

Atara Biotherapeutics, Inc.
Form 10-Q
August 07, 2017

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

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 001-36548

ATARA BIOTHERAPEUTICS, INC.

(Exact name of Registrant as specified in its Charter)

Delaware
(State or other jurisdiction of incorporation or organization)

46-0920988
(I.R.S. Employer Identification No.)
94080

611 Gateway Blvd., Suite 900

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South San Francisco, CA

(Address of principal executive offices)

(Zip Code)

(Registrant's telephone number, including area code: (650) 278-8930

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

Indicate by check mark whether the registrant has submitted electronically 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a small reporting company)

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of outstanding shares of the Registrant's Common Stock as of July 31, 2017 was 30,559,425 shares.

ATARA BIOTHERAPEUTICS, INC.

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Atara Biotherapeutics, Inc.

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except per share amounts)

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$64,237	\$47,968
Short-term investments	152,659	207,714
Restricted cash - short-term	194	194
Prepaid expenses and other current assets	5,402	4,677
Total current assets	222,492	260,553
Property and equipment, net	20,287	3,259
Restricted cash - long-term	1,200	—
Other assets	176	102
Total assets	\$244,155	\$263,914
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$5,243	\$2,778
Accrued compensation	3,262	3,745
Accrued research and development expenses	2,071	2,408
Other accrued liabilities	905	744
Total current liabilities	11,481	9,675
Long-term liabilities	11,530	503
Total liabilities	23,011	10,178
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock—\$0.0001 par value, 500,000 shares authorized as of		
June 30, 2017 and December 31, 2016; 29,904 and 28,933 shares		
issued and outstanding as of June 30, 2017 and December 31, 2016,		
respectively	3	3
Additional paid-in capital	451,496	431,075
Accumulated other comprehensive loss	(114)	(183)
Accumulated deficit	(230,241)	(177,159)
Total stockholders' equity	221,144	253,736

Total liabilities and stockholders' equity	\$244,155	\$263,914
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See accompanying notes.

Atara Biotherapeutics, Inc.

Condensed Consolidated Statements of Operations and Comprehensive Loss

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating expenses:				
Research and development	\$ 18,296	\$ 12,991	\$ 35,837	\$ 24,238
General and administrative	9,613	6,494	18,233	12,308
Total operating expenses	27,909	19,485	54,070	36,546
Loss from operations	(27,909)	(19,485)	(54,070)	(36,546)
Interest and other income, net	481	605	990	1,108
Loss before provision for income taxes	(27,428)	(18,880)	(53,080)	(35,438)
Less: Provision for income taxes	—	—	2	3
Net loss	\$(27,428)	\$(18,880)	\$(53,082)	\$(35,441)
Other comprehensive loss:				
Unrealized gain on available-for-sale securities	38	142	69	711
Comprehensive loss	\$(27,390)	\$(18,738)	\$(53,013)	\$(34,730)
Net loss per common share:				
Basic and diluted net loss per common share	\$(0.94)	\$(0.66)	\$(1.82)	\$(1.24)
Weighted-average shares outstanding used				
to calculate basic and diluted net loss per common share	29,247	28,665	29,152	28,603

See accompanying notes.

Atara Biotherapeutics, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Six months ended June 30,	
	2017	2016
Operating activities		
Net loss	\$(53,082)	\$(35,441)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	11,003	9,860
Amortization of investment premiums and discounts	459	2,294
Depreciation expense	428	79
Loss on foreign exchange	—	4
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(725)	(816)
Other assets	(74)	7
Accounts payable	253	1,790
Accrued compensation	(483)	(489)
Accrued research and development expenses	(337)	(1,313)
Other accrued liabilities	160	235
Long-term liabilities	63	511
Net cash used in operating activities	(42,335)	(23,279)
Investing activities		
Purchases of short-term investments	(112,395)	(186,006)
Maturities of short-term investments	115,349	118,320
Sales of short-term investments	51,711	95,242
Purchases of property and equipment	(4,341)	(1,639)
Restricted cash	(1,200)	—
Net cash provided by investing activities	49,124	25,917
Financing activities		
Proceeds from issuance of common stock from "at-the-market" facility, net	9,326	—
Taxes paid related to net share settlement of restricted stock units	(341)	(53)
Proceeds from employee stock awards	495	29
Net cash provided by (used in) financing activities	9,480	(24)
Effect of exchange rates on cash	—	(4)
Increase in cash and cash equivalents	16,269	2,610
Cash and cash equivalents at beginning of period	47,968	23,746
Cash and cash equivalents at end of period	\$64,237	\$26,356
Non-cash investing and financing activities		
Issuance of common stock upon vesting of stock awards	\$—	\$40
Change in long-term liabilities related to non-vested stock awards	\$—	\$(40)

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Capitalized lease obligations	\$10,870	\$—
Property and equipment purchases included in liabilities	\$2,502	\$503
Interest capitalized during construction period for build-to-suit lease transaction	\$95	\$—
Supplemental cash flow disclosure		
Cash paid for taxes	\$—	\$3

See accompanying notes.

Atara Biotherapeutics, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Description of Business

Atara Biotherapeutics, Inc. (“Atara”, “we”, “our” or “the Company”) was incorporated in August 2012 in Delaware. Atara is a cell therapy company developing novel treatments for patients with cancer and multiple sclerosis (MS). The Company’s “off-the-shelf”, or allogeneic, T-cells are engineered from donors with healthy immune function and allow for rapid delivery from inventory to patients without a requirement for pretreatment. Atara’s T-cell immunotherapies are designed to precisely recognize and eliminate cancerous or diseased cells without affecting normal, healthy cells.

We licensed rights to T-cell product candidates from Memorial Sloan Kettering Cancer Center (“MSK”) in June 2015 and to know-how and technology from QIMR Berghofer Medical Research Institute (“QIMR Berghofer”) in October 2015 and September 2016. See Note 6 for further information.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) and follow the requirements of the Securities and Exchange Commission (“SEC”) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP can be condensed or omitted. These condensed consolidated financial statements have been prepared on the same basis as the Company’s annual consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair statement of the Company’s consolidated financial information. The results of operations for the six-month period ended June 30, 2017 are not necessarily indicative of the results to be expected for the full year or any other future period. The condensed consolidated balance sheet as of December 31, 2016 has been derived from audited consolidated financial statements at that date but does not include all of the information required by U.S. GAAP for complete consolidated financial statements.

Significant Risks and Uncertainties

We have incurred significant operating losses since inception and have relied on public and private equity financings to fund our operations. As of June 30, 2017, we had an accumulated deficit of \$230.2 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 our cash, cash equivalents and short-term investments as of June 30, 2017 will be sufficient to fund our planned operations into the first quarter of 2019.

Concentration of Credit Risk and Other Uncertainties

We place cash and cash equivalents in the custody of financial institutions that management believes are of high credit quality, the amount of which at times, may be in excess of the amount insured by the Federal Deposit Insurance Corporation. We also have short-term investments in money market funds, U.S. Treasury, government agency and corporate debt obligations, commercial paper and asset-backed securities, which can be subject to certain credit risk. However, we mitigate the risks by investing in high-grade instruments, limiting our exposure to any one issuer, and monitoring the ongoing creditworthiness of the financial institutions and issuers.

We are subject to certain risks and uncertainties and believe that changes in any of the following areas could have a material adverse effect on future financial position or results of operations: our ability to obtain future financing; regulatory approval and market acceptance of, and reimbursement for, our product candidates, if approved; performance of third-party clinical research organizations and manufacturers upon which we rely; development of sales channels; protection of our intellectual property; litigation or claims against us based on intellectual property, patent, product, regulatory or other factors; and our ability to attract and retain employees necessary to support our growth.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. Significant estimates relied upon in preparing these financial statements include estimates related to clinical trial and other accruals, stock-based compensation expense, construction costs and income taxes. Actual results could differ materially from those estimates.

Leases

We lease office space in multiple locations. In addition, we are constructing a manufacturing facility in Thousand Oaks, California under a non-cancelable lease agreement. The leases are reviewed for classification as operating or capital leases. For operating leases, rent is recognized on a straight-line basis over the lease period. For capital leases, we record the leased asset with a corresponding liability for principal and interest. Payments are recorded as reductions to these liabilities with interest being charged to interest expense in our statements of operations and comprehensive loss.

We analyzed the nature of the renovations and our involvement during the construction period of our manufacturing facility and determined that we are the deemed “owner” of the construction project during the construction period. As a result, we are required to capitalize the fair value of the building as well as the construction costs incurred on our condensed consolidated balance sheet along with a corresponding financing liability for landlord-paid construction costs (i.e. “build-to-suit” accounting). Upon occupancy for build-to-suit leases, we are also required to assess whether the circumstances qualify for sale recognition under “sale-leaseback” accounting guidance.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, Leases (Topic 842), which is intended to increase the transparency and comparability in the reporting of leasing arrangements by generally requiring leased assets and liabilities to be recorded on the balance sheet. The new standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2018, with early adoption permitted. We have not yet determined the method of adoption and the potential effect the new standard will have on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718), which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification in the statement of cash flows. We prospectively adopted the new standard on January 1, 2017 and that adoption did not have a material effect on our consolidated financial statements due to the full valuation allowance of our deferred tax assets.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires that expected credit losses relating to financial assets measured on an amortized cost basis and available-for-sale debt securities be recorded through an allowance for credit losses. ASU 2016-13 limits the amount of credit losses to be recognized for available-for-sale debt securities to the amount by which carrying value exceeds fair value and also requires the reversal of previously recognized credit losses if fair value increases. The new standard will be effective for us on January 1, 2020. Early adoption will be

available on January 1, 2019. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which clarifies how certain cash receipts and cash payments should be presented and classified in the statement of cash flows. The new standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2017, with early adoption permitted. We have not yet determined the method of adoption and the potential effect the new standard will have on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash, which clarifies the statement of cash flow treatment of restricted cash or restricted cash equivalents. The new standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2017, with early adoption permitted. The standard should be applied using a retrospective transition method to each period presented. We have not yet determined the potential effect the new standard will have on our consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. The amended standard specifies the modification accounting applicable to any entity which changes the terms or conditions of a share-based payment award. The new standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2017, with early adoption permitted. We have not yet determined the potential effect the new standard will have on our consolidated financial statements.

3. Net Loss per Common Share

Basic net loss per common share is calculated by dividing net loss by the weighted-average number of shares of common stock outstanding during the period, without consideration of common share equivalents. Diluted net loss per common share is computed by dividing 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.

Potential dilutive securities, which include unvested restricted stock awards (“RSAs”), unvested restricted stock units (“RSUs”), vested and unvested options to purchase common stock and shares to be issued under our employee stock purchase plan (“ESPP”) have been excluded from the computation of diluted net loss per share as the effect is 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 table represents the potential common shares issuable pursuant to outstanding securities as of the related period end dates that were excluded from the computation of diluted net loss per common share as their inclusion would have an antidilutive effect:

	As of June 30,	
	2017	2016
Unvested RSAs	—	90,144
Unvested RSUs	1,801,397	922,569
Vested and unvested options	4,482,620	3,424,099
ESPP share purchase rights	11,562	4,048
Total	6,295,579	4,440,860

4. Financial Instruments

Our financial assets are measured at fair value on a recurring basis using the following hierarchy to prioritize valuation inputs, in accordance with applicable GAAP:

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 have been no transfers between Level 1, Level 2 and Level 3 in any periods presented.

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. U.S. Treasury, government agency and corporate debt obligations, commercial paper and asset-backed securities 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 or liabilities.

The following tables summarize the estimated fair value and related valuation input hierarchy of our available-for-sale securities as of each period end:

		Total Amortized Cost	Total Unrealized Gain	Total Unrealized Loss	Total Estimated Fair Value
As of June 30, 2017:	Input Level	(in thousands)			
Money market funds	Level 1	\$57,768	\$ —	\$ —	\$57,768
U.S. Treasury obligations	Level 2	62,309	1	(27)	62,283
Government agency obligations	Level 2	6,066	1	(3)	6,064
Corporate debt obligations	Level 2	73,459	8	(81)	73,386
Commercial paper	Level 2	1,598	—	—	1,598
Asset-backed securities	Level 2	10,139	—	(13)	10,126
Total available-for-sale securities		211,339	10	(124)	211,225
Less amounts classified as cash equivalents		(58,566)	-	-	(58,566)
Amounts classified as short-term investments		\$152,773	\$ 10	\$ (124)	\$152,659

		Total Amortized Cost	Total Unrealized Gain	Total Unrealized Loss	Total Estimated Fair Value
As of December 31, 2016:	Input Level	(in thousands)			
Money market funds	Level 1	\$28,816	\$ —	\$ —	\$28,816
U.S. Treasury obligations	Level 2	65,403	3	(21)	65,385
Government agency obligations	Level 2	23,860	5	(5)	23,860
Corporate debt obligations	Level 2	113,649	8	(172)	113,485
Commercial paper					