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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

Or

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

For the transition period from _____ to _____

Commission File Number: 001-35420

ChemoCentryx, Inc.

(Exact Name of Registrant as Specified in Its Charter)

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

850 Maude Avenue

Mountain View, California 94043

(Address of Principal Executive Offices) (Zip Code)

(650) 210-2900

(Registrant s Telephone Number, Including Area Code)

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

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

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of outstanding shares of the registrant s common stock, par value $0.001 per share, as of November 4, 2013, was 42,865,408.

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CHEMOCENTRYX, INC.

QUARTERLY REPORT ON FORM 10-Q

For the quarterly period ended September 30, 2013

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CHEMOCENTRYX, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands except share and per share data)

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

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

See accompanying notes.

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CHEMOCENTRYX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

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

See accompanying notes.

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CHEMOCENTRYX, INC.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

(in thousands)

(unaudited)

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

See accompanying notes.

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CHEMOCENTRYX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

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

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

See accompanying notes.

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CHEMOCENTRYX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2013

(unaudited)

1. Description of Business

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

Unaudited Interim Financial Information

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

2. Summary of Significant Accounting Policies

Use of Estimates

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

Reclassifications

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

Net Loss Per Share

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

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

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

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

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3. Cash Equivalents and Investments

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

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

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

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

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

4. Fair Value Measurements

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

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

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

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

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

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

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

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

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5. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

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

6. Related-Party Transactions

Glaxo Group Limited

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

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

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

Techne

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

7. Shareholders Equity

Initial Public Offering

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

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Follow On Public Offering

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

Warrants to Purchase Common Stock

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

8. Equity Incentive Plans

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

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

Stock-based Compensation

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

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

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

Forward-Looking Statements

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

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

our financial performance; and

developments relating to our competitors and our industry.

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

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

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

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

Overview

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

CCXI Wholly Owned Drug Candidates:

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

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

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

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

Drug Candidates Subject to Our Collaboration Agreement with GSK:

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

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

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

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

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

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

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

Recent Developments

Top-Line 12 Week Interim Data for CCX140

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

Regaining Global Rights for Vercirnon From GSK

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

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

JOBS Act

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

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

Critical Accounting Policies and Significant Judgments and Estimates

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

Results of Operations

Revenue

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

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

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

Research and development expenses

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

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

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

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

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

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

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

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

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

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

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General and administrative expenses

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

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

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

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

Other income (expense)

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

	Three Months Ended September 30,	Nine Months Ended September 30,
	2013	