ChemoCentryx, Inc.
Form S-1/A
February 08, 2012
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As filed with the Securities and Exchange Commission on February 8, 2012

Registration No. 333-177332

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 5

to

FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

CHEMOCENTRYX, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**2834**	**94-3254365**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

850 Maude Avenue

Mountain View, CA 94043

(650) 210-2900

(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

Thomas J. Schall, Ph.D.

President and Chief Executive Officer

ChemoCentryx, Inc.

850 Maude Avenue Mountain View, CA 94043

(650) 210-2900

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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Approximate date of commencement of proposed sale to the public:

As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

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 ¨

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to completion, dated February 8, 2012

Prospectus

4,500,000 Shares

Common Stock

This is an initial public offering of common stock by ChemoCentryx, Inc. We are selling 4,500,000 shares of common stock. The initial public offering price is expected to be $10.00 per share.

Our common stock has been approved for listing on the Nasdaq Global Select Market under the symbol CCXI.

	Per share	Total
Initial public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds to ChemoCentryx, before expenses	$	$

We have granted the underwriters an option for a period of 30 days to purchase up to 675,000 additional shares of common stock to cover their over-allotment.

Glaxo Group Limited and Techne Corporation, two of our principal stockholders, have agreed to purchase $7.0 million and $5.0 million, respectively, of our common stock in separate private placements concurrent with the completion of this offering at a price per share equal to the initial public offering price. The sale of such shares of common stock will not be registered under the Securities Act of 1933, as amended.

Investing in our common stock involves risks. See Risk Factors beginning on page 11.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock on or about , 2012.

J.P. Morgan **Citigroup**

Cowen and Company

, 2012

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Neither we nor the underwriters have authorized anyone to provide you with any information other than that contained in this prospectus or in any free writing prospectus we may authorize to be delivered or made available to you. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This prospectus may only be used where it is legal to offer and sell shares of our common stock. The information in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of shares of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date. Neither we nor the underwriters are making an offer of these securities in any jurisdiction where the offer is not permitted.

Until , 2012 (25 days after the date of this prospectus), all dealers that buy, sell or trade shares of our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This delivery requirement is in addition to the dealers obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

For investors outside the United States: Neither we nor the underwriters have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about, and observe any restrictions relating to, the offering of the shares of common stock and the distribution of this prospectus outside the United States.

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PROSPECTUS SUMMARY

This summary does not contain all of the information you should consider before buying our common stock. You should read the entire prospectus carefully, especially the Risk Factors section beginning on page 11 and our financial statements and the related notes appearing at the end of this prospectus, before deciding to invest in our common stock.

Overview

ChemoCentryx is a biopharmaceutical company focused on discovering, developing and commercializing orally-administered therapeutics to treat autoimmune diseases, inflammatory disorders and cancer. Our approach has been to target the chemokine system, a network of molecules including chemokine ligands and their associated receptors, as well as related chemo-attractant receptors, all of which are known to drive inflammation. Chemokine ligands concentrate at the site of an inflammatory event, serving as signals that attract and guide inflammatory cells to the tissue, where, based on the chemokine ligand and receptor combination, a specific inflammatory response is initiated. In certain diseases, discrete chemokine receptors that play a specific role in the pathology of interest have been identified, and the therapeutic goal is to specifically inhibit that receptor to provide clinical benefit. Accordingly, each of our drug candidates is a small molecule designed to target a specific chemokine or chemo-attractant receptor, thereby blocking the inflammatory response driven by that particular chemokine while leaving the rest of the immune system unaffected. Using our pioneering insights and proprietary technologies designed to better understand the chemokine system, we believe that we have established the broadest pipeline of novel drugs targeting chemokine receptors. Our compounds are designed to be highly potent, selective to minimize the risk of off-target effects and orally-available for improved patient compliance. As small molecules, they are also easier and less costly to manufacture than protein therapeutics, or biologics.

We currently have four drug candidates in clinical development and expect to advance one additional drug candidate into clinical development in 2012. The following table summarizes the status of our drug candidates and preclinical programs:

Our drug candidates include: Traficet-EN (CCX282 or GSK 786), our most advanced drug candidate, currently in three pivotal Phase III clinical trials being conducted by our partner Glaxo Group Limited, or GSK,

an affiliate of GlaxoSmithKline, for the treatment of patients with moderate-to-severe Crohn s disease; CCX140, our lead independent drug candidate, which successfully completed a Phase II clinical trial in type 2 diabetics and is currently in two Phase II clinical trials in patients with diabetic nephropathy, a form of kidney disease; CCX354, which successfully completed a Phase II proof-of-concept clinical trial for the treatment of rheumatoid arthritis, or RA; CCX168, currently in a Phase II proof-of-concept clinical trial for the treatment of anti-neutrophil cytoplasmic antibody, or ANCA-associated vasculitis, or AAV; and CCX662, our independent drug candidate for the treatment of glioblastoma multiforme, or GBM, which is expected to enter a Phase I clinical trial in the second half of 2012. CCX140 and CCX662 are wholly owned and are being developed independently by us, while Traficet-EN, CCX354, and CCX168 are subject to our collaboration agreement with GSK. We are also advancing several additional independent drug candidates through preclinical development. In addition, our strategy has been to identify next generation compounds related to our drug candidates. All of our drug candidates, including those under our collaboration agreement with GSK, have been internally discovered.

Traficet-EN is intended to control the inflammatory response underlying inflammatory bowel disease, or IBD, by targeting the chemokine receptor known as CCR9. In adults, CCR9 is found primarily on a population of T cells, a subset of the body s inflammatory cells, that migrate selectively to the digestive tract. It is believed that when CCR9 s ligand, CCL25 (also known as TECK), is over-expressed, the migration of T cells to the small and large intestine causes persistent inflammation that may result in Crohn s disease or ulcerative colitis, the two forms of IBD. We have completed nine clinical trials with Traficet-EN in a total of 785 subjects, including five Phase I clinical trials, one Thorough QT study (an assessment of cardiovascular safety which is required for regulatory approval), and three Phase II clinical trials. We completed our PROTECT-1 Phase II clinical trial in 436 patients with moderate-to-severe Crohn s disease in 2009. Results from this clinical trial indicated that Traficet-EN was effective in inducing a clinical response over a 12-week treatment period. The results also indicated that Traficet-EN was effective in maintaining clinical remission over a 36-week treatment period. Traficet-EN was safe and well tolerated in all clinical trials completed to date. In December 2009, GSK exercised its option to obtain an exclusive license to further develop and commercialize Traficet-EN. To date, GSK has initiated three pivotal Phase III clinical trials with Traficet-EN in Crohn s disease. If approved, Traficet-EN would be the first oral agent with a novel mechanism of action introduced for the treatment of Crohn s disease since the introduction of corticosteroids and oral immunosuppressants.

CCX140, our lead independent drug candidate, targets the chemokine receptor known as CCR2. CCX140 is a potent and selective antagonist of CCR2 that is found on subsets of monocytes and macrophages, which are cells of the immune system believed to play an important role in inflammatory processes. Blocking CCR2 is intended to reduce the abnormal monocyte and macrophage driven inflammatory response implicated in renal disease. In addition, we have shown that levels of CCL2, the main ligand for CCR2, are elevated in the kidneys of patients with diabetic nephropathy, which is characterized by a persistent and usually progressive decline in renal function. Current treatments of patients with diabetic nephropathy primarily focus on treatment of the underlying type 2 diabetes and hypertension. Given that the current standard of care does not halt or reverse the progression of diabetic patients with impaired kidney function to end-stage renal disease, we believe that an unmet medical need persists for the treatment of diabetic nephropathy. As a precursor to our clinical trials in patients with diabetic nephropathy, in January 2011, we completed a 159-patient randomized Phase II clinical trial to assess the safety and tolerability of CCX140 in patients with type 2 diabetes, the most common cause of diabetic nephropathy. CCX140 was safe and well tolerated in this trial. In addition, CCX140 demonstrated biological activity through a dose-dependent decrease in fasting plasma glucose. The highest dose of 10mg CCX140 administered once-daily also lowered hemoglobin A1c, or HbA1c, with statistical significance over a four-week period. CCX140 is currently in two Phase II clinical trials in patients with diabetic nephropathy and we expect to complete these clinical trials by the end of 2012, provided that we do not increase the sample size of, or add additional dose groups to, the larger of these clinical trials.

CCX354 targets the chemokine receptor known as CCR1. Synovial fluid from the joints of RA patients contains high levels of activated CCR1 chemokine ligands. Blocking CCR1 is intended to reduce inflammation

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and prevent subsequent joint destruction by suppressing the infiltration of inflammatory cells into the arthritic joint. We successfully completed two Phase I clinical trials in a total of 84 healthy subjects, followed by a Phase I/II clinical trial in 24 patients with stable RA and a Phase II proof-of-concept clinical trial in 160 patients with moderate-to-severe RA. Results from this clinical trial demonstrated that patients who met inclusion criteria at the start of dosing had an ACR20 response at Week 12 of 56% in patients receiving 200mg of CCX354 once-daily compared to 44% in patients receiving 100mg of CCX354 twice-daily and 30% in patients receiving placebo. ACR20, ACR50 and ACR70 responses refer to patients who achieve a 20%, 50% and 70% improvement, respectively, according to criteria set by the American College of Rheumatology, or ACR. The ACR20 response difference between the 200mg CCX354 once-daily and placebo groups was statistically significant (p=0.014). The decrease in C-reactive protein, or CRP, a marker of inflammation, was statistically significant in the 200mg CCX354 once-daily group compared to placebo at Week 12 (p=0.023). CCX354 was well tolerated by patients in this clinical trial. This successful Phase II proof-of-concept clinical trial triggered GSK s option rights under our collaboration agreement. GSK exercised its option to further develop and commercialize CCX354 in November 2011 and has an exclusive right to initiate a Phase IIb clinical trial for CCX354 in RA.

CCX168 targets the chemo-attractant C5a receptor, or C5aR, which binds to a biologically activated fragment of the complement protein known as C5. Chemo-attractant receptors are related to the chemokine receptor family and similarly regulate the migration of certain types of inflammatory cells. C5aR is thought to play a role in a range of inflammatory and autoimmune diseases such as AAV, lupus, and psoriasis. We completed a Phase I clinical trial for CCX168, which showed that CCX168 was well tolerated at doses up to 100mg. We initiated a Phase II proof-of-concept clinical trial in AAV in the fourth quarter of 2011 and expect to complete this clinical trial by the end of 2012. If this clinical trial is successfully completed, GSK may exercise its option to further develop and commercialize CCX168 under our collaboration agreement.

CCX662 is our independent drug candidate that is a highly potent and selective small molecule compound which targets CXCR7, a novel chemokine receptor that we believe plays a key role in the survival of certain tumor cells. Of particular interest is the role that CXCR7 appears to play in the development of GBM, the deadliest of all brain cancers. In animal studies, CCX662 demonstrated safety and efficacy against GBM. We are in preclinical development with this drug candidate and anticipate initiation of Phase I clinical trials in patients with GBM in the second half of 2012.

We have developed a suite of proprietary technologies, which we call the EnabaLink drug discovery engine, to better understand the chemokine system and to accelerate the identification of small molecule lead compounds that target and inhibit the function of specific chemokine receptors. We believe this platform provides us with an advantage in the rapid identification of highly specific drug candidates. An important element of this platform is our thorough map of the chemokine network which allows us to better understand how a given chemokine-chemokine receptor interaction impacts the migration of cells in a given disease. With this understanding, we can apply our advanced screening methodologies, including a purpose-built high-throughput robotic screening technology, known as the Reverse Activation of Migration, or RAM, Assay, to identify small molecule antagonists for the chemokine receptor most closely associated with a specific disease. The RAM Assay is designed to markedly reduce or eliminate non-specific inhibitors and toxic inhibitors of cell migration, resulting in highly specific lead candidates. This technology allows us to screen against targets that are not accessible with traditional technologies, providing us with what we believe to be a competitive advantage in drug discovery. We have used our EnabaLink drug discovery engine in our drug candidate programs and continue to apply these powerful research tools in our early stage drug discovery efforts.

Thomas Schall, Ph.D., our founder, President and Chief Executive Officer, has more than 25 years of research experience in the field of chemokine biology and has contributed broadly to the understanding of chemokines and their receptors in human disease. Since our founding, we have raised $384.9 million, of which $175.0 million has been in the form of convertible debt and equity financings and $209.8 million in the form of collaboration funding and government contracts and grants. As of September 30, 2011, we had $81.2 million of

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cash, cash equivalents and investments. In December 2011, we received a $25.0 million option exercise payment under our strategic alliance with GSK (described below) with respect to CCX354 which is reflected in the collaboration funding described above. We believe that our broad pipeline of oral drug candidates, our ability to advance unique, highly specific compounds into and through clinical development across diverse indications and our proprietary drug discovery technologies provide us with distinct advantages that will enable us to continue to exploit the extensive pharmacologic potential of the chemokine system.

Strategic Alliance with GSK

In August 2006, we entered into our strategic alliance with GSK. We have received $245.7 million from GSK, consisting of up-front and milestone payments, equity investments, 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. If we demonstrate successful clinical proof-of-concept, 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. The agreement contemplated up to six drug options, each of which covers a drug candidate against the four defined targets, including Traficet-EN (CCR9), CCX354 (CCR1), CCX168 (C5aR) and CCX832 (ChemR23), and their associated back-up compounds. The other two drug options were for second generation drug candidates and their associated back-up compounds. However, we and GSK chose not to nominate second generation drug candidates against any of the four defined targets during the agreement s research term, which has expired. In addition, in February 2012, based on unblinded data from a recently completed Phase I clinical trial of CCX832, we and GSK determined not to further advance the development of CCX832 or its two designated back-up compounds, although both we and GSK continue to have interest in further discussing possible strategic opportunities with respect to ChemR23. GSK has already exercised its options to Traficet-EN and CCX354 and each of their two respective defined back-up compounds. Thus, GSK s only remaining option is to CCX168 and its associated back-up compounds. 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.

Strategy

Our strategy includes the following key elements:

- Collaborate with GSK in the Phase III clinical development and commercialization of Traficet-EN for IBD and in the further development and commercialization of CCX354;
- Forward integrate into a commercial biopharmaceutical company by driving the development and commercialization of our lead independent drug candidate, CCX140, currently in Phase II clinical development for diabetic nephropathy;
- Advance CCX168 under our collaboration with GSK;
- Expand our clinical stage portfolio of internally discovered, independent drug candidates;
- Leverage our expertise and proprietary technologies to continue discovering and developing a broad pipeline of novel chemokine-based therapeutics; and

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Commercialize our drug candidates in specialty markets in North America and partner outside North America and in primary care markets worldwide.

Risks Related to Our Business

Our ability to implement our current business strategy is subject to numerous risks, as more fully described in the section entitled Risk Factors immediately following this prospectus summary. These risks include, among others:

our dependence on the success of Traficet-EN, CCX140 and our other drug candidates;

delays in obtaining, or a failure to obtain, regulatory approval for our drug candidates;

our dependence on GSK for the success of the drug candidates that it licenses from us;

failure of any approved product to achieve significant commercial acceptance in the medical community or receive reimbursement by third-party payors;

unfavorable clinical trial results;

our dependence upon third parties under our licensing, collaboration, contract research and manufacturing agreements;

delays in product launch;

failure to maintain and protect our proprietary intellectual property assets; and

failure to acquire licenses necessary to commercialize any of our drug candidates, including Traficet-EN and CCX140.

In addition, all of our drug candidates are subject to regulatory approval by the Food and Drug Administration, or FDA, and comparable agencies in other countries. Traficet-EN, CCX140, CCX354 and CCX168 are our only drug candidates currently in clinical trials and none of them has received regulatory approval. We cannot give any assurance that they, or any other drug candidates we may develop or acquire, will receive regulatory approval or be successfully commercialized.

We have not generated any revenue to date from product sales and have incurred significant operating losses since our inception in 1997 (other than during the year ended December 31, 2009, when we generated net income of $15.6 million). We incurred net losses of $18.5 million in 2008, $3.1 million in 2010, and $22.8 million for the nine months ended September 30, 2011. As of September 30, 2011, we had an accumulated deficit of approximately $112.5 million and we expect to incur losses for the foreseeable future. We are unable to predict the extent of future losses or when we will become profitable, if at all. Even if we succeed in developing and commercializing one or more of our drug candidates, we may never generate sufficient revenue to achieve and sustain profitability.

Concurrent Private Placements

GSK and Techne Corporation, or Techne, have agreed to purchase $7.0 million and $5.0 million, respectively, of our common stock in separate private placements concurrent with the completion of this offering at a price per share equal to the initial public offering price. The sale of such shares of common stock will not be registered under the Securities Act of 1933, as amended, or the Securities Act.

Corporate Information

We commenced operations in 1997. Our principal offices are located at 850 Maude Avenue, Mountain View, California 94043, and our telephone number is (650) 210-2900. Our website address is

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http://www.chemocentryx.com. The information contained in, or that can be accessed through, our website is not part of this prospectus. We have a wholly owned subsidiary, ChemoCentryx Limited, organized under the laws of the United Kingdom that is currently inactive. Unless the context requires otherwise, in this prospectus the terms ChemoCentryx, we, us and our refer to ChemoCentryx, Inc., a Delaware corporation, a our subsidiary taken as a whole unless otherwise noted.

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 prospectus belongs to its respective holder.

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THE OFFERING

Common stock offered by us in this offering	4,500,000 Shares (or 5,175,000 shares if the underwriters over-allotment option is exercised in full)
Common stock to be sold by us to GSK in the concurrent private placement (assuming an initial public offering price of $10.00 per share)	700,000 Shares
Common stock to be sold by us to Techne in the concurrent private placement (assuming an initial public offering price of $10.00 per share)	500,000 Shares
Common stock to be outstanding after this offering and the concurrent private placements to GSK and Techne and the automatic conversion of the convertible note held by Techne	35,254,914 Shares
Use of proceeds	We estimate that the net proceeds from this offering will be approximately $39.4 million, or approximately $45.6 million if the underwriters exercise their over-allotment option in full, at an assumed initial public offering price of $10.00 per share, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. We will also receive $12.0 million from the sale of 1,200,000 shares of common stock in the concurrent private placements to GSK and Techne, at a price per share equal to the initial public offering price. We intend to use the net proceeds from this offering and the concurrent private placements to GSK and Techne to further develop our lead independent drug candidate CCX140, to advance CCX168 and CCX662 further in clinical development, for the further exploration of our ChemR23 program, for the research and development of additional drug candidates and for working capital and general corporate purposes.
Nasdaq Global Select Market symbol	CCXI

The number of shares of common stock to be outstanding after (1) this offering, (2) the concurrent private placements to GSK and Techne and (3) the automatic conversion of the convertible note held by Techne (see Certain Relationships and Related Party Transactions Relationships with Techne), is based on 28,551,901 shares of common stock outstanding as of September 30, 2011 (assuming conversion of all of our outstanding shares of preferred stock), and an assumed initial public offering price of $10.00 per share and excludes the following:

- 4,172,318 shares of common stock issuable upon the exercise of outstanding stock options having a weighted-average exercise price of $4.72 per share;
- 159,500 shares of common stock issuable upon the exercise of outstanding warrants having an exercise price of $5.20 per share;

59,009 shares of common stock reserved for issuance pursuant to future option grants under our 2002 Equity Incentive Plan and our 1997 Stock Option/Stock Issuance Plan;

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150,000 shares of common stock issuable upon the exercise of warrants, with an exercise price per share equal to 200% of the initial public offering price of our common stock, which warrants will be issued to Techne upon the completion of this offering.

3,000,000 shares of common stock reserved for issuance pursuant to future option grants under our 2012 Equity Incentive Award Plan;

300,000 shares of common stock reserved for issuance under our 2012 Employee Stock Purchase Plan; and

the issuance of an additional 18,477 shares of our common stock upon the automatic conversion of the convertible note held by Techne, assuming a conversion date of February 13, 2012, at a conversion price equal to the assumed initial public offering price of $10.00 per share.

Except as otherwise indicated, all information contained in this prospectus:

reflects the conversion of all of our outstanding shares of preferred stock into an aggregate of 24,332,186 shares of common stock prior to the completion of this offering;

assumes the adoption of our amended and restated certificate of incorporation and amended and restated bylaws upon the completion of this offering;

assumes that the underwriters do not exercise their over-allotment option;

reflects the issuance and sale of 1,200,000 shares of common stock in the concurrent private placements to GSK and Techne at the assumed initial public offering price of $10.00 per share;

reflects the issuance of 1,003,013 shares of common stock upon the completion of this offering, as a result of the automatic conversion of the convertible note held by Techne, based upon the outstanding principal and interest under this note as of September 30, 2011, at a conversion price equal to the assumed initial public offering price of $10.00 per share; and

reflects a one-for-two reverse stock split of our common stock effected in January 2012.

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SUMMARY FINANCIAL DATA

The following summary consolidated financial data for the years ended December 31, 2008, 2009 and 2010 are derived from our audited consolidated financial statements appearing elsewhere in this prospectus. The summary financial data for the nine months ended September 30, 2010 and 2011 and as of September 30, 2011 are derived from our unaudited consolidated financial statements appearing elsewhere in this prospectus and are not indicative of results to be expected for the full year. You should read this data together with our audited and unaudited consolidated financial statements and related notes appearing elsewhere in this prospectus and the information under the captions Selected Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations. Our historical results are not necessarily indicative of our future results.

The pro forma as adjusted consolidated balance sheet data reflects (1) the conversion of all outstanding shares of our preferred stock into an aggregate of 24,332,186 shares of common stock prior to the completion of this offering, (2) the issuance and sale by us of 4,500,000 shares of our common stock in this offering, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, (3) the concurrent private placements to GSK and Techne of $7.0 million and $5.0 million of our common stock, respectively, and (4) the automatic conversion of the convertible note held by Techne at a conversion price equal to the initial public offering price, in each case at an assumed initial public offering price of $10.00 per share.

	Years Ended December 31,			Nine Months Ended September 30,	
	2008	2009	2010	2010	2011
				(unaudited)	
	(in thousands, except share and per share data)				
Consolidated Statement of Operations Data:					
Revenues:					
Collaborative research and development revenue from related party	$ 23,551	$ 49,744	$ 34,861	$ 21,746	$ 5,621
Grant revenue	536				
Total revenues:	24,087	49,744	34,861	21,746	5,621
Operating expenses:					
Research and development	35,056	27,474	33,527	25,385	22,914
General and administrative	9,157	6,575	7,292	5,363	5,721
Total operating expenses	44,213	34,049	40,819	30,748	28,635
Income (loss) from operations	(20,126)	15,695	(5,958)	(9,002)	(23,014)
Interest income	1,762	297	436	322	319
Interest expense	(129)	(76)	(81)	(60)	(170)
Other income			2,434	490	16
Income (loss) before provision for income taxes	(18,493)	15,916	(3,169)	(8,250)	(22,849)
Income tax benefit (expense)	23	(293)	73	73	
Net income (loss)	$ (18,470)	$ 15,623	$ (3,096)	$ (8,177)	$ (22,849)
Basic net income (loss) per share[(1)]	$ (4.52)	$ 0.56	$ (0.76)	$ (2.01)	$ (5.49)
Diluted net income (loss) per share[(1)]	$ (4.52)	$ 0.53	$ (0.76)	$ (2.01)	$ (5.49)
Shares used to compute basic net income (loss) per share	4,087,181	3,961,640	4,081,648	4,077,347	4,162,309
Shares used to compute diluted net income (loss) per share	4,087,181	29,256,423	4,081,648	4,077,347	4,162,309

Pro forma basic and diluted net income (loss) per share (unaudited)[1]	$ (0.11)	$ (0.80)
Shares used to compute pro forma basic and diluted net income (loss) per share	28,210,296	28,471,126

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	As of September 30, 2011	
	Actual	Pro Forma As Adjusted[2]
	(in thousands)	
Consolidated Balance Sheet Data		
Cash, cash equivalents and investments	$ 81,182	$ 132,532
Working capital	64,964	116,314
Total assets	85,365	136,715
Non-current equipment financing obligations	1,040	1,040
Convertible note from related party	10,060	
Accumulated deficit	(112,530)	(112,530)
Total stockholders equity	56,955	118,365

(1) See Note 2 within the notes to our consolidated financial statements which are included elsewhere in this prospectus for a description of the method used to compute basic and diluted loss per share.

(2) Each $1.00 increase or decrease in the assumed initial public offering price of $10.00 would increase or decrease, respectively, the amount of cash, cash equivalents and investments, working capital, total assets and total stockholders equity by $4.2 million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below and all information contained in this prospectus before deciding to invest in our common stock. If any of the following risks actually occur, our business, financial condition, results of operations and growth prospects would likely be materially and adversely affected. In that event, the trading price of our common stock could decline, and you could lose all or part of your investment.

Risks Related to Our Business

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

We are a clinical-stage biopharmaceutical company. We do not currently have any products approved for sale, and we continue to incur significant research and development and general and administrative expenses related to our operations. Our net loss for the years ended December 31, 2008 and 2010 and the nine months ended September 30, 2011 was $18.5 million, $3.1 million and $22.8 million, respectively (we generated net income of $15.6 million for the year ended December 31, 2009). As of September 30, 2011, we had an accumulated deficit of $112.5 million. We expect to continue to incur significant losses for the foreseeable future. We expect these losses and our cash utilization to increase in the near term as we continue to conduct clinical trials for CCX140, CCX168 and CCX662 and conduct research and development of our other drug candidates. Glaxo Group Limited, or GSK, an affiliate of GlaxoSmithKline, has assumed all funding obligations for the further clinical development and commercialization of Traficet-EN and CCX354. If GSK exercises its option for further development and commercialization of our remaining drug candidate subject to the agreement, it will assume all funding obligations with respect to further clinical development of such drug candidate, but if it does not exercise such option, we will be responsible for such funding obligations. All of our products are in development and none has been approved for sale. To date, we have derived all of our revenues from up-front fees and milestone payments, other payments pursuant to our collaboration agreements and government grants and contracts for research and development. We do not anticipate that we will generate revenue from the sale of our products for the foreseeable future. In addition, if approved, we expect to incur significant costs to commercialize our drug candidates and our drugs may never gain market acceptance. If our drug candidates fail to demonstrate safety and efficacy in clinical trials, do not gain regulatory approval, or do not achieve market acceptance, we may never become profitable. Even if we achieve profitability in the future, we may not be able to sustain profitability in subsequent periods. If we are unable to achieve and sustain profitability, the market value of our common stock will likely decline. Because of the numerous risks and uncertainties associated with developing pharmaceutical products, we are unable to predict the extent of any future losses or whether we will become profitable.

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

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

- GSK may be unable to successfully complete the clinical development of Traficet-EN;
- GSK must comply with additional requests and recommendations from the FDA, including additional clinical trials;

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

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

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

Traficet-EN may not achieve market acceptance by physicians, patients and third party payors;

Traficet-EN may not compete successfully against alternative products and therapies; and

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

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

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

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

In August 2006, we entered into our strategic alliance with GSK. Under the terms of our agreement, we are responsible for the discovery and development of small molecule antagonists targeting four defined chemokine and chemo-attractant receptor targets (CCR9, CCR1, C5aR and ChemR23) and taking them through clinical proof-of-concept. If we demonstrate successful clinical proof-of-concept, 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. The agreement contemplated up to six drug options, each of which covers a drug candidate against four defined targets, including Traficet-EN (CCR9), CCX354 (CCR1), CCX168 (C5aR) and CCX832 (ChemR23), and their associated back-up compounds. The other two drug options were for second generation drug candidates and their associated back-up compounds that would target any of the four collaboration targets. However, we and GSK chose not to nominate second generation drug candidates against any of the four defined targets during the agreement s research term, which has expired. In addition, in February 2012, based on unblinded data from a recently completed Phase I clinical trial of CCX832, we and GSK determined not to further advance the development of CCX832 or its two designated back-up compounds, although both we and GSK continue to have

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interest in further discussing possible strategic opportunities with respect to ChemR23. GSK has already exercised its options to Traficet-EN and CCX354 and each of their two respective defined back-up compounds. Thus, GSK s only remaining option is to CCX168 and its associated back-up compounds.

In December 2009, GSK exercised its option under the agreement to obtain an exclusive license for the further development and commercialization of Traficet-EN, our CCR9 drug candidate, and two identified back-up compounds. As a result of GSK s exercise of this option, we are entitled to receive (x) up to $82.0 million, in the aggregate, consisting of (1) a non-refundable option exercise fee of $35.0 million and (2) up to $47.0 million in the aggregate for the filing of an NDA in the United States and comparable filings in other territories, (y) up to $75.0 million in the aggregate for the regulatory approval of products for commercial sale in the United States and other territories and (z) up to $250.0 million in sales milestones. In January 2010, after GSK obtained Hart-Scott-Rodino clearance for its option exercise, it paid us the option exercise fee of $35.0 million and assumed sole responsibility for the further development and commercialization of Traficet-EN and its two designated back-up compounds, at its expense, subject to our specified co-development and commercial participation rights.

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

If a given proof-of-concept trial for our CCX168 drug candidate is successfully completed and GSK elects to exercise its option to such drug candidate, we would be entitled to receive, as with CCX354, (x) up to $72.0 million, in the aggregate, consisting of (1) an option exercise fee of $25.0 million and (2) up to $47.0 million in the aggregate for the filing of an NDA in the United States and comparable filings in other territories, (y) up to $75.0 million in the aggregate for the regulatory approval of products for commercial sale in the United States and other territories and (z) up to $125.0 million in sales milestones. We cannot assure you that we will be able to successfully complete a proof-of-concept trial for CCX168 or that the relevant regulatory filing or approval milestones can be achieved for any our programs so that we will receive the related option exercise fees and milestone payments. In addition, even if proof-of-concept trials for any of our drug candidates result in positive outcomes, GSK is under no obligation to exercise its option and we cannot assure you that GSK will exercise its remaining option, or that GSK will obtain Hart-Scott-Rodino clearance with respect to such option, to the extent that such approval is required.

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

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

- we would not be entitled to receive the relevant option exercise fee or milestone payments;

- we would owe GSK up to 5% royalties with respect to drug candidates covered by the agreement which we elected to subsequently commercialize, depending upon the stage of development at which such product commercialization rights reverted back to us;

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- the development of our drug candidates subject to the agreement may be terminated or significantly delayed;
- we may be required to hire additional employees and allocate scarce resources to the development and commercialization of drug candidates that were previously the subject of the GSK agreement and as a result our cash expenditures could increase significantly;
- we would bear all of the risks and costs related to the further development and commercialization of drug candidates that were previously the subject of the GSK agreement, including the reimbursement of third parties; and
- we may need to establish alternative collaboration arrangements, and we may not be able to do so, or may not be able to do so on terms which are acceptable to us, in which case we would likely be required to limit the size or scope of one or more of our programs or increase our expenditures and seek substantial additional funding.

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

The development of new drugs is a highly risky undertaking which involves a lengthy process, and our drug discovery and development activities therefore may not result in products that are approved by the applicable regulatory authorities on the time schedule we have planned, or at all.

Our drug candidates are in the early stages of drug discovery or clinical trials and are prone to the risks of failure inherent in drug development. As of the date of this prospectus, only four of our current drug candidates, Traficet-EN, CCX140, CCX354 and CCX168 have been tested in human beings. We will need to conduct significant additional preclinical studies and clinical trials before we can demonstrate that any of our drug candidates is safe and effective to the satisfaction of the FDA and other regulatory authorities. Preclinical studies and clinical trials are expensive and uncertain processes that take years to complete. For example, we incurred significant expenses related to the IND filing and the completed single ascending dose Phase I clinical trial for CCX915, our first generation CCR2 drug candidate, which did not advance into Phase II clinical trials because its pharmacokinetic properties in humans did not meet our expectations. Failure can occur at any stage of the process, and we cannot assure you that any of our drug candidates will result in commercially successful products.

We cannot assure you that our ongoing clinical trials or any future clinical trial of any of our other drug candidates, will be completed on schedule, or at all, or whether our planned clinical trials will start in a timely manner. The commencement of our planned clinical trials could be substantially delayed or prevented by a number of factors, including:

- delays or failures in obtaining sufficient quantities of the active pharmaceutical ingredient, or API, and/or drug product;
- delays or failures in reaching agreement on acceptable clinical trial agreement terms or clinical trial protocols with prospective sites;
- delays or failures in obtaining institutional review board, or IRB, approval to conduct a clinical trial at a prospective site;
- the need to successfully complete, on a timely basis, preclinical safety pharmacology studies;
- the limited number of, and competition for, suitable sites to conduct the clinical trials;
- the limited number of, and competition for, suitable patients for enrollment in the clinical trials; and

delays or failures in obtaining regulatory approval to commence a clinical trial.

The completion of our clinical trials could also be substantially delayed or prevented by a number of factors, including:

slower than expected rates of patient recruitment and enrollment;

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failure of patients to complete the clinical trials;

failure of our third party vendors to timely or adequately perform their contractual obligations relating to the clinical trials;

inability or unwillingness of patients or medical investigators to follow our clinical trial protocols;

inability to monitor patients adequately during or after treatment;

termination of the clinical trials by one or more clinical trial sites;

unforeseen safety issues;

lack of efficacy demonstrated during clinical trials;

lack of adequate funding to continue the clinical trials;

the need for unexpected discussions with the FDA or other foreign regulatory agencies regarding the scope or design of our clinical trials or the need to conduct additional trials;

unforeseen delays by the FDA or other foreign regulatory agencies after submission of our results;

an unfavorable FDA inspection of our contract manufacturers of API or drug product; and

inspection of the clinical trial operations or trial sites by the FDA or other regulatory authorities resulting in the imposition of a clinical hold.

Any failure or significant delay in completing clinical trials for our drug candidates would harm the commercial prospects for our drug candidates and adversely affect our financial results.

Additionally, changes in regulatory requirements and guidance may occur and we may need to amend clinical trial protocols to reflect these changes. Amendments may require us to resubmit our clinical trial protocols to IRBs for reexamination, which may impact the costs, timing or successful completion of a clinical trial. If we experience delays in completion of, or if we terminate, any of our clinical trials, the commercial prospects for our drug candidates may be harmed and our ability to generate product revenues will be delayed. In addition, many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval of a drug candidate.

If we are required to suspend or discontinue clinical trials due to side effects or other safety risks, or if we are required to conduct studies on the long-term effects associated with the use of our drug candidates, our efforts to commercialize our products could be delayed or halted.

Our clinical trials may be suspended or terminated at any time for a number of safety-related reasons. For example, we may voluntarily suspend or terminate our clinical trials if at any time we believe that our drug candidates present an unacceptable safety risk to the clinical trial patients. In addition, IRBs or regulatory agencies may order the temporary discontinuation or termination of our clinical trials at any time if they believe that the clinical trials are not being conducted in accordance with applicable regulatory requirements, including if they present an unacceptable

safety risk to patients. Administering any drug candidate to humans may produce undesirable side effects. The existence of undesirable side effects resulting from our drug candidates could cause us or regulatory authorities, such as the FDA, to interrupt, delay or halt clinical trials of our drug candidates and could result in the FDA or other regulatory agencies denying further development or approval of our drug candidates for any or all targeted indications. This, in turn, could affect whether GSK exercises its remaining license option under our strategic alliance and could prevent us from commercializing our drug candidates.

Further, chemokine receptors and chemo-attractant receptors are a novel class of targets. As a result, we may experience unforeseen adverse side effects with our existing and future drug candidates, including Traficet-EN and CCX140. As of the date of this prospectus, four of our current drug candidates have been tested in human beings. Although we have not observed significant harmful side effects in prior studies of Traficet-EN, CCX140 or our other drug candidates, later trials could reveal such side effects. The pharmacokinetic profile of preclinical studies may not be indicative of results in any clinical trial. For example, prior to commencing our preclinical studies of our

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CCX140 drug candidate, we studied another drug candidate that targeted CCR2, which we abandoned after pharmacokinetic results were not as favorable in humans as in earlier preclinical animal studies. We have not conducted studies on the long-term effects associated with the use of our drug candidates. Studies of these long-term effects may be required for regulatory approval and would delay our introduction of Traficet-EN, CCX140 or our other drug candidates into the market. These studies could also be required at any time after regulatory approval of any of our drug candidates. Absence of long-term data may also limit the approved uses of our products, if any, to short-term use. Some or all of our drug candidates may prove to be unsafe for human use.

Even if our drug candidates do obtain regulatory approval they may never achieve market acceptance or commercial success.

Even if we obtain FDA or other regulatory approvals, our drug candidates may not achieve market acceptance among physicians, patients and third party payors and, ultimately, may not be commercially successful. Market acceptance of our drug candidates for which we receive approval depends on a number of factors, including:

- the efficacy and safety as demonstrated in clinical trials;
- the clinical indications for which the drug is approved;
- acceptance by physicians, major operators of clinics and patients of the drug as a safe and effective treatment;
- the potential and perceived advantages of our drug candidates over alternative treatments;
- the safety of drug candidates seen in a broader patient group, including its use outside the approved indications;
- the cost of treatment in relation to alternative treatments;
- the availability of adequate reimbursement and pricing by third parties and government authorities;
- relative convenience and ease of administration;
- the prevalence and severity of adverse side effects; and
- the effectiveness of our sales and marketing efforts.

Any failure by our drug candidates that obtain regulatory approval to achieve market acceptance or commercial success would adversely affect our financial results.

The commercial success of CCX140 depends, in part, on our ability to develop and market the drug in North America and to find partners to co-develop and commercialize the drug outside North America, and if we fail in these initiatives, our ability to generate future revenue could be significantly reduced.

If we successfully complete the Phase II program for our lead independent drug candidate, CCX140, we plan to initiate Phase III clinical trials either alone or together with a co-development partner. We plan to retain commercial rights to CCX140 in North America and find partners for co-development and commercialization outside North America. We have invested a significant amount of our time and financial resources in the

development of CCX140 and our ability to generate future revenue will depend, in part, on our ability to identify a co-development partner and the development, regulatory approval, marketing and commercialization of CCX140 by us and any future partners. Any of the following events or factors could have a material adverse effect on our ability to generate revenue from the commercialization of CCX140:

We may be unable to successfully complete the clinical development of CCX140;

Our lack of experience in commercializing and marketing drug products;

We may not have or be able to obtain sufficient financial resources to develop and commercialize CCX140;

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We may not be able to identify a suitable co-development partner;

We or any of our future partners may fail to fulfill our responsibilities in a timely manner or fail to commit sufficient resources to the development, regulatory approval, and commercialization efforts related to CCX140;

We or any of our future partners must comply with additional requests and recommendations from the FDA, including additional clinical trials;

We or any of our future partners may not obtain all necessary approvals from the FDA and similar foreign regulatory agencies;

CCX140 must be manufactured in compliance with requirements of FDA and similar foreign regulatory agencies and in commercial quantities sufficient to meet market demand;

CCX140 may not achieve market acceptance by physicians, patients and third party payors;

CCX140 may not compete successfully against alternative products and therapies; and

We or any pharmaceutical company may independently develop products that compete with CCX140.

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

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

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

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If any of our drug candidates receives marketing approval and we or others later identify undesirable side effects caused by the drug candidate, our ability to market and derive revenue from the drugs could be compromised.

If we or others identify undesirable side effects caused by one of our drugs, any of the following adverse events could occur:

- regulatory authorities may withdraw their approval of the drug or seize the drug;
- we may be required to recall the drug or change the way the drug is administered;
- additional restrictions may be imposed on the marketing of the particular drug or the manufacturing processes;
- we may be subject to fines, injunctions or the imposition of civil or criminal penalties;
- regulatory authorities may require the addition of labeling statements, such as a black box warning or a contraindication;
- we may be required to create a Medication Guide outlining the risks of such side effects for distribution to patients;
- we could be sued and held liable for harm caused to patients;
- the drug may become less competitive; and
- our reputation may suffer.

Any of these could result in the loss of significant revenues, which would materially and adversely affect our results of operations and business.

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

We are advancing multiple drug candidates through discovery and development and will require substantial funds to conduct development, including preclinical studies and clinical trials, of our drug candidates. Commercialization of any drug candidate will also require substantial expenditures. While we currently expect GSK to assist us in our development and commercialization efforts with respect to those of our drug candidates for which GSK exercises an option under our agreement, we may also need additional financing to the extent that we are required to hire additional employees to co-promote drug candidates or to commercialize drug candidates that may not be covered by our collaboration agreement.

As of September 30, 2011, we had approximately $81.2 million in cash, cash equivalents and investments. Subsequent to September 30, 2011, we received a $25.0 million option exercise payment under our strategic alliance with GSK with respect to CCX354. We believe that our available cash, cash equivalents and investments, together with the net proceeds of this offering, will be sufficient to fund our anticipated level of operations for at least the next 12 months. Our future financing requirements will depend on many factors, some of which are beyond our control, including:

the rate of progress and cost of our clinical trials, preclinical studies and other discovery and research and development activities;

the timing of, and costs involved in, seeking and obtaining FDA and other regulatory approvals;

the continuation and success of our strategic alliance with GSK and future collaboration partners;

the exercise of the remaining option under the GSK agreement;

the costs of preparing, filing, prosecuting, maintaining and enforcing any patent claims and other intellectual property rights, including litigation costs and the results of such litigation;

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

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

the emergence of competing technologies or other adverse market developments.

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

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

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

We may form strategic alliances, create joint ventures or collaborations or enter into licensing arrangements with third parties with respect to our independent programs that we believe will complement or augment our existing business. For example, we plan to find a partner for co-development and commercialization of CCX140 and CCX662 outside North America upon completion of clinical development of CCX140 for the treatment of patients with diabetic nephropathy and CCX662 for the treatment of glioblastoma multiforme, or GBM. We face significant competition in seeking appropriate strategic partners and the negotiation process is time-consuming and complex. Moreover, we may not be successful in our efforts to establish a strategic partnership or other alternative arrangements for any future product candidates and programs because our research and development pipeline may be insufficient, our product candidates and programs may be deemed to be at too early of a stage of development for collaborative effort and/or third parties may not view our product candidates and programs as having the requisite potential to demonstrate safety and efficacy. We cannot be certain that, following a strategic transaction or license, we will achieve the revenues or specific net income that justifies such transaction. Any delays in entering into new strategic partnership agreements related to our product candidates could also delay the development and commercialization of our product candidates and reduce their competitiveness even if they reach the market.

Key elements of our proprietary suite of drug discovery technologies, known as EnabaLink, including our RAM screening technology, are new approaches to the discovery and development of new drug candidates and may not result in the discovery of any small molecule compounds of commercial value.

We must continue to identify and develop compounds that target the chemokine network and expand our portfolio of drug candidates. Research programs to identify new disease targets and drug candidates require substantial technical, financial and human resources. We have limited resources to study the more than 50 known chemokine ligands, as described in a February 2006 article in the New England Journal of Medicine, and approximately 25 identified chemokine receptors. EnabaLink represents a new approach to the development of new drug candidates (see Business Our Proprietary Drug Discovery Platform, EnabaLink) and we cannot assure you that EnabaLink will result in the discovery of new drug candidates. EnabaLink has only resulted in a limited number of clinical and preclinical stage programs to date, and we may not identify any therapeutic small molecule compounds of commercial value using EnabaLink or other commercially available drug discovery technologies.

If our Reverse Activation of Migration, or RAM, screening technology or any other screening technologies fail to identify highly specific hits that lead to the development of new drug candidates, our business may be

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materially and adversely affected. Our scientists may be unable to optimize the chemical hits identified by our RAM screening technology and develop the identified starting material into a candidate for further development that meets the desired product criteria. Our research and development programs may initially show promise in identifying chemokine receptors and their impact on the body s immune system, yet fail to yield drug candidates that are suitable for preclinical and clinical development. We cannot assure you that our current efforts will be successful or that we will not abandon any of our efforts in the future related to a particular chemokine receptor or small molecule program.

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

Following GSK s exercise of its options for the further development of Traficet-EN and CCX354, it assumed sole manufacturing responsibility for those drug candidates and each of their two respective back-up compounds and we are no longer involved in their manufacture. We currently have limited experience in, and we do not own facilities for, manufacturing our other drug candidates. We rely upon third party contract manufacturing organizations to manufacture and supply larger quantities of these other drug candidates. The manufacture of pharmaceutical products in compliance with cGMPs requires significant expertise and capital investment, including the development of advanced manufacturing techniques and process controls. Manufacturers of pharmaceutical products often encounter difficulties in production, including difficulties with production costs and yields, quality control, including stability of the drug candidate and quality assurance testing, shortages of qualified personnel, as well as compliance with strictly enforced FDA current good manufacturing practice, or cGMP, requirements, other federal and state regulatory requirements, and foreign regulations. If our manufacturers were to encounter any of these difficulties or otherwise fail to comply with their obligations to us or under applicable regulations, our ability to provide study drugs in our preclinical studies and clinical trials would be jeopardized. Any delay or interruption in the supply of preclinical study or clinical trial materials could delay the completion of our preclinical studies and clinical trials, increase the costs associated with maintaining our preclinical study and clinical trial programs and, depending upon the period of delay, require us to commence new trials at significant additional expense or terminate the studies and trials completely.

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

We currently rely on a single source supplier for API for each of our drug candidates, other than Traficet-EN and CCX354 for which the responsibility for supplying the API and drug product has been assumed by GSK. IRIX Pharmaceuticals, Inc., currently manufactures the API for CCX140 and CCX168. Our current agreements with our suppliers do not provide for the entire supply of the API necessary for additional clinical trials or for full-scale commercialization. We have agreements with the University of Iowa Pharmaceuticals to manufacture the drug product for CCX140 and GSK to manufacture the drug product for CCX168. In the event that we and our suppliers cannot agree to the terms and conditions for them to provide some or all of our API clinical and

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commercial supply needs, or if any single source supplier terminates the agreement in response to a breach by us, we would not be able to manufacture the API on a commercial scale until a qualified alternative supplier is identified, which could also delay the development of, and impair our ability to commercialize, drug candidates.

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

We currently have no sales and marketing staff or distribution organization. If we are unable to develop a sales and marketing and distribution capability on our own or through collaborations with GSK or other marketing partners, we will not be successful in commercializing our future products.

We currently have no sales, marketing or distribution capabilities or experience. If our products are approved for sale, we intend to rely on GSK to assist us in the marketing and distribution of our products for which GSK has exercised an option under our agreement, but there can be no assurance it will elect to market and distribute our products or that it will not terminate our collaboration arrangement. If GSK does not exercise its remaining option, we may need to enter into distribution or co-marketing arrangements with other third parties. To the extent we rely on third parties for marketing and distributing our approved products, any revenue we receive will depend upon the efforts of third parties, which may not be successful and are only partially within our control and our product revenue is likely to be lower than if we directly marketed or sold our products. GSK or other future collaborators may fail to develop or effectively commercialize our drug candidates because they cannot obtain necessary regulatory approvals, development or commercialization is not commercially reasonable, they elect to pursue competitive products outside of the collaboration; or for other reasons. If we are unable to enter into arrangements with third parties to commercialize the approved products on acceptable terms or at all, we may not be able to successfully commercialize our future products or we will have to market these products ourselves, which will be expensive and require us to build our own sales force, which we do not have experience doing. For example, we plan to retain commercial rights to CCX140 in North America and intend to build a small specialty sales force calling on nephrologists in North America. In addition, under our collaboration agreement with GSK, we have co-promotion rights with respect to certain drugs, but we do not have experience managing a sales force, selling drugs or marketing drugs. We cannot assure you we will be successful in any of these initiatives. If we are not successful in commercializing our future products, either on our own or through collaborations with GSK or one or more third parties, or co-promoting drugs with GSK, any future product revenue will be materially adversely affected.

We will need to increase the size of our organization, and we may experience difficulties in managing growth.

As of September 30, 2011, we had 64 full-time employees. We will need to continue to expand our managerial, operational, financial and other resources in order to manage our operations and clinical trials, continue our development activities and commercialize our drug candidates. Our management and personnel, systems and facilities currently in place may not be adequate to support this future growth. Our need to effectively execute our growth strategy requires that we:

- manage our clinical trials effectively, including our Phase II clinical trials for CCX140 and CCX168, which are being conducted at numerous trial sites throughout the world;

- manage our internal development efforts effectively while carrying out our contractual obligations to licensors, contractors, collaborators, government agencies and other third parties;

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continue to improve our operational, financial and management controls, reporting systems and procedures; and

identify, recruit, maintain, motivate and integrate additional employees.

We face substantial competition and our competitors may discover, develop or commercialize products faster or more successfully than us.

The biotechnology and pharmaceutical industries are highly competitive, and we face significant competition from companies in the pharmaceutical, biotechnology and other related markets that are researching and marketing products designed to address IBD, chronic kidney disease, including diabetic nephropathy, rheumatoid arthritis, other autoimmune diseases and inflammatory disorders, and cancer. Established pharmaceutical companies that currently sell or are developing drugs in our markets of interest include, for example, Abbott, Amgen, AstraZeneca, Biogen Idec, Bayer, Elan, GSK, Johnson & Johnson, Merck, Merck Serono, Takeda, Novartis, Pfizer, Reata, Sanofi-aventis and Teva. Many or all of these established competitors are also involved in research and drug development regarding various chemokine receptors. Pharmaceutical and biotechnology companies which are known to be involved in chemokine research and related drug development include Pfizer, GSK, Bristol-Myers Squibb, Merck, Takeda, Sanofi-aventis, Incyte, and UCB Pharma among others.

We are developing small molecule therapeutics that will compete with other drugs and alternative therapies that are currently marketed or are being developed to treat IBD, chronic kidney disease and diabetic nephropathy, rheumatoid arthritis, other autoimmune diseases and inflammatory disorders, and cancer. If approved for marketing by the FDA, Traficet-EN, our lead IBD drug candidate, would compete against existing IBD treatments such as Remicade, Humira, and other TNF-a inhibitors, immunomodulatory drugs and corticosteroids and potentially against other novel IBD drug candidates that are currently in development. Similarly, other future drug candidates we are pursuing would compete against numerous existing and established drugs and potentially against other novel drugs and therapies that are currently in development. See Business Competition. We also anticipate that we will face increased competition in the future as new companies enter into our target markets and scientific developments surrounding the chemokine system continue to develop.

Many of our competitors have materially greater name recognition and financial, manufacturing, marketing, research and drug development resources than we do. Additional mergers and acquisitions in the biotechnology and pharmaceutical industries may result in even more resources being concentrated in our competitors. Large pharmaceutical companies in particular have extensive expertise in preclinical and clinical testing and in obtaining regulatory approvals for drugs. In addition, academic institutions, government agencies, and other public and private organizations conducting research may seek patent protection with respect to potentially competitive products or technologies. These organizations may also establish exclusive collaborative or licensing relationships with our competitors.

We may be subject to costly product liability claims related to our clinical trials and drug candidates and, if we are unable to obtain adequate insurance or are required to pay for liabilities resulting from a claim excluded from, or beyond the limits of, our insurance coverage, a material liability claim could adversely affect our financial condition.

Because we conduct clinical trials with human patients, we face the risk that the use of our drug candidates may result in adverse side effects to patients and to otherwise healthy volunteers in our clinical trials. We face even greater risks upon any commercialization of our drug candidates. Although we have product liability insurance for clinical trials for up to $10.0 million, our insurance may be insufficient to reimburse us for any expenses or losses we may suffer, and we will be required to increase our product liability insurance coverage for our advanced clinical trials that we plan to initiate. We do not know whether we will be able to continue to obtain product liability coverage and obtain expanded coverage on acceptable terms, or at all. We may not have sufficient resources to pay for any liabilities resulting from a claim excluded from, or beyond the limits of, our

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insurance coverage. There is also a risk that third parties that we have agreed to indemnify could incur liability. An individual may bring a product liability claim against us if one of our drug candidates or products causes, or is claimed to have caused, an injury or is found to be unsuitable for consumer use. Any product liability claim brought against us, with or without merit, could result in:

- withdrawal of clinical trial volunteers, investigators, patients or trial sites;
- the inability to commercialize our drug candidates;
- decreased demand for our drug candidates;
- regulatory investigations that could require costly recalls or product modifications;
- loss of revenues;
- substantial costs of litigation;
- liabilities that substantially exceed our product liability insurance, which we would then be required to pay ourselves;
- an increase in our product liability insurance rates or the inability to maintain insurance coverage in the future on acceptable terms, if at all;
- the diversion of management s attention from our business; and
- damage to our reputation and the reputation of our products.

Our business involves the use of hazardous materials and we and our third-party manufacturers must comply with environmental laws and regulations, which may be expensive and restrict how we do business.

Our third-party manufacturers activities and our own activities involve the controlled storage, use and disposal of hazardous materials, including the components of our pharmaceutical products, test samples and reagents, biological materials and other hazardous compounds. We and our manufacturers are subject to federal, state and local and foreign laws and regulations governing the use, generation, manufacture, storage, handling and disposal of these hazardous materials. We currently carry no insurance specifically covering environmental claims relating to the use of hazardous materials. Although we believe that our safety procedures for handling and disposing of these materials and waste products comply with the standards prescribed by these laws and regulations, we cannot eliminate the risk of accidental injury or contamination from the use, storage, handling or disposal of hazardous materials. In the event of an accident, state or federal or other applicable authorities may curtail our use of these materials and/or interrupt our business operations. In addition, if an accident or environmental discharge occurs, or if we discover contamination caused by prior operations, including by prior owners and operators of properties we acquire, we could be liable for cleanup obligations, damages and fines. The substantial unexpected costs we may incur could significantly harm our financial condition and results of operations.

Future financings may adversely affect our stockholders or impose restrictions on our assets or operations, which may harm our business.

If we raise additional capital by issuing equity securities or convertible debt securities, then our existing stockholders ownership will be diluted and the terms of any new equity securities may have preferences over our common stock. If we raise additional capital through the issuance of debt securities, the debt will have rights senior to the holders of our common stock and may contain covenants that restrict our operational flexibility or impose liens or other restrictions on our assets. In addition, the terms of future financings may restrict our ability to raise additional capital, which would delay or prevent the further development or commercialization of our drug candidates.

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If we raise additional funds through collaboration, licensing or other similar arrangements, it may be necessary to relinquish potentially valuable rights to our current drug candidates, potential products or proprietary technologies, or grant licenses on terms that are not favorable to us. If adequate funds are not available, our ability to achieve profitability or to respond to competitive pressures would be significantly limited and we may be required to delay, significantly curtail or eliminate the development of one or more of our drug candidates.

We are highly dependent on the services of our founder, President and Chief Executive Officer, Dr. Thomas J. Schall, and if we are not able to retain Dr. Schall or other members of our management or recruit additional management, clinical and scientific personnel, our business will suffer.

We may not be able to attract or retain qualified management and scientific and clinical personnel in the future due to the intense competition for qualified personnel among biotechnology, pharmaceutical and other businesses, particularly in the San Francisco Bay area. Our industry has experienced a high rate of turnover of management personnel in recent years. If we are not able to attract, retain and motivate necessary personnel to accomplish our business objectives, we may experience constraints that will significantly impede the achievement of our development objectives, our ability to raise additional capital and our ability to implement our business strategy.

We are highly dependent on the principal members of our management and scientific staff. The loss of service of any of our management could harm our business. In addition, we are dependent on our continued ability to attract, retain and motivate highly qualified additional management, clinical and scientific personnel. The competition for qualified personnel in the pharmaceutical industry is intense. Due to our limited resources, we may not be able to effectively attract and recruit additional qualified personnel. If we are not able to retain our management, particularly our founder, President and Chief Executive Officer, Dr. Schall, and attract, on acceptable terms, additional qualified personnel necessary for the continued development of our business, we may not be able to sustain our operations or grow. Although we have executed employment agreements with each member of our current executive management team, including Dr. Schall, these agreements are terminable at will with or without notice and, therefore, we may not be able to retain their services as expected. In addition to the competition for personnel, the San Francisco Bay area in particular is characterized by a high cost of living. As such, we could have difficulty attracting experienced personnel to our company and may be required to expend significant financial resources in our employee recruitment and retention efforts.

In addition, we have scientific and clinical advisors who assist us in formulating our product development and clinical strategies. These advisors are not our employees and may have commitments to, or consulting or advisory contracts with, other entities that may limit their availability to us, or may have arrangements with other companies to assist in the development of products that may compete with ours.

Requirements associated with being a public company will increase our costs significantly, as well as divert significant company resources and management attention.

Prior to this offering, we have not been subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or the other rules and regulations of the SEC or any securities exchange relating to public companies. We are working with our legal, independent accounting and financial advisors to identify those areas in which changes should be made to our financial and management control systems to manage our growth and our obligations as a public company. These areas include corporate governance, corporate control, internal audit, disclosure controls and procedures and financial reporting and accounting systems. We have made, and will continue to make, changes in these and other areas. However, the expenses that will be required in order to adequately prepare for being a public company could be material. Compliance with the various reporting and other requirements applicable to public companies will also require considerable time and attention of management. In addition, the changes we make may not be sufficient to allow us to satisfy our obligations as a public company on a timely basis.

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In addition, being a public company could make it more difficult or more costly for us to obtain certain types of insurance, including directors and officers liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers.

If we are not able to implement the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 in a timely manner or with adequate compliance, we may be subject to sanctions by regulatory authorities.

Section 404 of the Sarbanes-Oxley Act of 2002 requires that we evaluate and determine the effectiveness of our internal controls over financial reporting and beginning with our annual report for fiscal 2013 provide a management report on the internal control over financial reporting. If we have a material weakness in our internal controls over financial reporting, we may not detect errors on a timely basis and our consolidated financial statements may be materially misstated. We will be evaluating our internal controls systems to allow management to report on, and our independent auditors to attest to, our internal controls. We will be performing the system and process evaluation and testing (and any necessary remediation) required to comply with the management certification and auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002. We cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or the impact of the same on our operations. If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, we may be subject to sanctions or investigation by regulatory authorities, such as the Securities and Exchange Commission, or SEC, or The Nasdaq Stock Market LLC, or Nasdaq. Any such action could adversely affect our financial results or investors confidence in us and could cause our stock price to fall. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal controls that are deemed to be material weaknesses, we could be subject to sanctions or investigations by Nasdaq, the SEC or other regulatory authorities, which would entail expenditure of additional financial and management resources and could materially adversely affect our stock price.

We may be adversely affected by the current economic environment.

Our ability to attract and retain collaboration partners or customers, invest in and grow our business and meet our financial obligations depends on our operating and financial performance, which, in turn, is subject to numerous factors, including the prevailing economic conditions and financial, business and other factors beyond our control, such as the rate of unemployment, the number of uninsured persons in the United States and inflationary pressures. We cannot anticipate all the ways in which the current economic climate and financial market conditions could adversely impact our business.

We are exposed to risks associated with reduced profitability and the potential financial instability of our collaboration partners or customers, many of which may be adversely affected by volatile conditions in the financial markets. For example, unemployment and underemployment, and the resultant loss of insurance, may decrease the demand for healthcare services and pharmaceuticals. If fewer patients are seeking medical care because they do not have insurance coverage, our collaboration partners or customers may experience reductions in revenues, profitability and/or cash flow that could lead them to reduce their support of our programs or financing activities. If collaboration partners or customers are not successful in generating sufficient revenue or are precluded from securing financing, they may not be able to pay, or may delay payment of, accounts receivable that are owed to us. This, in turn, could adversely affect our financial condition and liquidity. In addition, if economic challenges in the United States result in widespread and prolonged unemployment, either regionally or on a national basis, prior to the effectiveness of certain provisions of the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act, collectively known as the Affordable Care Act, a substantial number of people may become uninsured or underinsured. To the extent economic challenges result in fewer individuals pursuing or being able to afford our products once commercialized, our business, results of operations, financial condition and cash flows could be adversely affected.

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Our internal computer systems, or those of our CROs or other contractors or consultants, may fail or suffer security breaches, which could result in a material disruption of our drug development programs.

Despite the implementation of security measures, our internal computer systems and those of our CROs and other contractors and consultants are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. While we have not experienced any such system failure, accident or security breach to date, if such an event were to occur and cause interruptions in our operations, it could result in a material disruption of our drug development programs. For example, the loss of clinical trial data from completed or ongoing clinical trials for any of our drug candidates could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. To the extent that any disruption or security breach were to result in a loss of or damage to our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur liability and the further development of our drug candidates could be delayed.

Our employees may engage in misconduct or other improper activities, including noncompliance with regulatory standards and requirements.

We are exposed to the risk of employee fraud or other misconduct. Misconduct by employees could include intentional failures to comply with FDA regulations, provide accurate information to the FDA, comply with manufacturing standards we have established, comply with federal and state healthcare fraud and abuse laws and regulations, report financial information or data accurately or disclose unauthorized activities to us. In particular, sales, marketing and business arrangements in the healthcare industry are subject to extensive laws and regulations intended to prevent fraud, kickbacks, self-dealing and other abusive practices. These laws and regulations may restrict or prohibit a wide range of pricing, discounting, marketing and promotion, sales commission, customer incentive programs and other business arrangements. Employee misconduct could also involve the improper use of information obtained in the course of clinical trials, which could result in regulatory sanctions and serious harm to our reputation. It is not always possible to identify and deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business, including the imposition of significant fines or other sanctions.

Our ability to utilize our net operating loss carryforwards and certain other tax attributes may be limited.

Under Section 382 of the Internal Revenue Code, if a corporation undergoes an ownership change (generally defined as a greater than 50% change, by value, in its equity ownership over a three year period), the corporation s ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes to offset its post-change taxable income and taxes may be limited. We previously determined that we had ownership changes that occurred in July 1999 and June 2004, which limit our ability to use our then existing tax attributes. We have not yet determined whether, as a result of our initial public offering and other transactions that have occurred over the past three years, we have experienced or may, upon completion of this offering, experience an additional ownership change. In addition, future changes in our stock ownership, many of the causes of which are outside our control, could result in an ownership change. Any such ownership changes could further limit our ability to use net operating loss carryforwards and other pre-change tax attributes.

Business disruptions could seriously harm our future revenues and financial condition and increase our costs and expenses.

Our operations could be subject to earthquakes, power shortages, telecommunications failures, floods, hurricanes, typhoons, fires, extreme weather conditions, medical epidemics and other natural or manmade disasters or business interruptions. The occurrence of any of these business disruptions could seriously harm our operations and financial condition and increase our costs and expenses. Our corporate headquarters is located in California and certain clinical sites for our drug candidates, operations of our existing and future partners and

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suppliers are or will be located in California near major earthquake faults and fire zones. The ultimate impact on us, our significant partners, suppliers and our general infrastructure of being located near major earthquake faults and fire zones and being consolidated in certain geographical areas is unknown, but our operations and financial condition could suffer in the event of a major earthquake, fire or other natural or manmade disaster.

Risks Related to Intellectual Property

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

Millennium Pharmaceuticals, Inc., or Millennium, has obtained certain U.S. patents which include claims to small molecules that modulate CCR9, compositions thereof, and methods of using them to treat conditions such as IBD. We became aware of Millennium s CCR9-related patent applications during our own routine patent and patent literature review. Millennium, which was acquired by Takeda Pharmaceutical Company Limited, or Takeda, in May 2008 and is currently a wholly owned subsidiary of Takeda, may contend that the claims of these patents cover our patented Traficet-EN drug candidate. We believe that our activities related to Traficet-EN are currently exempt from patent infringement liability because these activities are strictly limited to obtaining information for regulatory approval. However, if and when our Traficet-EN related activities extend beyond those related to seeking regulatory approval, such as, for example, if and when we commercialize Traficet-EN, Millennium might then commence an infringement action against us based on these patents and/or other related patents that it may be granted in the future. If Millennium elects to sue us, we believe that we may have viable defenses to any such infringement suit. However, we cannot assure you that the relevant court would find in our favor with respect to such defenses. Intellectual property litigation and patent litigation in particular, is expensive, complex and lengthy and its outcome is difficult to predict. A court could enter orders that temporarily, preliminarily or permanently enjoin us or our strategic partners from using, selling, offering to sell or importing out current or future drug candidates or could enter an order mandating that we undertake certain remedial activities. During 2005, we did engage in preliminary discussions with Millennium regarding potentially collaborating with respect to CCR9, given that both we and Millennium have patents relating to CCR9. However, these discussions were general in nature and did not progress beyond the preliminary stage. Other than these preliminary discussions, we have not had any conversations or contacts with Millennium relating to CCR9. Under our agreement with GSK, GSK has the right, but not the obligation, to defend against third party patent infringement claims for licensed drugs. If GSK elects to defend against any such claims, it has the sole right to direct the defense of such claims and settle such claims at its own cost and expense. If GSK elects not to defend against such claims, we have the right, but not the obligation, to defend against such claims.

We may also be subject to negative publicity due to litigation. Pending or future patent litigation against us or any strategic partners by Millennium or anyone else may force us or any strategic partners to stop or delay developing, manufacturing or selling potential drug candidates that are claimed to infringe a third party s intellectual property, unless that party grants us or any strategic partners rights to use its intellectual property. If Millennium is able to obtain an injunction and neither we nor our strategic partners are able to obtain a license, both we and our strategic partners would be precluded from the manufacture and sale of Traficet-EN. U.S. patents are entitled to a presumption of validity and the burden of proving invalidity would be heavily weighted against us. Specifically, we would be required to show by clear and convincing evidence that Millennium s patents are invalid. Such decisions on patent validity often favor the patent owner because of the presumption of validity. If we or our strategic partners are unable to show that Millennium s patent is invalid and neither we nor our strategic partners are able to obtain a license from Millennium for the use of their intellectual property at all or on commercially acceptable terms, this would preclude both us and our strategic partners from the manufacture and sale of Traficet-EN or related candidate compounds found to be covered by Millennium s patent claims. If we are able to obtain a license from Millennium, we will be solely responsible for all fees required to be paid to Millennium in connection with such license and GSK will bear no responsibility for such license fees. See Business Intellectual Property.

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

Our proprietary rights may not adequately protect our technologies and drug candidates. If we are unable to protect our drug candidates and our intellectual property rights, it may materially adversely affect our position in the market.

Our commercial success will depend on our ability to obtain patents and maintain adequate protection for our technologies, intellectual property and drug candidates in the United States and other countries. Our patent estate, on a worldwide basis, includes approximately 390 issued or allowed patents and approximately 325 pending patent applications, with claims relating to all of our current clinical stage drug candidates. With respect to our lead drug candidates in the CCR1, CCR2 and CCR9 programs, we have approximately 100 issued or allowed patents worldwide relating to their chemical composition or use thereof. There are approximately 40 patent applications pending for our other clinical stage compounds in the C5aR and ChemR23 programs. We have approximately 180 issued patents relating to other small molecule compounds and approximately 60 issued patents relating to our novel biological discoveries. We also have approximately 50 issued patents relating to our proprietary screening and drug development technologies. We cannot assure you that any of our patent applications will result in issued patents. We will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our proprietary technologies and future products are covered by valid and enforceable patents or are effectively maintained as trade secrets. If third parties disclose or misappropriate our proprietary rights, it may materially and adversely impact our position in the market.

We apply for patents covering both our technologies and drug candidates, as we deem appropriate. However, we may fail to apply for patents on important technologies or drug candidates in a timely fashion, or at all. Our existing patents and any future patents we obtain may not be sufficiently broad to prevent others from using our technologies or from developing competing products and technologies. Moreover, the patent positions of numerous biotechnology and pharmaceutical companies are highly uncertain and involve complex legal and factual questions for which important legal principles remain unresolved. As a result, the validity and enforceability of our patents cannot be predicted with certainty. In addition, we cannot assure you that:

- we were the first to make the inventions covered by each of our issued patents and pending patent applications;
- we were the first to file patent applications for these inventions;
- others will not independently develop similar or alternative technologies or duplicate any of our technologies by inventing around our claims;
- any of our pending patent applications will result in issued patents;
- a third party will not challenge our proprietary rights or that a court will hold that our patents are valid and enforceable;
- any patents issued to us or our collaboration partners will provide us with any competitive advantages, or will not be challenged by third parties;
- we will develop additional proprietary technologies that are patentable; or

the patents of others will not have an adverse effect on our business.

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In addition, there are numerous recent changes to the patent laws and proposed changes to the rules of the U.S. Patent and Trademark Office, or USPTO, which may have a significant impact on our ability to protect our technology and enforce our intellectual property rights. For example, on September 16, 2011, President Obama signed the America Invents Act which codifies several significant changes to the U.S. patent laws, including, among other things, changing from a first to invent to a first inventor to file system, limiting where a patentee may file a patent suit, requiring the apportionment of patent damages, replacing interference proceedings with derivation actions, and creating a post-grant opposition process to challenge patents after they have issued. The effects of these changes are currently unclear as the USPTO must still implement various regulations, the courts have yet to address any of these provisions, and the applicability of the act and new regulations on specific patents discussed herein have not been determined and would need to be reviewed.

We rely upon unpatented trade secrets, unpatented know-how and continuing technological innovation to develop and maintain our competitive position, which we seek to protect, in part, by confidentiality agreements with our employees and our collaborators and consultants. We also have agreements with our employees and selected consultants that obligate them to assign their inventions to us. However, it is possible that technology relevant to our business will be independently developed by a person that is not a party to such an agreement. Furthermore, if the employees and consultants that are parties to these agreements breach or violate the terms of these agreements, we may not have adequate remedies for any such breach or violation, and we could lose our trade secrets through such breaches or violations. Further, our trade secrets could otherwise become known or be independently discovered by our competitors. In addition, intellectual property laws in foreign countries may not protect our intellectual property to the same extent as the laws of the United States.

We may become subject to third parties claims alleging infringement of patents and proprietary rights or seeking to invalidate our patents or proprietary rights, which would be costly, time consuming and, if successfully asserted against us, delay or prevent the development and commercialization of our products.

There has been substantial litigation and other proceedings regarding patent and other intellectual property rights in the pharmaceutical and biotechnology industries. We may be subject to third-party claims in the future against us or our collaborators that would cause us to incur substantial expenses and, if successful against us, could cause us to pay substantial damages, including treble damages and attorney s fees if we are found to be willfully infringing a third party s patents. Further, if a patent infringement suit were brought against us or our collaborators, we or they could be forced to stop or delay research, development, manufacturing or sales of the product or drug candidate that is the subject of the suit. As a result of patent infringement claims, or in order to avoid potential claims, we or our collaborators may choose to seek, or be required to seek, a license from the third party and would most likely be required to pay license fees or royalties or both. These licenses may not be available on acceptable terms, or at all. Even if we or our collaborators were able to obtain a license, the rights may be nonexclusive, which would give our competitors access to the same intellectual property. Ultimately, we could be prevented from commercializing a product, or forced to redesign it, or to cease some aspect of our business operations if, as a result of actual or threatened patent infringement claims, we or our collaborators are unable to enter into licenses on acceptable terms. This could harm our business significantly.

In addition to infringement claims against us, if third parties prepare and file patent applications in the United States that also claim technology to which we have rights, we may have to participate in interference proceedings in the USPTO to determine the priority of invention. We may also become involved in similar opposition proceedings in the European Patent Office regarding our intellectual property rights with respect to our products and technology.

Restrictions on our patent rights relating to our drug candidates may limit our ability to prevent third parties from competing against us.

Our success will depend, in part, on our ability to obtain and maintain patent protection for our drug candidates, preserve our trade secrets, prevent third parties from infringing upon our proprietary rights and operate without infringing upon the proprietary rights of others. Composition-of-matter patents on APIs are

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generally considered to be the strongest form of intellectual property protection for pharmaceutical products as they apply without regard to any method of use. Entirely new individual chemical compounds, often referred to as new chemical entities, are typically entitled to composition-of-matter coverage. However, we cannot be certain that the current law will remain the same, or that our drug candidates will be considered novel and non-obvious by the USPTO and courts.

In addition to composition-of-matter patents and patent applications, we also have filed method-of-use patent applications. This type of patent protects the use of the product only for the specified method. However, this type of patent does not prevent a competitor from making and marketing a product that is identical to our product for an indication that is outside the scope of the patented method. Moreover, even if these competitors do not actively promote their product for our targeted indication, physicians may prescribe these products off-label. Although off-label prescriptions may infringe or contribute to the infringement of method-of-use patents, the practice is common and such infringement is difficult to prevent or prosecute.

Patent applications in the United States and most other countries are confidential for a period of time until they are published, and publication of discoveries in scientific or patent literature typically lags actual discoveries by several months or more. As a result, we cannot be certain that we and the inventors of the issued patents and applications that we may in-license were the first to conceive of the inventions covered by such patents and pending patent applications or that we and those inventors were the first to file patent applications covering such inventions. Also, we have numerous issued patents and some patent applications pending before the USPTO and the patent protection may lapse before we manage to obtain commercial value from them, which might result in increased competition and materially affect our position in the market.

We may be subject to claims that we or our employees or consultants have wrongfully used or disclosed alleged trade secrets of our employees or consultants former employers or their clients. These claims may be costly to defend and if we do not successfully do so, we may be required to pay monetary damages and may lose valuable intellectual property rights or personnel.

Many of our employees were previously employed at universities or biotechnology or pharmaceutical companies, including our competitors or potential competitors. Although no claims against us are currently pending, we may be subject to claims that these employees or we have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. If we fail in defending such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. A loss of key research personnel or their work product could hamper our ability to commercialize, or prevent us from commercializing our drug candidates, which could severely harm our business. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management.

Some of our intellectual property which is discovered through government funded programs is subject to federal regulation such as march-in rights, certain reporting requirements, and a preference for U.S. industry. Compliance with such regulations may limit our exclusive rights, subject us to expenditure of resources with respect to reporting requirements, and limit our ability to contract with foreign manufacturers.

Some of our existing drug candidates, including CCX140, and some of our research and development work were funded, at least in part, by the U.S. government and are therefore subject to certain federal regulations. For example, some of our research and development work on vaccine adjuvants and immunomodulation for biothreat applications was funded by government research grants. In addition, as noted on several of our patents including U.S. Patent Nos. 7,884,110; 7,622,583; 7,776,877; and 7,683,176, inventions covering various CCR9 and CCR2 antagonists were supported at least in part by NIH funding (U19-AI056690-01). Under the march-in provisions of the Bayh-Dole Act, the government may have the right under limited circumstances to require us to grant exclusive, partially exclusive or non-exclusive rights to third parties for intellectual property discovered through the government funded program. The government can exercise its march-in rights if it determines that action is necessary because we fail to achieve practical application of the new invention or because action is necessary to alleviate health or safety needs of the

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public. Intellectual property discovered under the government funded program is also subject to certain reporting requirements, compliance with which may require us to expend substantial resources. Such intellectual property is also subject to a preference for U.S. industry, which may limit our ability to contract with foreign product manufacturers for products covered by such intellectual property. We plan to apply for additional U.S. government funding, and it is possible that we may discover compounds or drug candidates as a result of such funding. Intellectual property under such discoveries would be subject to the applicable provisions of the Bayh-Dole Act.

Risks Related to Government Regulation

The regulatory approval process is expensive, time consuming and uncertain and may prevent us or our collaboration partners from obtaining approvals for the commercialization of some or all of our drug candidates.

The research, testing, manufacturing, labeling, approval, selling, import, export, marketing and distribution of drug products are subject to extensive regulation by the FDA and other regulatory authorities in the United States and other countries, which regulations differ from country to country. Neither we nor our collaboration partners are permitted to market our drug candidates in the United States until we receive approval of an NDA from the FDA. Neither we nor our collaboration partners have submitted an application for or received marketing approval for any of our drug candidates. Obtaining approval of an NDA can be a lengthy, expensive and uncertain process. In addition, failure to comply with FDA and other applicable U.S. and foreign regulatory requirements may subject us to administrative or judicially imposed sanctions, including:

warning letters;

civil and criminal penalties;

injunctions;

withdrawal of approved products;

product seizure or detention;

product recalls;

total or partial suspension of production; and

refusal to approve pending NDAs or supplements to approved NDAs.

Prior to receiving approval to commercialize any of our drug candidates in the United States or abroad, we and our collaboration partners must demonstrate with substantial evidence from well controlled clinical trials, and to the satisfaction of the FDA and other regulatory authorities abroad, that such drug candidates are safe and effective for their intended uses. Results from preclinical studies and clinical trials can be interpreted in different ways. Even if we and our collaboration partners believe the preclinical or clinical data for our drug candidates are promising, such data may not be sufficient to support approval by the FDA and other regulatory authorities. Administering any of our drug candidates to humans may produce undesirable side effects, which could interrupt, delay or halt clinical trials of our drug candidates and result in the FDA or other regulatory authorities denying approval of our drug candidates for any or all targeted indications.

Regulatory approval of an NDA or NDA supplement is not guaranteed, and the approval process is expensive and may take several years. The FDA also has substantial discretion in the approval process. Despite the time and expense exerted, failure can occur at any stage, and we could encounter problems that cause us to abandon or repeat clinical trials, or perform additional preclinical studies and clinical trials. The number of preclinical studies and clinical trials that will be required for FDA approval varies depending on the drug candidate, the disease or condition that

the drug candidate is designed to address, and the regulations applicable to any particular drug candidate. The FDA can delay, limit or deny approval of a drug candidate for many reasons, including, but not limited to, the following:

a drug candidate may not be deemed safe or effective;

FDA officials may not find the data from preclinical studies and clinical trials sufficient;

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the FDA might not approve our or our third party manufacturer s processes or facilities; or

the FDA may change its approval policies or adopt new regulations.

If any of our drug candidates fails to demonstrate safety and efficacy in clinical trials or does not gain regulatory approval, our business and results of operations will be materially and adversely harmed.

Even if we receive regulatory approval for a drug candidate, we will be subject to ongoing regulatory obligations and continued regulatory review, which may result in significant additional expense and subject us to penalties if we fail to comply with applicable regulatory requirements.

Once regulatory approval has been granted, the approved product and its manufacturer are subject to continual review by the FDA and/or non-U.S. regulatory authorities. Any regulatory approval that we or our collaboration partners receive for our drug candidates may be subject to limitations on the indicated uses for which the product may be marketed or contain requirements for potentially costly post-marketing follow-up studies to monitor the safety and efficacy of the product. In addition, if the FDA and/or non-U.S. regulatory authorities approve any of our drug candidates, we will be subject to extensive and ongoing regulatory requirements by the FDA and other regulatory authorities with regard to the labeling, packaging, adverse event reporting, storage, advertising, promotion and recordkeeping for our products. In addition, manufacturers of our drug products are required to comply with current cGMP regulations, which include requirements related to quality control and quality assurance as well as the corresponding maintenance of records and documentation. Further, regulatory authorities must approve these manufacturing facilities before they can be used to manufacture our drug products, and these facilities are subject to continual review and periodic inspections by the FDA and other regulatory authorities for compliance with cGMP regulations. If we or a regulatory authority discovers previously unknown problems with a product, such as adverse events of unanticipated severity or frequency, or problems with the facility where the product is manufactured, a regulatory authority may impose restrictions on that product, the manufacturer or us, including requiring withdrawal of the product from the market or suspension of manufacturing. If we, our drug candidates or the manufacturing facilities for our drug candidates fail to comply with regulatory requirements of the FDA and/or other non-U.S. regulatory authorities, we could be subject to administrative or judicially imposed sanctions, including:

warning letters;

civil or criminal penalties;

injunctions;

suspension of or withdrawal of regulatory approval;

suspension of any ongoing clinical trials;

voluntary or mandatory product recalls and publicity requirements;

refusal to approve pending applications for marketing approval of new drugs or supplements to approved applications filed by us;

restrictions on operations, including costly new manufacturing requirements; or

seizure or detention of our products or import bans.

The regulatory requirements and policies may change and additional government regulations may be enacted for which we may also be required to comply. We cannot predict the likelihood, nature or extent of government regulation that may arise from future legislation or administrative action, either in the United States or in other countries. If we are not able to maintain regulatory compliance, we will not be permitted to market our future products and our business will suffer.

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The availability of adequate third-party coverage and reimbursement for newly approved drugs is uncertain, and failure to obtain adequate coverage and reimbursement from third-party payors could impede our ability to market any future products we may develop and could limit our ability to generate revenue.

There is significant uncertainty related to the third-party payor coverage and reimbursement of newly approved drugs. The commercial success of our future products in both domestic and international markets depends on whether such third-party coverage and reimbursement is available for our future products. Governmental payors, including Medicare and Medicaid, health maintenance organizations and other third-party payors are increasingly attempting to manage their healthcare expenditures by limiting both coverage and the level of reimbursement of new drugs and, as a result, they may not cover or provide adequate reimbursement for our future products. These payors may not view our future products as cost-effective, and coverage and reimbursement may not be available to our customers or may not be sufficient to allow our future products to be marketed on a competitive basis. Third-party payors are exerting increasing influence on decisions regarding the use of, and coverage and reimbursement levels for, particular treatments. Such third-party payors, including Medicare, are challenging the prices charged for medical products and services, and many third-party payors limit or delay coverage and reimbursement for newly approved healthcare products. In particular, third-party payors may limit the covered indications. Cost-control initiatives could cause us to decrease the price we might establish for products, which could result in lower than anticipated product revenues. If the prices for our drug candidates decrease or if governmental and other third-party payors do not provide adequate coverage or reimbursement, our prospects for revenue and profitability will suffer.

Failure to obtain regulatory approvals in foreign jurisdictions will prevent us from marketing our products internationally.

We intend to seek a distribution and marketing partner for CCX140 outside North America and may market future products in international markets. In order to market our future products in the EEA (which is comprised of the 27 Member States of the EU plus Norway, Iceland and Liechtenstein) and many other foreign jurisdictions, we must obtain separate regulatory approvals. More concretely, in the EEA, medicinal products can only be commercialized after obtaining a Marketing Authorization, or MA. There are two types of marketing authorizations:

- The Community MA, which is issued by the European Commission through the Centralized Procedure, based on the opinion of the Committee for Medicinal Products for Human Use of the European Medicines Agency, or EMA, and which is valid throughout the entire territory of the EEA. The Centralized Procedure is mandatory for certain types of products, such as biotechnology medicinal products, orphan medicinal products, and medicinal products indicated for the treatment of AIDS, cancer, neurodegenerative disorders, diabetes, auto-immune and viral diseases. The Centralized Procedure is optional for products containing a new active substance not yet authorized in the EEA, or for products that constitute a significant therapeutic, scientific or technical innovation or which are in the interest of public health in the EU.

- National MAs, which are issued by the competent authorities of the Member States of the EEA and only cover their respective territory, are available for products not falling within the mandatory scope of the Centralized Procedure. Where a product has already been authorized for marketing in a Member State of the EEA, this National MA can be recognized in another Member States through the Mutual Recognition Procedure. If the product has not received a National MA in any Member State at the time of application, it can be approved simultaneously in various Member States through the Decentralized Procedure.

Under the above described procedures, before granting the MA, the EMA or the competent authorities of the Member States of the EEA make an assessment of the risk-benefit balance of the product on the basis of scientific criteria concerning its quality, safety and efficacy.

We have had limited interactions with foreign regulatory authorities, and the approval procedures vary among countries and can involve additional clinical testing, and the time required to obtain approval may differ

from that required to obtain FDA approval. Clinical trials conducted in one country may not be accepted by regulatory authorities in other countries. Approval by the FDA does not ensure approval by regulatory authorities in other countries, and approval by one or more foreign regulatory authorities does not ensure approval by regulatory authorities in other foreign countries or by the FDA. However, a failure or delay in obtaining regulatory approval in one country may have a negative effect on the regulatory process in others. The foreign regulatory approval process may include all of the risks associated with obtaining FDA approval. We may not obtain foreign regulatory approvals on a timely basis, if at all. We may not be able to file for regulatory approvals and even if we file we may not receive necessary approvals to commercialize our products in any market.

Healthcare reform measures could hinder or prevent our drug candidates commercial success.

In the United States, there have been and we expect there will continue to be a number of legislative and regulatory changes to the healthcare system in ways that could affect our future revenues and profitability and the future revenues and profitability of our potential customers. Federal and state lawmakers regularly propose and, at times, enact legislation that would result in significant changes to the healthcare system, some of which are intended to contain or reduce the costs of medical products and services. For example, in March 2010, the President signed one of the most significant healthcare reform measures in decades, the Affordable Care Act. It contains a number of provisions, including those governing enrollment in federal healthcare programs, reimbursement changes and fraud and abuse measures, all of which will impact existing government healthcare programs and will result in the development of new programs. The Affordable Care Act, among other things:

- imposes a non-deductible annual fee on pharmaceutical manufacturers or importers who sell branded prescription drugs, effective 2011;
- increases the minimum level of Medicaid rebates payable by manufacturers of brand-name drugs from 15.1% to 23.1%;
- requires collection of rebates for drugs paid by Medicaid managed care organizations;
- requires manufacturers to participate in a coverage gap discount program, under which they must agree to offer 50% point-of-sale discounts off negotiated prices of applicable brand drugs to eligible beneficiaries during their coverage gap period, as a condition for the manufacturer s outpatient drugs to be covered under Medicare Part D, beginning January 2011; and
- mandates a further shift in the burden of Medicaid payments to the states.

A number of states have challenged the constitutionality of certain provisions of the Affordable Care Act, and many of these challenges are still pending final adjudication in several jurisdictions as well as the United States Supreme Court. Congress has also proposed a number of legislative initiatives, including possible repeal of the Affordable Care Act. At this time, it remains unclear whether there will be any changes made to the Affordable Care Act, whether to certain provisions or its entirety. We cannot assure you that the Affordable Care Act, as currently enacted or as amended in the future, will not adversely affect our business and financial results and we cannot predict how future federal or state legislative or administrative changes relating to healthcare reform will affect our business.

In addition, other legislative changes have been proposed and adopted since the Affordable Care Act was enacted. Most recently, on August 2, 2011, the President signed into law the Budget Control Act of 2011, which, among other things, creates the Joint Select Committee on Deficit Reduction to recommend proposals in spending reductions to Congress. In the event that the Joint Select Committee is unable to achieve a targeted deficit reduction of at least $1.2 trillion for the years 2013 through 2021, or Congress does not act on the committee s recommendation, without amendment, by December 23, 2011, an automatic reduction is triggered. These automatic cuts would be made to several government programs and, with respect to Medicare, would include aggregate reductions to Medicare payments to providers of up to 2% per fiscal year, starting in 2013. More recently, on September 19, 2011, President Obama presented his Plan for Economic Growth and Deficit Reduction to the Joint Select Committee, which includes $248 billion in Medicare savings ($240 billion of which comes from reducing and collecting Medicare payments incorrectly paid) and $72 billion in Medicaid

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savings. Beginning in 2017, the President s proposal also shifts more of the Medicare costs to newly enrolled beneficiaries, including an increase in patient deductibles under Medicare Part B for certain beneficiaries, and increases Part B and Part D premiums for higher-income beneficiaries.

There likely will continue to be legislative and regulatory proposals at the federal and state levels directed at containing or lowering the cost of health care. We cannot predict the initiatives that may be adopted in the future or their full impact. The continuing efforts of the government, insurance companies, managed care organizations and other payors of healthcare services to contain or reduce costs of health care may adversely affect:

- our ability to set a price we believe is fair for our products;
- our ability to generate revenues and achieve or maintain profitability; and
- the availability of capital.

A number of states have challenged the constitutionality of certain provisions of the Affordable Care Act, and many of these challenges are still pending final adjudication in several jurisdictions. Congress has also proposed a number of legislative initiatives, including possible repeal of the Affordable Care Act. At this time, it remains unclear whether there will be any changes made to the Affordable Care Act, whether to certain provisions or its entirety. We cannot assure you that the Affordable Care Act, as currently enacted or as amended in the future, will not adversely affect our business and financial results.

Further, changes in regulatory requirements and guidance may occur and we may need to amend clinical trial protocols to reflect these changes. Amendments may require us to resubmit our clinical trial protocols to IRBs for reexamination, which may impact the costs, timing or successful completion of a clinical trial. In light of widely publicized events concerning the safety risk of certain drug products, regulatory authorities, members of Congress, the Governmental Accounting Office, medical professionals and the general public have raised concerns about potential drug safety issues. These events have resulted in the withdrawal of drug products, revisions to drug labeling that further limit use of the drug products and establishment of risk management programs that may, for instance, restrict distribution of drug products. The increased attention to drug safety issues may result in a more cautious approach by the FDA to clinical trials and the drug approval process. Data from clinical trials may receive greater scrutiny with respect to safety, which may make the FDA or other regulatory authorities more likely to terminate clinical trials before completion, or require longer or additional clinical trials that may result in substantial additional expense and a delay or failure in obtaining approval or approval for a more limited indication than originally sought.

Heightened Congressional scrutiny on the adequacy of the FDA s drug approval process and the agency s efforts to assure the safety of marketed drugs resulted in the enactment of legislation addressing drug safety issues, the FDA Amendments Act of 2007. This legislation provided the FDA with expanded authority over drug products after approval, and the FDA s exercise of this authority has resulted in delays or increased costs during the period of product development, clinical trials and regulatory review and approval, and increased costs to assure compliance with new post-approval regulatory requirements. Given the serious public health risks of high profile adverse safety events with certain drug products, the FDA may require, as a condition of approval, costly risk management programs which may include safety surveillance, restricted distribution and use, patient education, enhanced labeling, special packaging or labeling, expedited reporting of certain adverse events, preapproval of promotional materials and restrictions on direct-to-consumer advertising.

If we fail to comply with healthcare regulations, we could face substantial penalties and our business, operations and financial condition could be adversely affected.

Even though we do not and will not control referrals of healthcare services or bill directly to Medicare, Medicaid or other third-party payors, certain federal and state healthcare laws and regulations pertaining to fraud and abuse and patients rights are and will be applicable to our business. We could be subject to healthcare fraud and abuse and patient privacy regulation by both the federal government and the states in which we conduct our business. The regulations that may affect our ability to operate include, without limitation:

the federal healthcare program Anti-Kickback Statute, which prohibits, among other things, any person from knowingly and willfully offering, soliciting, receiving or providing remuneration, directly or

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indirectly, to induce either the referral of an individual, for an item or service or the purchasing or ordering of a good or service, for which payment may be made under federal healthcare programs such as the Medicare and Medicaid programs;

the federal False Claims Act, which prohibits, among other things, individuals or entities from knowingly presenting, or causing to be presented, false claims, or knowingly using false statements, to obtain payment from the federal government, and which may apply to entities like us which provide coding and billing advice to customers;

federal criminal laws that prohibit executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters;

the federal Health Insurance Portability and Accountability Act of 1996, as amended by the Health Information Technology for Economic and Clinical Health Act, which governs the conduct of certain electronic healthcare transactions and protects the security and privacy of protected health information; and

state law equivalents of each of the above federal laws, such as anti-kickback and false claims laws which may apply to items or services reimbursed by any third-party payor, including commercial insurers.

The recently enacted Affordable Care Act, among other things, amends the intent requirement of the Federal Anti-Kickback Statute and criminal healthcare fraud statutes. A person or entity no longer needs to have actual knowledge of this statute or specific intent to violate it. In addition, the Affordable Care Act provides that the government may assert that a claim including items or services resulting from a violation of the Federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the False Claims Act.

If our operations are found to be in violation of any of the laws described above or any other governmental regulations that apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines and the curtailment or restructuring of our operations. Any penalties, damages, fines, curtailment or restructuring of our operations could adversely affect our ability to operate our business and our financial results. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management s attention from the operation of our business. Moreover, achieving and sustaining compliance with applicable federal and state privacy, security and fraud laws may prove costly.

Risks Related To This Offering

The price of our common stock may be volatile, and you may not be able to resell your shares at or above the initial public offering price.

The initial public offering price for the shares of our common stock sold in this offering has been determined by negotiation between the underwriters and us. This price may not reflect the market price of our common stock following this offering. Prior to this offering, there has been no public market for our common stock. An active and liquid trading market for our common stock may not develop or be sustained after this offering. You may be unable to sell your shares of common stock at or above the initial public offering price due to fluctuations in the market price of our common stock. Factors that could cause volatility in the market price of our common stock include, but are not limited to:

results from, and any delays in, clinical trial programs relating to our drug candidates, including the ongoing and planned clinical trials for Traficet-EN, CCX140, CCX354, CCX168 and other drug candidates;

announcements of regulatory approvals or disapprovals of our drug candidates, including Traficet-EN and CCX140, or delays in any regulatory agency review or approval processes;

failure or discontinuation of any of our research programs;

announcements relating to future collaborations or our existing collaboration with GSK;

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general economic conditions in the United States and abroad;

acquisitions and sales of new products, technologies or business;

delays in the commercialization of any of our drug candidates;

market conditions in the pharmaceutical, biopharmaceutical and biotechnology sectors;

the issuance of new or changed securities analysts reports or recommendations regarding us, our competitors or our industry in general;

actual and anticipated fluctuations in our quarterly operating results;

disputes concerning our intellectual property or other proprietary rights;

introduction of technological innovations or new products by us or our competitors;

manufacturing issues related to our drug candidates for clinical trials or future products for commercialization;

market acceptance of our future products;

deviations in our operating results from the estimates of analysts, or other analyst comments;

third party payor coverage and reimbursement policies;

new legislation in the United States relating to the sale or pricing of pharmaceuticals;

FDA or other U.S. or foreign regulatory actions affecting us or our industry;

product liability claims or other litigation or public concern about the safety of our drug candidates or future drugs;

our ability to obtain necessary intellectual property licenses including, if necessary, those relating to Traficet-EN and other CCR9 drug candidates;

the outcome of any future legal actions to which we are party;

sales of our common stock by our officers, directors or significant stockholders;

additions or departures of key personnel; and

external factors, including natural disasters and other crises.

In addition, the stock markets in general, and the markets for pharmaceutical, biopharmaceutical and biotechnology stocks in particular, have experienced extreme volatility that have been often unrelated to the operating performance of the issuer. These broad market fluctuations may adversely affect the trading price or liquidity of our common stock. In the past, when the market price of a stock has been volatile, holders of that stock have sometimes instituted securities class action litigation against the issuer. If any of our stockholders were to bring such a lawsuit against us, we could incur substantial costs defending the lawsuit and the attention of our management would be diverted from the operation of our business.

The ownership of our common stock will continue to be highly concentrated, and these stockholders could delay or prevent a change of control.

After this offering and the concurrent private placements to GSK and Techne and the automatic conversion of the convertible note held by Techne, our officers and directors, together with holders of 5% or more of our outstanding common stock and their respective affiliates, will beneficially own approximately 75% of our common stock (assuming no exercise of the underwriters over-allotment option). Accordingly, these stockholders, acting as a group, will continue to have significant influence over the outcome of corporate actions requiring stockholder approval, including the election of directors, any merger, consolidation or sale of all or substantially all of our assets or any other significant corporate transaction. The interests of these stockholders

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may not be the same as or may even conflict with your interests. For example, these stockholders could delay or prevent a change of control of our company, even if such a change of control would benefit our other stockholders, which could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company or our assets and might affect the prevailing market price of our common stock. The significant concentration of stock ownership may adversely affect the trading price of our common stock due to investors perception that conflicts of interest may exist or arise.

Future sales of our common stock or securities convertible or exchangeable for our common stock may depress our stock price.

If our existing stockholders or holders of our convertible notes, options or warrants sell, or indicate an intention to sell, substantial amounts of our common stock in the public market after the lock-up and legal restrictions on resale discussed in this prospectus lapse, the trading price of our common stock could decline. The perception in the market that these sales may occur could also cause the trading price of our common stock to decline. Based on shares of common stock outstanding as of September 30, 2011, upon (1) the completion of this offering, (2) the conversion of all of our preferred stock into 24,332,186 shares of common stock prior to the completion of this offering, (3) the concurrent private placements to GSK and Techne of $7.0 million and $5.0 million of our common stock, respectively, and (4) the automatic conversion of the convertible note held by Techne at a conversion price equal to the initial public offering price, in each case at an assumed initial public offering price of $10.00 per share, we will have outstanding a total of 35,254,914 shares of common stock, assuming no exercise of the underwriters overallotment option. Of these shares, only the shares of common stock sold by us in this offering, plus any shares sold upon exercise of the underwriters overallotment option will be freely tradable, without restriction, in the public market immediately following this offering. Our underwriters may, however, in their sole discretion, permit our officers, directors and other stockholders and the holders of our outstanding options and warrants who are subject to these lock-up agreements to sell shares prior to the expiration of the lock-up agreements.

We expect that the lock-up agreements pertaining to this offering will expire 180 days from the date of this prospectus (subject to extension upon the occurrence of specified events). After the lock-up agreements expire, up to an additional 30,754,914 shares of common stock, and up to approximately 309,500 shares of common stock issuable upon exercise of our outstanding warrants, including warrants to purchase up to 150,000 shares of our common stock that will be issued to Techne upon completion of this offering, will be eligible for sale in the public market, subject to volume limitations under Rule 144 under the Securities Act of 1933, as amended, or the Securities Act, with respect to shares held by directors, executive officers and other affiliates. In addition, shares of common stock that are either subject to outstanding options or reserved for future issuance under our employee benefit plans will become eligible for sale in the public market to the extent permitted by the provisions of various vesting schedules, the lock-up agreements and Rule 144 and Rule 701 under the Securities Act and, in any event, we plan to file a registration statement permitting shares of common stock issued on exercise of options to be freely sold in the public market. If these additional shares of common stock are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common stock could decline.

Certain holders of shares of our common stock, warrants to purchase our capital stock and the shares of common stock issuable upon exercise of those warrants will be entitled to rights with respect to the registration of their shares under the Securities Act, subject to the lock-up agreements described above. See Description of Capital Stock Registration Rights. Registration of these shares under the Securities Act would result in the shares becoming freely tradable without restriction under the Securities Act, except for shares purchased by affiliates. In addition, after the lock-up agreements described above expire, our directors may and we expect that our executive officers will establish programmed selling plans under Rule 10b5-1 of the Exchange Act, for the purpose of effecting sales of our common stock. Any sales of securities by these stockholders, or the perception that those sales may occur, including the entry into such programmed selling plans, could have a material adverse effect on the trading price of our common stock.

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If there is no viable public market for our common stock, you may not be able to sell your shares at or above the initial public offering price.

Prior to this offering, there has been no public market for our common stock, and there can be no assurance that a regular trading market will develop and continue after this offering or that the market price of our common stock will not decline below the initial public offering price. The initial public offering price was determined through negotiations between us and the underwriters and may not be indicative of the market price of our common stock following this offering. Among the factors considered in such negotiations were prevailing market conditions, certain of our financial information, market valuations of other companies that we and the underwriters believe to be comparable to us, estimates of our business potential, the present state of our development and other factors deemed relevant. See Underwriting for additional information.

Investors in this offering will suffer immediate and substantial dilution of their investment.

If you purchase common stock in this offering, you will pay more for your shares than our pro forma as adjusted net tangible book value per share. Based upon an assumed initial public offering price of $10.00 per share, you will incur immediate and substantial dilution of $6.64 per share, representing the difference between our assumed initial public offering price and our pro forma as adjusted net tangible book value per share. Based upon an assumed initial public offering price of $10.00 per share, purchasers of common stock in this offering will have contributed approximately 19.3% of the aggregate purchase price paid by all purchasers of our stock but will own only approximately 12.8% of our common stock outstanding after this offering. In addition, if you choose to invest in our common stock, you will pay a price per share that substantially exceeds the value of our assets after subtracting our liabilities. As of September 30, 2011, we had options outstanding under our equity compensation plans to purchase an aggregate of 4,172,318 shares of common stock at a weighted-average exercise price of $4.72 per share and had warrants outstanding to purchase an aggregate of 159,500 shares of our preferred stock at an exercise price of $5.20 per share. To the extent these outstanding options or warrants are exercised, you will incur further dilution.

If we sell shares of our common stock in future financings, common stockholders may experience immediate dilution and, as a result, our stock price may decline.

We may from time to time issue additional shares of common stock at a discount from the current trading price of our common stock. As a result, our common stockholders would experience immediate dilution upon the purchase of any shares of our common stock sold at such discount. In addition, as opportunities present themselves, we may enter into financing or similar arrangements in the future, including the issuance of debt securities, preferred stock or common stock. For example, upon completion of this offering, we will issue Techne a warrant with a ten-year term to purchase up to 150,000 shares of our common stock at an exercise per share equal to 200% of the initial public offering price of a share of our common stock and such warrant, if exercised, would likely be exercised at a time when the exercise price of such warrant represented a discount to the trading price of our common stock. If we issue common stock or securities convertible into common stock, our common stockholders would experience additional dilution and, as a result, our stock price may decline.

Our quarterly operating results may fluctuate significantly or may fall below the expectations of investors or securities analysts, each of which may cause our stock price to fluctuate or decline.

We expect our operating results to be subject to quarterly fluctuations. Our net loss and other operating results will be affected by numerous factors, including:

- variations in the level of expenses related to our drug candidates or future development programs;
- if any of our drug candidates receives regulatory approval, the level of underlying demand for these drug candidates and wholesalers buying patterns.

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addition or termination of clinical trials or funding support;

our execution of any collaborative, licensing or similar arrangements, and the timing of payments we may make or receive under these arrangements;

any intellectual property infringement lawsuit in which we may become involved;

regulatory developments affecting our drug candidates or those of our competitors;

ability to secure new government contracts and allocation of our resources to or away from performing work under government contracts; and

If our quarterly operating results fall below the expectations of investors or securities analysts, the price of our common stock could decline substantially. Furthermore, any quarterly fluctuations in our operating results may, in turn, cause the price of our stock to fluctuate substantially. We believe that quarterly comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of our future performance.

We will have broad discretion in the use of the net proceeds of this offering and the concurrent private placements to GSK and Techne and may not use them effectively.

Our management will have broad discretion over the use of the net proceeds from this offering and the concurrent private placements to GSK and Techne. Because of the number and variability of factors that will determine our use of such proceeds, you may not agree with how we allocate or spend the proceeds from this offering and the concurrent private placements. We may pursue collaborations or clinical trials that do not result in an increase in the market value of our common shares and that may increase our losses. Our failure to allocate and spend the net proceeds from this offering and the concurrent private placements effectively would have a material adverse effect on our financial condition and business. Until the net proceeds are used, they may be placed in investments that do not produce significant investment returns or that may lose value.

Provisions of our charter documents or Delaware law could delay or prevent an acquisition of our company, even if the acquisition would be beneficial to our stockholders, and could make it more difficult for you to change management.

Provisions of our amended and restated certificate of incorporation and amended and restated bylaws may discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including transactions in which stockholders might otherwise receive a premium for their shares. In addition, these provisions may frustrate or prevent any attempt by our stockholders to replace or remove our current management by making it more difficult to replace or remove our board of directors. These provisions include:

a classified board of directors so that not all directors are elected at one time;

a prohibition on stockholder action through written consent;

a requirement that special meetings of stockholders be called only by the chairman of the board of directors, the chief executive officer, the president or by the board of directors;

limitation of our stockholders entitled to call special meetings of stockholders;

an advance notice requirement for stockholder proposals and nominations;

the authority of our board of directors to issue preferred stock with such terms as our board of directors may determine; and

a requirement of approval of not less than 66 2/3% of all outstanding shares of our capital stock entitled to vote to amend any bylaws by stockholder action, or to amend specific provisions of our certificate of incorporation.

In addition, Delaware law prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder, generally a person who, together with its affiliates, owns or within the

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last three years has owned 15% of our voting stock, for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. Accordingly, Delaware law may discourage, delay or prevent a change in control of our company.

Provisions in our charter and other provisions of Delaware law could limit the price that investors are willing to pay in the future for shares of our common stock.

Our employment agreements with our named executive officers may require us to pay severance benefits to any of those persons who are terminated in connection with a change of control of us, which could harm our financial condition or results.

Our named executive officers are parties to employment agreements providing for aggregate cash payments of up to approximately $3.8 million for severance and other benefits and acceleration of vesting of stock options with a value of approximately $3.2 million (as of December 31, 2011) in the event of a termination of employment in connection with a change of control of us. The accelerated vesting of options could result in dilution to our existing stockholders and harm the market price of our common stock. The payment of these severance benefits could harm our financial condition and results. In addition, these potential severance payments may discourage or prevent third parties from seeking a business combination with us.

We do not anticipate paying any cash dividends on our capital stock in the foreseeable future, therefore capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future.

We have never declared or paid cash dividends on our capital stock. We do not anticipate paying any cash dividends on our capital stock in the foreseeable future. We currently intend to retain all available funds and any future earnings to fund the development and growth of our business. In addition, our ability to pay cash dividends is currently prohibited by our loan and security agreement with Silicon Valley Bank, and any future debt financing arrangement may contain terms prohibiting or limiting the amount of dividends that may be declared or paid on our common stock. As a result, capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future.

If securities or industry analysts do not publish research, or publish inaccurate or unfavorable research, about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend, in part, on the research and reports that securities or industry analysts publish about us or our business. Securities and industry analysts do not currently, and may never, publish research on our company. If no securities or industry analysts commence coverage of our company, the trading price for our stock would likely be negatively impacted. In the event securities or industry analysts initiate coverage, if one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. In addition, if our operating results fail to meet the forecast of analysts, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve risks and uncertainties. All statements other than statements of historical facts contained in this prospectus are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as may, could, will, would, should, expect, plan, anticipate, believe, estimate, intend, predict, seek, contemplate 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 license option;
- 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 use of proceeds from this offering and the concurrent private placements to GSK and Techne;
- 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 listed under Risk Factors and elsewhere in this prospectus.

Any forward-looking statement in this prospectus 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. 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.

This prospectus also contains estimates, projections and other information concerning our industry, our business, and the markets for certain drugs, including data regarding the estimated size of those markets, their projected growth rates, the incidence of certain medical conditions, statements that certain drugs, classes of drugs or dosages are the most widely prescribed in the United States or other markets, the perceptions and preferences of patients and physicians regarding certain therapies and other prescription, prescriber and patient data, as well as data regarding market research, estimates and forecasts prepared by our management. Information that is based on estimates, forecasts, projections, market research or similar methodologies is inherently subject to uncertainties and actual events or circumstances may differ materially from events and circumstances reflected in this information. Unless otherwise expressly stated, we obtained this industry, business, market and other data from reports, research surveys, studies and similar data prepared by market research firms and other third parties, industry, medical and general publications, government data and similar sources. In particular, unless otherwise specified, all prescription, prescriber and patient data in this prospectus is from Datamonitor. In some cases, we do not expressly refer to the sources from which this data is derived. In that regard, when we refer to one or more sources of this type of data in any paragraph, you should assume that other data of this type appearing in the same paragraph is derived from the same sources, unless otherwise expressly stated or the context otherwise requires.

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USE OF PROCEEDS

We estimate that the net proceeds from the sale of 4,500,000 shares of common stock in this offering will be approximately $39.4 million at an assumed initial public offering price of $10.00 per share, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. We will also receive $7.0 million from the sale of shares of common stock in the concurrent private placement to GSK and $5.0 million from the sale of shares of common stock in the concurrent private placement to Techne, each at a price per share equal to the initial public offering price. If the underwriters exercise their over-allotment option in full, we estimate that the net proceeds will be approximately $45.6 million after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. Each $1.00 increase or decrease in the assumed initial public offering price of $10.00 would increase or decrease, respectively, our net proceeds by $4.2 million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

We currently expect to use our net proceeds from this offering, together with the proceeds from the sale of our concurrent private placements to GSK and Techne as follows:

- Approximately $25.0 million to further develop CCX140, including the completion of the two Phase II clinical trials in diabetic nephropathy and additional Phase I clinical trials and related activities in anticipation of conducting end-of-Phase II meetings with the FDA and EMA;

- Approximately $10.0 million to advance CCX168 and CCX662 through Phase II clinical proof-of-concept and to further explore our ChemR23 program, including the possible optimization of ChemR23 antagonist leads;

- Approximately $10.0 million to fund our research and drug discovery activities related to additional drug candidates; and

- The remainder for working capital and general corporate purposes, including hiring of additional personnel and expenses associated with being a public company.

However, due to the uncertainties inherent in the product development process, it is difficult to estimate with certainty the exact amounts of the net proceeds from this offering and the concurrent private placements to GSK and Techne that may be used for the above purposes. Our management will have broad discretion over the use of the net proceeds from this offering and the concurrent private placements. The amounts and timing of our expenditures will depend upon numerous factors including the results of our research and development efforts, the timing and success of preclinical studies and any ongoing clinical trials or clinical trials we may commence in the future, the timing of regulatory submissions and the amount of cash, if any, generated by our collaboration agreement.

Pending the use of the proceeds from this offering and the concurrent private placement, we intend to invest the net proceeds in short-term, interest-bearing, investment-grade securities, certificates of deposit or government securities.

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DIVIDEND POLICY

We have never declared or paid cash dividends on our capital stock. We intend to retain all available funds and any future earnings, if any, to fund the development and expansion of our business and we do not anticipate paying any cash dividends in the foreseeable future. In addition, unless waived, the terms of our credit facility with Silicon Valley Bank prohibit us from paying cash dividends. Any future determination related to dividend policy will be made at the discretion of our board of directors.

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CAPITALIZATION

The following table sets forth our cash, cash equivalents and investments and capitalization as of September 30, 2011:

- on an actual basis;
- on a pro forma basis to reflect (1) conversion of all outstanding shares of our preferred stock into an aggregate of 24,332,186 shares of common stock prior to the completion of this offering, and (2) the automatic conversion of the convertible note held by Techne at a conversion price equal to the initial public offering price, in each case at an assumed initial public offering price of $10.00 per share; and
- on a pro forma as adjusted basis to additionally reflect (1) the concurrent private placements to GSK and Techne of $7.0 million and $5.0 million of our common stock, respectively, and (2) the issuance and sale by us of 4,500,000 shares of our common stock in this offering, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, at an assumed initial public offering price of $10.00 per share.

You should read this information together with our audited financial statements and related notes appearing elsewhere in this prospectus and the information set forth under the heading Selected Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations.

	As of September 30, 2011		
	Actual	Pro Forma (unaudited)	Pro Forma As Adjusted[1]
	(in thousands, except share and per share data)		
Cash, cash equivalents and investments[2]	$ 81,182	$ 81,182	$ 132,532
Equipment financing obligations	$ 1,581	$ 1,581	$ 1,581
Convertible note from related party	10,060		
Convertible preferred stock, $0.001 par value; 48,989,914 shares authorized, 48,664,392 shares issued and outstanding, actual; no shares authorized, issued and outstanding, pro forma and pro forma as adjusted	49		
Common stock, $0.001 par value; 68,000,000 shares authorized, 4,219,715 shares issued and outstanding, actual; 200,000,000 shares authorized, 29,554,914 shares issued and outstanding, pro forma; 35,254,914 shares issued and outstanding, pro forma as adjusted	4	30	35
Preferred stock, $0.001 par value; no shares issued and outstanding, actual; 10,000,000 shares authorized, no shares issued and outstanding, pro forma and pro forma as adjusted			
Additional paid-in capital	169,489	179,572	230,917
Employee note receivable	(16)	(16)	(16)
Accumulated other comprehensive income (loss)	(41)	(41)	(41)
Accumulated deficit	(112,530)	(112,530)	(112,530)
Total stockholders equity	56,955	67,015	118,365
Total capitalization	$ 68,596	$ 68,596	$ 119,946

(1) Each $1.00 increase or decrease in the assumed initial public offering price of $10.00 would increase or decrease, respectively, the amount of cash, cash equivalents and investments, additional paid-in capital and total capitalization by $4.2 million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the underwriting discount and estimated offering expenses payable by us.

(2) Subsequent to September 30, 2011, we received a $25.0 million option exercise payment under our strategic alliance with GSK with respect to CCX354.

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The actual and pro forma as adjusted outstanding shares information in the table above excludes the following:

- 4,172,318 shares of common stock issuable upon the exercise of outstanding stock options having a weighted-average exercise price of $4.72 per share;
- 159,500 shares of common stock issuable upon the exercise of outstanding warrants having an exercise price of $5.20 per share;
- 59,009 shares of common stock reserved for issuance pursuant to future option grants under our 2002 Equity Incentive Plan and our 1997 Stock Option/Stock Issuance Plan;
- 150,000 shares of common stock issuable upon the exercise of warrants, with an exercise price per share equal to 200% of the initial public offering price of our common stock, which warrants will be issued to Techne upon the completion of this offering.
- 3,000,000 shares of common stock reserved for issuance pursuant to future option grants under our 2012 Equity Incentive Award Plan;
- 300,000 shares of common stock reserved for issuance under our 2012 Employee Stock Purchase Plan; and
- the issuance of an additional 18,477 shares of our common stock upon the automatic conversion of the convertible note held by Techne, assuming a conversion date of February 13, 2012, at a conversion price equal to the assumed initial public offering price of $10.00 per share.

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DILUTION

If you invest in our common stock, your interest will be diluted to the extent of the difference between the initial public offering price per share of our common stock in this offering and the pro forma as adjusted net tangible book value per share of our common stock after this offering. As of September 30, 2011, we had a historical net tangible book value of $57.0 million, or $1.99 per share of common stock, taking into account the expected conversion of our outstanding preferred stock into common stock prior to the completion of this offering. Without giving effect to the conversion of our outstanding preferred stock into common stock, we had a historical net tangible book value of $57.0 million, or $13.50 per share of common stock, as of September 30, 2011. Historical net tangible book value per share is equal to our total tangible assets, less total liabilities, divided by the number of outstanding shares of our common stock. Investors participating in this offering will incur immediate and substantial dilution. After giving effect to (1) the conversion of all of our preferred stock into 24,332,186 shares of common stock prior to the completion of this offering, (2) the sale of 4,500,000 shares of common stock in this offering, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, (3) the concurrent private placements to GSK and Techne of $7.0 million and $5.0 million of our common stock, respectively, and (4) the automatic conversion of the convertible note held by Techne at a conversion price equal to the initial public offering price, in each case at an assumed initial public offering price of $10.00 per share, our pro forma as adjusted net tangible book value as of September 30, 2011 was approximately $118.4 million, or approximately $3.36 per share of common stock. This represents an immediate increase in pro forma as adjusted net tangible book value of $0.79 per share to our existing stockholders and an immediate dilution of $6.64 per share to investors participating in this offering. The following table illustrates this per share dilution:

Assumed initial public offering price per share		$ 10.00
Historical net tangible book value per share as of September 30, 2011 assuming the conversion of the preferred stock into common stock	$ 1.99	
Pro forma increase in net tangible book value per share attributable to pro forma transactions described in the preceding paragraph other than the offering	0.58	
Pro forma net tangible book value per share as of September 30, 2011	$ 2.57	
Pro forma increase in net tangible book value per share attributable to new investors	0.79	
Pro forma as adjusted net tangible book value per share after this offering		3.36
Dilution per share to new investors participating in this offering		$ 6.64

Each $1.00 increase or decrease in the assumed initial public offering price of $10.00 per share would increase or decrease, respectively, our pro forma as adjusted net tangible book value by approximately $4.2 million, the pro forma as adjusted net tangible book value per share by approximately $0.12 per share and the dilution to investors purchasing shares in this offering by approximately $0.12 per share, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

The following table summarizes, on a pro forma as adjusted basis as of September 30, 2011, the differences between the number of shares of common stock purchased from us, the total consideration and the average price per share paid by existing stockholders (giving effect to each of the pro forma transactions described in the first paragraph of this section other than the offering) and by investors participating in this offering, after deducting estimated underwriting discounts and commissions and estimated offering expenses, at an assumed initial public offering price of $10.00 per share.

	Shares Purchased		Total Consideration		Average Price
	Number	Percent	Amount	Percent	Per Share
Existing stockholders	30,754,914	87.2%	$ 188,495,547	80.7%	$ 6.13
Investors participating in this offering	4,500,000	12.8	45,000,000	19.3	10.00
Total	35,254,914	100.0%	$ 233,495,547	100.0%	

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The number of shares of common stock to be outstanding after this offering and the concurrent private placements to GSK and Techne is based on the number of shares outstanding as of September 30, 2011 and excludes the following:

- 4,172,318 shares of common stock issuable upon the exercise of outstanding stock options having a weighted-average exercise price of $4.72 per share;
- 159,500 shares of common stock issuable upon the exercise of outstanding warrants having an exercise price of $5.20 per share;
- 59,009 shares of common stock reserved for issuance pursuant to future option grants under our 2002 Equity Incentive Plan and our 1997 Stock Option/Stock Issuance Plan;
- 150,000 shares of common stock issuable upon the exercise of warrants, with an exercise price per share equal to 200% of the initial public offering price of our common stock, which warrants will be issued to Techne upon the completion of this offering.
- 3,000,000 shares of common stock reserved for issuance pursuant to future option grants under our 2012 Equity Incentive Award Plan;
- 300,000 shares of common stock reserved for issuance under our 2012 Employee Stock Purchase Plan; and
- the issuance of an additional 18,477 shares of our common stock upon the automatic conversion of the convertible note held by Techne, assuming a conversion date of February 13, 2012, at a conversion price equal to the assumed initial public offering price of $10.00 per share.

If the underwriters exercise their over-allotment option in full, pro forma as adjusted net tangible book value as of September 30, 2011 will increase to $124.6 million, or $3.47 per share, representing an increase to existing stockholders of $1.48 per share, and there will be an immediate dilution of an additional $6.53 per share to new investors.

Furthermore, we may choose to raise additional capital through the sale of equity or convertible debt securities due to market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans. New investors will experience further dilution if any of our outstanding options or warrants are exercised, new options are issued and exercised under our equity incentive plans or we issue additional shares of common stock, other equity securities or convertible debt securities in the future.

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SELECTED FINANCIAL DATA

The selected consolidated statement of operations data for the years ended December 31, 2006 and 2007 and the consolidated balance sheet data as of December 31, 2006, 2007 and 2008 are derived from our audited financial statements not included in this prospectus. We derived the consolidated statement of operations data for the years ended December 31, 2008, 2009 and 2010 and the consolidated balance sheet data as of December 31, 2009 and 2010 from our audited financial statements appearing elsewhere in this prospectus.

The consolidated statement of operations data for the nine months ended September 30, 2010 and 2011 and the selected consolidated balance sheet data as of September 30, 2011, have been derived from our unaudited consolidated financial statements appearing elsewhere in this prospectus. The unaudited interim consolidated financial information has been prepared on the same basis as the annual consolidated financial information and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly our consolidated financial position as of September 30, 2011 and the consolidated results of operations for the nine months ended September 30, 2010 and 2011. Interim results are not necessarily indicative of results to be expected for the full year. You should read this data together with our audited consolidated financial statements and related notes appearing elsewhere in this prospectus and the information under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations.

We have presented pro forma net loss per share information for the year ended December 31, 2010 and the nine months ended September 30, 2011 to reflect (1) the conversion of all outstanding shares of our preferred stock into an aggregate of 24,332,186 shares of common stock prior to the completion of this offering, (2) the issuance and sale by us of 4,500,000 shares of our common stock in this offering, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us (3) the concurrent private placements to GSK and Techne of $7.0 million and $5.0 million of our common stock, respectively, and (4) the automatic conversion of the convertible note held by Techne at a conversion price equal to the initial public offering price, in each case at an assumed initial public offering price of $10.00 per share.

	Years Ended December 31,					Nine Months Ended September 30,	
	2006	2007	2008	2009	2010	2010	2011
	(in thousands, except share and per share data)						
						(unaudited)	
Consolidated Statement of Operations Data:							
Revenues:							
Collaborative research and development revenue from related party	$ 4,950	$ 18,149	$ 23,551	$ 49,744	$ 34,861	$ 21,746	$ 5,621
Grant revenue	3,158	2,588	536				
Total revenues:	8,108	20,737	24,087	49,744	34,861	21,746	5,621
Operating expenses:							
Research and development	21,946	33,193	35,056	27,474	33,527	25,385	22,914
General and administrative	5,300	6,680	9,157	6,575	7,292	5,363	5,721
Total operating expenses	27,246	39,873	44,213	34,049	40,819	30,748	28,635
Income (loss) from operations	(19,138)	(19,136)	(20,126)	15,695	(5,958)	(9,002)	(23,014)
Interest income	1,932	3,930	1,762	297	436	322	319
Interest expense	(138)	(93)	(129)	(76)	(81)	(60)	(170)
Other income					2,434	490	16
Income (loss) before provision for income taxes	(17,344)	(15,299)	(18,493)	15,916	(3,169)	(8,250)	(22,849)
Income tax benefit (expense)		(395)	23	(293)	73	73	
Net income (loss)	$ (17,344)	$ (15,694)	$ (18,470)	$ 15,623	$ (3,096)	$ (8,177)	$ (22,849)
Basic net income (loss) per share[1]	$ (4.83)	$ (4.03)	$ (4.52)	$ 0.56	$ (0.76)	$ (2.01)	$ (5.49)
Diluted net income (loss) per share[1]	$ (4.83)	$ (4.03)	$ (4.52)	$ 0.53	$ (0.76)	$ (2.01)	$ (5.49)
	3,592,805	3,892,924	4,087,181	3,961,640	4,081,648	4,077,347	4,162,309

Shares used to compute basic net income (loss) per share							
Shares used to compute diluted net income (loss) per share	3,592,805	3,892,924	4,087,181	29,256,423	4,081,648	4,077,347	4,162,309
Pro forma basic and diluted net income (loss) per share (unaudited)[1]					$ (0.11)		$ (0.80)
Shares used to compute pro forma basic and diluted net income (loss) per share					28,210,296		28,471,126

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	As of December 31,					As of September 30,
	2006	2007	2008	2009	2010	2011
			(in thousands)			(unaudited)
Consolidated Balance Sheet Data:						
Cash, cash equivalents and investments	$ 82,227	$ 65,435	$ 90,158	$ 65,316	$ 82,836	$ 81,182
Working capital	70,730	49,029	76,598	79,125	82,712	64,964
Total assets	87,780	74,631	97,924	103,469	98,133	85,365
Non-current equipment financing obligations		1,163	455	7	945	1,040
Convertible note from related party						10,060
Accumulated deficit	(68,044)	(83,738)	(102,208)	(86,585)	(89,681)	(112,530)
Total stockholders equity	44,426	30,024	60,960	77,302	76,773	56,955

(1) See Note 2 within the notes to our consolidated financial statements which are included elsewhere in this prospectus for a description of the method used to compute basic and diluted loss per share.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of financial condition and results of operations together with the section entitled Selected Financial Data and our financial statements and related notes included elsewhere in this prospectus. This discussion and other parts of this prospectus contain forward-looking statements that involve risk and uncertainties, such as statements of our plans, objectives, expectations and intentions. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the Risk Factors section.

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 four drug candidates in clinical development, and expect to advance one additional drug candidate into clinical development in 2012. Our drug candidates include: Traficet-EN (CCX282 or GSK 786), our most advanced drug candidate, currently in three pivotal Phase III clinical trials being conducted by our partner Glaxo Group Limited, or GSK, an affiliate of GlaxoSmithKline, for the treatment of patients with moderate-to-severe Crohn s disease; CCX140, our lead independent drug candidate, which successfully completed a Phase II clinical trial in type 2 diabetics and is currently in two Phase II clinical trials in patients with diabetic nephropathy, a form of kidney disease; CCX354, which successfully completed a Phase II proof-of-concept clinical trial for the treatment of rheumatoid arthritis, or RA; CCX168, currently in a Phase II proof-of-concept clinical trial for the treatment of anti-neutrophil cytoplasmic antibody, or ANCA-associated vasculitis, or AAV; and CCX662, our independent drug candidate for the treatment of glioblastoma multiforme, or GBM, which is expected to enter a Phase I clinical trial in the second half of 2012. CCX140 and CCX662 are wholly owned and are being developed independently by us, while Traficet-EN, CCX354 and CCX168 are subject to our collaboration agreement with GSK. In December 2009 and November 2011, GSK exercised its options to obtain exclusive licenses for the further development and commercialization of Traficet-EN and CCX354, respectively. Upon exercise of these options, GSK assumed sole responsibility for the further development and commercialization of these drug candidates and each of their two respective back-up compounds. We are also advancing several additional independent drug candidates through preclinical development. In addition, our strategy has been to identify next generation compounds related to our drug candidates. All of our drug candidates, including those under our collaboration agreement with GSK, have been internally discovered.

In August 2006, we entered into our strategic alliance with GSK. We have received $245.7 million from GSK, consisting of up-front and milestone payments, equity investments, 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. If we demonstrate successful clinical proof-of-concept, 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. The agreement contemplated up to six drug options, each of which covers a drug candidate against the four defined targets, including Traficet-EN (CCR9), CCX354 (CCR1), CCX168 (C5aR) and CCX832 (ChemR23), and their associated back-up compounds. The other two drug options were for second generation drug candidates and their associated back-up compounds. However, we and GSK chose not to nominate second generation drug candidates against any of the four defined targets during the agreement s research term, which has expired. In addition, based on unblinded data from a recently completed Phase I clinical trial of CCX832, in February 2012 we and GSK determined not to further advance the development of CCX832 or its two designated back-up compounds, although both we and GSK continue to have interest in further discussing possible strategic

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opportunities with respect to ChemR23. GSK has already exercised its options to Traficet-EN and CCX354 and each of their two respective defined back-up compounds. Thus, GSK s only remaining option is to CCX168 and its associated back-up compounds. 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. As of September 30, 2011, we had an accumulated deficit of $112.5 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 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.

Financial Operations Overview

Revenues

We have not generated any revenue from product sales. Since our inception, our revenue has been derived from two primary sources: (1) contract revenue, up-front payments and development milestone payments from GSK and (2) government contracts and grants. The following table summarizes our revenue for each of the years ended December 31, 2008, 2009 and 2010 and the nine months ended September 30, 2010 and 2011.

	Year Ended December 31,			Nine Months Ended September 30,	
	2008	2009	2010	2010	2011
			(in thousands)		
GSK					
Contract revenue	$ 7,251	$ 4,100	$ 4,721	$ 2,513	$ 2,900
Recognition of up-front payments	6,300	5,644	5,140	4,233	2,721
Milestones	10,000	40,000	25,000	15,000	
Government contracts and grants	536				
Total revenues	$ 24,087	$ 49,744	$ 34,861	$ 21,746	$ 5,621

Research and Development Expenses

Research and development expenses represent costs incurred to conduct basic research, such as the discovery and development of our understanding of the chemokine system; the discovery and development of novel small molecule therapeutics, such as Traficet-EN and CCX140; the development of our suite of proprietary drug discovery technologies, known collectively as EnabaLink, which includes our proprietary Reverse Activation of Migration, or RAM, screening technology and 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.

The following table summarizes our research and development expenses for each of the years ended December 31, 2008, 2009 and 2010 and the nine months ended September 30, 2010 and 2011. The project specific expenses summarized in the following table reflect costs directly attributable to our clinical development

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candidates and preclinical candidates 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 with respect to 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 Research and drug discovery which represents early stage drug discovery programs. Such expenses include allocated 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.

	Year Ended December 31,			Nine Months Ended September 30,	
	2008	2009	2010	2010	2011
			(in thousands)		
Development Candidate (Target)					
Traficet-EN (CCR9)	$ 16,804	$ 3,487	$	$	$
CCX140 (CCR2)	820	2,257	5,214	6,712	5,687
CCX354 (CCR1)	735	3,538	6,106	4,229	3,230
CCX168 (C5aR)		1,527	2,870	3,381	3,317
CCX832 (ChemR23)[(1)]			1,398	2,003	1,520
Research and drug discovery	16,697	16,665	17,939	9,060	9,160
Total research and development	$ 35,056	$ 27,474	$ 33,527	$ 25,385	$ 22,914

(1) In February 2012, we and GSK determined not to further advance the development of CCX832 or its two designated back-up compounds.

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 receive milestone payments, we are responsible for development of drug candidates through clinical proof-of-concept, 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.

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General and Administrative Expenses

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. 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 legal fees, accounting fees, directors and officers liability insurance premiums and investor relations related fees.

Other Income

Other income, net, consists primarily of income or expenses which are non-recurring in nature. For instance, in 2010, we were awarded $1.9 million from the United States Department of Treasury for eight projects under the Qualitative Therapeutic Discovery Project Program under the Patient Protection and Affordable Care Act of 2010 to support research with the potential to produce new therapies and reported such amount in other income.

Critical Accounting Policies and Significant Judgments and Estimates

The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of our financial statements as well as the reported revenues and expenses during the reported periods. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are described in the Notes to our consolidated financial statements appearing at the end of this prospectus, we believe that the following critical accounting policies relating to revenue recognition, clinical trial expenses and stock-based compensation are most important to understanding and evaluating our reported financial results.

Revenue Recognition

We generate revenue from two principal sources: (1) collaborative research and development agreements with pharmaceutical companies and (2) government contracts and grants. We recognize revenue in accordance with the criteria outlined in the Securities and Exchange Commission s Topic 13 and Accounting Standards Codification, or ASC, 605-25 and by the Financial Accounting Standards Board, or FASB. Following these accounting pronouncements, revenue is recognized when the following criteria have been met:

- persuasive evidence of an arrangement exists;
- delivery has occurred and risk of loss has passed;
- the seller s price to the buyer is fixed or determinable; and
- collectibility is reasonably assured.

As a result, we recognize revenue under the government grants when the work is performed or the expenses are incurred. Any amounts received in advance of performance are recorded as deferred revenue until earned.

Under collaboration agreements, we may receive payments for non-refundable up-front fees, reimbursement for research and development services, milestone payments and royalties. In assessing the appropriate revenue recognition related to a collaboration agreement, we first determine whether an arrangement includes multiple elements, such as the delivery of intellectual property rights and research and development

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property rights generally are not separable from the activity of providing research and development services because the intellectual property right does not have stand-alone value separate from the research and development services provided or evidence of fair value does not exist for the undelivered research and development services. Accordingly, we account for our collaboration agreements as a combined unit of accounting. The revenue from up-front payments is recognized on a straight-line basis over the estimated term of the research and development obligations covered under the research and development collaboration agreement. We periodically review the basis for our estimates, and we may change the estimates if circumstances change. These changes can significantly increase or decrease the amount of revenue recognized. As we applied our policy to our collaboration arrangements we made judgments which affected the pattern of revenue recognition. For instance, in our arrangement with GSK, we are obligated to provide research and development services. We are recognizing revenue over the estimated period of our performance of the research and development services, which was estimated to end in March 2014, the expected completion date of the proof-of-concept trial for the last of the drug candidates to be developed under the GSK alliance. In 2010 we increased our estimate for the remaining estimated research and development period under our arrangement with GSK by approximately 1.25 years. This change in estimate was accounted for prospectively and reduced the annualized revenue recognition by approximately $2.0 million per year. In February 2012, we and GSK determined not to further advance the development of CCX832 or its two designated back-up compounds and we will revise the estimated period of performance prospectively to end by December 2012.

In addition to up-front payments and research and development funding, we may also be entitled to milestone payments that are contingent upon our achieving a predefined objective. Milestone payments are recorded as revenue upon achievement if there is substantive uncertainty at the date the arrangement is entered into that the event will be achieved and the achievement of the milestone is based on our performance.

Clinical Trial Accruals and Related Expenses

We accrue and expense costs for clinical trial activities performed by third parties, including clinical research organizations, or CROs, and clinical investigators, based upon estimates made as of the reporting date of the work completed over the life of the individual study in accordance with agreements established with CROs and clinical trial sites. Some CROs invoice us on a monthly basis, while others invoice upon milestones achieved and the expense is recorded as services are rendered. We determine the estimates of clinical activities incurred at the end of each reporting period through discussion with internal personnel and outside service providers as to the progress or stage of completion of trials or services, as of the end of each reporting period, pursuant to contracts with numerous clinical trial centers and CROs and the agreed upon fee to be paid for such services. The significant factors considered in estimating accruals include the number of patients enrolled and the percentage of work completed to date. Costs of setting up clinical trial sites for participation in the trials that are paid for in advance are expensed over the estimated set-up period. While the set-up periods vary from one arrangement to another, such set-up periods generally take from two to six months. Such set-up activities include clinical site identification, local ethics committee submissions, regulatory submissions, clinical investigator kick-off meetings and pre-study site visits. Clinical trial site costs related to patient enrollments are accrued as patients are entered into the trial.

To date, we have not experienced significant changes in our estimates of clinical trial accruals after a reporting period. However, due to the nature of estimates, we cannot assure you that we will not make changes to our estimates in the future as we become aware of additional information about the status or conduct of our clinical trials.

Stock-Based Compensation

Stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employee s requisite service period on a straightline basis. We recorded non-cash stock-based compensation expense of $0.7 million, $1.8 million and $2.3 million for the years ended December 31, 2008, 2009 and 2010 and $1.7 million and $2.0 million during the nine months ended September 30, 2010 and 2011, respectively. At December 31, 2010 and September 30, 2011, we had $5.2 million and $4.9 million, respectively, of total unrecognized stock-based compensation expense, net of estimated

forfeitures, related to stock option plans that will be recognized over a weighted-average period of 2.76 years and 2.51 years, respectively. We expect to continue to grant stock options in the future, and to the extent that we do, our actual stock-based compensation expense recognized in future periods will likely increase.

Significant Factors, Assumptions and Methodologies Used in Determining Fair Value

Our board of directors, with the assistance of management and independent consultants, performed fair value analyses for the valuation of our common stock as of December 2009, December 2010 and June 2011. For grants made on dates for which there was no contemporaneous valuation to utilize in setting the exercise price of our common stock, and given the absence of an active market for our common stock, our board of directors determined the fair value of our common stock on the date of grant based on several factors, including:

- important developments in our operations, most significantly related to the clinical development of our lead drug candidates, Traficet-EN and CCX140;
- equity market conditions affecting comparable public companies;
- the likelihood of achieving a liquidity event for the shares of common stock, such as an initial public offering or an acquisition of us, given prevailing market conditions; and
- that the grants involved illiquid securities in a private company.

In determining the fair value of our common stock, we used a combination of the market multiple approach and the initial public offering, or IPO, value approach to estimate the enterprise value of our company. The per share common stock value was estimated by allocating the enterprise value using the probability-weighted expected return method, or PWERM, at each valuation date.

The market multiple approach estimates the value of a business by comparing a company to similar publicly-traded companies. When selecting the comparable companies to be used for the market multiple approaches, we focused on companies within the biopharmaceutical industry. Some of the specific criteria used to select the comparable companies included those discovering and developing small molecule drugs in the therapeutic areas of autoimmune or inflammatory disorders and cancer and whose product pipeline was comprised of lead candidates in a pre-commercial stage and/or pre-Phase III clinical development. The mix of comparable companies was reviewed at each valuation date to assess whether to add or delete companies; however, following each review, the comparable companies remained largely unchanged from those used in prior valuation analysis.

A group of comparable publicly-traded companies is selected and market multiples are calculated using each company s stock price and other financial data. An estimate of value for our company is completed by applying selected market multiples based on forecasted financial results for both the comparable companies and the subject company. Given that we are several years away from generating product revenue and we were unable to develop reliable long-term forecasts, our analysis applied the market approach based on our research and development spending results, which was deemed to be the most relevant financial measure.

The IPO value approach estimates the value of a business by estimating a future IPO value based on pre-money valuations of biopharmaceutical IPOs of similar stage over approximately the preceding two to three year period, discounted to the present value (as further discussed below in each valuation discussion). Given that both the market multiple approach and the IPO value approach provide relevant estimates of fair value, which did not differ significantly, we applied equal weighting to each of these approaches to determine an initial estimated enterprise value. The initial estimated enterprise value was then allocated to the common stock using the PWERM for the periods described below.

The PWERM is a scenario-based analysis that estimates the value per share based on the probability-weighted present value of expected future investment returns, considering each of the possible outcomes available to us, as well as the rights of each share class. The PWERM estimates the common stock value to our stockholders under each of four possible future scenarios IPO, sale, stay private and liquidation. The value per share under each scenario was then probability weighted and the resulting weighted values per share were summed to determine the fair value per share of our common stock. In the liquidation, sale and stay private

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scenarios, the value per share was allocated taking into account the liquidation preferences and participation rights of our convertible preferred stock consistent with the method outlined in the AICPA Practice Guide, *Valuation of Privately-Held Company Equity Securities Issued as Compensation*. In the IPO scenario, it was assumed that all outstanding shares of our convertible preferred stock would convert into common stock. Over time, as we achieved certain company related milestones, the probability of each scenario was evaluated and adjusted accordingly, with the probability of a liquidity event such as an IPO or sale remaining in the range of 55-60% and 15-20%, respectively. The probability of remaining a private company or liquidating remained in the range from 20-25% and 0-5%, respectively. In addition, our previously filed registration statement which was withdrawn in 2008 influenced the probability weighting.

We also considered the fact that our stockholders cannot freely trade our common stock in the public markets. The estimated fair value of our common stock at each grant date reflected a non-marketability discount partially based on the anticipated likelihood and timing of a future liquidity event.

In the contemporaneous valuations leading up to the filing of our prior registration statement on Form S-1 in November 2007, the non-marketability discount rate decreased over time as the perceived risk of completing an IPO was reduced. From December 2009 to June 2011 the contemporaneous valuations used to establish the fair value of our common stock assumed the expected length of time until, and probability of, an IPO remained the same based on overall market conditions at the time of each of the valuations and the non-marketability discount remained unchanged during that period.

There is inherent uncertainty in these forecasts and projections and if we had made different assumptions and estimates than those described above, the amount of our stock-based compensation expense, net loss and net loss per share amounts could have been materially different.

In connection with the preparation of our consolidated financial statements, we reassessed the fair value of our common stock for financial reporting purposes at interim dates between the contemporaneous valuations where there were stock option grants. For these interim periods we adjusted the fair value based on market conditions, progress made in our development programs and whether we achieved company milestones, when we deemed appropriate. Since December 2009, we had a number of developments in our business that we believe contributed to increase in the fair value of our common stock as discussed below.

Common stock valuations

Information regarding our stock option grants to our employees and non-employees along with the exercise price, which equals the estimated fair value of the underlying common stock for stock options issued since January 1, 2010 is summarized as follows:

Grant Date	Shares Subject to Options Granted	Exercise Price per Common Share	Fair Value per Common Share	Intrinsic Value per Common Share
March 4, 2010	46,450	$ 6.30	$ 6.30	
May 27, 2010	6,250	6.30	6.30	
August 10, 2010	423,628	6.30	6.30	
August 11, 2010	279,166	6.30	6.30	
November 17, 2010	9,000	6.30	6.30	
February 9, 2011 (unaudited)	32,062	6.60	6.60	
May 11, 2011 (unaudited)	1,500	6.60	6.60	
August 4, 2011 (unaudited)	346,617	6.90	6.90	
November 9, 2011 (unaudited)	10,500	6.90	6.90	

December 2009: As of December 2009, the results of our Phase II clinical trial of Traficet-EN demonstrated clinical efficacy in patients with moderate-to-severe Crohn s disease with a favorable safety and tolerability profile in both induction and maintenance periods of the study. Based on a confluence of data, GSK exercised its option to obtain an exclusive license for further development and worldwide commercialization of Traficet-EN. The option exercised by GSK constituted a material change in our business and financial position; we therefore conducted a contemporaneous valuation as of December 31, 2009. The valuation used a risk-adjusted discount of 18%, a

non-marketability discount of 24% and an estimated time to a liquidity event of 12-18 months. Given that a potential liquidity event was estimated to be in the 12-18 month time horizon, we utilized the PWERM allocation model. The expected outcomes were weighted more toward an IPO (55-60%), with a lower weight for remaining private (20-25%), and a lower weight for a sale (15-20%) and with the lowest weights given to liquidation (0-5%). The valuation indicated a fair value of $6.30 per share for our common stock.

March 2010, May 2010, August 2010, and November 2010: During these periods, there were no material changes to our business, and therefore we did not adjust the fair value of our common stock as of March 2010, May 2010, August 2010 and November 2010.

December 2010: As of December 2010, we continued to make progress in our preclinical and clinical product portfolio. In December 2010, we completed a Phase II clinical trial for CCX140 for the treatment of type 2 diabetes which demonstrated that the compound was safe and well tolerated. In addition, in December 2010, we initiated a Phase I clinical trial of CCX832 and as a result, earned a milestone payment from GSK. The advancement of our clinical trials and the earned milestone payment constituted a significant change in our business and financial position, and we therefore conducted a contemporaneous valuation as of December 31, 2010. The valuation used a risk-adjusted discount of 18%, a non-marketability discount of 24% and an estimated time to a liquidity event of 12 months. The expected outcomes were weighted more toward an IPO (55-60%), with a lower weight for remaining private (20-25%), and a lower weight for a sale (15-20%), with the lowest weights given to liquidation (0-5%). The valuation indicated a fair value of $6.60 per share for our common stock.

February 2011 and May 2011: During these periods, we continued to advance our clinical pipeline consisting of several drug candidates including our lead compound under the GSK alliance, Traficet-EN, which entered pivotal Phase III clinical trials in January 2011 for the treatment of patients with moderate-to-severe Crohn s disease. We advanced our other clinical trial programs further into the clinic, however we did not expect data from these trials to be available at this time. As a result, there were no material changes to our business, and therefore we did not adjust the fair value of our common stock as of February 2011 or May 2011.

June 2011: As of June 2011, we completed enrollment of our Phase II study of CCX354 for the treatment of rheumatoid arthritis with data expected in the second half of 2011. We also initiated pre-study activities for our Phase II proof-of-concept clinical trial for CCX168 in patients with AAV. We conducted a contemporaneous valuation as of June 30, 2011. At that time, our board of directors had not approved moving forward with an IPO. The valuation used a risk-adjusted discount of 18%, a non-marketability discount of 24% and an estimated time to a liquidity event of 12-18 months. The expected outcomes were weighted more toward an IPO (55-60%), with a lower weight for remaining private (20-25%), and a lower weight for a sale (15-20%), with the lowest weights given to liquidation (0-5%). The valuation indicated a fair value of $6.90 per share for our common stock.

August 2011 and November 2011: During these periods, we continued to advance our clinical pipeline further in development and completed our Phase II study of CCX354 for the treatment of rheumatoid arthritis. Although GSK did exercise its option to obtain an exclusive license to further develop and commercialize CCX354 in November 2011, such exercise occurred subsequent to our November 9, 2011 stock option grants and therefore did not affect the fair market value we ascribed to our common stock in determining the option exercise price with respect to such grants. While we did not conduct any contemporaneous valuations of our common stock during this period, in November 2011 one of our executive officers sold 50,000 shares of our common stock at a price of $6.90 per share to an officer of one of our shareholders in a transaction negotiated at arms length.

Assuming an initial offering price of our common stock of $10.00 per share, the public offering price of our common stock will exceed the exercise price of options issued by us on November 9, 2011 by $3.10 per share. We believe that this increase in the fair value of our common stock was primarily attributable to the following developments during the period:

- GSK s exercise of its option on November 28, 2011 to further develop and commercialize CCX354;

- GSK s $25.0 million payment to us in December 2011, with respect to exercising its option to further develop and commercialize CCX354;

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- the commencement, in December 2011, of dosing of patients with diabetic nephropathy in a Phase II clinical trial for CCX140, our lead independent drug candidate;
- the increased likelihood that we would complete our initial public offering in the first quarter of 2011;
- the decrease in the discount for a lack of marketability of our common stock based on the expected time to a liquidity event; and
- improving market conditions.

The exercise by GSK of its option to obtain a license to further develop and commercialize CCX354 contributed to the increase in the value of our common stock in several respects, including due to the following factors:

- GSK s exercise of its option with respect to CCX354, as it constitutes the second of three potential option exercises under our strategic alliance with GSK, helps to validate the viability both of our drug discovery platform and CCX354 s clinical efficacy in the treatment of rheumatoid arthritis;
- GSK s exercise of this option creates the potential that material milestone payments will be received with respect to this drug candidate;
- the exercise of an option to a second drug candidate provides the potential for a second revenue stream under our strategic alliance with GSK, thereby increasing the total revenue we may potentially realize under this strategic alliance;
- the exercise of an option to a second drug candidate decreases the likelihood that we will be completely dependent on a single drug candidate for our future revenues and that we will be subject to the risks associated with being dependent on a single drug; and
- as a result of GSK s exercise of its option to CCX354, GSK has become solely responsible for all further clinical development and commercialization expenditures worldwide with respect to CCX354 and its two designated back-up compounds, thereby freeing up resources for application to our other programs.

With respect to the commencement of dosing of patients with diabetic nephropathy in a Phase II clinical trial for CCX140, this development contributed to the increase in the fair market value of our stock during this period by moving this drug candidate closer to commercialization. As this drug candidate is not subject to our strategic partnership with GSK and we currently have exclusive development and commercialization rights, we could potentially retain a larger portion of any revenues generated by this drug candidate than we could with respect to drug candidates that our subject to our strategic collaboration with GSK.

Net Operating Loss Carryforwards

As of December 31, 2010, we had net operating loss and research and development tax credit carryforwards for federal income tax purposes of approximately $68.2 million and $4.5 million, respectively. The federal net operating loss and tax credit carryforwards will expire at various dates beginning in 2019 if not utilized. We also had net operating loss and research and development tax credit carryforwards for state income tax purposes of approximately $67.8 million and $2.5 million respectively. The state net operating loss carryforwards will expire at various dates beginning in 2014 if not utilized. The state research and development tax credits can be carried forward indefinitely.

Utilization of the net operating losses and credits may be subject to a substantial annual limitation due to ownership change limitations provided by the Internal Revenue Code of 1986 as amended. The annual limitation may result in the expiration of our net operating losses and credits before they can be used. We have recorded a valuation allowance for the full amount of the portion of the deferred tax asset related to our net operating loss and research and development tax credit carryforwards.

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Results of Operations

Comparison of Nine Months Ended September 30, 2010 and 2011

	Nine Months Ended September 30,		Change	
	2010	2011	2011 vs. 2010	%
	(in thousands)			
Revenue	$ 21,746	$ 5,621	$ (16,125)	(74%)
Research and development expenses	25,385	22,914	(2,471)	(10%)
General and administrative expenses	5,363	5,721	358	7%
Interest income	322	319	(3)	(1%)
Interest expense	(60)	(170)	(110)	(83%)
Other income	490	16	(474)	(97%)
Income tax benefit	73		(73)	(100%)

Revenue. We recognized revenue of $5.6 million in the nine months ended September 30, 2011 and $21.7 million in the same period in 2010. This decrease was primarily due to milestone payments received in connection with our GSK alliance during the nine months ended September 30, 2010 for the development candidate nomination of CCX832 and Phase I clinical trial initiation of CCX168. Total milestone payments recognized in the nine months ended September 30, 2010 were $15.0 million. No milestone payments were recognized in the same period in 2011.

Research and development expenses. Research and development expenses were $22.9 million in the nine months ended September 30, 2011 and $25.4 million in the same period in 2010. This decrease was primarily due to the completion of our Phase II clinical trial of CCX140 in type 2 diabetes in December 2010.

General and administrative expenses. General and administrative expenses were $5.7 million in the nine months ended September 30, 2011 and $5.4 million for the same period in 2010. This increase was primarily related to higher professional fees for legal and financial consulting services in connection with intellectual property and business development related activities, respectively.

Interest income, net. Interest income, net of interest expense, was $0.1 million in the nine months ended September 30, 2011 and $0.3 million in the same period in 2010.

Other income. Other income was $0.5 million for the nine months ended September 30, 2010. No other income was recognized in 2011. This decrease was due to the receipt of an insurance claim in the nine months ended September 30, 2010.

Comparison of Years Ended December 31, 2009 and 2010

	Year Ended December 31,		Change	
	2009	2010	2010 vs. 2009	%
	(in thousands)			
Revenue	$ 49,744	$ 34,861	$ (14,883)	(30%)
Research and development expenses	27,474	33,527	6,053	22%
General and administrative expenses	6,575	7,292	717	11%
Interest income	297	436	139	47%
Interest expense	(76)	(81)	(5)	(7%)
Other income		2,434	2,434	N/A
Income tax benefit (expense)	(293)	73	366	125%

Revenue. We recognized revenue of $34.9 million for the year ended December 31, 2010 and $49.7 million for the same period in 2009. This decrease was primarily due to higher milestone payments in 2009. In December 2009, GSK exercised its option to obtain an exclusive license for further development and worldwide commercialization of Traficet-EN. The associated option exercise fee of $35.0 million was recognized as revenue in full in the year ended December 31, 2009. Total milestones payments recognized in 2010 and 2009 were $25.0 million and $40.0 million, respectively.

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Research and development expenses. Research and development expenses were $33.5 million in 2010 and $27.5 million in 2009. This increase was primarily due to higher clinical expenses for CCX140, CCX354 and CCX168, reflecting further patient enrollment in the associated clinical trials for these drug candidates and for CCX832 for which Phase I clinical trials were initiated in 2010.

General and administrative expenses. General and administrative expenses were $7.3 million in 2010 and $6.6 million in 2009. This increase was primarily due to higher stock based compensation resulting from additional stock option grants and an increase in the fair value per share of our common stock during 2010.

Interest income, net. Interest income, net of interest expense, was $0.4 million in 2010 and $0.2 million in 2009. This increase was a result of higher cash and investment balances in 2010 primarily due to the receipt of milestone payments from GSK in 2010.

Other income. Other income was $2.4 million for the year ended December 31, 2010. No other income was recognized in 2009. This increase was due to the $1.9 million in government grants awarded from the United States Department of Treasury for eight projects under the Qualitative Therapeutic Discovery Project Program under the Patient Protection and Affordable Care Act of 2010 to support research with the potential to produce new therapies and $0.5 million for the receipt of an insurance claim in 2010.

Income tax benefit (expense). Income tax expense was $0.3 million in 2009. State income tax expense resulting from the state of California s temporary suspension of the use of net operating loss carrybacks in 2009 was partially offset by a federal income tax credit in the same period.

Comparison of Years Ended December 31, 2008 and 2009

	Year Ended December 31,		Change	
	2008	2009	2009 vs. 2008	%
		(in thousands)		
Revenue	$ 24,087	$ 49,744	$ 25,657	107%
Research and development expenses	35,056	27,474	(7,582)	(22%)
General and administrative expenses	9,157	6,575	(2,582)	(28%)
Interest income	1,762	297	(1,465)	(83%)
Interest expense	(129)	(76)	53	41%
Income tax benefit (expense)	23	(293)	(316)	(1,374%)

Revenue. We recognized revenue of $49.7 million in 2009 and $24.1 million in 2008. This increase was primarily due to higher milestone payments in 2009. In December 2009, GSK exercised its option to obtain an exclusive license for further development and worldwide commercialization of Traficet-EN. The associated option exercise fee of $35.0 million was recognized as revenue in full in the year ended December 31, 2009. Total milestones payments recognized in 2009 and 2008 were $40.0 million and $10.0 million, respectively.

Grant revenue was $0.5 million in 2008, reflecting the completion of efforts related to a grant from the National Institute of Allergy and Infectious Diseases. No grant revenue was recognized in 2009.

Research and development expenses. Research and development expenses were $27.5 million in 2009 and $35.1 million in 2008. This decrease was primarily due to lower medical and regulatory expenses of $7.6 million as a result of the completion of our Phase II trial for Traficet-EN, partially offset by higher clinical expenses for CCX140, CCX354 and CCX168, reflecting further patient enrollment in associated clinical trials for these drug candidates and for CCX832 for which Phase I clinical trials were initiated in 2010.

General and administrative expenses. General and administrative expenses were $6.6 million in 2009 and $9.2 million in 2008, representing a decrease of $2.6 million. This decrease was primarily a result of higher legal and financial professional fees associated with our previously filed registration statement which was withdrawn.

Interest income, net. Interest income, net of interest expense, was $0.2 million in 2009 and $1.6 million in 2008. This decrease was primarily due to a significantly lower interest rate environment in 2009.

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Income tax benefit (expense). Income tax expense was $0.3 million in 2009. State income tax expense resulting from the state of California s temporary suspension of the use of net operating loss carrybacks in 2009 was partially offset by a federal income tax credit in the same period.

Liquidity and Capital Resources

Since our inception, we have raised $384.9 million to fund our operations primarily through the private placement of equity, contract revenue under our collaborations, government contracts and grants and borrowings under equipment financing arrangements. As of September 30, 2011, we had approximately $81.2 million in cash, cash equivalents and investments. In December 2011, we received a $25.0 million option exercise payment under our strategic alliance with GSK with respect to CCX354 which is reflected in the collaboration funding described above. The following table shows a summary of our cash flows for each of the three years ended December 31, 2008, 2009 and 2010 and nine months ended September 30, 2010 and 2011.

	Years Ended December 31,			Nine Months Ended September 30,	
	2008	2009	2010	2010	2011
			(in thousands)		
				(unaudited)	
Cash provided by (used in)					
Operating activities	$ (22,758)	$ (22,961)	$ 17,664	$ 22,437	$ (12,904)
Investing activities	23,777	(29,915)	(27,629)	(33,923)	(3,295)
Financing activities	47,890	(1,639)	945	1,053	11,484

Operating activities. Net cash used in operating activities was $12.9 million for the nine months ended September 30, 2011, compared to net cash provided by operating activities of $22.4 million for the same period in 2010. This decrease was primarily due to the receipt by us in the nine months ended September 30, 2010 of a $35.0 million milestone payment from GSK in connection with the exercise of its option to obtain an exclusive license for further development and worldwide commercialization of Traficet-EN.

Net cash provided by operations was $17.7 million for the year ended December 31, 2010, compared to net cashed used in operations of $23.0 million in 2009. This increase was primarily due to the receipt of the $35.0 million milestone payment from GSK in 2010.

Net cash used in operations was $23.0 million for the year ended December 31, 2009, compared to $22.8 million for the year ended December 31, 2008. The use of cash in these periods was primarily due to the funding of our drug discovery and development efforts adjusted for non-cash charges and changes in components of working capital.

Investing activities. Net cash used in or provided by investing activities for periods presented primarily relate to the purchase, sale and maturity of investments used to fund the day-to-day needs of our business.

Financing activities. Net cash provided by financing activities was $11.5 million for the nine months ended September 30, 2011, compared to $1.1 million for the same period in 2010. This increase was primarily due to $10.0 million in proceeds from the issuance of a convertible note and $1.1 million in proceeds from the issuance of Series B convertible preferred stock in connection with the exercise of an associated warrant.

Net cash provided by financing activities was $0.9 million for the year ended December 31, 2010 compared to cash used in financing activities of $1.6 million for the same period in 2009. This increase was due to $1.5 million in proceeds received from the drawdown of our equipment line of financing in 2010. In addition, we repurchased $1.1 million in common stock from our Chief Executive Officer in 2009.

Net cash used in financing activities was $1.6 million for the year ended December 31, 2009, compared to net cash provided by financing activities of $47.9 million in 2008. The decrease in cash provided by financing activities was due to $48.7 million in net proceeds from the 2008 private placement of our Series E convertible preferred stock.

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We believe that our existing cash, cash equivalents and investments as of September 30, 2011, along with the estimated net proceeds from this offering, will be sufficient to meet our anticipated cash requirements for at least the next 12 months. However, our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary materially.

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

- the achievement of milestones under our agreement with GSK;
- the terms and timing of any other collaborative, licensing and other arrangements that we may establish;
- the initiation, progress, timing and completion of preclinical studies and clinical trials for our drug candidates and potential drug candidates;
- the number and characteristics of drug candidates that we pursue;