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DELTA REPORT

10-Q

QTTB - HOMOLOGY MEDICINES, INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	6461
CHANGES	109
DELETIONS	3165
ADDITIONS	3187

REFINITIV

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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, March 31, 2023 2024

OR

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

For the transition period from _____ to _____

Commission File Number: 001-38433

Homology Medicines, Inc Q32 Bio Inc..

(Exact Name name of Registrant registrant as Specified specified in its Charter) charter)

Delaware	**47-3468154**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One Patriots Park 830 Winter Street Bedford Waltham, MA	**01730 02451**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (781) 301-7277 999-0232

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 stock, par value $0.0001 per share	FIXXQTTB	The Nasdaq Global Select Market

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

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

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

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

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

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

As of November 7, 2023 May 1, 2024, the registrant had 57,934,332 11,942,129 shares of common stock, $0.0001 par value per share, outstanding.

SUMMARY OF MATERIAL RISKS ASSOCIATED WITH OUR BUSINESS

Our ability to implement our business strategy is subject to numerous risks that you should be aware of before making an investment decision. These risks include the following, among others:

- We have incurred significant losses since inception, expect to incur significant losses for the foreseeable future and may not be able to achieve or sustain profitability i future. We have no products for sale, have not generated any product revenue and may never generate product revenue or become profitable.
- We will require substantial additional capital to finance our operations in the future. If we are unable to raise such capital when needed, or on acceptable terms, we ma forced to delay, reduce or eliminate clinical trials, product development programs or future commercialization efforts.
- We have a limited operating history and no products approved for commercial sale, which may make it difficult for you to evaluate our current business and likelihood success and viability.
- We face competition from entities that have developed or may develop programs for the diseases they plan to address with bempikibart, ADX-097 or other product candidates.
- Bempikibart, ADX-097 and our other product candidates are in early stages of development and may fail in development or suffer delays that materially and adversely their commercial viability. If we or our current or future collaborators are unable to complete development of, or commercialize, our product candidates, or experience significant delays in doing so, our business will be materially harmed.
- We are substantially dependent on the success of our most advanced product candidates, bempikibart and ADX-097, and our clinical trials of such candidates may no successful.
- Our business relies on certain licensing rights from Bristol Myers Squibb Company, or BMS, that can be terminated in certain circumstances. If we breach the BMS Lic Agreement, or if we are unable to satisfy our obligations related to the intellectual property we have licensed from BMS, we could lose the ability to develop and commercialize bempikibart.
- Our ability to protect our patents and other proprietary rights is uncertain, exposing us to the possible loss of competitive advantage.

- We and our independent registered public accounting firm have identified a material weakness in our internal control over financial reporting. If we are unable to reme this material weakness, or if we identify additional material weaknesses in the future or otherwise fail to maintain an effective system of internal controls, we may not b to accurately or timely report our financial condition or results of operations, which may adversely affect our business and the market price of our common stock.
- The market price of our common stock is expected to be volatile, and the market price of our common stock may drop.
- We may incur losses for the foreseeable future and might never achieve profitability.
- If we fail to attract and retain management and other key personnel, we may be unable to continue to successfully develop or commercialize our product candidates o otherwise implement our business plan.
- We will need to raise additional financing in the future to fund our operations, which may not be available to us on favorable terms or at all.

The summary risk factors described above should be read together with the text of the full risk factors below in the section titled "Risk Factors" and the other information set forth in this Quarterly Report on Form 10-Q, or Form 10-Q, including our consolidated financial statements and the related notes, as well as in other documents that we file with the U.S. Securities and Exchange Commission, or SEC. The risks summarized above or described in full below are not the only risks that we face. Additional risks and uncertainties not precisely known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition, results of operations, and future growth prospects.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains statements that are not historical facts and are considered forward-looking statements. We intend such forward-looking statements to be covered by within the safe harbor provisions for forward-looking statements contained in meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All These forward-looking statements include, but are not limited to, statements regarding our or our management team's expectations, hopes, beliefs, intentions or strategies regarding the future. In addition, any statements that refer to projections, forecasts or other than characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The words "anticipate," "believe," "contemplate," "continue," "could," "estimate," "expect," "intends," "may," "might," "plan," "possible," "potential," "predict," "project," "should," "will," "would" and similar expressions may identify forward-looking statements, but the absence of historical fact contained these words does not mean that a statement is not forward-looking. Forward looking statements in this Quarterly Report on Form 10-Q including, without limitation, may include, for example, statements regarding the timing and anticipated benefits about:

- our strategies, prospects, plans, expectations or objectives of and costs associated with our recent reduction in force, strategic initiatives and related corporate restruc efforts, management for our future results operations;
- the progress, scope or timing of operations and financial position, the anticipated impact development of COVID-19 and the current economic environment on our busi the anticipated use of cash and business strategy, product candidates;
- our expectations surrounding the potential safety, efficacy, and regulatory and clinical progress of our former product candidates, prospective including bempikibart and ADX-097, and our anticipated milestones and timing therefor;
- the benefits that may be derived from any of our future products product approvals, research or the commercial or market opportunity with respect to any of our future products;
- our ability to protect our intellectual property rights;
- our anticipated operations, financial position, ability to raise capital to fund our operations, revenues, costs or expenses;
- the statements regarding our future economic conditions or performance, statements of belief and development costs, the anticipated timing and likelihood any statem success of clinical trials, the expected timing assumptions underlying any of the release of clinical trial data, foregoing; and
- other risks and uncertainties, including those listed under the timing and expectations surrounding regulatory communications, our relationship with third-parties, our in to engage in future strategic partnerships, and the plans and objectives of management for future operations and future results of anticipated products, are forward-loo statements. These statements are neither promises nor guarantees, but involve known and unknown risks, uncertainties and other important factors that may cause o actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looki statements.

caption "Risk Factors."

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, though not all forward-looking statements use these words or expressions. The forward-looking statements in this Quarterly Report on Form 10-Q are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements speak only as of are based on information available to us at the date time of this Quarterly Report on Form 10-Q and are subject to current expectations, forecasts and assumptions, and involve a number of important factors that could cause judgments, risks and uncertainties. Accordingly, forward-looking statements should not be relied upon as representing our views as of any subsequent date, and except as otherwise required by applicable law, we do not undertake any obligation to update forward-looking

statements to reflect events or circumstances after the date they were made, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

The outcome of the events described in these forward-looking statements is subject to known and unknown risks, uncertainties, and other factors. As a result of a number of known and unknown risks and uncertainties, our actual results to differ or performance may be materially different from those in the expressed or implied by these forward-looking statements, including the factors described under "Summary Risk Factors" below and in the sections those set forth in this Quarterly Report on Form 10-Q in the section titled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Moreover, we operate in an evolving environment. New risk factors our periodic filings with the SEC. Our SEC filings are available publicly on the SEC's website at www.sec.gov. Given these risks and uncertainties, may emerge from time to time, and it is you should not possible for management to predict all risk factors and uncertainties.

You should read this Quarterly Report place undue reliance on Form 10-Q and these forward-looking statements. Should one or more of the documents that we reference risks or uncertainties described in this Quarterly Report on Form 10-Q, completely or should underlying assumptions prove incorrect, actual results and with the understanding that our actual future results may be plans could differ materially different from what we expect. those expressed in any forward-looking statements. We qualify all of our forward-looking statements by these cautionary statements. Except as required

This Quarterly Report on Form 10-Q includes statistical and other industry and market data that we obtained from industry publications and research, surveys and studies conducted by applicable law, we third parties. Industry publications and third-party research, surveys and studies generally indicate that their information has been obtained from sources believed to be reliable, although they do not plan to publicly update guarantee the accuracy or revise any forward-looking statements completeness of such information. We are responsible for all of the disclosure contained herein, whether as a result of any new information, future events, changed circumstances or otherwise. Unless the context requires otherwise, we use the terms "Homology," "the Company," "we," "us," "our" and similar designations in this Quarterly Report on Form 10-Q, to refer to Homology Medicines, Inc. and its wholly-owned subsidiary.

SUMMARY RISK FACTORS

Our business is subject to numerous risks we believe these industry publications and uncertainties, including those described in Part II, Item 1A. "Risk Factors" in this Quarterly Report on Form 10-Q. You should carefully consider these risks third-party research, surveys and uncertainties when investing in our common stock. The principal risks and uncertainties affecting our business include the following: studies are reliable.

- We have incurred significant losses since inception and anticipate that we will incur continued losses for the foreseeable future. If we are unable to achieve and sustain profitability, the market value of our common stock will likely decline. We may never achieve or maintain profitability.
- We will require additional capital to fund our operations, and if we fail to obtain necessary financing, we may not be able to complete the development and commercializati of our product candidates.
- Any financial or strategic option we pursue may not be successful. Moreover, our decision to discontinue further program development efforts may not result in the anticipa savings for the Company and may adversely affect our business.
- We have a limited operating history and no history of commercializing genetic medicine products, which may make it difficult to evaluate the prospects for our future viabili
- Should we resume development of our product candidates, we would be heavily dependent on the success of our product candidates, and if none of our candidates receiv regulatory approval or is not successfully commercialized, our business may be harmed.
- Should we resume development of our product candidates, we intend to identify and develop product candidates based on our novel genetic medicines platform, which ma it difficult to predict the time and cost of product candidate development. No products that utilize gene editing technology have been approved in the United States or in Europe, and there have only been a limited number of human clinical trials involving a gene editing product candidate. Moreover, none of those trials has involved our nuclease-free gene editing technology, prior to our initiated Phase 1 pheEDIT clinical trial. In addition, there have been a limited number of gene therapy products approve the United States or in Europe and none of these products have utilized our AAVHSC platform.
- The regulatory approval processes of the FDA and comparable foreign authorities are lengthy, time consuming and inherently unpredictable.
- Our product candidates have caused and may in the future cause serious adverse events or undesirable side effects or have other properties which may delay or prevent regulatory approval, limit the commercial profile of an approved label or result in significant negative consequences following marketing approval, if any.
- Adverse public perception of genetic medicine, and gene editing in particular, may negatively impact the length of time required to advance our product candidates through clinical trials, should we resume development of our product candidates, including the pace at which we advance patient enrollment, and potential regulatory approval of, demand for, our potential products.
- We have historically contracted with third parties, including Oxford Biomedica Solutions LLC, for the manufacture of certain materials for our research programs, preclinica and clinical studies. This reliance on third parties increases the risk that we will not have sufficient quantities of such materials, product candidates, or any medicines that may develop and commercialize, or that such supply will not be available to us at an acceptable cost or in compliance with regulatory requirements, which could delay, prevent, or impair our development or commercialization efforts.
- Our contract manufacturers, including Oxford Biomedica Solutions LLC, are subject to significant regulation with respect to manufacturing our former product candidates. manufacturing facilities on which we historically and may in the future rely may not meet or continue to meet regulatory requirements, as applicable and as imposed to dat and have limited capacity.

- Even if we obtain FDA approval for our product candidates in the United States in the future, we may never obtain approval for or commercialize them in any other jurisdic which would limit our ability to realize their full market potential.
- We may collaborate with third parties for the development and commercialization of our product candidates in the future, but there are no assurances that we will succeed establishing and maintaining such collaborative relationships, which may significantly limit our ability to develop and commercialize our product candidates successfully, if all.
- If we are unable to obtain and maintain patent protection for our technology and products or if the scope of the patent protection obtained is not sufficiently broad, we may be able to compete effectively in our markets.
- Our recent reduction in force undertaken to significantly reduce our ongoing operating expenses may not result in our intended outcomes and may yield unintended consequences and additional costs.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

HOMOLOGY MEDICINES, Q32 BIO INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except share and per share amounts) data)
(UNAUDITED)

	As of			
	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Assets				
Current assets:				
Cash and cash equivalents	$ 29,111	$ 33,986	$ 115,509	$ 25,617
Short-term investments	74,187	141,040	19,803	—
Assets held for sale	314	—		
Prepaid expenses and other current assets	3,023	5,989	2,731	3,099
Total current assets	106,635	181,015	138,043	28,716
Equity method investment	13,957	25,814	4,724	—
Property and equipment, net	—	1,078	1,659	1,782
Right-of-use assets	19,471	20,563		
Right-of-use asset, operating leases			6,160	6,301
Restricted cash and restricted cash equivalents			647	5,647
Other noncurrent assets			1,101	4,611
Total assets	$ 140,063	$ 228,470	$ 152,334	$ 47,057
Liabilities and stockholders' equity				
Liabilities, convertible preferred stock and stockholders' deficit				
Current liabilities:				
Accounts payable	$ 7,803	$ 1,144	$ 4,960	$ 3,468
Accrued expenses and other liabilities	15,711	18,715		
Operating lease liabilities	1,778	1,561		
Deferred revenue	—	1,156		
Accrued expenses and other current liabilities			19,825	9,763
CVR liability			5,080	—
Venture debt, current portion			3,088	878
Total current liabilities	25,292	22,576	32,953	14,109
Non-current liabilities:				
Operating lease liabilities, net of current portion	26,560	27,916		
Lease liability, net of current portion			6,099	6,248
Venture debt, net of current portion			9,400	4,581
Convertible notes			—	38,595
Other noncurrent liabilities			55,113	55,000
Total liabilities	51,852	50,492	103,565	118,533
Commitments and contingencies (Note 9)		—		
Stockholders' equity:				
Preferred stock, $0.0001 par value, 10,000,000 shares authorized; no shares issued and outstanding at September 30, 2023 and December 31, 2022	—	—		
Common stock, $0.0001 par value; 200,000,000 shares authorized; 57,902,210 and 57,483,910 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	6	6		
Commitments and contingencies (Note 10)				

Series A convertible preferred stock, $0.0001 par value, no shares and 2,286,873 shares authorized, issued and outstanding as of March 31, 2024 and December 31, 2023, respectively (liquidation preference of $47,629 at December 31, 2023)			—	47,458
Series A-1 convertible preferred stock, $0.0001 par value, no shares and 312,094 shares authorized, issued and outstanding at March 31, 2024 and December 31, 2023, respectively (liquidation preference of $5,753 as of December 31, 2023)			—	4,132
Series B convertible preferred stock, $0.0001 par value, no shares and 2,625,896 shares authorized, issued and outstanding at March 31, 2024 and December 31, 2023, respectively (liquidation preference of $60,000 as of December 31, 2023)			—	59,855
Total convertible preferred stock			—	111,445
Stockholders' deficit:				
Common stock, $0.0001 par value; 400,000,000 shares authorized, 11,929,520 and 359,569 shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively			2	1
Additional paid-in capital	614,220	607,513	234,824	4,159
Accumulated other comprehensive loss	(36)	(404)	(5)	—
Accumulated deficit	(525,979)	(429,137)	(186,052)	(187,081)
Total stockholders' equity	88,211	177,978		
Total liabilities and stockholders' equity	$ 140,063	$ 228,470		
Total stockholders' equity (deficit)			48,769	(182,921)
Total liabilities, convertible preferred stock and stockholders' deficit			$ 152,334	$ 47,057

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

HOMOLOGY MEDICINES, Q32 BIO INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(amounts in thousands, except share and per share amounts) data)
(UNAUDITED)

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Collaboration revenue	$ —	$ 802	$ 1,156	$ 2,406
Operating expenses:				
Research and development	17,519	25,854	60,489	71,202
General and administrative	6,842	7,810	23,355	29,991
Restructuring and other charges	6,640	—	6,640	—
Total operating expenses	31,001	33,664	90,484	101,193
Loss from operations	(31,001)	(32,862)	(89,328)	(98,787)
Other income:				

Gain on sale of business	—	—	—	131,249
Interest income	1,423	1,269	4,403	1,775
Total other income	1,423	1,269	4,403	133,024
Income (loss) before income taxes	(29,578)	(31,593)	(84,925)	34,237
Benefit from (provision for) income taxes	—	46	—	(816)
Loss from equity method investment	(3,376)	(2,179)	(11,917)	(4,131)
Net income (loss)	$ (32,954)	$ (33,726)	$ (96,842)	$ 29,290
Net income (loss) per share-basic	$ (0.57)	$ (0.59)	$ (1.68)	$ 0.51
Net income (loss) per share-diluted	$ (0.57)	$ (0.59)	$ (1.68)	$ 0.51
Weighted-average common shares outstanding-basic	57,853,132	57,447,192	57,788,755	57,372,399
Weighted-average common shares outstanding-diluted	57,853,132	57,447,192	57,788,755	57,901,298

	Three Months Ended March 31,	
	2024	2023
Collaboration arrangement revenue	$ —	$ 2,947
Operating expenses:		
Research and development	9,841	7,910
General and administrative	5,002	2,410
Total operating expenses	14,843	10,320
Loss from operations	(14,843)	(7,373)
Change in fair value of convertible notes	15,890	(43)
Other income (expense), net	158	578
Total other income (expense), net	16,048	535
Income (loss) before provision for income taxes	1,205	(6,838)
Loss from equity method investment	(176)	—
Net income (loss)	$ 1,029	$ (6,838)
Net income (loss) per share—basic	$ 1.03	$ (19.84)
Net income (loss) per share—diluted	$ (6.33)	$ (19.84)
Weighted-average common shares—basic	995,280	344,623
Weighted-average common shares—diluted	2,334,180	344,623

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

HOMOLOGY MEDICINES, Q32 BIO INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(amounts in thousands) thousands, except share and per share data)
(UNAUDITED)

	Three months ended September 30,		Nine months ended September 30,		Three Months Ended March 31,	
	2023	2022	2023	2022	2024	2023
Net income (loss)	$ (32,954)	$ (33,726)	$ (96,842)	$ 29,290	$ 1,029	$ (6,838)

Other comprehensive gain (loss):						
Other comprehensive income (loss):						
Change in unrealized gain (loss) on available for sale securities, net	52	(416)	368	(450)	(5)	—
Total other comprehensive gain (loss)	52	(416)	368	(450)		
Total other comprehensive (loss)					(5)	—
Comprehensive income (loss)	$ (32,902)	$ (34,142)	$ (96,474)	$ 28,840	$ 1,024	$ (6,838)

See notes to condensed consolidated financial statements.

HOMOLOGY MEDICINES, Q32 BIO INC.
CONDENSED CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)
(amounts in thousands, except share and per share amounts) data)
(UNAUDITED)

	Series A Convertible Preferred Stock		Series A-1 Convertible Preferred Stock		Series B Convertible Preferred Stock		Common Stock		Additional Paid in	Accumulated Other Comprehensive Gain	Accumulated	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Capital	(Loss)	Deficit	(Deficit)
Balance as of December 31, 2023	2,286,873	$ 47,458	312,094	$ 4,132	2,625,896	$ 59,855	359,569	$ 1	$ 4,159	$ —	$ (187,081)	$ (182,921)
Conversion of convertible preferred stock to common stock in connection with the Merger	(2,286,873)	(47,458)	(312,094)	(4,132)	(2,625,896)	(59,855)	5,224,863	1	111,444	—	—	111,445
Issuance of common stock in the pre-closing financing	—	—	—	—	—	—	1,682,045	—	42,000	—	—	42,000
Issuance of common stock for conversion of convertible notes	—	—	—	—	—	—	1,433,410	—	22,705	—	—	22,705
Issuance of common stock to Homology shareholders in reverse recapitalization	—	—	—	—	—	—	3,229,633	—	64,292	—	—	64,292
Reverse recapitalization transaction costs	—	—	—	—	—	—	—	—	(10,013)	—	—	(10,013)
Issuance of CVR at fair value	—	—	—	—	—	—	—	—	(180)	—	—	(180)

Stock-based compensation expense	—	—	—	—	—	—	—	—	417	—	—	417
Other comprehensive loss	—	—	—	—	—	—	—	—	—	(5)	—	(5)
Net income	—	—	—	—	—	—	—	—	—	—	1,029	1,029
Balance as of March 31, 2024	—	$ —	—	$ —	—	$ —	11,929,520	$ 2	$ 234,824	$ (5)	$ (186,052)	$ 48,769

	Common Stock $0.0001 Par Value		Additional Paid-in Capital	Accumulated Other Comprehensive Gain (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at January 1, 2022	57,150,274	$ 6	$ 593,784	$ (7)	$ (424,132)	$ 169,651
Issuance of common stock from RSU vesting	87,140	—	—	—	—	—
Issuance of common stock from option exercises	293	—	1	—	—	1
Issuance of common stock pursuant to employee stock purchase plan	147,871	—	439	—	—	439
Stock-based compensation	—	—	4,051	—	—	4,051
Other comprehensive gain	—	—	—	7	—	7
Net income	—	—	—	—	92,105	92,105
Balance at March 31, 2022	57,385,578	$ 6	$ 598,275	$ —	$ (332,027)	$ 266,254
Stock-based compensation	—	—	3,143	—	—	3,143
Stock-based compensation for equity method investee	—	—	21	—	—	21
Other comprehensive loss	—	—	—	(41)	—	(41)
Net loss	—	—	—	—	(29,089)	(29,089)
Balance at June 30, 2022	57,385,578	$ 6	$ 601,439	$ (41)	$ (361,116)	$ 240,288
Issuance of common stock from RSU vesting	16,450	—	—	—	—	—
Issuance of common stock pursuant to employee stock purchase plan	78,582	—	124	—	—	124
Stock-based compensation	—	—	2,771	—	—	2,771
Stock-based compensation for equity method investee	—	—	20	—	—	20
Other comprehensive loss	—	—	—	(416)	—	(416)
Net loss	—	—	—	—	(33,726)	(33,726)
Balance at September 30, 2022	57,480,610	$ 6	$ 604,354	$ (457)	$ (394,842)	$ 209,061

	Series A Convertible Preferred Stock		Series A-1 Convertible Preferred Stock		Series B Convertible Preferred Stock		Common Stock		Additional Paid in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balance as of December 31, 2022	2,286,874	$ 47,458	312,094	$ 4,132	2,625,896	$ 59,855	343,550	$ 1	$ 2,625	$ (133,338)	$ (130,712)

Exercise of stock options	—	—	—	—	—	—	3,575	—	15	—	15
Stock-based compensation expense	—	—	—	—	—	—	—	—	296	—	296
Net loss	—	—	—	—	—	—	—	—	—	(6,838)	(6,838)
Balance as of March 31, 2023	2,286,874	$ 47,458	312,094	$ 4,132	2,625,896	$ 59,855	347,125	$ 1	$ 2,936	$ (140,176)	$ (137,239)

	Common Stock $0.0001 Par Value		Additional Paid-in	Accumulated Other Comprehensive	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Gain (Loss)	Deficit	Equity
Balance at January 1, 2023	57,483,910	$ 6	$ 607,513	$ (404)	$ (429,137)	$ 177,978
Issuance of common stock from RSU vesting	194,525	—	—	—	—	—
Issuance of common stock pursuant to employee stock purchase plan	116,332	—	150	—	—	150
Stock-based compensation	—	—	2,369	—	—	2,369
Stock-based compensation for equity method investee	—	—	24	—	—	24
Other comprehensive gain	—	—	—	222	—	222
Net loss	—	—	—	—	(28,844)	(28,844)
Balance at March 31, 2023	57,794,767	$ 6	$ 610,056	$ (182)	$ (457,981)	$ 151,899
Issuance of common stock from option exercises	3,366	—	2	—	—	2
Stock-based compensation	—	—	2,402	—	—	2,402
Stock-based compensation for equity method investee	—	—	22	—	—	22
Other comprehensive gain	—	—	—	94	—	94
Net loss	—	—	—	—	(35,044)	(35,044)
Balance at June 30, 2023	57,798,133	$ 6	$ 612,482	$ (88)	$ (493,025)	$ 119,375
Issuance of common stock from RSU vesting	86,592	—	—	—	—	—
Issuance of common stock pursuant to employee stock purchase plan	17,485	—	18	—	—	18
Stock-based compensation	—	—	1,706	—	—	1,706
Stock-based compensation for equity method investee	—	—	14	—	—	14
Other comprehensive gain	—	—	—	52	—	52
Net loss	—	—	—	—	(32,954)	(32,954)
Balance at September 30, 2023	57,902,210	$ 6	$ 614,220	$ (36)	$ (525,979)	$ 88,211

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

HOMOLOGY MEDICINES, Q32 BIO INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)
(UNAUDITED)

	Nine months ended September 30,	
	2023	2022
Cash flows from operating activities:		
Net income (loss)	$ (96,842)	$ 29,290
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	578	997
Noncash lease expense	1,091	969
Loss from equity method investment	11,917	4,131
Stock-based compensation expense	6,477	9,965
Accretion of discount on short-term investments	(2,279)	(872)
Loss on disposal of property and equipment	68	—
Gain on sale of business	—	(131,249)
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	2,966	(5,301)
Accounts payable	6,659	2,711
Accrued expenses and other liabilities	(2,996)	5,672
Deferred revenue	(1,156)	(2,406)
Operating lease liabilities	(1,138)	(369)
Net cash used in operating activities	(74,655)	(86,462)
Cash flows from investing activities:		
Purchases of short-term investments	(73,240)	(157,460)
Maturities of short-term investments	142,740	47,461
Proceeds from sale of business	—	130,000
Proceeds from sale of property and equipment	338	—
Purchases of property and equipment	(228)	(1,276)
Net cash provided by investing activities	69,610	18,725
Cash flows from financing activities:		
Proceeds from issuance of common stock pursuant to employee stock purchase plan	168	563
Proceeds from issuance of common stock from option exercises	2	1
Net cash provided by financing activities	170	564
Net change in cash, cash equivalents and restricted cash	(4,875)	(67,173)
Cash, cash equivalents and restricted cash, beginning of period	33,986	110,335
Cash, cash equivalents and restricted cash, end of period	$ 29,111	$ 43,162
Supplemental disclosures of noncash investing and financing activities:		
Property and equipment additions included in accrued expenses and other liabilities	$ —	$ 8
Unrealized gain (loss) on available for sale securities, net	$ 368	$ (450)

	Three Months Ended March 31,	
	2024	2023
Cash flows from operating activities:		
Net income (loss)	$ 1,029	$ (6,838)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Amortization of debt discount and issuance costs	29	25
Depreciation expense	123	127
Stock-based compensation expense	417	296

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Non-cash lease expense	141	133
Loss from equity method investment	176	—
Change in fair value of convertible notes	(15,890)	43
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	1,332	426
Other noncurrent assets	(600)	23
Accounts payable	928	(823)
Operating lease liability	(131)	(115)
Accrued expenses and other current liabilities	(2,218)	(2,847)
Other noncurrent liabilities	113	—
Deferred revenue	—	(2,946)
Net cash used in operating activities	(14,551)	(12,496)
Cash flows from investing activities:		
Purchases of property and equipment	—	(5)
Maturities of short-term investments	97	—
Net cash provided by (used in) investing activities	97	(5)
Cash flows from financing activities:		
Proceeds from borrowings under loan and security agreement	7,000	—
Proceeds from issuance of common stock in pre-closing financing	42,000	—
Cash acquired in connection with reverse recapitalization	53,158	—
Payment of reverse recapitalization transaction costs	(2,812)	—
Proceeds from exercise of common stock options	—	15
Net cash provided by financing activities	99,346	15
Net increase (decrease) in cash, cash equivalents, restricted cash and restricted cash equivalents	84,892	(12,486)
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of period	31,264	49,540
Cash, cash equivalents, restricted cash and restricted cash equivalents at end of period	$ 116,156	$ 37,054
Supplemental disclosure of non-cash operating, investing and financing activities:		
Interest payments on venture debt	$ 115	$ 119
Short-term investments acquired in connection with reverse recapitalization	$ 19,905	$ —
Issuance of CVR at fair value	$ 180	$ —
Transaction costs related to reverse recapitalization included in accounts payable and accrued expenses	$ 7,201	$ —

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

HOMOLOGY MEDICINES, Q32 BIO INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share amounts)
(UNAUDITED)

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION Nature of the Business

Nature Q32 Bio Inc. (“Q32” or the “Company”) is a clinical stage biotechnology company focused on developing novel biologics to effectively and safely restore healthy immune balance in patients with autoimmune and inflammatory diseases driven by pathological immune dysfunction. Q32 has multiple product candidates across a variety of Business autoimmune and inflammatory diseases with clinical readouts for its two lead programs expected in 2024 and 2025. The Company was formed in 2017 as Admirx, Inc. under the laws of the state of Delaware and is headquartered in Waltham, Massachusetts. On March 20, 2020, the Company changed its name to Q32 Bio Inc.

— Merger with Homology

On March 25, 2024, Kenobi Merger Sub, Inc. (“Merger Sub”), a wholly-owned subsidiary of Homology Medicines, Inc. (the “Company” or "Homology" (“Homology”), completed its merger with and into Q32 Bio Operations Inc. (previously named Q32 Bio Inc. and referred to herein as “Legacy Q32”), with Legacy Q32 continuing as the surviving entity as a wholly-owned subsidiary of Homology. This transaction is referred to as the “Merger.” Homology changed its name to Q32 Bio, Inc., and Legacy Q32, which remains as a clinical-stage genetic medicines company historically focused on transforming the lives of patients suffering from rare diseases by addressing the underlying cause wholly-owned subsidiary of the disease Company, changed its name to Q32 Bio Operations, Inc. The Merger was effected pursuant to an Agreement and Plan of Merger (the “Merger Agreement”), dated as of November 16, 2023, by and among Homology, Legacy Q32, and Merger Sub. In connection with one-time gene therapy and gene editing treatments. The Company was founded in March 2015 as the Merger Agreement, certain parties entered into a Delaware corporation. Its principal offices are in Bedford, Massachusetts.

On July 27, 2023, subscription agreement with the Company announced that it had completed a review to purchase shares of its business and the Company's Board Legacy Q32's common stock for an aggregate purchase price of Directors had approved a plan to explore, review and evaluate a range of potential strategic options available to the Company, including, without limitation, an acquisition, merger, reverse merger, sale of assets, strategic partnerships or other transactions. Based on the current financing environment and the Company's anticipated clinical development timeline for its lead program, HMI-103, the Company also announced that it was stopping further development of its programs and reduced its workforce by $86 42.0% in an effort to significantly reduce its ongoing operating costs as it evaluates strategic alternatives. The workforce reduction was substantially completed in the third quarter of 2023 (see Note 8) million (the “Pre-Closing Financing”).

On March 9, 2023 March 25, 2024 (the “Closing Date”), the Company filed a Registration Statement on Form S-3 (File No. 333-270414) (the “Shelf”) with the SEC in relation Pre-Closing Financing closed immediately prior to the registration consummation of up the Merger. Shares of Legacy Q32’s common stock issued pursuant to the Pre-Closing Financing were converted into the right to receive 1,682,045 shares of Homology common stock after taking into account the Reverse Stock Split. On March 25, 2024, Homology effected a one-for-eighteen reverse stock split of its then outstanding common stock (the “Reverse Stock Split”) where all issued and outstanding shares of Legacy Q32’s common stock (including common stock issued upon the conversion of all Legacy Q32’s Series A, Series A-1 and Series B preferred stock, conversion of Legacy Q32 convertible notes, but excluding the common stock issued in Pre-Closing Financing) converted into the right to receive an aggregate of $250.0 7,017,842 million shares of its Homology’s common stock preferred stock, debt securities, warrants and/or units based on the final exchange ratio of any combination thereof for a period up 0.0480 (the “Exchange Ratio”). Lastly, each option to three years from purchase the date Legacy Q32’s shares that was outstanding and unexercised immediately prior to the Merger was converted into an option to purchase shares of Homology based on the Exchange Ratio. Immediately following the Merger, Legacy Q32 stockholders owned approximately 74.4% of the filing. The Shelf became effective on March 17, 2023. The Company also simultaneously entered into a sales agreement with Cowen and Company, LLC (“Cowen”), as sales agent, providing for the offering, issuance and sale by the Company of up to an aggregate of $75.0 million of its outstanding common stock from time to time in “at-the-market” offerings under of the Shelf (the “ATM”). The Company did not sell any shares of common stock under the ATM during the nine months ended September 30, 2023. As of September 30, 2023, there remained $75.0 million of common stock available for sale under the ATM. combined company.

On March 10, 2022, The Merger was accounted for as a reverse recapitalization in accordance with accounting principles generally accepted in the Company closed a transaction with Oxford Biomedica plc ("Oxford" United States of America (“GAAP”), to establish a new adeno-associated virus ("AAV") vector manufacturing . For accounting purposes, Legacy Q32 is considered the accounting acquirer and Homology is the acquired company Oxford Biomedica Solutions ("OXB Solutions") that provides AAV vector process development and manufacturing services to biotechnology companies. Under based on the terms of the agreement, Merger Agreement and other factors, such as relative voting rights and the Company contributed its manufacturing team composition of 125 employees, manufacturing facility the combined company’s board of directors and equipment, manufacturing-related intellectual property and know-how and certain other assets. Oxford paid senior management. Accordingly, the Company $130.0 million Merger was treated as the equivalent of upfront cash and invested $50.0 million Legacy Q32’s issuing stock to acquire the net assets of cash to fund OXB Solutions in exchange for an 80 percent ownership interest, while Homology. As a result of the Merger, the net assets of Homology retained a 20 percent ownership interest were recorded at their acquisition-date fair value in the new financial statements of the combined company and the reported operating results prior to the Merger are those of Legacy Q32. Legacy Q32’s historical financial statements became the historical consolidated financial statements of the combined company. All issued and outstanding Legacy Q32 common stock, convertible preferred stock and options prior to the effective date of the Merger have been retroactively adjusted to reflect the Exchange Ratio, which reflects the impact of the reverse stock split, for all periods presented.

At the effective time of the Merger, each person who as of immediately prior to the effective time of the Merger was a stockholder of record of Homology or had the right to receive Homology’s common stock received a put option on this ownership position contractual contingent value right (“CVR”) issued by Homology representing the contractual right to receive cash payments from the combined company upon the receipt of certain proceeds from a disposition of Homology’s pre-merger assets (see Note 5) 3 for more details surrounding the accounting for the Merger and the CVRs).

Since its inception Risks and until recently, the Company devoted substantially all of its resources to recruiting personnel, developing its technology platform and advancing its pipeline of product candidates through discovery, preclinical and clinical trials, developing and implementing manufacturing processes, building out manufacturing and research and development space, and maintaining and building its intellectual property portfolio. Uncertainties

The Company is subject to a number risks and uncertainties common to early-stage companies in the biotechnology industry, including but not limited to, risks associated with completing preclinical studies and clinical trials, obtaining regulatory approvals for product candidates, development by competitors of risks similar new biopharmaceutical products, dependence on key personnel, protection of proprietary technology, compliance with government regulations and the ability to those secure additional capital to fund operations. Programs currently under development will require significant additional research and development efforts, including preclinical and clinical testing, and

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will need to obtain regulatory approval prior to commercialization. These efforts require significant amounts of other companies conducting high-risk, early-stage additional capital, adequate personnel and infrastructure and extensive compliance-reporting capabilities. Even if the Company's product development efforts are successful, it is uncertain when, if ever, the Company will realize revenue from product sales. Since its inception, the Company's operations have been focused on organizing and staffing, business planning, raising capital, establishing the Company's intellectual property portfolio and performing research and development of product candidates. Principal among these risks are dependency on key individuals and intellectual property, competition from other products and companies, and the technical and regulatory risks associated with the successful research, development and manufacturing of its product candidates.

To date, the candidates, programs and platform. The Company has not generated any revenue from product sales and does not expect to generate any revenue primarily funded its operations with proceeds from the sale of product in convertible preferred stock, convertible notes, venture debt and its collaboration arrangement.

Liquidity and Going Concern

In accordance with the foreseeable future. Through September 30, 2023 Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-15, *Disclosure of Uncertainties about an Entity's ability to Continue as a Going Concern (Subtopic 205-40)*, the Company has financed its operations primarily through public offerings evaluated whether they are conditions and events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the condensed consolidated financial statements are issued.

As of its common stock, the issuance of convertible preferred stock, and with proceeds from its transaction with Oxford (see Note 5), its collaboration and license agreement with a former collaboration partner and its private placement with Pfizer (see Note 12). During the nine months ended September 30, 2023, the Company incurred a loss from operations of $96.8 million and as of September 30, 2023 March 31, 2024, the Company had an accumulated deficit of $526.0 186.1 million in accumulated deficit.

The Company has incurred and expects to continue to incur costs and expenditures in connection with the process of evaluating strategic alternatives. There can be no assurance, however, that the Company will be able to successfully consummate any particular strategic transaction. The process of evaluating strategic options has been and may continue to be costly, time-consuming and complex and the Company may incur significant costs related to this continued evaluation, such as legal, accounting and advisory fees and expenses and other related charges.

Based on current projections, management believes that the Company's existing cash, and cash equivalents and short-term investments as of September 30, 2023 $135.3 million. The Company expects that its cash, cash equivalents and short-term investments will enable the Company be sufficient to continue fund its operations operating expenditures and capital expenditure requirements necessary to advance its research efforts and clinical trials for at least one year from the date of this filing. However, due to the consideration issuance of certain qualitative factors, including the discontinuation of all clinical trials and research activities, as well as the Company's workforce reduction of all but a few custodial employees, management has concluded there is substantial doubt regarding the Company's ability to continue as a going concern for more than twelve months from the date that the these unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q have been issued. These financial statements do not include any adjustments that might result from the outcome of this uncertainty. Should statements.

The Company has incurred recurring operating losses since its inception. On March 25, 2024, the Company resume closed the development Merger with Homology and as part of product candidates, it would need that transaction, recorded a non-recurring gain of $15.9 million (non-cash) on the change in the fair value prior to obtain substantial the conversion of the Legacy Q32 convertible notes which resulted in net income of $1.0 million for the three months ended March 31, 2024 (see Note 3 for additional funding in connection with continuing operations, particularly as information regarding the Merger). The Company expects its operating losses and negative operating cash flows to continue into the foreseeable future. The future viability of the Company resumes is dependent on its preclinical activities ability to raise additional capital to finance its operations. The Company's inability to raise capital as and clinical trials for when needed could have a negative impact on its product candidates. financial condition and ability to pursue its business strategies. There can be no assurance that the Company current operating plan will be able achieved or that additional funding will be available on terms acceptable to obtain sufficient capital to cover its costs on acceptable terms, if the Company, or at all.

2. Summary of Significant Accounting Policies

Basis of Presentation

— The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") GAAP and pursuant to the rules and regulations of the SEC U.S. Securities and Exchange Commission (the "SEC") for interim financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's Legacy Q32's audited consolidated financial statements and the notes thereto for the year ended December 31, 2022 December 31, 2023, included in the Company's Annual Report on a Form 10-K on file 8-K filed with the SEC. SEC on March 27, 2024.

The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements. In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements contain all adjustments, including those adjustments that are normal and recurring in nature, which are necessary for a fair statement of the Company's financial position as of September 30, 2023 March 31, 2024, and consolidated results of operations for the three and nine months ended September 30, 2023 March 31, 2024 and 2022, 2023, and cash flows for the nine three months ended September 30, 2023 March 31, 2024 and 2022. Such adjustments are of a normal and recurring nature. 2023. The results of operations for the three and nine months ended September 30, 2023 March 31, 2024 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2023. December 31, 2024 or for any future period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

—The Company's accompanying unaudited condensed consolidated financial statements include the accounts those of the Company and its subsidiary, Homology Medicines Securities Corporation, a wholly owned Massachusetts corporation, for the sole purpose of buying, selling, and holding securities on the Company's behalf. wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in the condensed consolidated financial statements. consolidation.

Use of Estimates

—The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, in the financial statements and expenses, accompanying notes. Actual results could materially differ from those estimates. Management considers many factors in selecting appropriate financial accounting policies and the disclosure of contingent assets controls, and liabilities as of and during in developing the reporting period. The Company bases its estimates and assumptions on that are used in the preparation of these unaudited condensed consolidated financial statements.

Management must apply significant judgment in this process. In addition, other factors may affect estimates, including expected business and operational changes, sensitivity and volatility associated with the assumptions used in developing estimates, and whether historical experience when available and on various factors that it believes trends are expected to be representative of future trends. The estimation process often may yield a range of potentially reasonable under estimates of the circumstances. ultimate future outcomes and management must select an amount that falls within that range of reasonable estimates. Significant estimates and assumptions reflected in these unaudited condensed consolidated financial statements include, but are not limited to, revenue recognition, accrued the fair value of the common stock and convertible notes prior to the effective date of the Merger, the fair value of CVR liability, and the accruals of research and development expenses expenses. Estimates are periodically reviewed considering changes in circumstances, facts and historical experience. Actual results may differ from the valuation Company's estimates.

Concentrations of Credit Risk and Significant Suppliers

Financial instruments that potentially expose the Company's equity method investment. Company to credit risk primarily consist of cash, cash equivalents, restricted cash and restricted cash equivalents. The Company assesses estimates maintains its cash, cash equivalents, restricted cash and restricted cash equivalents balances with accredited financial institutions and, consequently, the Company does not believe it is subject to unusual credit risk beyond the normal credit risk associated with commercial banking relationships.

The Company's cash management limits investment to investment-grade securities with the objective to preserve capital and to maintain liquidity until the funds can be used in business operations. The Company maintains its cash in bank deposit accounts that are Federal Deposit Insurance Corporation ("FDIC") insured up to $250,000. At times, the Company's bank accounts may exceed the federal insurance limit.

The Company is dependent on an ongoing basis; however, actual results contract development and manufacturing organizations ("CDMOs") to supply products for research and development activities in its programs. In particular, the Company relies and expects to continue to rely on a small number of manufacturers to supply it with its requirements for the active pharmaceutical ingredients, other raw materials and formulated drugs related to these programs. These programs could materially differ from those estimates. be

adversely affected by a significant interruption in the supply of active pharmaceutical ingredients, other raw materials and formulated drugs. The Company is also dependent on contract research organizations ("CROs") which provide services related to the research and development activities in its programs.

Comprehensive Income (Loss)

—Comprehensive income (loss) is defined includes net loss as the change well as other changes in stockholders' equity of a business enterprise during a period (deficit) that result from transactions and economic events other events and circumstances from non-owner sources. than those with stockholders. The Company's only element of other comprehensive income (loss) is unrealized gains and losses on available-for-sale investments.

Cash, and Cash Equivalents, Restricted Cash and Restricted Cash Equivalents

—Cash and cash equivalents consist of standard checking accounts, money market accounts and certain investments. The Company considers all highly liquid investments that are readily convertible into cash with original maturities of three months or remaining maturities less at the time date of purchase of 90 days or less to be cash equivalents. The Company did maintains its cash in bank deposits accounts that are FDIC insured up the $no 250,000t have any . At times, the Company's bank accounts may exceed the federal insurance limits. Cash equivalents are comprised of money market accounts invested in U.S. Treasury securities.

Restricted cash and restricted cash at September 30, 2023 or December 31, 2022. equivalents are comprised of deposits held by financial institutions as collateral for the company's venture debt and used to collateralize letters of credit related to the Company's lease arrangements.

The Company includes the restricted cash and restricted cash equivalents balance together with its cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the consolidated statements of cash flows.

Cash, cash equivalents, restricted cash and restricted cash equivalents consisted of the following (in thousands):

	March 31,	
	2024	2023
Cash and cash equivalents	$ 115,509	$ 31,407
Restricted cash and cash equivalents	647	5,647
Total cash, cash equivalents, restricted cash and restricted cash equivalents	$ 116,156	$ 37,054

Short-Term Investments

—Short-term investments represent holdings of available-for-sale marketable securities in accordance with the Company's investment policy and cash management strategy. Short-term investments have maturities of greater than 90 days at the time of purchase and mature within one year from the balance sheet date. Investments in marketable securities are recorded at fair value, with any unrealized gains and losses reported within accumulated other comprehensive income as a separate component of stockholders' equity until realized or until a determination is made that an other-than-temporary decline in market value has occurred. Any premium or discount arising at purchase is amortized and/or accreted to interest income and/or expense over the life of the

underlying security. Such amortization and accretion, together with interest on securities, are included in interest income in the Company's condensed consolidated statements of operations. The cost of marketable securities sold is determined based on the specific identification method and any realized gains or losses on the sale of investments are reflected as a component of other income.

Assets Held for Sale Deferred Transaction Costs

—The Company classifies assets capitalizes certain legal, professional accounting and other third-party fees that are directly associated with in-process equity financings as held for sale when the following conditions deferred transaction costs until such financings are met: (1) management has committed to consummated. After consummation of an equity financing, these costs are recorded as a plan to sell, (2) the assets are available for immediate sale in their present condition, (3) the Company has initiated an active program to identify a buyer, (4) it is probable that a sale will occur within one year, (5) the assets are actively marketed for sale at a reasonable price in relation to their current fair value, and (6) there is a low likelihood of significant changes to the plan or that the plan will be withdrawn. If all reduction of the aforementioned criteria are met proceeds from the transaction, either as of the balance sheet date, the assets are presented separately in the consolidated balance sheet as held for sale at the lower a reduction of the carrying amount value of

the preferred stock or in stockholders' deficit as a reduction of additional paid-in capital generated as a result of the transaction. Should the in-process equity financing be abandoned, the deferred transaction costs would be expensed immediately as a charge to operating expenses in the condensed consolidated statements of operations and comprehensive loss.

Fair Value Measurements

Certain assets and liabilities are carried at fair value less costs under GAAP. Fair value is defined as the exchange price that would be received for an asset or paid to sell. The transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. Financial assets and liabilities carried at fair value are then to be classified and disclosed in one of the following three levels of the fair value hierarchy, of which the first two are considered observable and the last is considered unobservable:

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

Level 2 – Observable inputs (other than Level 1 quoted prices), such as quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active for identical or similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Unobservable inputs that are supported by little or no longer depreciated market activity and that are significant to determining the fair value of the assets or amortized while classified as held for sale**. liabilities, including pricing models, discounted cash flow methodologies and similar techniques.**

Equity Method Investment

—The Company uses the equity method of accounting to account for an investment in an entity that it does not control, but in which it has the ability to exercise significant influence over operating and financial policies. The Company's proportionate share of the net income or loss of the entity is included in consolidated net loss. income (loss). Judgments regarding the level of influence over the equity method investment include consideration of key factors such as the Company's ownership interest, representation on the board of directors or other management body and participation in policy-making decisions.

Under the equity method of accounting, the Company's investment is initially recorded at fair value on the condensed consolidated balance sheets. Upon initial investment, the Company evaluates whether there are basis differences between the carrying value and fair value of the Company's proportionate share of the investee's underlying net assets. Typically, the Company amortizes basis differences identified on a straight-line basis over the underlying assets' estimated useful lives when calculating the attributable earnings or losses, excluding the basis differences attributable to in-process research and development that has no alternative future use. If the Company is unable to attribute all of the basis differences to specific assets or liabilities of the investee, the residual excess of the cost of the investment over the proportional fair value of the investee's assets and liabilities is considered to be equity method goodwill and is recognized within the equity investment balance, which is tracked separately within the Company's memo accounts. The Company subsequently records in the condensed consolidated statements of operations its share of income or loss of the other entity within other income/expense, which results in an increase or decrease to the carrying value of the investment. If the share of losses exceeds the carrying value of the Company's investment, the Company will suspend recognizing additional losses and will continue to do so unless it commits to providing additional funding; however, if there are intra-entity profits this can cause the investment balance to go negative.

The Company evaluates its equity method investments for impairment whenever events or changes in circumstances indicate that a decline in value has occurred that is other than temporary. Evidence considered in this evaluation includes, but would not

necessarily be limited to, the financial condition and near-term prospects of the investee, recent operating trends and forecasted performance of the investee, market conditions in the geographic area or industry in which the investee operates and the Company's strategic plans for holding the investment in relation to the period of time expected for an anticipated recovery of its carrying value. If the investment is determined to have a decline in value deemed to be other than temporary it is written down to estimated fair value.

At September 30, 2023 March 31, 2024, the Company accounted for its investment in Oxford Biomedica (US) LLC ("OXB Solutions (US) LLC") using the equity method of accounting (see Note 5) 6).

Offering Costs—The Company capitalizes incremental legal, professional accounting and other third-party fees that are directly associated with equity financings as other current assets until the transactions are completed. After equity financings are complete, these costs are recorded in stockholders' equity as a reduction of additional paid-in capital generated as a result of the offering.

Leases

—The Company determines if evaluates whether an arrangement is or contains a lease at contract inception. If a contract is or contains a lease, lease classification is determined at lease commencement, which represents the date at which the underlying asset is made available for use by the Company. The Company's contracts lease terms are determined to contain a lease when all of generally measured at the following criteria based on the specific circumstances of the arrangement are met: (1) there is an identified asset

for which there are no substantive substitution rights; (2) respective lease's noncancelable term and exclude any optional extension terms as the Company has is not reasonably certain to exercise such options. The Company elected the right to obtain substantially all of the economic benefits from the identified asset; short-term lease exemption and (3) the Company has the right to direct the use of the identified asset.

At the commencement date, operating therefore does not recognize lease liabilities and their corresponding right-of-use right of use assets for lease arrangements with original lease terms of twelve months or less.

Lease liabilities represent the Company's obligation to make lease payments under a lease arrangement. Lease liabilities are recorded based on measured as the present value of future fixed lease payments, discounted using an incremental borrowing rate, as interest rates implicit in the Company's lease arrangements are generally not readily determinable. The Company elected the practical expedient to not separate lease and non-lease components for its real estate leases and therefore both are considered when determining the lease payments in a lease arrangement. Variable lease costs are expensed as incurred.

The incremental borrowing rate represents the interest rate at which the Company could borrow a fully collateralized amount equal to the lease payments, over the expected lease term. a similar term, in a similar economic environment. The Company's lease agreements do not provide an implicit rate. As a result, Company determines the Company utilizes an estimated incremental borrowing rate to discount at lease payments, which is commencement, generally using a synthetic credit rating based on the rate Company's financial position and negative cash flows, factoring in adjustments for additional risks based on the Company's economic condition, a survey of interest the Company would have to pay to borrow a comparable companies with similar amount on a collateralized basis over a similar term. Certain adjustments to the right-of-use asset credit and financial profiles, as well as additional market risks, as may be required for items such as initial direct costs paid or lease incentives received. Operating lease cost is recognized over the expected term on a straight-line basis. The expected lease term includes noncancelable lease periods and, when applicable, periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option, as well as applicable.

periods covered by Right-of-use assets represent the Company's right to use an option to terminate the underlying asset over its lease if the Company is reasonably certain not to exercise that option. Variable lease cost is recognized as incurred. term. Right-of-use assets are periodically evaluated initially measured as the associated lease liability, adjusted for impairment. prepaid rent and tenant incentives. The Company remeasures right-of-use assets and lease liabilities when a lease is modified, and the modification is not accounted for as a separate contract. A modification is accounted for as a separate contract if the modification grants the Company an additional right of use not included in the original lease agreement and the increase in lease payments is commensurate with the additional right of use. The Company assesses its right-of-use assets for impairment consistent with its policy for impairment of long-lived assets held and used in operations.

Subsequent Event Considerations

The Company acts as sublessor related considers events or transactions that occur after the balance sheet date but prior to a sublease of a substantial portion the issuance of the Company's headquarters financial statements to provide additional evidence for certain estimates or to identify matters that is now occupied by OXB Solutions. Fixed sublease payments received are recorded as a reduction to lease cost. Although Homology assigned all require additional disclosure. The Company has evaluated events occurring after the date of its right, title and interest in, to and under this lease to OXB Solutions, consolidated balance sheet through the Company remained jointly and severally liable for the payment of rent under this lease as of and for the three and nine months ended September 30, 2023. Therefore, the related right-of-use asset and operating lease liability were not derecognized and remained on the Company's date these condensed consolidated balance sheets as of September 30, 2023. The Company was released from being the primary obligor under such lease effective October 1, 2023 financial statements were issued (see Note 14) 19).

Research and Development Costs—Research and development costs are charged to expense as incurred. Research and development expense consists of expenses incurred in performing research and development activities, including salaries and benefits, materials and supplies, preclinical and clinical expenses, stock-based compensation expense, depreciation of equipment, contract services, and other outside expenses. Recent Accounting Pronouncements

Costs for certain development activities From time to time, new accounting pronouncements are recognized based on an evaluation issued by the FASB or other standard setting bodies that are adopted by the Company as of the progress specified effective date. Unless otherwise discussed, the Company believes that the impact of recently issued standards that are not yet effective will not have a material impact on its financial position or results of operations upon adoption.

In November 2023, the FASB issued ASU No. 2023-07, *Segment Reporting (Topic 280: Improvements to completion Reportable Segment Disclosures* ("ASU 2023-07"). The amendments in this update improve reportable segment disclosure requirements through enhanced disclosures about significant segment expenses. All disclosure requirements of specific tasks using the update are required for entities with a single reportable segment. The amendments are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, and should be applied on a retrospective basis to all periods presented. The Company adopted this standard as of January 1, 2024. The Company has determined that the effects of adopting the amendments in ASU 2023-07 will only impact its disclosures and not have a material impact on its consolidated financial position and the results of its operations when such amendment is adopted.

Recently Issued Accounting Standards Not Yet Adopted

On December 14, 2023, the FASB issued ASU No. 2023-09, *Income Taxes (Topic 740)—Improvements to Income Tax Disclosures* ("ASU 2023-09"). ASU 2023-09 provides more transparency about income tax information provided through improvements to income tax disclosures primarily related to the rate reconciliation and incomes taxes paid information. For public companies, the amendments are effective for annual periods beginning after December 15, 2024 and should be applied prospectively. The Company by has determined that the effects of adopting the amendments in ASU 2023-09 will only impact its vendors disclosures and not have a material impact on their actual costs incurred. Payments its condensed consolidated financial position and the results of its operations when such amendment is adopted.

3. Accounting for these activities are the Merger

As described in Note 1, Merger Sub merged with and into Legacy Q32, with Legacy Q32 surviving as a wholly-owned subsidiary of the Company on March 25, 2024. The Merger was accounted for as a reverse recapitalization in accordance with GAAP with Legacy Q32 as the accounting acquirer of Homology. Legacy Q32 was determined to be the accounting acquirer based on the terms of the individual arrangements, which may differ from Merger Agreement and other factors, including: (i) Legacy Q32's shareholders own a majority of the pattern of costs incurred, and are reflected voting rights in the consolidated financial statements combined company; (ii) Legacy Q32 designated a majority (seven of nine) of the initial members of the board of directors of the combined company; (iii) the Company's executive management team became the management team of the combined company; (iv) the pre-combination assets of Homology were primarily cash and cash equivalents, short-term investments, and other non-operating assets; and (v) the combined company was named Q32 Bio Inc. and is headquartered in Legacy Q32's office in Waltham, Massachusetts.

At the effective time of the Merger, substantially all of the assets of Homology consisted of cash and cash equivalents, short-term investments, as prepaid expense or accrued research and development expense.

Income Taxes—The Company recognizes deferred tax well as other non-operating assets. Under such reverse recapitalization accounting, the assets and liabilities for the expected future tax consequences of events that have been included Homology were recorded at their fair value in the Company's financial statements at the effective time of the Merger, which approximated book value due to the short-term nature, except for the equity method investment as described below. Homology's development programs had ceased prior to the Merger and were deemed to be de minimis in value at the transaction date. No goodwill or intangible assets were recognized.

Consequently, the unaudited condensed consolidated financial statements of the Company reflect the operations of Legacy Q32 for accounting purposes together with a deemed issuance of shares, equivalent to the shares held by the former stockholders Homology, the legal acquirer, and tax returns. Deferred tax a recapitalization of the equity of Legacy Q32, the accounting acquirer.

As part of the recapitalization, the Company obtained the assets and liabilities are determined based listed below:

Cash and cash equivalents	$	53,158
Short-term investments		19,905
Prepaid expenses		964
Equity method investment		4,900
Accounts payable and accrued liabilities		(7,903)
CVR liability		(5,080)
Net assets acquired	$	65,944

In addition, the Company recognized $2.1 million in personnel cost related to severance payments and retention bonuses to Homology employees and this amount was recorded in general and administrative expense in the accompanying unaudited condensed consolidated statement of operations for the three months ended March 31, 2024. The Company also incurred transaction costs of $10.0 million and this amount is recorded in additional paid-in capital in the accompanying unaudited condensed consolidated statements of convertible preferred stock and stockholders' equity (deficit) for the three months ended March 31, 2024.

With respect to the CVRs issued in connection with the Merger, each CVR represents the contractual right to receive payments from the Company upon the differences between actual receipt by the financial statement carrying amounts and the tax bases Company or its subsidiaries of existing assets and liabilities and for loss and credit carryforwards, using enacted tax rates expected to be in effect in the year in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that these assets may not be realized. The Company determines whether it is more likely than not that a tax position will be sustained upon examination. The tax benefit to be recognized for certain contingent proceeds derived from any tax position that meets the more-likely-than-not recognition threshold is calculated as the largest amount of benefit cash consideration that is greater than 50% likely of being realized upon ultimate settlement. If it is not more likely than not that paid to the Company or its subsidiaries as a position will be sustained, none result of the benefit attributable sale, transfer, license, assignment or other divestiture, disposition or commercialization of any of the Company's assets, rights and interests relating to the position is recognized. The Company accounts for interest following pre-merger assets of Homology: HMI-103, HMI-204, capsids and penalties related to uncertain tax positions as part of its provision for income taxes. Since inception, human hematopoietic stem cell-derived adeno-associated virus vector ("AAVHSC") platform, including any equity interests held directly or indirectly by the Company has provided a valuation allowance for the full amount of the net deferred tax assets as the realization of the net deferred tax assets has not been determined to be more likely than not. in OXB (US) LLC.

The Company believes that the achievement of the milestones outlined in the CVR agreement related to Homology's HMI-103, HMI-204, capsids and AAVHSC platform are highly susceptible to factors outside the Company's influence that are not expected to be resolved for a long period of time, if at all. In particular, these amounts are primarily influenced by the actions and judgments of third parties and the licensors of such assets and are based on the licensors of such assets progressing the in-process research and

development assets, and in the case of one of the draft agreements, to certain milestones. As of March 31, 2024, the Company recorded an income tax benefit a CVR liability of less than $0.1 0.2 million and an income tax provision on the balance sheet relating to such contingent payments.

For the portion of the CVR agreement that is related to Homology's equity interest in OXB (US) LLC, the Company recorded a CVR liability of $0.8 4.9 million representing its estimated fair value. Pursuant to the Amended and Restated Limited Liability Company Agreement of OXB (US) LLC, at any time following the three-year anniversary of the closing of the transaction between OXB (US) LLC and the Company (formerly known as Homology Medicines, Inc.) on March 10, 2022, (i) OXB (US) LLC will have an option to cause the Company to sell and transfer to OXB (US) LLC, and (ii) the Company will have an option to cause OXB (US) LLC to purchase from the Company, in each case, all of the Company's equity ownership interest in OXB (US) LLC based on a predetermined multiple of revenue for the three and nine months ended September 30, 2022 immediately preceding 12-month period (together, the "Options"), respectively. subject to a maximum amount of $74.1 million. The year-to-date tax provision predominately resulted from Company utilized a monte carlo simulation model, also known as a probability simulation, to estimate the gain associated with the sale fair value of the Company's manufacturing business due CVR liability. For each simulated path of future revenue, a market approach using the predetermined revenue multiple was employed to determine the transaction with Oxford (see Note 5), offset by available federal and state net operating loss carryforwards and research and development tax credits future value of the equity interest, which are subject was then discounted to certain limitations as to their utilization. The Company did not record an income tax provision (benefit) for the three and nine months ended September 30, 2023. present value using OXB (US) LLC's estimated cost of debt.

Revenue Recognition—Revenue is recognized in accordance with FASB Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606").

Under ASC 606, the Company recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. To determine the appropriate amount of revenue to be recognized for arrangements determined to be within the scope of ASC 606, the Company performs the following five steps: (i) identification of the promised goods or services in the contract; (ii) determination of whether the promised goods or services are performance obligations, including whether they are distinct in the context of the contract; (iii) measurement of the transaction price, including the constraint on variable consideration; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue when (or as) the Company satisfies each performance obligation. The Company only applies the five-step model to contracts when it is probable that the entity will collect consideration it is entitled to in exchange for the goods or services it transfers to the customer.

The promised goods or services in the Company's arrangements would likely consist of a license, rights to the Company's intellectual property or research, development and manufacturing services. Performance obligations are promised goods or services in a contract to transfer a distinct good or service to the customer and are considered distinct when (i) the customer can benefit from the good or service on its own or together with other readily available resources and (ii) the promised good or service is separately identifiable from other promises in the contract. In assessing whether promised goods or services are distinct, the Company considers

factors such as the stage of development of the underlying intellectual property, the capabilities of the customer to develop the intellectual property on its own or whether the required expertise is readily available and whether the goods or services are integral or dependent to other goods or services in the contract.

The Company estimates the transaction price based on the amount expected to be received for transferring the promised goods or services in the contract. The consideration may include fixed consideration and variable consideration. At the inception of each arrangement that includes variable consideration, the Company evaluates the amount of consideration to which the Company expects to be entitled to. The Company utilizes either the most likely amount method or expected value method to estimate the amount expected to be received based on which method best predicts the amount expected to be received. The amount of variable consideration that is included in the transaction price may be constrained and is included in the transaction price only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized will not occur in a future period.

The Company's contracts may include development and regulatory milestone payments that are assessed under the most likely amount method and constrained until it is probable that a significant revenue reversal would not occur. Milestone payments that are not within the Company's control, such as regulatory approvals, are not considered probable of being achieved until those approvals are received. At the end of each reporting period, the Company re-evaluates the probability of achievement of such development and regulatory milestones and any related constraint, and if necessary, adjust its estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect collaboration revenue in the period of adjustment.

For arrangements that include sales-based royalties, including milestone payments based on the level of sales, and the license is deemed to be the predominant item to which the royalties relate, the Company recognizes revenue at the later of (i) when the related sales occur, or (ii) when the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied). To date, the Company has not recognized any royalty revenue resulting from the Company's collaboration arrangement.

The Company allocates the transaction price based on the estimated standalone selling price of each performance obligation. The Company must develop assumptions that require judgment to determine the stand-alone selling price for each performance obligation identified in the contract. The Company utilizes key assumptions to determine the stand-alone selling price, which may include other comparable transactions, pricing considered in negotiating the transaction and the estimated costs. Variable consideration is allocated specifically to one or more performance obligations in a contract when the terms of the variable consideration relate to the satisfaction of the performance obligation and the resulting amounts allocated are consistent with the amounts the Company would expect to receive for the satisfaction of each performance obligation.

The consideration allocated to each performance obligation is recognized as revenue when control is transferred for the related goods or services. For performance obligations which consist of licenses and other promises, the Company utilizes judgment to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress. The Company evaluates the measure of progress for its over-time arrangements at each reporting period and, if necessary, updates the measure of progress and revenue recognized.

Net Income (Loss) per Share—Basic net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share is computed using the weighted-average number of common shares outstanding during the period and, if dilutive, the weighted-average number of potential shares of common stock. The weighted-average number of common shares included in the computation of diluted net income (loss) gives effect to all potentially dilutive common equivalent shares, including outstanding stock options, restricted stock units and unvested shares of common stock.

Common stock equivalent shares are excluded from the computation of diluted net income (loss) per share if their effect is antidilutive. In periods in which the Company reports a net (loss) attributable to common stockholders, diluted net (loss) per share attributable to common stockholders is generally the same as basic net (loss) per share attributable to common stockholders, since dilutive common shares are not assumed to have been issued if their effect is anti-dilutive.

Recent Accounting Pronouncements—The Jumpstart Our Business Startups Act of 2012 permits an emerging growth company to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies until those standards would otherwise apply to private companies. As an emerging growth company, the Company has elected to take advantage of this extended transition period.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13") to improve financial reporting by requiring more timely recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. ASU 2016-13 requires the measurement

of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. ASU 2016-13 also requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. The Company adopted ASU 2016-13 on January 1, 2023. The adoption of ASU 2016-13 did not have a material impact on the Company's condensed consolidated financial statements and related disclosures.

3. SHORT-TERM INVESTMENTS 4. Short-Term Investments

The Company may invest its excess cash in fixed income instruments denominated and payable in U.S. dollars, including U.S. treasury securities, commercial paper, corporate debt securities and asset-backed securities in accordance with the Company's investment policy that primarily seeks to maintain adequate liquidity and preserve capital.

The following table summarizes the Company's short-term investments as of September 30, 2023 and December 31, 2022 March 31, 2024 (in thousands):

As of September 30, 2023	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
		(in thousands)		
Commercial paper	$ 3,965	$ —	$ (2)	$ 3,963
US Treasury securities	55,268	6	(7)	55,267
Corporate debt securities	14,990	—	(33)	14,957
Total	$ 74,223	$ 6	$ (42)	$ 74,187

As of December 31, 2022	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
		(in thousands)		
Commercial paper	$ 57,138	$ —	$ —	$ 57,138

US Treasury securities	65,160	—	(335)	64,825
Corporate debt securities	19,146	—	(69)	19,077
Total	$ 141,444	$ —	$ (404)	$ 141,040

As of March 31, 2024	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
US Treasury securities	$ 19,808	$ —	$ (5)	$ 19,803
Total	$ 19,808	$ —	$ (5)	$ 19,803

The Company did not have any short-term investments as of December 31, 2023.

The Company utilizes the specific identification method in computing realized gains and losses. Unrealized holding gains or losses for the period that have been included in accumulated other comprehensive income, as well as gains and losses reclassified out of accumulated other comprehensive income into other income, net, were not material to the Company's unaudited condensed consolidated statements of operations. The Company had no realized gains and losses on its available-for-sale securities for the three and nine months ended September 30, 2023 and 2022. March 31, 2024. The contractual maturity dates of all of the Company's investments are less than one year.

4. FAIR VALUE MEASUREMENTS 5. Fair Value Measurements

The carrying values of the Company's financial instruments consist of cash prepaid expenses and cash equivalents, short-term investments, restricted cash and accounts payable. The carrying amount of cash, restricted cash and other current assets, accounts payable, are each considered a reasonable estimate of and accrued expenses and other current liabilities approximate their fair value due to their short-term nature. The carrying value of the short-term maturity. Company's term loan as of March 31, 2024 (see Note 11) approximated fair value based on interest rates currently available to the Company.

The tables below present information about the Company's assets and liabilities that are regularly measured and carried at fair value on a recurring basis at March 31, 2024 and December 31, 2023 and indicate the level within the fair value hierarchy of the valuation techniques the Company utilized to determine such fair value, which is described further within Note 2, Summary of Significant Accounting Policies.

Assets 13

Financial assets and liabilities measured at fair value on a recurring basis were as follows: of March 31, 2024 are summarized as follows (in thousands):

Description	September 30, 2023	Quoted Prices (Unadjusted) in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Cash equivalents:				
Money market mutual funds	$ 28,375	$ 28,375	$ —	$ —
Total cash equivalents	$ 28,375	$ 28,375	$ —	$ —
Short-term investments:				
Commercial paper	$ 3,963	$ —	$ 3,963	$ —
US Treasury securities	55,267	—	55,267	—
Corporate debt securities	14,957	—	14,957	—
Total short-term investments	$ 74,187	$ —	$ 74,187	$ —
Total financial assets	$ 102,562	$ 28,375	$ 74,187	$ —

Description	December 31, 2022	Quoted Prices (Unadjusted) in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Cash equivalents:				
Money market mutual funds	$ 33,967	$ 33,967	$ —	$ —
Total cash equivalents	$ 33,967	$ 33,967	$ —	$ —
Short-term investments:				
Commercial paper	$ 57,138	$ —	$ 57,138	$ —
US Treasury securities	64,825	—	64,825	—
Corporate debt securities	19,077	—	19,077	—
Total short-term investments	$ 141,040	$ —	$ 141,040	$ —
Total financial assets	$ 175,007	$ 33,967	$ 141,040	$ —

Description	Balance as of March 31, 2024	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets				
Cash equivalents:				
Money market funds	$ 114,737	$ 114,737	$ —	$ —
Total cash equivalents	$ 114,737	$ 114,737	$ —	$ —
Short-term investments:				
US Treasury securities	$ 19,803	$ —	$ 19,803	$ —
Total short-term investments	$ 19,803	$ —	$ 19,803	$ —
Total financial assets	$ 134,540	$ 114,737	$ 19,803	$ —
Liabilities				
CVR liability	$ 5,080	$ —	$ —	$ 5,080
Total financial liabilities	$ 5,080	$ —	$ —	$ 5,080

Financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2023 are summarized as follows (in thousands):

Description	Balance as of December 31, 2023	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets				
Cash equivalents:				
Money market funds	$ 24,100	$ 24,100	$ —	$ —
Total cash equivalents	$ 24,100	$ 24,100	$ —	$ —
Restricted cash equivalents:				
Money market funds	$ 5,000	$ 5,000	$ —	$ —
Total restricted cash equivalents	$ 5,000	$ 5,000	$ —	$ —
Total financial assets	$ 29,100	$ 29,100	$ —	$ —
Liabilities				
Convertible notes	$ 38,595	$ —	$ —	$ 38,595
Total financial liabilities	$ 38,595	$ —	$ —	$ 38,595

Money market funds were valued by the Company using quoted prices in active markets for identical securities, which represent a Level 1 measurement within the fair value hierarchy. Short-term securities investments are valued using models or other valuation methodologies that use Level 2 inputs. These models are primarily industry-standard models

that consider various assumptions, including time value, yield curve, volatility factors, default rates, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

There As discussed in Note 1, at the effective time of the Merger, each person who as of immediately prior to the effective time of the Merger was a stockholder of record of Homology or had the right to receive Homology's common stock received a CVR, issued by Homology subject to and in accordance with the terms and conditions of a CVR Agreement, representing the contractual right to receive cash payments from the combined company upon the receipt of certain proceeds from a disposition of Homology's pre-merger assets, calculated in accordance with the CVR Agreement. The Company concluded that the CVR liability is a derivative liability and is accounted for at fair value. The fair value of the CVR liability is based on significant unobservable inputs, which represent Level 3 measurements within the fair value hierarchy. For the portion of the CVR liability that is related to Homology's equity interest in OXB (US) LLC, the Company utilized a monte carlo simulation model, also known as a probability simulation, to estimate the fair value of the CVR liability. This model requires the use of significant judgment, estimates and assumptions, including estimated future revenues and discount rates. For the portion of the CVR liability related to Homology's HMI-103, HMI-204, capsids and AAVHSC platform, the Company's fair value assessment includes judgments around the probability of progressing the in-process research and development assets, and in the case of one of the draft agreements, to certain milestones.

During the three months ended March 31, 2024 and 2023, there were no transfers between Level 1, Level 2 and Level 3. There have been no impairments of the Company's assets measured and carried at fair value measurement levels during the three and nine months ended September 30, 2023 March 31, 2024 and 2022. 2023.

Legacy Q32 issued convertible notes (the "Convertible Notes") totaling $30.0 million during the year ended December 31, 2022. Legacy Q32 concluded that the Convertible Notes and its related features are within the scope of FASB Accounting Standards Codification ("ASC") Topic 825, *Financial Instruments* ("ASC 825"), as a combined financial instrument, and Legacy Q32 elected the fair value option where changes in fair value of the Convertible Notes are measured through the accompanying condensed consolidated statement of operations until settlement. The Convertible Notes liability represents a Level 3 measurement within the fair value hierarchy as it has been valued using certain unobservable inputs. These inputs include the underlying fair value of the equity instrument into which the Convertible Notes are convertible. The fair value is based on significant inputs not observable in the market, namely potential financing scenarios, the likelihood of such scenarios, the expected time for each scenario to occur, and the required market rates of return utilized in modeling these scenarios.

Year Ended December 31, 2023	Scenario 1	Scenario 2	Scenario 3
Probability of each scenario	80%	15%	5%
Expected Term (years)	0.25	0.25	0.42
Required market rates of return	15.0%	15.0%	15.0%

The Convertible Notes had an estimated fair value of $38.6 million as of December 31, 2023. The Company recorded in other income (expense), net, an interest expense of $1.5 million and a charge of $4.7 million on the change in estimated fair value during the year ended December 31, 2023. There was no change in fair value attributable to the instrument-specific credit risk for the year ended December 31, 2023.

Upon closing of the Merger, Legacy Q32 converted the outstanding Convertible Notes plus accrued interest into shares of common stock at 90% of the purchase price of the mandatory conversion event. As the Convertible Notes are recorded at fair value, a gain of $15.9 million on the change in the fair value prior to the conversion of convertible notes is reflected in the unaudited condensed consolidated statement of operations for the three months ended March 31, 2024 (see Note 11).

5. EQUITY METHOD INVESTMENT 6. Equity Method Investment

Summary As part of Transaction

On March 10, 2022, the Merger, the Company closed a transaction with obtained Homology's 20% equity interest in OXB Solutions, Oxford Biomedica (US), Inc., ("OXB"), and Oxford, pursuant to the Equity Securities Purchase Agreement (the "Purchase Agreement"), dated as of January 28, 2022, by and among Homology, OXB Solutions and Oxford, whereby, among other things, Homology and Oxford agreed to collaborate to operate OXB Solutions, which provides LLC, an AAV vector process development and manufacturing services to pharmaceutical and biotechnology companies (the "OXB Solutions Transaction").

Pursuant to the terms of the Purchase Agreement and a contribution agreement (the "Contribution Agreement") entered into between Homology and OXB Solutions prior to the closing of the OXB Solutions Transaction (the "Closing"), Homology contributed its manufacturing team of 125 employees and assigned and transferred to OXB Solutions all of its assets that are primarily used in the manufacturing of AAV vectors for use in gene therapy and gene editing products, including its manufacturing facility and equipment and

manufacturing-related intellectual property and know-how, but excluding certain assets related to manufacturing or testing of Homology's proprietary AAV vectors (collectively, the "Transferred Assets"), in exchange for 175,000 common equity units in OXB Solutions ("Units"), representing 100 percent (100%) of the ownership interest of OXB Solutions, and OXB Solutions assumed from the Company, and agreed to pay, perform and discharge when due, all of the Company's duties, obligations, liabilities, interests and commitments of any kind under, arising out of or relating to the Transferred Assets.

Effective as of the Closing, Homology sold to OXB, and OXB purchased from Homology, 130,000 Units, (the "Transferred Units") in exchange for $130.0 million of cash consideration. In connection with the Closing, OXB contributed $50.0 million in cash to OXB Solutions in exchange for an additional, newly issued 50,000 Units. Immediately following the Closing, (i) OXB owned 180,000 Units, representing 80 percent (80%) of the fully diluted equity interests in OXB Solutions, and (ii) Homology owned 45,000 Units, representing 20 percent (20%) of the fully diluted equity interests in OXB Solutions.

Pursuant to the Amended and Restated Limited Liability Company Agreement of OXB Solutions (the "OXB Solutions Operating Agreement") which was executed in connection with the Closing, at any time following the three-year anniversary of the Closing, (i) OXB will have an option to cause Homology to sell and transfer to OXB, and (ii) Homology will have an option to cause OXB to purchase from Homology, in each case all of Homology's equity ownership interest in OXB Solutions at a price equal to 5.5 times the revenue for the immediately preceding 12-month period (together, the "Options"), subject to a maximum amount of $74.1 million. Pursuant to the terms of the OXB Solutions Operating Agreement, Homology is entitled to designate one director to the board of directors of OXB Solutions, currently Albert Seymour, Homology's Chief Executive Officer.

Pursuant to the OXB Solutions Transaction, the Company also assigned all of its right, title and interest in, to and under its facility lease to OXB Solutions. However, as the Company remained jointly and severally liable for the payment of rent under the facility lease, the Company had not been released from being the primary obligor under such lease as of September 30, 2023 and therefore the related right-of-use asset and lease liability were not derecognized and remained on the Company's balance sheet. The Company determined that the expected disposal of the fixed assets did not qualify for reporting as a discontinued operation since it did not represent a strategic shift that has or will have a major effect on the Company's operations and financial results. Subsequently, the Company was released from being the primary obligor under such lease effective as of October 1, 2023 (see Note 14).

Equity Method of Accounting

company. The Company has significant influence over, but does not control, OXB Solutions (US) LLC through its noncontrolling representation on OXB's OXB (US) LLC's board of directors and the Company's equity interest in OXB Solutions. In addition, the Company and OXB Solutions have intra-entity transactions through a series of agreements entered into in conjunction with the OXB Solutions Transaction, OXB Solutions granted certain licenses to the Company, and the Company has representation on the joint steering committee which oversees the activities governed by the Supply Agreement. (US) LLC. Accordingly, the Company does not consolidate the financial statements of OXB Solutions (US) LLC and accounts for its investment using the equity method of accounting.

The Company recorded its equity method investment investments in OXB Solutions (US) LLC at fair value upon deconsolidation of OXB Solutions as the effective date of the Closing. Merger. The fair value of the equity method investment was determined based on the market approach. This approach estimated estimates the fair value of OXB Solutions (US) LLC based on the implied value for the entity, using the consideration paid, including the Options (as defined in Note 3 above), for a controlling interest in OXB Solutions (US) LLC at the entity's formation. As part of its fair value analysis, the Company determined that the Options are embedded in the common equity Company's ownership units of OXB (US) LLC because the Options are not legally detachable or separately exercisable. Accordingly, the equity method investment and the Options represent one unit of account and the fair value recorded reflects the value of the equity interest and the Options. The valuation included certain subjective assumptions including discounts Options (refer to Note 3 for lack of control and marketability given the consideration paid more information for OXB Solutions was for a controlling interest in the entity and the Company owns a noncontrolling interest. As of March 10, 2022, the Closing, how the fair value of the Company's investment in OXB Solutions was $31.2 million and the Company recorded a gain of $131.2 million on the sale of its manufacturing business in other income in the Company's condensed consolidated statements of operations. The gain was computed as follows:

(in thousands)	March 10, 2022
Cash received	$ 130,000
Plus: Fair value of equity method investment	31,223
Less: Carrying value of transferred assets	(29,974)
Gain on sale of business	$ 131,249

determined).

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During the nine months ended September 30, 2023, the Company determined that the fair value of its investment in OXB Solutions was negatively impacted due to a change in OXB Solutions' forecasted performance relative to expected performance when the Company initially invested in OXB Solutions. The Company determined that the decline in value was deemed to be other than temporary and recorded an impairment charge of $3.8 million to reduce its equity method investment to fair value. The impairment charge is included in the loss on equity method investment in the Company's condensed consolidated statements of operations.

In addition, the Company records its share of income or losses from OXB Solutions (US) LLC on a quarterly basis. For the nine three months ended September 30, 2023 March 31, 2024, the Company recorded $8.1 0.2 million, representing its share of OXB Solution's (US) LLC's net loss for the period. period of March 26, 2024 through March 31, 2024. As of September 30, 2023 March 31, 2024, the carrying value of the equity method investment was $14.0 4.7 million.

6. PROPERTY AND EQUIPMENT, NET 15

7. Property and Equipment, Net

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

	As of	
	September 30, 2023	December 31, 2022
	(in thousands)	
Laboratory equipment	$ —	$ 6,025
Computers and purchased software	—	644
Furniture and fixtures	—	645
Property and equipment, at cost	—	7,314
Less: accumulated depreciation and amortization	—	(6,236)
Property and equipment, net	$ —	$ 1,078

	March 31, 2024	December 31, 2023
Lab equipment	$ 1,382	$ 1,382
Furniture and fixtures	341	341
Computer equipment	85	85
Leasehold improvements	940	940
Total property and equipment	2,748	2,748
Less accumulated depreciation	(1,089)	(966)
Property and equipment, net	$ 1,659	$ 1,782

In August 2023, consistent with its decision to stop further development of its programs and explore, review and evaluate a range of potential strategic options available to the Company, the Company committed to a plan to sell its remaining property and equipment and therefore has classified the amount as assets held for sale on the consolidated balance sheet as of September 30, 2023. The assets held for sale were reported at the lower of the carrying amount or fair value with no depreciation expense taken after August 2023.

Depreciation expense for the three and nine months ended September 30, 2023 March 31, 2024 and 2023 was approximately $0.1 million and $ in each period. 0.6 No million, respectively, compared to $0.3 million and $1.0 million, respectively for impairment losses occurred in the three and nine months ended September 30, 2022. The Company had approximately $0.4 million of disposals of property March 31, 2024 and equipment during the three and nine months ended September 30, 2023. 2023. The Company had no disposals losses on disposal of property and equipment during fixed assets for the three and nine months ended September 30, 2022. March 31, 2024 and 2023.

7. ACCRUED EXPENSES AND OTHER LIABILITIES 8. Prepaid Expenses, Other Current Assets and Other Noncurrent Assets

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

	March 31, 2024	December 31, 2023
Payroll tax credit	$ 563	$ 755
Prepaid external research and development	1,572	1,834
Prepaid expenses	529	427
Other	67	83
Total prepaid expenses and other current assets	$ 2,731	$ 3,099

Other noncurrent assets consisted of the following as of (in thousands):

	March 31, 2024	December 31, 2023
Deferred transaction costs	$ —	$ 3,912
Prepaid external research and development - long term	1,084	676

Other	17	23
Total other noncurrent assets	$ 1,101	$ 4,611

9. Accrued Expenses and Other Current Liabilities

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

	As of	
	September 30, 2023	December 31, 2022
	(in thousands)	
Accrued research and development expenses	$ 8,198	$ 9,447
Accrued compensation and benefits	6,660	5,953
Accrued professional fees	648	1,052
Accrued other	205	2,263
Total accrued expenses and other liabilities	$ 15,711	$ 18,715

	March 31, 2024	December 31, 2023
Accrued external research and development	$ 3,592	$ 3,578
Accrued compensation and related expenses	4,406	3,003
Accrued taxes payable	316	316
Operating lease liability, current	1,560	538
Accrued professional services and other	9,951	2,328
Total accrued expenses and other current liabilities	$ 19,825	$ 9,763

8. RESTRUCTURING AND OTHER CHARGES 10. Commitments and Contingencies

On July 25, 2023 As of March 31, 2024, the Company's Board of Directors approved a process Company has several ongoing clinical studies in various clinical trial stages. Its most significant contracts relate to explore, review agreements with CROs for clinical trials and evaluate a range of potential strategic options available to preclinical studies and contract development and manufacturing organizations ("CMOs"), which the Company including, without limitation, an acquisition, merger, reverse merger, sale enters into in the normal course of assets, strategic partnerships or other transactions. Therefore, based on cost-reduction initiatives intended to reduce business. The contracts with CROs and CMOs are generally cancellable, with notice, at the Company's ongoing operating expenses and maximize shareholder value as the Company plans to pursue strategic options, the Company's Board of Directors also approved a reduction in the Company's workforce by approximately 80 employees, or 86% of the Company's workforce as of July 2023. In connection with this corporate restructuring, the Company recorded a restructuring charge for severance and related costs of $6.9 million in the Company's condensed consolidated statements of operations during the three months ended September 30, 2023. option.

The Company's restructuring liability, which was included in accrued compensation and benefits, consisted of the following: 16

Operating lease

(in thousands)	Employee-Related Costs
Accrued restructuring balance at January 1, 2023	$ -
Expenses incurred	6,895
Payments	(2,154)
Accrued restructuring balance at September 30, 2023	$ 4,741

The Company had previously granted certain of the terminated employees restricted stock units ("RSUs") that vest in annual installments based on continued service to the Company, as well as options to purchase shares of the Company's common stock that typically vest over a period of four years. In connection with the reduction in workforce, the

Company agreed to accelerate the vesting of a portion of the RSUs that were unvested as of the employees' termination dates, and also modify the stock options for terminated employees such that subject to the satisfaction of severance conditions, the terminated employees' vested options will remain outstanding and exercisable until the first anniversary of each employee's termination date. These equity modifications, described in detail in Note 10, resulted in a net reduction to stock based compensation expense of $0.3 million reflected within restructuring and other charges in the Company's condensed consolidated statements of operations during the three months ended September 30, 2023.

9. COMMITMENTS AND CONTINGENCIES

Operating Leases—In December 2017, 2021 the Company entered into a noncancelable long-term operating lease agreement for its current corporate headquarters in Waltham, Massachusetts ("headquarters lease"). The headquarters lease provides approximately 67,000 15,000 square feet of research and development, manufacturing and for general office space use and research lab facilities. The lease commencement date was January 1, 2022 and the Company did not take control or have the right to use the leased property until this time. The lease term ends in Bedford, Massachusetts. PriorDecember 2031. The Company has an option to a subsequent amendment described below, extend the lease was set to expire in February 2027 with an option term for an additional five-year term. Rent became due under the lease in two phases; rent on the first 46,000 square feet started in September 2018 and rent on the remaining 21,000 square feet started in March 2019 five years. The initial annual base rent was for the office space is approximately $39.50 970 thousand per square foot and increases year, increasing every year by three 3% for total aggregate payment of $11.1 percent annually. million. Upon the commencement date, the Company established a right-of-use asset and lease liability on the condensed consolidated balance sheet. As part of the agreement, the Company arranged for a letter of credit for $647 thousand as a security for lease, which is considered restricted cash and included as restricted cash and restricted cash equivalents in the condensed consolidated balance sheet. The Company is obligated to pay, on a pro-rata basis, real estate taxes and operating costs related to the premises. The lease agreement allowed for received $0.4 million in a tenant improvement allowance not to exceed $ that was applied against the right-of-use asset.

As of March 31, 2024, the Company's headquarters lease had a weighted-average remaining lease term of 10.97.75 million, which years and weighted average incremental borrowing rate of 7.5%.

Amounts reported in the unaudited condensed consolidated balance sheet for leases where the Company received in full, to be applied to is the total cost lessee as of tenant improvements to the leased premises. The unamortized balance of the tenant improvement allowance was included in deferred rent incentives March 31, 2024 and recorded December 31, 2023 were as a reduction to operating right-of-use asset upon adoption of the new leasing standards. follows (in thousands):

In November 2021, the Company entered into an amendment of its December 2017 lease agreement (the "Lease Amendment") for its corporate headquarters in Bedford, Massachusetts. The Lease Amendment increases the space under lease by approximately 23,011 square feet (the "Expansion Premises") and extended the expiration date of the existing premises under the lease from February 2027 to June 2030. The payment term with respect to the Expansion Premises commenced on May 1, 2022 and continues for a period of ten years and five months. The term of the Expansion Premises and the existing premises are not coterminous. Annual base rent for the existing premise under the Lease Amendment is approximately $4.7 million beginning on March 1, 2027, and increases by three percent annually; annual base rent for the Expansion Premises is approximately $1.4 million per year and increases by three percent annually. The Lease Amendment allows for tenant improvement allowances not to exceed $6.3 million in the aggregate. The Lease Amendment was accounted for as a lease modification and the right-of-use asset and operating lease liability for the existing premises were remeasured at the modification date, which resulted in an increase of $10.9 million to both the right-of-use asset and operating lease liabilities. In February 2022, the Company revised its assumption for when it expects to utilize the tenant improvement allowances. This change in assumption was accounted for as a lease modification and the right-of-use asset and operating lease liability for the existing premises were remeasured at the modification date, which resulted in an increase of $0.2 million to both the right-of-use asset and operating lease liabilities.

	March 31, 2024	December 31, 2023
Assets:		
Operating lease right-of-use assets	$ 6,160	$ 6,301
Total operating lease right-of-use assets	$ 6,160	$ 6,301
Liabilities:		
Current:		
Operating lease liabilities	$ 1,560	$ 538
Noncurrent:		
Operating lease liabilities, net of current portion	6,099	6,248
Total operating lease liabilities	$ 7,659	$ 6,786

In March 2022, in accordance with its transaction with OXB Solutions, the Company assigned all of its right, title and interest in, to and under its corporate headquarters lease to OXB Solutions and entered into a sublease agreement whereby OXB Solutions subleased certain premises in its facility to Homology. The Company was not released from being the primary obligor under such lease as of September 30, 2023 and therefore the related right-of-use asset and operating lease liability were not derecognized and remained on the Company's balance sheet and the Company acted as sublessor to OXB Solutions for accounting purposes. See Note 5 for details. During the nine months ended September

30, 2023, the Company received $2.3 million in sublease payments from OXB Solutions, which is recorded as a reduction to lease cost. In October 2023, the Company was released from being primary obligor under the lease (see Note 14).

In September 2022, the Company concluded that 100% of the tenant improvement allowances would be utilized by OXB Solutions. This change in assumption was accounted for as a lease modification and the right-of-use asset and operating lease liability for the existing premises were remeasured at the modification date, which resulted in an increase of $6.1 million to both the right-of-use asset and operating lease liabilities.

The following table summarizes operating lease costs for the three months ended March 31, 2024 and variable lease costs, as well as sublease income:2023 (in thousands):

	Nine months ended September 30,	
	2023	2022
	(in thousands)	
Operating lease costs	$ 3,263	$ 2,826
Variable lease costs	1,551	1,698
Sublease income	(2,312)	(1,210)
Net lease cost	$ 2,502	$ 3,314

The maturities of the Company's operating lease liabilities and minimum lease payments as of September 30, 2023 were as follows:

For the Years Ending December 31,	Amount (in thousands)
2023	1,134
2024	4,578
2025	4,715
2026	4,857
Thereafter	26,265
Total undiscounted lease payments	$ 41,549
Less: imputed interest	(13,211)
Present value of operating lease liabilities	$ 28,338

	March 31,	
	2024	2023
Fixed lease costs	$ 257	$ 250
Variable lease costs	11	18
Total lease costs	$ 268	$ 268

The following table summarizes 17

Variable lease costs were primarily related to operating expenses, taxes and insurances associated with the operating lease, which were assessed based on the Company's proportionate share of such costs for the leased premises. As these costs are generally variable in nature, they were not included in the measurement of the operating lease right-of-use asset and related lease liability. Total lease costs are included as operating expenses in the Company's unaudited condensed consolidated statements of operations. Future minimum lease payments under non-cancelable lease agreement as of March 31, 2024 and a reconciliation to the carrying amount of the lease term liabilities presented in the consolidated balance sheet are as follows (in thousands):

	Minimum Rental Payments
2024	$ 1,776
2025	1,060

2026		1,092
2027		1,124
2028		1,158
Thereafter		3,687
Total minimum lease payments		9,897
Less imputed interest		(2,238)
Total lease liability	$	7,659
Lease liability, current portion	$	1,560
Lease liability, net of current portion		6,099
Total	$	7,659

Prior to the Merger, Homology was subleasing office and discount rate research and development laboratory space in Bedford, Massachusetts, under a sublease agreement with OXB (US) LLC that is scheduled to expire in December 2024. During the first quarter of 2024, prior to the Merger, Homology had fully abandoned the space and accordingly, had shortened the remaining useful of its right-of-use asset to equal the time remaining until the planned abandonment date. At the effective time of the Merger, the Company recorded a liability of approximately $1.0 million representing the present value of the future minimum lease payments due under this sublease. As of March 31, 2024, this amount is included in accrued expenses and liabilities on the Company's condensed consolidated balance sheet as the amount will be fully paid within one year, and in the table above.

License Agreements

License Agreement with the University of Colorado

In August 2017, the Company entered into an exclusive license agreement, as amended in February 2018, September 2018, and April 2019 (the "Colorado License Agreement"), with The Regents of the University of Colorado ("Colorado"), pursuant to which the Company obtained worldwide, royalty-bearing, sublicensable licenses under certain patents and know-how owned by Colorado and Medical University of South Carolina ("MUSC") relating to the research, development and commercialization of ADX-097. The licenses granted to the Company are exclusive with respect to certain patent families and know-how and non-exclusive with certain other patent families and know-how. The licenses granted to the Company are also subject to certain customary retained rights of Colorado and MUSC and rights of the United States government owing to federal funding giving rise to inventions covered by the licensed patents. The Company agreed to use commercially reasonable efforts to develop, manufacture and commercialize ADX-097, including by using commercially reasonable efforts to achieve specified development and regulatory milestones by specified dates.

In addition, the Company agreed to pay Colorado (i) development and sales milestone payments in an aggregate amount of up to $2.2 million per licensed product for the first three products, (ii) tiered royalty rates on cumulative net sales of licensed products in the low single digit percentages, (iii) 15% of sublicense income and (iv) ongoing fees associated with the prosecution, maintenance, or filing of the licensed patents. The Company's obligation to pay royalties to Colorado commences, on a licensed product-by-licensed product and country-by-country basis, from the first commercial sale of a licensed product in any country and expires on the later of (a) the last to expire valid claim within the licensed patents covering such licensed product in such country, and (b) 20 years following the effective date of the Colorado License Agreement, or April 2037 (the "Royalty Term").

Unless earlier terminated by either party pursuant to its terms, the Colorado License Agreement will expire upon the expiration of the Royalty Term in all countries. The Company may terminate the Colorado License Agreement for convenience upon providing prior written notice to Colorado. Colorado may terminate the Colorado License Agreement or convert the Company's exclusive license to a non-exclusive license if the Company breaches certain obligations under the Colorado License Agreement and fails to cure such breach. The Colorado License Agreement will terminate automatically upon the Company's dissolution, insolvency, or bankruptcy.

During the three months ended March 31, 2024 and 2023, the Company had zero research and development expense for any milestone related to the Colorado License Agreement. The financial statements as of September 30, 2023 March 31, 2024 and December 31, 2023 do not include liabilities with respect to royalty fees on the license agreement as the Company has not yet generated revenue and the achievement of certain milestones is not yet probable.

License Agreement with Bristol-Myers Squibb Company

In September 2019, the Company entered into a license agreement, as amended in August 2021 and July 2022 (the BMS License Agreement), with Bristol-Myers Squibb Company ("BMS"), pursuant to which the Company obtained sublicensable licenses from BMS to research, develop and commercialize licensed products, including bempikibart, for any and all uses worldwide. The licenses granted to the Company are exclusive with respect to BMS's patent rights and know-how relating to certain antibody fragments (including certain fragments of bempikibart) and non-exclusive with respect to BMS's patent rights and know-how relating to the composition of matter and use of a specific region of bempikibart. BMS retained the right for it and its affiliates to use the exclusively licensed patents and know-how for internal, preclinical research purposes. Under the BMS License

Agreement, the Company is prohibited from engaging in certain clinical development or commercialization of any antibody other than a licensed compound with the same mechanism of action until the earlier of the expiration of Q32's obligation to pay BMS royalties or September 2029.

In consideration for the license, the Company made an upfront payment to BMS of $8 million, issued 6,628,788 Series A preferred shares to BMS and agreed to use commercially reasonable efforts to develop and commercialize at least one licensed product in key geographic markets. In addition, the Company agreed to pay BMS (i) development and regulatory milestone payments in aggregate amounts ranging from $32 million to $49 million per indication for the first three indications and commercial milestone payments in an aggregate amount of up to $215 million on net sales of licensed products, (ii) tiered royalties ranging from rates in the mid-single digit percentages to up to 10% of net sales, with increasing rates depending on the cumulative net sales, (iii) up to 60% of sublicense income, which percentage decreases based on the development stage of bempikibart at the time of the sublicensing event, and (iv) ongoing fees associated with the prosecution, maintenance, or filing of the licensed patents.

The Company's obligation to pay BMS royalties under subsection (ii) above commences, on a licensed product-by-licensed product and country-by-country basis on the first commercial sale of a licensed product in a country and expires on the later of (x) 12 years from the first commercial sale of such Licensed Product in such country, (y) the last to expire licensed patent right covering bempikibart or such licensed product in such country, and (z) the expiration or regulatory or marketing exclusivity for such licensed product in such country (Royalty Term). If the Company undergoes a change of control prior to certain specified phase of development, the development and milestone payments are subject to increase by a low double digit percentage and the royalty rates are subject to increase by a low sub single digit percentage.

Unless terminated earlier by either party pursuant to its terms, the BMS License Agreement will expire on a country-by-country and licensed product-by-licensed product basis upon the expiration of the last to expire Royalty Term with respect to such licensed product in such country. Either party may terminate the BMS License Agreement for the other party's material breach, subject to a specified notice and cure period. BMS may terminate the BMS License Agreement if the Company fails to meet its diligence obligations under the BMS License Agreement, for the Company's insolvency, or if the Company or its affiliates challenges the validity, scope, enforceability, or patentability of any of the licensed patents. The Company may terminate the BMS License Agreement for any reason upon prior written notice to BMS, with a longer notice period if a licensed product has received regulatory approval. If the BMS Agreement is terminated for the Company's material breach, BMS will regain rights to bempikibart and the Company must grant BMS an exclusive license under the Company's patent rights covering bempikibart, subject to a low single digit percentage royalty on net sales of bempikibart payable to the Company by BMS

During the year ended December 31, 2019, the Company recorded in-process-research and development expense of $14.6 million in the statement of operations related to the BMS License Agreement comprised of $8.0 million of cash consideration and $6.6 million of Series A preferred shares issued to BMS.

As of March 31, 2024, no events have occurred that would require payment of the milestones, royalties or sublicense fees.

Legal Proceedings

The Company is not currently party to any material legal proceedings. At each reporting date, the Company evaluates whether or not a potential loss amount or a potential range of loss is probable and reasonably estimable under the provisions of FASB ASC Topic 450, *Contingencies*. The Company expenses as incurred the costs related to its legal proceedings.

Indemnification Arrangements

As permitted under Delaware law, the Company has agreements whereby it indemnifies certain of its investors, stockholders, employees, officers, and directors (collectively, the "Indemnified Parties") for certain events or occurrences while the Indemnified Parties are, or were serving, at its request in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has an Executive Liability insurance policy that limits its exposure and enables it to recover a portion of any future amounts paid up to $5.0 million. The Company believes the estimated fair value of these indemnification agreements is minimal. The Company enters into standard indemnification agreements in the ordinary course of business. Pursuant to these agreements, the Company indemnifies, holds harmless, and agrees to reimburse the Indemnified Parties for losses suffered or incurred by the Indemnified Parties, generally the Company's business partners or customers, in connection with any U.S. patent or any copyright or other intellectual property infringement claim by any third party with respect to the Company's products. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. The Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements.

11. Debt

Venture Debt

On December 11, 2020, the Company entered into a Loan and Security Agreement with Silicon Valley Bank, a California corporation ("Loan Agreement") for a lending facility of up to $25 million. The Company received $5.0 million upon execution of the Agreement ("2020 Term A Loan Advance") and had the ability to draw up to $20.0 million in three separate term loan advances if certain performance milestones are met. The term loan bears interest at an annual rate equal to the greater of the prime rate or 3.25%. The Loan Agreement provides for interest-only payments until April 30, 2022, and repayment of the aggregate outstanding principal balance of the term loan in monthly installments starting on July 1, 2022 through December 1, 2023. The commencement of principal payments and the maturity date will be deferred by one year upon the occurrence of a contingent event. In addition, the Company paid a fee of $0.1 million upon closing and is required to pay a fee of 2.0% of the aggregate amount of advances under the Loan Agreement at maturity. At its option, the Company may elect to prepay all or a portion of the outstanding advances by paying the principal balance, and all accrued and unpaid interest, and a prepayment premium. In connection with the Loan Agreement, the Company granted the lender a security interest in all of its personal property now owned or hereafter acquired, excluding intellectual property (but including the rights to payment and proceeds from the sale, licensing or disposition of intellectual property), and a negative pledge on intellectual property. The Loan Agreement also contains certain events of default, representations, warranties and non-financial covenants of the Company. If the Company fails to make payments when due or breaches any operational covenant or has any event of default, this could have a material adverse effect on its business and financial condition. The Company was in compliance with all covenants at March 31, 2024.

On June 30, 2022, a second amendment to the Loan Agreement was entered into with the lender that extended the interest-only payment until December 31, 2022 followed by 24 equal monthly payments of principal plus interest. The loan matures on December 31, 2024. The amendment increases the final payment from 2.0% to 4.0% of the advanced payment and modifies the prepayment premium.

On August 10, 2022, a third amendment to the Loan Agreement was entered into with the lender. Per the terms of the amendment and in conjunction with the Collaboration Agreement (as defined below), the Company transferred $5.0 million into a restricted cash collateral money market account which is included as Restricted cash and restricted cash equivalents on the balance sheet. This restricted cash equivalent covers the amount of the debt outstanding as of the third amendment effective date.

On December 21, 2022, a fourth amendment to the Loan Agreement was entered into with the lender that extended the interest-only payment until July 1, 2023 followed by 18 equal monthly payments of principal plus interest. The loan matures on December 1, 2024.

On April 26, 2023, a fifth amendment to the Loan Agreement was entered into with the lender. The amendment provides that the Company must maintain at least 50% of its consolidated cash with the lender. In addition, the Company shall at all times have on deposit in operating and depository accounts maintained with the lender, unrestricted and unencumbered cash in an amount equal to the lesser of (i) 100% of the dollar value of the Company's consolidated cash and (ii) 110% of the then-outstanding obligations of the Company to the bank. So long as the Company is in compliance with those terms, the Company shall be permitted to maintain accounts with other banks or financial institutions.

On July 12, 2023, a sixth amendment to the Loan Agreement was entered into with the lender. The amendment provides for one term loan advance (the "2023 Term A Loan Advance") in an original principal amount of $5.5 million and required the Company to repay the outstanding 2020 Term A Loan Advance of $5.0 million, including the final payment of $0.2 million. Upon the occurrence

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of a contingent event, the lender shall make up to three additional term loan advances at the Company's request in original principal amounts of $7.0 million, $7.5 million and $5.0 million. The amounts must be drawn by the Company before March 31, 2024, March 31, 2025 and July 1, 2025, respectively. The interest-only period extends through June 30, 2024 followed by 36 equal monthly payments of principal plus interest. The term loan bears interest at an annual rate equal to the greater of the prime rate minus 0.25% or 8.00%. Pursuant to this amendment, specifically the interest-only period through June 30, 2024, the Company classified the principal of its venture debt as noncurrent on the consolidated balance sheet as of December 31, 2022.

On November 2, 2023, a seventh amendment to the Loan Agreement was entered into with the lender. The additional loan advance of $7.0 million, the first advance stated in the sixth amendment to the Loan Agreement, could be drawn down once the company received net cash proceeds of at least $75.0 million from (a) the issuance and sale of its equity securities to investors satisfactory to the lender and/or (b) a business development transaction satisfactory to the lender; provided that, at least, $37.5 million of such net cash proceeds must be received from the issuance and sale of equity securities to investors satisfactory to the lender. The seventh amendment extended the time the Company has to receive the net proceeds to March 31, 2024.

On March 21, 2024, an eighth amendment to the Loan Agreement was entered into with the lender. The eighth amendment extends the time the Company has to receive the net proceeds to May 31, 2024 and also extends the time to Company can draw down on the first advanced payment of $7.0 million from March 31, 2024 to May 31, 2024. The date changes were adjusted to align the milestone in the Loan Agreement with closing of the Merger. On March 26, 2024, the Company received the first advance payment of $7.0 million per the terms of the Loan Agreement.

In conjunction with the Loan Agreement, the Company issued warrants to purchase 7,988 shares of common stock to the lender at a per share price of $6.87 with a maximum contractual term of 10 years. The warrants had a total relative fair value of $39 thousand upon issuance and were recorded as a debt discount.

In conjunction with the sixth amendment, the Company issued warrants to purchase 10,156 shares of common stock to the lender at a per share price of $7.50 with a maximum contractual term of 10 years. The warrants are issued in two separate tranches of 5,078 based upon certain milestone events. The warrants had a de minimis total relative fair value at the time of issuance.

Pursuant to FASB ASC Topic 480, *Distinguishing Liabilities from Equity* and FASB ASC Topic 815, *Derivatives and Hedging*, the Warrants were classified as equity and were initially measured at fair value. Subsequent changes to fair value will not be recognized so long as the instrument continues to be equity classified.

Interest expense was $0.1 million for each of the three months ended March 31, 2024 and 2023, respectively. The effective rate on the Loan Agreement, including the amortization of the debt discount and issuance costs was 10.42% at each of March 31, 2024 and December 31, 2023. The components of the long-term debt balance are as follows (in thousands):

	March 31, 2024	December 31, 2023
Principal amount of term loans	$ 12,500	$ 5,500
Unamortized debt discount and issuance costs	(12)	(41)
Carrying amount	12,488	5,459
Less current portion	(3,088)	(878)
Long-term debt, net	$ 9,400	$ 4,581

Convertible Notes

On May 20, 2022, the Company entered into an agreement with the existing investors of the Company to issue, and for the existing investors to purchase, the Convertible Notes for up to an aggregate of $30.0 million. The Convertible Notes bear interest at 5.0% per annum. The Convertible Notes become due on demand of the Convertible Noteholders one year from the date of issuance. On April 27, 2023, the Company amended the maturity dates for the Convertible Notes. On May 20, August 5 and December 23, 2022, the Company received $8.3 million, $5.0 million, and $16.7 million, respectively, in exchange for issuance of the Convertible Notes. Interest expense was $0.4 million for each of the three months ended March 31, 2024 and 2023, respectively.

The Convertible Notes contain mandatory conversion features whereby the total outstanding amount of principal and accrued and unpaid interest of the Convertible Notes shall automatically convert into shares of common stock upon certain qualified financings. The total outstanding amount of principal and accrued and unpaid interest of the Convertible Notes convert into shares of common stock at 90% of the purchase price of the mandatory conversion events. If the mandatory conversion events do not occur the holders of the Convertible Notes may request the Convertible Notes plus accrued interest be converted into Series B preferred stock at the Series B convertible price of $1.0971.

The Company elected to account for the Convertible Notes at fair value where changes in fair value of the notes are measured through the condensed consolidated statements of operations until settlement. Subsequent to December 31, 2023 and per the Merger further discussed in Note 1, the Convertibles Notes converted into 1,433,410 shares of common stock. The Company recorded a gain on the change in fair value prior to the conversion of the Convertible Notes of $15.9 million in other income (expense) during the three months ended March 31, 2024.

As the Convertible Notes were settled with equity securities subsequent to the balance sheet date but prior to the issuance of the financial statements, per FASB ASC Topic 470, *Debt*, the Company recorded the Convertible Notes at the fair value totaling $38.6 million as a long-term liability on its consolidated balance sheet as of December 31, 2023. The Company recorded in other income (expense), less than $0.1 million related to the change in estimated fair value during the three months ended March 31, 2023.

12. Convertible Preferred Stock

On March 25, 2024, immediately prior to completing the Merger, all classes of convertible preferred stock of Legacy Q32 were converted to Legacy Q32 common stock, and then exchanged in the Merger for shares of the Company's common stock using the Exchange Ratio. The Series A convertible preferred stock converted into an aggregate of 2,286,873 shares of Legacy Q32 common stock, the Series A-1 convertible preferred stock converted into an aggregate of 312,094 shares of Legacy Q32 common stock and the Series B convertible preferred stock converted into an aggregate of 2,625,896 shares of Legacy Q32 common stock. The conversion of the Legacy Q32 preferred stock into shares of Legacy Q32 common stock resulted in an increase of $11 thousand to common stock and an increase of $111.4 million to additional paid-in-capital immediately prior to completing the Merger.

13. Common Stock

As of March 31, 2024, the Company's Certificate of Incorporation, as amended, authorized the Company to issue 400,000,000 shares of common stock, $0.0001 par value per share.

The Company has reserved the following shares of common stock for future issuance:

	September 30, 2023
Weighted-average remaining lease term (years)	
Operating leases	7.5
Weighted-average discount rate	
Operating leases	10.6%

	As of March 31, 2024	As of December 31, 2023
Shares reserved upon the conversion of authorized Series A preferred stock	—	2,286,873
Shares reserved upon the conversion of authorized Series A-1 preferred stock	—	312,094
Shares reserved upon the conversion of authorized Series B preferred stock	—	2,625,896
Shares reserved for future issuance under the 2017 Stock Incentive Plan	—	56,065
Shares reserved for future issuance under the 2024 Stock Incentive Plan	811,068	—
Shares reserved for future issuance under the 2024 Employee Stock Purchase Plan	120,836	—
Shares reserved upon the conversion of the convertible notes	—	1,433,411
Shares reserved for stock option exercises	2,028,820	1,112,275
Shares reserved for warrants	18,144	18,144
	2,978,868	7,844,758

The following table summarizes the supplemental cash flow information related to the Company's operating lease: **14. Stock-Based Compensation**

	Nine months ended September 30,	
	2023	2022
	(in thousands)	
Cash paid for amounts included in the measurement of lease liabilities	$ 3,310	$ 2,226
Increase in lease liabilities and right-of-use assets due to lease remeasurements	$ —	$ 6,262

Legal Proceedings—On March 25, 2022, the Company 2017 Stock Option and certain of its executives were named as defendants in a putative securities class action lawsuit filed in the United States District Court for the Central District of California; *Pizzuto v. Homology Medicines, Inc.*, No. 2:22–CV–01968 (C.D. Cal 2022). The complaint alleges that the Company failed to disclose certain information regarding efficacy and safety in connection with a Phase I/II HMI-102 clinical trial, and seeks damages in an unspecified amount. The

case is in its early stages. The Company believes the claims alleged lack merit and filed a motion to transfer venue (filed September 2, 2022) and a motion to dismiss (filed October 17, 2022). On April 18, 2023, the court granted the motion to transfer, finding that venue was not proper in the Central District of California and transferring the case to the District of Massachusetts. Following the transfer, the case number changed to 1:23-cv-10858-AK (D. Mass.). On May 9, 2023, the Massachusetts court issued an order permitting the parties to submit updated briefs in connection with the motion to dismiss, which were submitted on June 8, 2023, July 13, 2023, and August 3, 2023. The motion to dismiss remains pending. As the outcome is not presently determinable, any loss is neither probable nor reasonably estimable.

10. STOCK INCENTIVE PLANS

2015 Stock Incentive Grant Plan

In December 2015, the Company's Board of Directors Legacy Q32 adopted the 2015 2017 Stock Incentive Option and Grant Plan and subsequent amendments (the "2015 "2017 Plan"), which provided with 1,246,290 shares of common stock reserved for issuance to employees, directors, and consultants. The 2017 Plan allowed for the grant of

incentive stock options, nonqualified non-statutory stock options, and restricted stock awards, to the Company's employees, officers, directors, advisors, restricted stock unit awards and outside consultants. Stock options granted under the 2015 Plan generally vest over a four-year period and expire ten years from the date other stock awards. As of grant. Certain options provide for accelerated vesting if there is a change in control, as defined in the 2015 Plan. At September 30, 2023 March 31, 2024, there were no additional shares available for future grant under the 2015 2017 Plan.

2024 Stock Option and Incentive Award Plan

In March 2018, the Company's Board On March 15, 2024, Homology's board of Directors directors adopted and the Company's subsequently, Homology's stockholders approved the Homology Medicines, Q32 Inc. 2018 2024 Stock Option and Incentive Award Plan (the "2018 "2024 Plan" and, together with the 2015 Plan, the "Plans"), which became effective on upon the day prior to the first public trading date closing of the Company's common stock. Merger. The 2024 Plan replaced the 2017 Plan, as well as the Homology 2015 Stock Incentive Plan (the "Homology 2015 Plan"), and the Homology 2018 Plan (together with the Homology 2015 Plan, the "Homology Incentive Plans.") Upon effectiveness of the 2018 2024 Plan, the Company ceased granting new awards under the 2015 Plan. 2017 Plan and the Homology Incentive Plans.

The 2018 2024 Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock awards, restricted stock units, stock appreciation rights and other stock or cash-based awards to officers, employees, directors and consultants of the Company and certain affiliates and directors of the Company. The number of shares of common stock initially available for issuance under the 2018 2024 Plan was 3,186,205 2,839,888 shares of common stock plus stock. The 2024 Plan provides that the number of shares subject to awards outstanding under the 2015 Plan that expire, terminate or are otherwise surrendered, cancelled, forfeited or repurchased by the Company on or after the effective date of the 2018 Plan. In addition, the number of shares of common stock reserved and available for issuance under the 2018 2024 Plan is subject to an annual will automatically increase on the first day of each calendar year January 1, beginning on January 1, 2019 January 1, 2025, and ending on and including January 1, 2028, equal to the lesser of (i) by 4 5% of the Company's outstanding number of shares of common stock on the final day of the immediately preceding calendar year and (ii) December 31, or such smaller number of shares of common stock lesser amount as determined by the Company's Board of Directors, provided that not more than 20,887,347 shares of common stock may be issued under the 2018 Plan upon the exercise of incentive stock options. Therefore, on January 1, 2023, an additional 2,299,356 shares were added to the 2018 Plan, representing 4% of total common shares outstanding at December 31, 2022. plan administrator. As of September 30, 2023 March 31, 2024, there were 1,978,793 811,068 shares available for future grant under the 2018 2024 Plan.

In March 2024, the Company granted 902,331 stock options to the officers, directors and other key members of management pursuant to the 2024 Plan. Stock options were issued with an exercise price on the close of business on March 25, 2024. The stock option awards vest in accordance with the terms of the 2024 Plan.

2018 2024 Employee Stock Purchase Plan

In March 2018, the Company's Board On March 15, 2024, Homology's board of Directors directors adopted and the Company's subsequently, Homology's stockholders approved the Homology Medicines, Q32 Inc. 2018 2024 Employee Stock Purchase Plan (the "2018 "2024 ESPP"). The 2018 2024 ESPP allows employees to buy Company stock through after-tax payroll deductions at a discount from market value. The 2018 2024 ESPP is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code. The number of shares of common stock initially available for issuance under the 2018 2024 ESPP was 353,980 120,836 shares of common stock plus an annual stock. The 2024 ESPP provides that the number of shares reserved and available for issuance under the plan will automatically increase on the first day of each calendar year, January 1, beginning on January 1, 2019 January 1, 2025, and ending on and including January 1, 2028 equal to by the lesser of (i)241,677 shares, a number of shares equal 1% of the Company's outstanding number of shares of common stock on the final day of the immediately preceding calendar year and (ii) December 31, or such smaller number of shares of common stock lesser amount as determined by the Company's Board of Directors, provided that not more than 4,778,738 shares of common stock may be issued under the 2018 ESPP. Therefore, on January 1, 2023, an additional 574,839 shares were added to the 2018 ESPP, representing 1% of total common shares outstanding at December 31, 2022. As of September 30, 2023, there were 2,693,911 shares available for future issuance under the 2018 ESPP. plan administrator.

Under the 2018 2024 ESPP, employees may purchase common stock through after-tax payroll deductions at a price equal to 85% of the lower of the fair market value on the first trading day of an offering period or the last trading day of an offering period. The 2018 2024 ESPP generally provides for offering periods of six months in duration that end on the final trading day of each February and August. In accordance with the Internal Revenue Code, no employee will be permitted to accrue the right to purchase stock under the 2018

2024 ESPP at a rate in excess of $25,000 worth of shares during any calendar year during which such a purchase right is outstanding (based on the fair market value per share of the Company's common stock as of the first day of the offering period).

During the nine months ended September 30, 2023, There were 133,817 no shares were issued under the 2018 2024 ESPP for aggregate proceeds to the Company of approximately $0.2 million. During the nine months ended September 30, 2022, 226,453 shares were issued under the 2018 ESPP for aggregate proceeds to the Company of

approximately $0.6 million. Pursuant to the 2018 ESPP, the Company recorded stock-based compensation of less than $0.1 million during the three and nine months ended September 30, 2023 and 2022, respectively. March 31, 2024.

Stock Options

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model, with the assumptions noted in the table below. Expected volatility for the Company's common stock was determined based on an average of the historical volatility of a peer group of publicly traded companies that are similar to the Company. The expected term of options was calculated using the simplified method, which represents the average of the contractual term of the option and the weighted-average vesting period of the option. The Company uses the simplified method because it does not have sufficient historical option exercise data to provide a reasonable basis upon which to estimate expected term. The assumed dividend yield is based upon the Company's expectation of not paying dividends in the foreseeable future. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods commensurate with the expected term of the award. The Company recognizes forfeitures as they occur.

The assumptions used in the Black-Scholes option pricing model are as follows (note that there were no Stock options granted during by the three months ended September 30, 2023): Company typically vest over a four-year period and have a

	Three months ended September 30, 2022	Nine months ended September 30, 2023	2022
Expected volatility	70.1%	69.2% - 69.7%	68.7% - 70.1%
Weighted-average risk-free interest rate	3.20% - 3.66%	3.45% - 4.22%	1.46% - 3.66%
Expected dividend yield	— %	— %	— %
Expected term (in years)	6.25	5.5 - 6.25	5.5 - 6.25
Underlying common stock fair value	$1.82-$2.82	$0.92-$1.60	$1.78-$4.17

ten-year contractual term. The following table summarizes the Company's stock option activity for during the nine three months ended September 30, 2023 March 31, 2024:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2023	1,112,275	$ 7.50	6.87	$ 10,712
Assumed in reverse recapitalization	14,214	$ 8.84		
Granted	902,331	$ 19.37		
Exercised	—	$ —		
Cancelled	—	$ —		
Outstanding at March 31, 2024	2,028,820	$ 12.50	8.00	$ 10,620
Vested and expected to vest at March 31, 2024	2,028,820	$ 12.50	8.00	$ 10,620
Exercisable at March 31, 2024	670,992	$ 7.08	5.35	$ 6,707

	Number of Options	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2023	9,865,734	$ 10.96	7.2	$ 493
Granted	3,188,150	$ 1.53		
Exercised	(3,366)	$ 0.47		
Cancelled/Forfeited	(623,776)	$ 11.11		
Outstanding at September 30, 2023	12,426,742	$ 8.55	4.9	$ 488
Vested and expected to vest at September 30, 2023	12,426,742	$ 8.55	4.9	$ 488
Exercisable at September 30, 2023	7,566,304	$ 11.80	4.5	$ 421

The total intrinsic value of options exercised during the nine months ended September 30, 2023 and 2022 was insignificant for each period. The per share weighted-average grant date fair value per share of options granted during in the nine three months ended September 30, 2023 and 2022 March 31, 2024 was $1.01 12.83 and . The total fair value of options vested during the three months ended March 31, 2024 was $1.72, respectively.

Stock Awards Modifications - Corporate Restructuring

In connection with the Company's corporate restructuring (see Note 8), the Company terminated approximately 80 employees and modified approximately 3.3 million existing stock options and approximately 0.4 million existing restricted stock units ("RSUs") granted million. As of March 31, 2024, total unrecognized compensation costs to these terminated employees in prior periods. The modification of the vested unvested stock options were approximately $12.6 million, which is expected to permit terminated employees be recognized over a weighted-average period of 3.3 years. There were no option exercises during the three months ended March 31, 2024.

23 Stock-Based Compensation Expense

For the purpose of calculating stock-based compensation, the Company estimates the fair value of stock options using the Black-Scholes option-pricing model. This model incorporates various assumptions, including the expected volatility, expected term, and interest rates.

The underlying assumptions used to value stock options granted using the Black-Scholes option-pricing model during the three months ended March 31, 2024 and 2023 were as follows:

	Three Months Ended March 31,	
	2024	2023
Risk-free interest rate range	4.24%	3.61%
Expected dividend rate	— %	— %
Expected term (years) range	5.88 - 6.11	6.02
Expected stock price volatility range	92.0% – 92.2%	88.9%

Risk-Free Interest Rate – The risk-free rate assumption is based on the U.S. Treasury instruments, the terms of which were consistent with the expected term of the Company's stock options.

Expected Dividend – The expected dividend assumption is based on the Company's history and expectation of dividend payouts. The Company has not paid and does not intend to pay dividends.

Expected Term – The expected term of stock options represents the weighted average period the stock options are expected to be outstanding. The Company uses the simplified method for estimating the expected term, which calculates the expected term as the average time-to-vesting and the contractual life of the options for stock options issued to employees. The expected term for options granted to non-employees is based on the contractual life of the options.

Expected Volatility – Due to the Company's limited operating history and lack of sufficient company-specific historical or implied volatility, the expected volatility assumption was determined by examining the historical volatilities of a group of industry peers whose share prices are publicly available. The Company expects to continue to do so until such time as it has adequate historical data regarding the volatility of its own traded stock price.

Fair Value of Common Stock – Prior to the Merger, as there had been no public market for the Company's common stock, the estimated fair value of its common stock was determined by the Company using estimates and assumptions on the respective grant dates of the awards. These estimates and assumptions include a number of objective and subjective factors, including external market conditions, the prices at which the Company sold shares of preferred securities, the superior likelihood of, achieving a liquidity event, such as an IPO or sale. Significant changes to the key assumptions used in the valuations could result in different fair values of common stock at each valuation date.

The Company recorded stock-based compensation expense in the following expense categories of its statements of operations (in thousands):

	Three Months Ended March 31,	
	2024	2023
Research and development	$ 157	$ 109
General and administrative	260	187
Total stock-based compensation expense	$ 417	$ 296

15. Agreements with Horizon

From August 2022 until November 2023, Legacy Q32 was a party to the Collaboration and Option Agreement (the “Horizon Collaboration Agreement”) and the Asset Purchase Agreement (the “Purchase Agreement”), and together with the Horizon

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Collaboration Agreement, the “Horizon Agreements”), each between Legacy Q32 and Horizon Therapeutics Ireland DAC (“Horizon”), pursuant to which Legacy Q32 received $55.0 million in initial consideration and staged development funding for the completion of the two ongoing Phase 2 trials for bempikibart, and Horizon had an option to acquire the bempikibart program at a prespecified price, subject to certain adjustments.

As of March 31, 2024, the Company has received $55.0 million of the $55.0 million transaction price from Horizon. In October 2023, Amgen Inc. (“Amgen”) completed its acquisition of Horizon Therapeutics public limited company (“Horizon plc”). Following the closing of Amgen’s acquisition of Horizon plc, the Company agreed with Amgen to mutually terminate the Horizon Agreements and in November 2023, the Company and Horizon entered into a termination agreement (the “Horizon Termination Agreement”), pursuant to which Horizon’s option to acquire the bempikibart program was terminated. As a result, the Company retained all initial consideration and development funding received under the Horizon Collaboration Agreement (as defined below) and regained full development and commercial rights to bempikibart. In consideration for the Horizon Termination Agreement, the Company agreed to pay Horizon regulatory and sales milestones payments of up to one year following their termination date an aggregate amount of $75.1 million upon the first achievement of certain regulatory and sales milestones with respect to exercise their options, rather than bempikibart.

The Company concluded that the 90-day window for terminated employees, consideration allocated to the research service performance obligations should be recognized over time as Horizon received the benefit of the research activities as the activities were performed. The Company has determined that this method was most appropriate as progress towards completion of research is largely driven by time and effort spent and costs incurred to perform this research. The Horizon Termination Agreement is accounted for as a modification because it does not result in the addition of distinct goods or services. Since the two performance obligations and the material right are terminated with no further performance obligations aside from the contingent payments to Horizon of up to $75.1 million, the Company recognized the remaining deferred revenue in the fourth quarter of 2023.

Upon the execution of the Horizon Termination Agreement, the Company became obligated to pay Horizon up to $75.1 million contingent on regulatory and sales-based milestones or up to $20.1 million in excess of the cash received. These potential payments to Horizon are not in exchange for a distinct good or service; therefore, the Company accounts for consideration payable to Horizon as a reduction of the transaction price under FASB ASC Topic 718, 606, *Compensation—Stock Compensation* *Revenue from Contracts with Customers*. The Company concluded that the $55.0 ("ASC 718"). Accordingly, million of arrangement consideration previously recognized should be fully constrained as a result of the Company contingent consideration payable to Horizon, and accordingly, all amounts previously recognized incremental compensation cost on as revenue were reversed in the modification date in an amount equal fourth quarter of 2023 and a refund liability was established for the $55.0 million cash received during the term of the Horizon Collaboration Agreement. No amounts have been recognized related to the difference between remaining potential payment to Horizon (up to $20.1 million) as it is not probable that the fair value of the awards before respective milestones will be achieved at this time.

16. Related Party Transactions

The Company has consulting and after the modification. advisory agreements with certain investors and board members which are considered to be related party transactions. The fair value of the awards immediately before assumes an expected term equal to 90 days from the termination date, whereas the fair value immediately after assumes an expected term equal to one year from the termination date. Total incremental compensation cost recognized in Company did not incur expense for the three months ended September 30, 2023 March 31, 2024 and 2023 related to awards that services provided by these investors and board members.

No amounts were vested as of the modification date was less than $ due to related parties at March 31, 2024 or December 31, 2023.

17. Income Taxes

The Company did 0.1 no million. All unvested stock options were forfeited upon termination and the Company reversed all compensation cost previously recorded on the forfeited awards. Total compensation cost reversed in t record a tax provision or benefit for the three months ended September 30, 2023 was less than $0.1 million.

The terminated employees' RSUs were modified to accelerate the vesting of a portion of the RSUs that were unvested as of the employees’ termination dates. The accelerated vesting of certain RSUs is accounted for as a Type III (improbable to probable) modification under ASC 718. Accordingly, the Company reversed all compensation cost previously recorded on the awards that are not expected to vest under the original terms. Total compensation cost reversed in the three months ended September 30, 2023 was approximately $0.2 million. Total compensation cost of less than $0.1 million, equal to the modification date fair value, was recognized over the remaining service period, beginning on the modification date March 31, 2024 and ending on each employee’s termination date.

Stock Awards Modifications - OXB Solutions Transaction

As part of the transaction with OXB Solutions (see Note 5), the Company transferred employees to OXB Solutions and modified approximately 1.6 million existing stock options and approximately 0.1 million existing restricted stock units granted to these transferred employees in prior periods in order to permit such individuals to continue vesting in their awards and exercise their vested options as long as they are employed by and provide services to OXB Solutions. The modification of the unvested stock awards to continue vesting was accounted for as a Type III (improbable to probable) modification under ASC 718. Accordingly, the Company reversed all compensation cost previously recorded on the awards that were not expected to vest under the original terms. Total compensation cost reversed in the three months ended March 31, 2022 was less than $0.1 million. Total compensation cost of $0.8 million, equal to the modification date fair value, will be recognized over the remaining service period. A portion of this total compensation cost will be included as a component of the loss from equity method investment.

The modification of the vested stock awards to permit transferred employees to exercise their options over the remaining life of the award, rather than the 90-day window for terminated employees, was accounted for as a modification under ASC 718. Accordingly, the Company recognized incremental compensation cost on the modification date in an amount equal to the difference between the fair value of the awards before and after modification. The fair value of the awards immediately before modification assumed a 90-day expected term, whereas the fair value immediately after assumed an expected term equal to the remaining life of the modified options. Total incremental compensation cost recognized in the year ended December 31, 2022 related to awards that were vested as of the modification date was $0.4 million.

Restricted Stock Units

The fair value of RSUs is based on the fair market value of the Company's common stock on the date of grant. Each RSU represents a contingent right to receive one share of the Company's common stock upon vesting. In general, RSUs vest annually in two or three equal installments on January 1st of each year after the grant date. The following table summarizes the Company's RSU activity for thenine months ended September 30, 2023:

	Number of Restricted Stock Units	Weighted-Average Grant Date Fair Value
Outstanding at January 1, 2023	543,179	$ 6.12
Granted	483,850	$ 1.60
Vested	(281,117)	$ 5.31
Forfeited	(258,184)	$ 2.54
Outstanding at September 30, 2023	487,728	$ 3.04

Stock-based Compensation Expense 2023.

The Company recognizes compensation expense for awards has evaluated the positive and negative evidence involving its ability to employees based on the grant date fair value realize its deferred tax assets and has considered its history of stock-based awards on a straight-line basis over the period during which an award holder provides service in exchange for the award, which is generally the vesting period.cumulative net losses incurred since inception and its lack of any commercially ready products. The Company recorded stock-based compensation expense related to stock options, shares purchased under has concluded that it is more likely than not that it will not realize the 2018 ESPP, restricted stock units benefits of its deferred tax assets. The Company reevaluates the positive and stock award modifications as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
	(in thousands)			
Research and development	$ 230	$ 889	$ 1,507	$ 4,143
General and administrative	1,477	1,882	4,970	5,822
	$ 1,707	$ 2,771	$ 6,477	$ 9,965

As of September 30, 2023, there was $10.5 million of unrecognized compensation expense related to unvested employee and non-employee share-based compensation arrangements granted under the Plans. The unrecognized compensation expense is estimated to be recognized over a period of 2.2years negative evidence at September 30, 2023. each reporting period.

11. NET INCOME (LOSS) PER SHARE 18. Net Income (Loss) per Share

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares of common shares stock outstanding during the applicable period. Diluted In computing diluted net income (loss) per share, incorporates only potential shares of common stock that are dilutive are included. The Company considered each issue or series of issues of potential shares of common stock separately when determining whether potential shares of common stock are dilutive or antidilutive. The Company made such determination in sequence from the additional shares issuable upon assumed exercise of stock options most dilutive to the least dilutive and the vesting of restricted stock units, except in such case when their inclusion would be anti-dilutive.

	Three months ended September 30,	Nine months ended September 30,

(in thousands, except per share amounts)	2023	2022	2023	2022
Numerator:				
Net income (loss)	$ (32,954)	$ (33,726)	$ (96,842)	$ 29,290
Denominator:				
Weighted-average common shares outstanding-basic	57,853,132	57,447,192	57,788,755	57,372,399
Dilutive securities	—	—	—	528,899
Weighted-average common shares outstanding-diluted	57,853,132	57,447,192	57,788,755	57,901,298
Net income (loss) per share-basic	$ (0.57)	$ (0.59)	$ (1.68)	$ 0.51
Net income (loss) per share-diluted	$ (0.57)	$ (0.59)	$ (1.68)	$ 0.51

For the three and nine months ended September 30, 2023, as well as concluded that its Convertible Notes are dilutive to net income per share for the three months end September 30, 2022 ended March 31, 2024. Pursuant to FASB ASC Topic 260, *Earnings Per Share*, the Company applied the if-converted method to determine the effect of its Convertible Notes on the diluted earnings per share calculations. Pursuant to such method, the Company adjusted the numerator for the gains or losses recognized during the period in net income from

the Convertible Notes and the denominator is increased to include the number of additional shares of common stock that would have been outstanding if the Convertible Notes were converted as of the beginning the period.

	Three Months Ended March 31,	
(in thousands, except per share amounts)	2024	2023
Numerator:		
Net income (loss)-basic	$ 1,029	$ (6,838)
Net income (loss)-diluted	$ (14,771)	$ (6,838)
Denominator:		
Weighted-average common shares outstanding-basic	995,280	344,623
Dilutive securities	1,338,900	—
Weighted-average common shares outstanding-diluted	2,334,180	344,623
Net income (loss) per share-basic	$ 1.03	$ (19.84)
Net income (loss) per share-diluted	$ (6.33)	$ (19.84)

As of March 31, 2023, the Company's potentially dilutive securities, including which include convertible preferred stock, convertible notes, stock options restricted stock units and unvested common stock from early exercise of options, was warrants, have been excluded from the denominator for the calculation computation of diluted net loss per share because as the Company recognized a effect would be to reduce the net loss for per share. As of March 31, 2024, the periods Company's potentially dilutive securities, which include stock options and their inclusion warrants, have been excluded from the computation of diluted net loss per share as the effect would be anti-dilutive. Anti-dilutive securities to reduce the net loss (diluted) per share. The Company excluded the following from the computation of diluted net loss per share attributable to common stockholders because including them would have had an anti-dilutive effect:

	Three Months Ended March 31,	
	2024	2023
Series A convertible preferred stock	—	2,286,873
Series A-1 convertible preferred stock	—	312,094
Series B convertible preferred stock	—	2,625,896
Options to purchase common stock	2,028,820	1,096,802
Warrants to purchase common stock	18,144	7,988

In addition, during the year ended December 31, 2022, Legacy Q32 issued the Convertible Notes with a principal balance of $30.0 million. As described in Note 11, the Convertible Notes contained conversion features whereby the Convertible Notes and any accrued interest may have converted into either a variable number of shares of common stock or into shares of Series B preferred stock based on a fixed exchange ratio. Any shares of Series B preferred stock issued to settle the Convertible Notes would then be convertible into shares of common stock. The Convertible Notes were excluded from the computation of diluted net loss per share attributable to common stockholders for the three months ended September 30, 2023 and 2022 were March 31, 2023 because including them would have had an anti-dilutive effect. Per the Merger further discussed in Note 1, the Convertible Notes converted into 12,993,266 1,433,410 and 9,933,508, respectively, and for the nine months ended September 30, 2023 and 2022 were 12,507,026 and 9,048,927, respectively.

12. PFIZER STOCK PURCHASE AGREEMENT

On November 9, 2020, the Company entered into a common stock purchase agreement (the "Stock Purchase Agreement") with Pfizer Inc. ("Pfizer"), pursuant to which the Company agreed to issue and sell to Pfizer 5,000,000 shares of the Company's common stock through a private placement transaction (the "Private Placement") at a purchase price of $12.00 per share, for an aggregate purchase price of $60.0 million. The shares of common stock sold to Pfizer were subject to a one-year lock-up from closing, during which time Pfizer was prohibited from selling or otherwise disposing of such shares.

Under at the Stock Purchase Agreement, Pfizer was granted an exclusive right of first refusal (the "ROFR") for a 30-month period (the "ROFR Period") beginning on the effective date of the closing of the Private Placement (collectively, the "ROFR Provision"), to negotiate a potential collaboration on the development and commercialization of HMI-102 and HMI-103. The ROFR Period expired on May 9, 2023. In addition to the ROFR, the Stock Purchase Agreement provided for an information sharing committee (the "Information Committee"), comprised of representatives of each company, which served as a forum for sharing information regarding the development of HMI-102 and HMI-103 during the ROFR Period. Merger.

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19. Subsequent Events

The Company recorded considers events or transactions that occur after the issuance of common stock at its estimated fair value of $52.0 million, which reflected a discount for the lack of marketability of the shares. The remaining $8.0 million of aggregate purchase price was allocated balance sheet date but prior to the other elements of date the Stock Purchase Agreement, which represented a contract with a customer. financial statements are available to be issued for potential recognition or disclosure in the financial statements. The Company concluded has completed an evaluation of all subsequent events after the balance sheet date of March 31, 2024 through the date the financial statements were issued to ensure that these financial statements include appropriate disclosure of events both recognized in the Information Committee represented the only performance obligation under the contract. The ROFR did not provide Pfizer with a material right and was therefore not a performance obligation. As such, the Company allocated the $8.0 million to the Information Committee obligation.

The Company recognizes revenue over time as the measure of progress, which it believes best depicts the transfer of control to Pfizer. The Information Committee met regularly over the ROFR Period to share information which resulted in recognition of the transaction price over the 30-month ROFR Period.

During the nine months ended September 30, 2023, the Company recognized collaboration revenue of $1.2 million, compared to $0.8 million and $2.4 million, respectively for the three and nine months ended September 30, 2022. As the ROFR Period expired in May 2023, there was no revenue recognized during the three months ended September 30, 2023. There was no deferred revenue related to the Company's obligation to Pfizer financial statements as of September 30, 2023. As of December 31, 2022, there was approximately $1.2 million of deferred revenue related to March 31, 2024 and events which occurred subsequently but were not recognized in the Company's obligation to Pfizer. financial statements.

13. RELATED PARTY TRANSACTIONS

Oxford Biomedica Solutions LLC

As described in Note 5, the Company has significant influence over, but does not control, OXB Solutions through its noncontrolling representation on OXB Solution's board of directors and the Company's equity interest in OXB Solutions. In March 2022, concurrently with the closing of the transaction with OXB Solutions, the Company entered into certain ancillary agreements with OXB Solutions including a supply agreement, a lease assignment and assumption agreement, a sublease agreement and a transitional services agreement.

Supply Agreement

Pursuant to the terms of the Manufacturing and Supply Agreement with OXB Solutions entered into in March 2022 (the "Supply Agreement"), the Company agreed to purchase from OXB Solutions at least 50% of its clinical supply requirements of AAV-based products during the initial term of the supply agreement. The Supply Agreement provides for an initial term of three years, which may be extended for an additional one-year term. Under the Supply Agreement, the Company is committed to purchase a minimum number of batches of drug substance and drug product, as well as process development services, totaling approximately $29.7 million by the fiscal year ending December 31, 2023. As of September 30, 2023, the Company had approximately $1.4 million in remaining purchase obligations to OXB Solutions pursuant to the Supply Agreement. There are no minimum

purchase commitments in 2024 (year three) of the Supply Agreement. After the initial term, the Company will have the right to terminate the Supply Agreement for convenience or

other reasons specified in the Supply Agreement upon prior written notice. Either party may terminate the Supply Agreement upon an uncured material breach by the other party or upon the bankruptcy or insolvency of the other party.

During the three and nine months ended September 30, 2023, the Company recorded purchases of drug substance from OXB Solutions related to the Supply Agreement of $8.4 million and $21.7 million, respectively, as well as purchases of process development services of approximately $3.1 million and $5.8 million, respectively, and stability services and other support services of approximately $0.4 million and $1.2 million, respectively. During the three and nine months ended September 30, 2022, the Company recorded purchases of drug substance from OXB Solutions related to the Supply Agreement of $6.0 million and $7.5 million, respectively, as well as purchases of process development services of approximately $2.2 million and $10.2 million, respectively. These amounts are included within research and development expenses on the Company's condensed consolidated statements of operations. The amounts due to OXB Solutions under the Supply Agreement were $12.6 million and $5.2 million as of September 30, 2023 and December 31, 2022, respectively, and were included in accounts payable and accrued expenses and other liabilities on the Company's condensed consolidated balance sheets.

Lease Assignment and Sublease Agreement

As described in Note 9, the Company leases space for research and development, manufacturing and general office space in Bedford, Massachusetts. In March 2022, the Company and OXB Solutions entered into a lease assignment and assumption agreement pursuant to which Homology assigned all of its right, title and interest in, to and under this lease to OXB Solutions and a sublease agreement whereby OXB Solutions subleased certain premises in its facility to Homology. However, as of and for the three and nine

months ended September 30, 2023, the Company remained jointly and severally liable for the payment of rent under this lease and had not been released from being the primary obligor under such lease and therefore the related right-of-use asset and operating lease liability were not derecognized and remained on the Company's condensed consolidated balance sheets. Therefore, the Company is recording sublease income from OXB Solutions as if it were subleasing the space to OXB Solutions. On October 1, 2023, the Company was released from being the primary obligor under the lease (see Note 14).

During the three and nine months ended September 30, 2023, the Company recorded sublease income of $0.8 million and $2.3 million, respectively, related to the sublease agreement with OXB Solutions. During the three and nine months ended September 30, 2022, the Company recorded sublease income of $0.5 million and $1.2 million, respectively, related to the sublease agreement with OXB Solutions. This amount was recognized as a reduction to lease expense in the Company's condensed consolidated statements of operations.

During 2023, OXB Solutions assumed responsibility for paying the landlord for invoices related to the leased property and, as such, the Company began making direct payments to OXB Solutions for amounts due to OXB Solutions under the sublease. Therefore, as of September 30, 2023, the amount of sublease income payable to OXB Solutions was $0.1 million and was included in accrued expenses on the Company's condensed consolidated balance sheets. As of December 31, 2022, the amount of sublease income receivable from OXB Solutions was $0.5 million and was included in prepaid expenses and other current assets on the Company's condensed consolidated balance sheets.

Transitional Services Agreement

Under the transitional services agreement with OXB Solutions (the “Services Agreement”), the Company is performing certain services for the benefit of OXB Solutions and OXB Solutions is performing certain services for the benefit of the Company. The term of the Services Agreement will not exceed eighteen months and lasts until the earlier of termination for convenience, termination for cause in the event of an uncured material breach, termination as a result of bankruptcy of either party, and expiration or termination of the only remaining outstanding service as set forth in the Services Agreement. Each company is fully reimbursing the other for these services. The Services Agreement was substantially complete as of September 30, 2023.

Expenses incurred by the Company for services provided by OXB Solutions recognized under the Services Agreement totaled $0.3 million for the nine months ended September 30, 2023, and $0.2 million and $0.5 million for the three and nine months ended September 30, 2022, respectively, and are presented within research and development expenses in the condensed consolidated statements of operations as the services related to facilities support within the Company's research and development labs. As of September 30, 2023 and December 31, 2022, the amount due to OXB Solutions under the Services Agreement was $0.1 million at each balance sheet date, and was included in accrued expenses and other liabilities on the Company's condensed consolidated balance sheets.

The Company provided finance, human resources, IT and legal services to OXB Solutions under the Services Agreement and recognized $0.5 million for the nine months ended September 30, 2023, and $0.8 million and $1.7 million for the three and nine months ended September 30, 2022, respectively, for amounts reimbursed by OXB Solutions as a reduction to general and administrative expense in the Company's condensed consolidated statements of operations. The Company did not provide reimbursable services to OXB Solutions under the Services Agreement during the three months ended September 30, 2023. As of December 31, 2022, the Company had a receivable balance of $0.3 million from OXB Solutions which was recorded as a component of prepaid expenses and other current assets in the Company's condensed consolidated balance sheets. Pursuant to the Services Agreement, the Company has been paying vendors on OXB Solutions' behalf; this process will be fully transitioned to OXB Solutions in 2023. As of December 31, 2022,

the amount receivable from OXB Solutions for amounts paid to vendors on their behalf was $1.1 million and was included in prepaid expenses and other current assets on the Company's condensed consolidated balance sheets.

14. SUBSEQUENT EVENTS

On September 25, 2023, the Company signed and executed a release letter with its lessor related to its headquarters in Bedford, MA. The lessor agreed to release the Company of all obligations under the lease effective October 1, 2023 (the “Release Date”) in exchange for a $0.1 million cash payment. For accounting purposes, the release letter is not considered a modification of the lease until the Release Date as the Company is not released from its obligations under the lease until such date. As of September 30, 2023, the lease had a remaining right-of-use asset balance of $19.5 million and an operating lease liability balance of $28.3 million. On October 1, 2023, the Company will write off the right-of-use asset and operating lease liability and record the difference as a gain of $8.8 million within other income on the condensed consolidated statements of operations. Because the Company’s sublease agreement with OXB Solutions remains in effect after termination of the head lease, the Company will recognize a new right-of-use asset and an operating lease liability of $1.6 million, which equals the present value of the future sublease payments owed to OXB Solutions for

the remaining term of the sublease. The Company is actively searching for a subtenant to take over its sublease with OXB Solutions and is evaluating whether there is any impairment of the related right-of-use asset.

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 together with our condensed consolidated financial statements and the related notes appearing elsewhere in this Quarterly Report on Form 10-Q. Some of the information contained in this This discussion and analysis or set forth elsewhere in other parts of this Quarterly Report on Form 10-Q including information with respect to our plans and strategy for our business, includes contain forward-looking statements that involve risks and uncertainties. As a result of many important factors, including uncertainties, such as statements regarding our plans, objectives, expectations, intentions and projections. Our actual results could differ materially from those set forth described in or implied by these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the "Risk Factors" "Risk Factors" section of this Quarterly Report on Form 10-Q, our actual results could differ materially from 10-Q.

Unless otherwise indicated or the results described context otherwise requires, references in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section to “Legacy Q32” refers to the business and operations of Q32 Bio Operations (previously Q32 Bio Inc.) and its consolidated subsidiaries prior to the Merger, and references to “the Company,” “we,” “us,” “our” and other similar terms refer to the business and operations of Q32 Bio Inc. (previously Homology Medicines, Inc., or implied, by these forward-looking statements. Homology) and its consolidated subsidiary following the Merger.

Overview

We are a clinical-stage genetic medicines clinical stage biotechnology company historically focused on transforming developing novel biologics to effectively and safely restore healthy immune balance in patients with autoimmune and inflammatory diseases driven by pathological immune dysfunction. To achieve this goal of restoring homeostasis to a dysregulated immune system, we are advancing antibody-based therapeutic candidates designed to target two central pathways of adaptive and innate immunity. The adaptive immune system is largely composed of T- and B-cell mediated cellular and antibody responses: while the lives innate immune system is a first line of patients suffering from rare genetic defense employing leukocytes such as monocytes, macrophages, neutrophils, dendritic cells and natural killer cells that are responsible for clearing pathogens and cellular debris, and modulating T- and B-cell function. We believe that targeting these key pathways of immune dysregulation in autoimmune and inflammatory diseases will deliver therapeutics for indications with clear unmet medical need in the near term, while enabling us to build a broad and diverse pipeline in the long term. We have multiple product candidates across a variety of autoimmune and inflammatory diseases with significant unmet medical needs by addressing the underlying cause of the disease. Our proprietary platform clinical readouts for our two lead programs expected in 2024 and 2025.

Bempikibart (ADX-914), our most advanced product candidate, is a fully human anti–interleukin-7 receptor alpha, or IL-7Rα, antagonist monoclonal antibody designed to utilize our human hematopoietic stem cell-derived adeno-associated virus vectors, re-regulate adaptive immune function by blocking signaling mediated by interleukin-7, or AAVHSCs, to precisely IL-7, and efficiently deliver single administration genetic medicines *thymic stromal lymphopoietin, or TSLP. Bempikibart is being studied in vivo* through a nuclease-free gene editing modality, gene therapy, or gene therapy to express antibodies platform, or GTx-mAb, which is two double-blind, placebo-controlled Phase 2 clinical trials designed to produce antibodies throughout the body.

In July 2023, we completed a review establish proof of our business and our Board of Directors approved a plan to explore, review clinical concept and evaluate a range our selected Phase 2 dose. One trial is evaluating the use of potential strategic options available to us, including, without limitation, an acquisition, merger, reverse merger, sale of assets, strategic partnerships or other transactions. Based on the current financing environment and our anticipated clinical development timeline for our lead program, HMI-103, we stopped further development of our programs and reduced our workforce by 86% to significantly reduce our ongoing operating costs as we evaluate strategic alternatives. We have retained TD Cowen as our strategic financial advisor. There can be no assurance that a transaction will result from this process and we do not intend to disclose additional details unless and until we have entered into a specific transaction or otherwise determined that further disclosure is appropriate.

Our former clinical programs include: HMI-103, an investigational gene editing candidate bempikibart for the treatment of patients with phenylketonuria, atopic dermatitis, or PKU, HMI-203, an investigational gene therapy candidate AD, and one for the treatment of patients with mucopolysaccharidosis type II (MPS II), alopecia areata, or Hunter syndrome AA. We have completed enrollment in the AA clinical trial and HMI-102, enrollment in the AD clinical trial remains ongoing. We are on track to report topline data from both Phase 2 clinical trials in the fourth quarter of 2024.

ADX-097, the lead product candidate from our complement inhibitor platform, is a humanized anti-C3d monoclonal antibody, or mAb, fusion protein. ADX-097 is designed to restore complement regulation – an investigational gene therapy candidate integral part of the innate immune system – through a tissue targeted mechanism. ADX-097 is designed to inhibit alternative pathway complement activation locally in diseased tissues where complement-mediated pathology is actively manifest. We believe ADX-097 has the potential to drive improved clinical activity and address the limitations of the currently available systemic approaches to complement inhibition, including infection risk and the need for high drug doses and frequent administration, to achieve therapeutic levels of inhibition. We are developing ADX-097 for the treatment of adult patients renal and other complement-mediated diseases of high unmet need, including lupus nephritis, or LN, immunoglobulin A nephropathy, or IgAN, complement component 3 glomerulopathy, or C3G, and anti-neutrophil cytoplasmic antibody, or ANCA-associated vasculitis, or AAV. We have completed a Phase 1 clinical trial of ADX-097 in healthy volunteers. We expect to initiate an open-label Phase 2 renal basket program in the first half of 2024 and a Phase 2 clinical trial in AAV in the first half of 2025, with PKU. Our preclinical programs include: HMI-104, a GTx-mAb gene therapy candidate for initial renal basket data anticipated by the treatment end of patients with paroxysmal nocturnal hemoglobinuria, or PNH, 2024 and HMI-204, a gene therapy candidate for metachromatic leukodystrophy, or MLD.

HMI-103: Gene Editing Candidate for topline data from both the Treatment renal basket and AAV trials anticipated in the second half of Patients with PKU 2025.

In October addition to bempikibart and ADX-097, we are also engaged in additional pipeline efforts to expand therapeutic opportunities within complement mediated diseases.

Recent Developments

Rights to Bempikibart

From August 2022 until November 2023, we reported clinical data from Legacy Q32 was a party to the first dose cohort in Collaboration and Option Agreement, or the pheEDIT Phase 1, dose-escalation trial evaluating HMI-103 in adults with classical PKU. As of the data cut-off date of September 14, 2023, HMI-103 has been generally well-tolerated in all three participants. Participant 1 experienced a reduction in plasma phenylalanine, or Phe, levels to below the U.S. American College of Medical Genetics and Genomics PKU treatment guideline threshold of <360 µmol/L, Horizon Collaboration Agreement, and the majority of Phe levels have been below 360 µmol/L through 39 weeks post-dose, including after the initiation of dietary protein supplementation. Participant 2 experienced a meaningful plasma Phe reduction of 50% at 23 weeks post-dose. Participant 3 experienced a meaningful plasma Phe reduction of 60% at 14 weeks post-dose. In accordance with our decision to stop developing our programs, we terminated the pheEDIT trial in October 2023.

HMI-103 was administered to participants via a one-time I.V. infusion at a dose of 6E13 vg/kg. As of the data cut-off date of September 14, 2023, HMI-103 has been generally well-tolerated by all three participants with no serious adverse events, and the majority of treatment-related adverse events have been mild and transient. All liver function tests have remained in the normal range during the prophylactic immunosuppression regimen incorporating the T-cell inhibitor tacrolimus in combination with corticosteroid. In July 2023, we received approval from the Independent Data Monitoring Committee to escalate to the next dose cohort in the trial.

The pheEDIT clinical trial was an open-label, dose-escalation study evaluating the safety and efficacy of a single I.V. administration of HMI-103 in patients ages 18-55 years old who have been diagnosed with classical PKU due to phenylalanine hydroxylase, or PAH, deficiency. In addition to safety endpoints, the trial measured serum Phe changes. The trial incorporated an immunosuppressive regimen that included a T-cell inhibitor used in combination with a steroid-sparing regimen. Prior to dosing, participants completed an up to 82-day screening/run-in period to help us account for and more closely understand day-to-day Phe fluctuations.

We received Fast Track Designation for HMI-103 from the U.S. Food and Drug Administration, or FDA, for the treatment of neurocognitive and neuropsychiatric manifestations of PKU secondary to PAH deficiency.

We have presented preclinical data on the mechanism of action of our optimized HMI-103 gene editing candidate, which is designed to harness the body's natural DNA repair process of HR to replace the disease-causing *PAH* gene with a functional *PAH* gene and liver-specific promoter and to maximize PAH expression in all transduced liver cells through episomal expression. We observed significant Phe reduction following a single I.V. administration of the murine surrogate of HMI-103 in the PKU disease model out to 43 weeks (end of study). In this preclinical PKU model, the murine surrogate of HMI-103 was ten times more potent than non-integrating gene therapy vector HMI-102. Additionally, we observed on-target integration and no off-target integration following a single I.V. administration of HMI-103 in a humanized liver model, as determined by a genome-wide integration assay. Using quantitative molecular methods, we also demonstrated achievement of gene integration efficiencies in the humanized murine liver model that corresponded with Phe correction in the PKU murine model.

In 2023, we presented new preclinical data supporting the immunosuppression regimen incorporated in our clinical trials at WORLDSymposium™. In non-human primates, or NHPs, our data demonstrated that modulating T-cell activity using tacrolimus together with dexamethasone is important in reducing B- and T-cell activity, neutralizing antibody, or nAb, formation, and maintaining transgene expression following rAAV administration in NHPs.

HMI-104: GTx-mAb Gene Therapy Candidate for the Treatment of Patients with PNH

HMI-104 is a clinical development candidate for PNH from our GTx-mAb platform. This platform represents an additional way that we can leverage our AAVHSCs in an effort to deliver one-time *in vivo* gene therapy to express and secrete antibodies from the liver, which we believe may allow us to target diseases with larger patient populations. In support of this program, we generated and presented preclinical data targeting complement protein 5, demonstrating preclinical proof-of-concept in PNH. A single I.V. dose of an AAVHSC GTx-mAb showed expression of full-length antibodies from the liver consistent with levels associated with anti-C5 therapeutics, sustained and robust Immunoglobulin G, or IgG, expression *in vivo* in a humanized murine liver model and a murine NOD-SCID model, and *in vivo* vector-expressed C5 mAb had potent functional activity as shown by an ex vivo hemolysis assay. Additionally, we observed sustained expression of C5 mAb in the presence of murine and human neonatal fragment crystallizable (Fc) receptor, or FcRn. We have completed IND-enabling studies with HMI-104.

Oxford Biomedica Solutions Transaction

On March 10, 2022, we closed a transaction with Oxford Biomedica Solutions LLC (f/k/a Roadrunner Solutions LLC), or OXB Solutions, Oxford Biomedica (US), Inc., or OXB, and Oxford Biomedica plc, or OXB Parent, and collectively with OXB, Oxford, pursuant to the Equity Securities Asset Purchase Agreement, or the Purchase Agreement, dated as and together with the Horizon Collaboration Agreement, the Horizon Agreements, each between Legacy Q32 and Horizon Therapeutics Ireland DAC, or Horizon, pursuant to which Legacy Q32 received $55.0 million in initial consideration and staged development funding for the completion of January 28, 2022

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the two ongoing Phase 2 trials for bempikibart, and Horizon had an option to acquire the bempikibart program at a prespecified price, subject to certain adjustments.

In October 2023, Amgen, Inc., by or Amgen, completed the acquisition of Horizon Therapeutics public limited company, or Horizon plc. Following its acquisition of Horizon plc, Legacy Q32 agreed with Amgen to mutually terminate the Horizon Agreements and among Homology, OXB Solutions in November 2023, Legacy Q32 and Oxford, whereby, among other things, we Horizon entered into a termination agreement, or the Horizon Termination Agreement, pursuant to which Horizon's option to acquire the bempikibart program was terminated. As a result, Legacy Q32 retained the initial consideration and Oxford all development funding received under the Horizon Collaboration Agreement and regained full development and commercial rights to bempikibart. In consideration for the Horizon Termination Agreement, Legacy Q32 agreed to collaborate pay Horizon regulatory and sales milestones payments of up to operate OXB Solutions, which provides AAV vector process development an aggregate amount of $75.1 million upon the first achievement of certain regulatory and manufacturing services sales milestones with respect to biotechnology companies, which we refer bempikibart.

These potential payments to Horizon are not in exchange for a distinct good or service and, therefore; the Company accounts for consideration payable to Horizon as a reduction of the transaction price under the Financial Accounting Standards Board, or FASB, Accounting Standards Update, or ASC, Topic 606, *Revenue from Contracts with Customers*, or ASC 606. The Company concluded that the $55.0 million of arrangement consideration previously recognized should be fully constrained as a result of the contingent consideration payable to Horizon, and accordingly, the amounts previously recognized were reversed in the fourth quarter of 2023 and a refund liability was established for the $55.0 million cash received during the term of the Horizon Collaboration Agreement. No amounts have been recognized related to the remaining potential payment to Horizon (up to $20.1 million) as it cannot be deemed probable that the respective milestones will be achieved at this time.

Merger with Homology and Pre-Closing Financing

On November 16, 2023, Legacy Q32 entered into an Agreement and Plan of Merger and Reorganization, or the Merger Agreement, with Homology and Kenobi Merger Sub, Inc., a wholly-owned subsidiary of Homology, or Merger Sub. The Merger was completed on March 25, 2024. Pursuant to the Merger Agreement, Merger Sub merged with and into Legacy Q32, with Legacy Q32 continuing as the Oxford Biomedica Solutions Transaction, surviving company and as a wholly-owned subsidiary of Homology, or the OXB Solutions Transaction. OXB Solutions incorporates Merger. Homology changed its name to Q32 Bio Inc., or Q32, and Legacy Q32, which remains as a wholly-owned subsidiary of Q32, changed its name to Q32 Bio Operations Inc. On March 26, 2024, the combined company's common stock began trading on the Nasdaq Global Market, or Nasdaq, under the ticker symbol "QTTB". The business of Legacy Q32 will continue as the business of the combined company. The Merger is intended to qualify for federal income tax purposes as a tax-free reorganization under the provisions of Section 368(a) of the Internal Revenue Code of 1986, as amended. In connection with the Merger Agreement, certain parties entered into a subscription agreement with us to purchase shares of our proven 'plug and play' process development and manufacturing platform, as well as our experienced team and high-quality GMP vector production capabilities that we built and operated since 2019. common stock for an aggregate purchase price of $42.0 million, or the Pre-Closing Financing.

Pursuant On March 25, 2024, or the Closing Date, following approval by our stockholders and by Homology's stockholders, the Pre-Closing Financing closed immediately prior to the consummation of the Merger. Shares of Legacy Q32's common stock issued pursuant to the Pre-Closing Financing were converted into the right to receive 1,682,045 shares of Homology common stock after taking into account the Reverse Stock Split. On March 25, 2024, in connection with, and prior to the completion of the Merger, Homology effected a one-for-eighteen reverse stock split, or the Reverse Stock Split, of its then outstanding common stock. Subject to the terms and conditions of the Merger Agreement, at the effective time of the Merger, which was March 25, 2024, all issued and outstanding shares of the Legacy Q32's common stock (including common stock issued upon the conversion of all Legacy Q32's Series A, Series A-1 and Series B preferred stock, conversion of Legacy Q32 convertible notes, but excluding the common stock issued in Pre-Closing Financing) converted into the right to receive 7,017,842 shares of Homology's common stock based on the final exchange ratio of 0.0480, or the Exchange Ratio. Lastly,

each option to purchase Legacy Q32's shares that was outstanding and unexercised immediately prior to the effective time of the Merger was converted into an option to purchase shares of Homology based on the Exchange Ratio. Immediately following the Merger, Legacy Q32 stockholders owned approximately 74.4% of the outstanding common stock of the combined company.

The Merger was accounted for as a reverse recapitalization in accordance with accounting principles generally accepted in the United States of America, or GAAP. For accounting purposes, Legacy Q32 is considered the accounting acquirer and Homology is the acquired company based on the terms of the Purchase Merger Agreement and other factors, such as relative voting rights and the composition of the combined company's board of directors and senior management. Accordingly, the Merger was treated as the equivalent of Legacy Q32's issuing stock to acquire the net assets of Homology. As a contribution agreement, or result of the Contribution Agreement, entered into between us Merger, the net assets of Homology were recorded at their acquisition-date fair value in the financial statements of the combined company and OXB Solutions the reported operating results prior to the closing Merger are those of Legacy Q32. Legacy Q32's historical financial statements became the historical consolidated financial statements of the OXB Solutions Transaction, or the Closing, we agreed to assign combined company. All issued and transfer to OXB Solutions all of our assets that are primarily used in the manufacturing of AAV vectors for use in gene therapy or gene editing products, but excluding certain assets related to manufacturing or testing of our proprietary AAV vectors, or collectively, the Transferred Assets, in exchange for 175,000 outstanding Legacy Q32 common equity units in OXB Solutions, or Units, stock, convertible preferred stock and OXB Solutions assumed from us, and agreed to pay, perform and discharge when due, all of our duties, obligations, liabilities, interests and commitments of any kind under, arising out of or relating options prior to the Transferred Assets.

Effective as of the Closing, we sold to OXB, and OXB purchased from us, 130,000 Units, or the Transferred Units, in exchange for $130.0 million. In connection with the Closing, OXB contributed $50.0 million in cash to OXB Solutions in exchange for an additional 50,000 Units. Immediately following the Closing, (i) OXB owned 180,000 Units, representing 80 percent (80%) of the fully diluted equity interests in OXB Solutions, and (ii) we owned 45,000 Units, representing 20 percent (20%) of the fully diluted equity interests in OXB Solutions.

Pursuant to the Amended and Restated Limited Liability Company Agreement of OXB Solutions, or the OXB Solutions Operating Agreement, which was executed in connection with the Closing, at any time following the three-year anniversary of the Closing, (i) OXB will have an option to cause us to sell and transfer to OXB, and (ii) we will have an option to cause OXB to purchase from us, in each case all of our equity ownership interest in OXB Solutions at a price equal to 5.5 times the revenue for the immediately preceding 12-month period, subject to a maximum amount of $74.1 million. Pursuant to the terms of the OXB Solutions Operating Agreement, we are entitled to designate one director on the board of directors of OXB Solutions, currently Albert Seymour, our President and Chief Executive Officer.

Concurrently with the Closing, we entered into certain ancillary agreements with OXB Solutions including a license and patent management agreement whereby OXB Solutions granted certain licenses to us, a supply agreement, or the Supply Agreement, for a

term of three years which includes certain annual minimum purchase commitments, a lease assignment pursuant to which we assigned all of our right, title and interest in, to and under our facility lease to OXB Solutions, a sublease agreement whereby OXB Solutions subleased certain premises in its facility to us, as well as several additional ancillary agreements.

Corporate Headquarters Lease

In November 2021, we entered into an amendment of our December 2017 lease agreement, or the Lease Amendment, for our corporate headquarters in Bedford, Massachusetts. The Lease Amendment increases the space under lease by approximately 23,011 square feet, or the Expansion Premises, and extends the expiration effective date of the existing premises under Merger have been retroactively adjusted to reflect the lease from February 2027 to June 2030. The term with respect Exchange Ratio, which reflects the impact of the reverse stock split, for all periods presented.

At the effective time of the Merger, each person who as of immediately prior to the Expansion Premises commenced on May 1, 2022 and continues for a period of ten years and five months. The term effective time of the Expansion Premises Merger was a stockholder of record of Homology or had the right to receive Homology's common stock received a contractual contingent value right, or CVR, issued by Homology subject to and in accordance with the terms and conditions of a Contingent Value Rights Agreement between Homology and the rights agent, or the CVR Agreement, representing the contractual right to receive cash payments from the combined company upon the receipt of certain proceeds from a disposition of Homology's pre-merger assets, calculated in accordance with the CVR Agreement.

As of March 31, 2024, we had cash, cash equivalents and short-term investments of $135.3 million. We expect that our cash, cash equivalents and short-term investments will be sufficient to enable us to fund our operating expenses and capital expenditure requirements to mid-2026. This estimate is based on assumptions that may prove to be wrong, and we could use our capital resources sooner than currently anticipated.

We do not expect our existing premises are not coterminous. Annual base rent cash, cash equivalents, and short-term investments will be sufficient for us to advance any of our programs through regulatory approval, and we will need to raise additional capital to complete the existing premise under the Lease Amendment is approximately $4.7 million beginning on March 1, 2027, development and increases by three percent annually; annual base rent for the Expansion Premises is approximately $1.4 million per year and increases by three percent annually. The Lease Amendment allows for tenant improvement allowances not to exceed $6.3 million in the aggregate. Under the terms potential commercialization of the agreement with Oxford, any of our lease for our corporate headquarters, including the Expansion Premises, has been assigned to OXB Solutions with Homology subleasing programs. We may also use a portion of lab our cash, cash equivalents, and office space back from the newly created company. We remained jointly and severally liable for the payment of rent under this lease as of September 30, 2023. However as of October 1, 2023, we were released from being primary obligor under the lease. See Notes 9 and 13 short-term investments, to acquire, in-license or invest in products, technologies or businesses that are complementary to our condensed consolidated financial statements included elsewhere business. The amounts and timing of actual expenditures will depend on numerous factors, including the progress of development efforts, operating costs and other factors described under “Risk Factors” in this Quarterly Report on Form 10-Q for additional information regarding our lease agreement. 10-Q.

License Agreements

In April 2016, The expected use of proceeds represents current intentions based upon present plans and business condition. As of the date of this Quarterly Report on Form 10-Q, we entered into an exclusive license agreement cannot predict with City complete certainty all of Hope, or COH, pursuant to which COH granted us an exclusive, sublicensable, worldwide license, the particular uses for our current cash, cash equivalents and short-term investments or the COH License, to certain AAV vector-related patents and know-how owned by COH to develop, manufacture, use and commercialize products and services covered by such patents and know-how in any and all fields. On August 6, 2021, we received notice from COH actual amounts that we did not accomplish at least one of will spend on the partnering milestones by the applicable deadline, as uses set forth in the COH License. This notice does not affect our exclusive license in the field of mammalian therapeutics, including all human therapeutics, associated diagnostics, and target validation, or the Mammalian Therapeutic Field, where we retain exclusive rights. Instead, the notice served as written notice that the exclusive license granted pursuant to the COH License in all fields except the Mammalian Therapeutic Field converted from exclusive to non-exclusive effective as of September 20, 2021, which was forty-five days from the receipt of notice. In connection with the conversion, any royalty obligations and sublicensee fees relating to fields outside of the Mammalian Therapeutic Field shall be reduced by a certain percentage. This change to our exclusive worldwide license with COH does not impact any of our current therapeutic product development candidates, including HMI-103, HMI-203, HMI-102, HMI-204 and HMI-104, nor will it impact any potential future therapeutic product development candidates. above.

Financial Operations Overview

Revenue

Since our its inception, in 2015 through September 30, 2023, we have raised approximately $721 million in aggregate net proceeds through our initial public offering, or IPO, in April 2018, follow-on public offerings of common stock in April 2019 and April 2021, proceeds from the sale of common stock under an “at-the-market” sales agreement, equity investments from pharmaceutical companies, preferred stock financings and our agreement with Oxford. Included in our net proceeds is a $130.0 million up-front cash payment from our agreement with Oxford, $50.0 million from a former collaboration partner, comprised of an up-front payment of $35.0 million and a $15.0 million equity investment, and a $60.0 million equity investment from Pfizer Inc., or Pfizer, through a private placement transaction.

We were incorporated and commenced operations in 2015. Since our incorporation and until recently, we devoted substantially all of our resources to organizing and staffing our Company, business planning, raising capital, developing our technology platform, advancing HMI-102, HMI-103 and HMI-203 through IND-enabling studies and into clinical trials, advancing HMI-202 and HMI-104 into IND-enabling studies, researching and identifying additional product candidates, developing and implementing manufacturing processes and manufacturing capabilities, building out our manufacturing and research and development space, enhancing our intellectual property portfolio and providing general and administrative support for these operations. To date, we have financed our operations primarily through the sale of common stock, through the sale of preferred stock, through funding from our collaboration partner and through proceeds received as a result of our transaction with OXB Solutions.

To date, we have Legacy Q32 has not generated any revenue from product sales, and do our management does not expect the combined company to generate any revenue from the sale of products in the foreseeable future.

Legacy Q32 entered into the Horizon Agreements on August 12, 2022. Per the terms of the Horizon Collaboration Agreement, Legacy Q32 received a total of $55.0 million upon initiation of certain development activities associated with the planned clinical trials and related activities. Prior to its termination, the Purchase Agreement also provided Horizon the option to purchase bempikibart, which would have triggered a prespecified payment to Legacy Q32, if exercised. Legacy Q32 was also entitled to receive from Horizon additional payments based on the achievement of future if at all. We recognized $1.2 million development and regulatory milestones as well as royalty payments on annual net sales.

Prior to the termination agreement, Legacy Q32 concluded that the arrangement was within the scope of Topic 606. Specifically, Legacy Q32 concluded that the research services required to be performed as part of the Horizon Collaboration Agreement represented an output of Legacy Q32’s ordinary activities, and this represented a contract with a customer. At the commencement of the collaboration arrangement with Horizon, Legacy Q32 identified two performance obligations related to the development activities of bempikibart, one of each of the specified clinical trials in collaboration revenue AD and AA, with each composing the services related to the clinical trial and other related development activity. Legacy Q32 also identified a material right related to the option for Horizon to purchase bempikibart. The material right was considered a separate performance obligation pursuant to the nine months ended September 30, 2023, and $0.8 million and $2.4 million for provisions of Topic 606. Legacy Q32 determined the transaction price to be $55.0 million which it allocated to the three performance obligations based on the estimated stand-alone selling price of each performance obligation. Legacy Q32 concluded that the consideration allocated to the research service performance obligations should be recognized over time as Horizon received the benefit of the research activities as the activities were performed. Legacy Q32 determined that this method was most appropriate as progress towards completion of research is largely driven by time and

nine months ended September 30, 2022 effort spent and costs incurred to perform this research. As of December 31, 2023, respectively. We did Legacy Q32 had received the full $55.0 million, which the combined company retains. The Termination Agreement is accounted for as a modification because it does not recognize any collaboration result in the addition of distinct goods or services. Since the two performance obligations and the material right are terminated with no further performance obligations aside from the contingent payments to Horizon of up to $75.1 million, Legacy Q32 recognized the remaining deferred revenue for in the three months ended September 30, 2023. fourth quarter of 2023.

Since inception, Upon the execution of the Horizon Termination Agreement, Legacy Q32 became obligated to pay Horizon up to $75.1 million contingent on regulatory and sales-based milestones or up to $20.1 million in excess of the cash received. These potential payments to the customer are not in exchange for a distinct good or service; therefore, we have incurred significant operating losses. Our net loss was $33.0 million and $96.8 million are accounting for consideration payable to a customer as a reduction of the three and nine months ended September 30, 2023, respectively. For transaction price under ASC 606. Legacy Q32 concluded that the three months ended September 30, 2022, our net loss was $33.7

million and for the nine months ended September 30, 2022, our net income was $29.3 million $55.0 million of arrangement consideration previously recognized should be fully constrained as a result of our transaction with OXB Solutions, the contingent consideration payable to the customer, and accordingly,

all amounts previously recognized as we recorded revenue were reversed in the fourth quarter of 2023 and a gain of $131.2 million on the sale of our manufacturing business (see Note 5 to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information regarding the OXB Solutions Transaction). As of September 30, 2023 and December 31, 2022, we had an accumulated deficit of $526.0 million and $429.1 million, respectively.

Our total operating expenses were $31.0 million and $90.5 million refund liability was established for the three and nine months ended September 30, 2023, respectively, and $33.7 million and $101.2 million for $55.0 million cash received during the three and nine months ended September 30, 2022, respectively. We expect operating expenses to continue to decrease over term of the prior year as we recently reduced our workforce by 86% and have stopped all further program development efforts. We expect to continue to incur costs and expenditures in connection with our ongoing evaluation of strategic alternatives and we will continue to incur costs associated with operating as a public company. There can be no assurance, however, that we will be able to successfully consummate any particular strategic transaction. The process of evaluating strategic transactions has been and may continue to be costly, time-consuming and complex, and we may incur significant costs related to these processes, such as legal, accounting and advisory fees and expenses and other related charges. A considerable portion of these costs will be incurred regardless of whether any particular course of action is implemented or transaction is completed. Any such expenses will decrease the remaining cash available for use in our business. In addition, any strategic business combination or other transactions that we may consummate in the future, could have a variety of negative consequences and we may implement a course of action or consummate a transaction that yields unexpected results that adversely affects our business and decreases the remaining cash available for use in our business or the execution of our strategic plan. There can be no assurances that any particular course of action, business arrangement, transaction, or series of transactions, will be pursued, successfully consummated, lead to increased stockholder value or achieve the anticipated results. Any failure of such potential transaction to achieve the anticipated results could significantly impair our ability to enter into any future strategic transactions and may significantly diminish or delay any future distributions to our stockholders.

Should we resume development of product candidates, our ability to generate product revenue sufficient to achieve profitability would depend heavily on the successful development and eventual commercialization of one or more product candidates. Our future operating requirements will depend on many factors, including:

- the costs, timing, and results of research and development efforts for any product candidates, including clinical trials;
- the costs and timing of process development scale-up activities, and the adequacy of supply of any product candidates for preclinical studies and clinical trials throu CMOs, including OXB Solutions;
- the costs and timing of preparing, filing, and prosecuting patent applications, maintaining and enforcing our intellectual property rights and defending any intellectual property-related claims, including any claims by third parties that we are infringing upon their intellectual property rights;
- the effect of competitors and market developments; and
- our ability to establish and maintain strategic collaborations, licensing or other agreements and the financial terms of such agreements for our product candidates.

As of September 30, 2023, we had cash, cash equivalents, and short-term investments of $103.3 million. Based on our current projections, including our recent reduction in force and stopping further program development efforts, we believe that our existing cash, cash equivalents, and short-term investments will enable us to continue our operations for at least one year from the date of this filing. However, due to the discontinuation of all of our clinical trials and research activities, as well as our recent reduction in force of all but a few custodial employees, management has concluded that there is a substantial doubt regarding our ability to continue as a going concern for more than twelve months after the date the unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q collaboration agreement. No amounts have been issued. See “Liquidity and Capital Resources."

Components of Our Results of Operations

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 foreseeable future. We recorded $1.2 million and $2.4 million in collaboration revenue for the nine months ended September 30, 2023 and 2022, respectively, recognized related to the Stock Purchase Agreement with Pfizer (see Note 12 remaining potential payment to our condensed consolidated financial statements included elsewhere in Horizon (up to $20.1 million) as it cannot be deemed probable that the respective milestones will be achieved at this Quarterly Report on Form 10-Q for additional information regarding revenue recognition discussions).

Operating Expenses

Our operating expenses since inception have consisted solely of research and development costs and general and administrative costs. time.

Research and Development Expenses

Research and development expenses account for a significant portion of our operating expenses and consist primarily of costs external and internal expenses incurred for research activities, including in connection with the discovery efforts, and the development of our product candidates, and candidates. External expenses include:

- expenses incurred in connection with our research and development activities, including costs related to agreements with third parties such as consultants, contractors clinical research organizations, or CROs;
- costs related to contract development and manufacturing organizations, or CDMOs, that are primarily engaged to provide drug substance and product for our preclinic studies, clinical trials and research and development programs, as well as investigative sites and consultants that conduct our clinical trials, preclinical studies and oth scientific development services;
- costs related to compliance with quality and regulatory requirements;
- employee-related expenses, including salaries, benefits, and other related costs, including stock-based compensation expense, for personnel engaged in research an development functions;
- expenses incurred under agreements with third parties, including contract research organizations, or CROs, and other third parties that conduct research, preclinical activities and clinical trials on our behalf as well as CMOs, including OXB Solutions, that manufacture our product candidates for use in preclinical testing and clinica
- costs of outside consultants, including their fees and related travel expenses;
- costs of laboratory supplies and acquiring, developing and manufacturing preclinical study and clinical trial materials; and
- allocated facilities-related expenses, for rent depreciation, supplies, travel expenses and other operating costs. allocated expenses.

We expense research and development costs as incurred.

Research Costs are recognized based on an evaluation of the progress to completion of specific tasks using information provided to us by our service providers or our estimate of the level of service that has been performed at each reporting date. Payments for these activities are based on the terms of the individual agreements, which may differ from the pattern of costs incurred, and may be reflected in our condensed consolidated financial statements as prepaid or accrued expenses. Nonrefundable advance payments for goods or services to be received in the future for use in research and development activities have historically been central are recorded as prepaid expenses and expensed as the related goods are delivered or the services are performed or when it is no longer expected that the goods will be delivered or the services rendered.

We do not allocate direct external research and development costs to specific programs or product candidates until there is an internally designated development candidate. We typically use our business model. employee and infrastructure resources across our product candidates and development programs. We do not allocate personnel costs or other internal costs to research and development programs and product candidates.

We expect that future changes to our research and development expenses to continue to decrease will depend significantly given on the discontinuation of all success of our clinical trials and research activities. Should we resume development of product candidates, we would data. We expect that research and development expenses will increase substantially as we continue to advance our programs into and through clinical development. Product candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to increase significantly for the foreseeable future as increased size and duration of later-stage clinical trials. At this time, we cannot accurately estimate or know the product candidate development programs progress.

Should we resume nature, timing and costs of the efforts that will be necessary to complete the preclinical and clinical development of any product candidates, the duration, costs and timing of development activities including clinical trials would depend on a variety of factors, including:

- the scope, rate of progress, expense and results of clinical trials and other research and development activities that we may conduct;
- uncertainties in clinical trial design and patient enrollment rates;
- the actual probability of success for our product candidates, including the safety and efficacy results, early clinical data, competition, manufacturing capability and commercial viability;
- significant and changing government regulation and regulatory guidance;

- the timing and receipt of any marketing approvals; and
- the expense of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights.

Should we resume development of product candidates, a candidates. A change in the outcome of any number of these variables with respect to the development of a product candidate candidates we may develop could mean a significant significantly change in the costs and timing associated with the development of that product candidate. For example, if We may never succeed in obtaining regulatory approval for any product candidates we may develop. The successful development of any product candidate is highly uncertain. This is due to the numerous risks and uncertainties associated with product development, including the following:

- the timing and progress of preclinical and clinical development activities;
- the number and scope of preclinical and clinical programs we decide to pursue;
- the ability to raise additional funds necessary to complete clinical development of and commercialize of our product candidates;
- the successful initiation, enrollment and completion of clinical trials with safety, tolerability and efficacy profiles that are satisfactory to the FDA or another any compara foreign regulatory authority were to require us to conduct clinical trials beyond those that we anticipate will be required authority;
- the receipt and related terms of regulatory approvals from applicable regulatory authorities for any product candidates;
- the completion availability of clinical development raw materials for use in production of a our product candidates;

- establishing agreements with third-party manufacturers for supply of product candidate or if we experience components for our clinical trials;
- our ability to maintain our current research and development programs and to establish new programs;
- significant delays and changing government regulations;
- our ability to obtain and maintain patents, trade secret protection and regulatory exclusivity, both in the United States and internationally;
- our ability to protect our other rights in our clinical trials due to patient enrollment intellectual property portfolio;
- commercializing product candidates, if and when approved, whether alone or other reasons, we would be required to expend significant additional financial resources collaboration with others; and time on the completion of clinical development.
- obtaining and maintaining third-party insurance coverage and adequate reimbursement for any approved products.

General and Administrative Expenses

General and administrative expenses primarily consist primarily of salaries, and other bonuses, related costs, including benefits, and stock-based compensation expense for personnel in our executive, finance, human resources, legal, business development and administrative functions. functions; professional fees for corporate legal and patent matters, consulting, accounting, and audit services; and travel expenses, insurance, technology costs and other allocated expenses. General and administrative expenses also include legal fees relating to intellectual property and corporate matters; professional fees for accounting, auditing, tax and consulting services; insurance costs; travel expenses; and facility-related expenses, which include direct depreciation costs, rent expense, maintenance of facilities and other operating facility costs, including rent, utilities, depreciation, and maintenance, not otherwise included in research and development expense. We recognize general and administrative expenses associated with being in the periods in which they are incurred. General and administrative expenses are expected to increase as a public company.

Change in Fair Value of Convertible Notes

Legacy Q32 recognized a liability as a result of the issuance of convertible promissory notes, or the Convertible Notes. We expect our general account for all convertible notes issued under the fair value option election of FASB ASC Topic 825, *Financial Instruments*, or ASC 825. The financial instrument is initially measured at its issue-date estimated fair value and administrative expenses to decrease then subsequently remeasured at estimated fair value on a recurring basis at each reporting period date. The estimated fair value adjustment is recognized within other income (expense) in the near future due accompanying unaudited condensed consolidated statements of operations and the portion of the fair value adjustment attributed to our recent workforce reductions. We have incurred and expect to continue to incur significant costs, however, related to our exploration a change in the instrument-specific credit risk is recognized as a component of strategic alternatives, including legal, accounting and advisory expenses and other related charges. comprehensive loss, if any.

Other Income Upon closing of the Merger, Legacy Q32 converted the outstanding Convertible Notes plus accrued interest into shares of common stock at 90% of the purchase price of the mandatory conversion event. As the Convertible Notes are recorded at fair value, a noncash gain of $15.9 million on the change in fair value prior to the conversion of convertible notes is reflected in the unaudited condensed consolidated statement of operation for the three months ended March 31, 2024.

Other income (expense), net

Other income (expense), net consists of a gain interest income primarily earned on the sale of our manufacturing business money market fund accounts and other short-term investments and interest income earned on our cash, cash equivalents, and short-term investments. Our interest income has increased due to significantly higher yields on invested funds during the three and six months ended September 30, 2023 as compared to the prior year.

Critical Accounting Estimates

Our management's discussion and analysis of financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of our condensed consolidated financial statements and expense related disclosures requires us to make estimates, assumptions and judgments that affect the reported amount of assets, liabilities, revenue, costs and expenses, and related disclosures. 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.

Our critical accounting policies are described under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations— Critical Accounting Policies and Use of Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2022 and in the notes to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. There were no material changes to our critical accounting policies during the three months ended September 30, 2023 from those discussed in our Annual Report on Form 10-K for the year ended December 31, 2022. debt obligations.

Results of Operations

Comparison of Three Months Ended September 30, 2023 the three months ended March 31, 2024 and 2022 2023

The following table summarizes our results of operations for the three months ended September 30, 2023 March 31, 2024 and 2022: 2023:

(in thousands)	Three months ended September 30, 2023	2022	Change
Collaboration revenue	$ —	$ 802	$ (802)
Operating expenses:			
Research and development	17,519	25,854	(8,335)
General and administrative	6,842	7,810	(968)
Restructuring and other charges	6,640	—	6,640
Total operating expenses	31,001	33,664	(2,663)
Loss from operations	(31,001)	(32,862)	1,861
Other income:			
Interest income	1,423	1,269	154
Total other income	1,423	1,269	154
Loss before income taxes	(29,578)	(31,593)	2,015
Benefit from income taxes	—	46	(46)
Loss from equity method investment	(3,376)	(2,179)	(1,197)
Net loss	$ (32,954)	$ (33,726)	$ 772

	Three Months Ended March 31, 2024	2023	Change
	(in thousands)		
Collaboration arrangement revenue	$ —	$ 2,947	$ (2,947)
Operating expenses:			

Research and development	9,841	7,910	1,931
General and administrative	5,002	2,410	2,592
Total operating expenses	14,843	10,320	4,523
Loss from operations	(14,843)	(7,373)	(7,470)
Change in fair value of convertible notes	15,890	(43)	15,933
Other income (expense), net	158	578	(420)
Total other income (expense), net	16,048	535	15,513
Income (loss) before provision for income taxes	1,205	(6,838)	8,043
Loss from equity method investment	(176)	—	(176)
Net income (loss)	$ 1,029	$ (6,838)	$ 7,867

Collaboration Arrangement Revenue

Collaboration We recognized no collaboration arrangement revenue for the three months ended September 30, 2022 was $0.8 million March 31, 2024, compared to $2.9 million for the three months ended March 31, 2023. Legacy Q32 executed the Horizon Collaboration Agreement in August 2022 and was due began performing research services and recognizing revenue for the three months ending March 31, 2023 accordingly. Upon initiation of the Horizon Termination Agreement and pursuant to the recognition of deferred revenue related to the Stock Purchase Agreement with Pfizer. We ASC 606, all previously recognized deferred revenue from Pfizer over Pfizer's right amounts were reversed in the fourth quarter of first refusal, or ROFR, period of 30 months during which Pfizer could have negotiated a potential collaboration on the development and commercialization of HMI-102 and HMI-103. The ROFR period expired in May 2023.

See further discussion under “Revenue” above.

Research and Development Expenses

(in thousands)	Three months ended September 30, 2023	2022	Change
External development costs for clinical programs:			
HMI-102	$ 3,046	$ 3,866	$ (820)
HMI-103	7,258	5,459	1,799
HMI-203	(366)	5,984	(6,350)
Other development-stage programs' external development costs	5,221	2,498	2,723
Employee-related costs	1,193	5,684	(4,491)
Other research and development costs	1,167	2,363	(1,196)
Total research and development expenses	$ 17,519	$ 25,854	$ (8,335)

Research The following table summarizes our research and development expenses for the three months ended September 30, 2023 March 31, 2024 and 2023:

	Three Months Ended March 31, 2024	2023	Change
	(in thousands)		
Direct research and development expense by program:			
ADX-097	$ 1,084	$ 2,259	$ (1,175)
Bempikibart	5,261	2,336	2,925
Discovery and other	225	263	(38)
Unallocated expenses:			
Personnel-related and consulting (including stock-based compensation)	2,682	2,465	217
Indirect research and development expense	589	587	2
Total research and development expenses	$ 9,841	$ 7,910	$ 1,931

Research and development expenses were $17.5million, compared to $25.9 million $9.8 million for the three months ended September 30, 2022. The decrease of $8.3 million was primarily associated with our decision March 31, 2024, compared to stop further development of our programs and reduce our workforce by 86% in July 2023 in an effort

to decrease our ongoing operating costs. External costs for our three clinical programs $7.9 million for the three months ended September 30, 2023 reflect March 31, 2023. Expenses related to our ADX-097 program decreased as the results program was winding down after the completion of reconciliations performed at our CRO and other vendors associated with our the Phase 1 clinical trials as well as the recognition in 2023, including a decrease of expense for contractual obligations owed under our Supply Agreement with OXB Solutions. In addition, employee-related $0.1 million in CMC redevelopment costs decreased over and a decrease of $1.0 million in Phase 1 clinical study costs when compared to the prior quarter primarily year. Expenses related to our bempikibart program increased due to our workforce reduction, which we instituted during an increase in clinical spend of $2.9 million and an increase in CMC costs of $0.4 million, partially offset by a decrease in toxicology costs of $0.3 million. The overall increase is due to the advancement of both clinical trials through the first quarter of 2024.

The increase in personnel-related and consultant costs was primarily related to an increase in headcount as compared to the same period in the prior year. Personnel-related and consultant costs for the three months ended September 30, 2023. March 31, 2024 and 2023 included stock-based compensation expense of $0.4 million and $0.3 million, respectively. Indirect research and development costs related to facility and other costs remained consistent over the prior year.

General and Administrative Expenses

General and administrative expenses were $5.0 million for the three months ended September 30, 2023 were $6.8 million March 31, 2024, compared to $7.8 million $2.4 million for the three months ended September 30, 2022 March 31, 2023. The decrease of $1.0 million was increase is primarily due to lower consulting, market research costs associated with the Merger, including severance and facility-related retention payments to former employees of Homology, as well as other public company-related costs.

Restructuring and Other Charges *Change in Fair Value of Convertible Notes*

In connection with Upon closing of the corporate restructuring that reduced our current workforce by approximately 80 employees, or 86%, we Merger, Legacy Q32 converted its outstanding Convertible Notes plus accrued interest into shares of common stock at 90% of the purchase price of the mandatory conversion event. As the Convertible Notes are recorded at fair value, a restructuring charge for severance and related costs gain of $6.9 million during $15.9 million on the three months ended September 30, 2023. We also modified certain stock options and restricted stock units granted change in fair value prior to the terminated employees conversion of convertible notes is reflected in a prior period. These equity modifications resulted in a net reduction to stock based compensation expense of $0.3 million reflected within restructuring and other charges during the three months ended September 30, 2023. See Notes 8 and 10 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information regarding our corporate restructuring and other charges. We did not record restructuring and other charges statement of operation for the three months ended September 30, 2022.

Interest Income

Interest income for the three months ended September 30, 2023 was $1.4 million, compared to $1.3 million for the three months ended September 30, 2022 March 31, 2024. The increase change in the fair value of $0.1 million the convertible notes was primarily the result of interest income generated at higher yields on invested funds for the three months ended September 30, 2023, compared to the three months ended September 30, 2022.

Income Tax Benefit

We recorded an income tax benefit of less than $0.1 million for the three months ended September 30, 2022 March 31, 2023. We did not record an

Other Income (Expense), Net

Other income tax provision (benefit) (expense), net was $0.2 million for the three months ended September 30, 2023 March 31, 2024, compared to $0.6 million for the three months ended March 31, 2023.

Other income (expense), net for the three months ended March 31, 2024 is made up primarily of interest income of $0.3 million partially offset by interest expense of $0.1 million on our venture debt. The decrease in other income (expense), net is due to a higher average cash balance resulting in higher interest income for the three months ended March 31, 2023.

Loss from Equity Method Investment *equity method investment*

We record our share of gains or losses from OXB Solutions (US) LLC on a quarterly basis. For the three months ended September 30, 2023 and 2022, March 31, 2024, we recorded a loss from equity method investment of $3.4 million and $2.2 million $0.2 million, respectively, representing our share of OXB Solutions' (US) LLC's net loss. See Notes 2 and 5 6 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for more information regarding the equity method of accounting.

Net Loss Liquidity and Capital Resources

Net loss Sources of Liquidity

Since inception, we have incurred significant operating losses and negative cash flows from operations. We have not yet commercialized any of our product candidates, which are in various phases of preclinical and clinical development, and we do not expect to generate revenue from sales of any products for several years, if at all. To date, we have funded our operations primarily from proceeds from the sales of our convertible preferred stock, convertible notes, venture debt, and proceeds from the Horizon Collaboration Agreement and from the Merger with Homology and accompanying Pre-Closing Financing. From inception through March 31, 2024, we raised $111.4 million in aggregate cash proceeds, net of issuance costs, from the sales of our Series A convertible preferred stock, Series A-1 convertible preferred stock and Series B convertible preferred stock and received payments of $55.0 million in connection with the Horizon Collaboration Agreement. We also received $30.0 million from the sales of convertible notes, $12.5 million from our venture debt, $61.3 million, net of issuance costs, in connection with the Merger with Homology and $42.0 million pursuant to the Pre-Closing Financing. As of March 31, 2024, we had cash, cash equivalents and short-term investments of $135.3 million.

Going Concern

We have incurred significant operating losses since inception and, as of March 31, 2024, had an accumulated deficit of $186.1 million. We expect negative cash flows from operations and net losses for the three months ended September 30, 2023 was $33.0 million, compared foreseeable future as we continue to $33.7 million invest significantly in research and development of our product candidates and platform. We have not yet commercialized any product and do not expect to generate revenue from sales of any products for the three months ended September 30, 2022. The decrease in net loss was primarily due to the decrease in operating expenses discussed above. several years, if at all.

Comparison As of Nine Months Ended September 30, 2023 March 31, 2024, we had cash, cash equivalents and 2022 short-term investments of $135.3 million. We expect that our cash, cash equivalents and short-term investments as of March 31, 2024, will be sufficient to fund our operations through mid-2026.

Management based its projections of operating capital requirements on our current operating plan, which includes several assumptions that may prove to be incorrect, and we may use all of our available capital resources sooner than management expects. We expect to seek to raise additional capital through private or public equity or debt financings, loans or other capital sources, which could include collaborations, partnerships or other marketing, distribution, licensing or other strategic arrangements with third parties, or from grants, and may be required to seek additional capital sooner than planned. However, there can be no assurances that we will be able to raise additional capital from these sources on favorable terms, or at all.

Cash Flows

The following table summarizes our results of operations cash flows for the nine months ended September 30, 2023 and 2022: periods indicated:

	Nine months ended September 30,		
(in thousands)	**2023**	**2022**	**Change**
Collaboration revenue	$ 1,156	$ 2,406	$ (1,250)
Operating expenses:			
Research and development	60,489	71,202	(10,713)
General and administrative	23,355	29,991	(6,636)
Restructuring and other charges	6,640	—	6,640
Total operating expenses	90,484	101,193	(10,709)
Loss from operations	(89,328)	(98,787)	9,459
Other income:			
Gain on sale of business	—	131,249	(131,249)
Interest income	4,403	1,775	2,628
Total other income	4,403	133,024	(128,621)
Income (loss) before income taxes	(84,925)	34,237	(119,162)

Provision for income taxes	—	(816)	816
Loss from equity method investment	(11,917)	(4,131)	(7,786)
Net income (loss)	$ (96,842)	$ 29,290	$ (126,132)

	Three Months Ended March 31,	
	2024	2023
	(in thousands)	
Net cash used in operating activities	$ (14,551)	$ (12,496)
Net cash provided by (used in) investing activities	97	(5)
Net cash provided by financing activities	99,346	15
Increase/(decrease) in cash, cash equivalents and restricted cash	$ 84,892	$ (12,486)

Collaboration Revenue *Operating Activities*

Collaboration revenue Our cash flows from operating activities are greatly influenced by our use of cash for the nine months ended September 30, 2023 was $1.2 million, compared operating expenses and working capital requirements to $2.4 million for the nine months ended September 30, 2022, support our business. We have historically experienced negative cash flows from operating activities as we invested in developing clinical programs, drug discovery efforts and was due to the recognition of deferred revenue related to the Stock Purchase Agreement with Pfizer in both periods. infrastructure.

Research and Development Expenses

	Nine months ended September 30,		
(in thousands)	2023	2022	Change
External development costs for clinical programs:			
HMI-102	$ 5,822	$ 13,643	$ (7,821)
HMI-103	16,371	10,767	5,604
HMI-203	8,942	11,095	(2,153)
Other development-stage programs' external development costs	13,685	6,330	7,355
Employee-related costs	11,631	24,025	(12,394)
Other research and development costs	4,038	5,342	(1,304)
Total research and development expenses	$ 60,489	$ 71,202	$ (10,713)

Research and development expenses for the nine months ended September 30, 2023 were $60.5 million, compared to $71.2 million for the nine months ended September 30, 2022. The decrease of $10.7 million was primarily due to lower employee-related costs as a result of the reduction in workforce we instituted during For the three months ended September 30, 2023 March 31, 2024, in addition to transferring employees to OXB Solutions upon the sale of our manufacturing business to Oxford in March 2022. In addition, external development costs related to HMI-102, including costs incurred with our CRO to conduct and manage our pheNIX clinical trial, decreased as the trial was placed on clinical hold in February 2022 and enrollment was paused in August 2022. Partially offsetting these decreases were increased external development costs in the first half of 2023 related to our development-stage programs, including higher spending on HMI-104, our GTx-mAb product candidate for PNH. In addition, external development costs for the HMI-103 clinical program increased over the nine months ended September 30, 2022.

General and Administrative Expenses

General and administrative expenses for the nine months ended September 30, 2023 were $23.4 million, compared to $30.0 million for the nine months ended September 30, 2022. The decrease of $6.6 million was primarily due to a $3.3 million decrease in consulting expense as the prior year included a fee of $2.5 million paid to a strategic advisory firm that assisted us with the OXB Solutions transaction. Employee-related costs decreased $1.5 million as a result of the reduction in workforce we instituted in the three months ended September 30, 2023. In addition, professional fees decreased $0.8 million as we incurred higher legal fees in the prior year related to the OXB Solutions Transaction, and depreciation expense and overall facilities costs decreased $0.7 million as compared to the prior year period.

Restructuring and Other Charges

In connection with the corporate restructuring that reduced our workforce by approximately 80 employees, or 86%, we recorded a restructuring charge for severance and related costs of $6.9 million during the nine months ended September 30, 2023. We also modified certain stock options and restricted stock units granted to the terminated employees in a prior period. These equity modifications resulted in a net reduction to stock based compensation expense of $0.3 million reflected within restructuring and other charges during the nine months ended September 30, 2023. See Notes 8 and 10 to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information regarding restructuring and other charges. We did not record restructuring and other charges for the nine months ended September 30, 2022.

Gain on Sale of Business

Gain on sale of business for the nine months ended September 30, 2022 was $131.2 million. On March 10, 2022, we closed our transaction with Oxford and recorded a gain of $131.2 million on the sale of our manufacturing business. See Note 5 to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for details surrounding the sale.

Interest Income

Interest income for the nine months ended September 30, 2023 was $4.4 million, compared to $1.8 million for the nine months ended September 30, 2022. The increase of $2.6 million was primarily the result of interest income generated at higher yields on invested funds for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022.

Provision for Income Taxes

We recorded an income tax provision of $0.8 million for the nine months ended September 30, 2022. The tax provision predominately resulted from the gain associated with the sale of the Company's manufacturing business due to the transaction with Oxford. Though we had substantial pre-tax income for the nine months ended September 30, 2022, we had federal and state net operating loss carryforwards and research and development tax credits available to offset most of that taxable income for the period. We did not record an income tax provision (benefit) for the nine months ended September 30, 2023.

Loss from Equity Method Investment

We record our share of gains or losses from OXB Solutions on a quarterly basis. For the nine months ended September 30, 2023 and 2022, we recorded a loss from equity method investment of $11.9 million and $4.1 million, respectively, representing our share of OXB Solutions' net loss. The loss from equity method investment for the nine months ended September 30, 2023 includes an other-than-temporary impairment charge of approximately $3.8 million we recorded because it was determined that the fair value of our equity method investment in OXB Solutions was less than its carrying value. See Notes 2 and 5 to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for more information regarding the equity method of accounting.

Net Income (Loss)

Net loss for the nine months ended September 30, 2023 was $96.8 million, compared to net income of $29.3 million for the nine months ended September 30, 2022. Net income for the nine months ended September 30, 2022 was primarily due to a gain of $131.2 million on the sale of our manufacturing business, offset by our operating expenses of $101.2 million as described above.

Liquidity and Capital Resources

Since our inception, we have incurred significant operating losses. We do not have any approved products and have never generated any revenue from product sales. To date, we have financed our operations primarily through the sale of common stock, the sale of preferred stock, through an up-front payment and funding of research candidates from a collaboration partner and through the gross proceeds from our transaction with OXB Solutions. Since our inception in 2015, we have raised approximately $721 million in aggregate net proceeds through our IPO in April 2018, follow-on public offerings of common stock in April 2019 and April 2021, proceeds from the sale of common stock under an “at-the-market” sales agreement, equity investments from pharmaceutical companies, preferred stock financings and our agreement with Oxford. Included in our net proceeds is a $130.0 million up-front cash payment from our agreement with Oxford, $50.0 million from a former collaboration partner, comprised of an up-front payment of $35.0 million and a $15.0 million equity investment, and a $60.0 million equity investment from Pfizer through a private placement transaction.

ATM Program

On March 9, 2023, we filed a Registration Statement on Form S-3 (File No. 333-270414) (the “Shelf”) with the SEC in relation to the registration of up to an aggregate of $250.0 million of our common stock, preferred stock, debt securities, warrants and/or units of any combination thereof for a period up to three years from the date of the filing. The Shelf became effective on March 17, 2023. We also simultaneously entered into a sales agreement with Cowen and Company, LLC (“Cowen”), as sales agent, providing for the offering, issuance and sale by the Company of up to an aggregate of $75.0 million of our common stock from time to time in “at-the-market” offerings under the Shelf (the “ATM”).

We did not sell any shares of common stock under the ATM during the nine months ended September 30, 2023. As of September 30, 2023, there remained $75.0 million of common stock available for sale under the ATM.

Oxford Biomedica Solutions Transaction

On March 10, 2022, we closed a transaction with Oxford pursuant to the Purchase Agreement, dated as of January 28, 2022, by and among Homology, OXB Solutions and Oxford, whereby, among other things, we and Oxford agreed to collaborate to operate OXB Solutions, which will provide AAV vector process development services and manufacturing services to pharmaceutical and biotechnology companies. Pursuant to the terms of the agreements entered into as part of the OXB Solutions Transaction, we have assigned and transferred to OXB Solutions all of our assets that are primarily used in the manufacturing of AAV vectors for use in gene therapy and gene editing products. Oxford paid us $130.0 million upfront and invested $50.0 million to fund the new company in exchange for an 80 percent ownership stake, while we own 20 percent of the new company. Also, at any time following the three-year anniversary of the closing of the transaction, Oxford has an option to cause us to sell and transfer to Oxford and we have an option to cause Oxford to purchase from us, in each case all of our equity ownership interest in OXB Solutions at a price equal to 5.5 times the revenue for the immediately preceding 12-month period, subject to a maximum amount of $74.1 million. See Note 5 to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information regarding the Oxford transaction.

Strategic Collaborations and Investments

On November 9, 2020, we entered into the Stock Purchase Agreement with Pfizer, pursuant to which Pfizer purchased 5,000,000 shares of our common stock through a private placement transaction at a purchase price of $12.00 per share, for an aggregate purchase price of $60.0 million. Under the Stock Purchase Agreement, Pfizer was granted an exclusive right of first refusal, or ROFR, for a 30-month period to negotiate a potential collaboration on the development and commercialization of HMI-102 and HMI-103. The 30-month ROFR period expired on May 9, 2023. In addition to the ROFR, the Stock Purchase Agreement provided for an information sharing committee comprised of representatives of each company which served as a forum for sharing information regarding the development of HMI-102 and HMI-103 during the ROFR period. Additionally, Pfizer designated a member to join our Scientific Advisory Board to participate in matters related to the development of these programs.

Strategic Review and Reduction in Force

On July 25, 2023, our Board of Directors approved a process to explore, review and evaluate a range of potential strategic options available to us, including, without limitation, an acquisition, merger, reverse merger, sale of assets, strategic partnerships or other transactions. Therefore, based on cost-reduction initiatives intended to reduce our ongoing operating expenses and maximize shareholder value as we evaluate strategic options, our Board of Directors also approved a reduction in our current workforce by approximately 80 employees. In connection with this corporate restructuring, we recorded a restructuring charge for severance and related costs of $6.9 million in our condensed consolidated statements of operations during the three months ended September 30, 2023.

Cash Flows

Our cash, cash equivalents, and short-term investments totaled $103.3 million and $175.0 million as of September 30, 2023 and December 31, 2022, respectively. We had no indebtedness as of September 30, 2023 and December 31, 2022.

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

	Nine months ended September 30,	
(in thousands)	**2023**	**2022**
Net cash used in operating activities	$ (74,655)	$ (86,462)
Net cash provided by investing activities	69,610	18,725
Net cash provided by financing activities	170	564
Net change in cash, cash equivalents and restricted cash	$ (4,875)	$ (67,173)

Operating Activities

Net cash used in operating activities for the nine months ended September 30, 2023 was $74.7million, $14.6 million, which was primarily utilized for the funding of our operating expenses of $90.5 million, $14.8 million as we incurred expenses associated with research and development activities including clinical trial activities associated with our HMI-103 bempikibart and HMI-203 ADX-097 programs, preclinical development activities including IND-enabling studies for HMI-104 and research activities on other applications for our technology, adjusted for non-cash expenses of $17.9 million $15.0 million. Non-cash expenses includes an $11.9 million include a gain of $15.9 million recognized on the change in fair value prior to the conversion of convertible notes pursuant to the Merger with Homology on March 25, 2024, stock-based compensation expense of $0.4 million, loss from our equity method investment in OXB Solutions, $6.5 million of stock-based compensation expense $0.2 million, non-cash lease expenses of $0.1 million and noncash lease depreciation expense of $1.1 million $0.1 million. The change in net operating assets and liabilities was primary attributable to a decrease in accrued expenses and other current liabilities of $2.2 million and an increase in other noncurrent assets of $0.6 million, partially offset by accretion on short-term investments of $2.3 million. The change an

increase in operating assets and liabilities of $4.3 million was driven by increased accounts payable of $6.7 million $0.9 million and decreased prepaid expenses and other current assets of $3.0 million, partially offset by decreased accrued expenses and other liabilities of $3.0 million and decreased deferred revenue of $1.2 million.

Net cash used in operating activities for the nine months ended September 30, 2022 was $86.5 million, primarily due to our net income of $29.3 million offset by the $131.2 million gain recognized on the sale of our manufacturing business to Oxford. Further offsetting our net income was an increase a decrease in prepaid expenses and other current assets of $5.3 million $1.3 million.

For the three months ended March 31, 2023, net cash used in operating activities of $12.5 million consisted of our net loss of $6.8 million and a change in net operating assets and liabilities of $6.3 million, partially offset by net non-cash operating expenses of $0.6 million. The change in net operating assets and liabilities was primarily due attributable to the receivable from OXB Solutions, as well as a decrease in accounts payable and accrued expenses and other current liabilities of $3.7 million and a decrease in deferred revenue of $2.4 million $2.9 million, partially offset by a decrease in prepaid expenses and other current assets of $0.4 million. Conversely, we had net The non-cash operating expenses consisted mainly of $15.2 million, which included $10.0 million of a stock-based compensation expense of $0.3 million, non-cash lease expenses of $0.1 million and a $4.1 million loss from our equity method investment in OXB Solutions, $5.7 million depreciation expense of increased accrued expenses and other liabilities and $2.7 million of increased accounts payable, all of which reduced our net cash used in operating activities for the nine months ended September 30, 2022 $0.1 million.

Investing Activities

Net For the three months ended March 31, 2024, net cash provided by investing activities for the nine months ended September 30, 2023 was $69.6 million, primarily due to proceeds from consisted of maturities of short-term investments of $142.7 million, offset by purchases of short-term investments of $73.2 million. during the period since the Merger.

Net For the three months ended March 31, 2023, net cash provided by used in investing activities for the nine months ended September 30, 2022 was $18.7 million, primarily due to $130.0 million consisted of cash received from Oxford pursuant to the OXB Solutions Transaction (see Note 5 to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q). We also had proceeds from maturities of short-term investments of $47.5 million, offset by purchases of short-term investments of $157.5 million and purchases of property and equipment of $1.3 million. equipment.

Financing Activities

Net For the three months ended March 31, 2024, net cash provided by financing activities for consisted of $53.2 million of cash acquired as part of the nine months ended September 30, 2023 was $0.2 million, due to Merger, $42.0 million of proceeds from the issuance of common stock pursuant in the pre-closing financing and $7.0 million of proceeds from the borrowings under a new loan and security agreement, slightly offset by payments of $2.8 million of transaction costs related to our employee stock purchase plan. the Merger.

Net 34

For the year three months ended March 31, 2023, net cash provided by financing activities for the nine months ended September 30, 2022 was $0.6 million, due to consisted of $15 thousand of proceeds from the issuance exercise of common stock options.

Pre-Closing Financing

In connection with the Merger Agreement, certain third parties have into the Pre-Closing Financing as described above under "—Recent Developments—Merger with Homology and the Pre-Closing Financing." On the Closing Date, following approval by the stockholders of Legacy Q32 and Homology, the Pre-Closing Financing closed immediately prior to the consummation of the Merger. Shares of Legacy Q32's common stock issued pursuant to our employee the Pre-Closing Financing were converted into the right to receive 1,682,045 shares of Homology common stock, purchase plan. after taking into account the Reverse Stock Split.

Future Funding Requirements

Operating expenses decreased during the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022. We currently expect Management expects our expenses to continue to decrease increase substantially in 2023 compared to 2022 due to connection with our decision to stop all further ongoing research and development activities, particularly as we advance the preclinical activities and clinical trials of our product candidates and the recent implementation of an 86% workforce reduction. We will continue candidates. In addition, we expect to incur additional costs associated with operating as a public company. If we decide to resume the development of our product candidates, however, we expect our expenses to increase in order to advance preclinical activities and clinical trials for product candidates in development.

As of September 30, 2023, we had cash, cash equivalents, and short-term investments of $103.3 million. Based on our current projections, we believe that our existing cash, cash equivalents, and short-term investments as of September 30, 2023 will enable us to continue our operations for at least one year from the date of this filing. However, in light Because of the discontinuation numerous risks and uncertainties associated with research, development and commercialization of all of our clinical trials and research activities, as well as our recent reduction in force of all but a few custodial employees, we have concluded that there is a substantial doubt regarding our ability to continue as a going concern for more than twelve months after the date the unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q have been issued.

We have based these estimates on assumptions that may prove to be imprecise, and we may use our available capital resources sooner than we currently expect. In addition, our resource requirements could materially change depending on the outcome of our ongoing strategic alternative review process. Because our resource requirements could materially change depending on the outcome of our ongoing strategic alternative review process, product candidates, we are unable to estimate the exact amount and timing of our working capital requirements. Should we resume development of our product candidates in the future, our Our future funding requirements would will depend on and could increase significantly as a result of many factors, including:

- the scope, timing, progress, results, and costs timing, of researching and results of research developing bempikibart and development efforts, including ADX-097, and conducting larger and later-stage clinical trials;
- the scope, timing, progress, results, and costs of researching and timing of process development scale-up activities, and the adequacy of supply of developing other p candidates for preclinical studies and clinical trials through CMOs, including OXB Solutions; that we may pursue;
- the costs, timing, and outcome of regulatory review of our product candidates;
- the costs of future activities, including product sales, medical affairs, marketing, manufacturing, and distribution, for any of our product candidates for which we receive marketing approval;
- the costs of manufacturing commercial-grade products and sufficient inventory to support commercial launch;
- the revenue, if any, received from commercial sale of our products, should any of our product candidates receive marketing approval;
- the cost and timing of attracting, hiring, and retaining skilled personnel to support our operations and continued growth;
- the costs of preparing, filing and prosecuting patent applications, maintaining and enforcing our intellectual property rights and defending any intellectual property-relat claims, including any claims by third parties that we are infringing upon their intellectual property rights;
- the effect of competitors and market developments; and claims;
- our ability to establish, maintain, and maintain strategic derive value from collaborations, partnerships or other marketing, distribution, licensing, or other agreements strategic arrangements with third parties on favorable terms, if at all;
- the extent to which we acquire or in-licenses other product candidates and technologies, if any; and
- the financial terms of such agreements for our product candidates. costs associated with operating as a public company.

We maintain A change in the majority of our cash and cash equivalents in accounts with major highly rated multi-national and local financial institutions, and our deposits at these institutions exceed insured limits. Market conditions can impact the viability of these institutions, and any inability to access or delay in accessing these funds could adversely affect our business and financial position. In the event of failure outcome of any of these or other factors with respect to the financial institutions where development of any of our product candidates could significantly change the costs and timing associated with the development of that product candidate. Furthermore, our operating plans may change in the future, and we maintain may need additional capital to meet the capital requirements associated with such operating plans.

We believe that, based on our current operating plan, our cash, and cash equivalents there can and short-term investments will enable us to fund our operating expenses and capital expenditure requirements into mid-2026. Management based its projections of operating capital requirements on our current operating plan, which includes several assumptions that may prove to be no assurance incorrect, and we may use all of our available capital resources sooner than management expects.

To complete the development of our product candidates and to build the sales, marketing and distribution infrastructure that management believes will be necessary to commercialize our product candidates, if approved, we will be able to access uninsured funds in a timely manner or at all.

Further, the global economy, including credit and financial markets, has recently experienced extreme volatility and disruptions, including severely diminished liquidity and credit availability, rising interest and inflation rates, declines in consumer confidence, declines in economic growth, increases in unemployment rates, uncertainty about economic stability, and COVID-19. All of these factors could impact our liquidity and future funding requirements, including but not limited to our ability to raise require substantial additional capital when needed on acceptable terms, if at all. The duration of this economic slowdown is uncertain and the impact on our business is difficult to predict. See “Risk Factors—Unstable global political or economic conditions may have serious adverse consequences on our business, financial condition and share price” and “Risk Factors— COVID-19 has and could continue to adversely impact our business, including our preclinical studies and clinical trials.” in Part II, Item 1A of this Quarterly Report on Form 10-Q.

Until capital. Accordingly, until such time if ever, that we can generate a sufficient revenue from product revenue, and subject sales or other sources, if ever, management expects to our pursuit of a potential strategic transaction and the consummation of such potential transaction, we expect seek to finance our cash needs raise any necessary additional capital through a combination of private or public equity offerings, or debt financings, collaboration agreements, loans or other third-party funding, capital sources, which could include income from collaborations, partnerships or other marketing, distribution, licensing or other strategic alliances, licensing arrangements and marketing and distribution

arrangements. with third parties, or from grants. To the extent that we raise additional capital through the sale of equity financings or convertible debt securities, the ownership interests interest of our stockholders will be or could be diluted, and the terms of these securities may

include liquidation or other preferences that adversely affect the rights of our stockholders as common stockholders. Debt financing and preferred equity financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring including restricting our operations and limiting our ability to incur liens, issue additional debt, making capital expenditures pay dividends, repurchase our own common stock, make certain investments or declaring dividends. engage in merger, consolidation, licensing, or asset sale transactions. If we raise additional funds capital through collaborations, partnerships, and other third-party funding, collaboration agreements, strategic alliances, licensing similar arrangements or marketing and distribution arrangements, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates or grant licenses on terms that may not be favorable to us. If we resume the development of our product candidates and are unable to raise additional funds through equity or debt financings when needed, with third parties, we may be required to delay, limit, reduce or terminate our product development or future commercialization efforts, or grant rights to develop and market products or product candidates that we would otherwise prefer to develop and market ourselves. We may be unable to raise additional capital from these sources on favorable terms, or at all. Our ability to raise additional capital may be adversely impacted by potential worsening global economic conditions and the recent disruptions to, and volatility in, the credit and financial markets in the United States and worldwide resulting from recent bank failures. The failure to obtain sufficient capital on acceptable terms when needed could have a material adverse effect on our business, results of operations or financial condition, including requiring us to delay, reduce or curtail our research, product development or future commercialization efforts. We may also be required to license rights to product candidates at an earlier stage of development or on less favorable terms than we would otherwise choose. Management cannot provide assurance that we will ever generate positive cash flow from operating activities.

Contractual Obligations and Commitments

There have been no material changes Lease Obligations

We lease space under an operating lease for administrative offices and lab space in Waltham, Massachusetts, which expires in December 2031. In addition, prior to the Merger, Homology was subleasing office and research and development laboratory space in Bedford, Massachusetts, under a sublease agreement with OXB (US) LLC that is scheduled to expire in December 2024.

The following table summarizes our contractual obligations and commitments as of March 31, 2024 (in thousands):

	Payments Due by Period			
	Total	1 to 3 years	3 to 5 years	More than 5 years
Operating lease obligation	$ 14,079	$ 5,212	$ 3,638	$ 5,229

We have agreements with certain vendors for various services, including services related to preclinical and clinical operations and support, for which we are not contractually able to terminate for convenience and avoid any and all future obligations to the vendors. Our most significant contracts relate to agreements with CROs for clinical trials and preclinical studies and CDMOs, which we enter into in the normal course of business. Certain agreements provide for termination rights subject to termination fees or wind down costs. Under such agreements, we are contractually obligated to make certain payments to vendors to reimburse them for their unrecoverable outlays incurred prior to cancellation. The exact amounts of such obligations are dependent on the timing of termination and the exact terms of the relevant agreement and cannot be reasonably estimated. We do not include these payments in the table above as they are not fixed and estimable.

In addition, we enter into standard indemnification agreements and/or indemnification sections in other agreements in the ordinary course of business. Pursuant to these agreements, we agree to indemnify, hold harmless and reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally our business partners. The term of these indemnification agreements is generally perpetual upon execution of the agreement. The maximum potential amount of future payments we could be required to make under these indemnification agreements cannot be reasonably estimated and therefore is not included in the table above.

Collaboration and License Agreements

ADX-097—License Agreement – The Regents of the University of Colorado

In August 2017, Legacy Q32 entered into an exclusive license agreement, as amended in February 2018, September 2018, and April 2019, or the Colorado License Agreement, with The Regents of the University of Colorado, or Colorado, pursuant to which we obtained worldwide, royalty-bearing, sublicensable licenses under certain patents and know-how owned by Colorado and Medical University of South Carolina, or MUSC, relating to the research, development and commercialization of ADX-097. The licenses granted to us are exclusive with respect to certain patent families and know-how and non-exclusive with certain other patent families and know-how. The licenses granted to us are also subject to certain customary retained rights of Colorado and MUSC and rights of the United States government owing to federal funding giving rise to inventions covered by the

licensed patents. We agreed to use commercially reasonable efforts to develop, manufacture and commercialize ADX-097, including by using commercially reasonable efforts to achieve specified development and regulatory milestones by specified dates.

In addition, we agreed to pay Colorado (i) development and sales milestone payments in an aggregate amount of up to $2.2 million per licensed product for the first three products, (ii) tiered royalty rates on cumulative net sales of licensed products in the low

single digit percentages, (iii) 15% of sublicense income and (iv) ongoing fees associated with the prosecution, maintenance, or filing of the licensed patents. Our obligation to pay royalties to Colorado commences, on a licensed product-by-licensed product and country-by-country basis, from the first commercial sale of a licensed product in any country and expires on the later of (i) the last to expire valid claim within the licensed patents covering such licensed product in such country, and (ii) 20 years following the effective date of the Colorado License Agreement, or April 2037, or the Royalty Term.

Unless earlier terminated by either party pursuant to its terms, the Colorado License Agreement will expire upon the expiration of the Royalty Term in all countries. We may terminate the Colorado License Agreement for convenience upon providing prior written notice to Colorado. Colorado may terminate the Colorado License Agreement or convert our exclusive license to a non-exclusive license if we breach certain obligations under the Colorado License Agreement and fail to cure such breach. The Colorado License Agreement will terminate automatically upon our dissolution, insolvency, or bankruptcy. We have the right to terminate the agreement for any reason upon written notice, and therefore, this agreement has not been included in the discussion above.

Bempikibart—License Agreement – Bristol-Myers Squibb Company

In September 2019, Legacy Q32 entered into a license agreement, as amended in August 2021 and July 2022, or the BMS License Agreement, with Bristol-Myers Squibb Company, or BMS, pursuant to which we obtained sublicensable licenses from BMS to research, develop and commercialize licensed products, including bempikibart, for any and all uses worldwide. The licenses granted to us are exclusive with respect to BMS's patent rights and know-how relating to certain antibody fragments (including certain fragments of bempikibart) and non-exclusive with respect to BMS's patent rights and know-how relating to the composition of matter and use of a specific region of bempikibart. BMS retained the right for it and its affiliates to use the exclusively licensed patents and know-how for internal, preclinical research purposes. Under the BMS License Agreement, we are prohibited from engaging in certain clinical development or commercialization of any antibody other than a licensed compound with the same mechanism of action until the earlier of the expiration of our obligation to pay BMS royalties or September 2029.

In consideration for the license, we made an upfront payment to BMS of $8 million, issued 318,278 Series A preferred shares to BMS and agreed to use commercially reasonable efforts to develop and commercialize at least one licensed product in key geographic markets. In addition, we agreed to pay BMS (i) development and regulatory milestone payments in aggregate amounts ranging from $32 million to $49 million per indication for the first three indications and commercial milestone payments in an aggregate amount of up to $215 million on net sales of licensed products, (ii) tiered royalties ranging from rates in the mid-single digit percentages to up to 10% of net sales, with increasing rates depending on the cumulative net sales, (iii) up to 60% of sublicense income, which percentage decreases based on the development stage of bempikibart at the time of the sublicensing event, and (iv) ongoing fees associated with the prosecution, maintenance, or filing of the licensed patents.

Our obligation to pay BMS royalties under subsection (ii) above commences, on a licensed product-by-licensed product and country-by-country basis, on the first commercial sale of a licensed product in a country and expires on the later of (x) 12 years from the first commercial sale of such licensed product in such country, (y) the last to expire licensed patent right covering bempikibart or such licensed product in such country, and (z) the expiration or regulatory or marketing exclusivity for such licensed product in such country, or the Royalty Term. If we undergo a change of control prior to certain specified phase of development, the development and milestone payments are subject to increase by a low double digit percentage and the royalty rates are subject to increase by a low sub-single digit percentage.

Unless terminated earlier by either party pursuant to its terms, the BMS License Agreement will expire on a country-by-country and licensed product-by-licensed product basis upon the expiration of the last to expire Royalty Term with respect to such licensed product in such country. Either party may terminate the BMS License Agreement for the other party's material breach, subject to a specified notice and cure period. BMS may terminate the BMS License Agreement if we fail to meet our diligence obligations under the BMS License Agreement, for our insolvency, or if we or our affiliates challenges the validity, scope, enforceability, or patentability of any of the licensed patents. We may terminate the BMS License Agreement for any reason upon prior written notice to BMS, with a longer notice period if a licensed product has received regulatory approval. If the BMS Agreement is terminated for our material breach, BMS will regain rights to bempikibart and we must grant BMS an exclusive license under our patent rights covering bempikibart, subject to a low single digit percentage royalty on net sales of bempikibart payable to us by BMS. We have the right to terminate the agreement for any reason upon written notice, and therefore, this agreement has not been included in the discussion above.

Bempikibart – Collaboration and Option Agreement, Asset Purchase Agreement and Termination Agreement – Horizon Therapeutics Ireland DAC

From August 2022 until November 2023, Legacy Q32 was a party to the Horizon Agreements, pursuant to which Legacy Q32 received $55.0 million in initial consideration and staged development funding to complete two ongoing Phase 2 trials for bempikibart, and granted Horizon an option to acquire the bempikibart program at a prespecified price, subject to certain adjustments.

In October 2023, Amgen completed the acquisition of Horizon plc. Following its acquisition of Horizon plc, Legacy Q32 agreed with Amgen to mutually terminate the Horizon Agreements and in November 2023, Legacy Q32 and Horizon entered into the Horizon Termination Agreement, pursuant to which Horizon's option to acquire the bempikibart program was terminated. As a result, we retained all initial consideration and development funding received under the Horizon Collaboration Agreement and regained full development and commercial rights to bempikibart. In consideration for the Horizon Termination Agreement, we agreed to pay Horizon regulatory and sales milestones payments of up to an aggregate amount of $75.1 million upon the first achievement of certain regulatory and sales milestones with respect to bempikibart.

Critical Accounting Policies and Significant Judgments and Estimates

Management's discussion and analysis of its financial condition and results of operations is based on its condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, as well as the reported expenses incurred during the nine months ended September 30, 2023 reporting periods. Management considers many factors in selecting appropriate financial accounting policies and controls, and in developing the estimates and assumptions that are used in the preparation of these condensed consolidated financial statements. Management must apply significant judgment in this process. In addition, other factors may affect estimates, including expected business and operational changes, sensitivity and volatility associated with the assumptions used in developing estimates, and whether historical trends are expected to be representative of future trends. The estimation process often may yield a range of potentially reasonable estimates of the ultimate future outcomes and management must select an amount that falls within that range of reasonable estimates. Actual results could materially differ from those previously disclosed estimates.

While our significant accounting policies are described in more detail in the notes to our Annual unaudited condensed consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-K 10-Q as well as in Legacy Q32's audited consolidated financial statements and the notes thereto for the year ended December 31, 2022 December 31, 2023, included in a Form 8-K filed with the SEC on March 27, 2024, management believes that the following accounting policies are those most critical to the judgments and estimates used in the preparation of our unaudited condensed consolidated financial statements.

Revenue Recognition

Under ASC 606, an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the entity performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price, including variable consideration, if any; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. We only apply the five-step model to contracts when it is probable that the entity will collect the consideration to which it is entitled in exchange for the goods or services it transfers to the customer.

Once a contract is determined to be within the scope of Topic 606, we assess the goods or services promised within each contract and determine those that are performance obligations.

Arrangements that include rights to additional goods or services that are exercisable at a customer's discretion are generally considered options. We assess if these options provide a material right to the customer and if so, they are considered performance obligations. The identification of material rights requires judgments related to the determination of the value of the underlying good or service relative to the option exercise price. The exercise of a material right is accounted for as a contract modification for accounting purposes.

We assess whether each promised good or service is distinct for the purpose of identifying the performance obligations in the contract. This assessment involves subjective determinations and requires management to make judgments about the individual promised goods or services and whether such are separable from the other aspects of the contractual relationship. Promised goods and services are considered distinct provided that: (i) the customer can benefit from the good or service either on its own or together with

other resources that are readily available to the customer (that is, the good or service is capable of being distinct) and (ii) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (that is, the promise to transfer the good or service is distinct within the context of the contract). In assessing whether a promised good or service is distinct, we consider factors such as the license terms, the research, manufacturing and commercialization capabilities of the collaboration partner and the availability of the associated expertise in the general marketplace. We also consider the intended benefit of the contract in assessing whether a promised good or service is separately identifiable from other promises in the contract. If a promised good or service is not distinct, an entity is required to combine that good or service with other promised goods or services until it identifies a bundle of goods or services that is distinct.

The transaction price is determined and allocated to the identified performance obligations in proportion to their stand-alone selling prices, or SSP, on a relative SSP basis. SSP is determined at contract inception and is not updated to reflect changes between contract inception and when the performance obligations are satisfied. Determining the SSP for performance obligations requires significant judgment. In developing the SSP for a performance obligation, we consider applicable market conditions and relevant entity-specific factors, including factors that were contemplated in negotiating the agreement with the customer and estimated costs. We validate the SSP for performance obligations by evaluating whether changes in the key assumptions used to determine the SSP will have a significant effect on the allocation of arrangement consideration between multiple performance obligations.

If the consideration promised in a contract includes a variable amount, we estimate the amount of consideration to which we will be entitled in exchange for transferring the promised goods or services to a customer. We determine the amount of variable consideration by using the expected value method or the most likely amount method. The amount of variable consideration included in the transaction price is constrained to the amount for which it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty related to the variable consideration is resolved. At the end of each subsequent reporting period, we re-evaluate the estimated variable consideration included in the transaction price and any related constraint, and if necessary, adjust our estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis in the period of adjustment.

If an arrangement includes development and regulatory milestone payments, we evaluate whether the milestones are considered probable of being reached and estimate the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant revenue reversal would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within our control or the licensee's control, such as regulatory approvals, are generally not considered probable of being achieved until those approvals are received.

For arrangements with licenses of intellectual property that include sales-based royalties, including milestone payments based on the level of sales, and the license is deemed to be the predominant item to which the royalties relate, we recognize royalty revenue and sales-based milestones at the later of (i) when the related sales occur, or (ii) when the performance obligation to which the royalty has been allocated has been satisfied.

In determining the transaction price, we adjust consideration for the effects of the time value of money if the timing of payments provides us with a significant benefit of financing. We do not assess whether a contract has a significant financing component if the expectation at contract inception is such that the period between payment by the licensees and the transfer of the promised goods or services to the licensees will be one year or less.

We recognize as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) each performance obligation is satisfied, either at a point in time or over time, and if over time recognition is based on the use of an output or input method.

Research and Development Expenses and Related Accrued and Prepaid Expenses

Research and development costs are expensed as incurred. Research and development expenses are comprised of costs incurred in performing research and development activities, including salaries, stock-based compensation and benefits, costs for clinical research organizations, manufacturing expenses and costs of other outside vendors and other outsourced activities; laboratory supplies; technology licenses, software and other information technology support; facilities and depreciation.

Upfront payments and milestone payments made for the licensing of technology are expensed as research and development expenses in the period in which they are incurred. Nonrefundable advance payments for goods or services to be received in the future for use in research and development activities are recorded as prepaid expenses. The prepaid amounts are expensed as the related goods are delivered or the services are performed.

As part of the process of preparing our condensed consolidated financial statements, management is required to estimate our accrued research and development expenses. This process involves reviewing open contracts and purchase orders, communicating with our personnel to identify services that have been performed on our behalf and estimating the level of service performed and the associated costs incurred for the services when we have not yet been invoiced or otherwise notified of the actual costs. The majority of our service providers invoice us in arrears for services performed, on a pre-determined schedule or when contractual milestones are met; however, some require advanced payments. Management makes estimates of its prepaid and accrued expenses as of each balance sheet date in its financial statements based on facts and

circumstances known to us at that time. Management periodically confirms the accuracy of the estimates with the service providers and make adjustments if necessary. Examples of estimated prepaid and accrued research and development expenses include fees paid to:

- CROs and investigative sites in connection with performing research services, preclinical studies and clinical trials;
- vendors, including research laboratories, in connection with preclinical and clinical development activities; and
- vendors, including CDMOs, related to product manufacturing, development and distribution of preclinical studies and clinical trial materials.

Management bases the expense recorded related to contract research and manufacturing on its estimates of the services received and efforts expended pursuant to quotes and contracts with multiple CDMOs and CROs that supply materials and conduct services. The financial terms of these agreements are subject to negotiation, vary from contract to contract and may result in uneven payment flows. There may be instances in which payments made to our vendors will exceed the level of services provided and result in a prepayment of the expense. In accruing service fees, management estimates the time period over which services will be performed and the level of effort to be expended in each period. If the actual timing of the performance of services or the level of effort varies from the estimate, management adjusts the accrual or prepaid expense accordingly. Although we do not expect our estimates to be materially different from amounts actually incurred, our understanding of the status and timing of services performed relative to the actual status and timing of services performed may vary and may result in reporting amounts that are too high or too low in any particular period.

Convertible Notes

We account for all convertible notes issued under the fair value option election of ASC 825. The financial instrument is initially measured at its issue-date estimated fair value and then subsequently remeasured at estimated fair value on a recurring basis at each reporting period date. The estimated fair value adjustment is recognized within other income (expense) in the accompanying condensed consolidated statements of operations and the portion of the fair value adjustment attributed to a change in the instrument-specific credit risk is recognized as a component of other comprehensive loss, if any. The fair value is based on significant inputs not observable in the market, namely potential financing scenarios, the likelihood of such scenarios, the expected time for each scenario to occur, and the required market rates of return utilized in modeling these scenarios.

Upon closing of the Merger, Legacy Q32 converted the outstanding Convertible Notes plus accrued interest into shares of common stock at 90% of the purchase price of the mandatory conversion event. As the Convertible Notes are recorded at fair value, a gain of $15.9 million on the change in fair value prior to the conversion of convertible notes is reflected in the condensed consolidated statement of operations for the three months ended March 31, 2024. We recorded a less than $0.1 million loss related to the change in fair value of the Convertible Notes for the three months ended March 31, 2023.

Stock-Based Compensation Expense

We account for stock-based awards in accordance with FASB ASC Topic 718, *Compensation – Stock Compensation,* or ASC 718. ASC 718 requires all stock-based awards issued to employees and members of our board of directors, or the Board, for their services to be recognized as expense in the statements of operations based on their grant date fair values. We use the value of our common stock to determine the fair value of its stock-based awards. For stock options and time-based restricted stock awards, we expense the fair value of the awards on a straight-line basis over each award's service period, which is generally the period in which the related services are received. For performance-based stock awards, we use the accelerated attribution method to expense the awards over the implicit service period based on the probability of achieving the performance conditions. We account for stock-based awards to non-employees consistently with the accounting for awards to employees and measure stock-based awards granted to non-employees based on their grant date fair value and recognize the resulting value as stock-based compensation expense during the period the related services are rendered. We account for forfeitures as they occur.

Determination of the Fair Value of Common Stock

Prior to the Merger, given the absence of an active market for our common stock, the fair values of the shares of common stock underlying our stock-based awards were determined on each grant date by the Board with input from management, considering its most recently available third-party valuations of our common stock and the Board's assessment of additional objective and subjective factors that it believed were relevant and which may have changed from the date of the most recent valuation through the grant date. Historically, these independent third-party valuations of our equity instruments were performed contemporaneously with identified value inflection points. The third-party valuations were prepared in accordance with the framework of the American Institute of Certified Public Accountants' Technical Practice Aid, *Valuation of Privately-Held Company Equity Securities Issued as Compensation*, or the Practice Aid. The Practice Aid identifies various available methods for allocating enterprise value across classes and series of capital stock to determine the estimated fair value of common stock at each valuation date.

In addition to considering the results of these third-party valuations, the Board considered various objective and subjective factors to determine the fair value of our equity instruments as of each grant date, which may be later than the most recently available third-party valuation date, including:

- the lack of liquidity of our equity as a private company;

- the prices of our convertible preferred stock sold to outside investors in arm's length transactions and the rights, preferences and privileges of its convertible preferred as compared to those of its common stock, including the liquidation preferences of its convertible preferred stock;
- the progress of our research and development efforts, including the status of preclinical studies and clinical trials for our product candidates;
- our stage of development and business strategy and the material risks related to our business and industry;
- the achievement of enterprise milestones, including entering into strategic collaborative and license agreements;
- the valuation of publicly traded companies in the life sciences and biotechnology sectors, as well as recently completed mergers and acquisitions of peer companies;
- any external market conditions affecting the biotechnology industry and trends within the biotechnology industry;
- the likelihood of achieving a liquidity event, such as an initial public offering or a sale of our company, given prevailing market conditions; and
- the analysis of initial public offerings and the market performance of similar companies in the biotechnology industry.

Our common stock valuations were prepared using either an option pricing method, or OPM, or a hybrid method, both of which used market approaches to estimate our enterprise value. The OPM treats common stock and convertible preferred stock as call options on the total equity value of a company, with exercise prices based on the value thresholds at which the allocation among the various holders of a company's securities changes. Under this method, the common stock has value only if the funds available for distribution to stockholders exceeded the value of the convertible preferred stock liquidation preferences at the time of the liquidity event, such as a strategic sale or a merger. A discount for lack of marketability of the common stock is then applied to arrive at an indication of value for the common stock.

The hybrid method is a probability-weighted expected return method, or PWERM, by which the equity value in one or more scenarios is calculated using an OPM. The PWERM is a scenario-based methodology that estimates the fair value of common stock based upon an analysis of future values for the company, assuming various outcomes. The common stock value is based on the probability-weighted present value of expected future investment returns considering each of the possible outcomes available as well as the rights of each class of stock. The future value of the common stock under each outcome is discounted back to the valuation date at an appropriate risk-adjusted discount rate and probability weighted to arrive at an indication of value for the common stock.

The assumptions underlying these valuations were highly complex and subjective and represented management's best estimates, which involved inherent uncertainties and the application of management's judgment. As a result, if we had used significantly different assumptions or estimates, the fair value of our common stock and stock-based compensation expense could be materially different.

Now that a public trading market for our common stock has been established in connection with the completion of the Merger, it will no longer be necessary for the Board to estimate the fair value of our common stock in connection with our accounting for granted stock options and restricted stock awards, as the fair value of our common stock will be determined based on the trading price of our common stock on Nasdaq.

Recently Issued and Adopted Accounting Pronouncements

A description of recently issued and certain recently adopted accounting pronouncements that have or may potentially impact our financial position and results of operations is included in Note 2 to our unaudited condensed consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-Q. We have determined that the effects of any such pronouncements will not have a material impact on our condensed consolidated financial position and results of operations.

Item 3. Quantitative and Qualitative Qualitative Disclosures About Market Risk.

We are exposed a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to market risks in provide the ordinary course of our business. These risks primarily include interest rate sensitivities.

Interest Rate Risk

Our interest-earning assets consist of cash and cash equivalents and short-term investments of $103.3 million, or 73.8% of our total assets at September 30, 2023, and $175.0 million, or 76.6% of our total assets at December 31, 2022. Interest income earned on these assets was approximately $4.4 million and $1.8 million for the nine months ended September 30, 2023 and 2022, respectively. Our interest income is sensitive to changes in the general level of interest rates, primarily U.S. interest rates. If a 10% change in interest rates were to have immediately occurred on September 30, 2023, information under this change would not have had a material effect on the fair value of our investment portfolio as of that date. At September 30, 2023, our cash equivalents consisted of bank deposits and money market funds. Such interest-earning instruments carry a degree of interest rate risk; however, historical fluctuations in interest income have not been significant for us. We had no debt outstanding as of September 30, 2023 and December 31, 2022.

Inflation Rate Risk

As of September 30, 2023, we do not believe that inflation has had a material effect on our business, financial condition or results of operations. To the extent inflation results in rising interest rates and has other adverse effects on the market, it may adversely affect our business, financial condition and results of operations.

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Item 4. Controls and Procedures.

Limitations on Effectiveness Management's Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) as of March 31, 2024 and, 15d-15(e) under the Exchange Act). Based based on such this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2023.

Changes in Internal Control Over Financial Reporting

There were no changes in due to a previously identified material weakness, our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) was not effective as of March 31, 2024. We previously identified a material weakness in our internal control over financial reporting related to Legacy Q32's controls over complex accounting topics. Specifically, Legacy Q32's accounting and internal control infrastructure did not allow for adequate review processes over complex accounting topics due to lack of sufficient personnel. We have concluded that this material weakness in our internal control over financial reporting is due to the fact that we have limited resources and do not have the necessary business processes and related internal controls formally designed and implemented coupled with the appropriate resources to oversee our business processes and controls. A material weakness (as defined in Rule 12b-2 under the Exchange Act) is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Remediation Efforts to Address Material Weakness

We are implementing measures designed to improve our internal control over financial reporting to remediate the material weakness, including strengthening reviews by our finance team as well as expanding our accounting and finance team to add additional qualified accounting and finance resources which may include augmenting our finance team with third party consultants that possess the required expertise to assist management with its review.

We are currently working to improve our internal processes and implement enhanced controls, as described above, to address the material weakness in our internal control over financial reporting and to remedy the ineffectiveness of our disclosure controls and procedures. This material weakness will not be considered to be remediated until the applicable remediated controls are operating for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. Despite the existence of this material weakness, we believe that the unaudited condensed consolidated financial statements included in the period covered by this quarterly report on Form 10-Q fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented in conformity with U.S. generally accepted accounting principles.

Changes in Internal Control over Financial Reporting

Except with respect to the changes in connection with our ongoing implementation of the remediation plan discussed above, there have been no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the three months quarter ended September 30, 2023 March 31, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

On March 25, 2022, From time to time, we may become involved in legal proceedings arising from the ordinary course of business. We record a stockholder of the Company, Michael C. Pizzuto, filed a putative class action complaint alleging violations of Sections 10(b) liability for such matters when it is probable that future losses will be incurred and 20(a) of the Securities and Exchange Act of 1934, as amended, against the Company and certain of its executives. *Pizzuto v. Homology Medicines, Inc.*, No. 2:22– CV – 01968 (C.D. Cal 2022). The complaint alleges that the Company failed such losses can be reasonably estimated. We are not currently party to disclose certain information regarding efficacy and safety in connection with a Phase I/II HMI-102 clinical trial, and seeks damages in an unspecified amount. The case is in its early stages. The Company believes the claims alleged lack merit and filed a motion to transfer venue (filed September 2, 2022) and a motion to dismiss (filed October 17, 2022). On April 18, 2023, the court granted the motion to transfer, finding that venue was not proper in the Central District of California and transferring the case to the District of Massachusetts. Following the transfer, the case number changed to 1:23-cv-10858-AK (D. Mass.). On May 9, 2023, the Massachusetts court issued an order permitting the parties to submit updated briefs in connection with the motion to dismiss, which were submitted on June 8, 2023, July 13, 2023, and August 3, 2023. The motion to dismiss remains pending. As the outcome is not presently determinable, any loss is neither probable nor reasonably estimable. material legal proceedings.

Item 1A. Risk Factors.

Investing in our common stock involves a high degree of risk. You should consider carefully the risks and uncertainties described below, together with all of the other information included in this Quarterly Report on Form 10-Q and in our other filings with the Securities and Exchange Commission, or SEC. We operate in a dynamic and rapidly changing industry that involves numerous risks and uncertainties. The risks and uncertainties described below are not the only ones we face. Other risks and uncertainties, including those that we do not currently consider material, may impair our business. If any of the risks discussed below actually occur, our business, financial condition, operating results or cash flows could be materially adversely affected. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks we face as described below and elsewhere in this Quarterly Report on Form 10-Q. If any of the following risks occur, our business, financial condition, results of operations and future growth prospects could be materially and adversely affected. In these circumstances, the market price of our common stock could decline. Other events that we do not currently anticipate or that we currently deem immaterial may also affect our business, prospects, financial condition and results of operations.

Risks Related to Our Business

Risks Related to Our Limited Operating History, Financial Position and Need for Additional Capital

We have incurred significant losses since inception, and anticipate that we will expect to incur continued significant losses for the foreseeable future and may not be able to achieve or sustain profitability in the future. We have no products for sale, have not generated any product revenue and may never generate product revenue or become profitable.

Investment in biotechnology product development is a highly speculative undertaking and entails substantial upfront expenditures and significant risks that any program will fail to demonstrate adequate efficacy or an acceptable safety profile, gain regulatory approval and become commercially viable. We have no products approved for commercial sale nor have we generated any revenue from product sales to date and we continue to incur significant research and development and other expenses related to our ongoing operations. We do not expect to generate product revenue unless or until it successfully completes clinical development and obtains regulatory approval of, and then successfully commercializes, at least one product candidate. We may never succeed in these activities and, even if it does, may never generate product revenue or revenues that are significant or large enough to achieve profitability. If we are unable to achieve and sustain profitability, generate sufficient revenue through the market value sale of our common stock will likely decline. We any approved products, it may never achieve or maintain profitability. be unable to continue operations without additional funding.

We are a clinical-stage genetic medicines company with a limited operating history. Since inception, we have incurred significant recurring operating losses. losses since inception. Our net loss for the nine three months ended September 30, 2023 March 31, 2023 was $96.8 million. As of September 30, 2023, we had an accumulated deficit of approximately $526.0 million $6.8 million. On March 10, 2022 March 25, 2024, we Legacy Q32 closed our the Merger with Homology and as part of that transaction, with OXB Solutions and recorded a gain of $131.2 million on $15.9 million due to the sale change in fair value prior to the conversion of our manufacturing business the Legacy Q32 Convertible Notes which resulted in net income of $29.3 million $1.0 million for the nine three months ended September 30, 2022 (see Note 5 to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information regarding the OXB Solutions Transaction) March 31, 2024. In addition, we have not commercialized any products and have never generated any revenue from product sales. We have historically devoted most of our financial resources to research and development, including our preclinical development activities.

In July 2023, we completed a review of our business and our Board of Directors approved a plan to explore, review and evaluate a range of potential strategic options available to us, including, without limitation, an acquisition, merger, reverse merger, sale of assets, strategic partnerships or other transactions. Based on the current financing environment and our anticipated clinical development timeline, we stopped further development of our programs and reduced our workforce by 86% to significantly reduce our ongoing operating costs as we evaluate strategic alternatives.

We have incurred and expect to continue to incur costs and expenditures in connection with our process of evaluating our strategic alternatives and we will continue to incur costs associated with operating as a public company. The process of continuing to evaluate strategic transactions may be costly, time-consuming and complex, and we may incur significant costs related to these processes, such as legal, accounting and advisory fees and expenses and other related charges. A considerable portion of these costs will be incurred regardless of whether any particular course of action is implemented or transaction is completed. Any such expenses will decrease the remaining cash available for use in our business.

Should we resume development of our product candidates, we would expect to continue to incur significant additional operating losses for the foreseeable future. Our operating expenses and net losses may fluctuate significantly from quarter to quarter and year to year. We anticipate that our expenses will increase substantially if and as we:

- advance our existing and future as we seek to advance product candidates programs through preclinical and clinical development, expand our research and developm

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associated with genetic medicines product development, we are unable to accurately predict the timing or amount of increased expenses or when, or if, we will be abl

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Furthermore, should In addition, our expenses will increase if, among other things,

Even if we obtain marketing approval for, and license our products and generate pr

As a result, we expect to continue incur substantial additional research and de

Our failure to become profitable would decrease our value and could impair our abi

We will require substantial additional capital to finance our operations in the future. If we are unable to raise such capital when needed, or on acceptable t

Developing biotechnology products is a very long, time-consuming, expensive and affected. commercialization of any product candidate we develop. Our future capital requirements depend on many factors, including factors that are not within our cor

Any financial We will also incur additional costs associated with operating as a publ

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Adequate additional financing may not be available to us to relinquish rights to our t

Until such time, if ever, as we can generate substantial revenue, at all, and we

management from our day-to-day activities, which may adversely affect our bu

to develop and market ourselves.

Our decision to discontinue further program development efforts may not result volatility in the anticipated savings for credit and financial markets in the

In connection with our decision to pursue strategic alternatives and reduce our

We will require additional capital to fund our operations, and if we fail to obtain necessary financing, we may not be able to complete the development and

We will require additional capital, worldwide, over which we may raise through

Based on our current projections, we believe that our existing cash, cash equiv

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resume development of our product candidates, our future funding requirements, both near and long-term, would depend on many factors, including, but not limited to

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We maintain the majority of our cash and cash equivalents in accounts with ma

We cannot be certain that additional funding will be available on acceptable ter

We have a limited operating history and have no history of commercializing genetic medicine products approved for commercial sale, which may make it

We were established are a clinical-stage biotechnology company with limited operat

predictions made about our future success or viability may not be as accurate as they could be if we had a longer operating history.

In addition, as our business grows, we may encounter unforeseen expenses, restric

Risks Related to Discovery, Development and Commercialization

We face competition from entities that have developed or may develop programs for the diseases it plans to address with bempikibart, ADX-097 or other p

The development and commercialization of drugs and biologics is highly competitiv

Our competitors have developed, are developing or may develop programs and pro

Bempikibart, ADX-097 and our pipeline are in early stages of development and may fail in development or suffer delays that materially and adversely affec

We have no products on the market and bempikibart, ADX-097 and our pipeline are

In addition, as a business with a limited operating history, we may encounter u

We expect our financial condition and operating results may fluctuate significa

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Should we resume development of our product candidates, we would be heavily dependent on the success of our product candidates, and if none of our c

We have historically invested a significant portion of our efforts and financial re

Even if we receive approval to market any product candidate from the FDA or

We have not submitted a BLA to the FDA or comparable applications to other

If any of our product candidates shows unexpected adverse events or a lack o

We may not be successful in our efforts to identify additional product candidates.

Historically, part of our strategy has involved, and to the extent such activities a

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In addition, should we resume development of our product candidates, we may

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products or profitable market opportunities, be required to forego or delay pursuit of opportunities with other product candidates or other diseases that may later prove

We may be required to make significant payments in connection with our license agreement with the City of Hope.

Under our license agreement with COH, we are subject to significant obligation

Risks Related to Discovery, Development, Clinical Testing, Manufacturing and Regulatory Approval

Should we resume development our of product candidates, we intend to identify or an existing or future collaborator must conduct extensive preclinical te

We have historically concentrated our research and development efforts on o
unique ability of our AAVHSCs to efficiently target multiple tissues in the body. The mechanism of action by which these vectors target particular tissues is still not com
problems we experience in the future related to our genetic medicines platform or any of our research programs will not cause significant delays or unanticipated costs

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Because gene therapy and gene editing are novel and the regulatory landscape that governs any product candidates we may develop is uncertain and cor

Regulatory requirements governing products created with genome editing tec

Additionally, under NIH Guidelines supervision of human gene transfer trials i

In the European Union, or EU, the European Medicines Agency, or EMA, has a
Although these guidelines are not legally binding, we believe that our compliance with them is likely necessary to gain and maintain approval for any of our product ca

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The clinical trial requirements of the FDA, the EMA and other regulatory autho

We or more extensively studied product candidates and technologies. Since we are

Changes in applicable regulatory guidelines may lengthen the regulatory revie

Should we resume development of our product candidates, we would be requi

Clinical trials are expensive, time-consuming, difficult to design and implement, and involve an uncertain outcome.

Clinical testing is expensive and can take many years to complete, and its outc

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We expect to will continue to incur additional costs and increased demands upon management as a result of operating as a complying with the laws and re

As a public company, we have incurred and expect to We will continue to incur sign
director and officer liability insurance, which in turn company, could also make it more difficult for us to attract and retain qualified members of our persons to serve on

Once we are no longer a smaller reporting company or otherwise no longer qualify for applicable exemptions, we will be subject to additional laws and reg

We continue to evaluate these rules and regulations, and cannot predict or estimate

Pursuant requirements. As an emerging growth company, Homology took adva

internal control over financial reporting, which has been both costly and challenging. We will need to continue to dedicate internal resources, engage outside consultan

There can be no assurance that we will be are not able to comply with the continued listing standards of Nasdaq.

If we fail to satisfy Nasdaq's continued listing requirements Nasdaq may take s

In the future, we may engage in acquisitions that could disrupt our business, cause dilution to our stockholders or reduce our financial resources.

In the future, we may enter into transactions to acquire other businesses, prod

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Unstable global political or economic conditions may have serious adverse consequences on our business, financial condition and share price.

The global economy, including credit and financial markets, has recently exper

regulatory authorities, which would require additional financial and management resources.

If we fail to maintain proper and effective internal controls, our ability to produce accurate financial statements on a timely basis could be impaired.

Provided we continue to be listed on Nasdaq, we will be subject to the reporting req

We may discover weaknesses in our system of internal financial and accounting co

If we are exposed not able to fluctuations comply with the requirements of Section 4

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the market price of our common stock could decline and we could be subject to sanctions or investigations by Nasdaq, the SEC or other regulatory authorities.

Legacy Q32 and its independent registered public accounting firm have identified a material weakness in inflation, which could negatively affect our busin

The United States has recently experienced historically high levels of inflation.

In preparation of its consolidated financial condition statements to meet the requirer

The increasing focus on environmental sustainability material weakness identified r

There We are implementing measures designed to improve internal controls over fi

We cannot assure you that the measures we have taken to date, and actions we m

affected, we may experience increased costs be unable to maintain compliance with securities law requirements regarding timely filing of periodic reports in order addi

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Item 2. Unregistered Sales of Equity Equity Securities and Use of Proceeds, and Issuer Purchases of Equity Securities. Proceeds.

Not applicable. On November 16, 2023, Legacy Q32 entered into a subscription agr

Item 3. Defaults Upon Senior Securities.

Not applicable. None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

a)

b)

92 No Rule 10b5-1 plans or non-Rule 10b5-1 trading arrangements were

adopted, modified, or terminated

c)

directors, during the quarter ended March 31, 2024.

Item 6. Exhibits. Exhibits.

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of Homology Medicines, Inc.
3.2	Amended and Restated Bylaws of Homology Medicines, Inc.
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, a
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
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-
101.INS	Inline XBRL Instance Document- the Instance Document does not appear in the interactive data file because its XBRL tags are emb
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

Exhibit

Number
2.1+
3.1
3.2
3.3
3.4
10.1+
10.2+
10.3
10.4
10.5#
10.6#
10.7#
10.8#
10.9#
10.10#
10.11#
10.12#
10.13#
10.14#
10.15+
31.1*
31.2*
32.1*
32.2*

101.INS
101.SCH
104

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* Filed herewith.

** Furnished herewith. # Indicates a management contract or any compensatory plan, contract or arrangement.

+ Annexes, schedules and exhibits have been omitted pursuant to Item 601(b)(2) or 601(a)(5), as applicable, of Regulation S-K. The registrant agrees to furnish suppl

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Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant

Date: November 14, 2023 May 9, 2024

Date: November 14, 2023 May 9, 2024

95

I, Albert Seymour, Ph.D., Jodie Morrison, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Homology Medicines, Q32 E

2. Based on my knowledge, this report does not contain any untrue statement of a ma

3. Based on my knowledge, the financial statements, and other financial information ir

4. The registrant's registrant's other certifying officer(s) and I are responsible for estab

   (a) Designed such disclosure controls and procedures, or caused such disclo

   (b) Designed such internal control over financial reporting, or caused such int

   (c) Evaluated the effectiveness of the registrant's registrant's disclosure contro

   (d) Disclosed in this report any change in the registrant's registrant's internal c

5. The registrant's registrant's other certifying officer(s) and I have disclosed, based or

   (a) All significant deficiencies and material weaknesses in the design or opera

   (b) Any fraud, whether or not material, that involves management or other em

Date: November 14, 2023 May 9, 2024

I, W. Bradford Smith, Lee Kalowski, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Homology Medicines, Q32 E

2. Based on my knowledge, this report does not contain any untrue statement of a ma

3. Based on my knowledge, the financial statements, and other financial information ir

4. The registrant's registrant's other certifying officer(s) and I are responsible for estab

   (a) Designed such disclosure controls and procedures, or caused such disclos

   (b) Designed such internal control over financial reporting, or caused such inte

   (c) Evaluated the effectiveness of the registrant's registrant's disclosure contro

   (d) Disclosed in this report any change in the registrant's registrant's internal c

5. The registrant's registrant's other certifying officer(s) and I have disclosed, based or

   (a) All significant deficiencies and material weaknesses in the design or opera

   (b) Any fraud, whether or not material, that involves management or other em

Date: November 14, 2023 May 9, 2024

I, Albert Seymour, Ph.D., Jodie Morrison, Chief Executive Officer of Homology Medicines, Q32 Bio, Inc. (the "Company"), hereby certify, pursuant to 18 U.S.C. §1350,

(1) The Quarterly Report on Form 10-Q of the Company for the period ended

(2) The information contained in the Report fairly presents, in all material resp

November 14, 2023 May 9, 2024

I, W. Bradford Smith, Lee Kalowski, Chief Financial and Business Officer of Homology Medicines, Q32 Bio, Inc. (the “Company”), hereby certify, pursuant to 18 U.S.C.

(1) The Quarterly Report on Form 10-Q of the Company for the period ended

(2) The information contained in the Report fairly presents, in all material resp

November 14, 2023 May 9, 2024