ChemoCentryx, Inc.
Form 10-Q
August 08, 2014
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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 June 30, 2014

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 Incorporation or Organization)	**(I.R.S. Employer 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 x
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 x

The number of outstanding shares of the registrant s common stock, par value $0.001 per share, as of August 1, 2014, was 43,335,756.

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CHEMOCENTRYX, INC.

QUARTERLY REPORT ON FORM 10-Q

For the quarterly period ended June 30, 2014

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CHEMOCENTRYX, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands except share data)

	June 30, 2014 (unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 13,107	$ 10,258
Short-term investments	86,799	123,055
Accounts receivable from related party		393
Prepaid expenses and other current assets	893	596
Total current assets	100,799	134,302
Property and equipment, net	1,241	1,399
Long-term investments	33,324	16,561
Other assets	182	160
Total assets	$ 135,546	$ 152,422
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 690	$ 909
Accrued liabilities	7,130	5,649
Current portion of equipment financing obligations	105	314
Total current liabilities	7,925	6,872
Noncurrent equipment financing obligations		16
Other non-current liabilities	192	226
Total liabilities	8,117	7,114
Stockholders equity:		
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 June 30, 2014 and December 31, 2013; 43,335,756 shares and 42,888,168 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively.	43	43
Additional paid-in capital	324,040	318,103

Note receivable	(16)	(16)
Accumulated other comprehensive income	22	40
Accumulated deficit	(196,660)	(172,862)
Total stockholders equity	127,429	145,308
Total liabilities and stockholders equity	$ 135,546	$ 152,422

See accompanying notes.

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CHEMOCENTRYX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Revenues:				
Collaborative research and development revenue from related party	$	$ 1,886	$	$ 3,813
Operating expenses:				
Research and development	9,002	8,676	17,151	17,931
General and administrative	3,382	2,809	6,905	5,773
Total operating expenses	12,384	11,485	24,056	23,704
Loss from operations	(12,384)	(9,599)	(24,056)	(19,891)
Other income (expense):				
Interest income	129	110	275	226
Interest expense	(6)	(15)	(17)	(32)
Total other income, net	123	95	258	194
Net loss	$ (12,261)	$ (9,504)	$ (23,798)	$ (19,697)
Basic and diluted net loss per common share	$ (0.28)	$ (0.23)	$ (0.55)	$ (0.51)
Shares used to compute basic and diluted net loss per common share	43,274	41,337	43,191	38,974

See accompanying notes.

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CHEMOCENTRYX, INC.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

(in thousands)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net loss	$ (12,261)	$ (9,504)	$ (23,798)	$ (19,697)
Unrealized loss on available-for-sale securities	(36)	(157)	(18)	(166)
Comprehensive loss	$ (12,297)	$ (9,661)	$ (23,816)	$ (19,863)

See accompanying notes.

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CHEMOCENTRYX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30,	
	2014	**2013**
Operating activities		
Net loss	$ (23,798)	$ (19,697)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property and equipment	285	283
Stock-based compensation	4,289	3,094
Noncash interest and amortization of premium on investments, net	1,442	757
Changes in assets and liabilities:		
Accounts receivable due from related party	393	254
Prepaids and other current assets	(297)	(364)
Other assets	(22)	
Accounts payable	(219)	448
Other liabilities	1,494	(798)
Deferred revenue from related party		(2,257)
Net cash used in operating activities	(16,433)	(18,280)
Investing activities		
Purchases of property and equipment, net	(127)	(82)
Purchases of investments	(62,641)	(92,045)
Maturities of investments	80,627	85,532
Net cash provided by (used in) investing activities	17,859	(6,595)
Financing activities		
Proceeds from issuance of common stock		64,365
Proceeds from exercise of stock options and employee stock purchase plan	1,648	2,299
Proceeds from exercise of warrants		312
Payments on equipment financing obligations	(225)	(283)
Net cash provided by financing activities	1,423	66,693
Net increase in cash and cash equivalents	2,849	41,818
Cash and cash equivalents at beginning of period	10,258	8,460
Cash and cash equivalents at end of period	$ 13,107	$ 50,278
Supplemental disclosures of cash flow information		

Cash paid for interest	$ 64	$ 16

See accompanying notes.

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CHEMOCENTRYX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(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 chemoattractant receptor-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, 2013 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, 2013 filed with the Securities and Exchange Commission on March 14, 2014.

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 notes to Condensed Consolidated Financial Statements have been reclassified to conform to the current fiscal year s format.

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 the exercise of outstanding stock options and warrants, vesting of restricted stock units (RSUs), and 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.

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For the six months ended June 30, 2014 and 2013, the following potentially dilutive securities were excluded from the calculation of diluted net loss per share due to their anti-dilutive effect:

	Six Months Ended June 30,	
	2014	2013
Options to purchase common stock, including ESPP	7,065,850	4,873,522
Restricted stock units	135,135	
Warrants to purchase common stock	150,000	151,672
	7,350,985	5,025,194

Comprehensive Income (Loss)

Comprehensive loss comprises net loss and other comprehensive income (loss). For the periods presented other comprehensive income (loss) consists solely of unrealized gains and losses on the Company s available-for-sale securities. For the periods presented there were no reclassification differences or income tax effects related to the unrealized gains or losses on the Company s available-for-sale securities.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board and the International Accounting Standards Board issued new converged accounting guidance on revenue recognition in contracts with customers. This new standard impacts the determination of identifying performance obligations in the contract, and estimating the amount of variable consideration to include in the transaction price. Additionally, it modifies the manner in which the transaction price is allocated to each separate performance obligation. This new standard is effective for the Company beginning in the first quarter of 2017. Early adoption is not permitted. The Company is in the process of evaluating the impact of the new standard on its consolidated financial statements.

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3. Cash Equivalents and Investments

The amortized cost and fair value of cash equivalents and investments at June 30, 2014 and December 31, 2013 were as follows (in thousands):

	June 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market fund	$ 11,259	$	$	$ 11,259
U.S. treasury securities	15,081	15	(2)	15,094
Government-sponsored agencies	18,003	7	(10)	18,000
Commercial paper	19,985			19,985
Corporate debt securities	67,031	28	(15)	67,044
Total available-for-sale securities	$ 131,359	$ 50	$ (27)	$ 131,382
Classified as:				
Cash equivalents				$ 11,259
Short-term investments				86,799
Long-term investments				33,324
Total available-for-sale securities				$ 131,382

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market fund	$ 8,212	$	$	$ 8,212
Certificate of deposits	6,025			6,025
U.S. treasury securities	2,001	3		2,004
Government-sponsored agencies	9,825	7	(2)	9,830
Commercial paper	12,192			12,192
Corporate debt securities	109,533	56	(24)	109,565
Total available-for-sale securities	$ 147,788	$ 66	$ (26)	$ 147,828
Classified as:				
Cash equivalents				$ 8,212
Short-term investments				123,055
Long-term investments				16,561
Total available-for-sale securities				$ 147,828

Cash equivalents in the tables above exclude cash of $1.8 million and $2.0 million as of June 30, 2014 and December 31, 2013, respectively. All available-for-sale securities held as of June 30, 2014 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 June 30, 2014 have been in a continuous unrealized loss position for more than 12 months. As of June 30, 2014, 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.

During the three and six months ended June 30, 2014 and 2013, there were no sales of investments, and therefore there were no reclassification adjustments of accumulated other comprehensive income to net income resulting from realized gains or losses on the sale of securities.

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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 June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Money market fund	$ 11,259	$	$	$ 11,259
U.S. treasury securities		15,094		15,094
Government-sponsored agencies		18,000		18,000
Commercial paper		19,985		19,985
Corporate debt securities		67,044		67,044
Total assets	$ 11,259	$ 120,123	$	$ 131,382

	December 31, 2013			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Money market fund	$ 8,212	$	$	$ 8,212
Certificate of deposits	6,025			6,025
U.S. treasury securities		2,004		2,004
Government-sponsored agencies		9,830		9,830
Commercial paper		12,192		12,192
Corporate debt securities		109,565		109,565
Total assets	$ 14,237	$ 133,591	$	$ 147,828

During the three and six months ended June 30, 2014, 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.

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5. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	June 30, 2014	December 31, 2013
Research and development related	$ 5,089	$ 3,337
Compensation related	1,342	1,589
Consulting and professional services	422	399
Other	277	324
	$ 7,130	$ 5,649

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), an affiliate of GlaxoSmithKline, which ended in November 2013. The Company recognized the following revenues from GSK during the three and six months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
GSK				
Contract revenue	$	$ 758	$	$ 1,557
Recognition of up-front payments		1,128		2,256
Total revenues	$	$ 1,886	$	$ 3,813

At June 30, 2014 and December 31, 2013, the Company had an accounts receivable balance due from GSK of $0 and $0.4 million, respectively. At June 30, 2014 and December 31, 2013, the Company had an investment of $0 and $3.0 million in corporate bonds issued by GlaxoSmithKline Capital, Inc., a subsidiary of GlaxoSmithKline.

Techne

In September 2011, the Company entered into a convertible note loan agreement with Techne Corporation (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 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, 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

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. During the three and six months ended June 30, 2014, no warrants were exercised. As of June 30, 2014 and December 31, 2013, 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.

8. Equity Incentive Plans

During the three months ended June 30, 2014, the Company began issuing RSUs to its non-employee directors pursuant to the Company s Non-Employee Director Compensation Policy (Directors Policy) under its 2012 Equity Incentive Award Plan (Plan). RSUs are independent of stock option grants and cannot be transferred, and they are subject to forfeiture if recipients terminate their service to the Company prior to the release of the vesting restrictions. The RSUs awarded under the Directors Policy vest on earlier of the first anniversary of the grant date or the occurrence of a change in control. The RSUs are valued at the closing price of the Company s common stock on the date of grant. The Company will recognize the expense of these RSUs over the expected life of the award, with no adjustment in future periods based upon the Company s actual stock price over the vesting period. For the three months ended June 30, 2014, the Company granted 135,135 RSUs, none of which has vested as of June 30, 2014.

During the six months ended June 30, 2014, 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, 2013	2,383,920	5,301,622	$ 8.71		
Shares authorized	1,700,000				
Granted [(1)]	(2,414,935)	2,279,800	6.63		
Exercised		(372,890)	3.60		
Forfeited	163,277	(163,277)	8.55		
Balance at June 30, 2014	1,832,262	7,045,255	$ 8.31	7.36	$ 1,977,347

(1) The difference between the number of shares available for grant and shares outstanding represents the RSUs granted for the period.

Stock-based Compensation

Total stock-based compensation expense was $2.2 million and $4.3 million during the three and six months ended June 30, 2014, respectively, and $1.6 million and $3.1 million during the same periods ended June 30, 2013. As of June 30, 2014, $18.0 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 3.05 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, 2013, filed with the Securities and Exchange Commission, or SEC, on March 14, 2014.

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, 2013, filed with the SEC on March 14, 2014.

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 chemoattractant receptor-based therapeutics to treat autoimmune diseases, inflammatory disorders and cancer. We currently have five drug candidates in clinical development. Our pipeline comprises the following programs:

C5aR Program:

CCX168 Targeting the chemoattractant receptor known as C5aR (which binds 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. C5aR is also believed to play a role in other renal disease settings such as IgA nephropathy, atypical hemolytic uremic syndrome, or aHUS, and lupus nephritis. We are exploring clinical trials in one or more additional renal indications over the next 12 months;

CCR2 Program:

CCX140 Targeting the chemokine receptor known as CCR2, CCX140 is currently in Phase II clinical development in patients with diabetic nephropathy, a form of kidney disease. Data from an ongoing 52-week clinical trial in approximately 200 patients are expected in the fourth quarter of 2014;

CCX872 Our second generation orally administered inhibitor targeting CCR2, CCX872, is currently in Phase I clinical development. We are exploring the potential use of CCX872 in the cancer setting in the second half of this year;

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. In September 2013, we regained all rights to this program from our former partner Glaxo Group Limited, or GSK, an affiliate of GlaxoSmithKline. The asset is being transferred back to us and we expect to outline next steps in the second half of 2014; and

CCX507 Our second generation CCR9 inhibitor for the treatment of inflammatory bowel disease, or IBD, CCX507 has successfully completed Phase I clinical development. We plan to present such data along with preclinical data in combination with protein biologics at medical meetings in the second half of 2014.

Early Stage Programs in Immuno/Oncology and Autoimmune Diseases:

Chemoattractant Receptor Targets	CCR1, CCR4, CCR5, CCR6, CXCR6, CXCR7	We are exploring potential opportunities in immuno/oncology, in which such chemoattractant receptor modulators have been reported to play a significant role.

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 our drug candidates 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 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 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 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 June 30, 2014, we had an accumulated deficit of $196.7 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 U.S. 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.

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Recent Developments

CCX168 Granted Orphan Drug Designation in ANCA-Associated Diseases by the FDA

In June 2014, we reported that the FDA has granted orphan drug designation for CCX168 (antagonist of the complement 5a receptor). The designation is for the treatment of AAVs, including granulomatosis with polyangiitis or Wegener s granulomatosis, microscopic polyangiitis, and Churg-Strauss syndrome. CCX168 is currently in a Phase II trial, named the CLEAR trial, in patients with AAV.

CCX168 Shows Benefit in AAV Based on Birmingham Vasculitis Activity Score and Renal Disease Measurements

In June 2014, we reported additional Phase II data related to CCX168. Data from the first two steps of the CLEAR trial show that patients receiving CCX168 showed improvements in the Birmingham Vasculitis Activity Score, or BVAS, an overall disease activity index, including efficacy observed in both the renal and the non-renal components of the BVAS. Additionally, as previously reported, patients treated with CCX168 as compared to standard of care showed greater improvements in renal function based on renal disease activity measurements including estimated glomerular filtration rate, or eGFR, urinary albumin:creatinine ratio, or ACR, and urinary monocyte chemoattractant protein-1, or MCP-1:creatinine ratio.

Study Results

Mean (SEM) % Change in BVAS from Start of Study to Week 12	CCX168 + Cyclophosphamide (CYC) + Low-Dose Steroids (N=8)	CCX168 + CYC +No Steroids (N=8)	Standard of Care: CYC + High-Dose Steroids (N=9)
BVAS Total	-71 +/- 9%	-65 +/- 11%	-26 +/- 25%
BVAS Renal	-64 +/- 10%	-50 +/- 15%	-16 +/- 26%
BVAS Non-renal	-81 +/- 33%	-83 +/- 29%	-15 +/- 6%

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 six months ended June 30, 2014, 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, 2013, filed with the SEC on March 14, 2014.

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Results of Operations

Revenues

We have not generated any revenue from product sales. Total revenues for the three and six months ended June 30, 2014 and 2013, were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
GSK:				
Contract revenue	$	$ 758	$	$ 1,557
Recognition of up-front payments		1,128		2,256
Total revenues	$	$ 1,886	$	$ 3,813
Dollar decrease	$ (1,886)		$ (3,813)	
Percentage decrease	(100%)		(100%)	

The decreases in revenues from 2013 to 2014 for the three and six month periods were primarily due to funding of clinical support in 2013 from our former partner, GSK, an affiliate of GlaxoSmithKline, for CCX168, our C5aR inhibitor, for the treatment of ANCA-associated vasculitis. Our product development and commercialization agreement with GSK ended in November 2013, and therefore no revenue was recorded in 2014.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Research and development expenses	$ 9,002	$ 8,676	$ 17,151	$ 17,931
Dollar increase (decrease)	$ 326		$ (780)	
Percentage increase (decrease)	4%		(4%)	

The increase in research and development expenses from 2013 to 2014 for the three month period was primarily attributed to higher expenses associated with CCX168, as this program advanced into the third step of a three-step Phase II clinical trial for the treatment of AAV in the fourth quarter of 2013, and higher expenses associated with CCX507, as this program has completed Phase I clinical development in the second quarter of 2014. These increases were partially offset by lower expenses associated with CCX140, as the Phase II clinical trial in patients with diabetic

nephropathy nears completion, and lower expenses associated with developing CCX872, due to the timing of Phase I related activities.

The decrease in research and development expenses from 2013 to 2014 for the six month period was primarily attributed to lower expenses associated with CCX140 as the Phase II clinical trial in patients with diabetic nephropathy nears completion, and lower expenses associated with developing CCX872 due to the timing of Phase I related activities. These decreases were partially offset by higher expenses associated with CCX168 and CCX507 as described above.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Development candidate (Target)				
CCX168 (C5aR)	$ 2,876	$ 933	$ 5,688	$ 1,911
CCX140 (CCR2)	1,043	3,494	2,531	6,216
CCX872 (CCR2 2G)	284	666	579	2,329
CCX507 (CCR9)	1,278	564	1,892	1,323
Other (C5aR 2G, CCR2 3G, CCR9 3G, CCR4, CCR6, CXCR7, CCR1 2G, others)	3,521	3,019	6,461	6,152
Total research and development	$ 9,002	$ 8,676	$ 17,151	$ 17,931

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 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.

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General and administrative expenses

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
General and administrative expenses	$ 3,382	$ 2,809	$ 6,905	$ 5,773
Dollar increase	$ 573		$ 1,132	
Percentage increase	20%		20%	

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 2013 to 2014 for the three and six month periods were primarily due to increased employment related expenses, including stock based compensation expense for stock option grants and restricted stock unit awards, and higher intellectual property related expenses and professional service fees 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 (expense)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest income	$ 129	$ 110	$ 275	$ 226
Interest expense	(6)	(15)	(17)	(32)
Total other income , net	$ 123	$ 95	$ 258	$ 194
Dollar increase	28		64	
Percentage increase	29%		33%	

The increases in total other income, net from 2013 to 2014 for the three and six month periods were primarily due to higher interest income earned on higher rate of return, which was partially offset by lower average cash balance following our follow-on public offering in April 2013.

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Liquidity and Capital Resources

As of June 30, 2014, we had approximately $133.2 million in cash, cash equivalents and investments. The following table shows a summary of our cash flows for the six months ended June 30, 2014 and 2013 (in thousands):

	Six Months Ended June 30,	
	2014	2013
Cash provided by (used in)		
Operating activities	$ (16,433)	$ (18,280)
Investing activities	17,859	(6,595)
Financing activities	1,423	66,693

Operating activities. Net cash used in operating activities was $16.4 million for the six months ended June 30, 2014, compared to net cash used of $18.3 million for the same period in 2013. This change was primarily due to 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 our follow-on public offering in April 2013, we invested the majority of our net proceeds received in short-term 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 was $1.4 million for the six months ended June 30, 2014 and was primarily derived from proceeds from the exercise of stock options and purchases from contributions to our 2012 Employee Stock Purchase Plan. Net cash provided of $66.7 million for the same period in 2013 was primarily due to $64.4 million in net proceeds from the issuance of common stock as a result of our follow-on offering in April 2013.

We believe that our existing cash, cash equivalents and investments as of June 30, 2014 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, 2013, filed with the SEC on March 14, 2014.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board and the International Accounting Standards Board issued new converged accounting guidance on revenue recognition in contracts with customers. This new standard impacts the determination of identifying performance obligations in the contract, and estimating the amount of variable consideration to include in the transaction price to be recognized as revenue. Additionally, it modifies the manner in which the transaction consideration is allocated to each separate performance obligation. This new standard is effective for us beginning in the first quarter of 2017. Early adoption is not permitted. We are in the process of evaluating the impact of the new standard on our consolidated financial statements.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our market risks at June 30, 2014 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, 2013, filed with the SEC on March 14, 2014.

Item 4. Controls and Procedures

Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures

As of June 30, 2014, 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 June 30, 2014, 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 six months ended June 30, 2014, 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, 2013, filed with the SEC on March 14, 2014.

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

Unregistered Sales of Equity Securities

None.

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: August 8, 2014

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

President and Chief Executive Officer

(Principal Executive Officer)

Date: August 8, 2014

/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 Number	Description
3.1(1)	Amended and Restated Certificate of Incorporation.
3.2(1)	Amended and Restated Bylaws.
10.1#	Form of Restricted Stock Unit Award Grant Notice and Restricted Stock Unit Award Agreement under the 2012 Equity Incentive Award Plan.
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 June 30, 2014, 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.

# Indicates management contract or compensatory plan.