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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

(Mark One)

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

For the Fiscal Year Ended December 31, 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	**82-4592913**
(State or other jurisdiction of incorporation or organization)	(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 Act:

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Act. Yes ☐ No ☒

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 the filing requirements for the past 90 days. Yes ☒ No ☐

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

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

Large Accelerated Filer	☐	Accelerated Filer	☐
Non-accelerated Filer	☒	Smaller Reporting Company	☒
Emerging growth company	☒		

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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 June 30, 2020, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of shares of the registrant's common stock held by non-affiliates of the registrant was approximately $39.3 million, based on the closing price of the registrant's common stock on The Nasdaq Global Market on June 30, 2020 of $2.96 per share. The calculation excludes shares of the registrant's common stock held by current executive officers, directors and stockholders that the registrant has concluded are affiliates of the registrant. The determination of affiliate status is not a determination for other purposes.

As of March 17, 2021, there were 37,310,254 shares of common stock outstanding.

EXPLANATORY NOTE

Entasis Therapeutics Holdings Inc. (the "Company") is filing this Amendment ("Amendment No. 1") to its Annual Report on Form 10-K for the fiscal year ended December 31, 2020, which was originally filed with the Securities and Exchange Commission on March 23, 2021 (the "Original Filing"), solely to include in full the certifications required to be included in the Original Filing pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.

This Amendment No. 1 restates certain information appearing in Part II and Part IV of the Original Filing for the convenience of the reader, but does not amend or update any of the disclosures or financial statements that were included in the Original Filing. Among other things, this Amendment No. 1 does not reflect events occurring or information that has become known to the Company after the date of the Original Filing, or modify or update those disclosures affected by subsequent events. Accordingly this Amendment No. 1 should be read in conjunction with the Original Filing and forward-looking statements contained herein should be read in their historical context.

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PART II

Item 8. Financial Statements and Supplementary Data

Our financial statements, together with the report of our independent registered public accounting firm, appear in this Amendment No. 1 beginning on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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 December 31, 2020. Based on the evaluation of our disclosure controls and procedures as of December 31, 2020, 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.

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act.

Our management conducted an assessment of the effectiveness of our internal control over financial reporting based on the criteria set forth in "Internal Control-Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. Based on this assessment, management concluded that, as of December 31, 2020, our internal control over financial reporting was effective based on criteria established in the COSO 2013 framework.

Attestation Report of the Registered Public Accounting Firm

This Amendment No. 1 does not include an attestation report of our registered public accounting firm on internal control over financial reporting due to an exemption established by the JOBS Act for "emerging growth companies."

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART IV

Item 15. Exhibits, Financial Statements Schedules

(a)(1) Financial Statements.

The response to this portion of Item 15 is set forth under Item 8 hereof.

(a)(2) Financial Statement Schedules.

All schedules have been omitted because they are not required or because the required information is given in the Financial Statements or Notes thereto.

(a)(3) Exhibits.

The exhibits listed below are filed as part of this Amendment No. 1 other than Exhibit 32.1, which shall be deemed furnished.

Number	Description
23.1*	Consent of Independent Registered Public Accounting Firm.
24.1*	Power of Attorney.
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**	Certification 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 Amendment No. 1 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2020 formatted in inline XBRL (included in Exhibit 101).

* Previously filed.

** Furnished herewith and not deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act (whether made before or after the date of this Amendment No. 1), irrespective of any general incorporation language contained in such filing.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 1 to be signed on its behalf by the undersigned, thereunto duly authorized.

ENTASIS THERAPEUTICS HOLDINGS INC.

Date: April 30, 2021

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

ENTASIS THERAPEUTICS HOLDINGS INC.
Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Entasis Therapeutics Holdings Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Entasis Therapeutics Holdings Inc. and subsidiaries (the Company) as of December 31, 2020 and 2019, the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for the years then ended, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2017.

Boston, Massachusetts
March 23, 2021

ENTASIS THERAPEUTICS HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	December 31, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 53,247	$ 16,034
Short-term investments	—	24,962
Grants receivable	1,890	1,232
Prepaid expenses	4,160	4,560
Other current assets	835	2,218
Total current assets	60,132	49,006
Property and equipment, net	222	345
Operating lease right-of-use assets	1,141	1,620
Other assets	63	63
Total assets	$ 61,558	$ 51,034
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 660	$ 1,304
Accrued expenses and other current liabilities	7,905	6,252
Total current liabilities	8,565	7,556
Operating lease liabilities, net of current portion	704	1,321
Total liabilities	9,269	8,877
Commitments (Notes 6 and 14)		
Stockholders' equity:		
Common stock, par value $0.001; 125,000,000 shares authorized and 36,637,357 and 13,291,563 shares issued and outstanding as of December 31, 2020 and 2019, respectively	37	13
Additional paid-in capital	236,707	176,103
Accumulated deficit	(184,455)	(133,959)
Total stockholders' equity	52,289	42,157
Total liabilities and stockholders' equity	$ 61,558	$ 51,034

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

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

	Year Ended December 31,	
	2020	2019
Revenue	$ —	$ 7,000
Operating expenses:		
Research and development	41,022	40,166
General and administrative	13,209	13,770
Total operating expenses	54,231	53,936
Loss from operations	(54,231)	(46,936)
Other income:		
Grant income	3,562	2,300
Interest income	173	1,463
Total other income	3,735	3,763
Loss before income taxes	(50,496)	(43,173)
Provision for income taxes	—	677
Net loss	(50,496)	(43,850)
Net loss per share —basic and diluted	$ (2.10)	$ (3.33)
Weighted average common stock outstanding—basic and diluted	24,060,615	13,160,357

	Year Ended December 31,	
	2020	2019
Other comprehensive loss:		
Net loss	$ (50,496)	$ (43,850)
Net unrealized gain on investments held	—	9
Comprehensive loss	$ (50,496)	$ (43,841)

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

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

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balances as of December 31, 2018	13,124,842	$ 13	$ 172,988	$ (9)	$ (90,109)	$ 82,883
Stock-based compensation expense	—	—	2,421	—	—	2,421
Exercise of stock options	12,554	—	52	—	—	52
Sale of common stock, net of issuance costs of $284	50,000	—	—	—	—	—
Issuance of commitment shares in connection with Aspire Common Stock Purchase Agreement	104,167	—	642	—	—	642
Unrealized gain on investments held	—	—	—	9	—	9
Net loss	—	—	—	—	(43,850)	(43,850)
Balances as of December 31, 2019	13,291,563	13	176,103	—	(133,959)	42,157
Stock-based compensation expense	—	—	2,951	—	—	2,951
Sale of common stock and warrants in private placements, net of issuance costs	22,183,878	22	57,653	—	—	57,675
Exercise of warrants	1,161,916	2	—	—	—	2
Net loss	—	—	—	—	(50,496)	(50,496)
Balances as of December 31, 2020	36,637,357	$ 37	$ 236,707	$ —	$ (184,455)	$ 52,289

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

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

	Year Ended December 31,	
	2020	2019
Cash flows from operating activities:		
Net loss	$ (50,496)	$ (43,850)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	141	142
Stock-based compensation expense	2,951	2,421
Amortization and accretion of investments	(37)	(686)
Changes in operating assets and liabilities:		
Grants receivable	(658)	474
Prepaid expenses	400	(3,206)
Other assets	1,881	(2,711)
Accounts payable	(644)	(30)
Accrued expenses and other liabilities	1,036	2,878
Deferred rent	—	(175)
Net cash used in operating activities	(45,426)	(44,743)
Cash flows from investing activities:		
Purchases of property and equipment	(18)	(105)
Proceeds from maturities of short-term investments	25,000	56,415
Purchases of short-term investments	—	(44,950)
Net cash provided by investing activities	24,982	11,360
Cash flows from financing activities:		
Proceeds from the issuance of common stock and warrants in private placements, net	57,657	155
Proceeds from exercise of stock options	—	52
Payments of initial public offering costs	—	(150)
Net cash provided by financing activities	57,657	57
Net increase (decrease) in cash and cash equivalents	37,213	(33,326)
Cash and cash equivalents at beginning of the year	16,034	49,360
Cash and cash equivalents at end of the year	$ 53,247	$ 16,034
Supplemental disclosure of non-cash investing and financing activities:		
Commitment shares issued in connection with common stock purchase agreement	$ —	$ 642
Supplemental disclosure of cash flow information:		
Cash paid for taxes	$ —	$ 677

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

ENTASIS THERAPEUTICS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 targeted antibacterial products that address high unmet medical needs to treat serious infections caused by multidrug-resistant pathogens. The Company has four subsidiaries: Entasis Therapeutics Limited; Entasis Therapeutics Inc.; Entasis Therapeutics Security Corporation; and Entasis Therapeutics (Ireland) Limited.

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 First Securities Purchase Agreement, with Innoviva Inc., or Innoviva, pursuant to which the Company issued and sold to Innoviva, in a private placement, 14,000,000 newly issued shares of common stock of the Company at $2.50 per share, and warrants to purchase up to 14,000,000 shares of common stock with an exercise price per share of $2.50, resulting in an aggregate gross purchase price of approximately $35.0 million, collectively, the First Private Placement. As a result of the transaction, Innoviva acquired control of the Company, owning approximately 51.3% of the Company's common stock without giving effect to the potential exercise of its warrants.

On August 27, 2020, the Company entered into another securities purchase agreement, or the Second Securities Purchase Agreement, with the purchasers named therein, or the Investors, which included existing stockholder Innoviva. Pursuant to the Second Securities Purchase Agreement, the Company issued and sold to the Investors in a private placement (i) 8,183,878 newly issued shares of common stock of the Company at $2.675 per share, (ii) warrants to purchase an aggregate of 9,345,794 shares of common stock with an exercise price of $2.675, and (iii) pre-funded warrants, in lieu of common stock, to purchase an aggregate of 1,161,916 shares of common stock with an exercise price of $0.001 per share, resulting in aggregate gross proceeds of approximately $25.0 million, which is referred to collectively as the Second Private Placement. The closing of the Second Private Placement occurred on September 1, 2020. As a result of the transaction, Innoviva owned approximately 52.6% of the Company's common stock without giving effect to the potential exercise of its warrants.

Risks and Uncertainties

As of December 31, 2020, the Company had $53.2 million in cash and cash equivalents, and an accumulated deficit of $184.5 million. Since its inception through December 31, 2020, the Company has funded its operations primarily with proceeds from the sale of preferred stock, common stock, warrants and pre-funded warrants. The Company also has either directly received funding or financial commitments from, or has had its program activities conducted and funded by, United States government agencies, non-profit entities and the collaboration agreement with Zai Lab (Shanghai), Co., Ltd., or Zai Lab. In the absence of positive cash flows from operations, the Company is highly dependent on its ability to find additional sources of funding in the form of debt, equity financing, strategic collaborations, or partnerships. If the Company raises additional funds through collaborations, strategic alliances or marketing, distribution or licensing arrangements with third parties, it may be required to relinquish valuable rights to its technologies, future revenue streams, research programs or product candidates or to grant licenses on terms that may not be favorable. If the Company is unable to raise additional funds through equity or debt financings when needed, it may be required to delay, limit, reduce or terminate drug development or future commercialization efforts or grant rights to a third party to develop and market product candidates. The Company's failure to raise capital as and when needed would compromise its ability to pursue its business strategy. The Company believes its existing cash and cash equivalents will enable it to fund its operating expenses and capital requirements through the end of the first quarter of 2022.

ENTASIS THERAPEUTICS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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. Although the Company has continued to enroll patients in its SUL-DUR phase 3 registration trial, or ATTACK trial, some clinical sites in high COVID-19 impact areas have experienced disruptions in new patient enrollment due to redirection of resources as dictated by local conditions. Furthermore, from March 2020 to June 2020, GARDP, with the Company's full agreement, had temporarily paused patient enrollment into the zoliflodacin Phase 3 registration trial at U.S. sites and activation of new clinical trial sites in ex-U.S. regions.

2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. The consolidated financial statements include the Company's accounts and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

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 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 research and development expenses. 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.

ENTASIS THERAPEUTICS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Fair Value Measurements

The accounting standard for fair value measurements defines fair value, establishes a framework for measuring fair value in accordance with U.S. GAAP, and requires detailed disclosures about fair value measurements. Under this standard, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect the Company's assumptions. This standard classifies these inputs into the following hierarchy:

Level 1 Inputs— Quoted prices in active markets for identical instruments;

Level 2 Inputs—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable;

Level 3 Inputs—Instruments with primarily unobservable value drivers.

The Company evaluates transfers between levels at the end of each reporting period. There were no transfers of assets or liabilities between Level 1, Level 2 or Level 3 during the years ended December 31, 2020 and 2019.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of 90 days or less at acquisition to be cash equivalents. Cash and cash equivalents include cash held in banks, money market instruments, corporate and municipal notes, U.S. Treasury securities and federal agency securities. Cash equivalents are stated at fair value. The amount of cash equivalents included in cash and cash equivalents was approximately $49.1 million and $13.9 million as of December 31, 2020 and 2019, respectively.

Short-Term Investments

The Company classifies all short-term investments with an original maturity when purchased of greater than three months as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in other comprehensive loss. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income. Realized gains and losses, and declines in value judged to be other than temporary on available-for-sale securities, are included in interest income.

The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest income. To determine whether an other-than-temporary impairment exists, the Company considers whether it has the ability and intent to hold the investment until a market price recovery, and whether evidence indicating the recoverability of the cost of the investment outweighs evidence to the contrary.

Concentrations of Credit Risk and of Significant Suppliers

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash and short-term investments. The Company maintains each of its cash balances with high-quality, accredited, financial institutions and, accordingly, such funds are not exposed to significant credit risk. The Company does not believe that it is subject to unusual credit risk beyond the normal credit risk associated with commercial banking relationships.

ENTASIS THERAPEUTICS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The Company is dependent on third-party manufacturers to supply active pharmaceutical ingredient, or API, and drug product for research and development activities for its programs, including clinical trial testing. These programs could be adversely affected by a significant interruption in the supply of API or drug product.

Deferred Financing Costs

The Company capitalizes certain legal, professional accounting and other third-party fees that are directly associated with in-process equity financings as deferred offering costs until such financings are consummated. After consummation of the equity financing, these costs are recorded in stockholders' equity as a reduction of proceeds generated as a result of the offering.

Should a planned equity financing be abandoned, the deferred offering costs would be expensed immediately as a charge to operating expenses in the consolidated statement of operations.

Property and Equipment

Property and equipment is recorded at cost and depreciated over the estimated useful lives of the related assets using the straight-line method. Upon disposal of an asset, the related cost and accumulated depreciation are removed from the asset accounts and any resulting gain or loss is included in the consolidated statement of operations. Repair and maintenance costs are expensed as incurred, whereas major improvements are capitalized as additions to property and equipment. The estimated useful lives of the Company's respective assets are as follows:

	Estimated Useful Life
Laboratory equipment	3 - 5 years
Computer software	3 years
Computer equipment	3 years
Furniture and fixtures	5 years

Impairment of Long-Lived Assets

Long-lived assets are tested for recoverability whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. Whenever such events occur, the Company compares forecasts of undiscounted cash flows expected to result from the use and eventual disposition of the long-lived asset to its carrying value. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of an asset are less than its carrying amount. The impairment loss would be based on the excess of the carrying value of the impaired asset over its fair value, determined based on discounted cash flows.

Segment Information

The Company manages its operations as a single operating segment for the purposes of assessing performance and making operating decisions. As of December 31, 2020 and 2019, all of the Company's long-lived assets were domiciled in the United States.

Revenue Recognition

Effective January 1, 2018, the Company adopted Accounting Standards Codification, or ASC, Topic 606, *Revenue from Contracts with Customers*, or ASC 606. This standard applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, and financial instruments. Under ASC 606, the Company recognizes revenue when a customer obtains control of promised goods or services, in an amount that reflects the consideration that the Company expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that the Company determines are within the scope of ASC 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in

the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the Company will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of ASC 606, the Company assessed the goods or services promised within each contract and determines those that are performance obligations, and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied as services are rendered.

The Company enters into collaboration agreements for research, development, manufacturing and commercial services that are within the scope of ASC 606, under which the Company licenses certain rights to its product candidates to third parties. The terms of these arrangements typically include payment to the Company of one or more of the following: non-refundable, upfront license fees; reimbursement of certain costs; customer option exercise fees; development, regulatory and commercial milestone payments; and royalties on net sales of licensed products. The amount of variable consideration is constrained until it is probable that the revenue is not at a significant risk of reversal in a future period. The contracts into which the Company enters generally do not include significant financing components.

As part of the accounting for these arrangements, the Company may be required to use significant judgment to determine: (a) the performance obligations in the contract under step (ii) above, (b) the transaction price under step (iii) above and (c) the timing of revenue recognition, including the appropriate measure of progress in step (v) above. The Company uses judgment to determine whether milestones or other variable consideration, except for royalties, should be included in the transaction price, as described further below. The transaction price is allocated to each performance obligation on a relative stand-alone selling price basis, for which the Company recognizes revenue as or when the performance obligations under the contract are satisfied. If a milestone or other variable consideration relates specifically to the Company's efforts to satisfy a single performance obligation or to a specific outcome from satisfying the performance obligation, the Company generally allocates the milestone amount entirely to that performance obligation once it is probable that a significant revenue reversal would not occur.

Amounts received prior to revenue recognition are recorded as deferred revenue. Amounts expected to be recognized as revenue within the 12 months following the balance sheet date would be classified as current portion of deferred revenue in the consolidated balance sheet. Amounts not expected to be recognized as revenue within the 12 months following the balance sheet date would be classified as deferred revenue, net of current portion.

Licenses of intellectual property

In assessing whether a license is distinct from the other promises, the Company considers factors such as the research, development, manufacturing and commercialization capabilities of the collaboration partner and the availability of the associated expertise in the general marketplace. In addition, the Company considers whether the collaboration partner can benefit from a license for its intended purpose without the receipt of the remaining promise(s), whether the value of the license is dependent on the unsatisfied promise(s), whether there are other vendors that could provide the remaining promise(s), and whether it is separately identifiable from the remaining promise(s). For licenses that are combined with other promises, the Company utilizes judgment to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress for purposes of recognizing revenue. The Company evaluates the measure of progress each reporting period and, if necessary, adjusts the measure of performance and related revenue recognition.

Customer options

If an arrangement is determined to contain customer options that allow the customer to acquire additional goods or services, the goods and services underlying the customer options are not considered to be performance obligations at the outset of the arrangement, as they are contingent upon option exercise. The Company evaluates the customer options

for material rights, or options to acquire additional goods or services for free or at a discount. If the customer options are determined to represent or include a material right, the material right is recognized as a separate performance obligation at the outset of the arrangement. The Company allocates the transaction price to material rights based on the relative standalone selling price, which is determined based on the identified discount and the probability that the customer will exercise. Amounts allocated to a material right are not recognized as revenue until, at the earliest, the option is exercised.

Milestone payments

At the inception of each arrangement that includes development milestone payments, the Company evaluates whether the milestones are considered probable of being achieved and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant reversal of cumulative revenue would not occur, the associated milestone value is included in the transaction price. Milestone payments based on events that are not within the Company's control, such as regulatory approvals, are not considered probable of being achieved until those approvals are received. The Company evaluates factors such as the scientific, clinical, regulatory, commercial, and other risks that must be overcome to achieve the particular milestone in making this assessment. There is considerable judgment involved in determining whether it is probable that a significant reversal of cumulative revenue would not occur. At the end of each subsequent reporting period, the Company reevaluates the probability of achievement of all milestones subject to constraint and, if necessary, adjusts its estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect revenue and earnings in the period of adjustment.

Government Contracts and Grant Agreements

Income from grants is recognized in the period during which the related specified expenses are incurred, provided that the conditions under which the grants or incentives were provided have been met. Grant funding that is received by the Company in advance of incurring specified expenses is recorded in the consolidated balance sheet as a liability. Grant income recognized upon incurring specified expenses in advance of receipt of grant funding is recorded in the consolidated balance sheet as a receivable.

Research and Development Costs

Research and development costs are expensed as incurred. Research and development expenses include employee costs, such as salaries, equity-based compensation and benefits, as well as consulting, contract research, third-party license fees, depreciation, rent and other corporate or operational costs attributable to the Company's research and development activities. These costs include allocated facility-related expenses and external costs of outside vendors engaged to conduct both preclinical studies and clinical trials. Non-refundable pre-payments for goods or services that will be used or rendered for future research and development activities are deferred. Such amounts are recognized as expense as the goods or services 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.

The Company has entered into various research and development contracts with research institutions and other companies. These agreements are generally cancelable, and related payments are recorded as research and development expenses as incurred. The Company records accruals for estimated ongoing research costs. When evaluating the adequacy of the accrued liabilities, the Company analyzes progress of the studies, including the phase or completion of events, invoices received and contracted costs. Significant judgments and estimates are made in determining the accrued balances at the end of any reporting period. Actual results could differ from the Company's estimates. The Company's historical accrual estimates have not been materially different from the actual costs.

Patent Costs

The Company expenses patent costs as incurred and records such costs within general and administrative expenses.

ENTASIS THERAPEUTICS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Stock-Based Compensation

The Company measures stock-based awards based on the estimated fair value of the award on the date of the grant and recognizes compensation expense for those awarded to employees and directors over the requisite service period, which is generally the vesting period of the respective award, and for those awarded to nonemployees over the period during which services are rendered by nonemployees until completed. Forfeitures are accounted for as they occur. The Company has historically issued stock-based awards with only service-based vesting conditions and records the expense for these awards using the straight-line method.

The Company classifies stock-based compensation expense in its consolidated statement of operations in the same manner in which the award recipients' payroll costs are classified or in which the award recipients' service payments are classified.

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model. The Company lacks company-specific historical and implied volatility information for its stock. The Company estimates its expected stock price volatility based on the historical volatility of publicly traded peer companies and expects to continue to do so until such time as it has adequate historical data regarding the volatility of its own traded stock price. The expected term of the Company's stock options has been determined utilizing the "simplified" method. The "simplified" method estimates the expected term of stock options as the mid-point between the weighted average time to vesting and the contractual maturity. The risk-free interest rate is determined by reference to the U.S. Treasury yield curve in effect at the time of grant of the award for time periods approximately equal to the expected term of the award. There is no expected dividend yield since the Company has never paid cash dividends on common stock and does not expect to pay any cash dividends in the foreseeable future.

Income Taxes

The Company accounts for income taxes using the asset and liability method which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is provided to reduce the deferred tax asset to a level which, more likely than not, will be realized. See Note 12 for further discussion of income taxes.

Accounting for income taxes requires a two-step approach to recognize and measure uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if, based on the technical merits, it is more likely than not that the position will be sustained upon audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50 percent likely of being realized upon ultimate settlement. The provision for income taxes includes the effects of any resulting tax reserves, or unrecognized tax benefits, that are considered appropriate as well as the related net interest and penalties.

Basic and Diluted Net Loss Per Share

Net earnings or loss per share 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 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 the investors in connection with the First Private Placement and the Second Private Placement are assumed to participate in undistributed earnings on an as-exercised basis, in accordance with the respective warrant agreements. Undistributed net losses are allocated entirely to common stockholders since the participating security has no contractual obligation to share in the losses.

ENTASIS THERAPEUTICS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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.

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 December 31, 2020.

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

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 investments had contractual maturities within one year.

ENTASIS THERAPEUTICS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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:

	December 31, 2020			
	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Cash equivalents:				
Money market funds	$ 49,125	$ —	$ —	$ 49,125
Total	$ 49,125	$ —	$ —	$ 49,125

	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	$ 38,911	$ —	$ —	$ 38,911

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 carrying amounts of the Company's cash equivalents, grants receivable, accounts payable and accrued expenses approximate their fair value due to the short-term nature of these amounts.

5. Property and Equipment, net

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

	As of December 31,	
	2020	2019
Laboratory equipment	$ 1,001	$ 997
Computer software	71	71
Computer equipment	38	38
Furniture and fixtures	6	6
Total	1,116	1,112
Less: accumulated depreciation	(894)	(767)
Property and equipment, net	$ 222	$ 345

Depreciation expense was $0.1 million for each of the years ended December 31, 2020 and 2019.

6. Leases

The Company adopted 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 has elected to utilize this package of practical expedients and has not elected the

hindsight methodology in its implementation of ASC 842. Adoption of the standard did not result in a material cumulative effect requiring adjustment to retained earnings as of January 1, 2019.

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 each of the years ended December 31, 2020 and December 31, 2019, the Company recorded lease expense of $0.6 million related to this lease. The Company has two additional operating leases that are included in its lease accounting which are not considered significant.

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 has 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 sheet (in thousands):

	As of December 31, 2020	2019
Assets		
Operating lease right-of-use assets	$ 1,141	$ 1,620
Liabilities		
Operating lease liabilities, current	$ 617	$ 506
Operating lease liabilities, net of current portion	704	1,321
Total operating lease liabilities	$ 1,321	$ 1,827

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 were as detailed below (in thousands):

Fiscal Year	As of December 31, 2020
2021	$ 717
2022	737
2023	1
Total undiscounted lease payments	1,455
Less: imputed interest	(134)
Total operating lease liabilities	$ 1,321

As of December 31, 2020, the weighted-average remaining lease term was 2.0 years and the weighted-average incremental borrowing rate used to determine the operating lease right-of-use assets was 9.1%.

ENTASIS THERAPEUTICS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Accrued Expenses and Other Current Liabilities

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

	As of December 31,	
	2020	2019
Accrued compensation and benefits	$ 2,935	$ 2,490
Accrued contract manufacturing	2,959	1,550
Accrued clinical	504	606
Accrued professional services	435	530
Accrued research	349	275
Current portion of operating lease liabilities	617	506
Other	106	295
Total accrued expenses and other current liabilities	$ 7,905	$ 6,252

8. 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 was 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.

The Company recognized grant income in connection with the NIH contract of $1.3 million during the year ended December 31, 2020. The Company received payments of $0.6 million under this contract during the year ended December 31, 2020. As of December 31, 2020, the Company's receivables for unreimbursed, eligible costs incurred under the NIH contract totaled $0.7 million.

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 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. Through December 31, 2020, the Company has received $9.5 million in payments and recorded $10.3 million of grant income under these funding arrangements.

The Company recognized grant income in connection with the CARB-X agreements of $2.3 million for each of the years ended December 31, 2020 and 2019. The Company received $2.4 million and $2.6 million of payments under the grants during the years ended December 31, 2020 and 2019, respectively. The Company recorded a receivable to reflect unreimbursed, eligible costs incurred under the CARB-X agreements in the amount of $1.1 million and $1.2 million as of December 31, 2020 and December 31, 2019, respectively.

ENTASIS THERAPEUTICS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. 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 and commercialization of a product candidate containing 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 Company is obligated to commit reasonably sufficient time and resources to collaborate in the design of the Phase 3 registration trial and the development of the protocol for the trial and to provide know-how relating to zoliflodacin and any future product candidate. Both parties are responsible for obtaining marketing authorizations for any future product candidate in such parts of their respective territories as they elect. The Phase 3 registration trial was initiated in September 2019 with activation of U.S. sites. In March 2020, in response to the COVID-19 pandemic, GARDP, with the Company's full agreement, had temporarily paused patient enrollment at U.S. sites and activation of new clinical trial sites in ex-U.S. regions. In July 2020, GARDP resumed patient enrollment into the Phase 3 registration trial at U.S. sites and activated a new clinical trial site in the Netherlands.

In addition, under the collaboration agreement, the Company has granted GARDP a worldwide, fully paid, exclusive and royalty-free license, with the right to sublicense, to use its zoliflodacin technology in connection with GARDP's development, manufacture and commercialization of zoliflodacin in low-income and specified middle-income countries. The Company has retained commercial rights in all other countries worldwide, including the major markets in North America, Europe and Asia-Pacific. The Company has also retained the right to use and grant licenses to its zoliflodacin technology to perform its obligations under the collaboration agreement and for any purpose other than gonorrhea or community-acquired indications. If the Company believes that the results of the Phase 3 registration trial of zoliflodacin would be supportive of an application for marketing approval, it is obligated to use its best efforts to file an application for marketing approval with the FDA within six months of the completion of the trial and to use commercially reasonable endeavors to file an application for marketing approval with the EMA. Each party is responsible for using commercially reasonable efforts to obtain marketing authorizations for the product candidate in their respective territories.

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 $4.2 million, less applicable taxes of $2.1 million, from Zai Lab through December 31, 2020. During the year ended December 31, 2020, the Company recognized no revenue under the Zai Agreement, and during the year ended December 31, 2019, the Company recognized $7.0 million of 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 Chinese regulatory agency, National Medical Products 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 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.

10. Stockholders' Equity

Common Stock

Each holder of common stock shall be entitled to one vote for each share of common stock held of record by such holder on all matters on which stockholders generally are entitled to vote. Common stockholders are entitled to receive dividends when and if declared by the board of directors, out of any funds legally available. As of December 31, 2020, no dividends have been declared or paid.

Second Private Placement

On August 27, 2020, the Company entered into the Second Securities Purchase Agreement with the Investors, including existing stockholder Innoviva, pursuant to which the Company issued and sold to the Investors in a private placement (i) 8,183,878 newly issued shares of common stock of the Company at $2.675 per share, (ii) warrants to purchase an aggregate of 9,345,794 shares of common stock with and exercise price of $2.675, and (iii) pre-funded warrants, in lieu of common stock, to purchase an aggregate of 1,161,916 shares of common stock, with an exercise price of $0.001 per share, resulting in aggregate gross proceeds of approximately $25.0 million. The closing of the Second Private Placement occurred on September 1, 2020.

The exercise price and the number of shares of common stock issuable upon exercise of each warrant is subject to appropriate adjustments in the event of certain stock dividends and distributions, stock splits, stock combinations, reclassifications or similar events affecting the Company's common stock. Each warrant is exercisable from the date of issuance and has a term of five years.

ENTASIS THERAPEUTICS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Registration Rights Agreement

On September 1, 2020, in connection with the Second Securities Purchase Agreement, the Company entered into a registration rights agreement, or the Second Registration Rights Agreement, with the Investors. Pursuant to the Second Registration Rights Agreement, the Company agreed to prepare and file a registration statement with the SEC, within 45 days after the closing of the Second Private Placement for purposes of registering the resale of the shares of common stock, shares of common stock issuable upon exercise of the warrants, the warrants and any shares of common stock issued as a dividend or other distribution with respect to the shares or shares of common stock issuable upon exercise of the warrants. The registration statement was filed with the SEC on October 5, 2020, and declared effective by the SEC on October 13, 2020.

First Private Placement

On April 12, 2020, the Company entered into the First Securities Purchase Agreement, with Innoviva, pursuant to which the Company issued and sold to Innoviva 14,000,000 newly issued shares of common stock of the Company at $2.50 per share, and warrants to purchase up to 14,000,000 shares of common stock with an exercise price per share of $2.50.

Under the First Securities Purchase Agreement, the First Private Placement occurred in two tranches. At the closing of the first tranche, which occurred on April 22, 2020, or the First Closing, 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, which occurred on June 11, 2020, or the Second Closing, 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 of December 31, 2020, Innoviva owned approximately 51.0% of the Company’s outstanding common stock.

Investor Rights Agreement

At the First Closing, Innoviva and the Company entered into an investor 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 First Registration Rights Agreement, pursuant to which, among other things, the Company agreed to 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 First 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. The registration statement was filed with the SEC on August 6, 2020, and declared effective by the SEC on August 14, 2020.

ENTASIS THERAPEUTICS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Warrants

As of December 31, 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
9,345,794	$ 2.675	September 1, 2025
23,345,794		

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.

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.

As consideration for Aspire's obligation under the CSPA, the Company issued 104,167 shares of common stock to Aspire as a commitment fee, or the Commitment Shares. This $0.6 million commitment fee and $0.1 million in other transaction costs were deferred and will be charged against the gross proceeds received upon exercise by the Company as costs of equity financing within additional paid-in capital.

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 the Commitment Shares, which represents 19.99% of the Company's 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 year ended December 31, 2020, no shares had been purchased by Aspire pursuant to the CSPA. During the year ended December 31, 2019, 50,000 shares had been purchased by Aspire pursuant to the CSPA resulting in gross proceeds of $0.3 million.

Concurrently with entering into the CSPA, the Company also entered into a registration rights agreement with Aspire, pursuant to which the Company filed with the SEC a prospectus supplement to the Company's effective shelf registration statement on Form S-3 (File No. 333-234041), registering all of the shares of common stock that may be offered to Aspire from time to time under the CSPA, including the Commitment Shares.

11. Stock-Based Compensation Expense

Stock Incentive Plan

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 Inventive Plan, or the 2015 Plan, previously in effect. 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 December 31, 2020, options to purchase an aggregate of 3,720,509 shares had been granted, restricted stock units, or RSUs, of 395,100 had been awarded, and 359,416 shares were available for future issuance under the 2018 Plan. The options issued under the 2018 Plan expire after 10 years from the date of grant.

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 will automatically increase 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, 2021 and 2020, 1,465,494 and 531,662 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 directors, taken together with any cash fees paid by the Company to such nonemployee directors 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.

All options and awards granted under the 2015 Plan consisted of the Company's common stock. 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.

ENTASIS THERAPEUTICS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Stock Option Activity

Stock option activity under both plans for year ended December 31, 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	1,107,300	4.30		
Exercised	—	—		
Forfeited	(382,996)	5.80		
Outstanding as of December 31, 2020	3,112,704	$ 5.58	7.76	$ 44
Exercisable as of December 31, 2020	1,439,434	$ 5.81	7.02	$ —

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 years ended December 31, 2020 and 2019 the weighted-average grant-date fair value per granted option was $2.95 and $3.99, respectively.

Restricted Stock Unit Activity

Restricted stock unit activity for the year ended December 31, 2020 is summarized as follows:

	Number of Units	Weighted-Average Grant Date Fair Value
Outstanding as of December 31, 2019	—	$ —
Granted	395,100	1.65
Released	—	—
Forfeited	—	—
Outstanding as of December 31, 2020	395,100	$ 1.65

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 250,000 and 132,915 shares were added to the number of available shares effective January 1, 2021 and 2020, respectively. As of December 31, 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.

ENTASIS THERAPEUTICS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Stock-Based Compensation

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

	Year Ended December 31,	
	2020	2019
Research and development	$ 1,397	$ 891
General and administrative	1,554	1,530
Total stock-based compensation expense	$ 2,951	$ 2,421

The following table summarizes stock-based compensation expense by type of award (in thousands):

	Year Ended December 31,	
	2020	2019
Stock options	$ 2,898	$ 2,421
Restricted stock units	53	—
Total stock-based compensation expense	$ 2,951	$ 2,421

The following table summarizes unrecognized stock-based compensation expense as of December 31, 2020, by type of awards, and the weighted-average period over which that expense is expected to be recognized. The total unrecognized stock-based compensation expense will be adjusted for actual forfeitures as they occur.

	As of December 31, 2020	
	Unrecognized Expense (in thousands)	Weighted-average Recognition Period (in years)
Stock options	$ 5,324	2.44
Restricted stock units	$ 599	1.84

The following weighted average assumptions were used to calculate the fair value of each stock option award under the Black-Scholes option pricing model:

	Year Ended December 31,	
	2020	2019
Expected stock price volatility	82.0 %	77.8 %
Risk-free interest rate	0.5 %	2.3 %
Expected annual dividend yield	—	—
Expected life of options	6.3 years	6.1 years

12. Income Taxes

During the years ended December 31, 2020 and 2019, the Company recorded no income tax benefits for the net operating losses incurred due to its uncertainty of realizing a benefit from those items. The Company's losses before income taxes were generated in the United States and the United Kingdom.

ENTASIS THERAPEUTICS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Net loss before the provision for income taxes for the years ended December 31, 2020 and 2019, consisted of the following (in thousands):

	Year Ended December 31,	
	2020	2019
United Kingdom	$ 38,280	$ 32,725
United States	12,216	10,448
	$ 50,496	$ 43,173

There was no provision for income taxes for the year ended December 31, 2020. The provision for income taxes for the year ended December 31, 2019 consisted of the following (in thousands):

	Year Ended December 31, 2019
Current	
Federal	$ —
State	17
Foreign	660
Total current	677
Deferred	
Federal	—
State	—
Foreign	—
Total deferred	—
Total income taxes	$ 677

A reconciliation of the federal statutory income tax rate to the Company's effective income tax rate is as follows:

	Year Ended December 31,	
	2020	2019
Income tax benefit computed at U.S. statutory tax rate	21.0 %	21.0 %
State taxes, net of federal benefit	6.6	6.9
Foreign rate differential	(1.5)	(3.0)
Disregarded entity	15.9	15.9
Research and development tax credits	1.4	1.4
Permanent difference	(0.6)	0.1
Valuation allowances	(45.7)	(42.4)
Rate change	3.6	—
Other	(0.7)	—
Foreign withholding tax	—	(1.5)
Effective income tax rate	(0.0)%	(1.6)%

ENTASIS THERAPEUTICS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Net deferred tax assets consisted of the following (in thousands):

	As of December 31,	
	2020	2019
Deferred tax assets:		
Net operating loss carryforwards	$ 57,265	$ 36,151
Tax credit carryforwards	4,345	3,507
Accrued expenses and other	3,099	2,037
Total deferred tax assets	64,709	41,695
Deferred tax liabilities:		
ASC 842 right-of-use asset	(312)	(442)
Total deferred tax liabilities	(312)	(442)
Valuation allowance	(64,397)	(41,253)
Net deferred tax assets	$ —	$ —

Net operating losses generated in years ending after December 31, 2018 will be carried forward indefinitely and can no longer be carried back, and net operating losses generated in years beginning after December 31, 2017, can only reduce taxable income by 80% when utilized in a future period. As of December 31, 2020, the Company had federal and state net operating loss carryforwards, or NOLs, of $119.8 million and $121.2 million, respectively, which begin to expire in 2035. Included in the $119.8 million of federal net operating losses are losses of $107.1 million that will carry forward indefinitely as a result of the Tax Cuts and Jobs Act. As of December 31, 2020, the Company had federal and state research and development tax credits carryforwards of $3.4 million and $1.2 million, respectively, which begin to expire in 2035 and 2026, respectively.

Utilization of the NOLs and research and development tax credit carryforwards may be subject to a substantial annual limitation under Section 382 of the Internal Revenue Code of 1986 due to ownership changes that have occurred previously or that could occur in the future. These ownership changes may limit the amount of carryforwards that can be utilized annually to offset future taxable income. In general, an ownership change, as defined by Section 382, results from transactions increasing the ownership of certain stockholders or public groups in the stock of a corporation by more than 50% over a three-year period. During 2020, Innoviva purchased over 50% of the Company's common stock. This ownership change may result in a limitation of the Company's NOLs. The Company has not conducted a study to assess whether there have been multiple changes of control since inception due to the significant complexity and cost associated with such a study. Ownership changes may limit the amount of NOLs and tax credit carryforwards that could be utilized annually to offset future taxable income. The amount of the annual limitation is determined based on the Company's value immediately prior to the ownership change. Subsequent significant changes in ownership could affect the limitations in future years. Any limitation may result in expiration of a portion of the net operating loss carryforwards or tax credit carryforwards before utilization.

As of December 31, 2020, the Company had NOLs in the United Kingdom of $128.7 million to offset future taxable income. The NOLs in the United Kingdom can be carried forward indefinitely.

The Company has evaluated the positive and negative evidence bearing upon its ability to realize the deferred tax assets. Management has considered the Company's history of cumulative net losses incurred since inception and its lack of commercialization of any products or generation of any revenue from product sales since inception and has concluded that it is more likely than not that the Company will not realize the benefits of the federal, state and foreign deferred tax assets. Accordingly, a full valuation allowance of $64.4 million has been established against the deferred tax assets as of December 31, 2020. Management reevaluates the positive and negative evidence at each reporting period.

ENTASIS THERAPEUTICS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Changes in the valuation allowance for deferred tax assets during the years ended December 31, 2020 and 2019 related primarily to the increases in NOLs and research and development tax credit carryforwards and were as follows (in thousands):

	Year Ended December 31,	
	2020	2019
Valuation allowance at beginning of year	$ (41,253)	$ (23,459)
Increases recorded to income tax provision	(23,144)	(17,794)
Valuation allowance at end of year	$ (64,397)	$ (41,253)

The Company has not recorded an amount for unrecognized tax benefits or related interest and penalties accrued as of December 31, 2020. The Company files income tax returns in the United States, Massachusetts and the United Kingdom. The federal and state returns are generally subject to tax examinations for the tax years ended December 31, 2015 to the present. The statute of limitations for assessment by the United Kingdom is open for the tax years since 2015. There are currently no pending tax examinations. To the extent the Company has tax attribute carryforwards, the tax years in which the attribute was generated may still be adjusted upon examination by the Internal Revenue Service and state tax authorities to the extent utilized in a future or prior period. The Company's policy is to record interest and penalties related to income taxes as part of its income tax provision.

13. Net Loss per Share

Basic and diluted net loss per share of the Company was calculated as follows (in thousands, except share and per share amounts):

	Year Ended December 31,	
	2020	2019
Numerator:		
Net loss	$ (50,496)	$ (43,850)
Net loss attributable to common stockholders—basic and diluted	$ (50,496)	$ (43,850)
Denominator:		
Weighted average common stock outstanding—basic and diluted	24,060,615	13,160,357
Net loss per share attributable to common stockholders—basic and diluted	$ (2.10)	$ (3.33)

The following outstanding securities have been excluded from the computation of diluted weighted average shares outstanding for the year ended December 31, 2020 and 2019, respectively, as they would have been anti-dilutive:

	As of December 31,	
	2020	2019
Options to purchase shares of common stock	3,112,704	2,388,400
Warrants to purchase shares of common stock	23,345,794	—
Unvested restricted stock units	395,100	—
	26,853,598	2,388,400

14. Commitments

Lease Commitments

The Company has an operating lease agreement for its office and laboratory space with AstraZeneca. See Note 6, *Leases*, for additional information.

ENTASIS THERAPEUTICS HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AstraZeneca Subscription Agreement

In connection with the Company's spin-out from AstraZeneca in 2015, the Company entered into a business transfer and subscription agreement with AstraZeneca, or the AstraZeneca Subscription Agreement, 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 Nasdaq at or above a specified price at the time it achieves 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.

15. 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 holder of Series A preferred stock. Upon the closing of the initial public offering, all shares of preferred stock converted into shares of common stock. AstraZeneca continues to maintain an ownership interest in the Company. The Company has an operating lease agreement for its office and laboratory space with AstraZeneca. See Note 6, *Leases*, 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, and this relationship has continued through 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 $5.0 million and $7.2 million during the years ended December 31, 2020 and December 31, 2019, respectively, for services pursuant to multiple Pharmaron agreements. Amounts due to Pharmaron were $2.0 million and $0.8 million as of December 31, 2020 and December 31, 2019, respectively.

16. Benefit Plans

The Company has a tax-qualified employee savings and retirement 401(k) plan, covering all qualified employees. Participants may elect a salary deferral up to the statutorily prescribed annual limit for tax-deferred contributions. The Company made matching contributions of $0.3 million and $0.2 million for the years ended December 31, 2020 and 2019, respectively.

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 Amendment No. 1 to the Annual Report on Form 10-K 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: April 30, 2021

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

Exhibit 31.2

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

I, Michael Gutch, certify that:

1. I have reviewed this Amendment No. 1 to the Annual Report on Form 10-K 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: April 30, 2021

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

Exhibit 32.1

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

In connection with this Amendment No. 1 to the Annual Report on Form 10-K of Entasis Therapeutics Holdings Inc. (the "Company") for the year ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company hereby certifies, pursuant to 18 U.S.C. Section 1350, that to his or her knowledge:

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

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

Date: April 30, 2021

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

Date: April 30, 2021

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