ChemoCentryx, Inc.
Form 10-Q
November 12, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

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: 001-35420

ChemoCentryx, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**94-3254365**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**

850 Maude Avenue

Mountain View, California 94043

(Address of Principal Executive Offices) (Zip Code)

(650) 210-2900

(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.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	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 outstanding shares of the registrant s common stock, par value $0.001 per share, as of November 4, 2013, was 42,865,408.

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CHEMOCENTRYX, INC.

QUARTERLY REPORT ON FORM 10-Q

For the quarterly period ended September 30, 2013

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CHEMOCENTRYX, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands except share and per share data)

	September 30, 2013 Unaudited	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 22,315	$ 8,460
Short-term investments	102,224	94,234
Accounts receivable from related party	523	1,156
Prepaid expenses and other current assets	560	630
Total current assets	125,622	104,480
Property and equipment, net	1,440	1,421
Long-term investments	32,731	16,262
Other assets	160	160
Total assets	$ 159,953	$ 122,323
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 692	$ 750
Accrued liabilities	5,004	6,267
Deferred revenue from related party	376	3,761
Current portion of equipment financing obligations	413	522
Total current liabilities	6,485	11,300
Noncurrent equipment financing obligations	62	379
Other non-current liabilities	222	298
Total liabilities	6,769	11,977
Stockholders equity:		
Preferred stock:		
Preferred stock, $0.001 par value, 10,000,000 shares authorized; no shares issued and outstanding;	0	0
	43	36

Common stock, $0.001 par value, 200,000,000 shares authorized at September 30, 2013 and December 31, 2012, respectively; 42,865,408 shares and 36,354,547 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively, net of shares subject to repurchase		
Additional paid-in capital	316,467	244,513
Note receivable	(16)	(16)
Accumulated other comprehensive income	9	2
Accumulated deficit	(163,319)	(134,189)
Total stockholders equity	153,184	110,346
Total liabilities and stockholders equity	$ 159,953	$ 122,323

See accompanying notes.

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CHEMOCENTRYX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues:				
Collaborative research and development revenue from related party	$ 1,522	$ 1,128	$ 5,335	$ 3,274
Operating expenses:				
Research and development	8,193	8,746	26,124	25,349
General and administrative	2,882	2,619	8,655	7,654
Total operating expenses	11,075	11,365	34,779	33,003
Loss from operations	(9,553)	(10,237)	(29,444)	(29,729)
Other income (expense):				
Interest income	134	141	360	411
Interest expense	(14)	(20)	(46)	(776)
Total interest income (expense), net	120	121	314	(365)
Net loss	$ (9,433)	$ (10,116)	$ (29,130)	$ (30,094)
Basic and diluted net loss per common share	$ (0.22)	$ (0.28)	$ (0.72)	$ (0.86)
Shares used to compute basic and diluted net loss per common share	42,839	36,180	40,262	35,117

See accompanying notes.

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CHEMOCENTRYX, INC.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

(in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net loss	$ (9,433)	$ (10,116)	$ (29,130)	$ (30,094)
Unrealized (loss) gain on available-for-sale securities	173	81	7	82
Comprehensive loss	$ (9,260)	$ (10,035)	$ (29,123)	$ (30,012)

See accompanying notes.

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CHEMOCENTRYX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2013	**2012**
Operating activities		
Net loss	$ (29,130)	$ (30,094)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property and equipment	426	456
Stock-based compensation	4,699	3,415
Noncash interest expense, net	1,243	1,960
Changes in assets and liabilities:		
Accounts receivable due from related party	633	216
Prepaids and other current assets	70	572
Other assets		1,935
Accounts payable	(58)	38
Other liabilities	(1,363)	1,337
Deferred revenue from related party	(3,385)	(3,274)
Net cash used in operating activities	(26,865)	(23,439)
Investing activities		
Purchases of property and equipment, net	(445)	(113)
Purchases of investments	(119,253)	(141,977)
Maturities of investments	93,582	81,563
Net cash used in investing activities	(26,116)	(60,527)
Financing activities		
Proceeds from issuance of common stock	64,365	57,017
Proceeds from exercise of stock options and employee stock purchase plan	2,585	317
Proceeds from exercise of warrants	312	0
Payments on equipment financing obligations	(426)	(408)
Net cash provided by financing activities	66,836	56,926
Net increase (decrease) in cash and cash equivalents	13,855	(27,040)
Cash and cash equivalents at beginning of period	8,460	40,155
Cash and cash equivalents at end of period	$ 22,315	$ 13,115
Supplemental disclosures of cash flow information		

Cash paid for interest	$ 22	$ 39
Non-cash financing activity:		
Issuance of common stock for settlement of convertible debt, including accrued interest	$ 0	$ 10,215

See accompanying notes.

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CHEMOCENTRYX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2013

(unaudited)

1. Description of Business

ChemoCentryx, Inc. (the Company) commenced operations in 1997. The Company is a clinical-stage biopharmaceutical company focused on discovering, developing and commercializing orally administered chemokine-based therapeutics to treat autoimmune diseases, inflammatory disorders and cancer. The Company s principal operations are in the United States and it operates in one segment.

Unaudited Interim Financial Information

The financial information filed is unaudited. The Condensed Consolidated Financial Statements included in this report reflect all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for the fair statement of the results of operations for the interim periods covered and of the financial condition of the Company at the date of the interim balance sheet. The December 31, 2012 Condensed Consolidated Balance Sheet was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles in the United States of America (GAAP). The results for interim periods are not necessarily indicative of the results for the entire year or any other interim period. The Condensed Consolidated Financial Statements should be read in conjunction with the Company s financial statements and the notes thereto included in the Company s annual report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission, or SEC, on March 14, 2013.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

Reclassifications

Certain items in the Condensed Consolidated Statements of Cash Flows have been reclassified to conform to the current fiscal year s format.

Net Loss Per Share

Basic and diluted net loss per common share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. Participating securities are included in the computation of basic income per share using the two-class method. The calculation of diluted net loss per share excludes potential common stock

because its effect is antidilutive. Potential common stock consists of incremental common shares issuable upon the exercise of stock options and warrants.

For the three and nine months ended September 30, 2013 and 2012, the Company s potential common stock includes the following shares, all of which have been excluded from the computation of diluted net loss per share because their impact is antidilutive:

	September 30,	
	2013	2012
Options to purchase common stock	5,371,204	5,396,959
Warrants to purchase common stock	151,672	309,500
	5,522,876	5,706,459

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3. Cash Equivalents and Investments

The amortized cost and fair value of cash equivalents and investments at September 30, 2013 and December 31, 2012 were as follows (in thousands):

	September 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market fund	$ 21,327	$ 0	$ 0	$ 21,327
Certificate of deposits	6,018	0	0	6,018
U.S. treasury securities	2,003	3	0	2,006
Government-sponsored agencies	9,818	10	(1)	9,827
Commercial paper	9,692	0	0	9,692
Corporate debt securities	107,414	39	(42)	107,411
Total available-for-sale securities	$ 156,272	$ 52	$ (43)	$ 156,281
Classified as:				
Cash equivalents				$ 21,326
Short-term investments				102,224
Long-term investments				32,731
Total available-for-sale securities				$ 156,281

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market fund	$ 10,403	$ 1	$ 0	$ 10,404
Government-sponsored agencies	6,009	1	0	6,010
Commercial paper	29,171	3	0	29,174
Corporate debt securities	71,980	23	(26)	71,977
Total available-for-sale securities	$ 117,563	$ 28	$ (26)	$ 117,565
Classified as:				
Cash equivalents				$ 7,069
Short-term investments				94,234
Long-term investments				16,262
Total available-for-sale securities				$ 117,565

All available-for-sale securities held as of September 30, 2013, had contractual maturities of less than two years. There have been no significant realized gains or losses on available-for-sale securities for the periods presented. No available-for-sale securities held as of September 30, 2013, have been in a continuous unrealized loss position for more than 12 months. As of September 30, 2013, unrealized losses on available-for-sale investments are not attributed to credit risk and are considered to be temporary. The Company believes that it is more-likely-than-not that

investments in an unrealized loss position will be held until maturity or the recovery of the cost basis of the investment. To date, the Company has not recorded any impairment charges on marketable securities related to other-than-temporary declines in market value.

4. Fair Value Measurements

The Company determines the fair value of financial assets and liabilities using three levels of inputs as follows:

Level 1 Inputs which include quoted prices in active markets for identical assets and liabilities.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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The Company s financial assets and liabilities subject to fair value measurements on a recurring basis and the level of inputs used in such measurements are as follows as of September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Money market fund	$ 21,327	$ 0	$ 0	$ 21,327
Certificate of deposits	6,018	0	0	6,018
U.S. treasury securities	0	2,006	0	2,006
Government-sponsored agencies	0	9,827	0	9,827
Commercial paper	0	9,692	0	9,692
Corporate debt securities	0	107,411	0	107,411
Total assets	$ 27,345	$ 128,936	$ 0	$ 156,281

	December 31, 2012			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Money market fund	$ 10,404	$ 0	$ 0	$ 10,404
Government-sponsored agencies	0	6,010	0	6,010
Commercial paper	0	29,174	0	29,174
Corporate debt securities	0	71,977	0	71,977
Total assets	$ 10,404	$ 107,161	$ 0	$ 117,565

When the Company uses observable market prices for identical securities that are traded in less active markets, the Company classifies its marketable debt instruments as Level 2. When observable market prices for identical securities are not available, the Company prices its marketable debt instruments using non-binding market consensus prices that are corroborated with observable market data; quoted market prices for similar instruments; or pricing models, such as a discounted cash flow model, with all significant inputs derived from or corroborated with observable market data. Non-binding market consensus prices are based on the proprietary valuation models of pricing providers or brokers. These valuation models incorporate a number of inputs, including non-binding and binding broker quotes; observable market prices for identical or similar securities; and the internal assumptions of pricing providers or brokers that use observable market inputs and, to a lesser degree, unobservable market inputs. The Company corroborates non-binding market consensus prices with observable market data using statistical models when observable market data exists. The discounted cash flow model uses observable market inputs, such as LIBOR-based yield curves, currency spot and forward rates, and credit ratings.

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5. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	September 30, 2013	December 31, 2012
Research and development related	$ 2,615	$ 3,678
Compensation related	1,613	1,889
Other	776	700
	$ 5,004	$ 6,267

6. Related-Party Transactions

Glaxo Group Limited

In August 2006, the Company entered into a product development and commercialization agreement with Glaxo Group Limited (GSK). The Company recognized the following revenues from GSK during the three and nine months ended September 30, 2013 and 2012 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
GSK:				
Contract revenue	$ 393	$ 0	$ 1,950	$ 0
Recognition of up-front payments	1,129	1,128	3,385	3,274
Total revenues	$ 1,522	$ 1,128	$ 5,335	$ 3,274

At September 30, 2013 and December 31, 2012, the Company had an accounts receivable balance due from GSK of $0.5 million and $1.2 million, respectively.

Techne

In September 2011, the Company entered into a convertible note loan agreement with Techne Corporation, or Techne, one of its principal stockholders, pursuant to which the Company issued a convertible note to Techne with a principal amount of $10.0 million and bearing interest at a rate of 5.0% per annum and a maturity date in September 2021. In February 2012, the Company completed its IPO, and as such, all outstanding principal and accrued and unpaid interest automatically converted into 1,021,490 shares of common stock at a conversion price equal to the IPO price of $10.00 per share. Upon the conversion of the note in connection with the IPO, Techne received a warrant with a ten-year term to purchase 150,000 shares of the Company s common stock at an exercise price per share equal to $20.00 per share, or 200% of the IPO price of its common stock. In addition, pursuant to the terms of the convertible note loan agreement, concurrent with the IPO, Techne purchased $5.0 million of the Company s common stock in a private placement at $10.00 per share.

7. Shareholders Equity

Initial Public Offering

In February 2012, the Company completed its IPO pursuant to which the Company issued 5,175,000 shares of common stock, including the exercise of the underwriters over-allotment option and received (a) net proceeds of $45.0 million, after underwriting discounts, commissions and offering expenses; and (b) gross proceeds of $12.0 million in concurrent private placements of 1,200,000 shares of common stock at the IPO price of $10.00 per share. In addition, in connection with the completion of the Company s IPO, all convertible preferred stock converted into 24,332,186 shares of common stock. As discussed in Note 6, all outstanding principal and accrued and unpaid interest under the convertible note loan agreement with Techne also converted into common stock upon the completion of the Company s IPO.

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Follow On Public Offering

In April 2013, the Company completed an underwritten public offering of 5,750,000 shares of its common stock at $12.00 per share. The Company received net proceeds of $64.4 million, after deducting underwriting discounts, commissions and offering expenses.

Warrants to Purchase Common Stock

In February 2012, in connection with the IPO, the Company s outstanding warrants to purchase Series B convertible preferred stock converted into warrants to purchase 159,500 shares of common stock at $5.20 per share, with expiration dates from 2012 through 2014. As discussed in Note 6, upon the completion of the Company s IPO in February 2012, Techne received a warrant with a ten-year term to purchase 150,000 shares of the Company s common stock at $20.00 per share. As of December 31, 2012, warrants to purchase 301,672 shares of common stock were outstanding with a weighted-average exercise price of $12.56. During the nine months ended September 30, 2013, warrants to purchase 150,000 shares of common stock were exercised. As of September 30, 2013, warrants to purchase 151,672 shares of common stock were outstanding with a weighted-average exercise price of $19.84.

8. Equity Incentive Plans

During the nine months ended September 30, 2013, the Company had the following option activities under its equity incentive plans:

		Outstanding Options			
	Available for Grant	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance at December 31, 2012	1,567,902	5,292,738	$ 7.38		
Shares authorized	1,450,000				
Granted	(935,650)	935,650	14.09		
Exercised	0	(624,548)	3.68		
Forfeited	232,636	(232,636)	12.23		
Balance at September 30, 2013	2,314,888	5,371,204	$ 8.77	6.44 years	$ 2,611,479

Stock-based Compensation

Total stock-based compensation expense was $1.6 million and $4.7 million during the three and nine months ended September 30, 2013, respectively, and $1.5 million and $3.4 million during the same periods ended September 30, 2012, respectively. As of September 30, 2013, $13.8 million of total unrecognized compensation expense related to employee stock options, net of estimated forfeitures, was expected to be recognized over a weighted-average period of 2.81 years.

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

The following discussion and analysis should be read in conjunction with our financial statements and accompanying notes included in this Quarterly Report on Form 10-Q and the financial statements and accompanying notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, filed with the Securities and Exchange Commission, or SEC, on March 14, 2013.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as may, could, will, would, should, expect, plan, aim, anticipate, believe, estimate, intend, predict, or continue or the negative of these terms or other comparable terminology. These forward-looking statements include, but are not limited to, statements about:

- the initiation, timing, progress and results of our preclinical studies and clinical trials, and our research and development programs;
- our ability to advance drug candidates into, and successfully complete, clinical trials;
- our collaborator s exercise of its option with respect to CCX168;
- the commercialization of our drug candidates;
- the implementation of our business model, strategic plans for our business, drug candidates and technology;
- the scope of protection we are able to establish and maintain for intellectual property rights covering our drug candidates and technology;
- estimates of our expenses, future revenues, capital requirements and our needs for additional financing;
- the timing or likelihood of regulatory filings and approvals;
- our ability to maintain and establish collaborations or obtain additional government grant funding;

our financial performance; and

developments relating to our competitors and our industry.

These statements relate to future events or to our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Factors that may cause actual results to differ materially from current expectations include, among other things, those included in Item 1A. Risk Factors in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, filed with the SEC on March 14, 2013.

Any forward-looking statement in this Quarterly Report on Form 10-Q reflects our current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, industry and future growth. Given these uncertainties, you should not place undue reliance on these forward-looking statements. For all forward-looking statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Except as required by law, we assume no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future.

ChemoCentryx®, the ChemoCentryx logo, Traficet and Traficet-EN are our trademarks in the United States, the European Community, Australia and Japan. EnabaLink® and RAM® are our trademarks in the United States. Each of the other trademarks, trade names or service marks appearing in this Quarterly Report on Form 10-Q belongs to its respective holder.

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Unless the context requires otherwise, in this Quarterly Report on Form 10-Q the terms ChemoCentryx, we, us and our refer to ChemoCentryx, Inc., a Delaware corporation, and our subsidiary taken as a whole.

Overview

ChemoCentryx is a biopharmaceutical company focused on discovering, developing and commercializing orally-administered therapeutics to treat autoimmune diseases, inflammatory disorders and cancer. We currently have six drug candidates in clinical development. Our drug candidates include:

CCXI Wholly Owned Drug Candidates:

CCX140 Our lead independent drug candidate targets the chemokine receptor known as CCR2 and is currently in Phase II clinical trials in patients with diabetic nephropathy, a form of kidney disease;

CCX872 Our next generation orally administered inhibitor targeting CCR2 for other renal indications or inflammatory diseases is expected to complete Phase I clinical development in the first half of 2014;

CCX507 Our *de novo* wholly owned next generation CCR9 inhibitor for the treatment of inflammatory bowel disease is expected to complete Phase I clinical development in the first half of 2014; and

Vercirnon (also known as Traficet-EN, or CCX282) Targeting the chemokine receptor known as CCR9, vercirnon is our drug candidate for the treatment of patients with moderate-to-severe Crohn s disease. In September 2013, we regained all rights to this program from our partner, Glaxo Group Limited, or GSK, an affiliate of GlaxoSmithKline.

Drug Candidates Subject to Our Collaboration Agreement with GSK:

CCX168 Targeting the chemoattractant receptor known as C5aR (which binds the complement fragment C5a), CCX168 is currently in a Phase II clinical trial for the treatment of anti-neutrophil cytoplasmic antibody, or ANCA, associated vasculitis, and subject to GSK s option in late 2013; and

CCX354 (GSK2941266) An inhibitor of the chemokine receptor known as CCR1, completed a Phase II proof-of-concept clinical trial for the treatment of rheumatoid arthritis, or RA, and was subsequently licensed exclusively to GSK, now solely responsible for further clinical development.

CCX140, CCX872 and CCX507 are wholly owned and are being developed independently by ChemoCentryx, while CCX354 and CCX168 are subject to our collaboration agreement with GSK. We are also advancing several additional independent drug candidates through preclinical development. Our strategy also includes identification of next generation compounds related to our drug candidates. All of our drug candidates, including those which are now subject to our collaboration with GSK, have been internally discovered.

In August 2006, we entered into our strategic alliance with GSK. We have received over $250 million from GSK, of which approximately $82 million was in the form of equity investments, and the balance from up-front and milestone payments, research funding and option exercise fees. Under the terms of our agreement with GSK, we are responsible for the discovery and development of small molecule antagonists targeting four defined chemokine and chemo-attractant receptor targets (CCR9, CCR1, C5aR and ChemR23) and for advancing them through clinical proof-of-concept or to such other success criteria as are established by the JSC. If we demonstrate the satisfaction of the applicable success criteria, GSK is entitled to options to exclusively license drug candidates that are subject to the collaboration and two defined back-up compounds for each drug candidate for further development and commercialization on a worldwide basis. Upon exercising any of its options to drug candidates under the collaboration, GSK is solely responsible for all further clinical development and commercialization expenditures worldwide with respect to that drug candidate and its two designated back-up compounds. In exchange for the rights granted to GSK upon the exercise of its options, we are also entitled to receive regulatory and commercial milestone payments, as earned under the terms of our agreement, and royalties on the net sales of licensed drugs.

In December 2009, GSK exercised its options to vercirnon (CCR9) and two identified back-up compounds. In September 2013, GSK elected to return vercirnon and its two identified back-up compounds after vercirnon did not achieve the primary endpoint in the SHIELD-1 study of improvement in clinical response and the key secondary endpoint of clinical remission. In accordance with the terms of the collaboration agreement, GSK shall provide us with the following, including but not limited to, all clinical study data and results, regulatory filings, and existing inventory of drug substance and drug products. GSK shall also assign to us any regulatory filings and trademarks. Upon return of the vercirnon program, we are free to develop vercirnon independently or with another collaboration partner should we decide to continue the development of vercirnon.

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In November 2011, GSK exercised its option to obtain an exclusive license for the further development and commercialization of CCX354, (CCR1), and two identified back-up compounds and assumed sole responsibility for further development and commercialization of this drug candidate. In addition, we and GSK determined not to further advance the development of CCX832 (ChemR23) or its two designated back-up compounds. Thus, GSK s only remaining option is to CCX168 (C5aR) and its associated back-up compounds which is anticipated in the fourth quarter of this year. If GSK does not exercise its option to CCX168, we will evaluate our alternatives for further development of this drug candidate, which may entail internally developing it or identifying other collaboration partners for its development.

Since commencing our operations in 1997, our efforts have focused on research, development and the advancement of our drug candidates into and through clinical trials. As a result, we have incurred significant losses. We have funded our operations primarily through the sale of convertible preferred and common stock, contract revenue under our collaborations, government contracts and grants and borrowings under equipment financing arrangements. In February 2012, we completed our IPO pursuant to which we received net proceeds of $45.0 million, after underwriting discounts, commissions and offering expenses. We also received gross proceeds of $12.0 million from concurrent private placements of common stock at the IPO price of $10.00 per share. In addition, the outstanding principal amount of $10.0 million and accrued interest under a convertible note we had issued to Techne Corporation, or Techne, one of our principal stockholders, automatically converted into shares of our common stock in connection with our IPO at a conversion price equal to the IPO price. In April 2013, we completed our first follow-on offering of 5,750,000 shares of our common stock at $12.00 per share. We received net proceeds of $64.4 million, after deducting underwriting discounts, commissions and offering expenses. As of September 30, 2013, we had an accumulated deficit of $163.3 million. We expect to continue to incur net losses as we develop our drug candidates, expand clinical trials for our drug candidates currently in clinical development, expand our research and development activities, expand our systems and facilities, seek regulatory approvals and engage in commercialization preparation activities in anticipation of Food and Drug Administration, or FDA, approval of our drug candidates. In addition, if a product is approved for commercialization, we will need to expand our organization. Significant capital is required to launch a product and many expenses are incurred before revenues are received. We are unable to predict the extent of any future losses or when we will become profitable, if at all.

Recent Developments

Top-Line 12 Week Interim Data for CCX140

In September 2013, we reported 12 week interim data from an ongoing Phase II study in patients with diabetic nephropathy, also known as diabetic kidney disease, with CCX140, our wholly owned CCR2 inhibitor. Examining data through the first 12 weeks of dosing in the ongoing 52 week trial, in which CCX140 is added on top of the standard of care for diabetic nephropathy patient (i.e., stable doses of angiotensin pathway inhibitors), the drug candidate appears well-tolerated in the patient population to date. In addition, data also showed that patients treated with 5mg CCX140 once daily had a statistically significant reduction of protein in the urine, or proteinuria, as measured by Urinary Albumin Creatinine Ratio (UACR) versus those patients receiving only the standard of care (placebo group), following two weeks of treatment, with concurring downward trends in UACR observed following 8-weeks and 12-weeks of treatment with CCX140. We believe the data support the continued progress of full 52 weeks of dosing in the Phase II trial as planned. Data from 52 week study are expected in the second half of 2014.

Regaining Global Rights for Vercirnon From GSK

In August 2013, GSK reported the first of four Phase III studies, the SHIELD-1 study, investigating vercirnon, an inhibitor of the chemokine receptor known as CCR9, in patients with moderate-to-severe Crohn s disease did not

achieve the primary endpoint of improvement in clinical response and the key secondary endpoint of clinical remission. In September 2013, we announced that GSK returned to us all rights to vercirnon for all indications, including the treatment of inflammatory bowel disease. As a result, we plan to evaluate the potential future development and funding strategy for vercirnon, following the completion of the asset transfer back from GSK.

JOBS Act

In April 2012, the JOBS Act was enacted. Section 107 of the JOBS Act provides that an emerging growth company can utilize the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for implementing new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to delay such adoption of new or revised accounting standards, and as a result, we may not implement new or revised accounting standards on the relevant dates on which adoption of such standards is required for other companies.

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Subject to certain conditions set forth in the JOBS Act, as an emerging growth company, we intend to rely on certain of these exemptions, including without limitation, providing an auditor s attestation report on our system of internal controls over financial reporting pursuant to Section 404 and implementing any requirement that may be adopted regarding mandatory audit firm rotation or a supplement to the auditor s report providing additional information about the audit and the financial statements (auditor discussion and analysis). These exemptions will apply for a period of five years following the completion of our IPO although if the market value of our common stock that is held by nonaffiliates exceeds $700 million as of any June 30 before that time, we would cease to be an emerging growth company as of the following December 31.

Critical Accounting Policies and Significant Judgments and Estimates

There have been no material changes in our critical accounting policies during the nine months ended September 30, 2013, as compared to those disclosed in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Significant Judgments and Estimates in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, filed with the SEC on March 14, 2013.

Results of Operations

Revenue

We have not generated any revenue from product sales. For the three and nine months ended September 30, 2013, our revenue was derived from contract revenue and the recognition of up-front payments from GSK. Total revenues for the periods, as compared to the same periods in the prior year, were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
GSK:				
Contract revenue	$ 393	$	$ 1,950	$
Recognition of up-front payments	1,129	1,128	3,385	3,274
Total revenues	$ 1,522	$ 1,128	$ 5,335	$ 3,274
Dollar increase	394		2,061	
Percentage increase	35%		63%	

The increases in revenues from 2012 to 2013 for the three and nine month periods were primarily due to funding of clinical support from GSK for CCX168, our C5aR inhibitor, for the treatment of ANCA associated vasculitis.

Research and development expenses

Research and development expenses represent costs incurred to conduct basic research, the discovery and development of novel small molecule therapeutics, development of our suite of proprietary drug discovery technologies, preclinical studies and clinical trials of our drug candidates. We expense all research and development expenses as they are incurred. These expenses consist primarily of salaries and related benefits, including stock-based compensation, third-party contract costs relating to research, formulation, manufacturing, preclinical study and clinical trial activities, laboratory consumables, and allocated facility costs. Total research and development expenses

for the three and nine month periods, as compared to the same periods in the prior year, were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Research and development expenses	$ 8,193	$ 8,746	$ 26,124	$ 25,349
Dollar increase (decrease)	$ (553)		$ 775	
Percentage increase (decrease)	(6%)		3%	

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The decrease in research and development expenses from 2012 to 2013 for the three month period was primarily due to lower expenses associated with CCX168, our C5aR inhibitor, as its Phase II clinical development nears completion. Further, expenses associated with developing our next generation drug candidates decreased due to the timing of Phase I related activities. In addition, lower expenses associated with drug discovery efforts targeting CXCR7 contributed to the decrease for the period. These decreases were partially offset by higher expenses associated with CCX140, our CCR2 inhibitor, as it further advanced in clinical development for the treatment of diabetic nephropathy, and higher expenses associated with developing our next generation drug candidates such as a CCR9 inhibitor (CCR9 3G) and a CCR2 inhibitor (CCR2 3G).

The increase in research and development expenses from 2012 to 2013 for the nine month period was primarily attributed to higher expenses associated with CCX168 and CCX140 as these programs further advanced in the clinic, and additional investment in our drug discovery programs, including CCR2 3G, CCR9 3G and CCR6. These increases were partially offset by a decrease in expenses associated with CCX507 and the drug discovery efforts targeting CXCR7. The following table summarizes our research and development expenses by project (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Development candidate (Target)				
CCX140 (CCR2)	$ 3,832	$ 3,503	$ 10,048	$ 9,837
CCX872 (CCR2 2G)	251	673	2,580	2,528
CCX168 (C5aR)	626	1,210	2,537	1,993
CCX507 (CCR9 *de novo*)	444	475	1,767	2,722
CCX650 (CXCR7)	103	387	410	2,591
Other (CCR2 3G, CCR9 3G, CXCR6, CCR4, CCR1 2G, Other)	2,937	2,498	8,782	5,678
Total research and development	$ 8,193	$ 8,746	$ 26,124	$ 25,349

We track specific project expenses that are directly attributable to our clinical development candidates and preclinical candidates that have been nominated and selected for further development. Such project specific expenses include third-party contract costs relating to formulation, manufacturing, preclinical studies and clinical trial activities. Unlike our early stage research and drug discovery programs, we allocate research and development salaries, benefits or indirect costs to our development candidates and we have included such costs in the project specific expenses. All remaining research and development expenses are reflected in Other which represents early stage drug discovery programs. Such expenses include unallocated employee salaries and related benefits, stock-based compensation, consulting and contracted services to supplement our in-house laboratory activities, laboratory consumables and allocated facility costs associated with these earlier stage programs.

At any given time, we typically have several active early stage research and drug discovery projects. Our internal resources, employees and infrastructure are not directly tied to any individual research or drug discovery project and are typically deployed across multiple projects. As such, we do not maintain information regarding these costs incurred for our early stage research and drug discovery programs on a project specific basis. We expect our research and development expenses to increase as we advance our development programs further and increase the number and size of our clinical trials. The process of conducting preclinical studies and clinical trials necessary to obtain regulatory approval is costly and time consuming. We or our partners may never succeed in achieving marketing

approval for any of our drug candidates. The probability of success for each drug candidate may be affected by numerous factors, including preclinical data, clinical data, competition, manufacturing capability and commercial viability. For the remaining product option covered under our strategic alliance with GSK, for which we are eligible to receive milestone payments, we are responsible for development of drug candidates through satisfaction of the success criteria mutually agreed upon by the members of the JSC under this strategic alliance, after which time GSK has an option to an exclusive license on a compound by compound basis. Our strategy includes entering into additional partnerships with third parties for the development and commercialization of some of our independent drug candidates that are not subject to our alliance with GSK.

Most of our product development programs are at an early-to-mid-stage; therefore the successful development of our drug candidates is highly uncertain and may not result in approved products. Completion dates and completion costs can vary significantly for each drug candidate and are difficult to predict for each product. Given the uncertainty associated with clinical trial enrollments and the risks inherent in the development process, we are unable to determine the duration and completion costs of the current or future clinical trials of our drug candidates or if, or to what extent, we will generate revenues from the commercialization and sale of any of our drug candidates. We anticipate we will make determinations as to which programs to pursue and how much funding to direct to each program on an ongoing basis in response to the scientific and clinical success of each drug candidate, as well as ongoing assessment as to each drug candidate s commercial potential. We will need to raise additional capital or may seek additional strategic alliances in the future in order to complete the development and commercialization of our drug candidates, including CCX140, our lead independent drug candidate, and vercirnon.

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General and administrative expenses

Total general and administrative expenses were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
General and administrative expenses	$ 2,882	$ 2,619	$ 8,655	$ 7,654
Dollar increase	$ 263		$ 1,001	
Percentage increase	10%		13%	

General and administrative expenses consist primarily of salaries and related benefits, including stock-based compensation and travel expenses, in executive, finance, business and corporate development and other administrative functions. Other general and administrative expenses include allocated facility-related costs not otherwise included in research and development expenses, legal costs of pursuing patent protection of our intellectual property, and professional fees for auditing, tax, and legal services.

The increases from 2012 to 2013 for the three and nine month periods were primarily due to increased stock based compensation expense for stock option grants in addition to higher professional service fees relating to fulfilling our reporting obligations as a public company. We expect that general and administrative expenses will increase in the future as we expand our operating activities and incur additional costs associated with being a public company. These public company related increases will likely include investor and public relations expenses and legal and accounting related fees and expenses associated with preparing the Company to meet the requirements pursuant to the Sarbanes-Oxley Act of 2002.

Other income (expense)

Other income (expense) primarily consists of interest income earned on our marketable securities and interest expense incurred on our equipment financing obligations and our convertible note. Total other income (expense), net, as compared to prior years was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Interest income	$ 134	$ 141	$ 360	$ 411
Interest expense	(14)	(20)	(46)	(776)
Total other income (expense), net	$ 120	$ 121	$ 314	$ (365)
Dollar increase (decrease)	(1)		679	
Percentage increase (decrease)	(1%)		186%	

The increase in total other income (expense), net from 2012 to 2013 for the nine month period was primarily due to the automatic conversion of the convertible note issued to Techne to common stock upon the completion of our IPO in February 2012. Prior to its conversion, the change in the estimated fair value of the convertible note was recorded as interest expense.

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Liquidity and Capital Resources

As of September 30, 2013, we had approximately $157.3 million in cash, cash equivalents and investments. The following table shows a summary of our cash flows for the nine months ended September 30, 2013 and 2012 (in thousands):

	Nine Months Ended September 30,	
	2013	2012
Cash provided by (used in)		
Operating activities	$ (26,865)	$ (23,439)
Investing activities	(26,116)	(60,527)
Financing activities	66,836	56,926

Operating activities. Net cash used in operating activities was $26.9 million for the nine months ended September 30, 2013, compared to $23.4 million for the same period in 2012. This change was primarily due to changes in working capital items.

Investing activities. Net cash used in investing activities for periods presented primarily relate to the purchase, sale and maturity of investments used to fund the day-to-day needs of our business. Following our February 2012 IPO and our recent follow-on offering in April 2013, we invested the majority of our net proceeds received in short and long term investments. We finance property and equipment purchases through equipment financing facilities. Proceeds from collaboration agreements and common stock issuances are used for general working capital purposes, such as research and development activities and other general corporate purposes.

Financing activities. Net cash provided by financing activities of $66.8 million for the nine months ended September 30, 2013 was primarily due to $64.4 million in net proceeds from the issuance of common stock as a result of our recent follow-on offering in April 2013. Net cash provided by financing activities of $56.9 million for the same period in 2012 was primarily due to $57.0 million in net proceeds from the issuance of common stock as a result of our IPO and concurrent private placements in February 2012.

We believe that our existing cash, cash equivalents and investments as of September 30, 2013 will be sufficient to meet our anticipated cash requirements for at least the next 12 months. However, our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary materially.

Our future capital requirements are difficult to forecast and will depend on many factors, including:

- the achievement of milestones under our agreement with GSK;
- the terms and timing of any other collaborative, licensing and other arrangements that we may establish;

the initiation, progress, timing and completion of preclinical studies and clinical trials for our drug candidates and potential drug candidates;

the number and characteristics of drug candidates that we pursue;

the progress, costs and results of our clinical trials;

the outcome, timing and cost of regulatory approvals;

delays that may be caused by changing regulatory environment;

the cost and timing of hiring new employees to support continued growth;

the costs involved in filing and prosecuting patent applications and enforcing and defending patent claims;

the cost and timing of procuring clinical and commercial supplies of our drug candidates;

the cost and timing of establishing sales, marketing and distribution capabilities; and

the extent to which we acquire or invest in businesses, products or technologies.

Contractual Obligations and Commitments

There have been no material changes outside the ordinary course of our business to the contractual obligations we reported in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 filed with the SEC on March 14, 2013.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our market risks at September 30, 2013 have not changed significantly from those discussed in Item 7A. Quantitative and Qualitative Disclosures About Market Risk of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, filed with the SEC on March 14, 2013.

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Item 4. Controls and Procedures

Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures

As of September 30, 2013, management, with the participation of our Disclosure Committee, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures.

Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objective. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2013, the design and operation of our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended September 30, 2013, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable.

Item 1A. Risk Factors

There have been no material changes to the risk factors included in Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, filed with the SEC on March 14, 2013, other than the revisions to the following risk factors regarding the commercial success of vercirnon being dependent on the development and marketing efforts of Glaxo Group Limited, or GSK.

Risks Related to Our Business

We anticipate that we will continue to incur significant losses for the foreseeable future, and if we are unable to achieve and sustain profitability, the market value of our common stock will likely decline.

We are a clinical-stage biopharmaceutical company. We do not currently have any products approved for sale, and we continue to incur significant research and development and general and administrative expenses related to our operations Our net loss for the nine months ended September 30, 2013 and 2012 was $29.1 million and $30.1 million, respectively. As of September 30, 2013, we had an accumulated deficit of $163.3 million. We expect to continue to incur significant losses for the foreseeable future. We expect these losses and our cash utilization to increase in the near term as we continue to conduct clinical trials for CCX140, CCX168, CCX872 and CCX507 and conduct research and development of our other drug candidates. Our collaboration partner, Glaxo Group Limited, or GSK, an affiliate of GlaxoSmithKline, continues to retain all funding obligations for the further clinical development and commercialization of CCX354 under our collaboration agreement with GSK. If GSK exercises its option for further development and commercialization of CCX168, our remaining drug candidate subject to the agreement, it will assume all funding obligations with respect to further clinical development of such drug candidate, but if it does not exercise such option, we will be responsible for such funding obligations. All of our products are in development and none has been approved for sale. To date, we have derived all of our revenues from up-front fees and milestone payments, other payments pursuant to our collaboration agreements and government grants and contracts for research and development. We do not anticipate that we will generate revenue from the sale of our products for the foreseeable future. In addition, if approved, we expect to incur significant costs to commercialize our drug candidates and our drugs may never gain market acceptance. If our drug candidates fail to demonstrate safety and efficacy in clinical trials, do not gain regulatory approval, or do not achieve market acceptance, we may never become profitable. Even if we achieve profitability in the future, we may not be able to sustain profitability in subsequent periods. If we are unable to achieve and sustain profitability, the market value of our common stock will likely decline. Because of the numerous risks and uncertainties associated with developing pharmaceutical products, we are unable to predict the extent of any future losses or whether we will become profitable.

If GSK does not exercise its remaining option under our collaboration agreement with GSK, if the further development and commercialization efforts of GSK are not successful with respect to drug candidates for which it does exercise its options thereunder, or if GSK terminates the alliance or a particular program thereunder, we will not receive any additional revenue under the alliance with respect to such programs and our results of operations and financial condition will be materially adversely affected.

In August 2006, we entered into our strategic alliance with GSK. Under the terms of our agreement, we are responsible for the discovery and development of small molecule antagonists targeting four defined chemokine and chemo-attractant receptor targets (CCR9, CCR1, C5aR and ChemR23) and taking them through clinical proof-of-concept, or to such other success criteria as are established by the JSC. If we demonstrate the satisfaction of the applicable success criteria, GSK is entitled to options to exclusively license drug candidates that are subject to the collaboration and two defined back-up compounds for each drug candidate for further development and commercialization on a worldwide basis.

In December 2009, GSK exercised its option under the agreement to obtain an exclusive license for the further development and commercialization of vercirnon, our CCR9 drug candidate, and two identified back-up compounds (CCX025 and CCX807). As GSK elected to return vercirnon and its two identified back-up compounds to us in September 2013 after vercirnon did not achieve the primary endpoint in the SHIELD-1 study of improvement in clinical response and the key secondary endpoint of clinical remission, we are no longer eligible to receive additional payments from GSK with respect to this drug candidate. In the event that we or any future partner uses data generated by GSK in the SHIELD-1 study in a regulatory filing for a Phase III pivotal trial, GSK would be entitled to receive a low single digit royalty from us on net sales of vercirnon.

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In November 2011, GSK exercised its option under the agreement to obtain an exclusive license for the further development and commercialization of CCX354, our CCR1 drug candidate, and two identified back-up compounds (CCX721 and CCX956). As a result of GSK s exercise of this option, we are entitled to receive (x) up to $72.0 million, in the aggregate, consisting of (1) a non-refundable option exercise fee of $25.0 million and (2) up to $47.0 million in the aggregate for the filing of an NDA in the United States and comparable filings in other territories, (y) up to $75.0 million in the aggregate for the regulatory approval of products for commercial sale in the United States and other territories and (z) up to $125.0 million in sales milestones. In December 2011, GSK paid us the option exercise fee of $25.0 million and assumed sole responsibility for the further development and commercialization of CCX354 and its two designated back-up compounds, at its expense. There is no assurance that GSK will be successful in its further development and commercialization of CCX354 or that the relevant regulatory filing or approval or sales milestones can be achieved such that we will receive the related milestone payments.

In February 2012, we and GSK determined not to further advance the development of CCX832 (ChemR23) or its two designated back-up compounds. Thus, GSK s only remaining option is to CCX168 (C5aR) and its associated back-up compounds (CCX1378 and CCX1641).

If GSK elects to exercise its option to CCX168, we would be entitled to receive, as with CCX354, (x) up to $72.0 million, in the aggregate, consisting of (1) an option exercise fee of $25.0 million and (2) up to $47.0 million in the aggregate for the filing of an NDA in the United States and comparable filings in other territories, (y) up to $75.0 million in the aggregate for the regulatory approval of products for commercial sale in the United States and other territories and (z) up to $125.0 million in sales milestones. We cannot assure you that we will be able to satisfy the success criteria established by the JSC under this strategic alliance with respect to CCX168 or that the relevant regulatory filing or approval milestones can be achieved for any our programs so that we will receive the related option exercise fees and milestone payments. In addition, even if CCX168 results does satisfy the agreed upon success criteria, GSK is under no obligation to exercise its remaining option with respect to CCX168 and we cannot assure you that GSK will exercise such option, or that GSK will obtain Hart-Scott-Rodino clearance with respect to such option, to the extent that such approval is required.

GSK may terminate the entire collaboration agreement or any collaboration program on a program-by-program basis for any reason upon 90 days prior written notice to us. The agreement or any program under the agreement may also be terminated for cause under certain circumstances, including material breach and insolvency. In addition, GSK may terminate its rights with respect to the licensed product if it determines in good faith, for any reason, to cease the development and commercialization of such product and provides us with a written notice of such intent.

If GSK does not exercise its option with respect to CCX168, terminates its rights with respect to a licensed product, or terminates the agreement:

- we would not be entitled to receive the relevant option exercise fee or milestone payments;
- we would owe GSK up to 5% royalties with respect to drug candidates covered by the agreement which we elected to subsequently commercialize, depending upon the stage of development at which such product commercialization rights reverted back to us;
- the development of our drug candidates subject to the agreement may be terminated or significantly delayed;

- we may be required to hire additional employees and allocate scarce resources to the development and commercialization of drug candidates that were previously the subject of the GSK agreement and as a result our cash expenditures could increase significantly;

- we would bear all of the risks and costs related to the further development and commercialization of drug candidates that were previously the subject of the GSK agreement, including the reimbursement of third parties; and

- we may need to establish alternative collaboration arrangements, and we may not be able to do so, or may not be able to do so on terms which are acceptable to us, in which case we would likely be required to limit the size or scope of one or more of our programs or increase our expenditures and seek substantial additional funding.

Any of these events would have a material adverse effect on our results of operations and financial condition.

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We rely on third parties to conduct all our preclinical studies and clinical trials. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, we may be unable to obtain regulatory approval for or commercialize any of our drug candidates.

We currently do not have the ability to independently conduct preclinical studies or clinical trials. We rely on medical institutions, clinical investigators, contract laboratories, collaborative partners and other third parties, such as clinical research organizations, or CROs, to conduct clinical trials on our drug candidates. The third parties with which we contract for execution of our clinical trials play a significant role in the conduct of these trials and the subsequent collection and analysis of data. These third parties are not our employees, and except for contractual duties and obligations, we have limited ability to control the amount or timing of resources that they devote to our programs. Although we rely on these third parties to conduct our preclinical studies and clinical trials, we remain responsible for ensuring that each of our preclinical studies and clinical trials is conducted in accordance with its investigational plan and protocol. Moreover, the FDA and foreign regulatory authorities require us to comply with regulations and standards, commonly referred to as current good clinical practices, or cGCPs, for conducting, monitoring, recording and reporting the results of clinical trials to ensure that the data and results are scientifically credible and accurate and that the trial subjects are adequately informed of the potential risks of participating in clinical trials.

In addition, the execution of preclinical studies and clinical trials, and the subsequent compilation and analysis of the data produced, requires coordination among various parties. In order for these functions to be carried out effectively and efficiently, it is imperative that these parties communicate and coordinate with one another. Moreover, these third parties may also have relationships with other commercial entities, some of which may compete with us. In most cases, these third parties may terminate their agreements with us upon 30 days prior written notice of a material breach by us that is not cured within 30 days. Many of these agreements may also be terminated by such third parties under certain other circumstances, including our insolvency or our failure to comply with applicable laws. In general, these agreements require such third parties to reasonably cooperate with us at our expense for an orderly winding down of services of such third parties under the agreements. If the third parties conducting our clinical trials do not perform their contractual duties or obligations, experience work stoppages, do not meet expected deadlines, terminate their agreements with us or need to be replaced, or if the quality or accuracy of the clinical data they obtain is compromised due to the failure to adhere to our clinical trial protocols or cGCPs, or for any other reason, we may need to enter into new arrangements with alternative third parties, which could be costly, and our clinical trials may be extended, delayed or terminated or may need to be repeated, and we may not be able to obtain regulatory approval for or commercialize the drug candidate being tested in such trials.

We will need additional financing and may be unable to raise capital on acceptable terms, or at all, when needed, which would force us to delay, reduce or eliminate our research and development programs and other operations or commercialization efforts.

We are advancing multiple drug candidates through discovery and development and will require substantial funds to conduct development, including preclinical studies and clinical trials, of our drug candidates. Commercialization of any drug candidate will also require substantial expenditures. While we currently expect GSK to assist us in our development and commercialization efforts with respect to those of our drug candidates for which GSK exercises an option under our agreement, we may also need additional financing to the extent that we are required to hire additional employees to co-promote drug candidates or to commercialize drug candidates that are not covered by, or may not be covered by our collaboration agreement. In addition, with respect to any drug candidate for which we have exclusive rights but do not intend to develop internally, such as vercirnon, our ability to develop and commercialize such drug candidate will depend upon our ability to identify alternative financing or collaboration arrangements and there can be no assurance that we will be successful in identifying or implementing any such arrangement.

As of September 30, 2013, we had approximately $157.3 million in cash, cash equivalents and investments. We believe that our available cash, cash equivalents and investments will be sufficient to fund our anticipated level of operations for at least the next 12 months. Our future financing requirements will depend on many factors, some of which are beyond our control, including:

- the rate of progress and cost of our clinical trials, preclinical studies and other discovery and research and development activities;
- the timing of, and costs involved in, seeking and obtaining FDA and other regulatory approvals;
- the continuation and success of our strategic alliance with GSK and future collaboration partners;
- the exercise of the remaining option with respect to CCX168 under the GSK agreement;
- the costs of preparing, filing, prosecuting, maintaining and enforcing any patent claims and other intellectual property rights, including litigation costs and the results of such litigation;

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our ability to enter into additional collaboration, licensing, government or other arrangements and the terms and timing of such arrangements;

potential acquisition or in-licensing of other products or technologies; and

the emergence of competing technologies or other adverse market developments.

Future capital requirements will also depend on the extent to which we acquire or invest in additional complementary businesses, products and technologies. We currently have no understandings, commitments or agreements relating to any of these types of transactions.

Until we can generate a sufficient amount of product revenue to finance our cash requirements, which we may never do, we expect to finance future cash needs primarily through public or private equity offerings, debt financings, government grants and contracts and/or strategic collaborations. Additional financing may not be available to us when we need it or it may not be available on favorable terms, if at all. If we are unable to obtain adequate financing when needed, we may have to delay, reduce the scope of or eliminate one or more of our clinical trials or research and development programs or our commercialization efforts. We may be required to enter into collaborative partnerships for one or more of our drug candidate programs at an earlier stage of development or on less favorable terms, which may require us to relinquish rights to some of our drug candidates that we would otherwise have pursued on our own.

We may form additional strategic alliances in the future with respect to our independent programs, and we may not realize the benefits of such alliances.

We may form strategic alliances, create joint ventures or collaborations or enter into licensing arrangements with third parties with respect to our independent programs that we believe will complement or augment our existing business. For example, we plan to find a partner for co-development and commercialization of CCX140 outside North America upon completion of clinical development of CCX140 for the treatment of patients with diabetic nephropathy, and we may seek to find a partner or alternative financing arrangements with respect to the completion of clinical development and commercialization of vercirnon. We face significant competition in seeking appropriate strategic partners or other alternative arrangements and the negotiation process is time-consuming and complex. Moreover, we may not be successful in our efforts to establish a strategic partnership or other alternative arrangements for any current or future product candidates and programs because our research and development pipeline may be insufficient, our product candidates and programs may be deemed to be at too early of a stage of development for collaborative effort and/or third parties may not view our product candidates and programs as having the requisite potential to demonstrate safety and efficacy. We cannot be certain that, following a strategic transaction or license, we will achieve the revenues or specific net income that justifies such transaction. Any delays in entering into new strategic partnership agreements related to our product candidates could also delay the development and commercialization of our product candidates and reduce their competitiveness even if they reach the market.

We rely on third party contract manufacturing organizations to manufacture and supply our drug candidates for us, other than CCX354 for which GSK has manufacturing responsibility. If one of our suppliers or manufacturers fails to perform adequately or fulfill our needs, we may be required to incur significant costs and devote significant efforts to find new suppliers or manufacturers. We may also face delays in the development and commercialization of our drug candidates.

Upon GSK s exercise of its options for the further development of vercirnon and CCX354, it assumed sole manufacturing responsibility for those drug candidates and each of their two respective back-up compounds. We are

no longer involved in the manufacture of CCX354, but have resumed responsibility for vercirnon following its return to us by GSK in September 2013. We currently have limited experience in, and we do not own facilities for, manufacturing vercirnon or our other drug candidates. We rely upon third party contract manufacturing organizations to manufacture and supply larger quantities of these other drug candidates. The manufacture of pharmaceutical products in compliance with current good manufacturing practices, or cGMP, requires significant expertise and capital investment, including the development of advanced manufacturing techniques and process controls. Manufacturers of pharmaceutical products often encounter difficulties in production, including difficulties with production costs and yields, quality control, including stability of the drug candidate and quality assurance testing, shortages of qualified personnel, as well as compliance with strictly enforced FDA cGMP requirements, other federal and state regulatory requirements, and foreign regulations. Raw materials for the synthesis of our API are sourced globally. If the manufacturers of our raw materials and pharmaceutical products were to encounter any difficulties or otherwise fail to comply with their obligations to us or under applicable regulations, our ability to provide study drugs in our preclinical studies and clinical trials would be jeopardized. Any delay or interruption in the supply of preclinical study or clinical trial materials could delay the completion of our preclinical studies and clinical trials, increase the costs associated with maintaining our preclinical study and clinical trial programs and, depending upon the period of delay, require us to commence new trials at significant additional expense or terminate the studies and trials completely.

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All manufacturers of our drug candidates must comply with cGMP requirements enforced by the FDA through its facilities inspection program. These requirements include, among other things, quality control, quality assurance and the maintenance of records and documentation. Manufacturers of our component materials may be unable to comply with these cGMP requirements and with other FDA, state and foreign regulatory requirements. The FDA or similar foreign regulatory agencies at any time may also implement new standards, or change their interpretation and enforcement of existing standards for manufacture, packaging or testing of products. We have little control over our manufacturers compliance with these regulations and standards. A failure to comply with these requirements may result in fines and civil penalties, suspension of production, suspension or delay in product approval, product seizure or recall, or withdrawal of product approval. If the safety of any product supplied is compromised due to our manufacturers failure to adhere to applicable laws or for other reasons, we may not be able to obtain regulatory approval for or successfully commercialize our products, and we may be held liable for any injuries sustained as a result. Any of these factors could cause a delay of clinical trials, regulatory submissions, approvals or commercialization of our drug candidates or entail higher costs or impair our reputation.

We currently rely on a single source supplier for API for each of our drug candidates, other than CCX354 for which the responsibility for supplying the API and drug product has been assumed by GSK. IRIX Pharmaceuticals, Inc., currently manufactures the API for CCX140 and CCX168 for our Phase II clinical trials and CCX507 for our Phase I clinical trial. Cambridge Major Laboratories has been contracted to manufacture CCX140 API for our Phase III clinical trials. Carbogen Amcis produces the API for CCX872. Our current agreements with our suppliers do not provide for the entire supply of the API necessary for additional clinical trials or for full-scale commercialization. We have agreements with the University of Iowa Pharmaceuticals to manufacture the drug product for CCX140 for our Phase II clinical trials and GSK to manufacture the drug product for CCX168. Patheon has been contracted to manufacture CCX140 drug product for our Phase III clinical trials. In the event that we and our suppliers cannot agree to the terms and conditions for them to provide some or all of our API clinical and commercial supply needs, or if any single source supplier terminates the agreement in response to a breach by us, we would not be able to manufacture the API on a commercial scale until a qualified alternative supplier is identified, which could also delay the development of, and impair our ability to commercialize, drug candidates.

Although alternative sources of supply exist, the number of third-party suppliers with the necessary manufacturing and regulatory expertise and facilities is limited, and it could be expensive and take a significant amount of time to arrange for alternative suppliers, which could have a material adverse effect on our business. New suppliers of any API would be required to qualify under applicable regulatory requirements and would need to have sufficient rights under applicable intellectual property laws to the method of manufacturing such ingredients. Obtaining the necessary FDA approvals or other qualifications under applicable regulatory requirements and ensuring non-infringement of third-party intellectual property rights could result in a significant interruption of supply and could require the new manufacturer to bear significant additional costs which may be passed on to us.

Risks Related to Intellectual Property

We may have to license rights from Millennium Pharmaceuticals, Inc. or engage in patent litigation in order to secure the rights necessary to commercialize vercirnon. Patent litigation could absorb significant management time and financial resources, and, if we do not prevail, could have a material adverse effect on our ability to derive revenues from vercirnon.

Millennium Pharmaceuticals, Inc., or Millennium, has obtained certain U.S. patents which include claims to small molecules that modulate CCR9, compositions thereof, and methods of using them to treat conditions such as IBD. We became aware of Millennium s CCR9-related patent applications during our own routine patent and patent literature review. Millennium, which was acquired by Takeda Pharmaceutical Company Limited, or Takeda, in May 2008 and

is currently a wholly owned subsidiary of Takeda, may contend that the claims of these patents cover our patented vercirnon drug candidate. We believe that our activities related to vercirnon are currently exempt from patent infringement liability because these activities are strictly limited to obtaining information for regulatory approval. However, if and when our vercirnon related activities extend beyond those related to seeking regulatory approval, such as, for example, if and when we commercialize vercirnon, Millennium might then commence an infringement action against us based on these patents and/or other related patents that it may be granted in the future. If Millennium elects to sue us, we believe that we may have viable defenses to any such infringement suit. However, we cannot assure you that the relevant court would find in our favor with respect to such defenses. Intellectual property litigation and patent litigation in particular, is expensive, complex and lengthy and its outcome is difficult to predict. A court could enter orders that temporarily, preliminarily or permanently enjoin us or our strategic partners from using, selling, offering to sell or importing out current or future drug candidates or could enter an order mandating that we undertake certain remedial activities. During 2005, we did engage in preliminary discussions with Millennium regarding potentially collaborating with respect to CCR9, given that both we and Millennium have patents relating to CCR9. However, these discussions were general in nature and did not progress beyond the preliminary stage. Other than these preliminary discussions, we have not had any conversations or contacts with Millennium relating to CCR9. In addition, in April 2012, an opposition was filed with the European Patent Office by Millennium with respect to one of our patents relating to broad genus claims

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describing small molecules that target CCR9, the scope of which also relates to vercirnon. The opposition filed by Millennium alleged that the subject matter of such patent is not novel; such patent does not involve an inventive step; such patent does not sufficiently disclose the invention and the subject matter of such patent extends beyond the content of its patent application. In October 2013, the Opposition Division of the European Patent Office verbally announced a decision against the opposition filed by Millennium. Millennium will have the ability to appeal the written decision of the Opposition Division for a period of two months following its issuance. In the event that Millennium appeals the written decision of the Opposition Division, we intend to continue to defend the patent in question vigorously. Furthermore, we hold patents in Europe on CCR9 inhibitors including a selection patent on vercirnon that were not subject to the opposition filed.

We may also be subject to negative publicity due to litigation. Pending or future patent litigation against us or any strategic partners by Millennium or anyone else may force us or any strategic partners to stop or delay developing, manufacturing or selling potential drug candidates that are claimed to infringe a third party s intellectual property, unless that party grants us or any strategic partners rights to use its intellectual property. If Millennium is able to obtain an injunction and neither we nor our strategic partners are able to obtain a license, both we and our strategic partners would be precluded from the manufacture and sale of vercirnon. U.S. patents are entitled to a presumption of validity and the burden of proving invalidity would be heavily weighted against us. Specifically, we would be required to show by clear and convincing evidence that Millennium s patents are invalid. Such decisions on patent validity often favor the patent owner because of the presumption of validity. If we or our strategic partners are unable to show that Millennium s patent is invalid and neither we nor our strategic partners are able to obtain a license from Millennium for the use of their intellectual property at all or on commercially acceptable terms, this would preclude both us and our strategic partners from the manufacture and sale of vercirnon or related candidate compounds found to be covered by Millennium s patent claims.

The cost to us of any patent litigation or other proceedings, such as interference proceedings, which are meant to determine who first invented any of the claims covered by the patent even if resolved in our favor, could be substantial. Some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively than we can because of their substantially greater financial resources. Discovery proceedings in the United States might lead to the disclosure of some of our proprietary confidential information. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could have a material adverse effect on our ability to compete in the marketplace. Patent litigation and other proceedings may also absorb significant management and technical staff s time which may materially and adversely impact our financial position and results of operations.

The following risk factor has been deleted as the success of vercirnon is no longer dependent on GSK.

The commercial success of vercirnon depends, in large part, on the development and marketing efforts of GSK, and if GSK is unable to perform in accordance with the terms of our agreement, or is unable to obtain the required regulatory approvals for vercirnon, our potential to generate future revenue from this drug candidate would be significantly reduced and our business would be materially and adversely harmed.

Since inception, we have invested a significant portion of our time and financial resources in the development of our most advanced drug candidate, vercirnon. We currently have five other drug candidates in clinical trials, but we anticipate that our ability to generate significant product revenues in the near term will depend primarily on the successful development, regulatory approval, marketing and commercialization of vercirnon by us or by GSK, which is subject to significant uncertainty. In particular, we rely on GSK to fund and conduct the current pivotal Phase III trials with respect to vercirnon. Any of the following events or factors could have a material adverse effect on our ability to generate revenue from the commercialization of vercirnon:

GSK may be unable to successfully complete the clinical development of vercirnon;

GSK must comply with additional requests and recommendations from the FDA, including additional clinical trials;

GSK may not obtain all necessary approvals from the FDA and similar foreign regulatory agencies;

GSK may not commit sufficient resources to the development, regulatory approval, marketing and distribution of vercirnon;

Vercirnon must be manufactured in compliance with requirements of the FDA and similar foreign regulatory agencies and in commercial quantities sufficient to meet market demand;

Vercirnon may not achieve market acceptance by physicians, patients and third party payors;

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- Vercirnon may not compete successfully against alternative products and therapies; and

- We, GSK or any other pharmaceutical organization may independently develop products that compete with vercirnon.

In order to obtain approval from the FDA of a new drug application, or NDA, for vercirnon, GSK will need to demonstrate through evidence from adequate and well-controlled clinical trials that vercirnon is safe and effective for each proposed indication. However, vercirnon may not be approved even though it achieved its specified endpoints in the current and/or future pivotal Phase III clinical trials intended to support an NDA which may be conducted by GSK. The FDA may disagree with the trial design and the interpretation of data from clinical trials, may ask GSK to conduct additional costly and time consuming clinical trials in order to obtain marketing approval or approval to enter into an advanced phase of development, or may change the requirements for approval even after it has reviewed and commented on the design for our clinical trials. The FDA may also approve vercirnon for fewer or more limited indications than GSK may request, or may grant approval contingent on the performance of costly post-approval clinical trials. In addition, the FDA may not approve the labeling claims that we believe are necessary or desirable for the successful commercialization of vercirnon.

If GSK or any of our future collaboration partners does not perform in the manner we expect or fulfill its responsibilities in a timely manner, or at all, the clinical development, regulatory approval, and commercialization efforts related to vercirnon could be delayed or terminated. It may be necessary for us to assume the responsibility at our own expense for the development of vercirnon. In that event, we would likely be required to limit the size and scope of one or more of our programs or increase our expenditures and seek additional funding and our potential to generate future revenue from vercirnon would be significantly reduced and our business would be materially and adversely harmed.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

None.

Use of Proceeds

Not Applicable.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

Not Applicable.

Item 6. Exhibits

A list of exhibits is set forth on the Exhibit Index immediately following the signature page of this Quarterly Report on Form 10-Q, and is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHEMOCENTRYX, INC.

/s/ Thomas J. Schall, Ph.D.

Date: November 12, 2013

Thomas J. Schall, Ph.D.

President and Chief Executive Officer

(Principal Executive Officer)

/s/ Susan M. Kanaya

Date: November 12, 2013

Susan M. Kanaya

Senior Vice President, Finance,

Chief Financial Officer and Secretary

(Principal Financial and Accounting Officer)

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EXHIBIT INDEX

Exhibit Number	Description
3.1(1)	Amended and Restated Certificate of Incorporation.
3.2(1)	Amended and Restated Bylaws.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following information from the Registrant s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Loss, (iv) Condensed Consolidated Statements of Cash Flows, and (v) the Notes to Condensed Consolidated Financial Statements.

(1) Filed with Amendment No. 3 to the Registrant s Registration Statement on Form S-1 on January 23, 2012 (Registration No. 333-177332), and incorporated herein by reference.

* Users of this data are advised that pursuant to Rule 406T of Regulation S-T, this XBRL information is being furnished and not filed herewith for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and Sections 11 or 12 of the Securities Act of 1933, as amended, and is not to be incorporated by reference into any filing, or part of any registration statement or prospectus, of the Registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.