

ChemoCentryx, Inc.  
Form 10-Q  
August 08, 2017

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2017**

**Or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 001-35420**

**ChemoCentryx, Inc.**

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

**Delaware**  
**(State or Other Jurisdiction of**  
**Incorporation or Organization)**

**94-3254365**  
**(I.R.S. Employer**  
**Identification No.)**

**850 Maude Avenue**

**Mountain View, California 94043**

**(Address of Principal Executive Offices) (Zip Code)**

**(650) 210-2900**

**(Registrant's Telephone Number, Including Area Code)**

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of outstanding shares of the registrant's common stock, par value \$0.001 per share, as of July 31, 2017, was 48,706,809.



---

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

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 21,500	\$ 12,024
Short-term investments	100,145	105,740
Accounts receivable	218	30,205
Prepaid expenses and other current assets	2,304	722
Total current assets	124,167	148,691
Property and equipment, net	1,010	905
Long-term investments	14,999	5,997
Other assets	351	279
Total assets	\$ 140,527	\$ 155,872
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 1,375	\$ 671
Accrued liabilities	8,444	8,645
Deferred revenue	34,872	29,019
Total current liabilities	44,691	38,335
Deferred revenue	54,745	67,547
Other non-current liabilities	176	101
Total liabilities	99,612	105,983
Stockholders equity:		
Preferred stock:		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized; no shares issued and outstanding;		
Common stock, \$0.001 par value, 200,000,000 shares authorized at June 30, 2017 and December 31, 2016; 48,574,985 shares and 48,057,920 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively.	48	48
Additional paid-in capital	363,291	356,966

Edgar Filing: ChemoCentryx, Inc. - Form 10-Q

Note receivable	(16)	(16)
Accumulated other comprehensive loss	(113)	(50)
Accumulated deficit	(322,295)	(307,059)
Total stockholders' equity	40,915	49,889
Total liabilities and stockholders' equity	\$ 140,527	\$ 155,872

See accompanying notes.

**CHEMOCENTRYX, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except per share data)****(unaudited)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Revenue:</b>				
Collaboration and license revenue	\$ 8,937	\$ 2,620	\$ 17,167	\$ 2,620
Grant revenue		175		175
<b>Total revenue</b>	<b>8,937</b>	<b>2,795</b>	<b>17,167</b>	<b>2,795</b>
<b>Operating expenses:</b>				
Research and development	14,329	9,062	24,299	20,307
General and administrative	4,184	3,877	8,757	7,961
<b>Total operating expenses</b>	<b>18,513</b>	<b>12,939</b>	<b>33,056</b>	<b>28,268</b>
<b>Loss from operations</b>	<b>(9,576)</b>	<b>(10,144)</b>	<b>(15,889)</b>	<b>(25,473)</b>
<b>Other income:</b>				
Interest income	336	161	653	247
<b>Total other income, net</b>	<b>336</b>	<b>161</b>	<b>653</b>	<b>247</b>
<b>Net loss</b>	<b>\$ (9,240)</b>	<b>\$ (9,983)</b>	<b>\$ (15,236)</b>	<b>\$ (25,226)</b>
<b>Basic and diluted net loss per common share</b>	<b>\$ (0.19)</b>	<b>\$ (0.22)</b>	<b>\$ (0.32)</b>	<b>\$ (0.56)</b>
<b>Shares used to compute basic and diluted net loss per common share</b>	<b>48,224</b>	<b>45,785</b>	<b>48,169</b>	<b>45,031</b>

See accompanying notes.

**CHEMOCENTRYX, INC.**

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS**

(in thousands)

(unaudited)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Net loss	\$ (9,240)	\$ (9,983)	\$ (15,236)	\$ (25,226)
Unrealized gain (loss) on available-for-sale securities	(29)	64	(63)	120
Comprehensive loss	\$ (9,269)	\$ (9,919)	\$ (15,299)	\$ (25,106)

See accompanying notes.

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

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>Operating activities</b>		
Net loss	\$ (15,236)	\$ (25,226)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property and equipment	203	173
Stock-based compensation	4,853	4,641
Noncash interest income (expense), net	206	(124)
Changes in assets and liabilities:		
Accounts receivable	29,987	(175)
Prepays and other current assets	(1,582)	(400)
Other assets	(72)	(70)
Accounts payable	704	(162)
Other liabilities	(126)	1,878
Deferred revenue	(6,949)	75,380
Net cash provided by operating activities	11,988	55,915
<b>Investing activities</b>		
Purchases of property and equipment, net	(308)	(82)
Purchases of investments	(76,926)	(95,907)
Maturities of investments	73,250	41,688
Net cash used in investing activities	(3,984)	(54,301)
<b>Financing activities</b>		
Proceeds from issuance of common stock		7,000
Proceeds from exercise of stock options and employee stock purchase plan	1,769	488
Employees tax withheld and paid for restricted stock units	(297)	
Net cash provided by financing activities	1,472	7,488
Net increase in cash and cash equivalents	9,476	9,102
Cash and cash equivalents at beginning of period	12,024	12,823
Cash and cash equivalents at end of period	\$ 21,500	\$ 21,925

See accompanying notes.





---

**CHEMOCENTRYX, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2017**

**(unaudited)**

**1. Description of Business**

ChemoCentryx, Inc. (the Company) commenced operations in 1997. The Company is a clinical-stage biopharmaceutical company focused on developing new medications targeted at inflammatory disorders, autoimmune diseases and cancer. The Company's principal operations are in the United States and it operates in one segment.

**Unaudited Interim Financial Information**

The financial information filed is unaudited. The Condensed Consolidated Financial Statements included in this report reflect all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for the fair statement of the results of operations for the interim periods covered and of the financial condition of the Company at the date of the interim balance sheet. The December 31, 2016 Condensed Consolidated Balance Sheet was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles in the United States of America (GAAP). The results for interim periods are not necessarily indicative of the results for the entire year or any other interim period. The Condensed Consolidated Financial Statements should be read in conjunction with the Company's financial statements and the notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2016 filed with the Securities and Exchange Commission on March 14, 2017.

**2. Summary of Significant Accounting Policies**

**Use of Estimates**

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

**Concentration of Credit Risk**

The Company invests in a variety of financial instruments and, by its policy, limits the amount of credit exposure with any one issuer, industry or geographic area.

Accounts receivable are typically unsecured and are concentrated in the pharmaceutical industry and government sector. Accordingly, the Company may be exposed to credit risk generally associated with pharmaceutical companies and government funded entities. The Company has not historically experienced any significant losses due to concentration of credit risk.

Accounts receivable consists of the following (in thousands):

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
Vifor (International) Ltd. <sup>(1)</sup>	\$ 218	\$ 30,000
U.S. Food and Drug Administration		205
	<b>\$ 218</b>	<b>\$ 30,205</b>

(1) As of December 31, 2016, accounts receivable excluded the additional \$20.0 million cash commitment which is due from Vifor in December 2017 in connection with the CCX140 Agreement. As of June 30, 2017, accounts receivable excluded the remaining \$30.0 million cash commitments due from Vifor, \$20.0 million of which is due in December 2017 in connection with the CCX140 Agreement and \$10.0 million of which is due in February 2018 in connection with the Avacopan Amendment. See Note 7, Collaboration and License Agreements for a detailed discussion.

## Net Loss Per Share

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

Diluted net loss per share is computed by dividing net loss attributable to common stockholders by the sum of the weighted-average number of common shares outstanding and dilutive common stock equivalent shares outstanding for the period. The Company's potentially dilutive common stock equivalent shares, which include incremental common shares issuable upon (i) the exercise of outstanding stock options and warrants, (ii) vesting of restricted stock units (RSUs) and restricted stock awards (RSAs), and (iii) the purchase from contributions to the 2012 Employee Stock Purchase Plan (the ESPP), (calculated based on the treasury stock method), are only included in the calculation of diluted net loss per share when their effect is dilutive.

For the six months ended June 30, 2017 and 2016, the following potentially dilutive securities were excluded from the calculation of diluted net loss per share due to their anti-dilutive effect:

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2017</b>	<b>2016</b>
Options to purchase common stock, including purchases from contributions to ESPP	10,435,490	9,352,432
Restricted stock units	476,447	347,111
Restricted stock awards	95,866	
Warrants to purchase common stock	150,000	150,000
	<b>11,157,803</b>	<b>9,849,543</b>

## Comprehensive Loss

Comprehensive loss comprises net loss and other comprehensive income (loss). For the periods presented other comprehensive income (loss) consists of unrealized gains and losses on the Company's available-for-sale securities. For the three and six months ended June 30, 2017 and 2016, there were no sales of investments, and therefore there were no reclassifications.

## Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standard Board (FASB) issued a comprehensive new standard on revenue from contracts with customers. The standard's core principle is that a reporting entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. On July 9, 2015, the FASB voted to delay the effective date of the new standard by one year. The standard would become effective for the Company beginning in the first quarter of 2018. Early application would be permitted in 2017. Entities would have the option of using either a full retrospective or a modified retrospective approach to adopt this new guidance. In 2016, the FASB updated the guidance for reporting revenue gross versus net to improve the implementation guidance on principal versus agent considerations, and for identifying performance obligations and the accounting of intellectual property licenses. In addition, the FASB introduced practical expedients and made narrow scope improvements to the new accounting guidance.

The Company currently plans to adopt the accounting standard update on January 1, 2018, using the modified retrospective approach. The cumulative effect of adopting the accounting standard update will be recorded to retained earnings on January 1, 2018. The Company is currently at the early stages of analyzing its collaboration agreements to determine the differences in the accounting treatment under Accounting Standards Update (ASU) No.2014-09 compared to the current accounting treatment. During 2016, the Company entered into two license and collaboration agreements. The Company has primarily derived its revenues from license and collaboration agreements. The consideration the Company is eligible to receive under these agreements includes of upfront payments, research and development funding, milestone payments, and royalties. Each license and collaboration agreement is unique and will need to be assessed separately under the five-step process under the new standard. The new revenue recognition standard differs from the current accounting standard in many respects, such as in the accounting for variable considerations and the measurement of progress toward completion of performance obligations. While the Company has not completed an assessment of the impact of adoption, the adoption of ASU No. 2014-09 may have a material effect on its financial statements.

In February 2016, the FASB issued a new standard that requires all lessees recognize the assets and liabilities that arise from leases on the balance sheet and disclose qualitative and quantitative information about its leasing arrangements. The new standard will be effective for the Company on January 1, 2019. The Company is currently evaluating the impact of the adoption of this standard on its financial statements. However, the Company expects the adoption of this accounting guidance to result in an increase in lease assets and a corresponding increase in lease liabilities on its balance sheets.

In March 2016, the FASB issued ASU No. 2016-09 Improvements to Employee Share-Based Payment Accounting, which is intended to simplify several aspects of the accounting for share-based payment award transactions, including the income tax consequences, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. The Company adopted ASU No. 2016-09 on January 1, 2017. Under this guidance, on a prospective basis, companies will no longer record excess tax benefits and tax deficiencies from stock option exercises in additional paid-in capital (APIC). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement. In addition, the guidance eliminates the requirement that excess tax benefits be realized before companies can recognize them. The ASU requires a cumulative-effect adjustment for previously unrecognized excess tax benefits in opening retained earnings in the annual period of adoption. As of January 1, 2017, the Company had an unrecognized excess tax benefit of \$2.1 million. Upon adoption, the Company recognized this excess tax benefit as a deferred tax asset with a corresponding increase to the Company's deferred tax asset valuation allowance. Additionally, as provided for under this new guidance, the Company elected to continue to estimate forfeitures. The adoption of this aspect of the guidance did not have a material impact on the Company's financial statements.

**3. Cash Equivalents and Investments**

The amortized cost and fair value of cash equivalents and investments at June 30, 2017 and December 31, 2016 were as follows (in thousands):

	<b>June 30, 2017</b>			<b>Fair Value</b>
	<b>Amortized Cost</b>	<b>Gross Gains</b>	<b>Unrealized Losses</b>	
Money market fund	\$ 13,546	\$	\$	\$ 13,546
U.S. treasury securities	60,657		(91)	60,566
Government-sponsored agencies	2,992			2,992
Commercial paper	33,094			33,094
Corporate debt securities	24,854		(22)	24,832
<b>Total available-for-sale securities</b>	<b>\$ 135,143</b>	<b>\$</b>	<b>\$ (113)</b>	<b>\$ 135,030</b>
<b>Classified as:</b>				
Cash equivalents				\$ 19,886
Short-term investments				100,145
Long-term investments				14,999
<b>Total available-for-sale securities</b>				<b>\$ 135,030</b>

	<b>December 31, 2016</b>			<b>Fair Value</b>
	<b>Amortized Cost</b>	<b>Gross Gains</b>	<b>Unrealized Losses</b>	
Money market fund	\$ 9,746	\$	\$	\$ 9,746
U.S. treasury securities	49,693	1	(22)	49,672
Commercial paper	16,183			16,183
Corporate debt securities	45,911		(29)	45,882
<b>Total available-for-sale securities</b>	<b>\$ 121,533</b>	<b>\$ 1</b>	<b>\$ (51)</b>	<b>\$ 121,483</b>
<b>Classified as:</b>				
Cash equivalents				\$ 9,746
Short-term investments				105,740
Long-term investments				5,997
<b>Total available-for-sale securities</b>				<b>\$ 121,483</b>

Cash equivalents in the tables above exclude cash of \$1.6 million and \$2.3 million as of June 30, 2017 and December 31, 2016, respectively. All available-for-sale securities held as of June 30, 2017 had contractual maturities of less than two years. There have been no significant realized gains or losses on available-for-sale securities for the periods presented. No available-for-sale securities held as of June 30, 2017 have been in a continuous unrealized loss position for more than 12 months. As of June 30, 2017, unrealized losses on available-for-sale investments are not attributed to credit risk and are considered to be temporary. The Company believes that it is more-likely-than-not that investments in an unrealized loss position will be held until maturity or the recovery of the cost basis of the investment. The Company believes it has no other-than-temporary impairments on its securities because it does not

intend to sell these securities and it believes it is not more likely than not that it will be required to sell these securities before the recovery of their amortized cost basis. To date, the Company has not recorded any impairment charges on marketable securities related to other-than-temporary declines in market value.



#### 4. Fair Value Measurements

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

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

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

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

The Company's financial assets and liabilities subject to fair value measurements on a recurring basis and the level of inputs used in such measurements are as follows (in thousands) as of June 30, 2017 and December 31, 2016:

Description	June 30, 2017			Total
	Level 1	Level 2	Level 3	
Money market fund	\$ 13,546	\$	\$	13,546
U.S. treasury securities		60,566		60,566
Government-sponsored agencies		2,992		2,992
Commercial paper		33,094		33,094
Corporate debt securities		24,832		24,832
Total assets	\$ 13,546	\$ 121,484	\$	\$ 135,030

Description	December 31, 2016			Total
	Level 1	Level 2	Level 3	
Money market fund	\$ 9,746	\$	\$	\$ 9,746
U.S. treasury securities		49,672		49,672
Commercial paper		16,183		16,183
Corporate debt securities		45,882		45,882
Total assets	\$ 9,746	\$ 111,737	\$	\$ 121,483

During the six months ended June 30, 2017, there were no transfers between Level 1 and Level 2 financial assets. When the Company uses observable market prices for identical securities that are traded in less active markets, the Company classifies its marketable debt instruments as Level 2. When observable market prices for identical securities are not available, the Company prices its marketable debt instruments using non-binding market consensus prices that are corroborated with observable market data; quoted market prices for similar instruments; or pricing models, such as a discounted cash flow model, with all significant inputs derived from or corroborated with observable market data. Non-binding market consensus prices are based on the proprietary valuation models of pricing providers or brokers. These valuation models incorporate a number of inputs, including non-binding and binding broker quotes; observable market prices for identical or similar securities; and the internal assumptions of pricing providers or brokers that use observable market inputs and, to a lesser degree, unobservable market inputs. The Company corroborates non-binding market consensus prices with observable market data using statistical models when observable market data exists. The discounted cash flow model uses observable market inputs, such as LIBOR-based yield curves, currency spot and forward rates, and credit ratings.



**5. Accrued Liabilities**

Accrued liabilities consist of the following (in thousands):

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
Research and development related	\$ 5,951	\$ 5,482
Compensation related	1,622	2,460
Consulting and professional services	496	421
Other	375	282
	<b>\$ 8,444</b>	<b>\$ 8,645</b>

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

Bio-Techne Corporation, formerly Techne Corporation, is one of the Company's principal stockholders. In connection with the Company's initial public offering (IPO) in February 2012, Bio-Techne received a warrant with a ten-year term to purchase 150,000 shares of the Company's common stock at an exercise price per share equal to \$20.00 per share, or 200% of the IPO price of its common stock, which was outstanding as of June 30, 2017. The Company had an accounts payable balance due to Bio-Techne for the purchases of research materials of \$853 and \$24,885 as of June 30, 2017 and December 31, 2016, respectively.

**7. Collaboration and License Agreements**

In May 2016, the Company entered into an exclusive collaboration and license agreement with Vifor (International) Ltd. (Vifor) pursuant to which the Company granted Vifor exclusive rights to commercialize avacopan in Europe and certain other markets (the Avacopan Agreement). Avacopan is the Company's lead drug candidate for the treatment of patients with anti-neutrophil cytoplasmic auto-antibody associated vasculitis and other rare diseases. The Company retains control of ongoing and future development of avacopan (other than country-specific development in the licensed territories) and all commercialization rights to avacopan in the United States and China. The Avacopan Agreement also provided Vifor with an exclusive option to negotiate during 2016 a worldwide license agreement for one of the Company's other drug candidates, CCX140, an orally administered inhibitor of the chemokine receptor known as CCR2.

In connection with the Avacopan Agreement, the Company received a non-refundable upfront payment of \$85.0 million, comprising \$60.0 million in cash and \$25.0 million in the form of an equity investment to purchase 3,333,333 shares of the Company's common stock at a price of \$7.50 per share. The \$85.0 million upfront consideration was initially allocated as of June 30, 2016 as follows:

\$7.0 million for the issuance of 3,333,333 shares of the Company's common stock valued at \$2.10 per share, the closing stock price on the effective date of the agreement, May 9, 2016.

\$12.5 million, which was creditable against an upfront fee payable by Vifor, should the parties enter into a worldwide license agreement for CCX140. The amount creditable decreased ratably into the fourth quarter of 2016. In October 2016, the amount creditable expired and was reclassified to the amortizable portion of deferred revenue as discussed below.

The remaining upfront consideration of \$65.5 million will be recognized over the estimated period of performance under the Avacopan Agreement, which approximates 4.2 years, ending in June 2020. The deliverables under the Avacopan Agreement consist of intellectual property licenses, development and regulatory services for the submission of the Marketing Authorization Application (MAA). The Company considered the provisions of the revenue recognition multiple-element arrangement guidance and concluded that the license and the development and regulatory activities for the submission of the MAA do not have stand-alone value because the rights conveyed to do not permit Vifor to perform all efforts necessary to use the Company's technology to bring the compound through development and, upon regulatory approval, commercialization of the compound. Accordingly, the Company combined these deliverables and allocated the remaining upfront consideration of \$65.5 million into a single unit of accounting.

Following the October 2016 expiration of the \$12.5 million potentially creditable towards a CCX140 license agreement, such amount was reclassified to the amortizable portion of deferred revenue, which continues to be recognized over the estimated period of performance under the Avacopan Agreement ending in June 2020.

In February 2017, Vifor and the Company expanded the Vifor territories under the Avacopan Agreement to include all markets outside the United States and China (the Avacopan Amendment). The Company retains control of ongoing and future development of avacopan (other than country-specific development in the licensed territories), and all commercialization rights to avacopan in the United States and China. In connection with this arrangement, the Company received a \$20.0 million upfront cash commitment for the expanded rights, \$10.0 million of which was received in February 2017. The remaining \$10.0 million is due in February 2018 and is not reflected in accounts receivable as of June 30, 2017. The February 2017 Avacopan Amendment and the original May 2016 Avacopan Agreement are accounted for as a combined agreement. The February 2017 Avacopan Amendment did not represent a material modification given among other factors, there were no changes to the Company's deliverables under the arrangement. As such, the additional upfront commitment of \$20.0 million under the Avacopan Amendment will be recognized over the remaining estimated period of performance ending in June 2020. For the three and six months ended June 30, 2017, the Company recognized \$6.2 million and \$11.9 million, respectively, of collaboration and license revenue under the Avacopan Agreement and the Avacopan Amendment, compared to \$2.6 million and \$2.6 million in the same periods ended June 30, 2016. Upon achievement of certain regulatory and commercial milestones with avacopan, the Company will receive additional payments of up to \$510.0 million under the Avacopan Agreement. In addition, the Company will receive royalties, with rates ranging from the low teens to the mid-twenties, on future potential net sales of avacopan by Vifor in the licensed territories.

In December 2016, the Company entered into a second collaboration and license agreement with Vifor pursuant to which the Company granted Vifor exclusive rights to commercialize CCX140 (the CCX140 Agreement) in markets outside the U.S. and China. CCX140 is an orally-administered inhibitor of the chemokine receptor known as CCR2. The Company retains marketing rights in the U.S. and China, while Vifor has commercialization rights in the rest of the world. Pursuant to the CCX140 Agreement, the Company will be responsible for the clinical development of CCX140 in rare renal diseases and will be reimbursed for Vifor's equal share of such development cost. Vifor retains an option to solely develop and commercialize CCX140 in more prevalent forms of chronic kidney disease (CKD). Should Vifor later exercise the CKD option, ChemoCentryx would receive co-promotion rights in CKD in the U.S.

Under the terms of the CCX140 Agreement, the Company received a non-refundable upfront commitment of \$50.0 million, \$30.0 million of which was received in January 2017. The remaining \$20.0 million, which is due on the first anniversary of the CCX140 Agreement, was not reflected in accounts receivable as of June 30, 2017. The upfront commitment of \$50.0 million will be recognized over the estimated period of performance under the CCX140 Agreement, which approximates 5.0 years, ending in December 2021. The deliverables under the CCX140 Agreement consist of intellectual property licenses, development and regulatory services for the submission of the MAA. The Company considered the provisions of the revenue recognition multiple-element arrangement guidance and concluded that the license and the development and regulatory activities for the submission of the MAA do not have stand-alone value because the rights conveyed to do not permit Vifor to perform all efforts necessary to use the Company's technology to bring the compound through development and, upon regulatory approval, commercialization of the compound. Accordingly, the Company combined these deliverables and allocated the upfront consideration of \$50.0 million into a single unit of accounting.

For the three and six months ended June 30, 2017, the Company recognized \$2.7 million and \$5.2 million of collaboration and license revenue under the CCX140 Agreement, respectively, of which \$2.5 million and \$5.0 million were associated with the recognition of upfront commitment. The remaining \$0.2 million represented collaboration revenue derived from funding of CCX140 development services from Vifor. Upon achievement of certain regulatory and commercial milestones with CCX140, the Company will receive additional payments of up to \$625.0 million under the CCX140 Agreement. In addition, the Company will receive tiered royalties, with rates ranging from ten to the mid-twenties, on net sales of CCX140 in the licensed territories.

Under the Avacopan Agreement and the CCX140 Agreement, the Company determined that future contingent payments related to regulatory milestones meet the definition of a substantive milestone under the accounting

guidance. Accordingly, revenue for the achievement of these milestones will be recognized in the period when the milestone is achieved. The Company will be eligible to receive contingent payments related to commercial milestones based on the performance of Vifor and these payments are not considered to be milestones under the accounting guidance. These contingent commercial milestone payments will be included in the allocation of arrangement consideration if and when achieved, resulting in an accounting treatment similar to the upfront payment. As of June 30, 2017, the Company had not received any milestone payments under the Avacopan Agreement or the CCX140 Agreement. The Company expects to recognize royalty revenue in the period of sale of the related product, based on the underlying contract terms. The Avacopan Agreement and the CCX140 Agreement are accounted for as separate arrangements.

**8. Government Grant**

In April 2016, the Company was awarded an Orphan Products Development grant by the U.S. Food and Drug Administration to support the clinical development of avacopan in the amount of \$500,000, which was fully recognized and received as of June 30, 2017. The term of the grant expired in May 2017. During the three and six months ended June 30, 2017, the Company did not recognize any grant revenue. During the three and six months ended June 30, 2016, the Company recognized grant revenue of \$175,000.

**9. Equity Incentive Plans**  
**Stock Options**

During the six months ended June 30, 2017, the Company had the following option activities under its equity incentive plans:

	Available for Grant	Shares	Weighted Average Exercise Price	Outstanding Options Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance at December 31, 2016	1,655,524	9,345,515	\$ 7.72		
Shares authorized	1,900,000				
Granted <sup>(1)</sup>	(1,826,538)	1,546,800	6.86		
Exercised <sup>(2)</sup>	40,208	(264,948)	5.53		
Forfeited and expired	203,247	(203,247)	6.53		
Balance at June 30, 2017	1,972,441	10,424,120	\$ 7.68	6.64	\$ 26,079,637

- (1) The difference between shares granted in the number of shares available for grant and outstanding options represents the RSUs and RSAs granted for the period.
- (2) Shares presented as available for grant represents shares repurchased for tax withholding upon vesting of RSUs.

**Restricted Stock**

During the six months ended June 30, 2017, the activity for restricted stock is summarized as follows:

	Shares	Weighted Average Grant-Date Fair Value
Balance at December 31, 2016	471,650	\$ 4.60
Granted	279,738	6.72
Vested	(179,075)	4.09
Canceled		

Unvested at June 30, 2017	572,313	\$	5.79
---------------------------	---------	----	------

**Stock-based Compensation**

Total stock-based compensation expense was \$2.5 million and \$4.9 million during the three and six months ended June 30, 2017, respectively, and \$2.3 million and \$4.6 million, respectively, during the same periods ended June 30, 2016. As of June 30, 2017, \$11.6 million, \$2.5 million, and \$0.1 million of total unrecognized compensation expenses associated with outstanding employee stock options, unvested restricted stock, and the ESPP, net of estimated forfeitures, were expected to be recognized over a weighted-average period of 2.59, 1.94, and 0.38 years, respectively.



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

*The following discussion and analysis should be read in conjunction with our financial statements and accompanying notes included in this Quarterly Report on Form 10-Q and the financial statements and accompanying notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the Securities and Exchange Commission, or SEC, on March 14, 2017.*

### Forward-Looking Statements

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

the initiation, timing, progress and results of our preclinical studies and clinical trials, and our research and development programs;

our ability to advance drug candidates into, and successfully complete, clinical trials;

the commercialization of our drug candidates;

the implementation of our business model, strategic plans for our business, drug candidates and technology;

the scope of protection we are able to establish and maintain for intellectual property rights covering our drug candidates and technology;

estimates of our expenses, future revenues, capital requirements and our needs for additional financing;

the timing or likelihood of regulatory filings and approvals;

our ability to maintain and establish collaborations or obtain additional government grant funding;

our financial performance; and

developments relating to our competitors and our industry.

These statements relate to future events or to our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Factors that may cause actual results to differ materially from current expectations include, among other things, those included in Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the SEC on March 14, 2017.

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

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

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

## Overview

ChemoCentryx is a biopharmaceutical company developing new medications targeted at inflammatory disorders, autoimmune diseases and cancer. Each of our drug candidates selectively blocks a specific chemokine or chemoattractant receptors, leaving the rest of the immune system intact. Our drug candidates are small molecules, which are orally administered, offering significant quality of life benefits, since patients swallow a capsule or pill instead of having to visit a clinic for an infusion or undergo an injection.

In 2016 we executed on our strategy to form an alliance with a partner that could provide upfront commitments and milestones to support the clinical development of our leading two drug candidates, avacopan and CCX140, to registration and pay us royalties upon sales in international markets, while we develop our own commercial infrastructure to sell directly in the United States.

To help us manage the wide array of opportunities, we have segmented our pipeline into early stage and late stage compounds.

## Late Stage Compounds

We have chosen to focus initially on kidney disease, particularly on rare indications, where orphan drug candidates tend to enjoy a faster path to market and better reimbursement. Our leading drug candidates address areas of clear unmet need, where the current standard of care, or SOC, is insufficient to halt progression of the disease and/or where today's treatment options come with serious side effects, such as those which accompany the prolonged use of steroids:

### *Avacopan (CCX168) - Complement Inhibition in Orphan and Rare Diseases*

Avacopan (formerly CCX168) is an orally-administered complement inhibitor targeting the C5a receptor, or C5aR, and is being developed for orphan and rare diseases, including 1) anti-neutrophil cytoplasmic auto-antibody associated vasculitis, or AAV, a devastating autoimmune disease that destroys blood vessels and can lead to kidney failure; 2) atypical hemolytic uremic syndrome, or aHUS, a rare, life threatening disease; and 3) complement 3 glomerulopathy, or C3G, a debilitating kidney disease that can lead to kidney failure.

Avacopan has been granted orphan drug designation by the U.S. Food and Drug Administration, or FDA, for the treatment of AAV, aHUS and C3G and by the European Medicines Agency, or EMA, for the treatment of microscopic polyangiitis and granulomatosis with polyangiitis, both forms of AAV, and C3G. Additionally, avacopan has been granted PRiority MEDicines, or PRIME, designation from the EMA, to expedite its clinical development, and to potentially accelerate its marketing authorization.

Following completion of two Phase II clinical trials in patients with AAV, the results of which demonstrated that avacopan was safe, well-tolerated and provided effective steroid-free control of the disease, we launched the Phase III ADVOCATE trial in December 2016. The FDA and the EMA concurred with the design of the study. ADVOCATE is a randomized, double-blind two-arm study that is planned to enroll 300 patients at approximately 200 sites in the United States, Canada, Europe, Australia, and New Zealand. We also plan to initiate clinical endpoint trials of avacopan for the treatment of patients with C3G and aHUS in 2017; designed to potentially support registration of avacopan in these indications.

### *CCX140 - Chronic and Rare Kidney Diseases*

CCX140 is an orally-administered inhibitor of the chemokine receptor known as CCR2, has been in development for diabetic nephropathy, or DN, a form of chronic kidney disease, or CKD, and is now being developed for focal segmental glomerulosclerosis, or FSGS, a rare renal disease characterized by progressive proteinuria—excess protein in

the urine and impaired renal function.

A Phase II clinical trial of CCX140 in patients with DN met its primary endpoint by demonstrating that CCX140 given orally once daily added to an SOC renin-angiotensin-aldosterone system inhibitor treatment resulted in a statistically significant reduction in proteinuria, beyond that achieved with SOC alone. Based on the safety and efficacy data related to reduction in proteinuria observed in the Phase II trial in DN, we plan to initiate in 2017 a clinical endpoint trial of CCX140 for the treatment of patients with FSGS, for which there are currently no FDA-approved treatments.

## **Global Kidney Health Alliance with Vifor**

In May 2016 we announced a partnership with Vifor (International) Ltd., or Vifor, a European-based world leader specializing in kidney disease, for the commercial rights to avacopan in Europe and certain other international markets, which we refer to as the Avacopan Agreement. We expanded our partnership with Vifor in December 2016 with an additional deal for our other late stage drug candidate, CCX140, whereby we granted Vifor worldwide rights outside of the United States and China, which we refer to as the CCX140 Agreement; and in February 2017, we announced a further deal with Vifor for avacopan that harmonized the geographic commercialization rights underlying the agreements for both drug candidates, which we refer to as the Avacopan Amendment.

We have secured \$155 million in upfront cash payments and commitments, plus substantial potential milestone payments pursuant to our agreements with Vifor. Through our alliance, we maintain the commercial rights of avacopan and CCX140 in the United States and China, and also retain control of the clinical development programs for rare renal disease. Vifor gains the commercial rights for all other international markets, and will pay us tiered royalties, with rates ranging from ten to the mid-twenties, on potential net sales.

At a future time defined in the contract, Vifor has an option to solely develop and commercialize CCX140 in more prevalent forms of CKD. Should Vifor later exercise the CKD option, we would receive co-promotion rights for CKD in the United States, and we estimate that the clinical development and registration process for CKD would end at approximately the same time as Orphan Drug exclusivity.

## **Early Stage Compounds**

While the science has led us to focus initially on kidney disease, our targeted blocking system designed to stop the spread of inflammatory disease-inducing cells shows promise in other disease areas. Over time we plan to bring forward drug candidates to treat other inflammatory and autoimmune disorders, as well as cancer, where our drug candidate CCX872 has shown promise in a Phase I trial for non-operable pancreatic cancer. Our ability to do so will grow as we increase our scale and start to earn revenues and royalties from the commercialization of our late stage kidney disease franchise.

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, revenue under our collaborations, government contracts and grants and borrowings under equipment financing arrangements.

As of June 30, 2017, we had an accumulated deficit of \$322.3 million. We expect to continue to incur net losses as we develop our drug candidates, expand clinical trials for our drug candidates currently in clinical development, expand our research and development activities, expand our systems and facilities, seek regulatory approvals and engage in commercialization preparation activities in anticipation of FDA approval of our drug candidates. In addition, if a product is approved for commercialization, we will need to expand our organization. Significant capital is required to launch a product and many expenses are incurred before revenues are received. We are unable to predict the extent of any future losses or when we will become profitable, if at all.

## **JOBS Act**

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

standards on the relevant dates on which adoption of such standards is required for other companies.

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

## Critical Accounting Policies and Significant Judgments and Estimates

There have been no material changes in our critical accounting policies during the six months ended June 30, 2017, as compared to those disclosed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Significant Judgments and Estimates in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the SEC on March 14, 2017.

## Results of Operations

### Revenue

We have not generated any revenue from product sales. For the periods presented, our revenues were derived from (i) the recognition of the upfront payment related to the Avacopan Agreement, Avacopan Amendment and CCX140 Agreement; (ii) collaboration revenue under the CCX140 Agreement and (iii) grant revenue from the FDA Orphan Products Development grant to support the clinical development of avacopan for the treatment of patients with AAV. Total revenue for the periods as compared to the same periods in the prior year were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Collaboration and license revenue	\$ 8,937	\$ 2,620	\$ 17,167	\$ 2,620
Grant revenue		175		175
<b>Total revenue</b>	<b>\$ 8,937</b>	<b>\$ 2,795</b>	<b>\$ 17,167</b>	<b>\$ 2,795</b>
Dollar increase	\$ 6,142		\$ 14,372	
Percentage increase	220%		514%	

The increases in revenues from 2016 to 2017 for the three and six month periods were due to; (i) amortization of the upfront license fee commitments from Vifor pursuant to the Avacopan Agreement, Avacopan Amendment and CCX140 Agreement, as well as (ii) collaboration revenue for development services under the CCX140 Agreement in the 2017 periods. These increases were partially offset by a decrease in grant revenue from the FDA to support the clinical development of avacopan for the treatment of patients with AAV.

### Research and development expenses

Research and development expenses represent costs incurred to conduct basic research, the discovery and development of novel small molecule therapeutics, development of our suite of proprietary drug discovery technologies, preclinical studies and clinical trials of our drug candidates. We recognize all research and development expenses as they are incurred. These expenses consist primarily of salaries and related benefits, including stock-based compensation, third-party contract costs relating to research, formulation, manufacturing, preclinical study and clinical trial activities, laboratory consumables, and allocated facility costs. Total research and development expenses for the three and six months ended June 30, 2017, as compared to the same period in the prior year, were as follows (in thousands):

	Three Months Ended June 30,	Six Months Ended June 30,
--	--------------------------------	------------------------------

	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Research and development expenses	\$ 14,329	\$ 9,062	\$ 24,299	\$ 20,307
Dollar increase	\$ 5,267		\$ 3,992	
Percentage increase	58%		20%	

The increases in research and development expenses from 2016 to 2017 for the three and six month periods were primarily attributable to an increase in Phase III clinical development expenses due to the initiation of the avacopan Phase III ADVOCATE trial in patients with AAV in the fourth quarter of 2016 and start-up expenses related to the Phase II clinical trial of avacopan for the treatment of C3G. These increases were partially offset by decreases in Phase I clinical development expense due to the completion of enrollment in the Phase I clinical trial for CCX872 in patients with advanced pancreatic cancer in 2016 and Phase II development expense due to the completion of the avacopan CLEAR and CLASSIC Phase II clinical trials for the treatment of AAV in 2016.



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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Phase I	\$ 362	\$ 1,691	\$ 744	\$ 4,497
Phase II	2,320	3,509	3,372	8,588
Phase III	8,261	268	13,346	268
Research and drug discovery	3,386	3,594	6,837	6,954
<b>Total R&amp;D</b>	<b>\$ 14,329</b>	<b>\$ 9,062</b>	<b>\$ 24,299</b>	<b>\$ 20,307</b>

We track development expenses that are directly attributable to our clinical development candidates by phase of clinical development. Such development expenses include third-party contract costs relating to formulation, manufacturing, preclinical studies and clinical trial activities. We allocate research and development salaries, benefits or indirect costs to our development candidates and we have included such costs in research and development 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. We expect our research and development expenses to increase as we advance our development programs further and increase the number and size of our clinical trials. The process of conducting preclinical studies and clinical trials necessary to obtain regulatory approval is costly and time consuming. We or our partners may never succeed in achieving marketing approval for any of our drug candidates. The probability of success for each drug candidate may be affected by numerous factors, including preclinical data, clinical data, competition, manufacturing capability and commercial viability. Our strategy includes entering into additional partnerships with third parties for the development and commercialization of some of our independent drug candidates.

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 avacopan, CCX140, CCX872 and vercirnon.

#### *General and administrative expenses*

Edgar Filing: ChemoCentryx, Inc. - Form 10-Q

Total general and administrative expenses for the three and six months ended June 30, 2017, as compared to the same periods in the prior year were as follows (in thousands):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
General and administrative expenses	\$ 4,184	\$ 3,877	\$ 8,757	\$ 7,961
Dollar increase	\$ 307		\$ 796	
Percentage increase	8%		10%	

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

The increase from 2016 to 2017 for the three month period was primarily due to higher intellectual property related expenses and accounting related fees associated with preparing to meet the requirements pursuant to the Sarbanes-Oxley Act of 2002. The increase from 2016 to 2017 for the six month period was primarily due to higher intellectual property related expenses and accounting related fees partially offset by lower travel expenses.

We expect that general and administrative expenses will increase in the future as we expand our operating activities and incur additional expenses associated with preparing to meet the requirements pursuant to the Sarbanes-Oxley Act of 2002, including in connection with the expiration of our status as an emerging growth company, expected to occur in 2017.

### *Other income, net*

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest income	\$ 336	\$ 161	\$ 653	\$ 247
Total other income, net	\$ 336	\$ 161	\$ 653	\$ 247
Dollar increase	175		406	
Percentage increase	109%		164%	

The increases in total other income, net from 2016 to 2017 for the three and six month periods were primarily due to higher cash and investment balances in 2017 due to the receipt of upfront payments totaling \$125.0 million received from Vifor in connection with the Avacopan Agreement, Avacopan Amendment and CCX140 Agreement.

### **Liquidity and Capital Resources**

As of June 30, 2017, we had approximately \$136.6 million in cash, cash equivalents and investments. Such amounts exclude \$30.0 million in remaining upfront commitments in connection with the December 2016 CCX140 Agreement and February 2017 Avacopan Amendment, which are due on the first anniversary of these agreements. The following table shows a summary of our cash flows for the six months ended June 30, 2017 and 2016 (in thousands):

	Six Months Ended June 30,	
	2017	2016
Cash provided by (used in)		
Operating activities	\$ 11,988	\$ 55,915

Edgar Filing: ChemoCentryx, Inc. - Form 10-Q

Investing activities	(3,984)	(54,301)
Financing activities	1,472	7,488

*Operating activities.* Net cash provided by operating activities was \$12.0 million for the six months ended June 30, 2017, compared to \$55.9 million for the same period in 2016. This change was primarily due to changes in working capital items. For the six months ended June 30, 2017, changes in working capital included the receipt of \$30.0 million of accounts receivable from the first installment of the upfront commitment under the CCX140 Agreement. For the same period in 2016, changes in working capital included the receipt of \$78.0 million, most of which was included as deferred revenue, in connection with the Avacopan Agreement.

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

*Financing activities.* Net cash provided by financing activities was \$1.5 million for the six months ended June 30, 2017, compared to \$7.5 million for the same period in 2016. Net cash provided by financing activities for both periods presented included proceeds from the exercise of stock options and purchases from contributions to our 2012 Employee Stock Purchase Plan. For the six months ended June 30, 2016, net cash provided also included the receipt of \$7.0 million in net proceeds from the issuance of 3,333,333 shares of our common stock in connection with the Avacopan Agreement. For the six months ended June 30, 2017, cash used for financing activities included \$0.3 million (the value of withheld shares), for tendered ChemoCentryx, Inc. common stock to satisfy employee tax withholding requirements upon vesting of restricted stock units.

As of June 30, 2017, we had approximately \$136.6 million in cash, cash equivalents and investments, excluding the \$30.0 million in remaining upfront commitments in connection with the December 2016 CCX140 Agreement and the February 2017 Avacopan Amendment, which are due on the first anniversary of these agreements. We believe that our available cash, cash equivalents and investments will be sufficient to fund our anticipated level of operations for at least 12 months following our financial statement issuance date, August 8, 2017. However, our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary materially.

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

the terms and timing of any other collaborative, licensing and other arrangements that we may establish;

the initiation, progress, timing and completion of preclinical studies and clinical trials for our drug candidates and potential drug candidates;

the number and characteristics of drug candidates that we pursue;

the progress, costs and results of our clinical trials;

the outcome, timing and cost of regulatory approvals;

delays that may be caused by changing regulatory approvals;

the cost and timing of hiring new employees to support continued growth;

the costs involved in filing and prosecuting patent applications and enforcing and defending patent claims;

the cost and timing of procuring clinical and commercial supplies of our drug candidates;

the cost and timing of establishing sales, marketing and distribution capabilities; and

the extent to which we acquire or invest in businesses, products or technologies.

### **Contractual Obligations and Commitments**

There have been no material changes outside the ordinary course of our business to the contractual obligations we reported in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the SEC on March 14, 2017.

### **Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board, or FASB, issued a comprehensive new standard on revenue from contracts with customers. The standard's core principle is that a reporting entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. On July 9, 2015, the FASB voted to delay the effective date of the new standard by one year. The standard would become effective for us beginning in the first quarter of 2018. Early application would be permitted in 2017. Entities would have the option of using either a full retrospective or a modified retrospective approach to adopt this new guidance. In 2016, the FASB updated the guidance for reporting revenue gross versus net to improve the implementation guidance on principal versus agent considerations, and for identifying performance obligations and the accounting of intellectual property licenses. In addition, the FASB introduced practical expedients and made narrow scope improvements to the new accounting guidance.

We currently plan to adopt the accounting standard update on January 1, 2018, using the modified retrospective approach. The cumulative effect of adopting the accounting standard update will be recorded to retained earnings on January 1, 2018. We are currently at the early stages of analyzing our collaboration agreements to determine the differences in the accounting treatment under Accounting Standard Update, or ASU, No. 2014-09 compared to the current accounting treatment. During 2016, we entered into two license and collaboration agreements. We have primarily derived our revenues from license and collaboration agreements. The consideration we are eligible to receive under these agreements includes of upfront payments, research and development funding, milestone payments, and royalties. Each license and collaboration agreement is unique and will need to be assessed separately under the five-step process under the new standard. The new revenue recognition standard differs from the current accounting standard in many respects, such as in the accounting for variable considerations and the measurement of progress toward completion of performance obligations. While we have not completed an assessment of the impact of adoption, the adoption of ASU No. 2014-09 may have a material effect on our financial statements.

In February 2016, the FASB issued a new standard that requires all lessees recognize the assets and liabilities that arise from leases on the balance sheet and disclose qualitative and quantitative information about its leasing arrangements. The new standard will be effective for us on January 1, 2019. We are currently evaluating the impact of the adoption of this standard on our financial statements. However, we expect the adoption of this accounting guidance to result in an increase in lease assets and a corresponding increase in lease liabilities on our balance sheets.

In March 2016, the FASB issued ASU No. 2016-09 Improvements to Employee Share-Based Payment Accounting, which is intended to simplify several aspects of the accounting for share-based payment award transactions, including the income tax consequences, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. We adopted ASU No. 2016-09 on January 1, 2017. Under this guidance, on a prospective basis, companies will no longer record excess tax benefits and tax deficiencies from stock option exercises in additional paid-in capital (APIC). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement. In addition, the guidance eliminates the requirement that excess tax benefits be realized before companies can recognize them. The ASU requires a cumulative-effect adjustment for previously unrecognized excess tax benefits in opening retained earnings in the annual period of adoption. As of January 1, 2017, we had an unrecognized excess tax benefit of \$2.1 million. Upon adoption, we recognized this excess tax benefit as a deferred tax asset with a corresponding increase to our deferred tax asset valuation allowance. Additionally, as provided for under this new guidance, we elected to continue to estimate forfeitures. The adoption of this aspect of the guidance did not have a material impact on our financial statements.

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

Our market risks at June 30, 2017 have not changed significantly from those discussed in Item 7A. Quantitative and Qualitative Disclosures About Market Risk of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the SEC on March 14, 2017.

### **Item 4. Controls and Procedures**

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

As of June 30, 2017, management, with the participation of our Disclosure Committee, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial and Administrative Officer, to allow timely decisions regarding required disclosures.

Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objective. Based on this evaluation, our Chief Executive Officer and Chief Financial and Administrative Officer concluded that, as of June 30, 2017, the design and operation of our disclosure controls and procedures were effective.

#### **Changes in Internal Control Over Financial Reporting**

There has been no change in our internal control over financial reporting during the three months ended June 30, 2017, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.





## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

Not Applicable.

### **Item 1A. Risk Factors**

There have been no material changes to the risk factors included in Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the SEC on March 14, 2017.

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

Not Applicable.

### **Item 3. Defaults Upon Senior Securities**

Not Applicable.

### **Item 4. Mine Safety Disclosures**

Not Applicable.

### **Item 5. Other Information**

Not Applicable.

### **Item 6. Exhibits**

A list of exhibits is set forth on the Exhibit Index immediately following the signature page of this Quarterly Report on Form 10-Q, and is incorporated herein by reference.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**CHEMOCENTRYX, INC.**

Date: August 8, 2017

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

President and Chief Executive Officer

(Principal Executive Officer)

Date: August 8, 2017

/s/ Susan M. Kanaya  
Susan M. Kanaya

Executive Vice President,

Chief Financial and Administrative Officer and Secretary

(Principal Financial and Accounting Officer)

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
10.1	Amendment to Collaboration and License Agreement, effective as of May 22, 2017 between the Registrant and Vifor Fresenius Medical Care Renal Pharma Ltd..
10.2#	Second Amendment to Lease, dated April 13, 2017, by and between Google Inc. and the Registrant.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following information from the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2017, formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Loss, (iv) Condensed Consolidated Statements of Cash Flows, and (v) the Notes to Condensed Consolidated Financial Statements.

Confidential treatment has been requested for portions of this exhibit. These portions have been omitted and filed separately with the SEC.