
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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: 001-39634

Foghorn Therapeutics Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

500 Technology Square, Ste 700
Cambridge MA
(Address of principal executive offices)

47-5271393
(I.R.S. Employer
Identification No.)

02139
(Zip Code)

Registrant's telephone number, including area code: 617-586-3100

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	FHTX	The Nasdaq Global Market

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

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

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

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

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

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

As of October 29, 2021, the registrant had 37,091,588 shares of common stock, \$0.0001 par value per share, outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements that are based on management's beliefs and assumptions and on information currently available to management. All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q are 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," "contemplate," "believe," "estimate," "predict," "potential" or "continue" or the negative of these terms or other similar expressions, although not all forward-looking statements contain these words. Forward-looking statements include, but are not limited to, statements concerning:

- the initiation, timing, progress and results of our research and development programs, preclinical and clinical studies;
- our ability to advance any product candidates that we may develop and successfully complete preclinical and clinical studies;
- our ability to leverage our initial programs to develop additional product candidates using our Gene Traffic Control platform;
- the impact of the COVID-19 pandemic on our and our collaborators' business operations, including our research and development programs and preclinical and clinical studies, particularly in light of recent geopolitical instability and other developments that may negatively impact the ability to utilize CDMOs or CROs that are located outside of the United States;
- developments related to our competitors and our industry;
- our ability to expand the target populations of our programs and the availability of patients for clinical testing;
- our ability to obtain regulatory approval for FHD-286, FHD-609, and any future product candidates from the U.S. Food and Drug Administration, or FDA, and other regulatory authorities;
- our ability to identify and enter into future license agreements and collaborations;
- our ability to continue to rely on our contract development and manufacturing organizations, or CDMOs, and contract research organizations, or CROs, for our manufacturing and research needs;
- regulatory developments in the United States and foreign countries;
- our ability to attract and retain key scientific and management personnel; and
- the scope of protection we are able to establish, maintain and enforce for intellectual property rights covering FHD-286, FHD-609, our future products and our Gene Traffic Control platform.

The forward-looking statements in this Quarterly Report on Form 10-Q are only predictions and are based 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 on Form 10-Q and are subject to a number of known and unknown risks, uncertainties and assumptions, including those described under the section entitled "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020. Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified and some of which are beyond our control, you should not rely on these forward-looking statements as predictions of future events. Moreover, we operate in an evolving environment. New risks and uncertainties may emerge from time to time, and it is not possible for management to predict all risks 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.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

Foghorn Therapeutics Inc.
Condensed Consolidated Balance Sheets
(In thousands, except share and per share amounts)
(Unaudited)

	September 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 57,841	\$ 92,795
Marketable securities	63,001	92,975
Prepaid expenses and other current assets	3,111	4,917
Total current assets	123,953	190,687
Property and equipment, net	18,346	19,528
Restricted cash	1,733	1,733
Other assets	2,431	842
Operating lease right-of-use assets	39,606	42,804
Total assets	<u>\$ 186,069</u>	<u>\$ 255,594</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 3,821	\$ 3,680
Accrued expenses and other current liabilities	7,206	9,161
Operating lease liabilities	6,991	\$ 3,981
Deferred revenue	1,278	2,024
Total current liabilities	19,296	18,846
Notes payable, net of discount and current portion	19,914	19,654
Operating lease liabilities, net of current portion	53,020	58,361
Deferred revenue, net of current portion	12,686	12,546
Other liabilities	171	—
Total liabilities	105,087	109,407
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock, \$0.0001 par value; 25,000,000 shares authorized at September 30, 2021 and December 31, 2020; no shares issued or outstanding	—	—
Common stock, \$0.0001 par value; 175,000,000 shares authorized at September 30, 2021 and December 31, 2020; 37,044,763 shares issued and outstanding at September 30, 2021; 36,790,946 shares issued and outstanding at December 31, 2020	4	4
Additional paid-in capital	316,104	309,126
Accumulated other comprehensive loss	(13)	(7)
Accumulated deficit	(235,113)	(162,936)
Total stockholders' equity	<u>\$ 80,982</u>	<u>\$ 146,187</u>
Total liabilities and stockholders' equity	<u>\$ 186,069</u>	<u>\$ 255,594</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

Foghorn Therapeutics Inc.
Condensed Consolidated Statements of Operations and Comprehensive Loss
(In thousands, except share and per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Collaboration revenue	\$ 41	\$ 179	\$ 606	\$ 179
Operating expenses:				
Research and development	20,494	16,113	57,862	41,244
General and administrative	5,808	2,555	15,396	6,687
Total operating expenses	<u>26,302</u>	<u>18,668</u>	<u>73,258</u>	<u>47,931</u>
Loss from operations	<u>(26,261)</u>	<u>(18,489)</u>	<u>(72,652)</u>	<u>(47,752)</u>
Other income (expense):				
Interest expense	(499)	(202)	(1,480)	(658)
Interest income and other income (expense), net	680	394	1,955	437
Change in fair value of preferred stock warrant liability	—	(70)	—	(69)
Total other income (expense), net	<u>181</u>	<u>122</u>	<u>475</u>	<u>(290)</u>
Net loss	<u>\$ (26,080)</u>	<u>\$ (18,367)</u>	<u>\$ (72,177)</u>	<u>\$ (48,042)</u>
Net loss per share attributable to common stockholders—basic and diluted	<u>\$ (0.71)</u>	<u>\$ (3.12)</u>	<u>\$ (1.96)</u>	<u>\$ (8.76)</u>
Weighted average common shares outstanding—basic and diluted	<u>36,971,767</u>	<u>5,884,027</u>	<u>36,879,392</u>	<u>5,487,154</u>
Comprehensive loss:				
Net loss	\$ (26,080)	\$ (18,367)	\$ (72,177)	\$ (48,042)
Other comprehensive loss:				
Unrealized losses on marketable securities	(3)	—	(6)	—
Total other comprehensive loss	<u>(3)</u>	<u>—</u>	<u>(6)</u>	<u>—</u>
Total comprehensive loss	<u>\$ (26,083)</u>	<u>\$ (18,367)</u>	<u>\$ (72,183)</u>	<u>\$ (48,042)</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

Foghorn Therapeutics Inc.
Condensed Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity
(In thousands, except share amounts)
(Unaudited)

	Series A-1, A-2 and B Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balances at December 31, 2020	—	\$ —	36,790,946	\$ 4	\$ 309,126	\$ (7)	\$ (162,936)	\$ 146,187
Issuance of common stock upon exercise of stock options	—	—	35,829	—	62	—	—	62
Stock-based compensation expense	—	—	—	—	1,888	—	—	1,888
Unrealized gains on marketable securities	—	—	—	—	—	13	—	13
Net loss	—	—	—	—	—	—	(22,986)	(22,986)
Balances at March 31, 2021	—	\$ —	36,826,775	\$ 4	\$ 311,076	\$ 6	\$ (185,922)	\$ 125,164
Issuance of common stock upon exercise of stock options	—	—	34,575	—	111	—	—	111
Stock-based compensation expense	—	—	—	—	2,042	—	—	2,042
Unrealized losses on marketable securities	—	—	—	—	—	(16)	—	(16)
Net loss	—	—	—	—	—	—	(23,111)	(23,111)
Balances at June 30, 2021	—	—	36,861,350	4	313,229	(10)	(209,033)	104,190
Issuance of common stock upon exercise of stock options	—	—	183,413	—	505	—	—	505
Stock-based compensation expense related to issuance of options and employee stock purchase plan	—	—	—	—	2,370	—	—	2,370
Unrealized losses on marketable securities	—	—	—	—	—	(3)	—	(3)
Net loss	—	—	—	—	—	—	(26,080)	(26,080)
Balances at September 30, 2021	—	\$ —	37,044,763	\$ 4	\$ 316,104	\$ (13)	\$ (235,113)	\$ 80,982

Foghorn Therapeutics Inc.
Condensed Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity
(In thousands, except share amounts)
(Unaudited)

	Series A-1, A-2 and B Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balances at December 31, 2019	28,615,546	\$ 86,544	4,870,851	\$ —	\$ 6,120	\$ —	\$ (94,136)	\$ (88,016)
Issuance of common stock upon exercise of stock options	—	—	97,034	—	247	—	—	247
Vesting of restricted stock	—	—	222,973	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	517	—	—	517
Net loss	—	—	—	—	—	—	(13,952)	(13,952)
Balances at March 31, 2020	28,615,546	\$ 86,544	5,190,858	\$ —	\$ 6,884	\$ —	\$ (108,088)	\$ (101,204)
Issuance of Series B convertible preferred stock, net of issuance costs of \$123	6,407,867	47,936	—	—	—	—	—	—
Issuance of common stock upon exercise of stock options	—	—	20,819	—	27	—	—	27
Vesting of restricted stock	—	—	222,972	1	(1)	—	—	—
Stock-based compensation expense	—	—	—	—	489	—	—	489
Net loss	—	—	—	—	—	—	(15,723)	(15,723)
Balances at June 30, 2020	35,023,413	134,480	5,434,649	1	7,399	—	(123,811)	(116,411)
Issuance of Series B convertible preferred stock, net of issuance costs of \$75	5,600,000	41,925	—	—	—	—	—	—
Issuance of common stock upon exercise of stock options	—	—	363,556	—	578	—	—	578
Vesting of restricted stock	—	—	222,972	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	877	—	—	877
Net loss	—	—	—	—	—	—	(18,367)	(18,367)
Balances at September 30, 2020	40,623,413	\$ 176,405	6,021,177	\$ 1	\$ 8,854	\$ —	\$ (142,178)	\$ (133,323)

The accompanying notes are an integral part of these condensed consolidated financial statements.

Foghorn Therapeutics Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2021	2020
Cash flows from operating activities:		
Net loss	\$ (72,177)	\$ (48,042)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense related to issuance of options and employee stock purchase plan	6,300	1,883
Depreciation and amortization expense	2,417	764
Change in fair value of preferred stock warrant liability	—	69
Noncash lease expense	3,198	3,103
Noncash interest expense	260	179
Accretion of discount on marketable securities	82	—
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	316	(1,725)
Accounts payable	156	(374)
Accrued expenses and other liabilities	253	(198)
Operating lease liabilities	(2,331)	8,889
Deferred revenue	(606)	14,821
Net cash used in operating activities	(62,132)	(20,631)
Cash flows from investing activities:		
Purchases of property and equipment	(3,233)	(8,694)
Purchases of marketable securities	(89,737)	—
Proceeds from the sale of marketable securities	119,470	—
Net cash provided by (used in) investing activities	26,500	(8,694)
Cash flows from financing activities:		
Proceeds from issuance of convertible preferred stock, net of issuance costs	—	89,861
Proceeds from issuance of common stock upon exercise of stock options	678	852
Repayment of notes payable	—	(500)
Payment of initial public offering costs	—	(1,249)
Net cash provided by financing activities	678	88,964
Net increase in cash, cash equivalents and restricted cash	(34,954)	59,639
Cash, cash equivalents and restricted cash at beginning of period	94,528	17,255
Cash, cash equivalents and restricted cash at end of period	\$ 59,574	\$ 76,894
Supplemental cash flow information:		
Cash paid for interest	\$ 1,218	\$ 490
Supplemental disclosure of noncash investing and financing information:		
Purchases of property and equipment included in accounts payable and accrued expenses	\$ 9	\$ 6,602
Deferred offering costs included in accounts payable and accrued expenses	\$ —	\$ 721
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 57,841	\$ 74,620
Restricted cash (current and non-current)	1,733	2,274
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	\$ 59,574	\$ 76,894

The accompanying notes are an integral part of these condensed consolidated financial statements.

Foghorn Therapeutics Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Nature of Business and Basis of Presentation

Foghorn Therapeutics Inc. (the “Company”) is a clinical-stage biopharmaceutical company discovering and developing a new class of medicines targeting genetically-determined dependencies within the chromatin regulatory system. The Company uses its proprietary Gene Traffic Control platform to identify, validate and potentially drug targets within the system. The Company was founded in October 2015 as a Delaware corporation. The Company is headquartered in Cambridge, Massachusetts.

The Company is subject to risks similar to those of other early-stage companies in the biopharmaceutical industry, including dependence on key individuals, the need to develop commercially viable products, competition from other companies, many of whom are larger and better capitalized, the impact of the COVID-19 pandemic and the need to obtain adequate additional financing to fund the development of its products. There can be no assurance that the Company’s research and development will be successfully completed, that adequate protection for the Company’s intellectual property will be maintained, that any products developed will obtain required regulatory approval or that any approved products will be commercially viable. Even if the Company’s development efforts are successful, it is uncertain when, if ever, the Company will generate significant revenue from the sale of its products.

In March 2020, the World Health Organization declared the global novel coronavirus disease 2019 (“COVID-19”) outbreak a pandemic. The Company’s operations have not been significantly impacted by the COVID-19 pandemic. However, the Company cannot at this time predict the specific extent, duration, or full impact that the COVID-19 pandemic will have on its financial condition and operations, including ongoing and planned clinical trials. The impact of the COVID-19 outbreak on the Company’s financial performance will depend on future developments, including the duration and spread of the pandemic and related governmental advisories and restrictions. These developments and the impact of COVID-19 on the financial markets and the overall economy are highly uncertain and cannot be predicted. If the financial markets and/or the overall economy are impacted for an extended period, the Company’s results may be materially adversely affected.

Going concern

On October 27, 2020, the Company completed its initial public offering (“IPO”) pursuant to which it issued and sold 7,500,000 shares of its common stock at a public offering price of \$16.00 per share, resulting in net proceeds of \$108.0 million, after deducting underwriting discounts and commissions and other offering expenses. On November 19, 2020, the Company issued and sold an additional 951,837 shares of common stock at the IPO price of \$16.00 per share pursuant to the underwriters’ partial exercise of their option to purchase additional shares of common stock, resulting in additional net proceeds of \$14.2 million after deducting underwriting discounts and commissions.

The accompanying condensed consolidated financial statements have been prepared on the basis of continuity of operations, realization of assets and the satisfaction of liabilities and commitments in the ordinary course of business. Since inception, the Company has funded its operations primarily with proceeds from sales of preferred stock, debt financing, an upfront payment of \$15.0 million the Company received in July 2020 under a collaboration agreement with Merck Sharp & Dohme Corp. (see Note 9), and most recently, with proceeds from the sale of common stock in the IPO completed in October 2020. The Company has incurred losses since inception and as of September 30, 2021, the Company had an accumulated deficit of \$235.1 million. The Company expects to continue to generate operating losses in the foreseeable future. As of the issuance date of these interim condensed consolidated financial statements the Company expects that its cash, cash equivalents and marketable securities will be sufficient to fund its operating expenses and capital expenditure requirements for at least 12 months.

The Company will need to obtain additional funding through public or private equity offerings, debt financings, collaborations, strategic alliances and/or licensing arrangements. The Company may not be able to obtain financing on acceptable terms, or at all, and the Company may not be able to enter into collaborative or strategic alliances or licensing arrangements. The terms of any financing may adversely affect the holdings or the rights of the Company’s stockholders. Arrangements with collaborators or others may require the Company to relinquish rights to certain of its technologies or programs. If the Company is unable to obtain funding, the Company could be forced to delay, reduce or eliminate some or all of its research and development programs, pipeline expansion or commercialization efforts, which could adversely affect its business prospects. Although management will continue to pursue these plans, there is no assurance that the Company will be successful in obtaining sufficient funding on terms acceptable to the Company to fund continuing operations when needed or at all.

Basis of presentation

The Company's condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and pursuant to the rules and regulations of the United States Securities and Exchange Commission for interim financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All intercompany accounts and transactions have been eliminated in consolidation. Any reference in these notes to applicable guidance is meant to refer to the authoritative GAAP as found in the Accounting Standards Codification ("ASC") and Accounting Standards Update ("ASU") of the Financial Accounting Standards Board ("FASB").

2. Summary of Significant Accounting Policies

The accounting policies of the Company are set forth in Note 2 to the consolidated financial statements contained in the Company's 2020 Annual Report on Form 10-K and the accounting policies followed by the Company for interim financial reporting are consistent with the accounting policies therein.

Recently issued accounting pronouncements

From time to time, new accounting pronouncements are issued by the FASB or other standard setting bodies that the Company adopts as of the specified effective date. The Company qualifies as an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012 and has elected not to "opt out" of the extended transition related to complying with new or revised accounting standards, which means that when a standard is issued or revised and it has different application dates for public and nonpublic companies, the Company can adopt the new or revised standard at the time nonpublic companies adopt the new or revised standard and can do so until such time that the Company either (i) irrevocably elects to "opt out" of such extended transition period or (ii) no longer qualifies as an emerging growth company.

3. Marketable Securities and Fair Value Measurements

As of September 30, 2021, available for sale marketable securities by security type consisted of (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper (due within one year)	\$ 41,990	\$ —	\$ (3)	\$ 41,987
Corporate notes and bonds (due within one year)	21,024	—	(10)	21,014
Total	<u>\$ 63,014</u>	<u>\$ —</u>	<u>\$ (13)</u>	<u>\$ 63,001</u>

As of December 31, 2020, available for sale marketable securities by security type consisted of (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. treasury notes (due within one year)	\$ 92,982	\$ —	\$ (7)	\$ 92,975
Total	<u>\$ 92,982</u>	<u>\$ —</u>	<u>\$ (7)</u>	<u>\$ 92,975</u>

The following tables present the Company's fair value hierarchy for its assets and liabilities, which are measured at fair value on a recurring basis (in thousands):

	Fair Value Measurements at September 30, 2021 Using:			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents:				
Money market funds	\$ 53,771	\$ —	\$ —	\$ 53,771
U.S. treasury notes	—	2,070	—	2,070
Commercial paper	—	2,000	—	2,000
Marketable securities:				
Commercial paper	—	41,987	—	41,987
Corporate notes and bonds	—	21,014	—	21,014
Total	\$ 53,771	\$ 67,071	\$ —	\$ 120,842
	Fair Value Measurements at December 31, 2020 Using:			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents:				
Money market funds	\$ 48,770	\$ —	\$ —	\$ 48,770
U.S. treasury notes	—	42,997	—	42,997
Marketable securities:				
U.S. treasury notes	—	92,975	—	92,975
Total	\$ 48,770	\$ 135,972	\$ —	\$ 184,742

During the three and nine months ended September 30, 2021 and 2020, there were no transfers between Level 1, Level 2 and Level 3.

4. Property and Equipment, Net

Property and equipment, net consisted of the following (in thousands):

	September 30, 2021	December 31, 2020
Laboratory equipment	\$ 4,889	\$ 3,740
Furniture and fixtures	815	815
Computer equipment and software	100	100
Leasehold improvements	17,062	16,961
Assets not yet placed in service	—	15
	22,866	21,631
Less: Accumulated depreciation and amortization	(4,520)	(2,103)
	18,346	19,528

Depreciation and amortization expense was \$0.8 million and \$0.3 million for the three months ended September 30, 2021 and 2020, respectively, and \$2.4 million and \$0.8 million for the nine months ended September 30, 2021 and 2020, respectively.

5. Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	September 30, 2021	December 31, 2020
Accrued employee compensation and benefits	\$ 3,242	\$ 3,513
Accrued external research and development expenses	3,067	2,146
Accrued professional fees	780	979
Accrued tenant improvements	9	2,385
Other	108	138
	<u>\$ 7,206</u>	<u>\$ 9,161</u>

6. Notes Payable

Long-term debt consisted of the following (in thousands):

	September 30, 2021	December 31, 2020
Principal amount of long-term debt	\$ 20,000	\$ 20,000
Less: Current portion of long-term debt	—	—
Long-term debt, net of current portion	20,000	20,000
Final payment fee	1,000	1,000
Debt discount, net of accretion	(1,086)	(1,346)
Long-term debt, net of discount and current portion	<u>\$ 19,914</u>	<u>\$ 19,654</u>

As of September 30, 2021, the Company had outstanding loans under its loan and security agreement of \$20.0 million.

On November 19, 2020, the Company entered into a loan and security agreement (the "Oxford Loan Agreement"), with Oxford Finance LLC, or Oxford, for an aggregate principal amount of \$20.0 million (the "Oxford Term Loan A") and up to an additional \$5.0 million (the "Oxford Term Loan B"). On November 19, 2020, the Company borrowed \$20.0 million under the Oxford Term Loan A. Oxford Term Loan A and Oxford Term Loan B (the "Term Loans") bear interest at a floating per annum rate equal to the greater of (i) 8.0% and (ii) the sum of (a) thirty-day LIBOR rate plus (b) 7.84%. In addition, upon loan maturity or prepayment, the Company is required to make a final payment fee equal to 5.0% of the aggregate principal amount borrowed which is being amortized to interest expense over the term of the debt using the effective interest method.

The Company is required to make monthly interest only payments under the Oxford Loan each month beginning on January 1, 2021. Beginning on December 1, 2023, the Company is required to make consecutive equal monthly payments of principal, together with applicable interest, in arrears, based upon a repayment schedule equal to 24 months, with a final maturity date of November 1, 2025 (the "Maturity Date"). At the Company's option, the Company may elect to prepay the loans subject to a prepayment fee equal to the following percentage of the principal amount being prepaid: 2% if an advance is prepaid during the first 12 months following the applicable advance date, 1% if an advance is prepaid after 12 months but prior to 24 months following the applicable advance date, and 0.5% if an advance is prepaid any time after 24 months following the applicable advance date but prior to the Maturity Date.

The Company's obligations under the Oxford Loan Agreement are secured by a security interest in all of its assets, other than its intellectual property. The Company is also subject to certain affirmative and negative covenants restricting the Company's activities, including limitations on dispositions, mergers or acquisitions; encumbering its intellectual property; incurring indebtedness or liens; paying dividends; making certain investments; and engaging in certain other business transactions. The obligations under the Loan are subject to acceleration upon the occurrence of specified events of default, including a material adverse change in the Company's business, operations or financial or other condition. Upon the occurrence of an event of default and until such event of default is no longer continuing, the annual interest rate will be 5.0% above the otherwise applicable rate. As of September 30, 2021 and December 31, 2020, the Company believes an event of default would be remote.

In connection with the Oxford Loan Agreement, the Company granted warrants to purchase 18,445 shares of the Company's common stock at \$16.26 per share. The issued warrants are exercisable for 10 years. The Company valued the warrants using

the Black-Scholes option pricing model and determined the fair value of the warrants to be \$0.2 million. The Company determined the warrants met the criteria for equity classification, and, as such, the fair value of the warrants were recorded as additional paid-in capital and as a discount to the debt which is being amortized to interest expense over the term of the Oxford Loan of five years. In addition, the Company incurred debt issuance costs of \$0.2 million.

As of September 30, 2021, the interest rate applicable to outstanding borrowings under the Oxford Loan Agreement was 8.0%. During the three and nine months ended September 30, 2021, the weighted average effective interest rate on outstanding borrowings was approximately 9.7%.

As of September 30, 2021, future principal payments due are as follows (in thousands):

Remainder of 2021 (three months)	\$	—
2022		—
2023		833
2024		10,000
2025	\$	9,167
	\$	<u>20,000</u>

As of September 30, 2020, the Company had outstanding loans under its amended loan and security agreement with Comerica Bank. In November 2020, the Company used a portion of the proceeds from the Oxford Loan Agreement described above to repay the outstanding principal balances in full plus unpaid accrued interest and the final payment fee.

7. Common Stock and Net Loss Per Share

Common Stock

Each share of common stock entitles the holder to one vote on all matters submitted to a vote of the Company's stockholders. Common stockholders are not entitled to receive dividends, unless declared by the board of directors.

Net Loss Per Share

The following common stock equivalents presented based on amounts outstanding at each period end, have been excluded from the calculation of diluted net loss per share because including them would have had an anti-dilutive impact:

	September 30,	
	2021	2020
Stock options to purchase common stock	6,229,978	4,931,761
Warrants to purchase common stock	18,445	—
Convertible preferred stock (as converted to common stock)	—	21,958,588
Warrants to purchase convertible preferred stock (as converted to common stock)	—	7,608
Unvested restricted common stock	—	222,977
	<u>6,248,423</u>	<u>27,120,934</u>

8. Stock-Based Compensation

2016 Stock Incentive Plan

The Company's 2016 Stock Incentive Plan (the "2016 Plan") provided for the Company to grant incentive stock options or nonqualified stock options and other equity awards to employees, directors and consultants of the Company. Upon the effectiveness of the 2020 Equity Incentive Plan (the "2020 Plan") in October 2020, the Company ceased granting additional awards under the 2016 Plan.

2020 Equity Incentive Plan

On October 21, 2020, the Company's board of directors adopted and its stockholders approved the 2020 Plan, which became effective on October 21, 2020. The 2020 Plan provides for the grant of incentive stock options, non-qualified options, stock appreciation rights, restricted stock awards, restricted stock units and other stock-based awards. The number of shares initially reserved for issuance under the 2020 Plan was (i) 2,200,000 shares (the "share pool"), plus (ii) the number of shares of common stock available for issuance under the 2016 Plan as of the effective date of the 2020 Plan, plus the number of shares of common

stock underlying awards under the 2016 Plan that on or after the date of adoption expire or become unexercisable without delivery of shares, are forfeited to, or repurchased for cash, are settled in cash, or otherwise become available again for grant under the 2016 Plan, in each case, in accordance with its terms (up to an aggregate of 5,078,295 shares). As of September 30, 2021, 2,217,335 shares remained available for future grant under the 2020 Plan.

The share pool will automatically increase on January 1 of each year from 2021 to 2030 by the lesser of (i) four percent of the number of shares of our common stock outstanding as of the close of business on the immediately preceding December 31 and (ii) the number of shares determined by the board of directors on or prior to such date for such year. The number of shares reserved for issuance under the 2020 Plan was increased by 1,471,576 shares effective January 1, 2021.

The 2020 Plan is administered by the board of directors or, at the discretion of the board of directors, by a committee of the board of directors. The exercise prices, vesting and other restrictions are determined at the discretion of the board of directors, or its committee if so delegated. Stock options granted with service-based vesting conditions generally vest over four years and expire after ten years. The exercise price for stock options granted is not less than the fair value of common stock on the date of grant. The Company bases fair value of common stock on the quoted market price. Prior to the IPO, the board of directors determined the value the Company's common stock, taking into consideration its most recently available valuation of common stock performed by third parties as well as additional relevant factors which may have changed since the date of the most recent contemporaneous valuation through the date of grant.

2020 Employee Stock Purchase Plan

On October 21, 2020, the Company's board of directors adopted and its stockholders approved the 2020 Employee Stock Purchase Plan (the "ESPP"), which became effective on October 21, 2020. The aggregate number of shares of common stock available for purchase pursuant to the exercise of options under the ESPP is 360,000 shares, plus an automatic annual increase, as of January 1 of each year from 2021 to 2030, equal to the lesser of one percent of the number of shares of common stock outstanding as of the close of business on the immediately preceding December 31 and (ii) the number of shares determined by the board of directors on or prior to such date for such year (up to a maximum of 3,220,520 shares). The number of shares reserved for issuance under the ESPP was increased by 367,894 shares effective January 1, 2021.

The first offering period commenced under this ESPP on September 1, 2021. The Company recognized a de minimis amount of expense related to the ESPP for the three and nine months ended September 30, 2021.

Stock-based compensation

Stock-based compensation expense was classified in the statements of operations and comprehensive loss as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Research and development expenses	\$ 1,195	\$ 500	\$ 3,318	\$ 1,125
General and administrative expenses	1,172	377	2,979	758
	<u>\$ 2,367</u>	<u>\$ 877</u>	<u>\$ 6,297</u>	<u>\$ 1,883</u>

As of September 30, 2021, total unrecognized compensation cost related to unvested options was \$23.2 million, which is expected to be recognized over a weighted average period of 2.9 years.

9. Collaboration Agreement

In July 2020, the Company entered into a research collaboration and license agreement (the "Collaboration Agreement") with Merck Sharp & Dohme Corp. ("Merck"). The Company and Merck will apply Foghorn's proprietary Gene Traffic Control platform to discover and develop novel therapeutics. Under the Collaboration Agreement, the Company granted Merck exclusive global rights to develop, manufacture and commercialize drugs that target dysregulation of a single transcription factor. Under the terms of the Collaboration Agreement, the Company and Merck are each responsible to perform certain research activities in accordance with a mutually-agreed upon research plan. Merck may substitute the selected transcription factor during certain stages of the research program, subject to certain limitations. Following completion of the research program, Merck is responsible for the development and commercialization of the compounds developed pursuant to the research program and any product containing such compounds. Pursuant to the Collaboration Agreement, the Company will also participate on a joint steering committee.

Under the terms of the agreement, Foghorn received a nonrefundable upfront payment of \$15.0 million from Merck and is eligible to receive up to \$245.0 million upon achievement of specified research, development and regulatory milestones by any

product candidate generated by the collaboration, and up to \$165.0 million upon achievement of specified sales-based milestones per approved product from the collaboration, if any. The Company will be eligible to receive tiered royalties, calculated on a product-by-product and country-by-country basis, on net sales of approved products from the collaboration, if any, at royalty rates ranging from the mid single digits to low tens, depending on whether the products are covered by patent rights it licenses to Merck.

Unless terminated earlier, the Collaboration Agreement will continue in full force and effect until one or more products has received marketing authorization and, thereafter, until expiration of all royalty obligations under the Collaboration Agreement. The Company or Merck may terminate the Collaboration Agreement upon an uncured material breach by the other party or insolvency of the other party. Merck may also terminate the Merck Collaboration Agreement for any reason upon certain notice to the Company.

The Company determined that the (1) research, development, manufacture and commercialization licenses, (2) the research activities performed by the Company and (3) service on the joint committees represent a single performance obligation under the Collaboration Agreement. The Company determined that Merck cannot benefit from the licenses separately from the research activities and participation on the joint steering committee because these services are specialized and rely on the Company's expertise such that these activities are highly interrelated and therefore not distinct. Accordingly, the promised goods and services represent one combined performance obligation, and the entire transaction price was allocated to that single combined performance obligation. The performance obligation will be satisfied over the research term as the Company performs the research activities and participates in a joint steering committee to oversee research activities.

The upfront payment of \$15.0 million was initially recorded as deferred revenue and is being recognized as revenue as the performance obligation is satisfied. The Company recognizes revenue using the cost-to-cost method, which it believes best depicts the transfer of control to the customer over time. Under the cost-to-cost method, the extent of progress towards completion is measured based on the ratio of actual costs incurred to the total estimated costs expected upon satisfying the identified performance obligation. Under this method, revenue is recorded as a percentage of the estimated transaction price based on the extent of progress towards completion. As of September 30, 2021, the potential research, development and regulatory milestone payments that the Company is eligible to receive were excluded from the transaction price as they were fully constrained by uncertain events. The Company will reevaluate the transaction price at the end of each reporting period and as uncertain events are resolved or other changes in circumstances occur, and if necessary, the Company will adjust its estimate of the transaction price. Any additions to the transaction price would be reflected in the period as a cumulative revenue catch-up based on the ratio of costs incurred to the total estimated costs expected applied to the revised transaction price. Sales-based royalties and milestone payments, which predominantly relate to the license, will be recognized if and when the related sales occur.

As of September 30, 2021, the aggregate amount of the transaction price related to the unsatisfied portion of the performance obligation is \$14.0 million, which is expected to be recognized as revenue through 2028. The Company does not expect collaboration revenue to be recognized evenly over this period as it will be recognized on a percentage of completion basis (using cost-to-cost method) as the Company performs the research activities and participates on the joint steering committee, which will likely vary from period to period. In estimating the total costs to satisfy its single performance obligation pursuant to the Collaboration Agreement, the Company is required to make significant estimates including an estimate of the number of transcription factor substitutions and the expected time and expected costs to fulfill the performance obligation. The cumulative effect of revisions to the total estimated costs to complete the Company's single performance obligation will be recorded in the period in which the changes are identified, and amounts can be reasonably estimated. While such revisions will have no impact on the Company's cash flows, a significant change in these assumptions and estimates could have a material impact on the timing and amount of revenue recognized in future periods. In June 2021, the Company re-evaluated its estimates related to the collaboration agreement resulting in a reclass of \$1.9 million from short-term deferred revenue to long-term deferred revenue, net of current portion on the Company's condensed consolidated balance sheets.

At inception, the Company assessed the Collaboration Agreement to determine whether a significant financing component exists and concluded that a significant financing component does not exist. For the three months ended September 30, 2021, the Company had recorded less than \$0.1 million of revenue under the Collaboration Agreement, which was included in deferred revenue at the beginning of the period. For the nine months ended September 30, 2021, the Company had recorded \$0.6 million of revenue under the Collaboration Agreement, which was included in deferred revenue at the beginning of the period.

10. Leases

In October 2019, the Company entered into a lease for 81,441 square feet of office and laboratory space in Cambridge, Massachusetts, commencing in January 2020 (the “New Lease”). The initial term of the New Lease was eight years with a five-year option to extend at fair-market rent at the time of the extension. The base rent payments escalate annually over the eight-year lease term and totaled approximately \$60.3 million. In connection with the New Lease, the landlord agreed to fund up to \$3.0 million in tenant improvements to the leased facility as well as up to an additional \$16.3 million, which resulted in additional rent payments to the landlord over the lease term. During the nine months ended September 30, 2021 and 2020, \$2.5 million and \$8.4 million, respectively, of leasehold improvements were reimbursed by the landlord, which resulted in an increase to operating lease liabilities. The Company will be obligated to pay its portion of real estate taxes and costs related to the premises, including costs of operations and management of the leased premises. On January 1, 2020, the lease commencement date, the Company recorded an operating lease asset of \$38.6 million and corresponding lease liability of \$38.3 million.

In June 2020, the Company amended the New Lease to defer payment of a portion of the base rent and operating expenses and to extend the lease term by nine months to September 2028. The amendment was accounted for as a lease modification and the right-of-use asset and lease liability were remeasured at the modification date of June 29, 2020 resulting in an increase of \$7.4 million to both the right-of-use asset and lease liabilities.

The Company had a lease for office and laboratory facilities in Cambridge, Massachusetts under a noncancellable operating lease that began in August 2017 and expired in March 2025. In April 2020, this lease was assigned and assumed by a related party which became effective in October 2020.

The components of lease expense were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Operating lease cost	\$ 1,887	\$ 2,162	\$ 5,660	\$ 5,145
Short-term lease cost	—	—	—	46
Variable lease cost	731	225	2,222	617
	<u>\$ 2,618</u>	<u>\$ 2,387</u>	<u>\$ 7,882</u>	<u>\$ 5,808</u>

Supplemental disclosure of cash flow information related to leases was as follows (in thousands):

	Nine Months Ended September 30,	
	2021	2020
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 7,219	\$ 1,571
Operating lease liabilities arising from obtaining right-of-use assets	\$ —	\$ 38,306
Increase in operating lease liabilities and right-of-use assets due to lease remeasurement	\$ —	\$ 7,384

The weighted-average remaining lease term and discount rate as of period ends were as follows:

	September 30, 2021	December 31, 2020
Weighted-average remaining lease term - operating leases (in years)	6.9	7.7
Weighted-average discount rate - operating leases	5.35 %	5.35 %

Future annual minimum lease payments under operating leases as of September 30, 2021 were as follows (in thousands):

Remainder of 2021 (three months)	\$ 2,468
2022	9,957
2023	10,051
2024	10,377
2025	10,626
Thereafter	30,584
Total future minimum lease payments	74,063
Less: imputed interest	(12,598)
Less: estimated lease incentives	(1,454)
Total operating lease liabilities	<u>\$ 60,011</u>
Included in the condensed consolidated balance sheet (in thousands):	
	September 30, 2021
Current operating lease liabilities	\$ 6,991
Operating lease liabilities, net of current portion	53,020
Total operating lease liabilities	<u>\$ 60,011</u>

Sublease agreement

In April 2020, the Company entered into a two-year sublease agreement to sublet approximately 16,843 square feet of office space under the New Lease, as amended, which began in July 2020. In February 2021, the Company entered into an amendment to the sublease to sublet approximately 2,980 square feet of additional office space to the sublessee for the remaining lease term. In August 2021, the Company entered into an amendment to, among other things, extend the sublease through November 31, 2022. As of September 30, 2021, the remaining rent payments due to the Company under the amended sublease were \$2.4 million. During the three months ended September 30, 2021 and 2020, the Company recorded other income of \$0.7 million and \$0.3 million, respectively, related to this sublease. During the nine months ended September 30, 2021 and 2020, the Company recorded other income of \$1.9 million and \$0.3 million, respectively, related to this sublease.

11. Commitments and Contingencies

Leases

The Company's commitments under its leases are described in Note 10.

License agreements

The Company has entered into various exclusive and non-exclusive license agreements for certain technologies. Under the terms of these license agreements, the Company could be required to reimburse the licensors for patent expenses and remit amounts in the low single-digit as sales-based royalties upon the occurrence of specific events as outlined in the corresponding license agreements. The Company is also required to make annual license maintenance fees of less than \$0.1 million and pay up to \$1.1 million in regulatory milestones on each licensed product upon the occurrence of specific events as outlined in one of the license agreements. None of our product candidates utilize technologies covered by these licenses.

Indemnification agreements

In the ordinary course of business, the Company may provide indemnification of varying scope and terms to vendors, lessors, contract research organizations, business partners and other parties with respect to certain matters including, but not limited to, losses arising out of breach of such agreements or from intellectual property infringement claims made by third parties. In addition, the Company has entered into indemnification agreements with members of its board of directors and its executive officers 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. The Company has not incurred any material costs as a result of such indemnifications and is not currently aware of any indemnification claims.

Legal Proceedings

From time to time, the Company may become involved in litigation or other legal proceedings. The Company is not currently a party to any material litigation or legal proceedings.

12. Defined Contribution Plan

The Company has a 401(k) defined contribution plan (the “401(k) Plan”) for its employees. Eligible employees may make pretax contributions to the 401(k) Plan up to statutory limits. There was no discretionary match made under the 401(k) Plan as of September 30, 2021.

13. Related Parties

In October 2015, the Company entered into a five-year service agreement with Flagship Pioneering (“Flagship”), an affiliate of one of its stockholders, Flagship Venture Funds, to provide general and administrative services to the Company, including certain consulting services and the provision of employee health and dental benefit plans for the Company’s employees. The Company made cash payments to Flagship for services received under this agreement of \$0.3 million and \$0.9 million during the three and nine months ended September 30, 2020, respectively. As of both September 30, 2021 and December 31, 2020, the Company had no accounts payable to Flagship. This agreement expired in 2020.

In October 2015, the Company entered into a five-year consulting agreement with a scientific founder of the Company who is also a board member and a shareholder. In October 2020, this agreement was extended to January 1, 2022, with an option to renew. During the three and nine months ended September 30, 2021, the Company paid the scientific founder less than \$0.1 million and \$0.1 million, respectively. During the three and nine months ended September 30, 2020, the Company paid the scientific founder \$0.1 million and \$0.2 million, respectively. As of September 30, 2021 and December 31, 2020, the Company had less than \$0.1 million and no accounts payable, respectively, to this scientific founder.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the related notes to those statements included elsewhere in this Quarterly Report on Form 10-Q. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Some of the numbers included herein have been rounded for the convenience of presentation. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Overview

We are pioneering the discovery and development of a new class of medicines targeting genetically determined dependencies within the chromatin regulatory system, an untapped opportunity for therapeutic intervention. Our proprietary Gene Traffic Control platform gives us an integrated, mechanistic understanding of how the various components of the chromatin regulatory system interact, allowing us to identify, validate and potentially drug targets within the system. Breakdowns in the chromatin regulatory system are associated with over 50 percent of all cancers. Addressing these breakdowns could potentially provide therapies for over 2.5 million patients globally. Consequently, we are initially focused in oncology. We are developing FHD-286, a selective, allosteric ATPase inhibitor that is currently being evaluated in separate Phase 1 studies in (i) metastatic uveal melanoma and (ii) relapsed or refractory acute myeloid leukemia (AML) and myelodysplastic syndrome (MDS). We are developing FHD-609, a targeted protein degrader that is currently being evaluated in a Phase 1 study in synovial sarcoma. Our vision is to use our Gene Traffic Control platform to discover and develop drugs in oncology and other therapeutic areas, including virology, autoimmune disease and neurology.

Since our inception in October 2015, we have focused substantially all of our resources on building our Gene Traffic Control platform, organizing and staffing our company, business planning, raising capital, conducting discovery and research activities, protecting our trade secrets, filing patent applications, identifying potential product candidates, undertaking preclinical studies and clinical trial activities, establishing arrangements with third parties for the manufacture of initial quantities of our product candidates and component materials. We do not have any products approved for sale and have not generated any revenue from product sales.

On October 27, 2020, we completed our initial public offering, or IPO, pursuant to which we issued and sold 7,500,000 shares of our common stock at a public offering price of \$16.00 per share, resulting in net proceeds of \$108.0 million, after deducting underwriting discounts and commissions and other offering expenses. On November 19, 2020, we issued and sold an additional 951,837 shares of common stock at the IPO price of \$16.00 per share pursuant to the underwriters’ partial exercise of their option to purchase additional shares of common stock, resulting in additional net proceeds of \$14.2 million after deducting underwriting discounts and commissions. Prior to our IPO, we have funded our operations with proceeds from sales of preferred stock, term loans and an upfront payment of \$15.0 million we received in July 2020 under our collaboration agreement with Merck Sharp & Dohme Corp., or Merck.

We have incurred significant operating losses since our inception. For the nine months ended September 30, 2021 and the year ended December 31, 2020, we reported net losses of \$72.2 million and \$68.8 million, respectively. As of September 30, 2021, we had an accumulated deficit of \$235.1 million. We expect to continue to incur significant expenses and increasing operating losses for at least the next several years. Our ability to generate any product revenue or product revenue sufficient to achieve profitability will depend on the successful development and eventual commercialization of one or more product candidates we may develop.

We expect that our expenses and capital requirements will increase substantially in connection with our ongoing activities, particularly if and as we:

- advance our FHD-286 and FHD-609 product candidates and continue our preclinical development of product candidates from our current research programs;
- identify additional research programs and additional product candidates;
- initiate preclinical testing for any new product candidates we identify and develop;
- obtain, maintain, expand, enforce, defend and protect our trade secrets and intellectual property portfolio and provide reimbursement of third-party expenses related to our patent portfolio;
- hire additional research and development personnel;

- add operational, legal, compliance, financial and management information systems and personnel to support our research, product development and operations as a public company;
- expand the capabilities of our platform;
- acquire or in-license product candidates, intellectual property and technologies;
- operate as a public company;
- seek marketing approvals for any product candidates that successfully complete clinical trials; and
- ultimately establish a sales, marketing and distribution infrastructure to commercialize any products for which we may obtain marketing approval.

We will not generate revenue from product sales unless and until we successfully commercialize one of our product candidates, after completing clinical development and obtaining regulatory approval. If we obtain regulatory approval for any of our product candidates, we expect to incur significant expenses related to developing our commercialization capability to support product sales, marketing, manufacturing and distribution. Further, we expect to incur additional costs associated with operating as a public company.

As a result, we will need substantial additional funding to support our continuing operations and pursue our growth strategy. Until such time as we can generate significant revenue from product sales, if ever, we expect to finance our operations through a combination of equity offerings, debt financings and collaborations or licensing arrangements and our collaboration agreement with Merck. We may be unable to raise additional funds or enter into such other agreements or arrangements when needed on favorable terms, or at all. If we fail to raise capital or enter into such agreements as, and when, needed, we may have to significantly delay, scale back our development or commercialization plans for one or more of our product candidates.

Because of the numerous risks and uncertainties associated with pharmaceutical product development, we are unable to accurately predict the timing or amount of increased expenses or when, or if, we will be able to achieve or maintain profitability. Even if we are able to generate product sales, we may not become profitable. If we fail to become profitable or are unable to sustain profitability on a continuing basis, then we may be unable to continue our operations at planned levels and be forced to reduce or terminate our operations.

COVID-19

In March 2020, COVID-19 was declared a global pandemic by the World Health Organization and to date the COVID-19 pandemic continues to present a substantial public health and economic challenge around the world. The length of time and full extent to which the COVID-19 pandemic will directly or indirectly impact our business, results of operations and financial condition will depend on future developments that are highly uncertain, subject to change and are difficult to predict. While we continue to conduct our research and development activities, the COVID-19 pandemic may cause disruptions that affect our ability to initiate and complete preclinical studies, ongoing and future clinical trials or to procure items that are essential for our research and development activities.

We plan to continue to closely monitor the ongoing impact of the COVID-19 pandemic on our employees and our business operations. In an effort to provide a safe work environment for our employees, we have, among other things, increased the cadence of sanitization of our office and lab facilities, implemented various social distancing measures in our office and labs including replacing in-person meetings with virtual interactions, and are providing personal protective equipment for our employees present in our office and lab facilities. We expect to continue to take actions as may be required or recommended by government authorities or as we determine are in the best interests of our employees and other business partners in light of the pandemic.

Components of Our Results of Operations

Collaboration Revenue

To date, we have not generated any revenue from product sales and do not expect to generate any revenue from the sale of products in the near future. If our development efforts for our product candidates are successful and result in regulatory approval or licenses with third parties, we may generate revenue in the future from product sales, milestone payments under our existing collaboration agreement or payments from other license agreements that we may enter into with third parties.

In July 2020, we entered into a strategic research collaboration and license agreement, or the Collaboration Agreement, with Merck, pursuant to which we will apply our proprietary Gene Traffic Control platform to discover and develop novel

therapeutics. Under the Collaboration Agreement, we granted Merck exclusive global rights to develop, manufacture, and commercialize drugs that target dysregulation of a single transcription factor. Under the terms of the Collaboration Agreement, we received a nonrefundable upfront payment of \$15.0 million from Merck and are eligible to receive up to \$245.0 million upon achievement of specified research, development and regulatory milestones by any product candidate generated by the collaboration, and up to \$165.0 million upon achievement of specified sales-based milestones per approved product from the collaboration, if any, as well as royalties on sales of any approved product from the collaboration. We cannot provide assurance as to the timing of future milestone or royalty payments or that we will receive any of these payments at all.

We record revenue over the research term as we satisfy our performance obligation under the Collaboration Agreement. Accordingly, the upfront payment of \$15.0 million is being recognized as revenue using the cost-to-cost method, which we believe best depicts the transfer of control to the customer over time. Under the cost-to-cost method, the extent of progress towards completion is measured based on the ratio of actual costs incurred to the total estimated costs expected upon satisfying the identified single performance obligation. We expect revenue to fluctuate as the achievement of milestones becomes probable and as our efforts to satisfy our performance obligation vary from period to period. In estimating the total costs to satisfy our performance obligation pursuant to the Collaboration Agreement, we are required to make significant estimates including an estimate of the number of transcription factor substitutions and the expected time and expected costs to fulfill the performance obligation. The cumulative effect of revisions to the total estimated costs to complete our performance obligation will be recorded in the period in which the changes are identified, and amounts can be reasonably estimated. While such revisions will have no impact on our cash flows, a significant change in these assumptions and estimates could have a material impact on the timing and amount of revenue recognized in future periods. In June 2021, the Company re-evaluated its estimates related to the collaboration agreement resulting in a reclass of \$1.9 million from short-term deferred revenue to long-term deferred revenue, net of current portion on the Company's condensed consolidated balance sheets. During the three and nine months ended September 30, 2021, we recognized less than \$0.1 million and \$0.6 million, respectively, of revenue under the Collaboration Agreement and, as of September 30, 2021, we had \$14.0 million of deferred revenue related to the upfront payment remaining on our condensed consolidated balance sheets.

Operating Expenses

Our operating expenses are comprised of research and development expenses and general and administrative expenses.

Research and Development Expenses

Research and development expenses consist primarily of costs incurred for our research activities, including our discovery efforts, and progressing our programs, which include:

- personnel-related costs, including salaries, benefits and stock-based compensation expense, for employees engaged in research and development functions;
- expenses incurred in connection with our research programs and preclinical and clinical development of our product candidates, including under agreements with third parties, such as consultants and contractors and contract research organizations, or CROs;
- the cost of manufacturing drug substance and drug product for use in our research and preclinical studies and clinical trials under agreements with third parties, such as consultants and contractors and contract development and manufacturing organizations, or CDMOs;
- laboratory supplies and research materials;
- facilities, depreciation and amortization and other expenses, which include direct and allocated expenses for rent and maintenance of facilities and insurance; and
- payments made under third-party licensing agreements.

We track our direct external research and development expenses on a program-by-program basis. These consist of costs that include fees, reimbursed materials, and other costs paid to consultants, contractors, CDMOs, and CROs in connection with our preclinical, clinical and manufacturing activities. We do not allocate employee costs, costs associated with our discovery efforts, laboratory supplies, and facilities expenses, including depreciation or other indirect costs, to specific product development programs because these costs are deployed across multiple programs and our platform and, as such, are not separately classified.

We expect that our research and development expenses will increase substantially as we advance our programs into clinical development and expand our discovery, research and preclinical activities in the near term and in the future. At this time, we

cannot accurately estimate or know the nature, timing and costs of the efforts that will be necessary to complete the preclinical and clinical development of any product candidates we may develop. A change in the outcome of any number of variables with respect to product candidates we may develop could significantly change the costs and timing associated with the development of that product candidate. We may never succeed in obtaining regulatory approval for any product candidates we may develop.

General and Administrative Expenses

General and administrative expenses consist primarily of personnel-related costs, including salaries, benefits and stock-based compensation, for employees engaged in executive, legal, finance and accounting and other administrative functions. General and administrative expenses also include professional fees for legal, patent, consulting, investor and public relations and accounting and audit services as well as direct and allocated facility-related costs.

We anticipate that our general and administrative expenses will increase in the future as we increase our headcount to support our continued research activities and development of our programs and platform. We also anticipate that we will continue to incur increased accounting, audit, legal, regulatory, compliance, director and officer insurance costs and investor and public relations expenses associated with operating as a public company.

Other Income (Expense)

Interest Expense

Interest expense consists of interest expense associated with outstanding borrowings under our loan agreements as well as the amortization of debt discount associated with such agreements.

Interest Income and Other Income (Expense), Net

Interest income consists of interest earned on our invested cash balances. Other income (expense) consists of sublease income and miscellaneous expense unrelated to our core operations.

Income Taxes

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

As of December 31, 2020, we had federal and state net operating loss carryforwards of \$147.3 million and \$132.3 million, respectively, which may be available to offset future taxable income. The federal net operating loss carryforwards include \$12.5 million which expire at various dates beginning in 2035 and \$134.8 million which carryforward indefinitely but in some circumstances may be limited to offset 80% of annual taxable income. The state net operating loss carryforwards expire at various dates beginning in 2036. As of December 31, 2020, we also had federal and state research and development tax credit carryforwards of \$3.4 million and \$2.0 million, respectively, which may be available to reduce future tax liabilities and expire at various dates beginning in 2036 and 2031, respectively. Due to our history of cumulative net losses since inception and uncertainties surrounding our ability to generate future taxable income, we have recorded a full valuation allowance against our net deferred tax assets at each balance sheet date.

Critical Accounting Policies and Significant Judgments and Estimates

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States, or GAAP. The preparation of our consolidated financial statements and related disclosures requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, costs and expenses and the disclosure of contingent assets and liabilities in our consolidated financial statements. We base our estimates on historical experience, known trends and events and various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are described in more detail in Note 2 to our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 as well as elsewhere in this Quarterly Report on Form 10-Q, we believe that revenue recognition, accrued research and development expenses and stock-based compensation are those most critical to the judgments and estimates used in the preparation of our consolidated financial statements. There have

been no material changes to our critical accounting policies and estimates detailed in the *Critical Accounting Policies and Significant Judgements* section of *Item 7. Managements Discussion and Analysis of financial Condition and Results of Operations* in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Results of Operations

Comparison of the Three and Nine 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*:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	Change	2021	2020	Change
	(in thousands)			(in thousands)		
Collaboration revenue	\$ 41	\$ 179	\$ (138)	\$ 606	\$ 179	\$ 427
Operating expenses:						
Research and development	20,494	16,113	4,381	57,862	41,244	16,618
General and administrative	5,808	2,555	3,253	15,396	6,687	8,709
Total operating expenses	26,302	18,668	7,634	73,258	47,931	25,327
Loss from operations	(26,261)	(18,489)	(7,772)	(72,652)	(47,752)	(24,900)
Other income (expense):						
Interest expense	(499)	(202)	(297)	(1,480)	(658)	(822)
Interest income and other income (expense), net	680	394	286	1,955	437	1,518
Change in fair value of preferred stock warrant liability	—	(70)	70	—	(69)	69
Total other income (expense), net	181	122	59	475	(290)	765
Net loss	\$ (26,080)	\$ (18,367)	\$ (7,713)	\$ (72,177)	\$ (48,042)	\$ (24,135)

Collaboration Revenue

Collaboration revenue recognized during the three months ended September 30, 2021 and 2020 of less than \$0.1 million and \$0.2 million, respectively, was related to our Collaboration Agreement. The upfront payment of \$15.0 million was initially recorded as deferred revenue and is being recognized as revenue under the cost-to-cost method.

Collaboration revenue recognized during the nine months ended September 30, 2021 and 2020 of \$0.6 million and \$0.2 million was related to our Collaboration Agreement. The upfront payment of \$15.0 million was initially recorded as deferred revenue and is being recognized as revenue under the cost-to-cost method.

Research and Development Expenses

The following table summarizes our research and development expenses for the three and nine months ended September 30, 2021 and 2020:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	Change	2021	2020	Change
	(in thousands)			(in thousands)		
Direct research and development expenses by program:						
FHD-286	\$ 2,231	\$ 1,220	\$ 1,011	\$ 6,279	\$ 4,289	\$ 1,990
FHD-609	2,597	3,300	(703)	5,309	5,269	40
Platform, research and discovery, and unallocated expenses:						
Platform and other early stage research external costs	4,988	3,349	1,639	14,045	9,735	4,310
Personnel related (including stock-based compensation)	6,243	4,568	1,675	18,549	12,846	5,703
Facility related and other	4,435	3,676	759	13,680	9,105	4,575
Total research and development expenses	\$ 20,494	\$ 16,113	\$ 4,381	\$ 57,862	\$ 41,244	\$ 16,618

Research and development expenses were \$20.5 million for the three months ended September 30, 2021, compared to \$16.1 million for the three months ended September 30, 2020. The increase is attributed to the following:

- an increase in personnel-related costs of \$1.7 million, including a \$0.7 million increase in stock-based compensation expense, due primarily to increased headcount in our research and development function;
- an increase in platform and other early stage research costs of \$1.6 million, which was due to continued investment and development of our platform and early research pipeline;
- an increase in FHD-286 program costs of \$1.0 million as the Company initiated Phase 1 clinical trials in uveal melanoma and AML;
- an increase in facility-related expenses and other of \$0.8 million, which was due to the increased costs of supporting a growing research and development organization and their research efforts, including increased rent and maintenance expense related to our new facility lease, and purchases lab supplies, consumables, and equipment; and
- a decrease in our FHD-609 program costs of \$0.7 million as the Company initiated a Phase 1 clinical trial in synovial sarcoma in 2021, which was offset by the costs associated with IND-enabling toxicology studies that were ongoing during the third quarter of 2020.

Research and development expenses were \$57.9 million for the nine months ended September 30, 2021, compared to \$41.2 million for the three months ended September 30, 2020. The increase is attributed to the following:

- an increase in personnel-related costs of \$5.7 million, including a \$2.2 million increase in stock-based compensation expense due primarily to increased headcount in our research and development function;
- an increase in facility-related expenses and other of \$4.6 million was due to the increased costs of supporting a growing research and development organization and their research efforts, including increased rent and maintenance expense related to our new facility lease, and purchases lab supplies, consumables, and equipment;
- an increase in platform and other early stage research costs of \$4.3 million, which was due to continued investment and development of our platform and early research pipeline; and
- an increase in FHD-286 program costs of \$2.0 million as the Company initiated Phase 1 clinical trials in uveal melanoma and AML.

General and Administrative Expenses

The following table summarizes our general and administrative expenses for the three and nine months ended September 30, 2021 and 2020:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	Change	2021	2020	Change
	(in thousands)			(in thousands)		
Personnel related (including stock-based compensation)	\$ 3,215	\$ 1,474	\$ 1,741	\$ 8,376	\$ 3,946	\$ 4,430
Professional and consultant	1,381	741	640	3,452	1,958	1,494
Facility related and other	1,212	340	872	3,568	783	2,785
Total general and administrative expenses	<u>\$ 5,808</u>	<u>\$ 2,555</u>	<u>\$ 3,253</u>	<u>\$ 15,396</u>	<u>\$ 6,687</u>	<u>\$ 8,709</u>

General and administrative expenses were \$5.8 million for the three months ended September 30, 2021, compared to \$2.6 million for the three months ended September 30, 2020. The increase is attributed to the following:

- an increase in personnel-related costs of \$1.7 million, including a \$0.8 million increase in stock-based compensation expense, which was a result of an increase in headcount in our general and administrative function to support our business;
- an increase in facility related and other expense of \$0.9 million which was primarily due to increased rent, maintenance, and non-capital equipment expense related to our new facility lease; and
- an increase in professional and consulting costs of \$0.6 million, which was due to increased audit, tax, and consulting services associated with being a publicly traded company.

General and administrative expenses were \$15.4 million for the nine months ended September 30, 2021, compared to \$6.7 million for the nine months ended September 30, 2020. The increase was primarily a result of the following:

- an increase in personnel-related costs of \$4.4 million, including a \$2.2 million increase in stock-based compensation expense, which was a result of an increase in headcount in our general and administrative function to support our business;
- an increase in facility related and other expense of \$2.8 million was primarily due to including increased rent, maintenance, and non-capital equipment expense related to our new facility lease; and
- an increase in professional and consulting costs of \$1.5 million, which was due to increased audit, tax, and consulting services associated with being a publicly traded company.

Other Income (Expense)

Interest expense was \$0.5 million for the three months ended September 30, 2021, compared to \$0.2 million for the three months ended September 30, 2020. The increase was due to the increased outstanding debt balance and higher interest rates as of September 30, 2021 compared to September 30, 2020, resulting from the Oxford Loan.

Interest expense was \$1.5 million for the nine months ended September 30, 2021, compared to \$0.7 million for the three months ended September 30, 2020. The increase was due to the increased outstanding debt balance and higher interest rates as of September 30, 2021 compared to September 30, 2020, resulting from the Oxford Loan.

Interest income and other income (expense), net was \$0.7 million for the three months ended September 30, 2021 and consisted primarily of sublease income of \$0.7 million related to the sublease that began in July 2020. Interest income and other income (expense), net of a de minimis amount for the three months ended September 30, 2020 consisted primarily of sublease income of \$0.4 million.

Interest income and other income (expense), net was \$2.0 million for the nine months ended September 30, 2021 and consisted primarily of sublease income of \$1.9 million related to the sublease that began in July 2020. Interest income and other income (expense), net was \$0.4 million for the nine months ended September 30, 2020 consisted primarily of sublease income of \$0.4 million.

Liquidity and Capital Resources

Since our inception in October 2015, we have incurred significant operating losses. We expect to incur significant expenses and operating losses for the foreseeable future as we support our continued research activities and development of our programs and platform. Through September 30, 2021, we have funded our operations with proceeds from our IPO in October 2020, sales of preferred stock, term loans and an upfront payment of \$15.0 million we received in July 2020 under our Collaboration Agreement. As of September 30, 2021, we had unrestricted cash, cash equivalents and marketable securities of \$120.8 million.

On October 27, 2020, we completed our IPO pursuant to which we issued and sold 7,500,000 shares of our common stock at a public offering price of \$16.00 per share, resulting in net proceeds of \$108.0 million, after deducting underwriting discounts and commissions and other offering expenses.

On November 19, 2020, we issued and sold an additional 951,837 shares of common stock at the IPO price of \$16.00 per share pursuant to the underwriters' partial exercise of their option to purchase additional shares of common stock, resulting in additional net proceeds of \$14.2 million after deducting underwriting discounts and commissions.

Cash Flows

The following table summarizes our sources and uses of cash for each of the periods presented:

	Nine Months Ended September 30,	
	2021	2020
	(in thousands)	
Cash used in operating activities	\$ (62,132)	\$ (20,631)
Cash provided by (used in) investing activities	26,500	(8,694)
Cash provided by financing activities	678	88,964
Net increase (decrease) in cash, cash equivalents and restricted cash	\$ (34,954)	\$ 59,639

Operating Activities

During the nine months ended September 30, 2021, operating activities used \$62.1 million of cash, resulting from our net loss of \$72.2 million and by changes in our operating assets and liabilities of \$2.2 million, partially offset by net non-cash charges of \$12.3 million. Net cash used by changes in our operating assets and liabilities for the nine months ended September 30, 2021 consisted primarily of a decrease of \$2.4 million in lease liabilities and a decrease of \$0.6 million in deferred revenue resulting from the recognition of revenue on the upfront payment received in connection with our Collaboration Agreement partially offset by a \$0.5 million increase in accounts payable and accrued expenses and a decrease of \$0.3 million in prepaid expenses and other current assets.

During the nine months ended September 30, 2020, operating activities used \$20.6 million of cash, resulting from our net loss of \$48.0 million, partially offset by net non-cash charges of \$6.0 million and net cash provided by changes in our operating assets and liabilities of \$21.4 million. Net cash provided by changes in our operating assets and liabilities for the nine months ended September 30, 2020 consisted primarily of a \$14.8 million increase in deferred revenue resulting from the upfront payment received in connection with our collaboration agreement and a \$8.9 million increase in operating lease liabilities resulting from our landlord incentives partially offset by a decrease of \$0.6 million in accounts payable and accrued expenses and other current liabilities and an increase of \$1.7 million in prepaid expenses and other current assets.

Changes in accounts payable, accrued expenses and other current liabilities and prepaid expenses and other current assets in all periods were generally due to growth in our business, the advancement of our research programs and the timing of vendor invoicing and payments.

Investing Activities

During the nine months ended September 30, 2021 net cash provided by investing activities was \$26.5 million due to \$119.5 million of sales of marketable securities partially offset by \$89.7 million of purchases of marketable securities and \$3.3 million

in purchases of property and equipment. Property and equipment purchases for the nine months ended September 30, 2021 were primarily related to leasehold improvements for our new facility in Cambridge, Massachusetts.

During the nine months ended September 30, 2020, net cash used in investing activities was \$8.7 million due to the acquisition of property and equipment during the period. Property and equipment purchases for the nine months ended September 30, 2020 were primarily related to leasehold improvements for our new facility in Cambridge, Massachusetts.

Financing Activities

During the nine months ended September 30, 2021, net cash provided by financing activities was \$0.7 million consisting of net proceeds from the exercise of common stock options.

During the nine months ended September 30, 2020, net cash provided by financing activities was \$89.0 million consisting of proceeds from the sale of our Series B preferred stock of \$89.9 million and net proceeds from the exercise of common stock options of \$0.9 million partially offset by the payment of offering costs of \$1.3 million and the repayment of notes payable of \$0.5 million.

Loan and Security Agreement with Oxford

On November 19, 2020, we entered into a new loan and security agreement, or the Oxford Loan, with Oxford Finance LLC, or Oxford, for an aggregate principal amount of \$20.0 million (Oxford Term Loan A) and up to an additional \$5.0 million (Oxford Term Loan B). Oxford Term Loan A and Oxford Term Loan B (the "Term Loans" bear interest at a floating per annum rate equal to the greater of (i) 8.0% and (ii) the sum of (a) thirty-day U.S. DOLLAR LIBOR rate reported in The Wall Street Journal on the last business day of the month that immediately precedes the month in which the interest will accrue, plus (b) 7.84%. In addition, upon loan maturity or prepayment, we are required to make a final payment fee equal to 5.0% of the aggregate principal amount borrowed. We are required to make monthly interest only payments under the Oxford Loan on the first calendar day of each month beginning on January 1, 2021. Beginning on December 1, 2023, we are required to make consecutive equal monthly payments of principal, together with applicable interest, in arrears, based upon a repayment schedule equal to 24 months, with a final maturity date of November 1, 2025.

Our obligations under the Oxford Loan Agreement will be secured by a security interest in all of our assets, other than our intellectual property. We are also subject to certain affirmative and negative covenants.

Funding Requirements

We expect our expenses to increase substantially in connection with our ongoing activities, particularly as we advance the preclinical activities and initiate clinical trials for our product candidates in development. As of the issuance date of these interim condensed consolidated financial statements, we believe that the net proceeds from our IPO in October 2020, together with our existing cash, cash equivalents and marketable securities, will enable us to fund our operating expenses, capital expenditure requirements and debt service payments for at least 12 months. We have based these estimates as to how long we expect we will be able to fund our operations on assumptions that may prove to be inaccurate. We could use our available capital resources sooner than we currently expect, in which case we would be required to obtain additional financing sooner than planned, which may not be available to us on acceptable terms, or at all. Our failure to raise capital as and when needed would have a negative impact on our financial condition and our ability to pursue our business strategy. We will be required to obtain further funding through public or private equity offerings, debt financings, collaborations and licensing arrangements or other sources.

If we are unable to raise sufficient capital as and when needed, we may be required to significantly curtail, delay or discontinue one or more of our research or development programs or the commercialization of any product candidate we may develop, or be unable to expand our operations or otherwise capitalize on our business opportunities. If we raise additional funds through collaborations or licensing arrangements with third parties, we may have to relinquish valuable rights to future revenue streams or product candidates or grant licenses on terms that may not be favorable to us.

See "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 for additional risks associated with our substantial capital requirements.

Off-balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined in the rules and regulations of the Securities and Exchange Commission.

Recently Issued Accounting Pronouncements

A description of recently issued accounting pronouncements that may potentially impact our financial position and results of operations is disclosed in Note 2 to our condensed consolidated financial statements appearing elsewhere in this Quarterly Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are a smaller reporting company, as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended, for this reporting period and are not required to provide the information required under this item.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Principal Executive Officer (our Chief Executive Officer) and Principal Accounting and Financial Officer (our Chief Financial Officer), has evaluated the effectiveness of our disclosure controls and procedures as of period end. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2021, our Principal Executive Officer and Principal Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) 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.

From time to time, we may become involved in litigation or other legal proceedings. We are not currently a party to any litigation or legal proceedings that, in the opinion of our management, are probable to have a material adverse effect on our business. Regardless of outcome, litigation can have an adverse impact on our business, financial condition, results of operations and prospects because of defense and settlement costs, diversion of management resources and other factors.

Item 1A. Risk Factors.

For a discussion of potential risks or uncertainties, please see “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020. There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

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

Use of Proceeds from Initial Public Offering

On October 27, 2020, we closed our initial public offering, or IPO, of our common stock pursuant to which we issued and sold 7,500,000 shares of our common stock at a price to the public of \$16.00 per share for aggregate gross proceeds of \$120.0 million, before deducting underwriting discounts and commissions and offering expenses payable by us. On November 19, 2020, we sold an additional 951,837 shares of our common stock pursuant to the underwriters’ option to purchase additional shares in the IPO at the public offering price for an additional \$15.2 million in gross proceeds.

All of the shares issued and sold in the IPO were registered under the Securities Act pursuant to the Registration Statement, which was declared effective by the SEC on October 22, 2020. Goldman Sachs & Co. LLC, Morgan Stanley & Co. LLC and Cowen and Company, LLC acted as joint book-running managers and Wedbush Securities Inc. acted as lead manager of our IPO.

We received aggregate net proceeds of approximately \$122.2 million after deducting underwriting discounts and commissions and other offering expenses payable by us. None of the underwriting discounts and commissions or offering expenses were incurred or paid to directors or officers of ours or their associates or to persons owning 10 percent or more of our common stock or to any of our affiliates.

We have used approximately \$77.5 million of the net proceeds from the IPO as of September 30, 2021 to advance FHD-286 and FHD-609 into the clinic, to further invest in our pipeline and platform targeting the chromatin regulatory system and for working capital and other general corporate purposes. There has been no material change in our planned use of the net proceeds from the offering as described in our Registration Statement.

Item 6. Exhibits.

Exhibit Number	Description
10.1	Second Amendment to Loan and Security Agreement dated as of August 30, 2021, among Oxford Finance LLC and Foghorn Therapeutics Inc. (Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on September 1, 2021) (File No. 001-39634).
31.1 *	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 *	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 **	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 **	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

** Furnished herewith.

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.

Date: November 9, 2021

FOGHORN THERAPEUTICS, INC.

By: /s/ Allan Reine

Allan Reine, M.D.

Chief Financial Officer

(Principal Accounting and Financial Officer)

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

I, Adrian Gottschalk, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Foghorn Therapeutics, 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) (Paragraph omitted pursuant to SEC Release Nos. 33-8238/34-47986 and 33-8392/34-49313);
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(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 9, 2021

/s/ Adrian Gottschalk

Adrian Gottschalk
President, Chief Executive Officer and Director
(Principal Executive Officer)

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

I, Allan Reine, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Foghorn Therapeutics, 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) (Paragraph omitted pursuant to SEC Release Nos. 33-8238/34-47986 and 33-8392/34-49313);
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(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 9, 2021

/s/ Allan Reine

Allan Reine, M.D.

Chief Financial Officer

(Principal Accounting and Financial Officer)

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

In connection with the Quarterly Report of Foghorn Therapeutics, Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2020 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 9, 2021

/s/ Adrian Gottschalk

Adrian Gottschalk
President, Chief Executive Officer and Director
(Principal Executive Officer)

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

In connection with the Quarterly Report of Foghorn Therapeutics, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2020 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 9, 2021

/s/ Allan Reine

Allan Reine, M.D.

Chief Financial Officer

(Principal Accounting and Financial Officer)