Atara Biotherapeutics, Inc.
Form 10-Q
May 11, 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 March 31, 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	46-0920988
(State of incorporation)	(I.R.S. Employer Identification No.)
701 Gateway Blvd., Suite 200	
South San Francisco, CA	94080
(Address of principal executive offices)	(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 April 30, 2015 was 24,364,115 shares.

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Atara Biotherapeutics, Inc.

Condensed Consolidated and Combined Balance Sheets

(Unaudited)

(In thousands, except share and per share amounts)

	March 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$71,329	$21,897
Short-term available-for-sale investments	95,367	82,219
Prepaid expenses and other current assets	2,995	1,910
Total current assets	169,691	106,026
Property and equipment, net	47	48
Other assets	79	48
Total assets	$169,817	$106,122
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$794	$440
Accrued compensation	522	1,225
Income tax payable	1	1
Other accrued liabilities	2,197	1,058
Total current liabilities	3,514	2,724
Other long-term liabilities	209	216
Total liabilities	3,723	2,940
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock—$0.0001 par value, 20,000,000 authorized; none issued and outstanding as of March 31, 2015 and December 31, 2014	—	—
Common stock—$0.0001 par value, 23,911,930 and 19,692,937 shares issued and outstanding as of March 31, 2015 and December 31, 2014, respectively	2	2
Additional paid-in capital	216,159	144,169
Accumulated other comprehensive loss	(18)	(100)
Accumulated deficit	(50,049)	(40,889)
Total stockholders' equity	166,094	103,182
Total liabilities and stockholders' equity	$169,817	$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 March 31,	
	2015	2014
Expenses:		
Research and development	$5,767	$2,981
General and administrative	3,544	4,096
Total operating expenses	9,311	7,077
Loss from operations	(9,311)	(7,077)
Interest and other income	153	6
Loss before provision for income taxes	(9,158)	(7,071)
Provision (benefit) for income taxes	2	(22)
Net loss	$(9,160)	$(7,049)
Other comprehensive gain (loss), net of tax:		
Unrealized gains (losses) on investments	82	(11)
Other comprehensive gain (loss)	82	(11)
Comprehensive loss	$(9,078)	$(7,060)
Net loss per common share:		
Basic and diluted net loss per common share	$(0.42)	$(5.58)
Weighted-average common shares outstanding used to calculate basic and diluted net loss per common share	21,918,467	1,263,316

See accompanying notes.

Atara Biotherapeutics, Inc.

Condensed Consolidated and Combined Statements of Cash Flows

(Unaudited)

(In thousands)

	Three months ended March 31,	
	2015	2014
Operating activities		
Net loss	$(9,160)	$(7,049)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	6	1
Investment premium amortization, net	358	16
Stock-based compensation expense	2,483	3,317
Interest accrued on notes receivable from stockholder	—	(1)
Changes in operating assets and liabilities:		
Other assets	(31)	1
Prepaid expenses and other current assets	(1,081)	44
Accounts payable	354	421
Income tax payable	—	(92)
Other accrued liabilities	1,139	557
Accrued compensation	(703)	(132)
Other long-term liabilities	13	—
Net cash used in operating activities	(6,622)	(2,917)
Investing activities		
Purchase of short-term investments	(54,796)	(22,414)
Maturities of short-term investments	41,368	—
Purchase of property and equipment	(5)	(1)
Net cash used in investing activities	(13,433)	(22,415)
Financing activities		
Proceeds from sale of common stock, net of offering costs	69,487	—
Repayment of notes receivable from stockholder	—	37
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 initial public filing	—	(47)
Net cash provided by financing activities	69,487	13,471
Increase (decrease) in cash and cash equivalents	49,432	(11,861)
Cash and cash equivalents-beginning of period	21,897	51,615
Cash and cash equivalents-end of period	$71,329	$39,754
Non-cash financing activities		
Issuance of common stock upon vesting of stock awards	$20	$20
Change in other long-term liabilities related to non-vested stock awards	$(20)	$(20)
Offering costs in anticipation of initial public filing included in other accrued liabilities and accounts payable	$—	$510
Supplemental cash flow disclosure—Cash paid for 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 biopharmaceutical company focused on developing innovative therapies for patients with debilitating diseases. Atara's lead programs target myostatin and activin, members of the TGF-beta family of proteins that have demonstrated the potential to have therapeutic benefit in a number of clinical indications. Our product candidate portfolio was acquired through licensing arrangements with Amgen Inc. ("Amgen") in exchange for convertible preferred stock, milestone payments and commitments for future royalties. See Note 4 for further information.

Public Offerings

In October 2014, we completed our initial public offering of 5,750,000 shares of common stock, including 750,000 shares from the exercise by the underwriters of their overallotment option, at an offering price to the public of $11.00 per share. We received net proceeds of approximately $55.8 million, after deducting underwriting discounts and commissions and offering expenses. In connection with the initial public offering, the Company's outstanding shares of convertible preferred stock were automatically converted into 12,298,515 shares of common stock, resulting in the reclassification of $74.6 million from mezzanine equity to additional paid-in capital.

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.

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 boards 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 US 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 March 31, 2015, we had an accumulated deficit of $50.0 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 March 31, 2015 will be sufficient to fund our current operating plan for at least the next twelve months.

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 convertible preferred stock and 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.

Potential 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 shares of potentially dilutive securities give effect to the Recapitalization, and 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 March 31,	
	2015	2014
Convertible preferred stock	—	12,147,786
Unvested restricted common stock	487,836	774,374
Unvested restricted stock units	632,838	—
Vested and unvested options	340,444	—
	1,461,118	12,922,160

In addition, 72,567 options have been excluded from the above table 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 August 2014, the Financial Accounting Standards Board (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 (Topic 606), which supersedes the revenue recognition requirements in the current standard, Revenue Recognition. The new standard is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In April 2015, the FASB voted to propose to defer the effective date of this standard by one year to December 2017. We will evaluate the application of this standard on our financial statements and disclosures when the standard becomes effective.

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 March 31, 2015:			
Cash equivalents:			
Money market funds	$71,329	$71,329	$ —
Short-term available-for-sale investments:			
Corporate bonds	$62,067	$—	$ 62,067
Agency bonds	17,149	—	17,149
Treasury bonds	466	—	466
Asset-backed securities	15,685	—	15,685
Total short-term available-for-sale investments	$95,367	$—	$ 95,367
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.

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 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 March 31, 2015:				
Corporate bonds	$62,092	$ 11	$ (36)	$62,067
Agency bonds	17,143	7	(1)	17,149
Treasury bonds	466	—	—	466
Asset-backed securities	15,684	4	(3)	15,685
Total short-term available-for-sale investments	$95,385	$ 22	$ (40)	$95,367
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	$ (103)	$82,219

The amortized cost and fair value of available-for-sale investments, by contractual maturity, were as follows:

	Total Amortized Cost	Total Fair Value
	(in thousands)	
At March 31, 2015:		
Maturing within one year	$54,252	$54,232
Maturing in one to five years	41,133	41,135
Total short-term available-for-sale investments	$95,385	$95,367
At December 31, 2014:		
Maturing within one year	$56,752	$56,714
Maturing in one to five years	25,567	25,505
Total short-term available-for-sale investments	$82,319	$82,219

4. Significant Agreements

Related Party License Agreements - In September 2012, we entered into three license agreements with Amgen, one of our investors, for the development, manufacturing, use and distribution of products using certain proprietary compounds. Under the terms of these agreements, we paid $250,000 and issued 5,538,462 shares of Series A-1 convertible preferred stock (615,384 shares after giving effect to the Recapitalization) to Amgen. As described further in Note 5, we may also be required to make additional payments to Amgen based upon the achievement of specified development, regulatory, and commercial milestones, as well as mid-single-digit percentage royalties on future sales of products resulting from development of these purchased technologies, if any. These agreements expire at the end of all royalty obligations to Amgen and, upon expiration, the licenses will be fully paid, royalty-free, irrevocable and non-exclusive.

At March 31, 2015, Amgen owns 6.0% of our outstanding voting capital stock. Amgen does not have any rights to participate in our product candidates' development and is not represented on our boards of directors.

Exclusive Option Agreement – In September 2014, we entered into an exclusive option agreement with Memorial Sloan Kettering Cancer Center ("MSK") under which we have the right to acquire the exclusive worldwide license rights to the three clinical stage T-cell therapies of MSK. The initial option period is for twelve months, with extensions available to extend the term up to 27 months at the option of Atara. Under the terms of the option agreement, we are obligated to use reasonable efforts to prepare a request to be submitted to the US Food and Drug Administration (the "FDA") regarding a meeting to discuss pivotal trials for one of the clinical stage T-cell therapies. In exchange for the exclusive option, we paid MSK $1.25 million in cash and issued 59,761 shares of our common stock to MSK. At the time of issuance, we estimated the fair value of the common stock issued to MSK to be $750,000. This total of $2.0 million was recorded as research and development expense in our condensed consolidated and combined statement of operations and comprehensive loss in the third quarter of 2014. We will be obligated to pay MSK an additional amount up to $630,000 if we extend the option period.

If we exercise the option and enter into the license agreement with MSK, we will be obligated under the license agreement to pay to MSK an upfront cash payment of $4.5 million and additional payments of up to $33.0 million based on a license fee and achievement of specified development, regulatory and sales-related milestones, and to make mid-single-digit percentage royalty payments based on sales of the T-cell therapy products.

5. Commitments and Contingencies

Operating Leases

Rent expense for the three months ended March 31, 2015 and 2014 was $81,220 and $14,640, respectively.

Related Party License Agreements

Under the terms of our license agreements with Amgen, we are obligated to make additional milestone payments to Amgen of up to $86.0 million upon the achievement of certain development and regulatory approval milestones. Of these milestone payments, $14.0 million relate to milestones for clinical trials. The remaining $72.0 million relate to milestones for regulatory approvals in various territories and are anticipated to be made no earlier than 2017. Thereafter, we are obligated to make tiered payments based on achievement of commercial milestones based upon net sales levels. The maximum payments would be $206.0 million based on sales of over $1 billion for each of three products in a calendar year. We are also obligated to pay mid-single-digit percentage tiered royalties on future net sales of products which are developed and approved as defined by the agreements. Our royalty obligations as to a particular licensed product will be payable, on a country-by-country and product-by-product basis, until the later of (a) the date of expiration of the last to expire valid claim within the licensed patents that covers the manufacture, use or sale, offer to sell, or import of such licensed product by us or a sublicense in such country, (b) loss of regulatory exclusivity or (c) 10 years after the first commercial sale of the applicable licensed product in the applicable country. As of March 31, 2015 and December 31, 2014, there were no outstanding obligations due to Amgen.

In accordance with terms of the agreements, we use commercially reasonable efforts to pay costs related to the preparation, filing, prosecution, defense and maintenance of the patents covered by the license agreements. During the three months ended March 31, 2015 and 2014, we incurred expenses of $508,919 and $218,072, respectively, related to the preparation, filing and maintenance of patents.

Indemnification Agreements

In the normal course of business, we enter into contracts and agreements that contain a variety of representations and warranties and provide for indemnification for certain liabilities. The exposure under these agreements is unknown because it involves claims that may be made against us in the future but have not yet been made. To date, we have not paid any claims or been required to defend any action related to our indemnification obligations. However, we may record charges in the future as a result of these indemnification obligations. We also have indemnification obligations to our directors and executive officers for specified events or occurrences, subject to some limits, while they are serving at our request in such capacities. There have been no claims to date and we believe the fair value of these indemnification agreements is minimal. Accordingly, we have not recorded any liabilities for these agreements as of March 31, 2015 and December 31, 2014.

6. Stockholders' Equity

Restricted Common Stock

In August 2012, in connection with our formation, our CEO purchased 9,595,384 shares of restricted common stock at a nominal per share purchase price. The shares were issued subject to certain vesting conditions, restrictions on transfer and a Company right of repurchase of any unvested share at their original purchase price. These shares are placed in escrow until vested, and have rights to vote and participate in dividends and distributions. The combined grant date intrinsic value for this award was $1,704,094 and 7,996,153 of these shares had service and fundraising vesting conditions. Under the service vesting condition, shares vest monthly over 48 months, commencing from the first closing of Series A convertible preferred stock financing on October 22, 2012. 1,599,231 of these shares are subject to performance milestones and fundraising vesting conditions. The fundraising vesting conditions for all shares were satisfied as of December 31, 2013. All shares subject to service vesting conditions are subject to accelerated vesting in the event of certain change of control transactions.

In March 2013, an Atara employee purchased 2,423,074 shares of restricted common stock for $331,170. The shares were issued under our 2012 Equity Incentive Plan (as discussed below) and are subject to certain vesting conditions, restrictions on transfer and a Company right of repurchase of any unvested shares at their original purchase price. These shares are placed in escrow until vested, and have rights to vote and participate in dividends and distributions. Under these agreements, the shares vest as follows: 2,319,228 shares vest over four years, with one-quarter vesting after one year of service and the remainder vesting in equal installments over the subsequent thirty-six months, and 103,846 shares vest upon achievement of certain performance milestones. Vesting of all shares is subject to acceleration of vesting in the event of certain change of control transactions.

The restricted common stock was purchased with secured promissory notes totaling $331,170.

The amounts paid for both restricted stock purchases were initially recorded as other long-term liabilities. As shares vest, we reclassify liabilities to equity and report shares as outstanding in the condensed consolidated and combined financial statements. On March 31, 2014, the shares were exchanged for 1,335,384 shares of Atara common stock. At March 31, 2015, 887,067 shares had vested and are classified as equity. Restricted stock shares not vested at March 31, 2015 totaled 448,317 shares and are expected to vest over two years.

As both the Chief Executive Officer and the Atara employee were consultants of Nina, Pinta and Santa Maria through the Recapitalization date, we accounted for these awards as non-employee stock-based awards. Following the Recapitalization, these awards were accounted as employee awards based upon the fair market value of common stock on March 31, 2014. Stock-based compensation expense related to these awards is recorded using an accelerated graded vesting model and was $323,226 and $3.3 million for the three months ended March 31, 2015 and 2014, respectively. The unrecognized stock-based compensation expense related to this unvested restricted stock was $860,566 at March 31, 2015 and this expense is expected to be recognized over the remaining service periods through 2016. The aggregate intrinsic value of unvested restricted stock is $18.6 million at March 31, 2015.

2014 Equity Incentive Plans

In March 2014, we adopted the 2014 Equity Incentive Plan (the "2014 plan") as part of our Recapitalization. In connection with the Recapitalization, Atara assumed the plans of Nina, Pinta and Santa Maria and all outstanding restricted stock units ("RSUs") and restricted stock awards granted under such plans. At the date of Recapitalization, RSUs and restricted stock awards issued by Nina, Pinta and Santa Maria to Atara employees became employee awards and the awards' grant dates were established as the Recapitalization date. In May 2014, our board of directors amended and restated our 2014 plan and the amended plan became effective on October 15, 2014 upon the pricing of our initial public offering. The maximum number of shares of our common stock that may be issued pursuant to stock awards under the 2014 plan is 4,536,797 shares, including 1,294,041 shares that were previously available for issuance under the 2012 plans.

The number of shares of our common stock reserved for issuance pursuant to stock awards under our 2014 plan will automatically increase on January 1 of each year for a period of up to ten years, beginning on January 1, 2015 and ending on and including January 1, 2024, by 5% of the number of shares of our capital stock outstanding on December 31 of the preceding calendar year, or a lesser number of shares determined by our board of directors. The number of shares of our common stock available for issuance under the 2014 plan is 2,046,541 at March 31, 2015.

Under the terms of the 2014 plan, we may grant options, restricted stock awards and RSUs to employees, directors, consultants and other service providers. Employees typically receive an award upon commencement of employment and members of our board of directors receive an award in connection with their appointment. Generally, if any shares subject to an award expire, or are forfeited, terminated or cancelled without the issuance of shares, the shares are added back into the total shares available for issuance under the 2014 plan.

RSUs typically expire at the earlier of seven years from the date of grant or the service termination (or, for RSUs granted prior to February 2014, two years following the service termination date). Stock options are granted at prices no less than 100% of the estimated fair value of the shares on the date of grant as determined by the board of directors, provided, however, that the exercise price of an option granted to a 10% shareholder cannot be less than 110% of the estimated fair value of the shares on the date of grant. Options granted to employees and non-employees generally vest over four years and expire in seven years.

Restricted Stock Units and Awards

The RSUs granted prior to our initial public offering had a time-based service condition and a liquidity-based performance condition, and vest when both conditions are met. We determined that the liquidity-based performance condition was not probable of occurring and recorded no stock-based compensation expense related to the RSUs prior to our initial public offering. Upon the closing of our initial public offering in October 2014, we recorded $3.8 million of stock-based compensation expense in our consolidated and combined statement of operations for the quarter ended December 31, 2014. The remaining unrecognized stock-based compensation expense relating to nonvested RSUs will be recognized as the RSUs vest over the remaining service periods through 2018. As of March 31, 2015, there was $3.9 million of unrecognized stock-based compensation expense related to RSUs that is expected to be recognized over a weighted average period of 1.42 years. The aggregate intrinsic value of the RSUs outstanding at March 31, 2015 was $37.7 million.

The following is a summary of RSU activity, including the restricted stock award discussed above, under our 2014 plan:

	Restricted Stock Awards		RSUs	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2014	112,740	$ 0.40	619,303	$ 4.64
Granted	—	—	87,600	$ 25.15
Forfeited	—	—	—	—
Vested	(16,106)	$ 0.40	(113,713)	$ 5.66
Unvested at March 31, 2015	96,634	$ 0.40	593,190	$ 7.47

Stock Options

The following is a summary of option activity under our 2014 plan:

	Number of shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2014	623,936	$ 13.69		
Granted (weighted-average grant date fair value of $14.07 per share)	690,699	$ 24.96		
Balance at March 31, 2015	1,314,635	$ 19.61	6.67	$28,866,786
Stock options vested and expected to vest at March 31, 2015	1,314,635	$ 19.61	6.67	$28,866,786
Exercisable at March 31, 2015	56,175	$ 16.10	6.63	$1,430,908

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Aggregate intrinsic value represents the difference between the closing stock price of our common stock on March 31, 2015 and the exercise price of outstanding, in-the-money options. As of March 31, 2015, there was $13.6 million of unrecognized stock-based compensation expense related to stock options that is expected to be recognized over a weighted average period of 3.43 years. No options were exercised in the first quarter of 2015.

The fair value of each option issued during 2015 was estimated at the date of grant using the Black-Scholes valuation model with the following weighted-average assumptions:

	Three Months Ended March 31, 2015	
	Employees	Non-Employees
Risk-free interest rate	1.3% - 1.6%	1.6%
Expected life of options in years	4.5	6.9
Expected volatility of underlying stock	71.1%	70.1%
Expected dividend yield	0.0%	0.0%

Stock-based Compensation Expense

Total stock-based compensation expense related to all employee and non-employee awards was as follows (in thousands):

	Three months ended March 31,	
	2015	2014
Research and development	$1,288	$705
General and administrative	1,195	2,612
	$2,483	$3,317

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations together with our audited consolidated and combined financial statements and related notes included in our 2014 Annual Report on Form 10-K. This discussion and other parts of this quarterly report contain forward-looking statements that involve risk and uncertainties, such as statements of our plans, objectives, expectations and intentions. As a result of many factors, including those factors set forth in the "Risk Factors" section of this quarterly report, our actual results could differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

We are a clinical-stage biopharmaceutical company focused on developing novel therapeutics for serious unmet medical needs, with an initial focus on muscle wasting conditions and oncology. Our product candidates are biologics targeting myostatin and activin, members of the TGF-ß protein superfamily, which play roles in the growth and maintenance of muscle and many other body tissues. Our lead product candidate, PINTA 745, is in a Phase 2 clinical trial for protein energy wasting in ESRD patients. Our second product candidate is STM 434. We commenced a Phase 1 clinical study of STM 434 for ovarian cancer and other solid tumors in 2014. We have five additional product candidates targeting the TGF-ß pathway in preclinical development, including ATA 842. In addition, we have an exclusive option to license certain T-cell programs from MSK. We intend to license or acquire additional product candidates to develop and commercialize.

Our current product candidate portfolio was acquired through licensing arrangements with Amgen in exchange for convertible preferred stock and future milestone payments and royalties. Through these arrangements, we obtained licenses to patent rights and the ability to use certain proprietary know-how to develop and commercialize a portfolio of seven product candidates. We are responsible for obtaining all regulatory approvals and developing commercial scale manufacturing processes to enable eventual commercialization of these product candidates. Under the terms of these agreements, we made an upfront payment of $250,000 and issued 615,384 shares of Series A-1 convertible preferred stock on a combined basis to Amgen. We are also required to make additional payments of up to $86.0 million to Amgen based upon the achievement of certain development and regulatory approval milestones, as well as additional payments based on achievement of commercial milestones and future net sales of products resulting from development of these product candidates, if any. Of the $86.0 million, $14.0 million in potential payments relate to milestones for clinical trials.

We have only a limited operating history. Since our inception in 2012, we have devoted substantially all of our resources to identify, acquire and develop our product candidates, including conducting preclinical and clinical studies and providing general and administrative support for these operations.

We have never generated revenues and have incurred net losses since inception. Our net loss was $9.2 million for the three months ending March 31, 2015 and as of March 31, 2015, we had an accumulated deficit of $50.0 million. Substantially all of our net losses have resulted from costs incurred in connection with our research and development programs and from general and administrative expenses associated with our operations. Our cash and cash equivalents and short-term investment balances at March 31, 2015 totaled $166.7 million, which we intend to use to fund our operations.

Financial Overview

Basis of Presentation and Recapitalization

Atara was formed as a management company with the sole purpose of providing management, financial and administrative services for Nina, Pinta and Santa Maria. Since inception, Atara, Nina, Pinta and Santa Maria have been under common management and common ownership for all periods and as of all dates prior to our recapitalization on March 31, 2014, we have presented the results of operations and financial condition of the four companies on a combined basis. The combined financial statements include the accounts of the four individual companies since inception, with intercompany transactions eliminated.

On March 31, 2014, we implemented a 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, in the same proportions and with the same rights and privileges as the outstanding capital stock of Nina, Pinta and Santa Maria, on a collective nine-for-one basis. Atara assumed the separate equity incentive plans sponsored by Nina, Pinta and Santa Maria and all outstanding RSUs and restricted stock awards granted under such plans. At the time of RSU settlement, each employee or consultant will receive one share of common stock of Atara for three RSUs in each of Nina, Pinta, and Santa Maria (collectively, a nine-for-one exchange). We refer to this transaction as our recapitalization. As a result of the recapitalization, Nina, Pinta and Santa Maria became wholly owned subsidiaries of Atara effective March 31, 2014. The recapitalization was accounted for as a combination of businesses under common control and the assets and liabilities of Nina, Pinta and Santa Maria were recorded by Atara at their historical carrying amounts on March 31, 2014. Beginning March 31, 2014, our financial statements are presented on a consolidated basis, with all intercompany transactions eliminated. Except as otherwise noted, all share and per share amounts presented in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" give effect to the recapitalization.

Revenues

To date, we have not generated any revenues. We do not expect to receive any revenues from any product candidates that we develop until we obtain regulatory approval and commercialize our products or enter into collaborative agreements with third parties.

Research and Development Expenses

The largest component of our total operating expenses since inception has been our investment in research and development activities, including the preclinical and clinical development of our product candidates. Research and development expenses consist of costs incurred in performing research and development activities, including compensation and benefits for research and development employees, including stock-based compensation, an allocation of facility and overhead expenses, expenses incurred under agreements with contract research organizations and investigative sites that conduct clinical trials and preclinical studies, the costs of acquiring and manufacturing clinical trial materials and other supplies and costs associated with product development efforts, preclinical activities and regulatory operations. Research and development costs are expensed as incurred.

We plan to increase our research and development expenses for the foreseeable future as we continue the development of our product candidates. Our current planned research and development activities include the following:

- increase enrollment and completion of our Phase 2 clinical trial of PINTA 745;
- increase enrollment and completion of our Phase 1 clinical study of STM 434;
- process development and manufacturing of drug supply for PINTA 745, STM 434 and ATA 842 to support clinical trials and IND-enabling studies; and
- evaluate our exclusive option to license certain T-cell programs from MSK.

In addition to our product candidates that are in clinical and preclinical development, we believe it is important to continue our substantial investment in a diverse pipeline of new product candidates to continue to build the value of our product candidate pipeline and our business. We plan to continue to advance our most promising early product candidates into preclinical development with the objective to advance these early-stage programs to human clinical studies over the next several years.

Our expenditures on current and future preclinical and clinical development programs are subject to numerous uncertainties in timing and cost to completion. The duration, costs, and timing of clinical trials and development of

our product candidates will depend on a variety of factors, including:

- the scope, rate of progress, and expenses of our ongoing as well as any additional clinical trials and other research and development activities;
- future clinical trial results;
- uncertainties in clinical trial enrollment rates or drop-out or discontinuation rates of patients;
- potential additional safety monitoring or other studies requested by regulatory agencies;
- significant and changing government regulation; and
- the timing and receipt of any regulatory approvals.

The process of conducting the necessary clinical research to obtain FDA approval is costly and time consuming and the successful development of our product candidates is highly uncertain. The risks and uncertainties associated with our research and development projects are discussed more fully in the section of this report titled "1A. Risk Factors." As a result of these risks and uncertainties, we are unable to determine with any degree of certainty the duration and completion costs of our research and development projects, or if, when, or to what extent we will generate revenues from the commercialization and sale of any of our product candidates that obtain regulatory approval. We may never succeed in achieving regulatory approval for any of our product candidates.

General and Administrative Expenses

General and administrative expenses consist primarily of personnel costs, allocated facilities costs and other expenses for outside professional services, including legal, human resources, audit and accounting services. Personnel costs consist of salaries, benefits and stock-based compensation. We anticipate that our general and administrative expenses will continue to increase in the future as we increase our headcount to support our continued research and development and potential commercialization of our product candidates.

Interest and Other Income

Interest and other income consists primarily of interest earned on our cash, cash equivalents and marketable securities as well as interest on notes receivable issued to one of our employees related to the purchase of restricted common stock.

Critical Accounting Policies and Significant Judgments and Estimates

Our management's discussion and analysis of financial condition and results of operations are based upon our unaudited condensed consolidated and combined financial statements, which have been prepared in accordance with GAAP. The preparation of these condensed consolidated and combined financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, and expenses. On an on-going basis, we evaluate our critical accounting policies and estimates. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions. Our significant accounting policies are more fully described in Note 2 of the accompanying unaudited condensed consolidated and combined financial statements and in Note 2 to our audited consolidated and combined financial statements included in our Annual Report on Form 10-K.

Emerging Growth Company Status

We are an "emerging growth company" as defined in the JOBS Act, and therefore we may take advantage of certain exemptions from various public company reporting requirements. As an "emerging growth company",

- we will avail ourselves of the exemption from the requirement to obtain an attestation and report from our auditors on the assessment of our internal control over financial reporting pursuant to the Sarbanes-Oxley Act;
- we will provide less extensive disclosure about our executive compensation arrangements; and
- we will not require stockholder non-binding advisory votes on executive compensation or golden parachute arrangements.

However, we are choosing to irrevocably opt out of the extended transition periods available under the JOBS Act for complying with new or revised accounting standards. We will remain an "emerging growth company" for up to five years, although we will cease to be an "emerging growth company" upon the earliest of: (1) December 31, 2019; (2) the last day of the first fiscal year in which our annual gross revenues are $1 billion or more; (3) the date on which we have, during the previous rolling three-year period, issued more than $1 billion in non-convertible debt securities; and (4) the date on which we are deemed to be a "large accelerated filer" as defined in the Exchange Act.

Results of Operations

Comparison of the Three Months Ended March 31, 2015 and 2014

Research and development expenses

Research and development expenses consisted of the following costs by program:

	Three months ended March 31,		Increase (Decrease)
	2015	2014	
	(in thousands)		
PINTA 745	$1,477	$525	$ 952
STM 434	664	1,317	(653)
ATA 842	982	12	970
T-cell therapy programs	122	—	122
Employee and overhead cost	2,522	1,127	1,395
Total research and development expense	$5,767	$2,981	$ 2,786