ChemoCentryx, Inc.
Form 10-Q
November 09, 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 September 30, 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)

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

850 Maude Avenue

Mountain View, California 94043

(Address of Principal Executive Offices) (Zip Code)

(650) 210-2900

(Registrant s Telephone Number, Including Area Code)

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

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

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

Large accelerated filer ¨	Accelerated filer 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 November 4, 2015, was 44,131,962.

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CHEMOCENTRYX, INC.

QUARTERLY REPORT ON FORM 10-Q

For the quarterly period ended September 30, 2015

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CHEMOCENTRYX, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands except share data)

	September 30, 2015 (unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 14,572	$ 16,075
Short-term investments	58,816	57,282
Prepaid expenses and other current assets	781	972
Total current assets	74,169	74,329
Property and equipment, net	1,011	1,208
Long-term investments	11,850	41,263
Other assets	164	181
Total assets	$ 87,194	$ 116,981
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 615	$ 748
Accrued liabilities	4,919	7,442
Total current liabilities	5,534	8,190
Other non-current liabilities	163	185
Total liabilities	5,697	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 September 30, 2015 and December 31, 2014; 44,089,765 shares and 43,446,096 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively.	44	43

Additional paid-in capital	336,947	328,440
Note receivable	(16)	(16)
Accumulated other comprehensive income (loss)	44	(70)
Accumulated deficit	(255,522)	(219,791)
Total stockholders equity	81,497	108,606
Total liabilities and stockholders equity	$ 87,194	$ 116,981

See accompanying notes.

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CHEMOCENTRYX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Operating expenses:				
Research and development	7,931	7,543	24,953	24,694
General and administrative	3,811	3,510	11,076	10,415
Total operating expenses	11,742	11,053	36,029	35,109
Loss from operations	(11,742)	(11,053)	(36,029)	(35,109)
Other income (expense):				
Interest income	95	116	298	391
Interest expense		(4)		(21)
Total other income, net	95	112	298	370
Net loss	$ (11,647)	$ (10,941)	$ (35,731)	$ (34,739)
Basic and diluted net loss per common share	$ (0.26)	$ (0.25)	$ (0.82)	$ (0.80)
Shares used to compute basic and diluted net loss per common share	44,070	43,336	43,804	43,239

See accompanying notes.

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CHEMOCENTRYX, INC.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

(in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net loss	$ (11,647)	$ (10,941)	$ (35,731)	$ (34,739)
Unrealized gain (loss) on available-for-sale securities	33	(36)	114	(54)
Comprehensive loss	$ (11,614)	$ (10,977)	$ (35,617)	$ (34,793)

See accompanying notes.

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CHEMOCENTRYX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2015	**2014**
Operating activities		
Net loss	$ (35,731)	$ (34,739)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property and equipment	375	414
Stock-based compensation	6,865	6,344
Noncash interest expense, net	902	1,860
Changes in assets and liabilities:		
Accounts receivable due from related party		393
Prepaids and other current assets	208	(171)
Other assets		(40)
Accounts payable	(133)	121
Other liabilities	(2,545)	1,438
Net cash used in operating activities	(30,059)	(24,380)
Investing activities		
Purchases of property and equipment, net	(178)	(208)
Purchases of investments	(20,383)	(74,349)
Sales of investments	4,051	
Maturities of investments	43,423	108,210
Net cash provided by investing activities	26,913	33,653
Financing activities		
Proceeds from exercise of stock options and employee stock purchase plan	1,643	1,648
Payments on equipment financing obligations		(283)
Net cash provided by financing activities	1,643	1,365
Net increase (decrease) in cash and cash equivalents	(1,503)	10,638
Cash and cash equivalents at beginning of period	16,075	10,258
Cash and cash equivalents at end of period	$ 14,572	$ 20,896
Supplemental disclosures of cash flow information		

Cash paid for interest	$	$ 95

See accompanying notes.

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CHEMOCENTRYX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 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 GAAP 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 nine months ended September 30, 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:

	Nine Months Ended September 30,	
	2015	**2014**
Options to purchase common stock, including purchases from contributions to ESPP	7,947,677	7,234,291
Restricted stock units	67,481	135,135
Warrants to purchase common stock	150,000	150,000
	8,165,158	7,519,426

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Comprehensive Loss

Comprehensive loss comprises net loss and other comprehensive income (loss). For the periods presented other comprehensive income (loss) consists of unrealized gains and losses on the Company s available-for-sale securities. For the three and nine months ended September 30, 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 same periods ended September 30, 2014, there were no sales of investments, and therefore there were no reclassifications.

Recent Accounting Pronouncements

In May 2015, the Financial Accounting Standards Boards (FASB) issued a comprehensive new standard on revenue from contracts with customers. The standard s core principle is that a reporting entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. On July 9, 2015, the FASB voted to delay the effective date of the new standard by one year. The standard would become effective for the Company beginning in the first quarter of 2018. Early application would be permitted in 2017. Entities would have the option of using either a full retrospective or a modified retrospective approach to adopt this new guidance. The Company is currently evaluating the impact of our adoption of this standard on its Condensed Consolidated Financial Statements.

3. Cash Equivalents and Investments

The amortized cost and fair value of cash equivalents and investments at September 30, 2015 and December 31, 2014 were as follows (in thousands):

	September 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market fund	$ 13,155	$	$	$ 13,155
U.S. treasury securities	17,082	21		17,103
Government-sponsored agencies	30,968	24		30,992
Corporate debt securities	22,572	3	(4)	22,571
Total available-for-sale securities	$ 83,777	$ 48	$ (4)	$ 83,821
Classified as:				
Cash equivalents				$ 13,155
Short-term investments				58,816
Long-term investments				11,850
Total available-for-sale securities				$ 83,821

	December 31, 2014			
		Gross Unrealized		

	Amortized Cost	Gains	Losses	Fair Value
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
Total available-for-sale securities	$ 114,537	$ 13	$ (83)	$ 114,467
Classified as:				
Cash equivalents				$ 15,922
Short-term investments				57,282
Long-term investments				41,263
Total available-for-sale securities				$ 114,467

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Cash equivalents in the tables above exclude cash of $1.4 million and $0.2 million as of September 30, 2015 and December 31, 2014, respectively. All available-for-sale securities held as of September 30, 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 September 30, 2015 have been in a continuous unrealized loss position for more than 12 months. As of September 30, 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.

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 September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Money market fund	$ 13,155	$	$	$ 13,155
U.S. treasury securities		17,103		17,103
Government-sponsored agencies		30,992		30,992
Corporate debt securities		22,571		22,571
Total assets	$ 13,155	$ 70,666	$	$ 83,821

	December 31, 2014			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
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 nine months ended September 30, 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.

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5. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	September 30, 2015	December 31, 2014
Research and development related	$ 2,225	$ 4,982
Compensation related	1,728	1,956
Consulting and Professional Services	516	254
Other	450	250
	$ 4,919	$ 7,442

6. Related-Party Transactions

Bio-Techne

Bio-Techne, formerly Techne Corporation, is one of the Company s principal stockholders. In connection with the Company s initial public offering (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 an exercise price per share equal to $20.00 per share, or 200% of the IPO price of its common stock, which were outstanding as of September 30, 2015. The Company had an accounts payable balance due to Bio-Techne for the purchases of research materials of $16,930 and $1,150 as of September 30, 2015 and December 31, 2014, respectively.

7. Stockholders Equity

Warrants

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 and nine months ended September 30, 2015, no warrants were exercised. As of September 30, 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.

8. Equity Incentive Plans

Stock Options

During the nine months ended September 30, 2015, 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, 2014	2,010,735	6,831,532	$ 8.29		
Shares authorized	1,700,000				
Granted [1]	(1,835,276)	1,756,000	8.18		
Exercised		(427,199)	3.08		
Forfeited and expired	262,132	(250,337)	8.70		
Balance at September 30, 2015	2,137,591	7,909,996	$ 8.53	6.92	$ 891,257

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

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Stock-based Compensation

Total stock-based compensation expense was $2.1 million and $6.9 million during the three and nine months ended September 30, 2015, respectively, and $2.0 million and $6.3 million during the same period ended September 30, 2014. As of September 30, 2015, $14.3 million, $0.4 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 2.55, 1.30, 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. Our pipeline comprises the following programs:

Orphan and Rare Diseases:

CCX168 is an orally-administered complement inhibitor targeting the C5a receptor (C5aR) and is being developed for orphan and rare diseases, including anti-neutrophil cytoplasmic antibody, or ANCA, associated vasculitis, or AAV, atypical hemolytic uremic syndrome, or aHUS, and Immunoglobulin A-mediated nephropathy, or IgAN. 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 AAV. Top-line data from this trial, known as the CLEAR trial, are anticipated in late December or early January 2016. The second Phase II clinical trial in patients with AAV, the CLASSIC trial, is ongoing in North America and we expect to report top-line data from this trial in the second quarter of 2016. Phase II pilot clinical trials with CCX168 in patients with aHUS and IgAN are ongoing.

Immuno-Oncology:

CCX872 is being evaluated in patients with non-resectable pancreatic cancer, and is our second inhibitor of the chemokine receptor known as CCR2. CCX872 completed Phase I clinical development in healthy volunteers. A Phase Ib clinical trial in patients with pancreatic cancer is ongoing. Having recently presented pharmacodynamics and pharmacokinetic data from the first step of the study, we expect to report early overall response data in the first half of 2016 and initial progression free survival data in the second half of 2016.

Chemoattractant Receptor Targets CCR1, CCR4, CCR5, CXCR2, CXCR7 We believe these chemokine and chemoattractant receptors play an important role in establishing a tumor microenvironment that suppresses a cytotoxic immune response. We have discovered small molecule inhibitors targeting these 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.

Chronic Kidney Disease:

CCX140 is an inhibitor of the chemokine receptor known as CCR2 (distinct from CCX872 above) and is being developed as an orally administered therapy for the treatment of diabetic nephropathy, a form of chronic kidney disease. We have successfully completed and reported positive data from a Phase II clinical trial in patients with diabetic nephropathy. 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, beyond that achieved with standard of

care alone. We are preparing to conduct an end-of-Phase II meeting with the U.S. Food and Drug Administration, or FDA.

Other Inflammatory and Autoimmune Diseases:

Th-17 cell-driven inflammation and CCR6 Th-17 driven cells have been implicated in a variety of autoimmune and inflammatory diseases such as psoriasis, rheumatoid arthritis and asthma. Th-17 cells express high levels of the chemokine receptor known as CCR6, which induces their migration to and activation within disease sites. We have a preclinical program in the inhibition of CCR6 which has produced several unique CCR6 inhibitor leads that are now being optimized through medicinal chemistry approaches, which we plan to advance to a clinical candidate.

Vercirnon (also known as Traficet-EN, or CCX282) is an inhibitor of the chemokine receptor known as CCR9, and being developed as an orally administered therapy for the treatment of patients with moderate-to-severe Crohn s disease. Vercirnon is ready to continue development in Phase III with a partner, should an alliance partner be identified for this program.

CCX507 is 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-a4ß7 antibody or anti-TNF showing combined treatment reduced the severity of colitis better than monotherapy with either drug alone.

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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 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 September 30, 2015, we had an accumulated deficit of $255.5 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 nine months ended September 30, 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 and nine months ended September 30, 2015, as compared to the same periods in the prior year, were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Research and development expenses	$ 7,931	$ 7,543	$ 24,953	$ 24,694
Dollar increase	$ 388		$ 259	
Percentage increase	5%		1%	

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The increase in research and development expense from 2014 to 2015 for the three month period was primarily attributable to higher expenses associated with preparing for an end-of-Phase II meeting for CCX140, our CCR2 inhibitor, with the FDA, and our ongoing pancreatic cancer clinical trial with CCX872, our second generation CCR2 inhibitor. Further, higher costs associated with CCX168, our C5aR inhibitor, due to ongoing Phase II clinical trials for the treatment of AAV in Europe, the CLEAR trial, and in North America, the CLASSIC trial, and our Phase II pilot clinical trials in patients with aHUS and IgAN also contributed to the increase. These increases were partially offset by lower expenses associated with CCX507, our second generation CCR9 inhibitor, due to the completion of Phase I clinical development in the third quarter of 2014.

The increase in research and development expense from 2014 to 2015 for the nine month period was primarily attributable to higher expenses associated with CCX168 due to ongoing CLEAR and CLASSIC trials for the treatment of AAV, and our Phase II pilot clinical trials in patients with aHUS and IgAN. Further, costs associated with our ongoing pancreatic cancer clinical trial with CCX872 also contributed to the increase. These increases were partially offset by lower expenses associated with CCX507 due to the completion of Phase I clinical development in the third quarter of 2014 and CCX140 due to the completion of our Phase II clinical trial in patients with diabetic nephropathy in the fourth quarter of 2014.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Development candidate (Target)				
CCX168 (C5aR)	$ 3,285	$ 3,110	$ 11,247	$ 8,798
CCX140 (CCR2)	648	328	1,585	2,859
CCX872 (CCR2 2G)	592	341	1,964	920
CCX507 (CCR9)	12	524	87	2,416
Other (CCX282, CCR1, C5aR 2G, CCR2 3G, CCR9 3G, CCR4, CCR6, CXCR7, Others)	3,394	3,240	10,070	9,701
Total research and development	$ 7,931	$ 7,543	$ 24,953	$ 24,694

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

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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.

General and administrative expenses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
General and administrative expenses	$ 3,811	$ 3,510	$ 11,076	$ 10,415
Dollar increase	$ 301		$ 661	
Percentage increase	9%		6%	

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 increase from 2014 to 2015 for the three month period was primarily due to increases in intellectual property related expenses, travel expenses and professional service fees. These increases were partially offset by lower employment related expenses and legal fees.

The increase from 2014 to 2015 for the nine month period was primarily due to increases in stock based compensation expense for stock option grants and restricted stock unit awards, intellectual property related expenses, and professional fees. Further, travel expenses and professional fees relating to our business development efforts also contributed to the increase.

We expect that general and administrative expenses will increase in the future as we expand our operating activities and continue to 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 and nine month periods, as compared to the same periods in the prior year was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest income	$ 95	$ 116	$ 298	$ 391
Interest expense		(4)		(21)
Total other income, net	$ 95	$ 112	$ 298	$ 370
Dollar decrease	(17)		(72)	
Percentage decrease	(15%)		(19%)	

The decreases in total other income, net from 2014 to 2015 for the three and nine month periods were 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.

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Liquidity and Capital Resources

As of September 30, 2015, we had approximately $85.2 million in cash, cash equivalents and investments. The following table shows a summary of our cash flows for the nine months ended September 30, 2015 and 2014 (in thousands):

	Nine Months Ended September 30,	
	2015	2014
Cash provided by (used in)		
Operating activities	$ (30,059)	$ (24,380)
Investing activities	26,913	33,653
Financing activities	1,643	1,365

Operating activities. Net cash used in operating activities was $30.1 million for the nine months ended September 30, 2015, compared to net cash used of $24.4 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 $1.6 million for the nine months ended September 30, 2015, compared to net cash provided of $1.4 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 and purchases from contributions to our 2012 Employee Stock Purchase Plan

We believe that our existing cash, cash equivalents and investments as of September 30, 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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Recent Accounting Pronouncements

In May 2015, the Financial Accounting Standards Boards (FASB) issued a comprehensive new standard on revenue from contracts with customers. The standard s core principle is that a reporting entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. On July 9, 2015, the FASB voted to delay the effective date of the new standard by one year. The standard would become effective for us beginning in the first quarter of 2018. Early application would be permitted in 2017. Entities would have the option of using either a full retrospective or a modified retrospective approach to adopt this new guidance. We are currently evaluating the impact of our adoption of this standard on our Condensed Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our market risks at September 30, 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 September 30, 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 SEC s rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures.

Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objective. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 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 nine months ended September 30, 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: November 9, 2015

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

Thomas J. Schall, Ph.D.

President and Chief Executive Officer

(Principal Executive Officer)

Date: November 9, 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 Number	Description
3.1(1)	&nbs