Atara Biotherapeutics, Inc.
Form 10-Q
November 06, 2018

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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 September 30, 2018

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 | 46-0920988 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| | 94080 |

611 Gateway Blvd., Suite 900

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

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

| | |
|---|---|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer | Smaller reporting company |
| Emerging growth company | |

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 October 31, 2018 was 45,648,266 shares.

ATARA BIOTHERAPEUTICS, INC.

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Atara Biotherapeutics, Inc.

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except per share amounts)

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $66,028 | $79,223 |
| Short-term investments | 298,515 | 86,873 |
| Restricted cash - short-term | 194 | 194 |
| Prepaid expenses and other current assets | 8,239 | 5,900 |
| Total current assets | 372,976 | 172,190 |
| Property and equipment, net | 68,279 | 44,129 |
| Restricted cash - long-term | 1,200 | 1,200 |
| Other assets | 485 | 260 |
| Total assets | $442,940 | $217,779 |
| | | |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | $6,193 | $14,711 |
| Accrued compensation | 9,072 | 5,664 |
| Accrued research and development expenses | 3,803 | 4,006 |
| Other current liabilities | 7,932 | 3,265 |
| Total current liabilities | 27,000 | 27,646 |
| Long-term liabilities | 12,886 | 12,269 |
| Total liabilities | 39,886 | 39,915 |
| | | |
| Commitments and contingencies (Note 7) | | |
| | | |
| Stockholders' equity: | | |
| Common stock—$0.0001 par value, 500,000 shares authorized as of September 30, 2018 and December 31, 2017; 45,645 and 30,730 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively | 5 | 3 |
| Additional paid-in capital | 850,835 | 474,662 |
| Accumulated other comprehensive loss | (449) | (151) |
| Accumulated deficit | (447,337) | (296,650) |
| Total stockholders' equity | 403,054 | 177,864 |

| | | |
|---|---|---|
| Total liabilities and stockholders’ equity | $442,940 | $217,779 |

See accompanying notes.

Atara Biotherapeutics, Inc.

Condensed Consolidated Statements of Operations and Comprehensive Loss

(Unaudited)

(In thousands, except per share amounts)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Operating expenses: | | | | |
| Research and development | $ 43,355 | $ 20,598 | $ 105,202 | $ 56,435 |
| General and administrative | 16,865 | 11,062 | 50,093 | 29,295 |
| Total operating expenses | 60,220 | 31,660 | 155,295 | 85,730 |
| Loss from operations | (60,220) | (31,660) | (155,295) | (85,730) |
| Interest and other income, net | 1,859 | 564 | 4,611 | 1,554 |
| Loss before provision for income taxes | (58,361) | (31,096) | (150,684) | (84,176) |
| Provision for income taxes | — | — | 3 | 2 |
| Net loss | $ (58,361) | $ (31,096) | $ (150,687) | $ (84,178) |
| Other comprehensive loss: | | | | |
| Unrealized gain (loss) on available-for-sale securities | 56 | 26 | (298) | 95 |
| Comprehensive loss | $ (58,305) | $ (31,070) | $ (150,985) | $ (84,083) |
| Net loss per common share: | | | | |
| Basic and diluted net loss per common share | $ (1.29) | $ (1.02) | $ (3.49) | $ (2.84) |
| Weighted-average shares outstanding used to calculate basic and diluted net loss per common share | 45,406 | 30,474 | 43,148 | 29,597 |

See accompanying notes.

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Atara Biotherapeutics, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

| | Nine months ended September 30, 2018 | 2017 |
|---|---|---|
| Operating activities | | |
| Net loss | $(150,687) | $(84,178) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Stock-based compensation expense | 24,264 | 17,003 |
| Amortization (accretion) of investment premiums (discounts) | (1,339) | 607 |
| Depreciation and amortization expense | 2,254 | 678 |
| Non-cash interest expense | 211 | — |
| Asset retirement obligation accretion expense | 32 | — |
| Changes in operating assets and liabilities: | | |
| Prepaid expenses and other current assets | (2,339) | (1,125) |
| Other assets | (225) | 2 |
| Accounts payable | 116 | (1) |
| Accrued compensation | 3,408 | 1,574 |
| Accrued research and development expenses | (203) | 1,402 |
| Other current liabilities | 2,063 | 1,104 |
| Long-term liabilities | 92 | 370 |
| Net cash used in operating activities | (122,353) | (62,564) |
| Investing activities | | |
| Purchases of short-term investments | (402,621) | (152,837) |
| Maturities of short-term investments | 131,983 | 162,094 |
| Sales of short-term investments | 60,037 | 58,217 |
| Purchases of property and equipment | (31,756) | (10,535) |
| Net cash (used in) provided by investing activities | (242,357) | 56,939 |
| Financing activities | | |
| Proceeds from sale of common stock in underwritten offerings, net | 293,290 | — |
| Proceeds from issuance of common stock from "at-the-market" facility, net | 47,586 | 19,206 |
| Proceeds from employee stock awards | 18,528 | 495 |
| Taxes paid related to net share settlement of restricted stock units | (7,493) | (351) |
| Principal payments on capital lease obligations | (396) | — |
| Net cash provided by financing activities | 351,515 | 19,350 |
| (Decrease) increase in cash, cash equivalents and restricted cash | (13,195) | 13,725 |
| Cash, cash equivalents and restricted cash at beginning of period | 80,617 | 48,162 |
| Cash, cash equivalents and restricted cash at end of period | $67,422 | $61,887 |
| Non-cash investing and financing activities | | |
| Property and equipment purchases included in accounts payable and other accrued | $3,973 | $3,064 |

| | | |
|---|---|---|
| liabilities | | |
| Facility lease financing obligations | $441 | $6,215 |
| Property & equipment acquired under capital leases | $191 | $— |
| Asset retirement cost | $88 | $— |
| Interest capitalized during construction period for build-to-suit lease transaction | $77 | $133 |
| Supplemental cash flow disclosure | | |
| Cash paid for interest | $110 | $— |

See accompanying notes.

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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 T-cell immunotherapy company developing novel treatments for patients with cancer, autoimmune and viral diseases. The Company’s “off-the-shelf”, allogeneic T-cells are bioengineered 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 entered into agreements related to our next-generation CAR T programs with MSK in May 2018 and with Moffitt Cancer Center in August 2018. Additionally, we licensed rights to know-how and technology from QIMR Berghofer Medical Research Institute (“QIMR Berghofer”) in October 2015, September 2016 and June 2018. 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, 2017, except that the presentation of total cash, cash equivalents and restricted cash has been conformed to current period presentation. In the opinion of management, the condensed consolidated financial statements 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 nine-month period ended September 30, 2018 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, 2017 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.

Liquidity Risk

We have incurred significant operating losses since inception and have relied on public and private equity financings to fund our operations. As of September 30, 2018, we had an accumulated deficit of $447.3 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 will be sufficient to fund our planned operations to mid-2020.

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 by applicable regulatory authorities; 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 recently constructed 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).

Once construction is complete, the Company considers the requirements for sale-leaseback accounting treatment, including evaluating whether all risks of ownership have been transferred back to the landlord, as evidenced by a lack of continuing involvement in the leased property. If the arrangement does not qualify for sale-leaseback accounting treatment, the building asset remains on the Company’s consolidated balance sheets at its historical cost, and such asset is depreciated over its estimated useful life. The Company bifurcates its lease payments into a portion allocated to the building and a portion allocated to the parcel of land on which the building has been built. The portion of the lease payments allocated to the land is treated for accounting purposes as operating lease payments, and therefore is recorded as rent expense in the consolidated statements of operations. The portion of the lease payments allocated to the building is further bifurcated into a portion allocated to interest expense and a portion allocated to reduce the build-to-suit lease obligation. The initial recording of these assets and liabilities is classified as non-cash investing and financing items, respectively, for purposes of the consolidated statements of cash flows.

Asset Retirement Obligations (“ARO”)

ARO are legal obligations associated with the retirement of long-lived assets pertaining to leasehold improvements. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the Company records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The Company derecognizes ARO liabilities when the related obligations are settled.

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.

In July 2018, the FASB issued ASU No. 2018-10, “Codification Improvements to Topic 842, Leases” to clarify the implementation guidance and ASU No. 2018-11, “Leases (Topic 842) Targeted Improvements.” This updated guidance provides an optional transition method, which allows for the initial application of the new accounting standard at the adoption date and the recognition of a cumulative-effect adjustment to the opening balance of retained earnings as of the beginning of the period of adoption. The Company will adopt the new standard on January 1, 2019 and intends to elect certain practical expedients, including the optional transition method that allows for the application of the new standard at its adoption date with no restatement of prior period amounts. We have identified our significant lease contracts and are in the process of finalizing our assessment of the impact of the new standard on our consolidated financial statements.

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 have not yet determined the potential effect the new standard will have on our consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows a reclassification from accumulated other comprehensive income to retained earnings for adjustments to tax effects that were originally recorded in other comprehensive income due to changes in the U.S. federal corporate income tax rate resulting from the enactment of the U.S. tax reform legislation, commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). 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 potential effect the new standard will have on our consolidated financial statements.

In March 2018, the FASB issued ASU 2018-05, Income Taxes (Topic 740) Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118, to insert the SEC's interpretive guidance from Staff Accounting Bulletin No. 118 into the income tax accounting codification related to the Tax Act under U.S. GAAP. The ASU permits companies to use provisional amounts for certain income tax effects of the Tax Act during a one-year measurement period. During the nine months ended September 30, 2018, we did not make any adjustments to the provisional amounts included in the consolidated financial statements for the year ended December 31, 2017 and will continue to assess future guidance issued by the U.S. Treasury Department, Internal Revenue Service, FASB, and other standard-setting and regulatory bodies. The provisional accounting impacts for the Company may change in future reporting periods until the accounting analysis is finalized, which we expect to complete within the one-year measurement period in accordance with SAB 118.

In August 2018, the FASB issued ASU 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (ASU 2018-15), which clarifies the accounting for implementation costs in cloud computing arrangements. The new standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2019, with early adoption permitted. We have not yet determined the potential effect the new standard will have on our consolidated financial statements.

Adoption of New Accounting Pronouncements

On January 1, 2018, the Company adopted two new accounting standards issued by the FASB that clarify presentation and classification in the statement of cash flows on a retrospective basis. As a result of adoption, amounts generally described as restricted cash and restricted cash equivalents are now presented with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. As a result of adoption, cash, cash equivalents and restricted cash reported on the condensed consolidated statements of cash flows now includes restricted cash of $1.4 million, $1.4 million, and $0.2 million as of December 31, 2017, September 30, 2017, and December 31, 2016, respectively, as well as previously reported cash and cash equivalents.

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 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 September 30, | |
|---|---|---|
| | 2018 | 2017 |
| Unvested RSUs | 1,431,891 | 1,735,999 |
| Vested and unvested options | 6,332,199 | 4,910,449 |
| ESPP share purchase rights | 23,509 | 32,205 |
| Total | 7,787,599 | 6,678,653 |

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:

| As of September 30, 2018: | Input Level | Total Amortized Cost | Total Unrealized Gain | Total Unrealized Loss | Total Estimated Fair Value |
|---|---|---|---|---|---|
| | | (in thousands) | | | |
| Money market funds | Level 1 | $40,424 | $ — | $ — | $40,424 |
| U.S. Treasury obligations | Level 2 | 138,332 | — | (180 ) | 138,152 |
| Government agency obligations | Level 2 | 18,990 | — | (39 ) | 18,951 |
| Corporate debt obligations | Level 2 | 137,678 | 5 | (206 ) | 137,477 |
| Commercial paper | Level 2 | 15,488 | — | — | 15,488 |
| Asset-backed securities | Level 2 | 12,809 | 1 | (31 ) | 12,779 |
| Total available-for-sale securities | | 363,721 | 6 | (456 ) | 363,271 |
| Less amounts classified as cash equivalents | | (64,761 ) | — | 5 | (64,756 ) |
| Amounts classified as short-term investments | | $298,960 | $ 6 | $ (451 ) | $298,515 |

| As of December 31, 2017: | Input Level | Total Amortized Cost | Total Unrealized Gain | Total Unrealized Loss | Total Estimated Fair Value |
|---|---|---|---|---|---|
| | | (in thousands) | | | |
| Money market funds | Level 1 | $68,730 | $ — | $ — | $68,730 |
| U.S. Treasury obligations | Level 2 | 39,068 | — | (28 ) | 39,040 |
| Government agency obligations | Level 2 | 4,749 | — | (21 ) | 4,728 |
| Corporate debt obligations | Level 2 | 46,532 | 2 | (98 ) | 46,436 |
| Commercial paper | Level 2 | 1,592 | | | |