Atara Biotherapeutics, Inc.
Form 10-Q
November 06, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

001-36548

(Commission file number)

ATARA BIOTHERAPEUTICS, INC.

(Exact name of registrant as specified in its charter)

Delaware (State of incorporation)	46-0920988 (I.R.S. Employer Identification No.)
701 Gateway Blvd., Suite 200	
South San Francisco, CA (Address of principal executive offices)	94080 (Zip code)

(650) 278-8930

(Registrant’s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x Smaller reporting company ¨
(Do not check if a smaller reporting company)

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

The number of shares of the registrant’s Common Stock outstanding as of October 31, 2015 was 28,631,144 shares.

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Atara Biotherapeutics, Inc.

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except share and per share amounts)

	September 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 54,466	$ 21,897
Short-term available-for-sale investments	279,799	82,219
Prepaid expenses and other current assets	5,970	1,910
Total current assets	340,235	106,026
Property and equipment, net	46	48
Other assets	98	48
Total assets	$ 340,379	$ 106,122
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 1,853	$ 440
Accrued compensation	1,562	1,225
Income tax payable	1	1
Other accrued liabilities	3,034	1,058
Total current liabilities	6,450	2,724
Other long-term liabilities	181	216
Total liabilities	6,631	2,940
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock—$0.0001 par value, 20,000,000 shares authorized; none issued and outstanding as of September 30, 2015 and December 31, 2014	—	—
Common stock—$0.0001 par value, 500,000,000 shares authorized; 28,326,096 and 19,692,937 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	3	2
Additional paid-in capital	410,556	144,169
Accumulated other comprehensive income (loss)	51	(100)
Accumulated deficit	(76,862)	(40,889)
Total stockholders' equity	333,748	103,182
Total liabilities and stockholders' equity	$ 340,379	$ 106,122

See accompanying notes.

Atara Biotherapeutics, Inc.

Condensed Consolidated and Combined Statements of Operations and Comprehensive Loss

(Unaudited)

(In thousands, except share and per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Expenses:				
Research and development	$8,113	$4,241	$20,887	$9,332
Research and development costs paid to Amgen	—	—	—	1,066
In-process research and development license acquired from MSK	—	—	4,500	—
General and administrative	4,146	1,708	11,291	7,162
Total operating expenses	12,259	5,949	36,678	17,560
Loss from operations	(12,259)	(5,949)	(36,678)	(17,560)
Interest and other income	380	30	696	59
Loss before provision for income taxes	(11,879)	(5,919)	(35,982)	(17,501)
Provision (benefit) for income taxes	(11)	—	(9)	(22)
Net loss	$(11,868)	$(5,919)	$(35,973)	$(17,479)
Other comprehensive gain (loss), net of tax:				
Unrealized gains (losses) on investments	117	(11)	151	(11)
Other comprehensive gain (loss)	117	(11)	151	(11)
Comprehensive loss	$(11,751)	$(5,930)	$(35,822)	$(17,490)
Net loss per common share:				
Basic and diluted net loss per common share	$(0.43)	$(4.20)	$(1.46)	$(13.07)
Weighted-average common shares outstanding used to calculate basic and diluted net loss per common share	27,674,821	1,410,507	24,628,043	1,337,501

See accompanying notes.

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Atara Biotherapeutics, Inc.

Condensed Consolidated and Combined Statements of Cash Flows

(Unaudited)

(In thousands)

	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Operating activities		
Net loss	$(35,973)	$(17,479)
Adjustments to reconcile net loss to net cash used in operating activities:		
Non-cash research and development expenses	—	750
Depreciation expense	21	4
Amortization of investment premiums and discounts	1,714	249
Stock-based compensation expense	7,287	4,328
Interest accrued on notes receivable from stockholder	—	(2)
Changes in operating assets and liabilities:		
Other assets	(50)	(34)
Prepaid expenses and other current assets	(2,514)	33
Accounts payable	1,413	(37)
Income tax payable	—	(92)
Other accrued liabilities	1,976	440
Accrued compensation	337	169
Other long-term liabilities	25	—
Net cash used in operating activities	(25,764)	(11,671)
Investing activities		
Purchase of investments and accrued interest	(285,390)	(28,618)
Maturities and sales of short-term investments	84,701	2,200
Purchase of property and equipment	(19)	(10)
Net cash used in investing activities	(200,708)	(26,428)
Financing activities		
Proceeds from sale of common stock, net of offering costs	263,434	—
Taxes paid related to net share settlement of restricted stock units	(4,588)	—
Proceeds from exercise of stock options	195	—
Repayment of notes receivable from stockholder	—	337
Proceeds from sale of convertible preferred stock	—	13,500
Offering costs incurred in connection with sale of convertible preferred stock	—	(19)
Offering costs incurred in anticipation of public filing	—	(1,631)
Net cash provided by financing activities	259,041	12,187
Increase (decrease) in cash and cash equivalents	32,569	(25,912)
Cash and cash equivalents-beginning of period	21,897	51,615
Cash and cash equivalents-end of period	$54,466	$25,703
Non-cash financing activities		

Issuance of common stock for research and development expenses related to technology licensing option	$—	$750
Issuance of common stock upon vesting of stock awards	$60	$65
Change in other long-term liabilities related to non-vested stock awards	$(60)	$(65)
Offering costs in anticipation of public filing included in other accrued liabilities and accounts payable	$—	$407
Supplemental cash flow disclosure—Cash paid for income taxes	$2	$70

See accompanying notes.

Atara Biotherapeutics, Inc.

Notes to Condensed Consolidated and Combined Financial Statements

(Unaudited)

1. Organization and Description of Business

Atara Biotherapeutics, Inc. (“Atara”, “we” or “our”) was incorporated in August 2012 in Delaware. We are a clinical-stage biopharmaceutical company focused on developing meaningful therapies for patients with unmet medical needs in diseases that have seen limited therapeutic innovation, with an initial focus on muscle wasting conditions, oncology and viral-associated diseases. Our product candidate portfolio was acquired through licensing arrangements with Amgen Inc. (“Amgen”) and Memorial Sloan Kettering Cancer Center (“MSK”) in exchange for convertible preferred stock, common stock, milestone payments and commitments for future royalties. See Note 4 for further information.

In February 2015, we completed a follow-on offering of 4,147,358 shares of common stock at an offering price to the public of $18.00 per share. We received net proceeds of approximately $69.5 million, after deducting underwriting discounts and commissions and offering expenses.

In July 2015, we completed a follow-on offering of 3,980,768 shares of common stock at an offering price to the public of $52.00 per share. We received net proceeds of approximately $193.9 million, after deducting underwriting discounts and commissions and offering expenses.

2. Summary of Significant Accounting Policies

Basis of Presentation and Recapitalization

The accompanying interim condensed consolidated and combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and the rules and regulations of the Securities and Exchange Commission (the “SEC”). The accounting policies followed in the preparation of the interim condensed consolidated and combined financial statements are consistent in all material respects with those presented in Note 2 to the consolidated and combined financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

Atara was originally formed as a management company with the sole purpose of providing management, financial and administrative services for Nina Biotherapeutics, Inc. (“Nina”), Santa Maria Biotherapeutics, Inc. (“Santa Maria”) and Pinta Biotherapeutics, Inc. (“Pinta”). Prior to March 31, 2014, the accompanying financial statements include the operations of Atara, Nina, Pinta and Santa Maria on a combined basis as the four individual companies were under common ownership and common management since inception. All intercompany transactions have been eliminated.

On March 31, 2014, our board of directors approved and we implemented a recapitalization (the “Recapitalization”) in which (a) all the outstanding shares of common stock of Atara were cancelled and forfeited by existing stockholders and (b) the stockholders of Nina, Pinta and Santa Maria exchanged their existing common and convertible preferred stock for newly-issued shares of Atara, with the same rights and privileges as the outstanding capital stock of Nina, Pinta and Santa Maria. The shares were exchanged on a collective nine-for-one basis. The Recapitalization lacked economic substance as the newly-issued shares have the same rights and privileges as the previously outstanding capital stock of Nina, Pinta and Santa Maria and there was no change in ownership percentages of the individual stockholders. As a result of the Recapitalization, Nina, Pinta and Santa Maria became wholly owned subsidiaries of Atara effective March 31, 2014. The Recapitalization is considered a tax-free exchange for U.S. federal income tax purposes.

Because the four individual companies were under common ownership and the Recapitalization lacked economic substance, we accounted for the Recapitalization as a combination of businesses under common control. The assets and liabilities of Nina, Pinta and Santa Maria were recorded by Atara at their historical carrying amounts on March 31, 2014 and beginning March 31, 2014, the financial statements of the Company are presented on a consolidated basis.

Liquidity

We have incurred significant operating losses since inception and have relied on public and private equity financings to fund our operations. At September 30, 2015, we had an accumulated deficit of $76.9 million. As we continue to incur losses, our transition to profitability will depend on the successful development, approval and commercialization of product candidates and on the achievement of sufficient revenues to support our cost structure. We may never achieve profitability, and unless and until we do, we will need to continue to raise additional capital. Management expects that existing cash and cash equivalents as of September 30, 2015 will be sufficient to fund our current operating plan for at least the next twelve months.

Other Accrued Liabilities

Other accrued liabilities consist of the following:

	September 30, 2015	December 31, 2014
	(in thousands)	
Accrued research and development costs	$2,537	$ 824
Other accrued liabilities	497	234
Total	$3,034	$ 1,058

Net Loss per Common Share

Basic and diluted net loss per common share is presented, giving effect to the Recapitalization, including cancellation of existing Atara common stock and a nine-for-one share exchange. Basic net loss per common share is calculated by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period, without consideration of common stock equivalents. Diluted net loss per common share is computed by dividing the net loss by the weighted-average number of shares of common stock and common share equivalents outstanding for the period. Common share equivalents are only included in the calculation of diluted net loss per common share when their effect is dilutive. Our restricted stock awards are considered to be participating securities as they are entitled to participate in undistributed earnings with shares of common stock. Due to net losses, there is no impact on the net loss per common share calculation in applying the two-class method since the participating securities have no legal requirement to share in any losses.

Potentially dilutive securities, which include convertible preferred stock, unvested restricted common stock awards, unvested restricted stock units and vested and unvested options have been excluded from the computation of diluted net loss per share as the effect would be to reduce the net loss per common share and be antidilutive. Therefore, the denominator used to calculate both basic and diluted net loss per common share is the same in all periods presented.

The following common stock equivalents have been excluded from the computations of diluted net loss per common share as the effect of including such securities would be antidilutive:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Convertible preferred stock	—	12,299,184	—	12,249,056
Unvested restricted common stock	333,652	631,031	397,618	702,135
Unvested restricted stock units	453,449	—	492,716	—
Vested and unvested options	543,990	—	369,419	—
Total	1,331,091	12,930,215	1,259,753	12,951,191

In addition, options to purchase 380,083 and 240,014 shares have been excluded from the above table for the three and nine months ended September 30, 2015, respectively, as the exercise prices of the underlying options were greater than the average fair value of our common stock for the periods presented.

Recent Accounting Pronouncements

In April 2015, the FASB issued ASU No. 2015-05, "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement", that provides guidance to customers about whether a cloud computing arrangement includes a software license. If such an arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If the arrangement does not include a software license, the customer should account for it as a service contract. This ASU will be effective for annual periods beginning after December 15, 2015, and early application is permitted. Entities may apply the new guidance either prospectively to all arrangements entered into or materially modified after the effective date or retrospectively. We adopted this standard prospectively on July 1, 2015. Adoption of this standard did not have a material impact on our financial statements.

In August 2014, the FASB issued a new accounting standard to provide guidance on the presentation of management's plans, when conditions or events raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. The new standard is effective for fiscal years ending after December 15, 2016. The adoption of this standard is not expected to have a material impact on our financial statements.

In May 2014, the FASB issued a new accounting standard, Revenue from Contracts with Customers, which supersedes the revenue recognition requirements in the current standard, Revenue Recognition. This new standard affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets. The new standard is effective for fiscal years beginning after December 15, 2017. We will evaluate the application of this standard on our financial statements and disclosures when we enter into any contracts with customers.

3. Fair Value of Financial Instruments

Our financial assets and liabilities carried at fair value are primarily comprised of investments in money market funds, corporate bonds, U.S. government securities, asset-backed securities and commercial paper. The fair value accounting guidance requires that assets and liabilities be carried at fair value and classified in one of the following three categories:

Level 1: Quoted prices in active markets for identical assets or liabilities that we have the ability to access

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data such as quoted prices, interest rates and yield curves

Level 3: Inputs that are unobservable data points that are not corroborated by market data

We review the fair value hierarchy classification on a quarterly basis. Changes in the ability to observe valuation inputs may result in a reclassification of levels of certain securities within the fair value hierarchy. We recognize transfers into and out of levels within the fair value hierarchy in the period in which the actual event or change in circumstances that caused the transfer occurs. There were no transfers between Level 1, Level 2, and Level 3 for all periods presented.

The following table represents the fair value hierarchy for our financial assets and financial liabilities measured at fair value on a recurring basis:

	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)
	(in thousands)		
At September 30, 2015:			
Cash equivalents:			
Money market funds	$44,889	$44,889	$—
Agency bonds	4,500	—	4,500
Corporate bonds	4,936	—	4,936
Total cash equivalents	$54,325	$44,889	$9,436
Short-term available-for-sale investments:			
Corporate bonds	$197,768	$—	$197,768

Agency bonds	33,468	—	33,468
Asset-backed securities	48,563	—	48,563
Total short-term available-for-sale investments	$279,799	$—	$279,799

At December 31, 2014:			
Cash equivalents:			
Money market funds	$18,141	$18,141	$—
Agency bonds	1,750	—	1,750
Corporate bonds	2,006	—	2,006
Total cash equivalents	$21,897	$18,141	$3,756
Short-term available-for-sale investments:			
Corporate bonds	$57,958	$—	$57,958
Agency bonds	10,764	—	10,764
Treasury bonds	465	—	465
Commercial paper	1,200	—	1,200
Asset-backed securities	11,832	—	11,832
Total short-term available-for-sale investments	$82,219	$—	$82,219

Financial assets and liabilities are considered Level 2 when their fair values are determined using inputs that are observable in the market or can be derived principally from or corroborated by observable market data such as pricing for similar securities, recently executed transactions, cash flow models with yield curves, and benchmark securities. In addition, Level 2 financial instruments are valued using comparisons to like-kind financial instruments and models that use readily observable market data as their basis. Corporate bonds, U.S. government securities, asset-backed securities and commercial paper are valued primarily using market prices of comparable securities, bid/ask quotes, interest rate yields and prepayment spreads and are included in Level 2.

Financial assets and liabilities are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies, or similar techniques, and at least one significant model assumption or input is unobservable. We have no Level 3 financial assets and liabilities.

Short-term available-for-sale investments are carried at fair value and are included in the tables above under short-term investments. The aggregate market value, cost basis, and gross unrealized gains and losses of short-term available-for-sale investments by major security type are as follows:

	Total Amortized Cost	Total Unrealized Gain	Total Unrealized Loss	Total Fair Value
	(in thousands)			
At September 30, 2015:				
Corporate bonds	$197,773	$ 71	$ (76)	$197,768
Agency bonds	33,438	36	(6)	33,468
Asset-backed securities	48,537	35	(9)	48,563
Total short-term available-for-sale investments	$279,748	$ 142	$ (91)	$279,799
At December 31, 2014:				
Corporate bonds	$58,046	$ 1	$ (89)	$57,958
Agency bonds	10,769	—	(5)	10,764
Treasury bonds	466	—	(1)	465
Commercial paper	1,200	—	—	1,200
Asset-backed securities	11,838	2	(8)	11,832
Total short-term available-for-sale investments	$82,319	$ 3		