2021	**2020**
Net cash provided by (used in)		
Operating activities from continuing operations	$ (41,328)	$ (21,511)
Operating activities from discontinued operations	—	(1,190)
Investing activities from continuing operations	(946)	(225)
Investing activities from discontinued operations	—	(1,485)
Financing activities	267,189	34,371
Net increase in cash and cash equivalents	$ 224,915	$ 9,960

Operating Activities

Cash used by operating activities from continuing operations was $41.3 million during the nine months ended September 30, 2021 as compared to cash used in operating activities of $21.5 million during the nine months ended September 30, 2020. The increase of $19.8 million was primarily the result of the increase in net loss between the two periods of $38.3 million offset by increases in operating assets and liabilities of $8.9 million, stock compensation expense of $8.4 million, change in fair value of preferred stock purchase right liability of $1.0 million and loss on early extinguishment of debt of $0.6 million.

Investing Activities

Including the operations of PLI, net cash used by investing activities was $0.9 million during the nine months ended September 30, 2021 as compared to net cash used in investing activities of $1.7 million during the nine months ended September 30, 2020, due to purchases of property and equipment.

Financing Activities

Net cash provided by financing activities was $267.2 million during the nine months ended September 30, 2021 as compared to $34.4 million during the nine months ended September 30, 2020. During the nine months ended September 30, 2021, we received proceeds of $201.2 million from the sale of our common stock in our IPO, net of issuance costs, paid during the period and proceeds of $73.7 million from the sale of shares of our Series D-2 convertible preferred stock, net of issuance costs offset by $8.0 million in repayment of debt and $17.3 million in financing costs. During the nine months ended September 30, 2020, we received $28.0 million from the issuance of our Series C convertible preferred stock, net of issuance costs, and $7.3 million from proceeds under the Loan Agreement with Oxford offset by $1.0 million in financing costs related to our IPO.

Critical Accounting Polices and Estimates

This management discussion and analysis of financial condition and results of operations is based on our financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities revenue and expenses.

On an ongoing basis, we evaluate these estimates and judgments. We base our estimates on historical experience and on various assumptions that we believe to be reasonable under the circumstances. These estimates and assumptions form the basis for making judgments about the carrying values of assets and liabilities and the recording of revenue and expenses that are not readily apparent from other sources. Actual results may differ materially from these estimates.

Our significant accounting policies are described in more detail in Note 2 to our consolidated financial statements included in the Prospectus dated March 11, 2021 filed pursuant to Rule 424(b) under the Securities Act of 1933, as amended, with the SEC on March 12, 2021 and in Note 2 to our condensed consolidated financial statements included elsewhere in this Quarterly Report. We believe that the accounting policies related to revenue recognition, stock-based compensation and accrued research and development costs are the most critical to understanding and evaluating our historical and future performance.

Recent Accounting Pronouncements

See Note 2 to our condensed consolidated financial statements included elsewhere in this Quarterly Report for a description of recent accounting pronouncements.

Contractual Obligations and Commitments

During the nine months ended September 30, 2021, other than the two items discussed below, there have been no material changes outside of the ordinary course of business in the composition of these contractual obligations or commitments as discussed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Contractual Obligations and Commitments” in the Prospectus.

In March 2021, we executed a non-cancellable lease agreement for office and laboratory space in San Diego, California. The lease has an initial term of ten years, following the commencement date with an option to extend the lease for an additional five-year term. The lease provides for initial monthly rental payments of approximately $0.2 million with rent escalation and we are also responsible for certain operating expenses and taxes throughout the lease term. In October 2021, we executed an amendment to the lease agreement, which allows for the occupancy of additional floor. The amended lease extends the initial term of the original lease to 127 months following the commencement date of the expansion premises, with an option to extend the lease term for an additional five-year term. The amended lease provides for initial monthly rental payments for the expansion premises of an additional approximately $0.2 million with rent escalation and we are also responsible for certain operating expenses and taxes throughout the lease term. We currently expect the lease to commence in 2022 (see Note 9 to our condensed consolidated financial statements included elsewhere in this Quarterly Report). The table included in the Prospectus as of December 31, 2020 does not include amounts for the payment obligations entered into in connection with this lease agreement.

In July 2021, we voluntarily prepaid the aggregate outstanding principal balance of $7.5 million plus an additional $0.5 million consisting of the prepayment penalty, final payment and accrued interest due under the terms of the Loan Agreement, and the Loan Agreement was terminated in accordance with its terms. All liens and security interests securing the Oxford Loan were released upon termination.

Off-Balance Sheet Arrangements

During the periods presented we did not have, nor do we currently have, any off-balance sheet arrangements as defined under the rules and regulations of the SEC.

JOBS Act

As an emerging growth company under the Jumpstart Our Business Startups Act of 2012 (JOBS Act), we can take advantage of an extended transition period for complying with new or revised accounting standards. This allows an emerging growth company to 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 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. We intend to rely on other exemptions provided by the JOBS Act, including without limitation, not being required to comply with the auditor attestation requirements of Section 404(b) of Sarbanes-Oxley. 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 (i) the last day of the fiscal year following the fifth anniversary of the consummation of our IPO, (ii) the last day of the fiscal year in which we have total annual gross revenue of at least $1.07 billion, (iii) the last day of the fiscal year in which we are deemed to be a “large accelerated filer” as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of our common stock held by non-affiliates exceeded $700.0 million as of the last business day of the second fiscal quarter of such year, or (iv) the date on which we have issued more than $1.0 billion in non-convertible debt securities during the prior three-year period.

Item 3.Quantitative and Qualitative Disclosures About Market Risk

Not required.

Item 4.Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in our reports that we file or submit pursuant to the Securities Exchange Act of 1934, as amended (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 our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Under the supervision and with participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we carried out an evaluation of the effectiveness of our disclosure controls and procedures (as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based on the evaluation of our disclosure controls and procedures as of September 30, 2021, our Chief Executive Officer and our Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Material Weakness in Internal Control over Financial Reporting

We identified deficiencies in our internal controls over financial reporting related to a lack of controls in the financial closing and reporting process, including a lack of segregation of duties and the documentation and design of formalized processes and procedures in the revenue cycle. We reported these deficiencies to the Audit Committee of our Board of Directors and a material weakness related to these deficiencies existed at December 31, 2020.

Remediation of Previously Identified Material Weakness in Internal Control over Financial Reporting

The material weakness in our internal controls over financial reporting related to a lack of controls in the financial closing and reporting process, including a lack of segregation of duties and the documentation and design of formalized processes and procedures in the revenue cycle that existed as a result of our limited number of accounting personnel. This resulted in a reasonable possibility that a material misstatement of our annual or interim financial statements might not be prevented or detected on a timely basis. To remediate the deficiencies described above and prevent similar deficiencies in the future, we took steps to address the material weakness through our remediation plan, which included the hiring of additional personnel and the engagement of external advisors to provide financial accounting assistance. We hired additional personnel to remediate the segregation of duties deficiencies in our financial closing and reporting process and engaged external advisors to assist management in the evaluation, documentation and testing of the design, implementation, and operating effectiveness of our internal controls.

We completed our testing of the operating effectiveness of controls designed and implemented to remediate the previously disclosed material weakness and found them to be effective. As a result, we have concluded the material weakness has been remediated as of September 30, 2021.

We cannot provide complete assurance that other material weaknesses or significant deficiencies will not occur in the future or that we will be able to remediate such weaknesses or deficiencies in a timely manner. The occurrence of such material weaknesses or our inability to remediate these deficiencies could impair our ability to accurately and timely report our financial position, results of operations or cash flows.

Changes in Internal Control over Financial Reporting

Other than in connection with our remediation plan of the material weakness described above, there has been no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 under the Exchange Act that occurred during the three months ended September 30, 2021, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1.Legal Proceedings

We are not currently subject to any material legal proceedings. From time to time, we may be involved in legal proceedings or subject to claims incident to the ordinary course of business. Regardless of the outcome, such proceedings or claims can have an adverse impact on us because of defense and settlement costs, diversion of resources and other factors, and there can be no assurances that favorable outcomes will be obtained.

Item 1A.Risk Factors

There have been no material changes to the risk factors disclosed in Part II, Item 1A, “Risk Factors” of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2021.

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

Unregistered Sales of Equity Securities

None.

Use of Proceeds

On March 11, 2021, our registration statement on Form S-1 (File No. 333-253323) was declared effective by the SEC for our IPO. At the closing of the offering on March 16, 2021, we sold 11,500,000 shares of common stock, which included the exercise in full by the underwriters of their option to purchase 1,500,000 additional shares, at an initial public offering price of $19.00 per share and received gross proceeds of $218.5 million, which resulted in net proceeds to us of approximately $199.8 million, after deducting underwriting discounts and commissions of approximately $15.3 million and offering-related transaction costs of approximately $3.4 million. None of the expenses associated with the initial public offering were paid to directors, officers, persons owning ten percent or more of any class of equity securities, or to their associates, or to our affiliates. SVB Leerink LLC and Credit Suisse Securities (USA) LLC acted as joint book-running managers for the offering.

As of September 30, 2021, we have not used any of the proceeds from our IPO. There has been no material change in the planned use of proceeds from our initial public offering from that described in the Prospectus.

Issuer Repurchases of Equity Securities

None.

Item 3.Defaults Upon Senior Securities

Not Applicable.

Item 4.Mine Safety Disclosures

Not Applicable.

Item 5.Other Information

None.

Item 6.Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
3.1	Amended and Restated Certificate of Incorporation	8-K	3/17/2021	3.1	
3.2	Amended and Restated Bylaws	8-K	3/17/2021	3.2	
4.1	Specimen stock certificate evidencing the shares of common stock	S-1/A	3/8/21	4.1	
4.2	Amended and Restated Investors' Rights Agreement, dated October 30, 2020, by and among the Registrant and certain of its stockholders	S-1	2/19/21	4.2	
4.3	Warrant issued to Oxford Finance LLC, dated January 24, 2020	S-1	2/19/21	4.3	
10.1	Amended and Restated Exclusive License Agreement, dated August 6, 2021, by and between Cedars-Sinai Medical Center and the Registrant	10-Q	8/11/21	10.1	
10.2	First Amendment to Lease Agreement, by and between SNH Medical Office Properties Trust and the Registrant, dated October 29, 2021				X
31.1	Certification of Chief Executive Officer of Prometheus Biosciences, Inc., as required by Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
31.2	Certification of Chief Financial Officer of Prometheus Biosciences, Inc., as required by Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
32.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL 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 (embedded within the Inline XBRL document)				

* This certification is deemed not filed for purpose of section 18 of the Exchange Act or otherwise subject to the liability of that section, nor shall it 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.

PROMETHEUS BIOSCIENCES, INC.

Date: November 12, 2021

By: /s/ Mark C. McKenna
Mark C. McKenna
Chairman of the Board, President and Chief Executive Officer
(Principal Executive Officer)

Date: November 12, 2021

By: /s/ Keith W. Marshall, Ph.D.
Keith W. Marshall, Ph.D.
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 10.2

FIRST AMENDMENT TO LEASE

This First Amendment to Lease (this "First Amendment") is entered into as of October 29, 2021, by and between SNH Medical Office Properties Trust, a Maryland real estate investment trust ("Landlord"), and Prometheus Biosciences, Inc., a Delaware corporation ("Tenant").

WHEREAS, Landlord and Tenant entered into that certain Lease dated March 24, 2021 (the "Lease"), for certain premises in the building located at 3050 Science Park Road, San Diego, California, as more particularly described in the Lease; and

WHEREAS, Landlord and Tenant have agreed to amend the Lease to extend the term thereof and expand the premises demised thereby, subject to and upon the terms and conditions hereinafter provided.

NOW, THEREFORE, in consideration of the foregoing and for other consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant agree that the Lease is hereby amended as follows:

1.Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to such terms in the Lease.

2.The definition of "Original Term" set forth in Section 1.1 of the Lease is hereby amended to be the period commencing on the Commencement Date and expiring on the day that is seven (7) months following the day immediately preceding the tenth (10th) anniversary of the Expansion Date (as defined in Section 6(e) below), except that if such day is not the last day of a calendar month, the Original Term shall expire on the last day of the calendar month in which such day occurs. The period commencing on the first (1st) day of Month 121 of the Original Term and expiring on the last day of the Original Term, as determined pursuant to the preceding sentence, is hereinafter referred to as the "Original Premises Extension Term."

3. For the period commencing on the Expansion Date and expiring at the end of the term, the premises demised by the Lease (the "Original Premises") shall be expanded to include the entire rentable area of the first (1st) floor of the Building, consisting of 27,268 square feet (the "Expansion Premises"), substantially as shown on Exhibit A-1 attached hereto.

4.From and after the Expansion Date, (i) the definition of "Premises" set forth in Section 1.1 of the Lease is hereby amended to mean the Original Premises and the Expansion Premises, (ii) the definition of "Premises Rentable Area" set forth in Section 1.1 of the Lease is hereby amended to be 55,102 square feet, comprised of 27,834 square feet in the Original Premises and 27,268 square feet in the Expansion Premises and (iii) the definition of "Tenant's Percentage" set forth in Section 1.1 of the Lease is hereby amended to be one hundred percent (100%).

5.Landlord shall deliver possession of the Expansion Premises to Tenant and Tenant agrees to accept the Expansion Premises with (i) those items of work set forth in Exhibit

A-1 to the Lease in the column titled "Provided by Landlord at Landlord Cost" substantially complete with respect to the Expansion Premises (hereinafter, the "Expansion Base Building Work") (and all references to the second floor in such Exhibit A-1 shall mean the first floor for purposes of the Expansion Base Building Work), and (ii) with Landlord's Expansion Work, as defined below, substantially complete. Other than with respect to the Expansion Base Building Work and Landlord's Expansion Work, the Expansion Premises shall be delivered in their current condition as of the date of this First Amendment, Landlord's sole obligation to make changes to such current condition prior to the Expansion Date being the Expansion Base Building Work and Landlord's Expansion Work. Tenant acknowledges that except as set forth in this Section 5 it is not relying on any representations of Landlord or Landlord's agents or employees as to the current condition of the Expansion Premises or the condition of the Expansion Base Building Work, and Landlord shall have no obligation with respect thereto except as may be expressly set forth in this First Amendment. The Expansion Base Building Work will be completed in accordance with all applicable laws and building codes and in compliance with plans and permits for the Expansion Base Building Work as submitted to the City of San Diego, and no costs associated with the Expansion Base Building Work will be charged against Landlord's Expansion Contribution or otherwise charged to Tenant, including any costs associated with changes required to cause the Expansion Base Building Work to comply with applicable laws.

6.(a)Tenant shall work with Landlord's architect to prepare a space plan (the "Expansion Space Plan") showing the improvements Tenant desires to have made to the Expansion Premises and submit the same to Landlord for Landlord's approval within thirty (30) days following the date of this First Amendment. Landlord's approval of the Expansion Space Plan shall not be unreasonably withheld or delayed with respect to alterations, additions or improvements that are consistent with the Approval Standards. Landlord shall respond to the Expansion Space Plan (either by approval, request for additional information, request for revision or communication of a reason for failure to approve) within ten (10) Business Days after the date of Landlord's receipt of the Expansion Space Plan (or within five (5) Business Days of any resubmission thereof). Unless Landlord shall have approved the Expansion Space Plan, Tenant shall deliver to Landlord such additional information, documentation and/or revisions thereto as are reasonably requested by Landlord to obtain Landlord's approval of the Expansion Space Plan and this process shall continue until the Expansion Space Plan is approved by Landlord.

After approval of the Expansion Space Plan by Landlord, Landlord shall cause its architect to prepare construction drawings and specifications ("Landlord's Expansion Plans") for the improvements to the Expansion Premises shown in the Expansion Space Plan and shall deliver Landlord's Expansion Plans to Tenant for its approval. Tenant shall give Landlord a notice approving or disapproving Landlord's Expansion Plans not later than ten (10) Business Days after Landlord's Expansion Plans are delivered to Tenant. Any notice of disapproval shall identify with reasonable specificity any items that Tenant disapproves, provided that any such items that represent a requested change from the Expansion Space Plan shall be subject to Landlord's reasonable approval, which may be withheld if the requested change is reasonably anticipated to (i) require changes that would (a) affect the Expansion Base Building Work or be located in areas outside of the Expansion Premises or (b) affect the condition of the Building outside of the Expansion Premises (and in all events any costs associated with any such approved

changes to the Expansion Base Building Work and/or the Building as set forth in this clause (i) shall be deducted from Landlord's Expansion Contribution), or (ii) result in more than a de minimus delay in the completion of Landlord's Expansion Work (unless Tenant agrees that any such delay will be a Tenant Expansion Delay (as hereinafter defined), without the requirement of further notice). In the event Tenant gives Landlord a timely notice of disapproval, to the extent that the requested changes are reasonably acceptable to Landlord (subject to the conditions set forth in the immediately preceding sentence), Landlord shall make the necessary corrections to Landlord's Expansion Plans and shall resubmit Landlord's Expansion Plans to Tenant for Tenant's approval (in which case Tenant shall have three (3) Business Days to review the corrected Landlord's Expansion Plans and to notify Landlord of any errors or omissions as aforesaid, and to the extent Tenant fails to so notify Landlord, such resubmission shall be deemed approved) and this process shall continue until final Landlord's Expansion Plans are approved by Tenant.

(b) Promptly after approval of final Landlord's Expansion Plans by Tenant, Landlord shall exercise all reasonable efforts to complete the work specified therein (collectively, "Landlord's Expansion Work") by September 1, 2022, but Tenant shall have no claim against Landlord for failure so to complete Landlord's Expansion Work by any such date except as hereinafter provided in Subsection (e) hereof. Landlord shall perform Landlord's Expansion Work in compliance with all applicable laws, codes and regulations, in a good and workmanlike manner and using Building standard materials and installations except as agreed otherwise and specified in Landlord's Expansion Plans. Tenant agrees that Landlord may make any changes in Landlord's Expansion Work from that shown on Landlord's Expansion Plans to the extent necessary to accommodate field conditions, permitting requirements, unavailability of materials and other circumstances or conditions which first become apparent following approval of Landlord's Expansion Plans, with the approval of Tenant, not to be unreasonably withheld or delayed. As soon as reasonably practicable, Landlord shall provide Tenant with a schedule for the completion of Landlord's Expansion Work and will keep Tenant reasonably informed of any changes to such schedule.

(c) Landlord shall provide Tenant with an allowance ("Landlord's Expansion Contribution") of $6,135,300.00 for the performance of Landlord's Expansion Work (which may include those portions of Landlord's Expansion Work of the type set forth on Exhibit A-1 of the Lease in the column titled "Provided at Tenant's Cost, subject to payment from Landlord's Contribution and/or the Moving Allowance, subject to caps on FF&E Costs & the Moving Allowance"), and Tenant shall not be liable for any cost of Landlord's Expansion Work to the extent that the cost thereof is less than or equal to Landlord's Expansion Contribution, nor shall Tenant be entitled to any refund, credit or rent abatement except as set forth herein. To the extent that the cost of Landlord's Expansion Work, as shown on the Approved Expansion Budget (defined below) exceeds Landlord's Expansion Contribution (such excess being the "Expansion Excess Cost"), Tenant shall pay the entire Expansion Excess Cost within ten (10) days after delivery to Tenant of a final accounting of the cost of Landlord's Expansion Work. For purposes of this Section 6(c), the "cost" of Landlord's Expansion Work shall be the actual cost to Landlord of performing Landlord's Expansion Work including, without limitation, all architectural and engineering fees and expenses and all contractor charges for the cost of work and materials, the general contractor's profit, general conditions and overhead and all filing fees

and other permitting costs, Tenant's project manager's fee (not to exceed two percent (2%) of Landlord's Expansion Contribution) and a construction management fee to be retained by Landlord for managing the design and construction of Landlord's Expansion Work equal to three percent (3%) of the cost of Landlord's Expansion Work exclusive of such fee (which shall be Landlord's only fee in connection with Landlord's Expansion Work). At Landlord's request, Tenant shall execute an agreement (the "Expansion Excess Cost Agreement") confirming only (i) Landlord's estimate of any Expansion Excess Cost, and (ii) Tenant's obligation to pay such Expansion Excess Cost in accordance with the terms of this First Amendment, within five (5) Business Days after Landlord's request, and Landlord shall have no obligation to commence Landlord's Expansion Work until Tenant shall have executed such Expansion Excess Cost Agreement.

Notwithstanding the foregoing or anything to the contrary contained in the Lease, if once the cost of Landlord's Work, as defined in Section 3.3(b) of the Lease, shall have been finally determined, and there is an Excess Cost, then at Tenant's election, Tenant may request Landlord to apply all or any portion of Landlord's Expansion Contribution, in an amount specified by Tenant (not to exceed $6,135,300.00) by notice to Landlord, against such Excess Cost, whereupon Landlord's Expansion Contribution shall be reduced by the amount so applied, all references in this Section 6 to "$6,135,300.00" shall be amended to reflect the amount of the reduced Landlord's Expansion Contribution, and Landlord shall have no obligation to apply such amount against the cost of Landlord's Expansion Work or Expansion FF&E Costs, as hereinafter defined (provided if the amount so specified by Tenant is less than the Excess Cost, Tenant shall pay the remaining Excess Cost in accordance with the provisions of Section 3.3(c) of the Lease).

Further notwithstanding the foregoing or anything to the contrary contained in the Lease, if once the cost of Landlord's Work shall have been finally determined, the cost of Landlord's Work together with any amounts reimbursed to Tenant on account of FF&E Costs shall be less than $6,262,650.00 (the positive difference being "Landlord's Contribution Balance"), at Tenant's election, Tenant may request to Landlord to apply all or any portion of Landlord's Contribution Balance, in an amount specified by Tenant (not to exceed Landlord's Contribution Balance) by notice to Landlord, against the Expansion Excess Cost (provided if the amount so specified by Tenant is less than the Expansion Excess Cost, Tenant shall pay the remaining Expansion Excess Cost to Landlord in accordance with the provisions of this Section 6).

Prior to the commencement of Landlord's Expansion Work, Landlord will provide Tenant with a breakdown of all costs and expenses anticipated to be incurred in connection with Landlord's Expansion Work, which budget will be prepared by Landlord based on bids, where applicable, and the general contractor's reasonable estimate, and which will be a good faith estimate of the costs of Landlord's Expansion Work. Tenant will approve or reasonably disapprove of such bids and budget (together, the "Expansion Bid Package") within five (5) Business Days after its receipt of the Expansion Bid Package and in the event Tenant disapproves of any item in the Expansion Bid Package, Tenant will state with reasonable specificity which items it disapproves. Landlord and Tenant will work together to resolve any disputes relating to the Expansion Bid Package, including making changes to Landlord's Expansion Work as needed. The Expansion Bid Package will thereafter be revised and resubmitted to Tenant for approval and such process will be repeated until the Expansion Bid

Package is approved by Tenant (as so approved, the "Approved Expansion Budget"). Any time required to revise Landlord's Expansion Plans in order to reduce the budget as set forth above in excess of fifteen (15) Business Days will be considered a Tenant Expansion Delay (as defined below). Landlord shall not commence Landlord's Expansion Work until Tenant shall have approved the Approved Expansion Budget. Throughout the construction of Landlord's Expansion Work, Landlord will notify Tenant promptly upon its discovery of any material changes to the Approved Expansion Budget. If the cost of Landlord's Expansion Work is less than $6,135,300.00, then the lesser of the positive difference or $272,680.00 (such lesser amount being the "FF&E Balance") may be used by Tenant as reimbursement for (i) the purchase of furniture, trade fixtures and equipment for the Expansion Premises, (ii) costs incurred by Tenant in connection with its move into the Expansion Premises or otherwise preparing the Expansion Premises for occupancy and (iii) the purchase and installation of cabling for the Expansion Premises (collectively, the "Expansion FF&E Costs"). Landlord shall reimburse Tenant for the Expansion FF&E Costs (in an amount equal to the lesser of the invoices submitted by Tenant or the FF&E Balance) within thirty (30) days after Tenant submits to Landlord paid invoices for the Expansion FF&E Costs, provided that Landlord shall have no obligation to make any payment to Tenant hereunder prior to the time that the cost of Landlord's Expansion Work shall have been determined or at any time that there exists a Default of Tenant or with respect to any request for payment received later than ninety (90) days following the Expansion Substantial Completion Date, time being of the essence. In addition to the foregoing, if once the cost of Landlord's Expansion Work shall have been finally determined the cost is less than $6,135,300.00, then one-half of any such positive difference, in an amount not to exceed $340,850.00, shall be added to the FF&E Balance to be applied against the Expansion FF&E Costs provided, however, in no event shall Landlord be required to apply more than $6,135,300.00 against the cost of Landlord's Expansion Work together with the Expansion FF&E Costs.

Notwithstanding the foregoing or anything to the contrary contained in the Lease, to the extent that the FF&E Costs shall be less than the Balance (the positive difference being the "Original FF&E Balance"), at Tenant's election, Tenant may request by notice to Landlord to apply all or any portion of the Original FF&E Balance, in an amount equal to the least of (i) the Original FF&E Balance, (ii) the amount of Landlord's Contribution Balance, as reduced by any amount applied to the Expansion Excess Cost, or (iii) the amount specified by Tenant in such notice, against the Expansion FF&E Costs.

Any portion of Landlord's Contribution and/or Landlord's Expansion Contribution that Landlord is not required to apply against the cost of Landlord's Work and/or Landlord's Expansion Work and/or to reimburse to Tenant pursuant to Section 3.3 of the Lease and/or this Section 6 shall be the property of Landlord and Tenant shall have no claim thereto.

(d) Further, if requested by Tenant in writing, Landlord will provide Tenant with a moving allowance (the "Expansion Moving Contribution") in an amount not to exceed $136,340.00 to be used as reimbursement for costs incurred by Tenant in connection with (i) moving expenses incurred in connection with Tenant's move into the Expansion Premises, (ii) the purchase of furniture, trade fixtures and equipment for the Expansion Premises, (iii) the purchase and installation of cabling for the Expansion Premises, (iv) Tenant's costs to install signage as set forth in Section 6.2.7 of the Lease (to the extent not reimbursed by Landlord's Moving Contribution) and (v) any Expansion Excess Cost, provided that the Expansion Moving

Contribution shall be repaid to Landlord as hereinafter provided. The Expansion Moving Contribution shall be paid to Tenant within thirty (30) days after Tenant submits to Landlord a written request for payment accompanied by invoices from Tenant's contractors and vendors for such costs; provided that, notwithstanding the foregoing, Landlord shall have no obligation to make the Expansion Moving Contribution available at any time that there exists a Default of Tenant or with respect to any request for payment received later than six (6) months after the Expansion Date. Tenant shall repay any portion of the Expansion Moving Contribution disbursed pursuant to this Section 6 to Landlord by increasing the Annual Fixed Rent for the Expansion Premises for the portion of the Original Term commencing on the first day of the first calendar month after which the Expansion Moving Contribution is paid to Tenant (the "Repayment Commencement Date"), by an amount equal to the level monthly payments of principal and interest, payable monthly, in advance, which would be necessary to repay the Expansion Moving Contribution disbursed pursuant to this Section 6(d), together with interest thereon at a rate of eight percent (8%) per annum, over the period from the Repayment Commencement Date through the last day of the Original Term. Tenant shall execute an amendment to the Lease confirming the increase in the Annual Fixed Rent on account of the Expansion Moving Contribution within five (5) Business Days after Landlord's request.

(e) The "Expansion Substantial Completion Date" shall be the first day as of which (a) the Expansion Base Building Work is substantially complete, (b) Landlord's Expansion Work has been completed except for minor items of work, correction or adjustment which can be completed without causing undue interference with Tenant's use of the Expansion Premises (i.e., so called "punch list" items), (c) a Certificate of Substantial Completion in the form of the American Institute of Architects document G704, or its equivalent, executed by the project architect and the project general contractor shall have been certified to Landlord and a copy thereof delivered to Tenant, (d) Landlord shall have obtained a certificate of occupancy or its equivalent for the Expansion Premises (which may be conditional or temporary) if required by law for Tenant to occupy and use the Expansion Premises for the Permitted Uses and (e) the base Building systems and facilities serving the Expansion Premises shall be in good working order and in material compliance with applicable laws and building codes. Landlord shall complete as soon as reasonably possible using good faith and continuous efforts all "punch list" items and Tenant shall afford Landlord access to the Expansion Premises for such purpose. Landlord shall notify Tenant in writing when Landlord in good faith believes that Landlord's Expansion Work is substantially completed. Within three (3) Business Days after the giving of such notice to Tenant, Landlord, Landlord's architect, Tenant (and Tenant's architect or project manager, if any) shall jointly inspect the Expansion Premises at a time reasonably agreed to by the parties and develop the list of punch list items, provided that in the event of any dispute between Landlord and Tenant regarding whether or not Landlord's Expansion Work is substantially complete, or if Tenant or Tenant's architect or project manager (if any) shall fail to attend such inspection, the determination of Landlord's architect as to whether Landlord's Expansion Work is substantially complete and any list of punch list items developed by Landlord and/or Landlord's architect shall be final and binding on Landlord and Tenant. The "Expansion Date" shall be the Expansion Substantial Completion Date. Notwithstanding the foregoing, if Tenant's personnel shall occupy all or any part of the Expansion Premises for the conduct of its business prior to the Expansion Date as determined pursuant to the preceding sentence, such date of conduct of business shall, for all purposes of the Lease as amended hereby, be the Expansion

Date. When the Expansion Date has been determined, such date shall be evidenced by a confirmatory document executed by Landlord and Tenant in the form substantially as shown on Exhibit B-1 attached hereto and delivered each to the other, but the failure of Landlord and Tenant to execute or deliver such document shall have no effect upon the Expansion Date. For clarity, Tenant's personnel may perform tasks designed to prepare the Expansion Premises for occupancy, such as IT functions, which will not be deemed conduct of business for purposes of this Section 6.

If the Expansion Substantial Completion Date is delayed due to any change requested by Tenant to the Expansion Space Plan, or due to any change requested by Tenant to Landlord's Expansion Plans or Landlord's Expansion Work after Tenant shall have approved Landlord's Expansion Plans, or due to any negligence, breach of the Lease or other wrongful conduct of Tenant or anyone acting under Tenant, or any interference with the performance of Landlord's Expansion Work due to Tenant's occupancy of portions of the Expansion Premises, such delay in the Expansion Substantial Completion Date shall be a "Tenant Expansion Delay", and in such event Landlord may, at its option, require Tenant to commence payment of Annual Fixed Rent with respect to the Expansion Premises as of the date that the Expansion Date would have occurred in the absence of such Tenant Expansion Delay(s), provided that such election by Landlord shall not accelerate the actual Expansion Date and any amount payable by Tenant pursuant to such election shall be payable as Additional Rent in addition to all Annual Fixed Rent and Additional Rent payable by Tenant during the term. Notwithstanding the foregoing, no Tenant Expansion Delay shall be deemed to have occurred unless and until Landlord has provided notice to Tenant's Expansion Construction Representative as provided below specifying the action or inaction that constitutes a Tenant Expansion Delay. If such action or inaction is not cured within one (1) Business Day after the giving of such notice, then a Tenant Expansion Delay, as set forth in such notice, shall be deemed to have occurred commencing as of the date such notice was given and continuing for the number of days that the Expansion Substantial Completion Date is in fact delayed as a result of such Tenant Expansion Delay.

If the Expansion Substantial Completion Date has not occurred by December 1, 2022 (as such date may be extended for Tenant Expansion Delay and/or Force Majeure) and the Expansion Date shall not have occurred pursuant to the provisions of this Section 6, then Tenant may give Landlord notice thereof at any time thereafter detailing in what respects Landlord's Expansion Work is not substantially complete and if Landlord shall not substantially complete all of Landlord's Expansion Work within seven (7) days after delivery of such notice (other than due to Tenant Expansion Delay and/or Force Majeure), Tenant shall be entitled to receive a credit against the Annual Fixed Rent next coming due under the Lease in the amount of $5,513.37 for each day during the period commencing upon the expiration of such seven (7) day-period and ending on the Expansion Substantial Completion Date. If the Expansion Substantial Completion Date has not occurred by February 1, 2023 (as such date may be extended for Tenant Expansion Delay and/or Force Majeure) and the Expansion Date shall not have occurred pursuant to the foregoing provisions of this Section 6, Tenant may by giving notice to Landlord at any time prior to the Expansion Substantial Completion Date, elect to terminate this First Amendment only and if Tenant shall make such election this First Amendment shall cease and come to an end without further liability or obligation on the part of either party thirty (30) days after the giving of such notice it being agreed that time is of the essence with respect to the giving of such notice, unless, within such thirty (30) day-period after Tenant's notice, Landlord

substantially completes Landlord's Expansion Work (in which event such termination election shall be null and void). The parties acknowledge and agree that the Lease shall remain in full force and effect with respect to the Original Premises notwithstanding Tenant's exercise of its right to terminate this First Amendment pursuant to the provisions of this paragraph. Tenant's right to a rent credit and Tenant's termination right, as set forth in this paragraph, shall be Tenant's sole and exclusive remedy at law or in equity for Landlord's failure to complete Landlord's Expansion Work. If Tenant exercises the termination option in accordance with this paragraph and this First Amendment terminates as set forth herein, then as of the date of any such termination the provisions of this First Amendment shall thereafter be of no further force or effect, and Tenant will not be obligated to pay any amounts to Landlord on account of the Expansion Excess Cost and Landlord will refund to Tenant any additional Security Deposit, pre-paid rent or other amounts paid hereunder.

(f) Tenant shall be conclusively deemed to have accepted Landlord's Expansion Work except for aspects of Landlord's Expansion Work that are not in good working order and that are specified by Tenant in a notice to Landlord given within sixty (60) days after any such deficient aspect of Landlord's Expansion Work becomes apparent to Tenant and not later than eleven (11) months after the Expansion Substantial Completion Date, time being of the essence. Landlord will obtain industry-standard warranties (which, to the extent available, shall be one (1) year warranties) from all contractors performing the Expansion Base Building Work and Landlord's Expansion Work (whether new equipment is installed or existing equipment is refurbished) and will enforce such warranties in the event Tenant delivers notice of a deficiency within the time periods set forth in this Subsection (f).

(g) Provided the Lease is in full force and effect and the Expansion Date shall have occurred, in addition to Landlord's Expansion Contribution and the Expansion Moving Contribution, Landlord shall provide Tenant with an allowance in an amount (the "Test Fit Contribution") equal to the lesser of $4,090.20 or the reasonable third party costs incurred by Tenant in connection with the preparation of the Expansion Space Plan ("Tenant's Design Costs"). Within thirty (30) days of submission to Landlord of paid invoices for Tenant's Design Costs, Landlord shall reimburse Tenant in an amount equal to the lesser of $4,090.20 or Tenant's Design Costs as shown by such paid invoices. Notwithstanding the foregoing, Landlord shall not be required to make payment of the Test Fit Contribution (a) if (or to the extent) Tenant shall not have submitted paid invoices for Tenant's Design Costs by the date that is sixty (60) days following the Expansion Date, time being of the essence, (b) at any time when there exists any Default of Tenant and/or (c) if the Lease shall have terminated. Any balance of the Test Fit Contribution that Landlord is not required to reimburse to Tenant pursuant to this Subsection (g) shall be the property of Landlord and Tenant shall have no claim thereto.

(h) Both Landlord and Tenant shall appoint one individual as its "Expansion Construction Representative" who is authorized to act on its behalf in connection with any matters arising pursuant to this Section 6. The Expansion Construction Representative may be changed from time to time by notice hereunder from the then current Expansion Construction Representative to the other party's Expansion Construction Representative or by notice from Landlord or Tenant pursuant to Section 10.1 of the Lease. Notwithstanding Section 10.1 of the Lease, any notices or other communication under this Section 6 may be made by letter or other writing sent by U.S. mail or email, provided the communication is made by one party's

Expansion Construction Representative to the other party's Expansion Construction Representative.

7. Landlord hereby acknowledges that, as of the date of this First Amendment, the Expansion Premises have not been inspected by a Certified Access Specialist ("CASp"). Tenant hereby acknowledges and understands that Landlord has made the foregoing statement in satisfaction of its disclosure obligations under Section 1938 of the California Civil Code. A CASp can inspect the Expansion Premises and determine whether the Expansion Premises comply with all of the applicable construction-related accessibility standards under state law. Although state law does not require a CASp inspection of the Expansion Premises, Landlord may not prohibit Tenant from obtaining a CASp inspection of the Expansion Premises for the occupancy or potential occupancy of the Expansion Premises by Tenant, if requested by Tenant. The parties shall mutually agree on the arrangements for the time and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any repairs necessary to correct violations of construction-related accessibility standards within the Expansion Premises. In furtherance of the foregoing, Landlord and Tenant hereby agree as follows: (a) any CASp inspection requested by Tenant shall be conducted, at Tenant's sole cost and expense, by a CASp designated by Landlord, subject to Landlord's reasonable rules and requirements; (b) Tenant, at its sole cost and expense, shall be responsible for making any improvements or repairs within the Expansion Premises to correct violations of construction-related accessibility standards; and (c) if a CASp inspection done by or for Tenant in its use or occupancy of the Expansion Premises shall require any improvements or repairs to the Building or Property (outside the Expansion Premises) to correct violations of construction-related accessibility standards, then Tenant shall reimburse Landlord upon demand, as Additional Rent, for the cost to Landlord of performing such improvements or repairs.

8. For purposes of clarification, Section 3.3(c) of the Lease is hereby amended to reflect that in no event shall Landlord's Contribution exceed a total of $6,262,650.00.

9.For purposes of clarification, the definition of "Annual Fixed Rent" set forth in Section 1.1 of the Lease is hereby amended to reflect that if the Commencement Date does not occur on the first day of a calendar month, Tenant shall pay pro-rated Annual Fixed Rent for the Original Premises for the partial month in which the Commencement Date occurs at the annual rate applicable to Months 1-12 of the term as set forth in such Section 1.1.

10. The definition of "Annual Fixed Rent" set forth in Section 1.1 of the Lease is hereby further amended to reflect that (i) the Annual Fixed Rent for the Original Premises for the first year of the Original Premises Extension Term shall be equal to one hundred and three percent (103%) of the Annual Fixed Rent in effect with respect to the Original Premises on the day preceding the commencement of such Original Premises Extension Term without giving effect to any abatements, set-offs or concessions then in effect (i.e., $2,513,721.36 per annum for the first (1st) twelve months of the Original Premises Extension Term), and (ii) the Annual Fixed Rent for the Original Premises for each succeeding year of the Original Premises Extension Term shall be equal to one hundred and three percent (103%) of the Annual Fixed Rent for the Original Premises for the immediately preceding year without giving effect to any abatements, set-offs or concessions then in effect. As amended by Section 9 hereof and this Section 10, the

Annual Fixed Rent schedule set forth in Section 1.1 of the Lease shall remain in full force and effect.

11. Commencing on the Expansion Date, in addition to Annual Fixed Rent for the Original Premises as set forth in Section 1.1 of the Lease (as amended hereby), Tenant shall pay Annual Fixed Rent for the Expansion Premises in accordance with the following schedule:

Year	Annual Fixed Rent per rentable square foot per annum	Annual Fixed Rent (per annum)	Monthly Installments
1	$73.80	$2,012,378.40	$167,698.20
2	$76.01	$2,072,749.75	$172,729.15
3	$78.29	$2,134,932.24	$177,911.02
4	$80.64	$2,198,980.21	$183,248.35
5	$83.06	$2,264,949.62	$188,745.80
6	$85.55	$2,332,898.11	$194,408.18
7	$88.12	$2,402,885.05	$200,240.42
8	$90.76	$2,474,971.60	$206,247.63
9	$93.49	$2,549,220.75	$212,435.06
10	$96.29	$2,625,697.37	$218,808.11
11	$99.18	$2,704,468.29	$225,372.36

For purposes of the timing of the adjustments in the amount of Annual Fixed Rent with respect to the Expansion Premises, the first "Year" shall be the period beginning on the Expansion Date and ending on the day preceding the first (1st) anniversary of the Expansion Date (except that if the Expansion Date is not the first day of a calendar month, the first (1st) Year shall be the period commencing on the Expansion Date and expiring on the last day of the calendar month in which the first (1st) anniversary of the Expansion Date shall occur, and Tenant shall pay pro-rated Annual Fixed Rent for the Expansion Premises for the month in which the Expansion Date occurs at the annual rate for Year 1 plus Annual Fixed Rent for the next twelve full months of Year 1, subject to the provisions of following paragraph), with each succeeding Year being the twelve (12) month period following the preceding Year, except that the last Year shall include only the last seven (7) months of the Original Term.

Notwithstanding the foregoing, Annual Fixed Rent for the Expansion Premises shall be abated for months two (2) through eight (8) of the first Year provided, however, should there be a Default of Tenant at any time on or before the last day of such seven-month period, then Tenant shall no longer be entitled to an abatement of Annual Fixed Rent pursuant to this paragraph from and after the date of such Default of Tenant. The "Expansion Full Rent Date" shall be the date immediately succeeding the last day of the aforesaid seven-month abatement period. For the avoidance of doubt, Tenant shall be responsible for the payment of Additional Rent during the aforesaid abatement period in accordance with the provisions of the Lease.

12.Section 2.4 of the Lease is hereby deleted in its entirety; in lieu thereof, Tenant shall have an option (the "Early Termination Option") to terminate the term of the Lease without cause with respect to the entire Premises (i.e., the Original Premises and the Expansion Premises) or with respect to either the Original Premises or the Expansion Premises only,

effective as of the day immediately preceding the seventh (7th) anniversary of the Expansion Full Rent Date (the "Early Termination Date") as specified in a notice given to Landlord not less than twelve (12) months prior to the Early Termination Date. As a condition to the effectiveness of Tenant's notice exercising the Early Termination Option Tenant shall pay Landlord, concurrently with such notice, the applicable Termination Fee, determined as set forth below.

The "Termination Fee" shall be determined as follows: (i) if Tenant shall elect to terminate the Lease with respect to the entire Premises, the Termination Fee shall be an amount equal to $5,500,000.00, plus any portion of Landlord's Moving Contribution, as defined in Section 3.3(d) of the Lease, that has not yet been repaid to Landlord as of the Early Termination Date, plus any portion of the Expansion Moving Contribution, as defined in Section 6(d) above, that has not yet been repaid to Landlord as of the Early Termination Date, (ii) if Tenant shall elect to terminate the Lease with respect to the Original Premises only, the Termination Fee shall be an amount equal to $2,750,000.00 plus any portion of Landlord's Moving Contribution that has not yet been repaid to Landlord as of the Early Termination Date and (iii) if Tenant shall elect to terminate the Lease with respect to the Expansion Premises only, the Termination Fee shall be an amount equal to $2,750,000.00 plus any portion of the Expansion Moving Contribution that has not yet been repaid to Landlord as of the Early Termination Date.

If Tenant shall terminate the Lease with respect to either portion of the Premises, Tenant shall vacate such portion (i.e., the Original Premises or Expansion Premises, as applicable), on or before the Early Termination Date, and surrender the same to Landlord in accordance with the provisions of Section 6.1.9 of the Lease, and Tenant's failure to so vacate and surrender such portion shall be deemed a "holding over" with respect to the applicable portion of the Premises pursuant to Section 8.5 of the Lease. After Tenant's exercise of its termination option with respect to either portion of the Premises pursuant to this Section 12, Landlord shall prepare an amendment to the Lease to reflect changes to the definitions of "Premises", "Premises Rentable Area", "Annual Fixed Rent" and "Tenant's Percentage", and to Tenant's allotment of parking spaces and any other terms of the Lease affected by such partial termination, and Tenant shall execute such amendment and deliver the same to Landlord within five (5) Business Days after Tenant's receipt thereof.

13. Section 2.5 of the Lease is hereby deleted in its entirety and Tenant shall have no further right of first refusal.

14.Section 2.6 of the Lease is hereby amended to reflect that Tenant shall have the option to extend the term of the Lease with respect to the entire Premises (i.e., the Original Premises and the Expansion Premises) or with respect to either the Original Premises or the Expansion Premises, as specified by Tenant in its Election Notice, and all references in Section 2.6 of the Lease to the term "Premises" shall mean the entire Premises, the Original Premises or the Expansion Premises as so specified by Tenant. Notwithstanding the foregoing, if Tenant shall have exercised its option to terminate the term of the Lease with respect to a portion of the Premises pursuant to Section 12, Tenant's option to extend the term of the Lease pursuant to this Section 14 shall not apply to the space as to which Tenant has exercised its termination option, Tenant shall only have the option to extend the term of the Lease with respect to the Premises then demised by the Lease and all references in Section 2.6 of the Lease to the term "Premises" shall mean the Premises then demised by the Lease.

Tenant acknowledges that if it shall not have exercised its right to terminate the term of the Lease with respect to either portion of the Premises pursuant to Section 12, and Tenant shall elect to extend to the term of the Lease for either the Original Premises or the Expansion Premises only, then on the expiration or earlier termination of the Original Term, the provisions of Section 6.1.9 of the Lease shall apply to the portion of the Premises as to which Tenant has not elected to exercise its extension option as if the term of the Lease had expired and Tenant's failure to vacate and surrender the applicable portion of the Premises in accordance with the provisions of Section 6.1.9 of the Lease by the end of the Original Term shall be deemed a "holding over" with respect to such portion of the Premises pursuant to Section 8.5. of the Lease. After Tenant's exercise of its extension option with respect to either portion of the Premises pursuant to this Section 14, Landlord shall prepare an amendment to the Lease to reflect changes to the definitions of "Premises", "Premises Rentable Area", "Annual Fixed Rent" and "Tenant's Percentage", and to Tenant's allotment of parking spaces and any other terms of the Lease affected by such partial extension and Tenant shall execute such amendment and deliver the same to Landlord within five (5) Business Days after Tenant's receipt thereof.

As amended hereby, Section 2.6 of the Lease shall remain in full force and effect.

15.Concurrently with the execution of this First Amendment, Tenant shall deposit with Landlord an additional security deposit in the amount of $503,094.60, whereupon the definition of "Security Deposit" set forth in Section 1.1 of the Lease shall be amended to be $970,705.80. Such additional security deposit shall be subject to the provisions of Section 4.7 of the Lease and may be deposited in the form of cash or a letter of credit pursuant to such Section 4.7.

16.For purposes of clarification, from and after the Expansion Date, Section 5.1.4 of the Lease shall remain in full force and effect and Landlord shall continue to be responsible for making repairs and replacements as set forth therein including, without limitation, to any common plumbing, electrical and HVAC equipment and systems, life safety systems, roof membrane, elevators and any other common equipment or systems in the Building and all utility lines providing utilities to the Building (exclusive of equipment installed by Tenant and those repairs required to be made by Tenant pursuant to Section 6.1.3 of the Lease and repairs or replacements occasioned by any act or negligence of Tenant, its servants, agents, customers, contractors, employees, invitees or licensees), regardless of whether Tenant occupies all or a portion of the Building and notwithstanding the provisions of Section 6.1.3 of the Lease requiring Tenant to perform repairs to all fixtures, systems and equipment exclusively serving the Premises. Landlord hereby acknowledges that the common HVAC equipment in the Building shall not constitute "Separate HVAC Equipment" for purposes of Section 6.1.3 of the Lease.

17.With respect to the portion of the term commencing on the Expansion Date, Section 5.5 of the Lease is hereby amended to reflect that Landlord shall make available to Tenant, its employees and invitees, at no additional charge, one hundred and thirty-two (132) parking spaces, which number shall be subject to reduction if Tenant shall exercise its right to terminate the term of the Lease with respect to a portion of the Premises pursuant to Section 12 or to extend the term of the Lease with respect to a portion of the Premises pursuant to Section 14.

18.The fourth (4th) paragraph of Section 6.2.1 of the Lease is hereby amended by deleting item (vi) thereof in its entirety and replacing it with "any such sublease shall result in the Premises being occupied by (x) more than four (4) parties (including Tenant) at any one time if Tenant leases one hundred percent (100%) of the rentable square footage of the Building or (y) more than two (2) parties (including Tenant) at any one time if Tenant leases less than one hundred percent (100%) of the rentable square footage of the Building."

19.Section 6.2.7 of the Lease is hereby amended to reflect that so long as Tenant shall lease one hundred percent (100%) of the rentable square footage of the Building, Tenant shall have the exclusive right to install and maintain a single building-mounted sign on the top of the Building, subject to the provisions of such Section 6.2.7.

20.Tenant hereby agrees that it shall deliver updated Hazardous Materials Documents to Landlord no later than thirty (30) days prior to its initial occupancy of the Expansion Premises in accordance with the provisions of Section 6.2.9 of the Lease.

21.Landlord and Tenant each warrants and represents that it has dealt with no broker in connection with the consummation of this First Amendment other than Cushman & Wakefield ("Cushman"), representing Tenant, and Jones Lang LaSalle ("JLL"), representing Landlord, and in the event of any brokerage claims or liens, other than by Cushman and/or JLL against Landlord, Tenant or the Property predicated upon or arising out of prior dealings with Tenant or Landlord, the party with whom the broker claims to have dealt agrees to defend the same and indemnify and hold the other party harmless against any such claim, and to discharge any such lien. Landlord shall pay a brokerage commission arising out of the consummation of this First Amendment to JLL pursuant to a separate agreement between Landlord and JLL that requires JLL in turn to pay Cushman.

22.As amended hereby, the Lease is hereby ratified and confirmed.

IN WITNESS WHEREOF, the parties hereunto have executed this First Amendment as of the date first written above.

Landlord:

SNH Medical Office Properties Trust

By: The RMR Group LLC, its agent

By: /s/ Jennifer F. Francis

Jennifer F. Francis Executive Vice President

Tenant:

Prometheus Biosciences, Inc.

By: /s/ Mark McKenna

Mark McKenna

Chairman, President and
Chief Executive Officer

Exhibit 31.1

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

I, Mark C. McKenna, certify that:

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

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

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

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

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

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

Date: November 12, 2021

By: /s/ Mark C. McKenna
Mark C. McKenna
Chairman of the Board, President and Chief 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, Keith W. Marshall, Ph.D., certify that:

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

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

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

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

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

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

Date: November 12, 2021

By: /s/ Keith W. Marshall, Ph.D.
Keith W. Marshall, Ph.D.
Chief 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

In connection with the Quarterly Report of Prometheus Biosciences, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: November 12, 2021

By: /s/ Mark C. McKenna
Mark C. McKenna
Chairman of the Board, President and Chief 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

In connection with the Quarterly Report of Prometheus Biosciences, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: November 12, 2021

By: /s/ Keith W. Marshall, Ph.D.
Keith W. Marshall, Ph.D.
Chief Financial Officer