
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2020

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: 001-38670

Entasis Therapeutics Holdings Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

82-4592913
(I.R.S. Employer
Identification No.)

**35 Gatehouse Drive
Waltham, MA 02451
(781) 810-0120**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

Title of each class:	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value	ETTX	The Nasdaq Global Market

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

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

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

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

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

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

As of July 31, 2020, the registrant had 27,291,563 shares of common stock, \$0.001 par value per share, outstanding.

ENTASIS THERAPEUTICS HOLDINGS INC.
QUARTERLY REPORT ON FORM 10-Q

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act. All statements other than statements of historical fact are “forward-looking statements” for purposes of this Quarterly Report on Form 10-Q. In some cases, you can identify forward-looking statements by terminology such as “anticipate,” “believe,” “could,” “estimate,” “expects,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “continue,” “should,” “will,” “would” or the negative or plural of those terms, and similar expressions. These statements relate to our future plans, objectives, expectations, intentions and financial performance and the assumptions that underlie these statements. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. You should read these statements carefully because they discuss future expectations, contain projections of future results of operations or financial condition, or state other “forward-looking” information.

Forward-looking statements include, but are not limited to, statements about:

- the severity and duration of the impact of the COVID-19 pandemic on our business, development programs and access to capital;
- the timing of execution of planned clinical trials and availability of data from our clinical trials;
- our expectation that the efficacy and safety data from our planned and ongoing Phase 3 registration trials, if positive, will be sufficient to support submission of a new drug application, or NDA to the Food and Drug Administration, or FDA;
- our ability to obtain grants or other government funding to develop our product candidates;
- our ability to take advantage of benefits offered by current and pending legislation related to the development of products addressing antimicrobial resistance;
- the timing of and our ability to file, obtain and maintain our planned regulatory filings;
- the clinical utility of our product candidates and their potential advantages compared to other treatments;
- our commercialization, marketing and distribution capabilities and strategy;
- our ability to establish and maintain arrangements for the manufacture of our product candidates;
- our ability to establish and maintain collaborations and to recognize the potential benefits of such collaborations;
- our estimates regarding the market opportunities for our product candidates;
- our intellectual property position and the duration of our patent rights;
- our estimates regarding anticipated operating losses, needs for additional funds and capital requirements;
- political, social and economic instability, natural disasters or public health epidemics in countries where we or our collaborators do business;
- our ability to raise additional capital when needed and to continue as a going concern;
- the substantial influence and control that Innoviva Inc. may exert on actions requiring stockholder vote; and
- our estimated needs for, and ability to secure additional financing.

Factors that may cause actual results to differ materially from current expectations include, among other things, those set forth in Part I, Item 1A, “Risk Factors,” in our most recent Annual Report on Form 10-K and those set forth in Part II, Item 1A, “Risk Factors” in this Quarterly Report on Form 10-Q. Any forward-looking statement in this Quarterly Report on Form 10-Q reflects our current view with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, industry and future growth. Given these uncertainties, you should not rely on these forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by law, we assume no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future.

In this Quarterly Report on Form 10-Q, unless otherwise stated or as the context otherwise requires, references to “Entasis,” “the Company,” “we,” “us,” “our” and similar references refer to Entasis Therapeutics Holdings Inc. and its wholly owned subsidiaries. The trademarks, trade names and service marks appearing in this Quarterly Report are the property of their respective owners.

PART I. FINANCIAL INFORMATION**Item 1. Consolidated Financial Statements****ENTASIS THERAPEUTICS HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
UNAUDITED
(in thousands, except share and per-share data)**

	June 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 50,771	\$ 16,034
Short-term investments	—	24,962
Grants receivable	241	1,232
Prepaid expenses	2,611	4,560
Other current assets	1,124	2,218
Total current assets	54,747	49,006
Property and equipment, net	267	345
Operating lease right-of-use assets	1,387	1,620
Other assets	63	63
Total assets	<u>\$ 56,464</u>	<u>\$ 51,034</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,596	\$ 1,304
Accrued expenses and other current liabilities	4,561	6,252
Total current liabilities	6,157	7,556
Operating lease liabilities, net of current portion	1,020	1,321
Total liabilities	<u>7,177</u>	<u>8,877</u>
Commitments (Notes 5 and 11)		
Stockholders' equity:		
Common stock, par value \$0.001; 125,000,000 shares authorized and 27,291,563 and 13,291,563 shares issued and outstanding as of June 30, 2020 and December 31, 2019, respectively	27	13
Additional paid-in capital	211,881	176,103
Accumulated other comprehensive income	—	—
Accumulated deficit	(162,621)	(133,959)
Total stockholders' equity	49,287	42,157
Total liabilities and stockholders' equity	<u>\$ 56,464</u>	<u>\$ 51,034</u>

See accompanying notes to these unaudited consolidated financial statements.

ENTASIS THERAPEUTICS HOLDINGS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
UNAUDITED
(in thousands, except share and per share data)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Operating expenses:				
Research and development	\$ 10,239	\$ 10,677	\$ 21,862	\$ 21,679
General and administrative	3,241	3,421	7,021	6,609
Total operating expenses	<u>13,480</u>	<u>14,098</u>	<u>28,883</u>	<u>28,288</u>
Loss from operations	<u>(13,480)</u>	<u>(14,098)</u>	<u>(28,883)</u>	<u>(28,288)</u>
Other income:				
Grant income	48	372	62	1,201
Interest income	36	417	159	908
Total other income	<u>84</u>	<u>789</u>	<u>221</u>	<u>2,109</u>
Loss before income taxes	<u>(13,396)</u>	<u>(13,309)</u>	<u>(28,662)</u>	<u>(26,179)</u>
Provision for income taxes	—	73	—	144
Net loss	<u>\$ (13,396)</u>	<u>\$ (13,382)</u>	<u>\$ (28,662)</u>	<u>\$ (26,323)</u>
Net loss per share—basic and diluted	<u>\$ (0.78)</u>	<u>\$ (1.02)</u>	<u>\$ (1.89)</u>	<u>\$ (2.00)</u>
Weighted average common stock outstanding—basic and diluted	<u>17,095,140</u>	<u>13,131,291</u>	<u>15,193,351</u>	<u>13,128,956</u>

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Other comprehensive loss:				
Net loss	\$ (13,396)	\$ (13,382)	\$ (28,662)	\$ (26,323)
Net unrealized gain (loss) on investments held	<u>(28)</u>	<u>20</u>	<u>—</u>	<u>63</u>
Comprehensive loss	<u>\$ (13,424)</u>	<u>\$ (13,362)</u>	<u>\$ (28,662)</u>	<u>\$ (26,260)</u>

See accompanying notes to these unaudited consolidated financial statements.

ENTASIS THERAPEUTICS HOLDINGS INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
UNAUDITED
(in thousands, except share data)

Three Months Ended June 30, 2020	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balances as of March 31, 2020	13,291,563	\$ 13	\$ 176,888	\$ 28	\$ (149,225)	\$ 27,704
Stock-based compensation expense	—	—	750	—	—	750
Issuance of common stock in Private Placement, net of issuance costs	14,000,000	14	34,243	—	—	34,257
Unrealized loss on investments held	—	—	—	(28)	—	(28)
Net loss	—	—	—	—	(13,396)	(13,396)
Balances as of June 30, 2020	<u>27,291,563</u>	<u>\$ 27</u>	<u>\$ 211,881</u>	<u>\$ —</u>	<u>\$ (162,621)</u>	<u>\$ 49,287</u>

Six Months Ended June 30, 2020	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balances as of December 31, 2019	13,291,563	\$ 13	\$ 176,103	\$ —	\$ (133,959)	\$ 42,157
Stock-based compensation expense	—	—	1,535	—	—	1,535
Issuance of common stock in Private Placement, net of issuance costs	14,000,000	14	34,243	—	—	34,257
Net loss	—	—	—	—	(28,662)	(28,662)
Balances as of June 30, 2020	<u>27,291,563</u>	<u>\$ 27</u>	<u>\$ 211,881</u>	<u>\$ —</u>	<u>\$ (162,621)</u>	<u>\$ 49,287</u>

See accompanying notes to these unaudited consolidated financial statements.

ENTASIS THERAPEUTICS HOLDINGS INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
UNAUDITED
(in thousands, except share data)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Three Months Ended June 30, 2019						
Balances as of March 31, 2019	13,127,128	\$ 13	\$ 173,577	\$ 34	\$ (103,050)	\$ 70,574
Stock-based compensation expense	—	—	599	—	—	599
Exercise of stock options	7,410	—	29	—	—	29
Unrealized gain on investments held	—	—	—	20	—	20
Net loss	—	—	—	—	(13,382)	(13,382)
Balances as of June 30, 2019	<u>13,134,538</u>	<u>\$ 13</u>	<u>\$ 174,205</u>	<u>\$ 54</u>	<u>\$ (116,432)</u>	<u>\$ 57,840</u>

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Six Months Ended June 30, 2019						
Balances as of December 31, 2018	13,124,842	\$ 13	\$ 172,988	\$ (9)	\$ (90,109)	\$ 82,883
Stock-based compensation expense	—	—	1,177	—	—	1,177
Exercise of stock options	9,696	—	40	—	—	40
Unrealized gain on investments held	—	—	—	63	—	63
Net loss	—	—	—	—	(26,323)	(26,323)
Balances as of June 30, 2019	<u>13,134,538</u>	<u>\$ 13</u>	<u>\$ 174,205</u>	<u>\$ 54</u>	<u>\$ (116,432)</u>	<u>\$ 57,840</u>

See accompanying notes to these unaudited consolidated financial statements.

ENTASIS THERAPEUTICS HOLDINGS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED
(in thousands)

	Six Months Ended June 30,	
	2020	2019
Cash flows from operating activities:		
Net loss	\$ (28,662)	\$ (26,323)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	76	77
Stock-based compensation expense	1,535	1,177
Amortization and accretion of investments	(38)	(431)
Changes in operating assets and liabilities:		
Grants receivable	991	492
Prepaid expenses	1,949	(1,420)
Other assets	1,347	(1,983)
Accounts payable	230	(632)
Accrued expenses and other liabilities	(1,992)	3,252
Deferred rent	—	(175)
Net cash used in operating activities	<u>(24,564)</u>	<u>(25,966)</u>
Cash flows from investing activities:		
Purchases of property and equipment	—	(37)
Proceeds from maturities of short-term investments	25,000	7,000
Purchases of short-term investments	—	(25,050)
Net cash provided by (used in) investing activities	<u>25,000</u>	<u>(18,087)</u>
Cash flows from financing activities:		
Proceeds from the issuance of common stock in Private Placement, net	34,301	—
Proceeds from exercise of stock options	—	40
Payments of initial public offering costs	—	(150)
Net cash provided by (used in) financing activities	<u>34,301</u>	<u>(110)</u>
Net increase (decrease) in cash and cash equivalents	<u>34,737</u>	<u>(44,163)</u>
Cash and cash equivalents at beginning of the period	16,034	49,360
Cash and cash equivalents at end of the period	<u>\$ 50,771</u>	<u>\$ 5,197</u>
Supplemental disclosure of non-cash investing and financing activities:		
Financing costs included in accrued expenses and other current liabilities	\$ 61	\$ —

See accompanying notes to these unaudited consolidated financial statements.

ENTASIS THERAPEUTICS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED

1. Organization and Description of Business

Entasis Therapeutics Holdings Inc., or Entasis, or the Company, is an advanced clinical-stage biopharmaceutical company focused on the discovery, development and commercialization of novel antibacterial products to treat serious infections caused by multidrug-resistant Gram-negative bacteria. The Company has four subsidiaries: Entasis Therapeutics Limited; Entasis Therapeutics Inc.; Entasis Therapeutics Security Corporation; and Entasis Therapeutics (Ireland) Limited.

The Company was initially formed as Entasis Therapeutics Limited, or Entasis Limited, on March 6, 2015 in the United Kingdom, or the U.K., as a wholly owned subsidiary of AstraZeneca AB, or AstraZeneca. Entasis was ultimately spun out from AstraZeneca in May 2015. In March 2018, as part of a corporate reorganization, Entasis Limited formed Entasis Therapeutics Holdings Inc., a Delaware corporation, which became the sole shareholder of Entasis Limited. Upon the completion of a reorganization on April 23, 2018, the historical consolidated financial statements of Entasis Limited became the historical consolidated financial statements of Entasis Therapeutics Holdings Inc. On September 28, 2018, the Company completed an initial public offering of its common stock, in which the Company issued and sold 5,000,000 shares of common stock at a price to the public of \$15.00 per share. The aggregate net proceeds to the Company from the initial public offering were approximately \$65.6 million after deducting underwriting discounts and commissions and offering expenses paid by the Company. Upon the completion of the Company's initial public offering, all of the outstanding shares of redeemable convertible preferred stock of the Company, including accrued dividends, automatically converted into 8,084,414 shares of the Company's common stock.

On April 12, 2020, the Company entered into a securities purchase agreement, or the Securities Purchase Agreement, with Innoviva, pursuant to which the Company issued and sold to Innoviva, in a private placement under the applicable Nasdaq Stock Market LLC, or Nasdaq, rules 14,000,000 newly issued shares of common stock, par value \$0.001 per share, of the Company at \$2.50 per share, and warrants to purchase up to 14,000,000 shares of common stock, par value \$0.001 per share, with an exercise price per share of \$2.50, collectively the Private Placement.

Under the Securities Purchase Agreement, the Private Placement occurred in two tranches. At the closing of the first tranche, or the First Closing, which occurred on April 22, 2020, Innoviva purchased 1,322,510 shares of common stock and warrants to purchase 1,322,510 shares of common stock, for an aggregate gross purchase price of approximately \$3.3 million. At the closing of the second tranche, or the Second Closing, which occurred on June 11, 2020, Innoviva purchased the remaining 12,677,490 shares of common stock and warrants to purchase 12,677,490 shares of the common stock for an aggregate gross purchase price of approximately \$31.7 million.

As a result of the Second Closing, Innoviva acquired control of the Company, owning approximately 51.3% of the Company's common stock without the exercise of the warrants. If Innoviva exercises the warrants in their entirety, it will own approximately 67.8% of the Company's common stock.

Going Concern

Since its inception, the Company has incurred recurring net losses and negative cash flows from its operations. The Company has financed its operations primarily with proceeds from the sale of redeemable convertible preferred stock and the sale of its common stock. As of June 30, 2020, the Company had cash and cash equivalents of \$50.8 million.

The Company follows the provisions of Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 205-40, *Presentation of Financial Statements — Going Concern*, or ASC 205-40, which requires management to assess the Company's ability to continue as a going concern for one year after the date the consolidated financial statements are issued. The Company expects to seek additional funding to sustain its future operations and while the Company has successfully raised capital in the past, the ability to raise capital in future

ENTASIS THERAPEUTICS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED

periods is not assured. If the Company is not able to secure adequate additional funding in future periods, the Company may make reductions in certain expenditures. This may include suspending or curtailing planned programs. The Company may also have to delay, reduce the scope of, suspend or eliminate one or more research and development programs or its commercialization efforts.

As a result, based on the Company's available cash resources management has concluded that substantial doubt exists about the Company's ability to continue as a going concern for one year from the date these financial statements are issued. A failure to raise the additional funding or to effectively implement cost reductions could harm the Company's business, results of operations and future prospects. The Company expects that its existing cash and cash equivalents as of June 30, 2020 will be sufficient to enable the Company to fund its operating expenses and capital expenditure requirements into the second quarter of 2021. The consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates continuity of operations, the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Risks and Uncertainties

As a clinical-stage company, Entasis is subject to a number of risks common to other life science companies, including, but not limited to, raising additional capital, development by its competitors of new technological innovations, risk of failure in preclinical and clinical studies, safety and efficacy of its product candidates in clinical trials, the risk of relying on external parties such as contract research organizations and contract manufacturing organizations, the regulatory approval process, market acceptance of the Company's products once approved, lack of marketing and sales history, dependence on key personnel and protection of proprietary technology. The Company's therapeutic programs are currently pre-commercial, spanning discovery through late-stage development and will require additional research and development efforts, including the completion of Phase 3 registration trials and regulatory approval, prior to commercialization of any product candidates. These efforts require significant amounts of additional capital, adequate personnel, infrastructure, and extensive compliance-reporting capabilities. There can be no assurance that the Company's research and development will be successfully completed, that adequate protection for the Company's intellectual property will be obtained, that any products developed will obtain necessary regulatory approval or that any approved products will be commercially viable. Even if the Company's product development efforts are successful, it is uncertain when, if ever, the Company will generate revenue from product sales. The Company may never achieve profitability, and unless and until it does, it will continue to need to raise additional capital or obtain financing from other sources, such as strategic collaborations or partnerships.

The COVID-19 pandemic has, and will likely continue to have, a significant impact on the U.S. economy and businesses. The social distancing and stay-at-home orders issued by national, state and local governments have resulted in closures of offices and factories and disrupted supply chains. The pandemic also has taxed healthcare systems both in the U.S. and around the world, resulting in disruption to or temporary suspension of clinical trials. The nature, extent and duration of the COVID-19 pandemic remains uncertain and the time needed for businesses and healthcare systems to recover remains unknown. The full impact of the pandemic on the economy, including the capital markets, also remains unknown. The continuation of prolonged adverse economic conditions (including due to any resurgence or second wave of COVID-19 infections) could limit the Company's access to financial resources from the capital markets and other sources. It is not possible to predict the full impact of the COVID-19 pandemic on the Company's business and access to capital in the future. As a result of these events, the timelines for completion of the Company's clinical trials and progression of its earlier-stage development programs cannot be accurately estimated. The Company will continue to closely monitor and evaluate the nature and extent of the impact of COVID-19 to its business, consolidated results of operations, and financial condition.

ENTASIS THERAPEUTICS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED

2. Summary of Significant Accounting Policies

Significant Accounting Policies

The Company's significant accounting policies are disclosed in the audited consolidated financial statements for the year ended December 31, 2019 and the notes thereto, which are included in the Company's most recent Annual Report on Form 10-K. Since the date of those consolidated financial statements, there have been no material changes to its significant accounting policies, except as it relates to net loss per share as discussed below.

Basic and Diluted Net Loss per Share

Net earnings or loss per share, or EPS, is calculated in accordance with the applicable accounting guidance provided in ASC 260, *Earnings per Share*. The Company uses the two-class method for the computation and presentation of net income (loss) per common share. The two-class method is an earnings allocation formula that calculates basic and diluted net income (loss) per common share for each class of common stock separately based on dividends declared and participation rights in undistributed earnings as if all such earnings had been distributed during the period. Under the two-class method, warrants issued to Innoviva, Inc., or Innoviva, in connection with the Private Placement (defined in Note 9, *Stockholders' Equity and Stock Based Compensation Expense*, to these notes to consolidated financial statements) are assumed to participate in undistributed earnings on an as-exercised basis, in accordance with the warrant agreement. Undistributed net losses are allocated entirely to common shareholders since the participating security has no contractual obligation to share in the losses.

Basic net income (loss) per share is computed by dividing the net income (loss) by the weighted average number of shares of common stock outstanding for the period. Diluted net income (loss) is computed by adjusting net income (loss) to reallocate undistributed earnings based on the potential impact of dilutive securities. Diluted net income (loss) per share is computed by dividing the diluted net income (loss) by the weighted average number of common shares outstanding for the period, including potential dilutive common shares assuming the dilutive effect of common stock equivalents.

Basis of Presentation and Consolidation

The accompanying consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP, and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X. The December 31, 2019 consolidated balance sheet was derived from audited consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements, which are contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, filed with the Securities and Exchange Commission, or SEC, on March 11, 2020. The interim consolidated financial statements have been prepared on the same basis as the annual audited consolidated financial statements and, in the opinion of management, reflect all normal and recurring adjustments necessary for a fair statement of the Company's financial position and results of operations.

The accompanying consolidated financial statements include the Company's accounts and those of the Company's wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The results for the six months ended June 30, 2020 are not necessarily indicative of the results to be expected for the year ending December 31, 2020, any other interim periods, or any future year or period.

Use of Estimates

The preparation of the Company's consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, the

ENTASIS THERAPEUTICS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED

disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates and assumptions reflected in these consolidated financial statements include, but are not limited to, the recognition of revenue, and the recognition of certain development costs. Estimates are periodically reviewed in light of changes in circumstances, facts and experience. Changes in estimates are recorded in the period in which they become known. Actual results could differ from the Company's estimates.

Recently Adopted Accounting Pronouncements

Effective January 1, 2020, the Company adopted the requirements under the FASB ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which eliminates, adds and modifies certain disclosure requirements for fair value measurements. The adoption of the new guidance did not affect the Company's consolidated financial statements.

Effective January 1, 2020, the Company adopted the provisions of FASB ASU 2018-18, *Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606*. This update clarifies the interaction between Topic 808, Collaborative Arrangements, and Topic 606, *Revenue from Contracts with Customers*. The guidance is required to be applied retrospectively to the date of initial application of Topic 606 and entities should recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings of the later of the earliest annual period presented and the annual period that includes the date of the entity's initial application of Topic 606. The adoption of the new guidance did not affect the Company's consolidated financial statements and did not require an adjustment to the opening balance of retained earnings.

Recently Issued Accounting Pronouncements

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, or ASU 2019-12. The amendments in ASU 2019-12 are effective for fiscal years beginning after December 15, 2020, including interim periods therein. Early adoption of the standard is permitted. The Company does not anticipate that the adoption of ASU 2019-12 will have a material effect on the Company's consolidated financial statements.

3. Short-Term Investments

The following table summarizes the amortized cost and estimated fair value of the Company's marketable securities, which are considered to be available-for-sale investments and are included in short-term investments on the consolidated balance sheet as of December 31, 2019. The Company had no short-term investments as of June 30, 2020.

	<u>Amortized</u> <u>Cost</u>	<u>Unrealized</u> <u>Gains</u>	<u>Unrealized</u> <u>Losses</u>	<u>Fair Value</u>
	(in thousands)			
Balance as of December 31, 2019:				
U.S. Treasury securities	\$ 24,957	\$ 5	\$ —	\$ 24,962
Total	<u>\$ 24,957</u>	<u>\$ 5</u>	<u>\$ —</u>	<u>\$ 24,962</u>

Certain short-term debt securities with original maturities of less than 90 days are included in cash and cash equivalents on the consolidated balance sheets and are not included in the table above. As of December 31, 2019, all short-term investments had contractual maturities within one year.

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4. Fair Value of Financial Instruments

The following tables set forth the Company's assets that were accounted for at fair value on a recurring basis:

	June 30, 2020			
	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Cash equivalents:				
Money market funds	\$ 47,109	\$ —	\$ —	\$ 47,109
Total	<u>\$ 47,109</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 47,109</u>

	December 31, 2019			
	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Cash equivalents:				
Money market funds	\$ 13,949	\$ —	\$ —	\$ 13,949
Short-term investments:				
U.S. Treasury securities	24,962	—	—	24,962
Total	<u>\$ 38,911</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 38,911</u>

The Company classifies its money market funds and U.S. Treasury securities as Level 1 assets under the fair value hierarchy, as these assets have been valued using quoted market prices in active markets without any valuation adjustment.

The Company uses the carrying amounts of its cash equivalents, grants receivable, prepaid expenses, other current assets, accounts payable and accrued expenses and other current liabilities to approximate their fair value due to the short-term nature of these amounts.

5. Leases

The Company adopted FASB ASC 842, *Leases*, or ASC 842, on January 1, 2019. ASC 842 allows the Company to elect a package of practical expedients, which include: (i) an entity need not reassess whether any expired or existing contracts are or contain leases; (ii) an entity need not reassess the lease classification for any expired or existing leases; and (iii) an entity need not reassess any initial direct costs for any existing leases. Another practical expedient allows the Company to use hindsight in determining the lease term when considering lessee options to extend or terminate the lease and to purchase the underlying asset. The Company elected to utilize this package of practical expedients and elected not to use the hindsight methodology in its implementation of ASC 842.

The Company determined that it held one significant operating lease as of January 1, 2019, consisting of 20,062 square feet of office and laboratory space in Waltham, Massachusetts that expires in December 2022 pursuant to a May 2015 lease with AstraZeneca, or the AZ lease, as amended in February 2018. During the three months ended June 30, 2020 and 2019, the Company recorded lease expense of \$0.2 million related to this lease. During the six months ended June 30, 2020 and 2019, the Company recorded lease expense of \$0.3 million related to this lease. The Company has two additional operating leases that are included in its lease accounting which are not considered significant.

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In calculating the present value of future lease payments, the Company utilized its incremental borrowing rate based on the remaining lease term at the date of adoption. The AZ lease contains a renewal option that can extend the lease for three years. Because the Company is not reasonably certain to exercise this renewal option, the option is not considered in determining the lease term, and associated potential additional payments are excluded from lease payments. The Company elected to account for each lease component and its associated non-lease components as a single lease component and has allocated all of the contract consideration across lease components only. The Company has existing net leases in which the non-lease components (e.g., common area maintenance) are paid separately from rent based on actual costs incurred and therefore are not included in the operating lease right-of-use assets and lease liabilities and are reflected as an expense in the period incurred.

The following table summarizes the presentation of the Company's operating leases in its consolidated balance sheets (in thousands):

	<u>As of</u> <u>June 30, 2020</u>	<u>As of</u> <u>December 31, 2019</u>
Assets		
Operating lease right-of-use assets	\$ 1,387	\$ 1,620
Liabilities		
Operating lease liabilities, current	\$ 577	\$ 506
Operating lease liabilities, net of current portion	1,020	1,321
Total operating lease liabilities	<u>\$ 1,597</u>	<u>\$ 1,827</u>

The operating lease right-of-use assets and operating lease liabilities balances relate primarily to amounts associated with the AZ lease. Future minimum lease payments under non-cancelable leases as of June 30, 2020, were as detailed below (in thousands):

<u>Fiscal Year</u>	<u>As of</u> <u>June 30, 2020</u>
2020 (remaining 6 months)	\$ 348
2021	717
2022	737
2023	1
Total undiscounted lease payments	<u>1,803</u>
Less: imputed interest	<u>(206)</u>
Total operating lease liabilities	<u>\$ 1,597</u>

As of June 30, 2020, the weighted average remaining lease term was 2.5 years and the weighted-average incremental borrowing rate used to determine the operating lease right-of-use assets was 9.1%.

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6. Accrued Expenses and Other Current Liabilities

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

	June 30, 2020	December 31, 2019
Accrued compensation and benefits	\$ 2,021	\$ 2,490
Accrued contract manufacturing	732	1,550
Accrued clinical	545	606
Accrued professional services	393	530
Accrued research	172	275
Current portion of operating lease liabilities	577	506
Other	121	295
Total accrued expenses and other current liabilities	<u>\$ 4,561</u>	<u>\$ 6,252</u>

7. Funding Arrangements

NIH

In June 2020, the Company entered into a contract with the National Institute of Allergy and Infectious Diseases, or NIAID, part of the National Institutes of Health, or NIH, which is effective beginning July 1, 2020 and provides the Company with reimbursement of certain qualified expenses incurred. The initial award consists of approximately \$3.0 million, with the potential to increase up to \$15.5 million, and will be used to develop novel molecules from the Company's non- β -lactam inhibitor, or NBP, platform. Funding from the contract will support research towards developing molecules with expanded Gram-negative spectrum against antibiotic resistant bacterial pathogens including *E. coli*, *Acinetobacter*, *Pseudomonas* and *Klebsiella*. The contract will be accounted for consistent with the Company's Government Contracts and Grant Agreements accounting policy as disclosed in its Annual Report on Form 10-K filed with the SEC on March 11, 2020.

CARB-X

In March 2017 and October 2017, the Company entered into funding arrangements with the Trustees of Boston University to utilize funds from the U.S. government through the Combating Antibiotic Resistant Bacteria Biopharmaceutical Accelerator, or CARB-X, program, in support of the Company's ETX0282CPDP and ETX0462 programs. In June 2020 CARB-X exercised an option that resulted in an increase in the amount of specified research expenditures of the Company that could be covered from \$16.8 million to \$18.2 million from April 2017 through September 2021.

The Company recognized grant income in connection with the CARB-X agreements of \$48 thousand and \$0.4 million during the three months ended June 30, 2020 and 2019, respectively, and \$0.1 million and \$1.2 million during the six months ended June 30, 2020 and 2019, respectively. The Company received \$1.1 million and \$1.5 million of payments under the grants during the six months ended June 30, 2020 and 2019, respectively. As of June 30, 2020 and December 31, 2019, the Company's receivables for unreimbursed, eligible costs incurred under the CARB-X agreements totaled \$0.2 million and \$1.2 million, respectively.

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8. License and Collaboration Agreements

GARDP

In July 2017, the Company entered into a collaboration agreement with the Global Antibiotic Research and Development Partnership, or GARDP, for the development, manufacture and commercialization of the product candidate zoliflodacin in certain countries. Under the terms of the collaboration agreement, GARDP will use commercially reasonable endeavors to perform and fully fund the Phase 3 registration trial, including the manufacture and supply of the product candidate containing zoliflodacin, in uncomplicated gonorrhea. The Phase 3 registration trial was initiated in September 2019. In response to the COVID-19 pandemic, GARDP, with the Company's full agreement, had temporarily suspended patient enrollment and activation of new clinical trial sites. In July 2020, GARDP resumed patient enrollment into the Phase 3 registration trial at U.S. sites and activation of new clinical trial sites in ex-U.S. regions.

Zai Lab

In April 2018, the Company entered into a license and collaboration agreement with Zai Lab (Shanghai) Co., Ltd., or Zai Lab, pursuant to which Zai Lab licensed exclusive rights to durlobactam and sulbactam-durlobactam, or SUL-DUR, in the Asia-Pacific region, or the Zai Agreement. Under the terms of the Zai Agreement, Zai Lab will fund most of the Company's clinical trial costs in China for SUL-DUR, including all costs in China for the Company's Phase 3 registration trial of SUL-DUR, with the exception of Phase 3 patient drug supply. Zai Lab will conduct development activities and plan and obtain regulatory approval in a specified number of countries in the Asia-Pacific region beyond China after regulatory approval of a licensed product in China. Zai Lab is also solely responsible for commercializing licensed products in the Asia-Pacific region and will commercialize licensed products for which it has obtained regulatory approval. The Company is obligated to conduct specified development activities for the Asia-Pacific region. The Company is also obligated to supply Zai Lab with the licensed products for clinical development, although Zai Lab may take over manufacturing responsibilities for its own commercialization activities within a specified time period following the effective date of the Zai Agreement. Both parties are prohibited from developing and commercializing products in the Asia-Pacific region that would compete with the licensed products.

The Company received an upfront, non-refundable payment of \$5.0 million, milestone payments of \$7.0 million, research support funding of \$0.6 million and certain other reimbursable registration trial costs of \$2.6 million, less applicable taxes of \$2.0 million, from Zai Lab through June 30, 2020. During the six months ended June 30, 2020 and 2019, the Company recognized no revenue under the Zai Agreement. The Company is eligible to receive up to an aggregate of \$91.0 million in additional research and development support payments and development, regulatory and sales milestone payments related to SUL-DUR, imipenem and other combinations with the licensed products. In the event the China Food and Drug Administration requires a modification or supplement to the trial protocol, and the Company delays Zai Lab from proceeding with such modified protocol and subsequently obtaining regulatory approval for the pivotal study of SUL-DUR in China, then the future sales-based milestone payments that become due to the Company will be reduced by an agreed upon amount that increases with the length of the delay. Zai Lab will pay the Company a tiered royalty equal to a high-single digit to low-double digit percentage based on annual net sales of licensed products in the territory, subject to specified reductions for the market entry of competing products, loss of patent coverage of licensed products and for payments owed to third parties for additional rights necessary to commercialize licensed products in the territory.

The Company determined the \$5.0 million non-refundable upfront payment was the entire transaction price at the outset of the Zai Agreement. All other future potential milestone payments were excluded from the transaction price as they were fully constrained as the risk of significant reversal of revenue had not yet been resolved. At the outset of the Zai Agreement, the achievement of the future potential milestones was not within the Company's control and was subject to certain research and development success, regulatory approvals or commercial success and therefore carried

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significant uncertainty. The Company reevaluates the likelihood of achieving the future milestones at the end of each reporting period. Future development milestone revenue from the arrangement will be recognized as revenue in the period when it is no longer probable that revenue attributable to the milestone will result in a significant reversal of cumulative revenue. Payments received for research support and reimbursable clinical trial costs are recorded as an offset to research and development expense during the period in which the qualifying expenses are incurred.

The Company evaluated the Zai Agreement under Topic 606 and identified two material promises: (1) an exclusive license to develop, manufacture and commercialize products containing durlobactam or SUL-DUR in the territory and (2) the initial technology transfer of licensed know-how. The Company determined that the exclusive license and initial technology transfer were not distinct from one another, as the license has limited value without the transfer of the Company's technology and Zai Lab would incur additional costs to recreate the Company's know-how. Therefore, the license and initial technology transfer were combined as a single performance obligation.

9. Stockholders' Equity and Stock-Based Compensation Expense

Private Placement

On April 12, 2020, the Company entered into a securities purchase agreement, or the Securities Purchase Agreement, with Innoviva, pursuant to which the Company issued and sold to Innoviva, in a private placement under the applicable Nasdaq Stock Market LLC, or Nasdaq, rules 14,000,000 newly issued shares of common stock, par value \$0.001 per share, of the Company at \$2.50 per share, and warrants to purchase up to 14,000,000 shares of common stock, par value \$0.001 per share, with an exercise price per share of \$2.50, collectively the Private Placement.

Under the Securities Purchase Agreement, the Private Placement occurred in two tranches. At the closing of the first tranche, or the First Closing, which occurred on April 22, 2020, Innoviva purchased 1,322,510 shares of common stock and warrants to purchase 1,322,510 shares of common stock, for an aggregate gross purchase price of approximately \$3.3 million. At the closing of the second tranche, or the Second Closing, which occurred on June 11, 2020, Innoviva purchased the remaining 12,677,490 shares of common stock and warrants to purchase 12,677,490 shares of the common stock for an aggregate gross purchase price of approximately \$31.7 million.

As a result of the Second Closing, Innoviva acquired control of the Company, owning approximately 51.3% of the Company's common stock without the exercise of the warrants. If Innoviva exercises the warrants in their entirety, it will own approximately 67.8% of the Company's common stock.

Investor Rights Agreement

At the First Closing, Innoviva and the Company entered into an investors rights agreement, or the Investor Rights Agreement, which provides that for so long as Innoviva and its affiliates hold at least 15% of the outstanding shares of the Company's common stock on a fully-diluted basis, Innoviva shall have the right to designate two directors to the board of directors of the Company, or the Board; and for so long as Innoviva and its affiliates hold at least 8% of the outstanding shares of the Company's common stock on a fully-diluted basis, Innoviva shall have the right to designate one director to the Board, subject to certain qualifications and conditions in the Investor Rights Agreement. The Investor Rights Agreement also provides for participation rights for Innoviva to participate pro rata in future offerings of securities by the Company.

Registration Rights Agreements

At the First Closing, the Company and Innoviva entered into a registration rights agreement, or the Registration Rights Agreement, pursuant to which, among other things, the Company must prepare and file with the SEC a registration statement with respect to resales of the shares of common stock and the warrants purchased by Innoviva

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under the Securities Purchase Agreement within 30 days of the First Closing. Innoviva and the Company subsequently signed a waiver to this agreement allowing the Company to file a registration statement with the SEC no later than August 31, 2020.

Warrants

The Company reviewed the authoritative accounting guidance and determined that the warrants meet the criteria to be accounted for as permanent equity. As of June 30, 2020, outstanding warrants to purchase shares of the Company's common stock are as follows:

Shares Underlying Outstanding Warrants	Exercise Price	Expiration Date
1,322,510	\$ 2.50	April 22, 2025
12,677,490	\$ 2.50	June 11, 2025
<u>14,000,000</u>		

Aspire Common Stock Purchase Agreement

In October 2019, the Company entered into a common stock purchase agreement, or CSPA, with Aspire Capital Fund, LLC, or Aspire, which provided that, upon the terms and subject to the conditions and limitations set forth therein, Aspire is committed to purchase up to an aggregate of \$20.0 million of shares of the Company's common stock over the 30-month term of the CSPA. Under the CSPA, on any trading day selected by the Company on which the closing price of its common stock is equal to or greater than \$0.25 per share, the Company has the right, in its sole discretion, to present Aspire with a purchase notice directing Aspire to purchase up to 50,000 shares of common stock per business day, at a purchase price equal to the lesser of the lowest sale price of common stock on the purchase date, or the arithmetic average of the three lowest closing sale prices during the 10 consecutive business days ending on the trading day immediately preceding the purchase date. The Company and Aspire also may mutually agree to increase the number of shares that may be sold to as much as 2,000,000 shares per business day.

In addition, on any date on which the Company submits a purchase notice to Aspire in an amount equal to 50,000 shares, the Company also has the right, in its sole discretion, to present Aspire with a volume-weighted average price purchase notice, or the VWAP Purchase Notice, directing Aspire to purchase an amount of stock equal to up to 30% of the aggregate shares of the Company's common stock traded on its principal market on the next trading day, or the VWAP Purchase Date, subject to a maximum number of shares the Company may determine. The purchase price per share pursuant to such VWAP Purchase Notice is generally 97% of the volume-weighted average price for the Company's common stock traded on its principal market on the VWAP Purchase Date.

Under the CSPA, the Company controls the timing and amount of any sales to Aspire, and is not limited with respect to use of proceeds or by any financial or business covenants, restrictions on future financings, rights of first refusal, participation rights, penalties or liquidated damages in the CSPA. The CSPA may be terminated by the Company at any time, at its discretion, without any cost to the Company. Aspire has no trading volume requirements or restrictions and has no right to require any sales by the Company but is obligated to make purchases as directed by the Company in accordance with the CSPA. Aspire has agreed that neither it nor any of its agents, representatives and affiliates shall engage in any direct or indirect short-selling or hedging of common stock during any time prior to the termination of the CSPA.

The CSPA further provides that the number of shares that may be sold pursuant to the CSPA will be limited to 2,626,165 shares, including 104,167 shares of common stock issued to Aspire as a commitment fee, which represented 19.99% of the Company's outstanding shares of common stock as of October 21, 2019, unless stockholder approval is

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obtained to issue more than 19.99%. This limitation will not apply under certain circumstances specified in the CSPA. During the six months ended June 30, 2020, there were no shares purchased by Aspire pursuant to the CSPA.

Stock Incentive Plans

In September 2018, the Company's board of directors adopted, and its stockholders approved the 2018 Equity Incentive Plan, or the 2018 Plan, which became effective on September 25, 2018, at which point no further grants will be made under the 2015 Stock Incentive Plan, or the 2015 Plan. In June 2020, the Company's board of directors adopted, and its stockholders approved an amendment to the 2018 Plan, to increase the number of shares available for stock-based awards by 500,000. Under the 2018 Plan, the Company may grant incentive stock options, or ISOs, non-statutory stock options, stock appreciation rights, restricted stock awards, restricted stock units and other stock-based awards. As of June 30, 2020, stock options to purchase an aggregate of 3,572,109 shares had been granted and 610,683 shares were available for future issuance under the 2018 Plan, as amended.

At its inception, the aggregate number of shares of the Company's common stock available for issuance under the 2018 Plan was 2,350,000. The number of shares of the Company's common stock reserved for issuance under the 2018 Plan automatically increases on January 1 of each year, for a period of 10 years, from January 1, 2019 continuing through January 1, 2028, by 4% of the total number of shares of the Company's common stock outstanding on December 31 of the preceding calendar year, or a lesser number of shares as may be determined by the Company's board of directors. Accordingly, on January 1, 2020 and 2019, 531,662 and 524,993 shares were added to the number of available shares, respectively. The maximum number of shares that may be issued pursuant to the exercise of ISOs under the 2018 Plan is 7,500,000.

The maximum number of shares of the Company's common stock subject to awards granted under the 2018 Plan or otherwise during a single calendar year to any nonemployee director, taken together with any cash fees paid by the Company to such nonemployee director during the calendar year for serving on the Company's board of directors, will not exceed \$500,000 in total value, or, with respect to the calendar year in which a nonemployee director is first appointed or elected to the Company's board of directors, \$800,000.

As of September 25, 2018, no additional stock awards have been or will be granted under the 2015 Plan. Although the 2015 Plan was terminated as to future awards in September 2018, it continues to govern the terms of options that remain outstanding under the 2015 Plan.

Stock Option Activity

Stock option activity under both plans during the six months ended June 30, 2020 is summarized as follows:

	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding as of December 31, 2019	2,388,400	\$ 6.20	8.44	\$ 906
Granted	958,900	4.59		
Exercised	—	—		
Forfeited	(90,763)	5.34		
Outstanding as of June 30, 2020	<u>3,256,537</u>	\$ 5.75	8.37	\$ 38
Exercisable as of June 30, 2020	1,261,829	\$ 5.78	7.33	\$ —

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The aggregate intrinsic value of options is calculated as the difference between the exercise price of the options and the fair value of the Company's common stock for those options that had exercise prices lower than the fair value of the Company's common stock. During the six months ended June 30, 2020, the weighted-average grant date fair value per granted option was \$3.15.

Employee Stock Purchase Plan

In September 2018, the Company's board of directors and its stockholders approved the 2018 Employee Stock Purchase Plan, or the ESPP, which became effective as of September 25, 2018. The ESPP is intended to qualify as an "employee stock purchase plan" within the meaning of Section 423 of the U.S. Internal Revenue Code of 1986, as amended. The number of shares of common stock initially reserved for issuance under the ESPP was 140,000 shares. The ESPP provides for an annual increase on the first day of each year beginning in 2019 and ending in 2028, in each case subject to the approval of the board of directors, equal to the lesser of (i) 1% of the shares of common stock outstanding on the last day of the prior fiscal year or (ii) 250,000 shares; provided, that prior to the date of any such increase, the board of directors may determine that such increase will be less than the amount set forth in clauses (i) and (ii). Pursuant to the terms of the 2018 Employee Stock Purchase Plan, an additional 132,915 and 131,248 shares were added to the number of available shares effective January 1, 2020 and 2019, respectively. As of June 30, 2020, no shares of common stock had been issued under the ESPP and 404,163 shares remained available for future issuance under the ESPP. No offering period under the ESPP has been set by the Company's board of directors.

Stock-Based Compensation

Stock-based compensation expense was classified in the consolidated statement of operations as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Research and development	\$ 349	\$ 191	\$ 698	\$ 423
General and administrative	401	408	837	754
Total stock-based compensation expense	\$ 750	\$ 599	\$ 1,535	\$ 1,177

As of June 30, 2020, total unrecognized stock-based compensation expense related to unvested options was \$7.1 million, which is expected to be recognized over the weighted average period of approximately 2.7 years. The total unrecognized stock-based compensation expense will be adjusted for actual forfeitures as they occur.

10. Net Loss per Share

Basic net loss per share is calculated by dividing net loss by the weighted average number of shares of common stock outstanding for the period, without consideration for common stock equivalents. The Company's potentially dilutive shares, which include outstanding stock options and warrants, are considered to be common stock equivalents and are only included in the calculation of diluted net loss per share when their effect is dilutive.

The following outstanding securities have been excluded from the computation of diluted weighted average shares outstanding for the three and six months ended June 30, 2020 and 2019, as they would have been anti-dilutive:

	As of June 30,	
	2020	2019
Options to purchase shares of common stock	3,256,537	2,096,348
Warrants to purchase shares of common stock	14,000,000	—
	17,256,537	2,096,348

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11. Commitments

Lease Commitments

The Company has an operating lease agreement for its office and laboratory space with AstraZeneca. See Note 5, *Leases*, to these notes to consolidated financial statements for additional information.

A Subscription Agreement

In connection with the Company's 2015 spin-out from AstraZeneca, the Company entered into a business transfer and subscription agreement with AstraZeneca pursuant to which the Company agreed to pay AstraZeneca a one-time milestone payment of \$5.0 million within three months of achieving a specified cumulative net sales milestone for durlobactam. This milestone payment will be automatically waived should the Company's common stock trade on The Nasdaq Global Market at or above a specified price at any time prior to achieving such specified cumulative net sales milestone for durlobactam. The Company is also obligated to pay AstraZeneca a one-time milestone payment of \$10.0 million within two years of achieving the first commercial sale of zoliflodacin. At the Company's election, either milestone payment may be paid in cash, common stock, or a combination of cash and common stock. Additionally, the Company is obligated to pay AstraZeneca tiered, single-digit, per-country royalties on the annual worldwide net sales of durlobactam and zoliflodacin.

12. Related Party Transactions

AstraZeneca

The Company was formed in May 2015 as a wholly owned subsidiary of AstraZeneca. Prior to the closing of the initial public offering on September 28, 2018, AstraZeneca was the sole series A preferred stockholder. Upon the closing of the initial public offering, all shares of preferred stock converted into shares of common stock of the Company. AstraZeneca continues to maintain a significant ownership interest in the Company. The Company has an operating lease agreement for its office and laboratory space with AstraZeneca. See Note 5, *Leases*, to these notes to consolidated financial statements for additional information.

Pharmaron Beijing Co., Ltd. (China)

The Company contracts with Pharmaron Beijing Co., Ltd. (China), or Pharmaron, to provide various medicinal chemistry research, manufacturing development and clinical services related to the Company's ongoing product candidates. The Company began utilizing Pharmaron as a service provider prior to the spin-out in 2015 (see Note 1, *Organization and Description of Business*, to these notes to consolidated financial statements for additional information), and this relationship has continued into 2020. In 2019, the Senior Vice President of Strategic Partnerships at Pharmaron began sharing a household with the Company's Chief Executive Officer, and as a result the Company considers the agreements between the Company and Pharmaron to be related-party transactions. The Company recorded expense of \$0.5 million and \$1.9 million during the three months ended June 30, 2020 and 2019, respectively, and \$1.4 million and \$4.2 million during the six months ended June 30, 2020 and 2019, respectively, for services rendered pursuant to multiple Pharmaron agreements. There were no amounts due to Pharmaron as of June 30, 2020 and \$0.8 million due as of December 31, 2019.

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

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the unaudited consolidated financial information and the notes thereto included in this Quarterly Report on Form 10-Q and with our audited consolidated financial information and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2019, which was filed with the Securities and Exchange Commission, or SEC, on March 11, 2020, or the Annual Report on Form 10-K. In addition, you should read the "Risk Factors" and "Special Note Regarding Forward-Looking Statements" in this Quarterly Report on Form 10-Q and in the Annual Report on Form 10-K for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

We are an advanced, clinical-stage biopharmaceutical company focused on the discovery, development and commercialization of novel antibacterial products that address high unmet medical needs to treat serious infections caused by multidrug-resistant Gram-negative bacteria. Leveraging our targeted-design platform, our strategy is to discover and develop novel molecules that overcome mechanisms of antibiotic resistance in specific bacterial pathogens.

Our lead product candidate, sulbactam-durlobactam, or SUL-DUR, is dosed intravenously, or IV, and is a combination of sulbactam, an IV β -lactam antibiotic, and durlobactam, a novel broad-spectrum intravenous β -lactamase inhibitor, or BLI, that we are developing for the treatment of multidrug-resistant infections caused by *Acinetobacter baumannii*, or *Acinetobacter*. We initiated ATTACK, our single Phase 3 registration trial in April 2019. As of August 4, 2020, 89 clinical sites across 16 countries are open, including 17 sites in China, and we continue to enroll patients, although some sites in high COVID-19 impact areas have experienced disruptions in new patient enrollment due to redirection of resources as dictated by local conditions. As we continue to actively advance the ATTACK Phase 3 registration trial, we remain in close contact with our contract research organization, or CRO, principal investigators and clinical sites and continue to actively assess the impact of COVID-19 on our expected timeline. However, the timing, scope, and duration of any disruptions in enrollment due to COVID-19 are unpredictable. As a consequence, we are unable to assess the impact of COVID-19 on the timeline for the Phase 3 registration trial and are suspending guidance for when we anticipate reporting top-line data from this study. To date, the COVID-19 pandemic has not had a material impact on our supply chain or on our ability to supply SUL-DUR to clinical trial sites. We remain confident that the data from the ATTACK trial, along with data from our other clinical trials of SUL-DUR, will be sufficient to submit a new drug application, or NDA, to the U.S. Food and Drug Administration, or FDA.

Our second late-stage product candidate, zoliflodacin, is a novel orally administered molecule being developed for the treatment of uncomplicated gonorrhea. The bacterial pathogen responsible for gonorrhea is *Neisseria gonorrhoeae*, or *N. gonorrhoeae*, including multidrug-resistant strains. We believe there is a growing global unmet patient need for a single-dose oral antibiotic that will reliably treat patients with gonorrhea, including infections caused by multidrug-resistant strains of *N. gonorrhoeae*. The sponsor for the Phase 3 registration trial is our nonprofit collaborator, the Global Antibiotic Research and Development Partnership, or GARDP. The Phase 3 registration trial was initiated in September 2019. Given the focus at our clinical trial sites to address the immediate medical needs of the COVID-19 pandemic, GARDP, with our full agreement, made the decision in late-March to temporarily suspend patient enrollment into the Phase 3 registration trial at U.S. sites and activation of new clinical trial sites in ex-U.S. regions. In July 2020, GARDP resumed patient enrollment at U.S. sites and activation of new clinical trial sites in ex-U.S. regions. However, given the uncertain impact of COVID-19 on our global clinical trial sites, in consultation with GARDP, we are unable to assess the impact of COVID-19 on the timeline for the Phase 3 registration trial, and therefore, are suspending guidance for when we anticipate reporting top-line data from the trial. We continue to actively assess the impact of COVID-19 on our expected timeline in consultation with GARDP and will update information as available. To date, the COVID-19 pandemic has not had a material impact on our supply chain or on our ability to supply zoliflodacin to clinical trial sites. We remain confident that the Phase 3 registration trial data, along with data from our other clinical trials of zoliflodacin, will be sufficient for submitting an NDA to the FDA.

We are also developing ETX0282CPDP for the treatment of complicated urinary tract infections, or cUTIs, including those caused by extended-spectrum β -lactamase, or ESBL, producing bacterial strains and carbapenem-resistant *Enterobacteriaceae*, or CRE. ETX0282CPDP is an orally dosed combination of ETX0282 with cefpodoxime proxetil. We believe there is a significant unmet need for new oral antibiotics to reliably treat the estimated 3 to 4 million patients diagnosed annually with cUTIs. We reported preliminary Phase 1 trial results in June 2019, and more recently demonstrated that an extended release formulation achieved preclinical proof-of-concept of the desired pharmacokinetic profile. We are now progressing with development of an appropriate clinical formulation to be initially evaluated in a future Phase 1 clinical trial before progression to clinical studies in patients. To date, this program has not been materially impacted by the COVID-19 pandemic.

Lastly, we are using our targeted-design platform to develop a novel class of antibiotics, non β -lactam inhibitors of penicillin-binding proteins, or NBPs. We believe our NBPs constitute a potential new class of Gram-negative antibacterial agents with no pre-existing resistance that are designed to target a broad spectrum of pathogens, including *Pseudomonas aeruginosa*, or *Pseudomonas*. During the fourth quarter of 2019 we selected ETX0462 as a candidate for this program, which we continue to progress through preclinical development. To date, this program has not been materially impacted by the COVID-19 pandemic.

Since our inception in May 2015, we have devoted substantially all of our resources to organizing and staffing our company, business planning, raising capital, acquiring or discovering product candidates and securing related intellectual property rights, conducting discovery and development activities for our programs and planning for potential commercialization. We do not have any products approved for sale and have not generated any revenue from product sales. As of June 30, 2020, we have funded our operations primarily with net cash proceeds of \$104.2 million from the sale of our preferred stock, net cash proceeds of \$65.6 million from the sale of common stock in our initial public offering, and net cash proceeds of \$34.3 million from the Securities Purchase Agreement with Innoviva, Inc., or Innoviva. We have also either directly received funding or financial commitments from, or have had our program activities conducted and funded by, the U.S. government through our arrangements with the U.S. National Institute of Allergy and Infectious Diseases, or NIAID, the Combating Antibiotic-Resistant Bacteria Biopharmaceutical Accelerator program, or CARB-X, and the U.S. Department of Defense, and we have received non-profit awards from GARDP and upfront and milestone payments from our license and collaboration agreement with Zai Lab (Shanghai), Co., Ltd., or Zai Lab.

Funding Arrangements

In June 2020, we entered into a contract with NIAID, part of the National Institutes of Health, or NIH, with an effective date of July 1, 2020. The initial award of approximately \$3.0 million, with the potential to increase up to \$15.5 million, will be used to develop novel molecules from our non- β -lactam inhibitor, or NBP, platform. Funding from the contract will support research towards developing molecules with expanded Gram-negative spectrum against antibiotic-resistant bacterial pathogens including *E. coli*, *Acinetobacter*, *Pseudomonas* and *Klebsiella*.

In March 2017 and October 2017, we entered into funding arrangements with the Trustees of Boston University to utilize funds from the U.S. government, through the CARB-X program, for support of our ETX0282CPDP and ETX0462 programs. These funding arrangements could cover up to \$18.2 million of our specified research expenditures from April 2017 through September 2021. Through June 30, 2020, we had received \$7.8 million in payments and we have recorded \$8.0 million of grant income under these funding arrangements.

In July 2017, we entered into a collaboration agreement with GARDP for the development and commercialization of a product candidate containing zoliflodacin in certain countries. Under the terms of the collaboration agreement, GARDP will fully fund the ongoing Phase 3 registration trial, including the manufacture and supply of the product candidate containing zoliflodacin, in uncomplicated gonorrhea.

In April 2018, we entered into a license and collaboration agreement with Zai Lab pursuant to which Zai Lab licensed exclusive rights to durlobactam and SUL-DUR in the Asia-Pacific region. Under the terms of the agreement, Zai Lab will fund most of our registration trial costs in China for SUL-DUR, including all costs in China for our Phase 3 registration trial of SUL-DUR, with the exception of Phase 3 patient drug supply of licensed product. To date as of June

30, 2020, we have received net payments of \$13.2 million, representing the \$5.0 million upfront payment, \$7.0 million of milestone payments, \$0.6 million of research support payments and \$2.6 million of certain other reimbursable registration trial costs, less applicable taxes of \$2.0 million, from Zai Lab and we have recognized revenue of \$12.0 million under this agreement.

Financial Overview

Revenue

All of our revenue has been derived from our license and collaboration arrangement with Zai Lab. To date, we have not generated any revenue from product sales, and we do not expect to generate any revenue from the sale of products in the near future. If our development efforts for our product candidates and preclinical program are successful and result in regulatory approval, we may generate revenue in the future from product sales.

Operating Expenses

Research and Development Expenses

Research and development expenses consist primarily of costs incurred for our research activities, including our product discovery efforts and the development of our preclinical and clinical product candidates. These expenses include:

- employee-related expenses, including salaries and benefits, bonus and stock-based compensation expense for employees engaged in research and development functions;
- fees paid to consultants for services directly related to our product development and regulatory efforts;
- expenses incurred under agreements with CROs as well as contract manufacturing organizations, or CMOs, and consultants that conduct and provide supplies for our preclinical studies and clinical trials;
- costs associated with preclinical activities and development activities;
- costs associated with our technology and our intellectual property portfolio;
- costs related to compliance with regulatory requirements; and
- facilities-related expenses, which include allocated rent and maintenance of facilities and other operating costs.

Costs associated with research and development activities are expensed as incurred. Costs for certain development activities, such as clinical trials, are recognized based on an evaluation of the progress to completion of specific tasks using data such as patient enrollment, clinical site activations or other information provided to us by our vendors. 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. Such amounts are recognized as an expense as the goods are delivered or the related services are performed, or until it is no longer expected that the goods will be delivered, or the services rendered.

Our direct research and development expenses are tracked on a program-by-program basis for our product candidates and preclinical program and consist primarily of external costs, such as fees paid to outside consultants, CROs, CMOs and central laboratories in connection with our preclinical development, process development, manufacturing and clinical development activities. Our direct research and development expenses by program also include fees incurred under service, license or option agreements. We do not allocate employee costs or facility expenses to specific programs because these costs are deployed across multiple programs and, accordingly, are not separately

classified. We primarily use internal resources and our own employees to conduct our research and discovery as well as for managing our preclinical development, process development, manufacturing and clinical development activities.

To date, substantially all of our research and development expenses have been related to the preclinical and clinical development of our product candidates and preclinical program. The following table shows our research and development expenses by development program and type of activity:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(in thousands)			
Direct research and development expenses by program:				
SUL-DUR	\$ 6,156	\$ 7,259	\$ 13,564	\$ 14,175
ETX0282CPDP	12	153	112	856
Zoliflodacin	2	28	12	43
Other preclinical programs	249	456	508	1,057
Unallocated research and development expenses:				
Personnel related (including stock-based compensation)	3,225	2,108	6,456	4,372
Facilities, supplies and other	595	673	1,210	1,176
Total research and development expenses	<u>\$ 10,239</u>	<u>\$ 10,677</u>	<u>\$ 21,862</u>	<u>\$ 21,679</u>

Research and development activities are central to our business model. Product candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical trials. It is difficult to determine with certainty the duration and completion costs of our current or future preclinical programs and clinical trials of our product candidates, or if, when or to what extent we will generate revenues from the commercialization and sale of any of our product candidates that obtain regulatory approval. We may never succeed in achieving regulatory approval for any of our product candidates.

The duration, costs and timing of clinical trials and development of our product candidates and preclinical program will depend on a variety of factors that include, but are not limited to, the following:

- the impact of COVID-19 on hospitals participating in the trials and their ability to focus on and direct resources to our trials;
- the number of trials required for approval and any requirement for extension trials;
- per-patient trial costs;
- the number of patients that participate in the trials;
- the number of sites included in the trials;
- the countries in which the trials are conducted;
- the length of time required to enroll eligible patients;
- the number of doses that patients receive;
- the drop-out or discontinuation rates of patients;
- potential additional safety monitoring or other studies requested by regulatory agencies;

- the duration of patient follow-up; and
- the efficacy and safety profiles of the product candidates.

Any changes in the outcome of any of these factors with respect to the development of our product candidates could mean a significant change in the costs and timing associated with the development of these product candidates. In addition, the probability of success for each product candidate will depend on numerous factors, including competition, manufacturing and supply, and commercial viability. We will determine which programs to pursue and how much to fund each program based on the scientific and clinical success of each product candidate, as well as an assessment of each candidate's commercial potential.

General and Administrative Expenses

General and administrative expenses consist of salaries and benefits and stock-based compensation expense for personnel in executive, finance and administrative functions. General and administrative costs also include facilities-related costs not otherwise included in research and development expenses as well as professional fees for legal, patent, consulting, accounting, insurance and audit services.

We anticipate that our general and administrative expenses will increase in the future as we increase our headcount to support our continued research, development and commercialization activities of our product candidates. Additionally, if and when we believe a regulatory approval of a product candidate appears likely, we anticipate an increase in payroll and other employee-related expenses as a result of our preparation for commercial operations, especially as it relates to the sales and marketing functions for that product candidate.

Other Income

Grant Income

Grant income consists of income recognized in connection with grants we received under our funding arrangements with the Trustees of Boston University through the CARB-X program. Grant income is recognized in the period during which the related specified expenses are incurred.

Interest Income

Interest income consists of interest earned on our cash and investment balances.

Provision for Income Taxes

The provision for income taxes primarily consists of provisions for foreign withholding income taxes on payments related to our agreement with Zai Lab.

Results of Operations**Comparison of the Three Months Ended June 30, 2020 and 2019**

The following table summarizes our results of operations for the periods presented:

	Three Months Ended June 30,		Change
	2020	2019	
	(in thousands)		
Operating expenses:			
Research and development	\$ 10,239	\$ 10,677	\$ (438)
General and administrative	3,241	3,421	(180)
Total operating expenses	<u>13,480</u>	<u>14,098</u>	<u>(618)</u>
Loss from operations	<u>(13,480)</u>	<u>(14,098)</u>	<u>618</u>
Other income:			
Grant income	48	372	(324)
Interest income	36	417	(381)
Total other income	<u>84</u>	<u>789</u>	<u>(705)</u>
Loss before income taxes	(13,396)	(13,309)	(87)
Provision for income taxes	—	73	(73)
Net loss	<u>\$ (13,396)</u>	<u>\$ (13,382)</u>	<u>\$ (14)</u>

Research and Development Expenses

Research and development expenses were \$10.2 million during the three months ended June 30, 2020, compared to \$10.7 million during the three months ended June 30, 2019. The decrease of \$0.4 million was primarily due to decreased expenses of \$1.1 million related to our SUL-DUR product candidate, \$0.2 million related to other preclinical programs and \$0.1 million related to our ETX0282CPDP product candidate. These decreases were partially offset by an increase of \$1.1 million in personnel expenses associated with higher headcount, salaries and stock-based compensation expense resulting from options granted during the year ended December 31, 2019 and the six months ended June 30, 2020. The decrease of \$1.1 million in expenses related to our SUL-DUR product candidate was primarily due to a decrease of \$1.3 million in manufacturing costs, partially offset by an increase of \$0.2 million in preclinical expenses. The decrease of \$0.1 million in expenses related to our ETX0282CPDP product candidate was primarily due to a decrease of \$0.1 million in clinical development expenses.

General and Administrative Expenses

General and administrative expenses were \$3.2 million during the three months ended June 30, 2020, compared to \$3.4 million during the three months ended June 30, 2019. The decrease of \$0.2 million was driven primarily by a decrease of \$0.2 million in legal expenses and a decrease of \$0.1 million in consulting expenses. These decreases are partially offset by an increase of \$0.1 million in personnel expenses associated with higher headcount during the three months ended June 30, 2020 as compared to the three months ended June 30, 2019.

Other Income

Other income was \$0.1 million during the three months ended June 30, 2020, compared to \$0.8 million during the three months ended June 30, 2019. The decrease of \$0.7 million was due to a decrease of \$0.4 million in interest income and a decrease of \$0.3 million in grant income associated with our grant agreements under the CARB-X programs.

Provision for Income Taxes

There was no provision for income taxes during the three months ended June 30, 2020, compared to \$0.1 million during the three months ended June 30, 2019. The \$0.1 million decrease was due to the timing of payments received as a result of milestone achievements in connection with our ongoing license and collaboration agreement with Zai Lab. Our losses before income taxes were generated in the United States and the United Kingdom. Consistent with all prior periods, we did not record any income tax benefit for its operating losses due to the uncertainty regarding future taxable income. Accordingly, a full valuation allowance has been established against the deferred tax assets as of June 30, 2020.

Comparison of the Six Months Ended June 30, 2020 and 2019

The following table summarizes our results of operations for the periods presented:

	<u>Six Months Ended June 30,</u>		<u>\$ Change</u>
	<u>2020</u>	<u>2019</u>	
	<u>(in thousands)</u>		
Operating expenses:			
Research and development	\$ 21,862	\$ 21,679	\$ 183
General and administrative	7,021	6,609	412
Total operating expenses	28,883	28,288	595
Loss from operations	<u>(28,883)</u>	<u>(28,288)</u>	<u>(595)</u>
Other income:			
Grant income	62	1,201	(1,139)
Interest income	159	908	(749)
Total other income	221	2,109	(1,888)
Loss before income taxes	(28,662)	(26,179)	(2,483)
Provision for income taxes	—	144	(144)
Net loss	<u>\$ (28,662)</u>	<u>\$ (26,323)</u>	<u>\$ (2,339)</u>

Research and Development Expenses

Research and development expenses were \$21.9 million during the six months ended June 30, 2020, compared to \$21.7 million during the six months ended June 30, 2019. The increase of \$0.2 million was primarily due to an increase of \$2.1 million in personnel expenses associated with higher headcount, salaries and stock-based compensation expense resulting from options granted during the year ended December 31, 2019 and the six months ended June 30, 2020. These costs were partially offset by decreased expenses of \$0.7 million related to our ETX0282CPDP product candidate, \$0.6 million related to our SUL-DUR product candidate and \$0.5 million in other preclinical program expenses. The decrease of \$0.7 million in expenses related to our ETX0282CPDP product candidate was primarily due to a decrease of \$0.7 million in clinical development expenses. The decrease of \$0.6 million in expenses related to our SUL-DUR product candidate was primarily due to a decrease of \$2.6 million in manufacturing costs, partially offset by increases of \$1.5 million in clinical development expenses and \$0.4 million in preclinical expenses.

General and Administrative Expenses

General and administrative expenses were \$7.0 million during the six months ended June 30, 2020, compared to \$6.6 million during the six months ended June 30, 2019. The increase of \$0.4 million was driven primarily by an increase of \$0.7 million in personnel expenses associated with higher headcount during the six months ended June 30, 2020 as compared to the six months ended June 30, 2019 and an increase of \$0.3 million in insurance premiums. These increases were partially offset by decreases of \$0.3 million in legal expenses and of \$0.3 million in consulting expenses.

Other Income

Other income was \$0.2 million during the six months ended June 30, 2020, compared to \$2.1 million during the six months ended June 30, 2019. The decrease of \$1.9 million was partially due to a decrease of \$1.1 million in grant income associated with our grant agreements under the CARB-X programs and a decrease of \$0.7 million in interest income.

Provision for Income Taxes

There was no provision for income taxes during the six months ended June 30, 2020, compared to \$0.1 million during the six months ended June 30, 2019. The \$0.1 million decrease was due to the timing of payments received as a result of milestone achievements in connection with our ongoing license and collaboration agreement with Zai Lab. Our losses before income taxes were generated in the United States and the United Kingdom. Consistent with all prior periods, we did not record any income tax benefit for its operating losses due to the uncertainty regarding future taxable income. Accordingly, a full valuation allowance has been established against the deferred tax assets as of June 30, 2020.

Liquidity and Capital Resources

Overview

As of June 30, 2020, we had raised aggregate net cash proceeds of \$104.2 million from the sale of redeemable convertible preferred stock, \$65.6 million from the sale of common stock in our initial public offering and \$34.3 million from the securities purchase agreement, or the Securities Purchase Agreement, with Innoviva, which we have used to fund our operations. In addition, we also have received funding or financial commitments from, or have had our program activities conducted and funded by, the U.S. government through arrangements with NIAID, CARB-X and the U.S. Department of Defense, and have received non-profit awards from GARDP and upfront and milestone payments from Zai Lab. As of June 30, 2020, we had cash and cash equivalents of \$50.8 million.

Going Concern

Since our inception, we have incurred recurring losses and negative cash flows from operations. Our net loss was \$28.7 million for the six months ended June 30, 2020 and \$43.9 million for the year ended December 31, 2019. As of June 30, 2020, we had an accumulated deficit of \$162.6 million. We anticipate that a substantial portion of our capital resources and efforts in the foreseeable future will be focused on completing the necessary development, obtaining regulatory approval and preparing for potential commercialization of our product candidates. Based on our current operating plan, we believe that our existing cash and cash equivalents will be sufficient to fund our operating expenses and capital expenditure requirements into the second quarter of 2021. These conditions and events raise substantial doubt about our ability to continue as a going concern for the one-year period following the issuance of our consolidated financial statements for the quarter ended June 30, 2020. Our current funds will not be sufficient to enable us to complete all necessary development activities and commercially launch any of our product candidates. To finance our operations beyond that point, we will need to raise additional capital, which cannot be assured and may be further adversely impacted by the unpredictable duration and economic effects of the COVID-19 pandemic. To the extent that we raise additional capital through future equity offerings, the ownership interest of common stockholders will be further diluted, which dilution may be significant such as our recent issuance and sale of our common stock to Innoviva. See Note 1, *Organization and Description of Business*, and Note 9, *Stockholders' Equity and Stock Based Compensation Expense*, in the accompanying notes to our unaudited consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-Q for additional information on our assessment. Our consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Accordingly, the consolidated financial statements have been prepared on a basis that assumes we will continue as a going concern and that contemplates the realization of assets and satisfaction of liabilities and commitments in the ordinary course of business.

Funding Requirements

Our primary uses of capital are, and we expect will continue to be, compensation and related expenses, third-party clinical research and development services, laboratory and related supplies, manufacturing development costs, legal and other regulatory expenses and general administrative costs.

The successful development of our product candidates is highly uncertain. At this time, we cannot reasonably estimate or know the nature, timing and estimated costs of the efforts that will be necessary to complete the clinical development of our product candidates and obtain regulatory approvals. We are also unable to predict when, if ever, net cash inflows will commence from product sales. This is due to the numerous risks and uncertainties associated with developing drugs, including, among others, the uncertainty of:

- the unpredictable duration and economic impact of the COVID-19 pandemic;
- successful enrollment in, and completion of clinical trials;
- performing preclinical studies and clinical trials in compliance with the FDA, the European Medicines Agency, or EMA, or any comparable regulatory authority requirements;
- the ability of collaborators to manufacture sufficient quantity of product for development, clinical trials or potential commercialization;
- obtaining marketing approvals with labeling for sufficiently broad patient populations and indications, without unduly restrictive distribution limitations or safety warnings, such as black box warnings or a risk evaluation and mitigation strategies program;
- obtaining and maintaining patent, trademark and trade secret protection and regulatory exclusivity for our product candidates;
- making arrangements with third parties for manufacturing capabilities;
- launching commercial sales of products, if and when approved, whether alone or in collaboration with others;
- acceptance of the therapies, if and when approved, by physicians, patients and third-party payors;
- competing effectively with other therapies;
- obtaining and maintaining healthcare coverage and adequate reimbursement;
- protecting our rights in our intellectual property portfolio; and
- maintaining a continued acceptable safety profile of our drugs following approval.

A change in the outcome of any of these variables with respect to the development of any of our product candidates would significantly change the costs and timing associated with the development of that product candidate.

We will not generate revenue from product sales unless and until we or a collaborator successfully complete clinical development and obtain regulatory approval for our current and future product candidates. If we obtain regulatory approval for any of our product candidates that we intend to commercialize on our own, we will incur significant expenses related to commercialization, including developing our internal commercialization capability to support product sales, marketing and distribution.

As a result, we will need substantial additional funding to support our continuing operations and to pursue our growth strategy. Until such time, if ever, when we can generate substantial product revenue, we expect to finance our cash needs through a combination of equity offerings, debt financings and potential collaboration, license and development agreements. Debt financing and preferred equity financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends.

If we raise additional funds through collaborations, strategic alliances or marketing, distribution or licensing arrangements with third parties, we may be required to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates or to grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings when needed, we may be required to delay, limit, reduce or terminate our drug development or future commercialization efforts or grant rights to a third party to develop and market product candidates that we would otherwise prefer to develop and market ourselves. Our failure to raise capital as and when needed would compromise our ability to pursue our business strategy.

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

Aspire Common Stock Purchase Agreement

In October 2019, we entered into a common stock purchase agreement, or CSPA, with Aspire Capital Fund, LLC, or Aspire, which provides that, upon the terms and subject to the conditions and limitations set forth therein, Aspire is committed to purchase up to an aggregate of \$20.0 million of shares of our common stock over the 30-month term of the CSPA. Under the CSPA, on any trading day selected by us on which the closing price of our common stock is equal to or greater than \$0.25 per share, we have the right, in our sole discretion, to present Aspire with a purchase notice directing Aspire to purchase up to 50,000 shares of our common stock per business day, at a purchase price equal to the lesser of the lowest sale price of common stock on the purchase date, or the arithmetic average of the three lowest closing sale prices during the 10 consecutive business days ending on the trading day immediately preceding the purchase date. We and Aspire also may mutually agree to increase the number of shares that may be sold to as much as 2,000,000 shares per business day.

In addition, under the CSPA on any date on which we submit a purchase notice to Aspire in an amount equal to 50,000 shares, we also have the right, in our sole discretion, to present Aspire with a volume-weighted average price purchase notice, or VWAP Purchase Notice, directing Aspire to purchase an amount of stock equal to up to 30% of the aggregate shares of our common stock traded on its principal market on the next trading day, or the VWAP Purchase Date, subject to a maximum number of shares we may determine. The purchase price per share pursuant to such VWAP Purchase Notice is generally 97% of the volume-weighted average price for our common stock traded on its principal market on the VWAP Purchase Date.

Under the terms of the CSPA, we control the timing and amount of any sales to Aspire, and we are not limited with respect to use of proceeds or by any financial or business covenants, restrictions on future financings, rights of first refusal, participation rights, penalties or liquidated damages in the CSPA. The CSPA may be terminated by us at any time, at our discretion, without any cost to us. Aspire has no trading volume requirements or restrictions and has no right to require any sales by Entasis but is obligated to make purchases as directed by us in accordance with the CSPA. Aspire has agreed that neither it nor any of its agents, representatives and affiliates shall engage in any direct or indirect short-selling or hedging of common stock during any time prior to the termination of the CSPA.

The CSPA further provides that the number of shares that may be sold pursuant to the CSPA will be limited to 2,626,165 shares, which represents 19.99% of our outstanding shares of common stock as of October 21, 2019, unless stockholder approval is obtained to issue more than 19.99%. This limitation will not apply under certain circumstances

specified in the CSPA. During the six months ended June 30, 2020, no shares were purchased by Aspire pursuant to the CSPA.

Innoviva, Inc. Securities Purchase Agreement

On April 12, 2020, we entered into the Securities Purchase Agreement with Innoviva, pursuant to which we sold to Innoviva, in a private placement, a total of 14,000,000 shares of common stock and warrants to purchase an additional 14,000,000 shares of common stock, collectively the Private Placement.

Under the Securities Purchase Agreement, the Private Placement occurred in two tranches. At the closing of the first tranche, or the First Closing, which occurred on April 22, 2020, Innoviva purchased 1,322,510 shares of common stock and warrants to purchase 1,322,510 shares of common stock, for an aggregate gross purchase price of approximately \$3.3 million. At the closing of the second tranche, or the Second Closing, which occurred on June 11, 2020, Innoviva purchased the remaining 12,677,490 shares of common stock and warrants to purchase 12,677,490 shares of the common stock for an aggregate gross purchase price of approximately \$31.7 million. Further, at the First Closing, we entered into a registration rights agreement with Innoviva, pursuant to which, among other things, we must prepare and file with the SEC a registration statement with respect to resales of the shares of common stock and the warrants purchased by Innoviva under the Securities Purchase Agreement within 30 days of the First Closing. Innoviva and we subsequently signed a waiver to this agreement allowing us to file a registration statement with the SEC no later than the filing date of this Quarterly Report on Form 10-Q.

As a result of the Second Closing, Innoviva acquired control of Entasis, owning approximately 51.3% of our common stock without the exercise of the warrants. If Innoviva exercises the warrants in their entirety, it will own approximately 67.8% of our common stock.

Cash Flows

The following table summarizes our cash flows for the periods presented (in thousands):

	Six Months Ended June 30,	
	2020	2019
Net cash used in operating activities	\$ (24,564)	\$ (25,966)
Net cash provided by (used in) investing activities	25,000	(18,087)
Net cash provided by (used in) financing activities	34,301	(110)
Net increase (decrease) in cash and cash equivalents	<u>\$ 34,737</u>	<u>\$ (44,163)</u>

Operating Activities

During the six months ended June 30, 2020, operating activities used \$24.6 million of cash, resulting from our net loss of \$28.7 million offset by non-cash charges of \$1.6 million and net cash provided by changes in operating assets and liabilities of \$2.5 million. Net cash provided by changes in operating assets and liabilities for the six months ended June 30, 2020 consisted primarily of a \$1.9 million decrease in prepaid expenses, a \$1.3 million decrease in other assets, a \$1.0 million decrease in grants receivable and a \$0.2 million increase in accounts payable. These provisions of cash were partially offset by a \$2.0 million decrease in accrued expenses and other liabilities.

During the six months ended June 30, 2019, operating activities used \$26.0 million of cash, resulting from our net loss of \$26.3 million and net cash used by changes in operating assets and liabilities of \$0.5 million, offset by non-cash charges of \$0.8 million. Net cash used by changes in operating assets and liabilities for the six months ended June 30, 2019 consisted of a \$2.0 million increase in other assets, a \$1.4 million increase in prepaid expenses and a \$0.6 million decrease in accounts payable. These uses of cash were partially offset by a \$3.3 million increase in accrued expenses and other current liabilities.

Investing Activities

During the six months ended June 30, 2020, net cash provided by investing activities was \$25.0 million, consisting of net proceeds from maturities of short-term investments.

During the six months ended June 30, 2019, net cash used in investing activities was \$18.1 million, consisting primarily of \$25.1 million used to purchase short-term investments, partially offset by \$7.0 million provided by proceeds from maturities of short-term investments.

Financing Activities

During the six months ended June 30, 2020, net cash provided by financing activities was \$34.3 million, which consisted of proceeds from the Private Placement, net of financing costs.

During the six months ended June 30, 2019, net cash used by financing activities was \$0.1 million, which consisted primarily of payments of initial public offering costs.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies, Recent Accounting Pronouncements and Significant Judgments and Estimates

There have been no significant changes to our critical accounting policies from those described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” disclosed in our most recent Annual Report on Form 10-K.

Refer to Note 2, *Summary of Significant Accounting Policies*, in the accompanying notes to our unaudited consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-Q for a discussion of recent accounting pronouncements.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As a smaller reporting company, we are not required to provide disclosure for this Item.

Item 4. Controls and Procedures.

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 the reports that we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms and (2) accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure. Management recognizes

that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2020. Based upon the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control over Financial Reporting.

There were no changes in our internal control over financial reporting that occurred during the three months ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may become involved in legal proceedings arising in the ordinary course of our business. We are not currently a party to any material legal proceedings, and we are not aware of any pending or threatened legal proceeding against us that we believe could have an adverse effect on our business, operating results or financial condition.

Item 1A. Risk Factors.

With the exception of the risk factors listed below, there have been no material changes in risk factors discussed in Part I, Item 1A. Risk Factors in our most recent Annual Report filed on Form 10-K.

Risks Resulting from the Current Global Pandemic

The COVID-19 pandemic has had, and may continue to have, an adverse effect on our business, development programs and access to capital. A second wave of COVID-19 may have a similar or worse impact on us.

The COVID-19 pandemic is having an unprecedented impact on the U.S. economy as federal, state and local governments react to this public health crisis. Many states and local municipalities have issued social distancing and stay-at-home orders that have resulted in the closure of corporate offices and factories and may disrupt business operations and supply chains. Although we are considered an “essential business” for purposes of the state and local stay-at-home orders, the majority of our employees have been working remotely since the issuance of the orders and our laboratory workers operate in reduced and/or staggered shifts. As healthcare systems focus on patients affected by the COVID-19 pandemic, global clinical trials, including our two Phase 3 registration trials, have seen significant declines in activity or have been suspended temporarily. For instance, for our ATTACK Phase 3 registration trial, some clinical sites in high COVID-19 impact areas have delayed new patient enrollment due to redirection of resources or hospital access restrictions as required by local conditions. For our zoliflodacin Phase 3 registration trial, GARDP had previously temporarily suspended patient enrollment and activation of new clinical trial sites with our full agreement. Additionally, while we have not experienced material disruptions in our supply chain to date due to the COVID-19 pandemic, it may impact our ability to procure resources, raw materials or components necessary for our development programs. As a result of the unpredictability surrounding the COVID-19 pandemic, the timelines for completion of our registration trials and earlier-stage development programs may be materially impacted. Because the timing, scope and duration of disruptions due to the COVID-19 pandemic are unpredictable, we cannot provide guidance for when we anticipate reporting top-line data or completing either of our Phase 3 clinical trials. Significant delays in the initiation and completion of our clinical trials or the development of any of our product candidates are costly and could adversely affect our ability to obtain regulatory approval for and successful commercialization of our product candidates. The nature and extent of the impact remains uncertain as the duration of the COVID-19 pandemic and the time needed for businesses and healthcare systems to recover remains unknown. Although we are continuing to actively monitor and assess the effects of the COVID-19 pandemic on our business and development programs, the ultimate impact of the COVID-19 pandemic is highly uncertain and subject to change.

Our ability to raise additional capital may be adversely impacted by worsening global economic conditions and the recent disruptions to, and volatility in, financial markets in the United States and worldwide resulting from the ongoing COVID-19 pandemic. The continuation of prolonged adverse economic conditions (including due to any resurgence or second wave of COVID-19 infections) could limit our access to financial resources from the capital markets and other sources.

We are not yet certain about the full extent of the potential impact of COVID-19 on our business, development programs and access to capital. To the extent COVID-19 continues to adversely affect our business, financial condition

and results of operations, as well as global economic conditions more generally, it may also heighten many of the other risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2019.

Risks Relating to our Common Stock

Innoviva may exert a substantial influence on actions requiring stockholder vote, potentially in a manner that you do not support.

As of June 30, 2020, Innoviva holds approximately 51.3% of our issued and outstanding shares of common stock, and accordingly controls approximately 51.3% of our voting power. If Innoviva were to exercise the warrants it purchased in the Private Placement, it would hold approximately 67.8% of our issued and outstanding shares of common stock. Innoviva's large ownership stake may allow it to exert a significant influence on actions requiring a stockholder vote, potentially including amendments to our certificate of incorporation, election of our board of directors, removal of any of our directors, adoption of measures that could delay or prevent a change in control or impede a merger, takeover, or other business combination involving us, and approval of other major corporate transactions. In addition, Innoviva's stock ownership may discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which in turn could reduce our stock price or prevent our stockholders from realizing a premium over our stock price. Accordingly, our stockholders other than Innoviva may be unable to influence management and exercise control over our business.

Provisions in the Securities Purchase Agreement and related documents may deter or prevent us from raising additional capital to fund our operations.

Provisions in the agreements we entered into in connection with the Private Placement may deter or prevent us from raising additional capital to fund our operations as and when needed. For example, the Investor Rights Agreement provides participation rights for Innoviva to participate pro rata in our future offerings of securities. These and other provisions in the Private Placement documents could deter or prevent us from raising additional capital. Our failure to raise capital as and when needed would have a negative effect on our financial condition and our ability to develop and commercialize our pipeline and otherwise pursue our business strategy and we may be unable to continue as a going concern.

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

On June 11, 2020, we completed a private placement transaction in which we sold to Innoviva a total of 14,000,000 shares of our common stock and issued warrants to purchase an additional 14,000,000 shares of our common stock, with an exercise price per share of \$2.50. The private placement was closed in two tranches for total aggregate gross proceeds of \$35.0 million. For more information, please refer to Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operation—Liquidity and Capital Resources—Innoviva, Inc. Securities Purchase Agreement" in this Quarterly Report on Form 10-Q.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-38670), filed with the SEC on September 28, 2018).
3.1.1	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-38670), filed with the SEC on June 11, 2020).
3.2	Amended and Restated Bylaws of the Company (incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K (File No. 001-38670), filed with the SEC on September 28, 2018).
4.1	Registration Rights Agreement, by and between the Company and Innoviva, Inc., dated April 22, 2020 (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 001-38670), filed with the SEC on April 22, 2020).
4.2	Form of Warrant Certificate (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 001-38670), filed with the SEC on April 13, 2020).
10.1+	Amended Non-employee Director Compensation Policy, as amended December 6, 2019.
10.2+	Special Bonus Award Memorandum, dated May 15, 2020
10.3+	First Amendment to 2018 Equity Incentive Plan.
10.4	Securities Purchase Agreement, by and between the Company and Innoviva, Inc., dated April 12, 2020 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-38670), filed with the SEC on April 13, 2020).
10.5	Form of Voting Agreement (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-38670), filed with the SEC on April 13, 2020).
10.6	Investor Rights Agreement, by and between the Company and Innoviva, Inc., dated April 22, 2020 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-38670), filed with the SEC on April 22, 2020).
31.1	Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document.
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	The cover page from the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2020 formatted in inline XBRL (included in Exhibit 101).

+ Indicates management contract or compensatory plan.

* Furnished herewith and not deemed to be "filed" for purposes of Section 18 of the Exchange Act, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ENTASIS THERAPEUTICS HOLDINGS INC.

Date: August 6, 2020

By: /s/ Manoussos Perros, Ph.D.
Manoussos Perros, Ph.D.
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 6, 2020

By: /s/ Michael Gutch, Ph.D.
Michael Gutch, Ph.D.
Chief Financial Officer and Chief Business Officer
(Principal Financial Officer and Principal Accounting Officer)

ENTASIS THERAPEUTICS HOLDINGS INC.

AMENDED NON-EMPLOYEE DIRECTOR COMPENSATION POLICY

Each member of the Board of Directors (the “**Board**”) of Entasis Therapeutics Holdings Inc. (the “**Company**”) who is not also serving as an employee of the Company or any of its subsidiaries (each such member, an “**Eligible Director**”) will receive the compensation described in this Non-Employee Director Compensation Policy (this “**Policy**”). An Eligible Director may decline all or any portion of his or her compensation by giving notice to the Company prior to the date cash is to be paid or equity awards are to be granted, as the case may be. This Policy may be amended at any time in the sole discretion of the Board or the Compensation Committee of the Board.

Annual Cash Compensation

The annual cash compensation amount set forth below is payable to Eligible Directors in equal quarterly installments, payable in arrears on the last day of each fiscal quarter in which the service occurred. If an Eligible Director joins the Board or a committee of the Board at a time other than effective as of the first day of a fiscal quarter, each annual retainer set forth below will be pro-rated based on days served in the applicable fiscal year, with the pro-rated amount paid for the first fiscal quarter in which the Eligible Director provides the service, and regular full quarterly payments to be paid thereafter. All annual cash fees are vested upon payment.

1. Annual Board Service Retainer:
 - a. All Eligible Directors: \$40,000
 - b. Non-executive chairperson of the Board: \$90,000 (inclusive of Annual Board Service Retainer)

2. Annual Committee Member Service Retainer:
 - a. Member of the Audit Committee: \$9,000
 - b. Member of the Compensation Committee: \$7,500
 - c. Member of the Nominating and Corporate Governance Committee: \$4,250

3. Annual Committee Chair Service Retainer (inclusive of Committee Member Service Retainer):
 - a. Chairperson of the Audit Committee: \$18,000
 - b. Chairperson of the Compensation Committee: \$15,000
 - c. Chairperson of the Nominating and Corporate Governance Committee: \$8,500

The Company will also reimburse each of the Eligible Directors for his or her travel expenses incurred in connection with his or her attendance at Board and committee meetings. Such reimbursements shall be paid on the same date as the annual cash fees are paid.

Equity Compensation

The equity compensation set forth below will be granted under the Company’s 2018 Equity Incentive Plan (the “**Plan**”), subject to the approval of the Plan by the Company’s stockholders. All stock options granted under this Policy will be nonstatutory stock options, with an exercise price per share equal to 100% of the Fair Market Value (as defined in the Plan) of the underlying common stock on the date of

grant, and a term of 10 years from the date of grant (subject to earlier termination in connection with a termination of service as provided in the Plan).

1. **Initial Grant:** For each Eligible Director who is first elected or appointed to the Board following the effective date of this Policy, on the date of such Eligible Director's initial election or appointment to the Board (or, if such date is not a market trading day, the first market trading day thereafter), the Eligible Director will be automatically, and without further action by the Board or Compensation Committee of the Board, granted a stock option to purchase a number of shares of the Company's common stock equal to 22,000 shares of the Company's common stock. The shares subject to each such stock option will vest monthly over a three-year period, subject to the Eligible Director's Continuous Service (as defined in the Plan) on each vesting date.

2. **Annual Grant:** On the date of each annual stockholder meeting of the Company held after the Effective Date, each Eligible Director who continues to serve as a non-employee member of the Board following such stockholder meeting will be automatically, and without further action by the Board or Compensation Committee of the Board, granted a stock option to purchase 11,000 shares of the Company's common stock (the "**Annual Grant**"). The shares subject to the Annual Grant will vest in equal monthly installments over the 12 months following the date of grant, provided that the Annual Grant will in any case be fully vested on the date of Company's next annual stockholder meeting, subject to the Eligible Director's Continuous Service (as defined in the Plan) through such vesting date and will vest in full upon a Change in Control (as defined in the Plan).

Approved: December 6, 2019

Effective: January 1, 2020



MEMORANDUM

To: [Name of Recipient]
 From: [Manager]
 Date: [Date]
 Re: Special Bonus Award

This memorandum confirms the Special Bonus Award approved by the Compensation Committee of the Board of Directors of Entasis Therapeutics Holdings Inc. on May 15, 2020, as follows:

Type of Award(1)	Amount of Award(2)	Date of Payment	Conditions to Receipt of Award
Private Placement Award	[\$●]	August 31, 2020	1) Second Closing of Private Placement completed on or before the date of payment 2) Employee remains employed with the Company on the date of payment
ATTACK Award	[\$●]	With first regular payroll following announcement of topline data from ATTACK clinical trial	1) Company announcement of topline data from the ATTACK clinical trial 2) Employee remains employed with the Company on the date of payment

- (1) Include description of award as per eligible recipient.
- (2) Represents gross amount of award. Applicable tax withholdings and deductions will be calculated on the date of payment.
-

**FIRST AMENDMENT TO THE
ENTASIS THERAPEUTICS HOLDINGS INC.
2018 EQUITY INCENTIVE PLAN**

WHEREAS, Entasis Therapeutics Holdings Inc., (the “Company”), sponsors the 2018 Equity Incentive Plan, which was adopted by the Board of Directors of the Company (the “Board”) on September 13, 2018, and approved by the Company’s stockholders on September 14, 2018 (the “Plan”);

WHEREAS, pursuant to Section 2(b) of the Plan, the Board may amend the Plan at any time; and

WHEREAS, the Board wishes to amend the Plan to increase the number of shares available for awards under the Plan by 500,000 shares;

NOW, THEREFORE, effective June 10, 2020, the first sentence of Section 3 (“Shares Subject to the Plan”), subsection (a) (“Share Reserve”), of the Plan is amended and restated in its entirety to read as follows:

“**Share Reserve.** Subject to Section 9(a) relating to Capitalization Adjustments, and the following sentence regarding the annual increase, the aggregate number of shares of Common Stock that may be issued pursuant to Stock Awards will not exceed 2,850,000 shares (the “**Share Reserve**”).”

IN WITNESS WHEREOF, this First Amendment to the Plan has been executed on behalf of the Company this 4th day of August, 2020.

ENTASIS THERAPEUTICS HOLDINGS INC.

By: /s/ David Meek

David Meek
Chairman of the Board

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

I, Manoussos Perros, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Entasis Therapeutics Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2020

By: /s/ Manoussos Perros, Ph.D.
Manoussos Perros, Ph.D.
President and Chief Executive Officer
(Principal Executive Officer)

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

I, Michael Gutch, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Entasis Therapeutics Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2020

By: /s/ Michael Gutch, Ph.D.

Michael Gutch, Ph.D.
Chief Financial Officer and Chief Business Officer
(Principal Financial Officer)

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

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Manoussos Perros, President and Chief Executive Officer of Entasis Therapeutics Holdings Inc. (the "Company"), and Michael Gutch, Chief Financial Officer and Chief Business Officer of the Company, each hereby certifies that, to the best of his knowledge:

- (1) The Company's Quarterly Report on Form 10-Q for the period ended June 30, 2020, to which this Certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
- (2) The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 6, 2020

/s/ Manoussos Perros, Ph.D.

Manoussos Perros, Ph.D.

President and Chief Executive Officer
(Principal Executive Officer)

/s/ Michael Gutch, Ph.D.

Michael Gutch, Ph.D.

Chief Financial Officer and Chief Business Officer
(Principal Financial Officer)
