

ChemoCentryx, Inc.  
Form 10-Q  
May 08, 2015  
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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 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 \_\_\_\_\_**

**Commission File Number: 001-35420**

**ChemoCentryx, Inc.**

**(Exact Name of Registrant as Specified in Its Charter)**

<b>Delaware</b> <b>(State or Other Jurisdiction of</b> <b>Incorporation or Organization)</b>	<b>94-3254365</b> <b>(I.R.S. Employer</b> <b>Identification No.)</b>
<b>850 Maude Avenue</b> <b>Mountain View, California 94043</b> <b>(Address of Principal Executive Offices) (Zip Code)</b>	
<b>(650) 210-2900</b> <b>(Registrant's Telephone Number, Including Area Code)</b>	

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

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

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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  (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

The number of outstanding shares of the registrant's common stock, par value \$0.001 per share, as of May 1, 2015, was 43,693,814.

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**CHEMOCENTRYX, INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**For the quarterly period ended March 31, 2015**

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****CHEMOCENTRYX, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands except share data)****(unaudited)**

	<b>March 31, 2015 (unaudited)</b>	<b>December 31, 2014</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 25,436	\$ 16,075
Short-term investments	49,406	57,282
Prepaid expenses and other current assets	1,211	972
Total current assets	76,053	74,329
Property and equipment, net	1,181	1,208
Long-term investments	29,927	41,263
Other assets	175	181
Total assets	\$ 107,336	\$ 116,981
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 809	\$ 748
Accrued liabilities	6,937	7,442
Total current liabilities	7,746	8,190
Other non-current liabilities	181	185
Total liabilities	7,927	8,375
Stockholders equity:		
Preferred stock:		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized; no shares issued and outstanding;		
Common stock, \$0.001 par value, 200,000,000 shares authorized at March 31, 2015 and December 31, 2014; 43,673,625 shares and 43,446,096 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively.		
	44	43

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Additional paid-in capital	331,170	328,440
Note receivable	(16)	(16)
Accumulated other comprehensive income (loss)	8	(70)
Accumulated deficit	(231,797)	(219,791)
Total stockholders' equity	99,409	108,606
Total liabilities and stockholders' equity	\$ 107,336	\$ 116,981

See accompanying notes.

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**CHEMOCENTRYX, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share data)

(unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Revenues:	\$	\$
Operating expenses:		
Research and development	8,420	8,149
General and administrative	3,689	3,523
<b>Total operating expenses</b>	<b>12,109</b>	<b>11,672</b>
Loss from operations	(12,109)	(11,672)
Other income (expense):		
Interest income	103	146
Interest expense		(11)
Total other income, net	103	135
<b>Net loss</b>	<b>\$ (12,006)</b>	<b>\$ (11,537)</b>
Basic and diluted net loss per common share	\$ (0.28)	\$ (0.27)
Shares used to compute basic and diluted net loss per common share	43,502	43,107

See accompanying notes.

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**CHEMOCENTRYX, INC.**

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS**

(in thousands)

(unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Net loss	\$ (12,006)	\$ (11,537)
Unrealized gain on available-for-sale securities	78	18
Comprehensive loss	\$ (11,928)	\$ (11,519)

See accompanying notes.



Table of Contents**CHEMOCENTRYX, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Operating activities</b>		
Net loss	\$ (12,006)	\$ (11,537)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property and equipment	133	153
Stock-based compensation	2,400	2,106
Noncash interest expense, net	471	642
Changes in assets and liabilities:		
Accounts receivable due from related party		389
Prepays and other current assets	(233)	(514)
Accounts payable	61	(199)
Other liabilities	(509)	499
Net cash used in operating activities	(9,683)	(8,461)
<b>Investing activities</b>		
Purchases of property and equipment, net	(106)	(32)
Purchases of investments	(8,532)	(33,000)
Sales of investments	4,051	
Maturities of investments	23,300	41,719
Net cash provided by investing activities	18,713	8,687
<b>Financing activities</b>		
Proceeds from exercise of stock options	331	1,290
Payments on equipment financing obligations		(146)
Net cash provided by financing activities	331	1,144
Net increase in cash and cash equivalents	9,361	1,370
Cash and cash equivalents at beginning of period	16,075	10,258
Cash and cash equivalents at end of period	\$ 25,436	\$ 11,628

**Supplemental disclosures of cash flow information**

Cash paid for interest	\$	\$	3
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See accompanying notes.

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**CHEMOCENTRYX, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2015**

**(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 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, 2014 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, 2014 filed with the Securities and Exchange Commission on March 13, 2015.

**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.

**Net Loss Per Share**

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

Diluted net loss per share is computed by dividing net loss attributable to common stockholders by the sum of the weighted-average number of common shares outstanding and dilutive common stock equivalent shares outstanding for the period. The Company's potentially dilutive common stock equivalent shares, which include incremental common shares issuable upon (i) the exercise of outstanding stock options and warrants, (ii) vesting of restricted stock units

(RSUs), and (iii) the purchase from contributions to the 2012 Employee Stock Purchase Plan (the ESPP), (calculated based on the treasury stock method), are only included in the calculation of diluted net loss per share when their effect is dilutive.

For the three months ended March 31, 2015 and 2014, the following potentially dilutive securities were excluded from the calculation of diluted net loss per share due to their anti-dilutive effect:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>
Options to purchase common stock, including purchases from contributions to ESPP	8,179,188	7,190,380
Restricted stock units	135,135	
Warrants to purchase common stock	150,000	150,000
	8,464,323	7,340,380

**Table of Contents****Comprehensive Loss**

Comprehensive loss comprises net loss and other comprehensive income. For the periods presented other comprehensive income consists of unrealized gains on the Company's available-for-sale securities. For the three months ended March 31, 2015, amounts reclassified from accumulated other income to net income for unrealized gains (losses) on available-for-sale securities were not significant, and were recorded as part of other income (expense), net in the Condensed Consolidated Statements of Operations. For the three months ended March 31, 2014, there were no sales of investments, and therefore there were no reclassifications.

**3. Cash Equivalents and Investments**

The amortized cost and fair value of cash equivalents and investments at March 31, 2015 and December 31, 2014 were as follows (in thousands):

	Amortized Cost	March 31, 2015		Fair Value
		Gross Unrealized Gains	Losses	
Money market fund	\$ 24,296	\$	\$	\$ 24,296
U.S. treasury securities	19,129	20		19,149
Government-sponsored agencies	25,230	19	(3)	25,246
Corporate debt securities	34,966		(28)	34,938
<b>Total available-for-sale securities</b>	<b>\$ 103,621</b>	<b>\$ 39</b>	<b>\$ (31)</b>	<b>\$ 103,629</b>

Classified as:

Cash equivalents	\$ 24,296
Short-term investments	49,406
Long-term investments	29,927

Total available-for-sale securities \$ 103,629

	Amortized Cost	December 31, 2014		Fair Value
		Gross Unrealized Gains	Losses	
Money market fund	\$ 15,922	\$	\$	\$ 15,922
U.S. treasury securities	19,117	5	(2)	19,120
Government-sponsored agencies	29,772	4	(13)	29,763
Commercial paper	1,500			1,500
Corporate debt securities	48,226	4	(68)	48,162
<b>Total available-for-sale securities</b>	<b>\$ 114,537</b>	<b>\$ 13</b>	<b>\$ (83)</b>	<b>\$ 114,467</b>

Classified as:

Cash equivalents	\$ 15,922
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Short-term investments	57,282
Long-term investments	41,263
<b>Total available-for-sale securities</b>	<b>\$ 114,467</b>

Cash equivalents in the tables above exclude cash of \$1.1 million and \$0.2 million as of March 31, 2015 and December 31, 2014, respectively. All available-for-sale securities held as of March 31, 2015 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 significant available-for-sale securities held as of March 31, 2015 have been in a continuous unrealized loss position for more than 12 months. As of March 31, 2015, 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. The Company believes it has no other-than-temporary impairments on its securities because it does not intend to sell these securities and it believes it is not more likely than not that it will be required to sell these securities before the recovery of their amortized cost basis. To date, the Company has not recorded any impairment charges on marketable securities related to other-than-temporary declines in market value.

**Table of Contents****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.

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 March 31, 2015 and December 31, 2014 (in thousands):

Description	March 31, 2015			Total
	Level 1	Level 2	Level 3	
Money market fund	\$ 24,296	\$	\$	\$ 24,296
U.S. treasury securities		19,149		19,149
Government-sponsored agencies		25,246		25,246
Corporate debt securities		34,938		34,938
Total assets	\$ 24,296	\$ 79,333	\$	\$ 103,629

Description	December 31, 2014			Total
	Level 1	Level 2	Level 3	
Money market fund	\$ 15,922	\$	\$	\$ 15,922
U.S. treasury securities		19,120		19,120
Government-sponsored agencies		29,763		29,763
Commercial paper		1,500		1,500
Corporate debt securities		48,162		48,162
Total assets	\$ 15,922	\$ 98,545	\$	\$ 114,467

During the three months ended March 31, 2015, there were no transfers between Level 1 and Level 2 financial assets. 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.



**Table of Contents****5. Accrued Liabilities**

Accrued liabilities consist of the following (in thousands):

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
Research and development related	\$ 5,075	\$ 4,982
Compensation related	971	1,956
Consulting and Professional Services	425	254
Other	466	250
	<b>\$ 6,937</b>	<b>\$ 7,442</b>

**6. Related-Party Transactions****Bio-Techne**

In September 2011, the Company entered into a convertible note loan agreement with Bio-Techne Corporation, formerly Techne Corporation, (Bio-Techne), one of its principal stockholders, pursuant to which the Company issued a convertible note to Bio-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 initial public offering (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, Bio-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, Bio-Techne purchased \$5.0 million of the Company's common stock in a private placement at \$10.00 per share. As of March 31, 2015 and December 31, 2014, the Company had an accounts payable balance due to Bio-Techne for the purchases of research materials of \$3,400 and \$1,150, respectively.

**7. Stockholders' 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 Bio-Techne also converted into common stock upon the completion of the Company's IPO.

**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**

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, Bio-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. During the three months ended March 31, 2015, no warrants were exercised. As of March 31, 2015 and December 31, 2014, warrants to purchase 150,000 shares of common stock were outstanding with a weighted-average exercise price of \$20.00. All other warrants were either expired or exercised.

**Table of Contents****8. Equity Incentive Plans**  
**Stock Options**

During the three months ended March 31, 2015, the Company had the following option activities under its equity incentive plans:

	Available for Grant	Shares	Weighted Average Exercise Price	Outstanding Options Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance at December 31, 2014	2,010,735	6,831,532	\$ 8.29		
Shares authorized	1,700,000				
Granted	(1,551,900)	1,551,900	8.19		
Exercised		(227,529)	1.45		
Forfeited and expired	34,591	(34,591)	9.33		
Balance at March 31, 2015	2,193,426	8,121,312	\$ 8.46	7.29	\$ 6,465,442

**Stock-based Compensation**

Total stock-based compensation expense was \$2.4 million and \$2.1 million during the three months ended March 31, 2015 and 2014, respectively. As of March 31, 2015, \$17.9 million, \$0.1 million, and \$0.1 million of total unrecognized compensation expenses associated with outstanding stock options, unvested RSUs, and the ESPP, net of estimated forfeitures, were expected to be recognized over a weighted-average period of 2.90, 0.14, and 0.12 years, respectively.

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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, 2014, filed with the Securities and Exchange Commission, or SEC, on March 13, 2015.*

**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;

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 our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the SEC on March 13, 2015.

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.

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.

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### **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 five drug candidates in clinical development. Our pipeline comprises the following programs:

#### ***CCR2 Program:***

CCX140 Targeting the chemokine receptor known as CCR2, CCX140 has successfully completed and reported positive data from a Phase II clinical trial in patients with diabetic nephropathy, a form of kidney disease. In December 2014, we announced positive top-line 52-week data from this clinical trial, indicating that the trial met its primary endpoint by demonstrating that treatment with 5mg of CCX140 given orally once daily added to a standard of care treatment resulted in a statistically significant reduction in urinary albumin to creatinine ratio, or UACR. We plan to conduct end-of-Phase II meetings with the U.S. Food and Drug Administration, or FDA, and European Medicines Agency, or EMA;

CCX872 Our second generation orally administered inhibitor targeting CCR2, CCX872 completed Phase I clinical development. We initiated a Phase Ib clinical trial in patients with pancreatic cancer at the end of 2014 and commenced dosing in the second quarter of 2015;

#### ***C5aR Program:***

CCX168 Targeting the chemoattractant receptor known as C5aR (which binds to the complement fragment C5a), CCX168 has successfully completed and reported positive clinical data from the first two steps of a three-step Phase II clinical trial in patients with anti-neutrophil cytoplasmic antibody, or ANCA, associated vasculitis, or AAV. The third and final step of this trial is ongoing in Europe, the CLEAR trial, and a second Phase II clinical trial is ongoing in North America, the CLASSIC trial. C5aR is also believed to play a role in other renal disease settings such as Immunoglobulin A, or IgA, nephropathy, or IgAN, and atypical hemolytic uremic syndrome, or aHUS. We have initiated Phase IIa proof of concept clinical trials in IgAN and aHUS, and plan to commence dosing in the first half of 2015;

#### ***CCR9 Program:***

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. Vercirnon is ready to advance to Phase III clinical development in the context of a partnership, if we are able to identify a development partner; and

CCX507 Our second generation CCR9 inhibitor for the treatment of inflammatory bowel disease, or IBD, CCX507 has successfully completed Phase I clinical development, which demonstrated that CCX507 was safe and well-tolerated, and blocked CCR9 on circulating leukocytes. We also presented preclinical data with CCX507 in combination with an anti-a4 $\beta$ 7 antibody or anti-TNF showing combined treatment reduced

the severity of colitis better than monotherapy with either drug alone.

We also have several additional drug candidates in earlier stage programs that we are advancing through preclinical development:

***Earlier Stage Programs in Immuno-Oncology and Autoimmune Diseases:***

Chemoattractant Receptor Targets CCR1, CCR4, CCR5, CCR6, CXCR2, CXCR6, CXCR7 We are exploring potential opportunities for some of these programs in immuno-oncology. Chemokine and chemoattractant receptors are believed to play a role in establishing a tumor microenvironment that suppresses a cytotoxic immune response. We have discovered small molecule inhibitors targeting these chemokine and chemoattractant receptors, which may be developed in certain oncology indications targeting both solid and liquid tumors. We believe that such immunotherapeutic agents could be administered as stand-alone therapies or result in a synergistic effect when given in combination with traditional chemotherapies or other immunotherapies, such as Programmed cell death protein 1, or PD-1/Programmed death ligand 1, or PD-L1 antibodies.

All of our drug candidates are wholly owned and being developed independently by us. Our strategy also includes identification of next generation compounds related to our drug candidates, all of which have been internally discovered.

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



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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 initial public offering, or 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 Bio-Techne Corporation (formerly Techne Corporation), or Bio-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 a follow-on public 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 March 31, 2015, we had an accumulated deficit of \$231.8 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 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.

## **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.

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 three months ended March 31, 2015, 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, 2014, filed with the SEC on March 13, 2015.

## **Results of Operations**

### ***Research and development expenses***

Research and development expenses represent costs incurred to conduct basic research, 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 month period, as compared to the same period in the prior year, were as follows (in thousands):

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	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Research and development expenses	\$ 8,420	\$ 8,149
Dollar increase	\$ 271	
Percentage increase	3%	

The increase in research and development expenses from 2014 to 2015 for the three month period was primarily attributable to higher expenses associated with CCX168, our C5aR inhibitor, due to continuing patient enrollment in the third and final step of the CLEAR Phase II clinical trial in Europe for the treatment of AAV, enrollment in the CLASSIC Phase II clinical trial for the same in North America, and initiation of Phase IIa proof of concept clinical trials in patients with aHUS and IgAN in the first quarter of 2015. Further, the initiation of a Phase Ib clinical trial with CCX872, our second generation CCR2 inhibitor, in patients with pancreatic cancer at the end of 2014 also contributed to the increase in research development expenses for the period. These increases were partially offset by lower expenses associated with CCX140, our CCR2 inhibitor, due to the completion of our Phase II clinical trial in patients with diabetic nephropathy in the fourth quarter of 2014 and CCX507, our second generation CCR9 inhibitor, due to the completion of Phase I clinical development in the third quarter of 2014.

The following table summarizes our research and development expenses by project (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Development candidate (Target)		
CCX168 (C5aR)	\$ 3,977	\$ 2,812
CCX140 (CCR2)	408	1,488
CCX872 (CCR2 2G)	593	295
CCX507 (CCR9)	75	614
Other (CCR1, C5aR 2G, CCR2 3G, CCR9 3G, CCR4, CCR6, CXCR7, Others)	3,367	2,940
<b>Total research and development</b>	<b>\$ 8,420</b>	<b>\$ 8,149</b>

We track specific project expenses that are directly attributable to our preclinical and clinical development 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. Our strategy includes entering into additional partnerships with third parties for the development and commercialization of some of our independent drug candidates.

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

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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 CCX168, CCX140, and vercirnon.

***General and administrative expenses***

Total general and administrative expenses for the three month period, as compared to the same period in the prior year were as follows (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
General and administrative expenses	\$ 3,689	\$ 3,523
Dollar increase	\$ 166	
Percentage increase	5%	

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 2014 to 2015 for the three month period was primarily due to an increase in employment related expenses, including stock based compensation expense for stock option grants and restricted stock unit awards, and professional service and travel expenses relating to our business development efforts. 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 to meet the requirements pursuant to the Sarbanes-Oxley Act of 2002.

***Other income, net***

Other income, net primarily consists of interest income earned on our marketable securities and interest expense incurred on our equipment financing obligations. Total other income, net, for the three month period, as compared to the same period in the prior year was as follows (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Interest income	\$ 103	\$ 146
Interest expense		(11)
Total other income, net	\$ 103	\$ 135

Dollar decrease	(32)
Percentage decrease	(24%)

The decrease in total other income, net from 2014 to 2015 for the three month period was primarily due to a decrease in interest income earned on lower cash balances, which was partially offset by a decrease in interest expense as a result of repayment of our equipment financing debt in the fourth quarter of 2014.

**Table of Contents****Liquidity and Capital Resources**

As of March 31, 2015, we had approximately \$104.8 million in cash, cash equivalents and investments. The following table shows a summary of our cash flows for the three months ended March 31, 2015 and 2014 (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Cash provided by (used in)		
Operating activities	\$ (9,683)	\$ (8,461)
Investing activities	18,713	8,687
Financing activities	331	1,144

*Operating activities.* Net cash used in operating activities was \$9.7 million for the three months ended March 31, 2015, compared to net cash used of \$8.5 million for the same period in 2014. This change was primarily due to a higher net loss in 2015 and changes in working capital items.

*Investing activities.* Net cash provided by investing activities for periods presented primarily relate to the purchase and maturity of investments used to fund the day-to-day needs of our business. Following our February 2012 IPO and the follow-on public offering in April 2013, we invested the majority of our net proceeds received in short-term and long-term investments. We financed 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 was \$0.3 million for the three months ended March 31, 2015, compared to net cash provided of \$1.1 million for the same period in 2014. Net cash provided by financing activities for both periods presented were primarily derived from proceeds from the exercise of stock options.

We believe that our existing cash, cash equivalents and investments as of March 31, 2015 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 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 approvals;

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, 2014, filed with the SEC on March 13, 2015.



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**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Our market risks at March 31, 2015 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, 2014, filed with the SEC on March 13, 2015.

**Item 4. Controls and Procedures**

**Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures**

As of March 31, 2015, 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 March 31, 2015, 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 three months ended March 31, 2015, 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, 2014, filed with the SEC on March 13, 2015.

**Item 2. Unregistered Sales of Equity Securities and 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.**

Date: May 8, 2015

/s/ Thomas J. Schall, Ph.D.  
Thomas J. Schall, Ph.D.  
President and Chief Executive Officer

(Principal Executive Officer)

Date: May 8, 2015

/s/ Susan M. Kanaya  
Susan M. Kanaya  
Senior Vice President, Finance,

Chief Financial Officer and Secretary

(Principal Financial and Accounting Officer)

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**EXHIBIT INDEX**

**Exhibit**

<b>Number</b>	<b>Description</b>
3.1 <sup>(1)</sup>	Amended and Restated Certificate of Incorporation.
3.2 <sup>(1)</sup>	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 March 31, 2015, 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.