UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 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: 001-37785

Reata Pharmaceuticals, Inc.

(Exact Name of Registrant as Specified in its Charter)

DELAWARE	**11-3651945**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2801 Gateway Dr, Suite 150 Irving, Texas	**75063**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (972) 865-2219

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 (§ 232.405 of this chapter) 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, an emerging growth company, 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	☒ (Do not check if a small 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 ☒

As of November 9, 2017, the registrant had 19,842,134 shares of Class A common stock, $0.001 par value per share, and 6,272,335 shares of Class B common stock, $0.001 par value per share, outstanding.

TABLE OF CONTENTS

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements that involve substantial risks and uncertainties. We make such forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and other federal securities laws. All statements, other than statements of historical facts, contained in this Quarterly Report on Form 10-Q, including statements regarding our strategy, future operations, future financial position, future revenues, projected costs, prospects, plans, and objectives of management, are forward-looking statements. The words "anticipate," "believe," "goals," "continue," "could," "estimate," "model," "expect," "intend," "may," "might," "plan," "potential," "predict," "project," "seek," "should," "target," "will," "would," and similar expressions are intended to identify forward-looking statements. These forward-looking statements include, but are not limited to, statements about:

- our expectations regarding the timing, costs, conduct, and outcome of our clinical trials, including statements regarding the timing of the initiation and availability of data from such trials;
- the timing and likelihood of regulatory filings and approvals for our product candidates;
- our expectations regarding the potential market size and the size of the patient populations for our product candidates, if approved for commercial use, and the potential market opportunities for commercializing our product candidates;
- our expectations related to the use of our available cash;
- estimates of our expenses, future revenue, capital requirements, and our needs for additional financing;
- our ability to develop, acquire, and advance product candidates into, and successfully complete, clinical trials;
- the initiation, timing, progress, and results of future preclinical studies and clinical trials, and our research and development programs;
- the scope of protection we are able to establish and maintain for intellectual property rights covering our product candidates;
- our ability to maintain and establish collaborations or obtain additional funding;
- our ability to maintain and establish relationships with third parties, such as contract research organizations, suppliers, and distributors;
- our expectations regarding the time during which we will be an emerging growth company under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act;
- our ability to establish and maintain arrangements for manufacture of our product candidates;
- our ability to attract collaborators with development, regulatory, and commercialization expertise;
- the impact of governmental laws and regulations;
- developments and projections relating to our competitors and our industry; and
- other risks and uncertainties, including those described under the heading "Risk Factors" included in our most recent Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on March 3, 2017, as supplemented by our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, filed with the SEC on May 10, 2017.

Any forward-looking statements in this Quarterly Report on Form 10-Q reflect our current views with respect 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 described under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016, and under the heading "Risk Factors" in Part II, Item 1A, of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017. Given these uncertainties, you should not place undue reliance on these forward-looking statements.

You should read this Quarterly Report on Form 10-Q and the documents that we have filed as exhibits to this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect. 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.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Reata Pharmaceuticals, Inc.

Consolidated Balance Sheets
(in thousands, except share data)

	September 30, 2017 (unaudited)	December 31, 2016
Assets		
Cash and cash equivalents	$ 154,600	$ 84,732
Prepaid expenses and other current assets	3,246	2,551
Total current assets	157,846	87,283
Property and equipment, net	774	819
Other assets	1,760	991
Total assets	$ 160,380	$ 89,093
Liabilities and stockholders' deficit		
Accounts payable	$ 2,527	$ 3,830
Accrued direct research liabilities	10,014	6,151
Other current liabilities	6,474	3,047
Current portion of deferred revenue	30,588	46,603
Total current liabilities	49,603	59,631
Other long-term liabilities	7	72
Term loan, net of discounts and debt issuance costs	19,833	—
Deferred revenue, net of current portion	223,359	244,438
Total noncurrent liabilities	243,199	244,510
Commitments and contingencies		
Stockholders' deficit:		
Common stock A, $0.001 par value: 500,000,000 shares authorized; issued and outstanding – 18,630,799 and 11,687,974 shares at September 30, 2017 and December 31, 2016	19	12
Common stock B, $0.001 par value: 150,000,000 shares authorized; issued and outstanding – 7,483,670 and 10,656,920 shares at September 30, 2017 and December 31, 2016	7	11
Additional paid-in capital	188,030	74,298
Shareholder notes receivable	(15)	(15)
Accumulated deficit	(320,463)	(289,354)
Total stockholders' deficit	(132,422)	(215,048)
Total liabilities and stockholders' deficit	$ 160,380	$ 89,093

See accompanying notes.

Reata Pharmaceuticals, Inc.

Unaudited Consolidated Statements of Operations
(in thousands, except share and per share data)

	Three Months ended September 30,		Nine Months ended September 30,	
	2017	2016	2017	2016
Collaboration revenue				
License and milestone	$ 12,501	$ 12,500	$ 37,594	$ 37,230
Other revenue	56	51	500	125
Total collaboration revenue	12,557	12,551	38,094	37,355
Expenses				
Research and development	18,326	9,300	50,830	27,681
General and administrative	6,151	4,039	17,312	11,783
Depreciation and amortization	98	170	336	537
Total expenses	24,575	13,509	68,478	40,001
Other income (expense)				
Investment income	198	62	352	113
Interest expense	(484)	—	(956)	—
Other income (expense)	(3)	—	(3)	—
Total other income (expense)	(289)	62	(607)	113
Loss before taxes on income	(12,307)	(896)	(30,991)	(2,533)
Provision (benefit) for taxes on income	1	1	2	(442)
Net loss	$ (12,308)	$ (897)	$ (30,993)	$ (2,091)
Net loss per share—basic and diluted	$ (0.50)	$ (0.04)	$ (1.34)	$ (0.11)
Weighted-average number of common shares used in net loss per share basic and diluted	24,845,364	22,324,374	23,196,293	18,970,128

See accompanying notes.

Reata Pharmaceuticals, Inc.

Unaudited Consolidated Statements of Cash Flows
(in thousands)

	Nine Months ended September 30,	
	2017	**2016**
Operating activities		
Net loss	$ (30,993)	$ (2,091)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	414	537
Stock-based compensation expense	4,730	1,451
Loss on disposal of property and equipment	3	—
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(695)	(2,899)
Other assets	(769)	(451)
Accounts payable	(1,409)	(2,235)
Accrued direct research and other current liabilities	7,355	2,869
Other liabilities	(65)	—
Federal income tax receivable/payable	—	31,926
Deferred revenue	(37,094)	(37,230)
Net cash used in operating activities	(58,523)	(8,123)
Investing activities		
Purchases of property and equipment	(208)	(281)
Net cash used in investing activities	(208)	(281)
Financing activities		
Proceeds from issuance of common stock	108,910	64,705
Payments on deferred offering costs	(386)	(2,531)
Proceeds from long-term debt	20,000	—
Payments on deferred discount and issuance costs	(251)	—
Exercise of options	371	(73)
Payment of capital lease obligation	(45)	(45)
Net cash provided by financing activities	128,599	62,056
Net increase in cash and cash equivalents	69,868	53,652
Cash and cash equivalents at beginning of year	84,732	42,008
Cash and cash equivalents at end of period	$ 154,600	$ 95,660
Supplemental disclosures		
Cash paid for interest	$ 727	$ —
Purchases of equipment in accounts payable and other current liabilities	$ 106	$ 13
Accrued deferred offering costs	$ 18	$ 348
Income taxes paid	$ —	$ 18

See accompanying notes.

1. Description of Business

Reata Pharmaceuticals, Inc. (the Company) is a clinical stage biopharmaceutical company located in Irving, Texas focused on identifying, developing, and commercializing product candidates to address serious and life-threatening diseases with few or no approved therapies by targeting molecular pathways that regulate cellular metabolism and inflammation. The Company operates as a single segment of business.

The Company's lead product candidates, bardoxolone methyl and omaveloxolone, activate the important transcription factor Nrf2 to restore mitochondrial function, reduce oxidative stress, and resolve inflammation.

The Company is currently conducting three Phase 3 or other potentially registrational trials. Bardoxolone methyl is being studied in a single, pivotal Phase 2/3 trial, known as CARDINAL, for the treatment of chronic kidney disease (CKD) caused by Alport syndrome and a Phase 3 trial, known as CATALYST, for the treatment of pulmonary arterial hypertension associated with connective tissue disease (CTD-PAH). The Company began enrolling patients in the Phase 3 portion of CARDINAL in August 2017, after having announced preliminary results from the trial. On November 3, 2017, the Company announced primary endpoint and other 12 week data from the ongoing Phase 2 portion of CARDINAL. Omaveloxolone is being studied in a two-part Phase 2 trial, known as MOXIe, for the treatment of Friedreich's ataxia. The Company announced data from part 1 of MOXIe in June 2017 and began enrolling patients in October 2017 in part 2 of the trial, which is potentially registrational.

The Company is also currently conducting trials in four other areas. In October 2017, we began activating sites in a Phase 2 trial, known as PHOENIX, to test bardoxolone methyl in the treatment of other rare kidney diseases. Bardoxolone methyl is currently being studied in a Phase 2 trial, known as LARIAT, for the treatment of PAH and pulmonary hypertension due to interstitial lung disease (PH-ILD). Omaveloxolone is being studied in a two-part Phase 2 trial for the treatment of mitochondrial myopathies, known as MOTOR, and a Phase 1b/2 trial for the treatment of metastatic melanoma, known as REVEAL.

In addition to these ongoing trials, the Company conducted a Phase 1 trial of RTA 901 in healthy volunteers, with no safety or tolerability issues, and is evaluating various options in the design and timing of a Phase 2 trial. Beyond its clinical programs, the Company has additional promising preclinical development programs. The Company believes its product candidates and preclinical programs have the potential to improve clinical outcomes in numerous underserved patient populations.

The Company's consolidated financial statements include the accounts of all majority-owned subsidiaries that are required to be consolidated. Accordingly, the Company's share of net earnings and losses from these subsidiaries is included in the consolidated statements of operations. Intercompany profits, transactions, and balances have been eliminated in consolidation.

On May 25, 2016, the Company's registration statement on Form S-1 (File No. 333-208843) relating to its initial public offering (IPO) of its common stock was declared effective by the U.S. Securities and Exchange Commission. The shares began trading on The NASDAQ Global Market on May 26, 2016. The public offering price of the shares sold in the offering was $11.00 per share. The IPO closed on June 1, 2016, for 6,325,000 shares of its Class A common stock, which included 825,000 shares of its Class A common stock issued pursuant to the over-allotment option granted to the underwriters. The Company received total proceeds from the offering of $60.9 million, net of underwriting discounts and commissions and offering expenses.

On August 1, 2017, the Company closed a follow-on underwritten public offering of 3,737,500 shares of its Class A common stock, which included 487,500 shares of its Class A common stock issued pursuant to an option granted to the underwriters, for gross proceeds of $115.9 million. The Company received total proceeds from the offering of $108.5 million, after deducting underwriting discounts and commissions and offering expenses.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2017, are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. The consolidated balance sheet at December 31, 2016, has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. For further information, refer to the annual consolidated financial statements and footnotes thereto of the Company.

Revenue Recognition

The Company's revenue to date has been generated primarily through collaborative licensing agreements with AbbVie Ltd. (AbbVie) and Kyowa Hakko Kirin Co., Ltd. (KHK). Revenues for periods shown consist of the recognition of deferred revenue from upfront payments and milestone payments received in 2012 and prior years. The Company has not generated any revenue based on the sale of products.

In June 2013, the Company entered into a research collaboration with a disease advocacy organization. Under the agreement, the Company may be provided milestone payments to fund research and development activities. The Company recorded collaboration revenue totaling $500,000 related to milestone payments during the nine months ended September 30, 2017.

Research and Development Costs

AbbVie is not currently participating in the development of bardoxolone methyl for the treatment of CKD caused by Alport syndrome, PAH, PH-ILD, or other rare kidney diseases, and we are therefore incurring all costs for this program. With respect to its omaveloxolone programs and its collaboration agreement with AbbVie, the Company was responsible for a certain initial amount in early development costs before AbbVie began sharing development costs equally. As of April 2016, the Company had incurred all of these initial costs, after which payments from AbbVie with respect to research and development costs incurred by the Company were recorded as a reduction in research and development expenses.

In September 2016, the Company and AbbVie mutually agreed that the Company would continue unilateral development of omaveloxolone. Therefore, AbbVie no longer co-funds the exploratory development costs of this program, but retains the right to opt back in at certain points in development. For the three and nine months ended September 30, 2017, no payments related to shared research and developments costs were received.

The Company bases its expense accruals related to clinical trials on its estimates of the services received and efforts expended pursuant to contracts with multiple research institutions and contract research organizations that conduct and manage clinical trials on its behalf. The financial terms of these agreements vary from contract to contract and may result in uneven payment flows. Payments under some of these contracts depend on factors such as the successful enrollment of patients and the completion of clinical trial milestones. In accruing costs, the Company estimates the time period over which services will be performed and the level of effort to be expended in each period. If the Company does not identify costs that it has begun to incur or if the Company underestimates or overestimates the level of services performed or the costs of these services, its actual expenses could differ from its estimates.

To date, the Company has not experienced significant changes in its estimates of accrued research and development expenses after a reporting period. However, due to the nature of estimates, the Company cannot assure that it will not make changes to its estimates in the future as the Company becomes aware of additional information about the status or conduct of its clinical trials and other research activities.

Stock-Based Compensation

The Company accounts for its equity-based compensation awards in accordance with Accounting Standard Codification ASC 718 *Compensation—Stock Compensation* (ASC 718). ASC 718 requires companies to recognize compensation expense using a fair value based method for costs related to stock-based payments, including stock options. The expense is measured based on the grant date fair value of the awards that are expected to vest, and the expense is recorded over the applicable requisite service period.

The Company uses the Black-Scholes option-pricing model to estimate the fair value of stock option awards, which takes into consideration various factors, including the exercise price of the award, the expected term of the award, the current price of the underlying shares, the expected volatility of the underlying share price based on peer companies, and the risk-free interest rate. The Company accounts for forfeitures of share-based awards when they occur.

Prior to the Company's IPO of its common stock, the fair values of the shares of common stock underlying the Company's share-based awards were estimated on each grant date using a probability-weighted expected return method. Following the close of its IPO in June 2016, the fair values of its common stock underlying its share-based awards were estimated using observable market prices.

Risks and Uncertainties

The Company has experienced losses and negative operating cash flows for many years since inception and has no marketed drug or other products. The Company's ability to generate future revenue depends upon the results of its development programs, the success of which cannot be guaranteed. The Company will need to raise additional equity or debt capital in the future in order to fund its operations.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. 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 those estimates.

Fair Value of Financial Instruments

The fair values of the Company's stockholder notes receivable were approximately $34,000 and $28,000 at September 30, 2017 and December 31, 2016, respectively. The fair value was calculated using an income approach to estimate the present value of expected future cash flows to be received under the notes. The measurement is considered to be based primarily on Level 3 inputs used in the calculation, including the discount rate applied and the estimate of future cash flows.

Net Loss per Share

Basic and diluted net loss per common share is calculated 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. The Company's potentially dilutive shares, which include unvested restricted stock and options to purchase common stock, are considered to be common stock equivalents and are only included in the calculation of diluted net income (loss) per share when their effect is dilutive. For periods in which the Company reports a net loss attributable to common stockholders, diluted net loss per share attributable to common stockholders is the same as basic net loss per share attributable to common stockholders, since dilutive common shares are not assumed to have been issued if their effect is anti-dilutive.

The Company uses the two-class method to compute net loss per common share attributable to common stockholders because the Company has issued securities, other than Class A and Class B common stock, that contractually entitle the holders to participate in dividends and earnings of the Company. The two-class method requires earnings for the period to be allocated between common stock and participating securities based upon their respective rights to receive distributed and undistributed earnings. Holders of restricted common stock are entitled to the dividend amount paid to common stockholders on an as-if-converted-to-common stock basis when declared by the Company's Board of Directors. As a result, all restricted common stock are considered to be participating securities.

Deferred Offering Costs

Deferred offering costs, which primarily consist of direct incremental accounting, legal, and printing fees relating to the IPO and a follow-on underwritten public offering, were initially capitalized. The deferred offering costs totaling $3,489,000 and $386,000 were subsequently offset against total proceeds from the IPO and the follow-on offering upon the completion of the offerings on June 1, 2016 and August 1, 2017, respectively.

Debt Issuance Costs

The Company defers costs related to debt issuance and amortizes these costs to interest expense over the term of the debt, using the effective interest method. Debt issuance costs are presented in the balance sheet as a deduction from the carrying amount of the debt liability.

Recent Accounting Pronouncements

The Company is an "emerging growth company," as defined in the Jumpstart Our Business Startups Act of 2012 (the JOBS Act). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. The Company has irrevocably elected not to avail itself of this exemption from new or revised accounting standards, and, therefore, will be subject to the same new or revised accounting standards as public companies that are not emerging growth companies.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09), which supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*. The FASB has subsequently issued a number of amendments to ASU 2014-09. The new standard, as amended, provides a single comprehensive model based on the principle that revenue is recognized to depict the transfer of 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. To achieve this principle, ASU 2014-09 defines a five-step process, which may include more judgment and estimates than are required under existing GAAP, including identifying performance obligations in a contract, estimating the amount of variable consideration to include in the transaction price, and allocating the transaction price to each performance obligation.

The new standard is effective for interim and annual periods beginning after December 15, 2017, with early application for interim and annual periods beginning after December 15, 2016, permitted, and allows two methods of adoption: the full retrospective method, which requires the standard to be applied to each prior period presented, or the modified retrospective method, which requires the cumulative effect of adoption to be recognized as an adjustment to opening retained earnings in the period of adoption.

The Company has completed an initial impact assessment of the potential changes from adopting ASU No. 2014-09. The impact assessment consisted of a review of contracts, discussions with key stakeholders, and a cataloging of potential impacts on its financial statements, accounting policies, financial control, and operations. The Company anticipates that the adoption of ASU No. 2014-09 will have an impact on contract revenues generated by collaboration agreements.

The Company has not yet completed its final review of the impact of this guidance; however, the Company anticipates applying the modified retrospective method when implementing this guidance. The Company plans to adopt the new standard effective January 1, 2018. The Company continues to monitor additional changes, modifications, clarifications or interpretations being undertaken by the FASB, which may impact its current conclusions.

In April 2015, the FASB issued ASU No. 2015-03, *Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheets as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The Company adopted ASU 2015-03 as of January 1, 2017. The recognition and measurement guidance for debt issuance costs were not affected by the amendments in ASU No. 2015-03. In March 2017, upon entering into a loan and security agreement, $91,000 of debt issuance costs was netted against the principal balance of our outstanding term loan of $20,000,000.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842) (ASU 2016-02), which supersedes ASC 840, *Leases*. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases previously classified as operating leases. The standard is effective for public companies for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The Company will apply the guidance and disclosure provisions of the new

standard upon adoption. The Company is currently evaluating this standard and has not yet determined what, if any, effect ASU 2016-02 will have on its consolidated operations or financial position but anticipates the recognition of additional assets and corresponding liabilities related to leases on its balance sheet.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting* (Topic 718) (ASU 2016-09) which modifies U.S. GAAP by requiring the following, among others: (1) all excess tax benefits and tax deficiencies are to be recognized as income tax expense or benefit on the income statement (excess tax benefits are recognized regardless of whether the benefit reduces taxes payable in the current period); (2) excess tax benefits are to be classified along with other income tax cash flows as an operating activity in the statement of cash flows; (3) in the area of forfeitures, an entity can still follow the current U.S. GAAP practice of making an entity-wide accounting policy election to estimate the number of awards that are expected to vest or may instead account for forfeitures when they occur; and (4) classification as a financing activity in the statement of cash flows of cash paid by an employer to the taxing authorities when directly withholding shares for tax withholding purposes. ASU 2016-09 is effective for annual periods beginning after December 15, 2016. The Company adopted ASU 2016-09 as of January 1, 2017, which resulted in an adjustment to retained earnings of $110,000 related to the cumulative effect of the accounting policy election to account for forfeitures of share-based awards when they occur, and an adjustment of $115,000 to recognize excess tax benefits as a component of the provision for income taxes on a prospective basis. For the nine months ended September 30, 2017, the effect on the provision for income taxes included in the consolidated statement of operations was not significant.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments* (Topic 230) (ASU 2016-15). This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The ASU is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company is currently evaluating this standard and has not yet determined what, if any, effect ASU 2016-15 will have on its consolidated results of operations or financial position.

In January 2017, the FASB issued ASU No. 2017-03, *Accounting Changes and Error Corrections* (Topic 250) *and Investments—Equity Method and Joint Ventures* (Topic 323) (ASU 2017-03). This ASU amends the disclosure requirements for ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), ASU No. 2016-02, *Leases* (Topic 842) and ASU No. 2016-13, *Financial Instruments—Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instruments*. This ASU states that if a registrant does not know or cannot reasonably estimate the impact that the adoption of the above ASUs is expected to have on the financial statements, then in addition to making a statement to that effect, the registrant should consider additional qualitative financial statement disclosures to assist the reader in assessing the significance of the impact that the standard will have on the financial statements of the registrant when adopted. ASU 2017-03 was effective upon issuance. The adoption did not have a material impact on the Company's financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation—Stock Compensation* (Topic 718) (ASU 2017-09). This ASU provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted. We have adopted the standard as of June 30, 2017. The adoption did not have a material impact on the Company's financial statements.

3. Term Loan

On March 31, 2017, the Company entered into a loan and security agreement (Loan Agreement) with Oxford Finance LLC and Silicon Valley Bank (collectively, the Lenders), under which the Lenders agreed to lend the Company up to $35,000,000, issuable in two separate term loans of $20,000,000 (Term A Loan) and $15,000,000 (Term B Loan). On March 31, 2017, the Company borrowed $20,000,000 from the Term A Loan.

On November 3, 2017, the Company amended the Loan Agreement (Amended Loan Agreement) to increase the Term B Loan amount to either $20,000,000 or $25,000,000 and to extend the interest only period by six months if the Term B Loan is drawn. The Company may, at its sole discretion, borrow $20,000,000 under Term B Loan. An additional $5,000,000 will be available under the Term B Loan for a total of $25,000,000 upon the achievement of one of two milestones. The Company may borrow the Term B Loan by the earlier of 90 days after the achievement of a milestone or June 29, 2018.

The Company paid an amendment fee of $250,000 on November 8, 2017, upon the execution of the Amended Loan Agreement. If the Company does not draw the Term B Loan, the Company would pay an unused line fee of $1,000,000.

All outstanding Term Loans will mature on March 1, 2022. Under the Term A Loan, the Company will make interest-only payments for 18 months through October 1, 2018; however, if the Company draws the Term B Loan, the Company will make interest-only payments for 30 months through October 1, 2019. The interest-only payment period will be followed by 41 equal monthly payments, or 29 equal monthly payments if the Company draws the Term B Loan, of principal and interest payments. The Term Loans will bear interest at a floating per annum rate calculated as 7.40% plus the greater of the 30-day U.S. Dollar LIBOR rate reported in The Wall Street Journal on the last business day of the month that immediately precedes the month in which the interest will accrue or 0.75%, with a minimum rate of 8.15% and maximum rate of 10.15%.

The Company has the option to prepay all, but not less than all, of the borrowed amounts, provided that the Company will be obligated to pay a prepayment fee equal to (a) 3.0% of the outstanding principal balance of the applicable Term Loan if prepayment is made prior to the first anniversary of the applicable funding date of the Term Loan, (b) 2.0% of the outstanding principal balance of the applicable Term Loan if prepayment is made by the second anniversary of the applicable funding date of the Term Loan, or (c) 1.0% of the outstanding principal balance of the applicable Term Loan if prepayment is made after the second anniversary of the applicable funding date of the Term Loan. The Company will also be required to make a final exit fee payment of 2.95% of the principal balance of all Term Loans outstanding, payable on the earliest of the prepayment of the Term Loans, acceleration of any Term Loan, or at maturity of the Term Loans.

The Company may use the proceeds from the Term Loans for working capital and to fund its general business requirements. The Company's obligations under the Loan Agreement are secured by a first priority security interest in substantially all of its current and future assets, other than its owned intellectual property. The Company has also agreed not to encumber its intellectual property assets, except as permitted by the Loan Agreement.

As of September 30, 2017, the Company had $20,000,000 outstanding under the Term A Loan, which was recorded at its initial carrying value of $20,000,000, less discount and debt issuance costs totaling approximately $251,000. In connection with the Term A Loan, the discount and debt issuance costs were recorded as a reduction to debt on its balance sheet and are being accreted to interest expense over the life of the Term A Loan. Additionally, the final exit fee of approximately $590,000 is being accrued over the life of the Term A Loan through interest expense. The Term A Loan has a current effective interest rate of 10.4%. The Company is in compliance with all covenants under the Loan Agreement as of September 30, 2017.

The future principal payments for the Company's Term A Loan as of September 30, 2017 are as follows (in thousands):

2017	$ —
2018	975
2019	5,854
2020	5,854
2021	5,854
2022	1,463
	$ 20,000

4. Income Taxes

The Company's effective tax rate varies with the statutory rate due primarily to the impact of nondeductible stock-based compensation and the changes in valuation allowance related to certain deferred tax assets generated or utilized in the applicable period. The Company's deferred tax assets have been fully offset by a valuation allowance at September 30, 2017, and the Company expects to maintain this valuation allowance until there is sufficient evidence that future earnings can be achieved, which is uncertain at this time.

5. Stock-Based Compensation

Stock Options

The following table summarizes stock-based compensation expense reflected in the consolidated statements of operations (in thousands):

	Three Months ended September 30,		Nine Months ended September 30,	
	2017	2016	2017	2016
Research and development	$ 587	$ 375	$ 1,729	$ 725
General and administrative	958	341	3,001	726
	$ 1,545	$ 716	$ 4,730	$ 1,451

The following table summarizes stock option activity as of September 30, 2017, and changes during the nine months ended September 30, 2017, under the 2007 Long Term Incentive Plan (the 2007 LTIP) and standalone option agreements:

	Number of Options	Weighted-Average Exercise Price
Outstanding at January 1, 2017	2,311,146	17.18
Granted	121,698	26.47
Exercised	(32,075)	11.54
Forfeited	(3,805)	16.08
Expired	(66)	25.21
Outstanding at September 30, 2017	2,396,898	17.72
Exercisable at September 30, 2017	831,620	16.90

The total intrinsic value of all outstanding options and exercisable options at September 30, 2017 was $32,803,000 and $12,541,000, respectively.

6. Related-Party Transactions

During the nine months ended September 30, 2017, the Company did not have any related party transactions. During the nine months ended September 30, 2016, the Company paid approximately $306,000 to AbbVie, a greater than 10% shareholder of the Company at that time, for manufacturing services. The payments were recorded in research and development expense in the accompanying consolidated statements of operations.

7. Net Loss per Share

The following table sets forth the computation of basic and diluted net loss per share attributable to common stockholders:

	Three Months ended September 30,		Nine Months ended September 30,	
	2017	2016	2017	2016
Numerator				
Net loss (in thousands)	$ (12,308)	$ (897)	$ (30,993)	$ (2,091)
Denominator				
Weighted-average number of common shares used in net loss per share – basic	24,845,364	22,324,374	23,196,293	18,970,128
Dilutive potential common shares	—	—	—	—
Weighted-average number of common shares used in net loss per share – diluted	24,845,364	22,324,374	23,196,293	18,970,128
Net loss per share – basic	$ (0.50)	$ (0.04)	$ (1.34)	$ (0.11)
Net loss per share – diluted	$ (0.50)	$ (0.04)	$ (1.34)	$ (0.11)

The number of weighted average options that were not included in the diluted earnings per share calculation because the effect would have been anti-dilutive represented 2,396,898 and 1,474,893 shares for the nine months ended September 30, 2017 and 2016, respectively.

8. Subsequent events

On November 3, 2017, the Company amended the Loan Agreement with the Lenders, which is further discussed in Note 3.

On November 9, 2017, the Company amended the lease agreement for its principal executive offices in Irving, Texas to extend its lease term by 24 months for an expiration date of October 2020.

On November 9, 2017, the Company entered into an at-the-market equity offering sales agreement with Stifel, Nicolaus & Company, Incorporated, that established a program pursuant to which it may offer and sell up to $50,000,000 of its Class A common stock from time to time in at-the-market transactions. As of the filing date of this Form 10-Q, there have been no shares sold under this program.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and related notes and other financial information appearing in this Quarterly Report on Form 10-Q. Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q, including information with respect to our plans and strategy for our business, operations, and product candidates, includes forward-looking statements that involve risks and uncertainties. Factors that may cause actual results to differ materially from current expectations include, among other things, those described under the heading "Risk Factors" and discussed elsewhere in this Quarterly Report on Form 10-Q.

Overview

We are a clinical stage biopharmaceutical company focused on identifying, developing, and commercializing product candidates to address serious and life-threatening diseases with few or no approved therapies by targeting molecular pathways that regulate cellular metabolism and inflammation. Our lead product candidates, bardoxolone methyl and omaveloxolone, activate the important transcription factor Nrf2 to restore mitochondrial function, reduce oxidative stress, and resolve inflammation.

We are currently conducting three Phase 3 or other potentially registrational trials. Bardoxolone methyl is being studied in a single, pivotal Phase 2/3 trial, known as CARDINAL, for the treatment of chronic kidney disease (CKD) caused by Alport syndrome and a Phase 3 trial, known as CATALYST, for the treatment of pulmonary arterial hypertension associated with connective tissue disease (CTD-PAH). We began enrolling patients in the Phase 3 portion of CARDINAL in August 2017, after having announced preliminary results from the trial. On November 3, 2017, we announced primary endpoint and other 12 week data from the ongoing Phase 2 portion of CARDINAL. Omaveloxolone is being studied in a two-part Phase 2 trial, known as MOXIe, for the treatment of Friedreich's ataxia (FA). We announced data from part 1 of MOXIe in June 2017 and began enrolling patients in October 2017 in part 2 of the trial, which is potentially registrational.

We are also currently conducting trials in four other areas. In October 2017, we began activating sites in a Phase 2 trial, known as PHOENIX, to test bardoxolone methyl for the treatment of other rare kidney diseases, and bardoxolone methyl is currently being studied in a Phase 2 trial, known as LARIAT, for the treatment of PAH and pulmonary hypertension due to interstitial lung disease (PH-ILD). Omaveloxolone is being studied in a two-part Phase 2 trial for the treatment of mitochondrial myopathies (MM), known as MOTOR, and a Phase 1b/2 trial for the treatment of metastatic melanoma, known as REVEAL.

In addition to these ongoing trials with our Nrf2 activators, we conducted a Phase 1 trial of RTA 901 in healthy volunteers, with no safety or tolerability issues, and are evaluating various options in the design and timing of a Phase 2 trial.

Beyond our clinical programs, we have additional promising preclinical development programs. We believe that our product candidates and preclinical programs have the potential to improve clinical outcomes in numerous underserved patient populations.

To date, we have focused most of our efforts and resources on developing our product candidates and conducting preclinical studies and clinical trials. We have historically financed our operations primarily through revenue generated from our collaborations with AbbVie and KHK, from sales of our securities, and from secured loans. We have not received any payments or revenue from collaborations other than nonrefundable upfront, milestone, and cost sharing payments from our collaborations with AbbVie and KHK and reimbursements of expenses under the terms of our agreement with KHK. We have incurred losses in each year since our inception, other than in 2014. As of September 30, 2017, we had approximately $154.6 million of cash and cash equivalents and an accumulated deficit of $320.5 million. We continue to incur significant research and development and other expenses related to our ongoing operations. Despite contractual product development commitments and the potential to receive future payments from our collaborators, we anticipate that, without taking into account deferred revenue, we will continue to incur losses for the foreseeable future, and we anticipate that our losses will increase as we continue our development of, and seek regulatory approval for, our product candidates. If we do not successfully develop and obtain regulatory approval of our existing product candidates or any future product candidates and effectively manufacture, market, and sell any products that are approved, we may never generate revenue from product sales. Furthermore, even if we do generate revenue from product sales, we may never again achieve or sustain profitability on a quarterly or annual basis. Our prior losses, combined with expected future losses, have had and will continue to have an adverse effect on our stockholders' equity and working capital. Our failure to become and remain profitable could depress the market price of our Class A common stock and could impair our ability to raise capital, expand our business, diversify our product offerings, or continue our operations.

On August 1, 2017, we closed a follow-on underwritten public offering of 3,737,500 shares of our Class A common stock, which included 487,500 shares of Class A common stock issued pursuant to an option granted to the underwriters, for gross proceeds of $115.9 million. The Company received total proceeds from the offering of $108.5 million, after deducting underwriting discounts and commissions and offering expenses. We intend to use the net proceeds for working capital and general corporate purposes, which include, but are not limited to, advancing the development of bardoxolone methyl through a Phase 2/3 program in CKD caused by Alport syndrome, Phase 2 programs in additional kidney indications, and Phase 2 programs in PH-ILD and the development of omaveloxolone in Friedreich's ataxia and mitochondrial myopathies.

The probability of success for each of our product candidates and clinical programs and our ability to generate product revenue and become profitable depend upon a variety of factors, including the quality of the product candidate, clinical results, investment in the program, competition, manufacturing capability, commercial viability, and our collaborators' ability to successfully execute our development and commercialization plans. We will also require additional capital through equity or debt financings in order to fund our operations and execute on our business plans, and there is no assurance that such financing will be available to us on commercially reasonable terms or at all. For a description of the numerous risks and uncertainties associated with product development and raising additional capital, see "Risk Factors" included in this Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2016, and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017.

Lead Product Candidates

Bardoxolone Methyl

Bardoxolone methyl activates molecular pathways that promote the resolution of inflammation by restoring mitochondrial function, reducing oxidative stress, and inhibiting pro-inflammatory signaling. Bardoxolone methyl binds to Keap1 and consequently activates Nrf2, a transcription factor that promotes normal mitochondrial function by making reducing equivalents available for ATP production, and increases cellular antioxidant content. This reduces mitochondrial reactive oxygen species (ROS) production and ROS-mediated activation of inflammatory signaling complexes. Binding to Keap1 and activation of Nrf2 also inhibit NF-κB, the primary transcription factor producing proteins that promote inflammation and the production of ROS. Bardoxolone methyl is currently being tested in a single, pivotal Phase 2/3 trial in CKD caused by Alport syndrome, a Phase 3 trial in CTD-PAH, and a Phase 2 trial in several forms of PH-ILD and PAH and will be tested in a Phase 2 trial being initiated in other rare kidney diseases.

CKD caused by Alport syndrome and CTD-PAH are our most advanced indications with bardoxolone methyl. Although Alport syndrome and CTD-PAH have different causes and inflammatory stimuli at a molecular level, mitochondrial dysfunction, inflammation, proliferative signaling, fibrosis, and tissue remodeling are common to the pathophysiology of both diseases. The anti-inflammatory and anti-fibrotic properties of bardoxolone methyl may therefore have the potential to affect structural alterations and fibrosis of the glomerulus in the kidney in Alport syndrome as well as pathologic remodeling of the pulmonary vasculature in CTD-PAH.

Omaveloxolone

Omaveloxolone is a close structural analog of bardoxolone methyl that was developed to improve tissue distribution, including blood-brain barrier penetration. Omaveloxolone is being studied in part 2 of a two-part potentially registrational Phase 2 trial in FA, in part 1 of a two-part Phase 2 trial in MM, and in the Phase 1b portion of a Phase 1b/2 trial in metastatic melanoma. Omaveloxolone was also administered topically to patients receiving cataract surgery and to breast cancer patients receiving radiation therapy and suffering from radiation dermatitis. We believe that an omaveloxolone-induced increase in mitochondrial energy production could have beneficial effects on multiple organ systems, with the most profound effects being in skeletal muscle, the brain, and other tissues with a high energy demand.

Phase 3 or Other Potentially Registrational Programs

The chart below is a summary of our current Phase 3 or other potentially registrational programs:

Phase 3 or Other Potentially Registrational Programs		
Program	**Next Expected Milestone**	**Timing of Milestone**
CKD caused by Alport Syndrome *Bardoxolone methyl*	Phase 3 Data	2H 2019
Friedreich's Ataxia *Omaveloxolone*	Pivotal Phase 2 Part 2 Data	2H 2019
CTD-PAH *Bardoxolone methyl*	Phase 3 Data	2H 2018

Bardoxolone Methyl in Chronic Kidney Disease Caused by Alport Syndrome

Alport syndrome is a rare and serious hereditary disease that is caused by mutations in the genes encoding type IV collagen, a major structural component of the glomerular basement membrane (GBM) in the kidney. The expression of abnormal type IV collagen causes loss of GBM integrity, abnormal leakage of proteins through the GBM, and excessive reabsorption of protein in the proximal tubules of the kidney. As in other forms of CKD, excessive reabsorption of protein in the tubules induces oxidative stress, renal interstitial inflammation, and fibrosis.

Patients with Alport syndrome are normally diagnosed with the disease in childhood to early adulthood and have average glomerular filtration rate (GFR) declines of 4.0 mL/min/1.73 m^2 per year. The progressive decline of GFR in Alport syndrome leads to kidney failure and end-stage renal disease (ESRD), with a median survival of approximately 55 years. Fifty percent of males with the most prevalent subtype of Alport syndrome require dialysis or kidney transplant by age 25. The incidence of kidney failure in these patients increases to 90% by age 40 and nearly 100% by age 60. Similar to patients with other forms of CKD, Alport syndrome patients receiving dialysis are at increased risk for cardiovascular disease and infections, which are the most common causes of death in these patients.

Bardoxolone methyl has the potential to address the causes of GFR loss in Alport syndrome patients because it activates molecular pathways that promote the resolution of inflammation by restoring mitochondrial function, reducing oxidative stress, and inhibiting ROS-mediated pro-inflammatory signaling. Bardoxolone methyl binds to Keap1 and consequently activates Nrf2, a transcription factor that increases cellular antioxidant content and promotes normal mitochondrial function by making reducing equivalents available for ATP production. This reduces mitochondrial ROS production and ROS-mediated activation of inflammatory signaling complexes. Through these effects, bardoxolone methyl restores mitochondrial production of ATP, increases production of antioxidants, reduces oxidative stress, and reduces pro-inflammatory signaling and fibrotic processes.

There are no currently approved therapies for the treatment of CKD caused by Alport syndrome. The goal of current disease management is to slow the progression of CKD, beginning with anti-hypertensives, such as angiotensin converting enzyme inhibitors or angiotensin receptor blockers, aldosterone, and diuretics, all of which are intended to reduce the levels of protein found in patient urine. Once patients reach ESRD, they require dialysis or kidney transplantation.

Phase 2/3 CARDINAL Trial

On November 3, 2017, we announced primary endpoint and other 12 week data from the ongoing open-label Phase 2 portion of CARDINAL. The Phase 2 portion of the trial enrolled 30 patients, and available data demonstrate that bardoxolone methyl significantly increased kidney function in Alport syndrome patients as measured by estimated glomerular filtration rate (eGFR).

From a mean baseline eGFR of 54 mL/min/1.73 m^2, data from patients showed a mean increase of 13.4 mL/min/1.73 m^2 at Week 12 ($p<0.000000001$). All patients demonstrated increases in eGFR at Week 12, with 87% of patients demonstrating a clinically meaningful increase in eGFR of at least 4.0 mL/min/1.73 m^2 and 63% of patients demonstrating an increase in eGFR of at least 10.0 mL/min/1.73 m^2. Additionally, 73% of patients had an improvement in CKD stage, and none worsened.

	Change from Baseline in eGFR			
	Week 1	Week 4	Week 8	Week 12
N	30	30	30	30
Mean ± SE	3.0 ± 0.7	6.7 ± 1.3	8.9 ± 1.3	13.4 ± 1.4
95% CI	(1.6, 4.4)	(4.1, 9.3)	(6.2, 11.6)	(10.5, 16.3)
p-value	0.0001	<0.0001	<0.000001	<0.000000001
LS mean eGFR change from baseline at each visit is compared to zero using a mixed-model repeated measures analysis using baseline eGFR and log-transformed ACR as continuous covariates.				

A result is considered to be statistically significant when the probability of the result occurring by random chance, rather than from the efficacy of the treatment, is sufficiently low. The conventional method for measuring the statistical significance of a result is known as the "p-value," which represents the probability that random chance caused the result. For example, a p-value of 0.001 means that there is a 0.1% or less probability that the difference between the control group and the treatment group is purely due to random chance. A p-value of 0.05 is a commonly used criterion for statistical significance, and may be supportive of a finding of efficacy by regulatory authorities. However, regulatory authorities, including the United States Food and Drug Administration (FDA), do not rely on strict statistical significance thresholds as criteria for marketing approval and maintain the flexibility to evaluate the overall risks and benefits of a treatment. Accordingly, treatments may receive marketing approval from the FDA even if the p-value of the primary endpoint is greater than 0.05, or may fail to receive marketing approval from the FDA even if the p-value of the primary endpoint is less than 0.05.

The table below shows clinically meaningful increases in eGFR were demonstrated across multiple subgroups, with activity in both earlier and later stages of disease.

Baseline Characteristic	Subgroup	N	Baseline	Week 12 Mean ΔeGFR	
				Change ± SD	% Change
eGFR	≥ 60	12	81.3 ± 7.5	18.4 ± 7.7	23%
	< 60	18	36.1 ± 9.3	10.0 ± 6.6	30%
UACR	Non-macro	18	62.5 ± 22.2	16.0 ± 8.6	29%
	Macro	12	41.7 ± 22.0	9.4 ± 5.5	24%
Gender	Male	12	50.5 ± 25.1	14.0 ± 8.3	30%
	Female	18	56.6 ± 23.8	12.9 ± 8.1	25%
Age	< 18	2	86.1 ± 9.1	26.1 ± 10.8	31%
	≤ 45	11	48.4 ± 24.8	10.1 ± 9.5	20%
	> 45	19	57.5 ± 23.7	15.3 ± 6.7	31%

As of the 12-week primary endpoint visit for the Phase 2 portion, no discontinuations or serious adverse events (SAEs) were reported, and reported adverse events (AEs) were generally mild to moderate in intensity. Consistent with prior studies, the most common AEs that were reported in more than two patients were muscle spasms (15/30; 50%), headache (4/30; 13%), nausea (4/30; 13%), fatigue (4/30; 13%), and hyperkalemia (3/30; 10%). Muscle spasms were generally transient and were associated with reductions of creatine kinase, which is evidence of improved energy metabolism.

On November 4, 2017, our partner, KHK, presented results of its trial, TSUBAKI, a double-blind, randomized, placebo-controlled Phase 2 trial in Japan. In TSUBAKI, bardoxolone methyl demonstrated statistically significant and clinically meaningful increases in directly-measured glomerular filtration rate (GFR) in patients with type 2 diabetes and CKD using the "gold standard" inulin clearance method. The observed increase in GFR demonstrates that historical increases in eGFR produced by bardoxolone methyl in various forms of CKD, including Alport syndrome, reflect a true increase in kidney function. Bardoxolone methyl demonstrated a favorable safety profile with no effect on blood pressure, urinary volume or sodium retention, and no evidence of overt fluid overload or cardiac toxicity.

In August 2017, after having announced preliminary results from the CARDINAL Phase 2 trial, we began enrolling patients in the Phase 3 portion of CARDINAL, a double-blind, randomized, placebo-controlled, multi-center, international trial designed to evaluate the safety and efficacy of bardoxolone methyl in patients with CKD caused by Alport syndrome. The trial will enroll approximately 150 patients randomized evenly to either bardoxolone methyl or placebo. The eGFR change will be measured after 48 weeks while the patient is on treatment, or on-treatment eGFR, and again after 52 weeks after the patient has stopped taking study drug for a four-week withdrawal period, or retained eGFR. Based on guidance from the FDA, the year one retained eGFR benefit data may support accelerated approval under subpart H. Data from year one of CARDINAL are expected to be available in the second half of 2019. After withdrawal, patients will be restarted on study drug with their original treatment assignments and will continue on study for a second year. The second year on-treatment eGFR change will be measured after 100 weeks and the retained eGFR benefit will be measured after withdrawal of drug for four weeks at week 104. Based upon guidance from the FDA, the year two retained eGFR benefit data may support full approval. In July 2017, we received orphan drug designation for bardoxolone methyl for the treatment of Alport syndrome.

We have observed no significant tolerability issues in CARDINAL to date. The trial is being overseen by a data monitoring committee (DMC) that reviews all data, including SAE and AE data, on an unblinded basis, to assess safety. The DMC has not reported any safety concerns to date.

Omaveloxolone in Friedreich's Ataxia

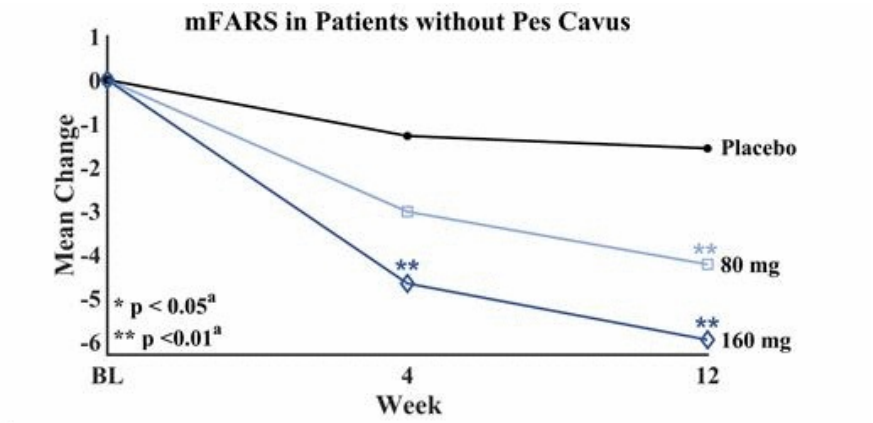
Friedreich's ataxia is an inherited, debilitating, and degenerative neuromuscular disorder, caused by a mutation in the frataxin gene, which is typically diagnosed during adolescence and can ultimately lead to early death. Deficiency of frataxin in cells leads to a mitochondrial iron overload and poor cellular iron regulation, increased sensitivity to oxidative stress, and impaired mitochondrial ATP production. Patients with FA experience progressive loss of coordination, muscle weakness, and fatigue, which commonly progresses to motor incapacitation and wheelchair reliance. FA patients may also experience visual impairment, hearing loss, diabetes, and cardiomyopathy. Childhood-onset FA can occur as early as age five, is more common than later-onset FA, and typically involves more rapid disease progression. The majority of FA patients have disease onset by approximately 13 to 15 years of age, and thereafter have a mean duration until wheelchair use of 10 to 15 years. The median age of death is in the mid-30s.

There are no currently approved therapies for the treatment of FA. Patients are usually given guidelines around certain lifestyle habits. They are recommended to follow a diet that is low in iron and encouraged to take vitamins and supplements. Idebenone was previously approved as a treatment for FA in Canada, but it was withdrawn five years after it was launched primarily because no evidence could be provided for its efficacy.

Because impaired ATP production in FA patients likely accounts for the decreased coordination, progressive muscle weakness, exercise intolerance, and fatigue observed in these patients, as well as other disease manifestations, we believe that omaveloxolone may be effective in treating this indication. In FA patients, mitochondrial function is correlated with measures of neurologic function. Further, data demonstrate that Nrf2 signaling is significantly impaired in FA patients, resulting in impairment of antioxidant defense mechanisms, while silencing of frataxin gene expression has been linked to decreases in expression of Nrf2. Additionally, omaveloxolone has been shown in vitro to restore mitochondrial activity in fibroblasts isolated from FA patients. Accordingly, we believe that Nrf2 activation through omaveloxolone may result in a clinical benefit to FA patients.

In June 2017, we announced data from part 1 of MOXIe, a double-blind, randomized, placebo-controlled, multi-center, international Phase 2 trial designed to evaluate the safety, tolerability, and efficacy of omaveloxolone in patients with FA. Data from the trial showed that in 52 FA patients, and across all doses, omaveloxolone improved modified Friedreich's Ataxia Rating Scale (mFARS) by 2.5 points from baseline ($p<0.0001$) and by 1.1 points relative to placebo (not statistically significant). The maximum effect on mFARS was observed at the 160 mg dose level, which was administered to a total of 12 patients, with an improvement in mFARS of 3.8 points versus baseline ($p=0.0001$) and of 2.3 points relative to placebo (approached statistical significance, $p=0.06$).

We observed that omaveloxolone produced greater improvements in mFARS in patients that did not have a preexisting musculoskeletal foot deformity that causes high arched feet, called pes cavus. As seen in the graph below, in patients without pes cavus, maximum effect on mFARS was also observed at the 160 mg dose level, with an improvement in mFARS at Week 12 of 6.0 points versus baseline ($p<0.0001$) and of 4.4 points relative to placebo ($p=0.01$). Observed improvement in mFARS at Week 12 for the 7 placebo patients without pes cavus of 1.6 points was similar to that observed in all 17 placebo patients of 1.4 points.



[a] Change from baseline comparison to zero and LSMEAN estimates at Week 12 using mixed-model

The trial is being overseen by a data safety monitoring board (DSMB) that reviews all data, including SAE and AE data, on an unblinded basis to assess safety. No safety concerns were identified by the DSMB in part 1 of MOXIe. Only two SAEs were reported, and both events occurred in placebo-treated patients. The most common AEs in excess to placebo in the omaveloxolone group were upper respiratory tract infections and nasopharyngitis, which were generally mild in severity. Omaveloxolone was reported to be well-tolerated with only a single discontinuation in a 40 mg patient who developed a skin rash. One placebo patient discontinued prematurely due to withdrawal of consent.

We began enrolling patients in part 2 of MOXIe in October 2017. During August 2017, the FDA confirmed that mFARS was acceptable as the primary endpoint for part 2 of MOXIe. The FDA communication was made in response to the Company's request that the FDA confirm its prior guidance that, depending on MOXIe results, mFARS could be appropriate to support approval of omaveloxolone for FA under Subpart H. In the recent communication, FDA indicated that it may consider either accelerated or full approval based on the overall results of the trial and strength of the data. FDA recommended that the Company extend the treatment duration of the study and add a straightforward patient-reported or performance-based outcome endpoint to the study.

The trial will enroll approximately 100 FA patients randomized evenly to either 150 mg of omaveloxolone or placebo. The primary endpoint of the trial will be the change from baseline in mFARS in patients treated with omaveloxolone compared to placebo at 48 weeks. Additional endpoints will include the change from baseline in peak work during maximal exercise testing, Patient Global Impression of Change, and Clinical Global Impression of Change. In June 2017, we received orphan drug designation for omaveloxolone for the treatment of FA.

We have observed no significant tolerability issues in MOXIe to date. The DSMB has not reported any safety concerns to date.

Bardoxolone Methyl in CTD-PAH

CTD-PAH, which represents approximately 30% of the overall PAH population, is a late and often fatal manifestation of many types of autoimmune disease, including systemic sclerosis (scleroderma), systemic lupus erythematosus, mixed connective tissue disease, and others. Patients with CTD-PAH are generally less responsive to existing therapies and have a worse prognosis than patients with other forms of PAH. In comparison to patients with idiopathic PAH (I-PAH), patients with CTD-PAH have a higher occurrence of small vessel fibrosis and greater incidence of pulmonary veno-obstructive diseases. In the United States, the five-year survival rate for CTD-PAH patients is approximately 44% while I-PAH patients have a 68% five-year survival rate.

Currently approved therapies to treat PAH include endothelin receptor antagonists, nitric oxide pathway modulators, and prostacyclin pathway agonists, all of which are systemic vasodilators that directly modulate vasoconstrictive and vasodilatory pathways. The effects of these existing therapies are not specific to the pulmonary vasculature, so they also have systemic hemodynamic effects. These systemic hemodynamic effects can result in hypotension and syncope (fainting), which generally limits their clinical effectiveness. These hemodynamic effects can be exacerbated when a patient is prescribed multiple vasodilators. In addition, clinically significant drug-drug interactions have been observed that can further limit the ability to deliver effective drug combinations.

A meta-analysis of the response of CTD-PAH patients to vasodilator therapy in 11 registrational trials comprised of more than 2,700 PAH patients published in the November 2015 issue of *American Journal of Respiratory and Critical Care Medicine* demonstrated that CTD-PAH patients respond less well than I-PAH patients to approved vasodilator therapies in both clinical worsening and improvements in 6-minute walk distance (6MWD) from baseline, with a response in CTD-PAH patients (9.6 meters) of approximately one-third of the response in I-PAH patients (30 meters). The meta-analysis also demonstrated that I-PAH patients were more hemodynamically impaired than CTD-PAH patients, which likely explains why vasodilator therapy is more effective in I-PAH patients. This difference also explains why CTD-PAH patients respond less well to vasodilator therapy, as their disease process is less hemodynamic and involves systemic fibrotic processes caused by the patients' underlying autoimmune diseases, such as scleroderma, lupus, or mixed connective tissue disease.

Bardoxolone methyl directly targets the bioenergetic and inflammatory components of PAH. PAH patients experience mitochondrial dysfunction, increased activation of NF-κB and related inflammatory pathways involved in ROS-mediated signaling, cellular proliferation, and fibrosis. Bardoxolone methyl, through the combined effect of Nrf2 activation and NF-κB suppression, has the potential to inhibit inflammatory and proliferative signaling, suppress ROS production and signaling, reduce the production of proteins related to fibrosis and tissue remodeling, and increase cellular respiration and ATP production. Bardoxolone methyl targets multiple cell types relevant to PAH, including endothelial cells, smooth muscle cells, and macrophages. Additionally, unlike current therapies, bardoxolone methyl does not have systemic hemodynamic effects or drug-drug interactions in PAH patients. Therefore, by addressing a novel pathway in PAH, we believe that bardoxolone methyl may provide additional benefits beyond current PAH therapies, including increased functional capacity, potential effects beyond functional improvements and potential as a combination therapy with other current therapies.

Phase 3 CATALYST Trial

In October 2016, we began enrolling patients in CATALYST, an international, randomized, double-blind, placebo-controlled Phase 3 trial examining the safety and efficacy of bardoxolone methyl in patients with CTD-PAH when added to standard-of-care vasodilator therapy. Patients will be on up to two background therapies and will be randomized evenly to either bardoxolone methyl or placebo, and the study drug will be administered once daily for 24 weeks. Patients randomized to bardoxolone methyl will start at 5 mg and will dose-escalate to 10 mg at Week 4 unless contraindicated clinically. The primary endpoint of the study is the change from baseline in 6MWD relative to placebo at Week 24. Secondary endpoints include time to first clinical improvement as measured by improvement in World Health Organization/New York Heart Association, functional class, increase from baseline in 6MWD by at least 10%, or decrease from baseline in creatine kinase, which is a surrogate biomarker for muscle injury and inflammation, by at least 10%. The trial will enroll between 130 and 200 patients, with the final sample size determined by a pre-specified, blinded sample size re-calculation based on 6MWD variability and baseline characteristics of the first 100 patients enrolled in the trial. All patients who complete the treatment period are eligible to continue into an extension trial to evaluate the intermediate and long-term safety of bardoxolone methyl. Those patients who had been receiving placebo will be converted to bardoxolone methyl in the extension trial. Data from CATALYST are expected to be available during the second half of 2018. In 2015, the FDA granted our request for orphan drug designation for the treatment of PAH.

CATALYST was designed based on previous data from the LARIAT Phase 2 trial which enrolled a total of 22 patients with CTD-PAH. Based on findings in LARIAT, patients with moderate to severe anemia, which represent a small percentage of the patient population, are being excluded from CATALYST because data demonstrated that treatment with iron supplementation or erythropoietin can affect 6MWD values independent of study drug effect. The primary endpoint in CATALYST, which will be analyzed using the mixed-model repeated measures (MMRM) statistical analysis method, is the placebo-corrected change in 6MWD from baseline to the end-of-treatment at 24 weeks. As part of the planning to determine sample size for CATALYST, we performed an analysis applying the MMRM statistical analysis method for CATALYST to the available end-of-treatment change in 6MWD data from CTD-PAH patients in LARIAT. The summary of our analysis using the change at the end of treatment period on all patients and patients without anemia is shown in the table below.

Summary of End-of-Treatment 6MWD Changes for CTD-PAH Patients in LARIAT

Treatment	N	All Patients		N	Patients Without Anemia	
		Change from Baseline (m)	Placebo-corrected (m)		Change from Baseline	Placebo-corrected
Placebo	7	9.8 p=0.44	—	5	-5.8 p=0.68	—
Bardoxolone Methyl	15	38.2 p <0.001	28.4 p=0.07	14	42.7 p < 0.001	48.5 p=0.005

CATALYST is designed to detect a minimum treatment effect of 12.5 meters versus placebo assuming a standard deviation of 50 meters. The observed treatment effect in the LARIAT CTD-PAH subgroup analyses, both with and without the anemic patients included, is meaningfully larger than the minimally detectable treatment effect in CATALYST. The standard deviation observed in LARIAT of 37 meters is lower than the estimated standard deviation of 50 meters in CATALYST.

CTD-PAH is a serious progressive disease that ultimately leads to right ventricular heart failure and death. Patients with CTD-PAH can develop serious comorbidities, such as syncope, chest pain, palpitations, fluid retention, and hypoxemia. CATALYST is overseen by a DSMB that reviews all data, including SAE and AE data, on an unblinded basis to assess safety. The DSMB has not reported any safety concerns to date.

Other Programs

The chart below is a summary of our current other clinical programs:

Other Programs		
Program	**Next Expected Milestone**	**Timing of Milestone**
Rare Kidney Diseases *Bardoxolone methyl*	Phase 2 Data	2H 2018
Pulmonary Hypertension (ILD) *Bardoxolone methyl*	Phase 2 Data	1Q 2018
Mitochondrial Myopathies *Omaveloxolone*	Phase 2 Part 1 Data	1Q 2018
Melanoma *Omaveloxolone*	Phase 1b Data	2H 2017
Neurological Indications *RTA 901*	Initiation of Phase 2	TBD

Bardoxolone Methyl in Other Rare Kidney Diseases

We began activating sites in October 2017 for PHOENIX, a Phase 2 trial of bardoxolone methyl in various rare forms of CKD, including autosomal dominant polycystic kidney disease, IgA nephropathy, type 1 diabetic CKD, and focal segmental glomerulosclerosis. Bardoxolone methyl has demonstrated clinically significant increased kidney function in clinical trials in patients with CKD caused by Alport syndrome and type 2 diabetic CKD. We believe bardoxolone methyl suppresses the fibrosis, remodeling, and inflammation that drive losses in kidney function in these diseases. The CKD that arises in the four indications being studied in PHOENIX is caused by different initial insults, but the processes of fibrosis, remodeling, and inflammation are central to the loss of kidney function in each. PHOENIX will be an open-label trial of bardoxolone methyl orally-administered once-daily for 12 weeks, with a primary efficacy endpoint of change from baseline in eGFR.

Bardoxolone Methyl in PAH and PH-ILD

ILD patients experience extensive pulmonary vascular remodeling, which ultimately leads to PH-ILD. Recent studies have demonstrated that mitochondrial abnormalities are contributors to PH-ILD. Because bardoxolone methyl was active in patients with CTD-PAH, a fibrotic disease, we believe that bardoxolone methyl may be effective in PH-ILD patients. We are studying bardoxolone methyl in LARIAT, an international, randomized, placebo-controlled, double-blind, dose-escalation Phase 2 trial evaluating the safety and efficacy of once daily, orally administered bardoxolone methyl in patients with PAH or PH-ILD, including PH-ILD caused by sarcoidosis and idiopathic pulmonary fibrosis. The primary endpoint of LARIAT is change in 6MWD during a 16 week treatment period. All patients who complete the treatment period are eligible to continue into an extension trial to evaluate the intermediate and long-term safety of bardoxolone methyl. Those patients who had been receiving placebo are converted to bardoxolone methyl in the extension trial. Data have not been presented for any of the PH-ILD groups. We completed enrollment of PH-ILD patients in the third quarter of 2017 and anticipate that data will be available in the first quarter of 2018.

We have observed no significant tolerability issues in LARIAT to date. The trial utilizes a protocol safety review committee (PSRC) that reviews all data, including SAE and AE data, on an unblinded basis to assess safety. The PSRC has not reported any safety concerns to date.

Omaveloxolone in Mitochondrial Myopathies

MM are a multi-systemic group of myopathies associated with mitochondrial dysfunction that are caused by over 200 different genetic mutations. Patients with MM present a complex array of symptoms that can vary widely in severity, with main symptoms including muscle weakness, exercise intolerance, and fatigue. We are studying omaveloxolone in MOTOR, a two-part randomized, placebo-controlled, double-blind, dose-escalation Phase 2 trial to evaluate the safety and efficacy of omaveloxolone in patients with MM. The protocol for the trial allows up to 100 patients with MM under the Investigational New Drug application (IND) that we sponsored and filed in July 2014. In 2014, we met with the FDA to discuss our MM program. Based on discussions with the FDA, we designed a two-part trial with evaluation of a broad dose range in part 1 and confirmatory evaluation of safety and efficacy in part 2. Part 1 focuses on the evaluation of safety and efficacy of omaveloxolone doses ranging from 2.5 mg to 160 mg. Data for multiple endpoints are being collected, with the primary efficacy endpoint being the change in peak work, as measured by exercise testing on a recumbent bicycle. The key secondary endpoint is the change from baseline in patients' 6MWD. Part 2 is designed to provide additional efficacy and safety data and it has the potential to be used for registration. We completed patient enrollment in part 1 in the third quarter of 2017, and data are expected in the first quarter of 2018. We expect to evaluate the data and, if successful, make any changes needed to the protocol and then initiate part 2 of MOTOR.

We have observed no significant tolerability issues in MOTOR to date. The trial is being overseen by a DSMB that reviews all data, including SAE and AE data, on an unblinded basis to assess safety. The DSMB has not reported any safety concerns to date. We intend to submit a request to the FDA for orphan drug designation for omaveloxolone for the treatment of MM once we have in vivo or human clinical data to support this application.

Omaveloxolone in Melanoma

We are studying omaveloxolone in REVEAL, an open-label, multi-center, dose-escalation Phase 1b/2 trial evaluating the safety, pharmacodynamics, and efficacy of omaveloxolone, in combination with existing immunotherapies, in up to 102 patients with metastatic melanoma. In REVEAL, patients receive omaveloxolone monotherapy for one week, followed by omaveloxolone in combination with the labeled treatment course of either Yervoy® or Opdivo®. We have observed no significant tolerability issues in REVEAL to date. The trial is being overseen by a PSRC that reviews all data, including SAE and AE data, to assess safety. The PSRC has not reported any safety concerns to date. Data from the 1b dose escalation portion of REVEAL are expected during the second half of 2017. In September 2017, we received orphan drug designation for omaveloxolone for the treatment of Stage IIb through IV malignant melanoma.

RTA 901 for the Treatment of Neurological Indications

Our Hsp90 modulators, including RTA 901, are highly potent and selective C-terminal modulators of Hsp90. Modulation of Hsp90 may induce expression of Hsp70, a molecular chaperone that plays a critical role in the process through which a protein assumes its functional shape and that serves as a central gatekeeper for mitochondrial protein import. Mitochondria rely on Hsp70-dependent protein import mechanisms for almost all of their activity, including the production of ATP. There are also indications that Hsp70 may play a profound role in neuroprotection since nerve cells are high consumers of ATP and rely on Hsp70-dependent protein import for proper mitochondrial function.

We have conducted a Phase 1 clinical trial to evaluate the safety, tolerability, and pharmacokinetic profile of RTA 901 in healthy adult volunteers. The trial was designed in two parts, part 1 with single ascending doses, and part 2 with multiple ascending doses. In part 1, 48 healthy subjects in 6 groups of 8 subjects each were randomized in a 3:1 ratio to receive a single dose of RTA 901 or placebo, respectively. In part 2, 30 healthy subjects in 3 groups of 10 subjects each were randomized in a 4:1 ratio to receive 14 daily doses of RTA 901 or placebo, respectively. We encountered no safety or tolerability issues, observed an acceptable pharmacokinetic profile in the trial, and are currently evaluating various options in the design and timing of a Phase 2 trial.

Preclinical Programs

RORγT Inhibitors

We are pursuing preclinical development of novel, small-molecule, orally bioavailable RORγT inhibitors. RORγT is the master regulator of human T Helper 17 (Th17) cellular differentiation, function, and cytokine production, and represents a compelling target for a variety of autoimmune and inflammatory conditions. Th17 cells produce cytokines, including IL-17, that play a critical role in driving immune-mediated inflammation and are implicated in the pathogenesis of certain autoimmune diseases. The efficacy of suppressing IL-17 as a means of treating these conditions has been demonstrated both in animal models and in humans. We have selected and are advancing a single RORγT development candidate into Good Laboratory Practices toxicology studies.

Additional Nrf2 Activator Indications

If beneficial effects are demonstrated in our ongoing CKD caused by Alport syndrome, CTD-PAH, FA, MM, and PH-ILD trials, this could indicate that our Nrf2 activator pharmacology may also provide therapeutic benefit for patients suffering from other diseases where mitochondrial dysfunction or chronic inflammation is implicated. In addition, if therapeutic benefits are demonstrated in CKD caused by Alport syndrome, the Nrf2 activator pharmacology may also provide therapeutic benefit in other kidney diseases. Some of these diseases may be treated by our current lead product candidates, bardoxolone methyl and omaveloxolone.

Additional Hsp90 Modulator Indications

If beneficial neuroprotective and bioenergetic effects are demonstrated in our future Phase 2 trials, this could indicate that our Hsp90 modulator pharmacology may also provide therapeutic benefit for patients suffering from other diseases where neurodegeneration and mitochondrial dysfunction are implicated.

Financial Operations Overview

Revenue

Our revenue to date has been generated primarily from licensing fees received under our collaborative license agreements and reimbursements for expenses. We currently have no approved products and have not generated any revenue from the sale of products to date. In the future, we may generate revenue from product sales, royalties on product sales, reimbursements for collaboration services under our current collaboration agreements, or license fees, milestones, or other upfront payments if we enter into any new collaborations or license agreements. We expect that our future revenue will fluctuate from quarter to quarter for many reasons, including the uncertain timing and amount of any such payments and sales.

Our license and milestone revenue has been generated primarily from our collaborative licensing agreements with AbbVie and KHK and consists of upfront payments and milestone payments. Under our revenue recognition policy, license revenue associated with upfront, non-refundable license payments received under the collaboration agreements with AbbVie and KHK are recognized ratably over the expected term of the performance obligations under the agreements, which extend through various periods beginning in 2017 and ending in 2026. License revenue recorded with respect to the collaboration agreements with AbbVie consists solely of the recognition of deferred revenue. License revenue recorded with respect to the collaboration agreements with KHK consists of the recognition of deferred revenue and reimbursement of KHK clinical drug supply costs.

We also have other license revenue, which consists of milestone payments from a disease advocacy organization in 2017, and other revenue, which consists of reimbursements from KHK for expenses incurred to obtain KHK clinical drug supplies.

Research and Development Expenses

The largest component of our total operating expenses has historically been our investment in research and development activities, including the clinical development of our product candidates. From our inception through September 30, 2017, we have incurred a total of $529.0 million in research and development expense, a majority of which relates to the development of bardoxolone methyl and omaveloxolone. We expect our research and development expense to continue to increase in the future as we advance our product candidates through clinical trials and expand our product candidate portfolio. The process of conducting the necessary clinical research to obtain regulatory approval is costly and time-consuming, and we consider the active management and development of our clinical pipeline to be crucial to our long-term success. The actual probability of success for each product candidate and preclinical program may be affected by a variety of factors, including the safety and efficacy data for product candidates, investment in the program, competition, manufacturing capability, and commercial viability.

Research and development expenses include:

- expenses incurred under agreements with clinical trial sites that conduct research and development activities on our behalf;
- expenses incurred under contract research agreements and other agreements with third parties;
- employee and consultant-related expenses, which include salaries, benefits, travel, and stock-based compensation;
- laboratory and vendor expenses related to the execution of preclinical and non-clinical studies and clinical trials;
- the cost of acquiring, developing, manufacturing, and distributing clinical trial materials; and
- facilities, depreciation, and other expenses, which include direct and allocated expenses for rent and maintenance of facilities, insurance, and other supply costs.

Research and development costs are expensed as incurred. Costs for certain development activities such as clinical trials are recognized based on an evaluation of the progress to completion of specific tasks using information and data provided to us by our vendors and our clinical sites.

We base our expense accruals related to clinical trials on our estimates of the services received and efforts expended under contracts with multiple research institutions and contract research organizations (CROs) that conduct and manage clinical trials on our behalf. The financial terms of these agreements vary from contract to contract and may result in uneven payment flows. Payments under some of these contracts depend on factors such as the successful enrollment of patients and the completion of clinical trial milestones. In accruing costs, we estimate the time period over which services will be performed and the level of effort to be expended in each period. If we do not identify costs that we have begun to incur or if we underestimate or overestimate the level of services performed or the costs of these services, our actual expenses could differ from our estimates.

To date, we have not experienced significant changes in our estimates of accrued research and development expenses 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 and other research activities.

Currently, AbbVie is not participating in the development of bardoxolone methyl for the treatment of CKD caused by Alport syndrome, PAH, or PH-ILD, and we are therefore incurring all costs for this program. With respect to our omaveloxolone programs and our collaboration agreement with AbbVie, we were responsible for a certain initial amount in early development costs before AbbVie began sharing development costs equally. In April 2016, we had incurred all of these initial costs, after which payments from AbbVie with respect to research and development costs incurred by us were recorded as a reduction in research and development expenses.

In September 2016, we and AbbVie mutually agreed that we would continue unilateral development of omaveloxolone. Therefore, AbbVie no longer co-funds the exploratory development costs of this program, but retains the right to opt back in at certain points in development. For the three and nine months ended September 30, 2017, no payments related to shared research and development costs were received.

The following table summarizes our research and development expenses incurred:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(unaudited) (in thousands)			
Bardoxolone methyl	$ 8,857	$ 4,508	$ 25,312	$ 11,725
Omaveloxolone	$ 3,289	725	$ 7,015	3,539
RTA 901	$ 398	303	$ 1,772	1,880
Other research and development expenses	$ 5,782	3,764	$ 16,731	10,537
Total research and development expenses	$ 18,326	$ 9,300	$ 50,830	$ 27,681

The program-specific expenses summarized in the table above include costs that we directly allocate to our product candidates. Our other research and development expenses include research and development salaries, benefits, stock-based compensation, and preclinical, research, and discovery costs, which we do not allocate on a program-specific basis.

General and Administrative Expenses

General and administrative expenses consist primarily of employee-related expenses for executive, operational, finance, legal, compliance, and human resource functions. Other general and administrative expenses include facility-related costs, professional fees, accounting and legal services, depreciation expense, other external services, and expenses associated with obtaining and maintaining our intellectual property rights.

We anticipate that our general and administrative expenses will increase in the future as we increase our headcount to support our continued research and development and potential commercialization of our product candidates. We have also incurred increased expenses associated with being a public company, including exchange listing and SEC requirements, director and officer insurance premiums, legal, audit, and tax fees, regulatory compliance programs, and investor relations costs. Additionally, if and when we believe the first regulatory approval of one of our product candidates appears likely, we anticipate an increase in payroll and related expenses as a result of our preparation for commercial operations, especially for the sales and marketing of our product candidates.

Investment Income

Investment income represents interest and gains earned on our cash and cash equivalents, which include money market funds.

Interest expense

Commencing in March 2017, interest expense is primarily attributable to interest charges associated with borrowings under our Loan Agreement.

Provision for Taxes on Income

Provision for taxes on income consists of net loss, taxed at federal tax rates and adjusted for certain permanent differences. We maintain a valuation allowance against the majority of our net deferred tax assets. Changes in this valuation allowance also affect the tax provision.

Results of Operations

Comparison of the three months ended September 30, 2017 and 2016 (unaudited)

The following table sets forth our results of operations for the three months ended September 30:

	2017	2016	Change $	Change %
	(unaudited) (in thousands, except percentage data)			
Consolidated Statements of Operations Data				
Collaboration revenue				
License and milestone	$ 12,501	$ 12,500	$ 1	—
Other revenue	56	51	5	10
Total collaboration revenue	12,557	12,551	6	—
Expenses				
Research and development	18,326	9,300	9,026	97
General and administrative	6,151	4,039	2,112	52
Depreciation and amortization	98	170	(72)	(42)
Total expenses	24,575	13,509	11,066	82
Other income (expense)				
Investment income	198	62	136	219
Interest expense	(484)	—	(484)	(100)
Other income (expense)	(3)	—	(3)	(100)
Total other income (expense)	(289)	62	(351)	(566)
Loss before taxes on income	(12,307)	(896)	(11,411)	(1,274)
Provision for taxes on income	1	1	—	—
Net loss	$ (12,308)	$ (897)	$ (11,411)	(1,272)

Revenue

License and milestone revenue totaled $12.5 million for each of the three months ended September 30, 2017 and 2016. License revenue represented 100% of total revenue for the three months ended September 30, 2017 and 2016.

The following table summarizes the sources of our revenue for the three months ended September 30:

	2017	2016
	(unaudited) (in thousands)	
License and milestone		
AbbVie license agreement	$ 5,397	$ 5,396
AbbVie collaboration agreement	6,717	6,717
KHK agreement	387	387
Total license and milestone	12,501	12,500
Other revenue	56	51
Total collaboration revenue	$ 12,557	$ 12,551

Research and Development Expenses

Research and development expenses increased by $9.0 million, or 97%, for the three months ended September 30, 2017, compared to the three months ended September 30, 2016. The increase was primarily due to $4.3 million in increased clinical and manufacturing activities, primarily for CARDINAL, CATALYST, and the extension trial for CATALYST and LARIAT patients (trials that were initiated or began enrolling in the fourth quarter of 2016), $1.8 million in manufacturing activities for part 2 of MOXIe and REVEAL, $0.8 million reduction in co-funding from AbbVie as a result of the agreement for Reata to continue development of omaveloxolone unilaterally, $0.8 million in preclinical and manufacturing activities in our RORγT program, $0.7 million in personnel expense to support growth in our development activities, and $0.2 million in stock compensation expense related to award issuances in December 2016 and additional issuances to new employees.

General and Administrative Expenses

General and administrative expenses increased by $2.1 million, or 52%, for the three months ended September 30, 2017, compared to the three months ended September 30, 2016. The increase was primarily due to $0.8 million in personnel expense to support growth in the organization and expanded development activities, $0.4 million in license fees, $0.6 million in stock compensation expense related to award issuances in December 2016 and additional issuances to new employees, and $0.2 million in increased commercial research activities.

Investment Income

Investment income was immaterial for the three months ended September 30, 2017 and 2016.

Interest Expense

Interest expense increased by $0.5 million, or 100%, for the three months ended September 30, 2017, compared to three months ended September 30, 2016. The increase was attributable to interest charges associated with borrowings under our Loan Agreement entered in March 2017.

Provision for Taxes on Income

Benefit for taxes on income was immaterial for the three months ended September 30, 2017 and 2016.

Comparison of the nine months ended September 30, 2017 and 2016 (unaudited)

The following table sets forth our results of operations for the nine months ended September 30:

	2017	2016	Change $	Change %
	(unaudited) (in thousands, except percentage data)			
Consolidated Statements of Operations Data				
Collaboration revenue				
License and milestone	$ 37,594	$ 37,230	$ 364	1
Other revenue	500	125	375	300
Total collaboration revenue	38,094	37,355	739	2
Expenses				
Research and development	50,830	27,681	23,149	84
General and administrative	17,312	11,783	5,529	47
Depreciation and amortization	336	537	(201)	(37)
Total expenses	68,478	40,001	28,477	71
Other income (expense)				
Investment income	352	113	239	212
Interest expense	(956)	—	(956)	(100)
Other income (expense)	(3)	—	(3)	(100)
Total other income (expense)	(607)	113	(720)	(637)
Loss before taxes on income	(30,991)	(2,533)	(28,458)	(1,123)
Provision (benefit) for taxes on income	2	(442)	444	100
Net loss	$ (30,993)	$ (2,091)	$ (28,902)	(1,382)

Revenue

License and milestone revenue increased by $0.4 million, or 1%, for the nine months ended September 30, 2017, compared to the nine months ended September 30, 2016. The increase was primarily due to the achievement of a $0.5 million milestone from a research collaboration with a disease advocacy organization in March 2017. License revenue represented 99% and 100% of total revenue for the nine months ended September 30, 2017 and 2016, respectively.

Other revenue increased by $0.4 million, or 300%, for the nine months ended September 30, 2017, compared to the nine months ended September 30, 2016. The increase was primarily due to reimbursements of expenses from KHK for KHK clinical drug costs incurred.

The following table summarizes the sources of our revenue for the nine months ended September 30:

	2017	2016
	(unaudited) (in thousands)	
License and milestone		
AbbVie license agreement	$ 16,014	$ 16,073
AbbVie collaboration agreement	19,931	20,004
KHK agreement	1,149	1,153
Other	500	—
Total license and milestone	37,594	37,230
Other revenue	500	125
Total collaboration revenue	$ 38,094	$ 37,355

Research and Development Expenses

Research and development expenses increased by $23.1 million, or 84%, for the nine months ended September 30, 2017, compared to the nine months ended September 30, 2016. The increase was primarily due to $13.6 million in increased clinical and manufacturing activities, which include start-up costs, for CARDINAL, CATALYST, and the extension trial for CATALYST and LARIAT patients (trials that were initiated or began enrolling in the fourth quarter of 2016), $2.2 million in personnel expense to support growth in our development activities, $2.1 million in clinical and manufacturing activities, which include start-up costs, for part 2 of MOXIe, MOTOR, and REVEAL, $1.9 million in preclinical and manufacturing activities in our RORγT program, $1.4 million reduction in co-funding from AbbVie as a result of the agreement for Reata to continue development of omaveloxolone unilaterally, $1.0 million in stock compensation expense related to award issuances in December 2016 and additional issuances to new employees, and $0.7 million in increased medical affairs activities.

General and Administrative Expenses

General and administrative expenses increased by $5.5 million, or 47%, for the nine months ended September 30, 2017, compared to the nine months ended September 30, 2016. The increase was primarily due to $1.3 million in personnel expense to support growth in the organization and expanded development activities, $2.3 million in stock compensation expense related to award issuances in December 2016 and additional issuances to new employees, $0.5 million in increased commercial research activities, $0.8 million in intellectual property costs due to additional validation of patents, new applications, national stage filings, and license fees, and $0.4 million increased legal, insurance, and consulting costs in connection with being a public company.

Investment Income

Investment income was immaterial for the nine months ended September 30, 2017 and 2016.

Interest Expense

Interest expense increased by $1.0 million, or 100%, the nine months ended September 30, 2017, compared to the nine months ended September 30, 2016. The increase was attributable to interest charges associated with borrowings under our Loan Agreement entered in March 2017.

Provision for Taxes on Income

Benefit for taxes on income decreased by $0.4 million, or 100%, for the nine months ended September 30, 2017, compared to the nine months ended September 30, 2016, due to differences generated and changes in the valuation allowances.

Liquidity and Capital Resources

Since our inception, we have funded our operations primarily through collaboration and license agreements, the sale of preferred and common stock, and secured loans. To date, we have raised gross cash proceeds of $476.6 million through the sale of convertible preferred stock and received $750 million from payments under license and collaboration agreements, $169.8 million in net proceeds from our initial public offering and follow-on offering of our Class A common stock, and $19.7 million in net proceeds from our Loan Agreement in March 2017. As of September 30, 2017, we had available cash and cash equivalents of approximately $154.6 million. Our cash and cash equivalents are invested in accordance with our investment policy, primarily with a view to liquidity and capital preservation.

On August 1, 2017, we closed a follow-on underwritten public offering of 3,737,500 shares of our Class A common stock, which included 487,500 shares of our Class A common stock issued pursuant to an option granted to the underwriters, for gross proceeds of $115.9 million. The Company received total proceeds from the offering of $108.5 million, after deducting underwriting discounts and commissions and offering expenses.

On March 31, 2017, we entered into a Loan Agreement, which was amended on November 3, 2017 (Amended Loan Agreement). Under the Amended Loan Agreement, our Lenders agreed to lend us up to $45.0 million, issuable in two separate tranches of $20.0 million (Term A Loan) and either $20.0 million or $25.0 million (Term B Loan). On March 31, 2017, we borrowed $20.0 million from the Term A Loan. We may, at our sole discretion, borrow $20.0 million under the Term B Loan. An additional $5.0 million will be available under the Term B Loan, providing a total of $25.0 million, upon the achievement of one of two milestones. We may borrow the Term B Loan by the earlier of 90 days after the achievement of a milestone or June 29, 2018.

All outstanding Term Loans will mature on March 1, 2022. We will make interest-only payments through October 1, 2018; however, if we draw the Term B Loan, we will make interest-only payments through October 1, 2019. The interest-only payment period will be followed by principal and interest payments thereafter and through maturity. The Term A Loan bears interest at a floating per annum rate between a minimum of 8.15% and a maximum of 10.15%. The interest rate is calculated as 7.40% plus the greater of the 30-day U.S. Dollar LIBOR rate reported in The Wall Street Journal or 0.75%.

We paid an amendment fee of $250,000 on November 8, 2017, upon execution of the amendment to the Loan Agreement. If we do not draw the Term B Loan, we will pay an unused line fee of $1 million.

Cash Flows

The following table sets forth the primary sources and uses of cash for each of the nine months ended September 30 set forth below:

	2017	2016
	(unaudited) (in thousands)	
Net cash (used in) provided by:		
Operating activities	$ (58,523)	$ (8,123)
Investing activities	(208)	(281)
Financing activities	128,599	62,056
Net change in cash and cash equivalents	$ 69,868	$ 53,652

Operating Activities

Net cash used in operating activities was $58.5 million for the nine months ended September 30, 2017, consisting primarily of net loss of $31.0 million adjusted for non-cash items including stock-based compensation expense of $4.7 million, depreciation and amortization expense of $0.4 million, and a net decrease in operating assets and liabilities of $32.6 million. The significant items in the change in operating assets and liabilities include an increase of prepaid expenses, other current assets, and other assets of $1.5 million due to clinical trial prepayments and reimbursements due from KHK, a decrease in account payable of $1.4 million due to timing of vendor payments, an increase in accrued direct research and other current liabilities of $7.4 million due clinical trial activities, and a decrease in deferred revenue of $37.1 million. The decrease in deferred revenue relates to the timing of upfront payments and ratable recognition of revenue over the expected term of the performance obligations under our collaboration agreements with AbbVie and KHK, resulting in recognition of $37.1 million of license and milestone revenue.

Net cash used in operating activities was $8.1 million for the nine months ended September 30, 2016, consisting primarily of net loss of $2.1 million adjusted for non-cash items including stock-based compensation expense of $1.5 million, depreciation expense of $0.5 million, and a net decrease in operating assets and liabilities of $8.0 million. The significant items in the change in operating assets and liabilities include an increase of prepaid expenses and other current assets of $2.9 million due to clinical trial prepayments and reimbursements due from KHK and AbbVie, a decrease in income tax receivable of $31.9 million due to tax refunds received, and a decrease in deferred revenue of $37.2 million. The decrease in deferred revenue relates to the timing of upfront payments and ratable recognition of revenue over the expected term of the performance obligations under our collaboration agreements with AbbVie and KHK, resulting in recognition of $37.2 million of license and milestone revenue.

Investing Activities

Net cash used in investing activities consisted of purchases and sales of property and equipment. Net cash used in investing activities for the nine months ended September 30, 2017 and 2016 was not significant.

Financing Activities

Net cash provided by financing activities was $128.6 million, primarily due to net proceeds of $108.5 million from follow-on public offering and $19.7 million from our Loan Agreement for the nine months ended September 30, 2017.

Net cash provided by financing activities was $62.1 million, primarily due to net proceeds of $62.2 million from the close of our initial public offering for the nine months ended September 30, 2016.

Operating Capital Requirements

To date, we have not generated any revenue from product sales. We do not know when or whether we will generate any revenue from product sales. We do not expect to generate significant revenue from product sales unless and until we obtain regulatory approval of and commercialize one or more of our current or future product candidates. We anticipate that we will continue to generate losses for the foreseeable future, and we expect the losses to increase as we continue the development of, and seek regulatory approvals for, our product candidates, and begin to commercialize any approved products. We are subject to all the risks related to the development and commercialization of novel therapeutics, and we may encounter unforeseen expenses, difficulties, complications, delays, and other unknown factors that may adversely affect our business. We continue to incur additional costs associated with operating as a public company. We anticipate that we will need substantial additional funding in connection with our continuing operations.

On July 10, 2017, we filed a universal shelf registration statement on Form S-3, which was declared effective by the SEC on July 14, 2017, on which we registered for sale up to $250.0 million of any combination of our common stock, preferred stock, warrants, rights, purchase contracts and/or units from time to time and at prices and on terms that we may determine. After the closing of our follow-on underwritten public offering on August 1, 2017, approximately $134.1 million of securities remains available for issuance under this shelf registration. This shelf registration statement will remain in effect for up to three years from the date it was declared effective. We believe our existing cash and cash equivalents, not including proceeds from the follow-on offering or expected receipts from our collaborations, will be sufficient to enable us to fund our operating expenses and capital expenditure requirements for at least the next 12 months.

On November 9, 2017, we entered into an at-the-market equity offering sales agreement with Stifel, Nicolaus & Company, Incorporated, that established a program pursuant to which we may offer and sell up to $50 million of our Class A common stock from time to time in at-the-market transactions under our existing shelf registration statement. As of the filing date of this Form 10-Q, there have been no shares sold under this program.

Our longer term liquidity requirements will require us to raise additional capital, such as through additional equity or debt financings. Our future capital requirements will depend on many factors, including the receipt of milestones under our current collaboration agreements and the timing of our expenditures related to clinical trials. In addition, we may choose to raise additional capital at any time for the further development of our existing product candidates and may also need to raise additional funds sooner to pursue other development activities related to additional product candidates. Decisions about the timing or nature of any financing will rely on, among other things, our perception of our liquidity and of the market opportunity to raise equity or debt. Additional securities may include common stock, preferred stock, or debt securities.

Until we can generate a sufficient amount of revenue from our product candidates, if ever, we expect to finance future cash needs through public or private equity or debt offerings. Additional capital may not be available on reasonable terms, if at all. If we are unable to raise additional capital in sufficient amounts or on terms acceptable to us, we may have to significantly delay, scale back, or discontinue the development or commercialization of one or more of our product candidates. If we raise additional funds through the issuance of additional equity or debt securities, it could result in dilution to our existing stockholders or increased fixed payment obligations, and any such securities may have rights senior to those of our common stock. If we incur additional indebtedness, we could become subject to additional covenants that could further restrict our operations and potentially impair our competitiveness, such as limitations on our ability to incur additional debt, limitations on our ability to acquire, sell, or license intellectual property rights, and other operating restrictions that could adversely affect our ability to conduct our business, and any such debt could be secured by our owned intellectual property, in addition to assets which currently secure our debt. Any of these events could significantly harm our business, financial condition, and prospects.

Our forecast of the period through which our financial resources will be adequate to support our operations is a forward-looking statement and involves risks and uncertainties, and actual results could vary due to a number of factors. We have based this estimate on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we currently expect. Our future funding requirements, both near- and long-term, will depend on many factors, including, but not limited to:

- the scope, rate of progress, results and cost of our clinical trials, preclinical testing, and other activities related to the development of our product candidates;
- the number and characteristics of product candidates that we pursue;
- the costs of development efforts for our product candidates that are not subject to reimbursement from our collaborators;
- the costs necessary to obtain regulatory approvals, if any, for our product candidates in the United States and other jurisdictions, and the costs of post-marketing studies that could be required by regulatory authorities in jurisdictions where approval is obtained;
- the continuation of our existing collaborations and entry into new collaborations and the receipt of any collaboration payments;
- the time and unreimbursed costs necessary to commercialize products in territories in which our product candidates are approved for sale;
- the revenue from any future sales of our products for which we are entitled to a profit share, royalties, and milestones;
- the level of reimbursement or third-party payor pricing available to our products;
- the costs of obtaining third-party commercial supplies of our products, if any, manufactured in accordance with regulatory requirements;
- the costs associated with being a public company; and
- the costs we incur in the filing, prosecution, maintenance, and defense of our extensive patent portfolio and other intellectual property rights.

If we cannot expand our operations or otherwise capitalize on our business opportunities because we lack sufficient capital, our business, financial condition, and results of operations could be materially adversely affected.

Contractual Obligations and Commitments

As of September 30, 2017, there have been no material changes, outside of the ordinary course of business, in our outstanding contractual obligations from those disclosed within "Management's Discussion and Analysis of Financial Condition and Results of Operations", as contained in our Annual Report on Form 10-K for year ended December 31, 2016, other than the following:

As of September 30, 2017, our contractual obligations were as follows:

	Payments due by period			
	Less than 1 year	1 to 3 years	4 to 5 years	Total
	(unaudited) (in thousands)			
Operating lease obligations	$ 609	$ 51	$ —	$ 660
Outstanding secured term loan	—	11,220	$ 9,370	$ 20,590
Total contractual obligations	$ 609	$ 11,271	$ 9,370	$ 21,250

On November 9, 2017, we amended the lease agreement for our principal executive offices in Irving, TX to extend the lease term by 24 months for an expiration date of October 2020.

Clinical Trials

As of September 30, 2017, we have several ongoing clinical trials in various stages. Under agreements with various CROs and clinical trial sites, we incur expenses related to clinical trials. The timing and amounts of these disbursements are contingent upon the achievement of certain milestones, patient enrollment, and services rendered or as expenses are incurred by the CROs or clinical trial sites. Therefore, we cannot estimate the potential timing and amount of these payments, and they have been excluded from the table above.

Critical Accounting Policies and Significant Judgments and Estimates

Our management's discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, and expenses and the disclosure of contingent assets and liabilities in our financial statements. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition, accrued research and development expenses, income taxes, and stock-based compensation. We base our estimates on historical experience, known trends and events, and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. There have been no significant and material changes in our critical accounting policies during the nine months ended September 30, 2017, as compared to those disclosed in "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 year ended December 31, 2016.

Off-Balance Sheet Arrangements

Since our inception, we have not had any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements, and we have not engaged in any other off-balance sheet arrangements, as defined in the rules and regulations of the SEC.

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements, please see Note 2 of Notes to Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risks in the ordinary course of our business. These market risks are principally limited to interest rate fluctuations. We had cash and cash equivalents of $154.6 million at September 30, 2017, consisting primarily of funds in operating cash accounts. The primary objective of our investment activities is to preserve principal and liquidity while maximizing income without significantly increasing risk. We do not enter into investments for trading or speculative purposes. Due to the short-term nature of our investment portfolio, we do not believe an immediate increase of 100 basis points in interest rates would have a material effect on the fair market value of our portfolio, and accordingly we do not expect a sudden change in market interest rates to affect materially our operating results or cash flows.

We also have interest rate exposure as a result of our Term A Loan. As of September 30, 2017, the outstanding principal amount of our Term A Loan was $20.0 million. Term A Loan bears interest at a floating per annum rate calculated as 7.40% plus the greater of the 30-day U.S. Dollar LIBOR rate reported in The Wall Street Journal or 0.75%, with a minimum rate of 8.15% and a maximum rate of 10.15%. Changes in the U.S. Dollar LIBOR rate may therefore affect our interest expense associated with the Term A Loan. An increase of 100 basis points in interest rates would increase expense by approximately $0.2 million annually based on the amounts currently outstanding and would not materially affect our results of operations.

We contract with research, development, and manufacturing organizations and investigational sites globally. Generally, these contracts are denominated in U.S. dollars. However, we may be subject to fluctuations in foreign currency rates in connection with agreements not denominated in U.S. dollars. We do not hedge our foreign currency exchange rate risk.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2017. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934 (Exchange Act), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financials officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2017, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the nine months ended September 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.

We are not currently subject to any material legal proceedings.

Item 1A. Risk Factors.

In addition to other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors and other cautionary statements described under the heading "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2016 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, which could materially affect our businesses, financial condition, or future results. Additional risks and uncertainties currently unknown to us, or that we currently deem to be immaterial, also may materially adversely affect our business, financial condition, or future results. There has been no material changes in our risk factors from those described in the Annual Report on Form 10-K for the year ended December 31, 2016 and the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017.

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

Unregistered Sales of Equity Securities

None.

Use of Proceeds from Initial Public Offering of Class A Common Stock

On May 25, 2016, our registration statement on Form S-1 (File No. 333-208843) relating to our IPO of our Class A common stock was declared effective by the SEC. The shares began trading on The NASDAQ Global Market on May 26, 2016. The public offering price of the shares sold in the offering was $11.00 per share. The IPO closed on June 1, 2016 and included 6,325,000 shares of Class A common stock, which included 825,000 shares of Class A common stock issued pursuant to the overallotment option granted to the underwriters, for gross proceeds of approximately $69.6 million before deducting underwriters' discounts and commissions and offering-related expenses. Net proceeds, after deducting underwriting discounts and commissions of $4.9 million and offering expenses of approximately $3.8 million, were $60.9 million. Citigroup Global Markets Inc., Cowen and Company, LLC, and Piper Jaffray & Co. acted as joint book-running managers of this offering.

There has been no material change in the planned use of proceeds from our IPO as described in our prospectus dated May 25, 2016, filed with the SEC pursuant to Rule 424(b)(4) of the Securities Act. We invested the funds received in highly liquid money market funds. The net proceeds from the IPO have been used and will be used, together with our cash and cash equivalents, to fund continued advancement of our bardoxolone methyl, omaveloxolone, and clinical trials and preclinical studies, and to provide funds for working capital and other general purposes. None of the offering proceeds were paid directly or indirectly to any of our directors or officers, or their associates, or persons owning 10.0% or more of any class of our equity securities or to any other affiliates.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

On November 9, 2017, we entered into an at-the-market equity offering sales agreement (Sales Agreement) with Stifel, Nicolaus & Company, Incorporated (Stifel) to sell, from time to time, shares of the Company's Class A common stock, with aggregate proceeds of up to $50 million, through an "at-the-market" equity offering program under which Stifel will act as sales agent and/or principal. As of the filing date of this Form 10-Q, there have been no shares sold under this program.

Pursuant to the Sales Agreement, shares of the Company's Class A common stock may be offered and sold through Stifel in transactions that are deemed to be "at-the-market" offerings as defined in Rule 415 of the Securities Act, including sales made directly on or through the NASDAQ Global Market, sales made to or through a market maker other than on an exchange or otherwise, in negotiated transactions at market prices prevailing at the time of sale or at prices related to such prevailing market prices, and any other method permitted by law, including in privately negotiated transactions. Stifel will act as sales agent on a best efforts basis and use commercially reasonable efforts to sell on our behalf all of the shares of Class A common stock requested to be sold by us, consistent with its normal trading and sales practices, on mutually agreed terms between Stifel and us. Except as otherwise described in the Sales Agreement, Stifel will be entitled to compensation at a commission rate of up to 3% of the gross sales price per share sold. We have no obligation to sell any shares under the Sales Agreement, and may at any time suspend offers under the Sales Agreement or terminate the Sales Agreement.

The Class A shares will be issued pursuant to the Company's shelf registration statement on Form S-3 (Registration No. 333-218915). The summary of the Sales Agreement in this Form 10-Q does not purport to be complete and is qualified by reference to such agreement, which is filed as Exhibit 1.1 to this Form 10-Q and incorporated herein by reference.

On November 9, 2017, we amended our lease agreement for our principal executive offices in Irving, TX to extend the lease term by 24 months for an expiration date of October 2020. The amendment to our lease agreement is attached as Exhibit 10.1 and incorporated herein by reference.

Item 6. Exhibits.

Exhibit Number	Description
1.1*	At-the-Market Equity Offering Sales Agreement, dated November 9, 2017, between Reata Pharmaceuticals, Inc., and Stifel, Nicolaus & Company, Incorporated.
5.1*	Legal Opinion of Vinson & Elkins L.L.P.
10.1*	Lease Amendment No. 11, effective as of November 9, 2017, between Reata Pharmaceuticals, Inc. and SDCO Gateway Commerce I & II, Inc.
10.2	First Amendment to Loan and Security Agreement, dated as of November 3, 2017, by and among Reata Pharmaceuticals, Inc., as borrower, Oxford Finance LLC, as the collateral agent and a lender, and Silicon Valley Bank, as a lender thereto (incorporated by reference to exhibit 10.1 to the Registrants' Current Report on Form 8-K, file No. 001-37785, filed with the Commission on November 7, 2017.
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.
** Filed electronically herewith.

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.

Date: November 13, 2017

REATA PHARMACEUTICALS, INC.

By: /s/ J. Warren Huff
Name: J. Warren Huff
Title: Chief Executive Officer and President

By: /s/ Jason D. Wilson
Name: Jason D. Wilson
Title: Chief Financial Officer

Exhibit 1.1

REATA PHARMACEUTICALS, INC.

Class A Common Stock
($0.001 par value per share)

AT-THE-MARKET EQUITY OFFERING SALES AGREEMENT

November 9, 2017

STIFEL, NICOLAUS & COMPANY, INCORPORATED
One South Street, 15th Floor
Baltimore, Maryland 21202

Ladies and Gentlemen:

Reata Pharmaceuticals, Inc., a Delaware corporation (the "Company"), proposes, subject to the terms and conditions stated herein, to issue and sell from time to time to or through Stifel, Nicolaus & Company, Incorporated ("Stifel Nicolaus"), as sales agent and/or principal ("Agent"), shares (the "Shares") of the Company's Class A common stock, $0.001 par value per share (the "Common Stock"), having an aggregate offering price of up to $50,000,000 on the terms set forth in Section 2 of this At-The-Market Equity Offering Sales Agreement (the "Agreement"). The Company agrees that whenever it determines to sell Shares directly to the Agent as principal, it will enter into a separate agreement (each, a "Terms Agreement") in substantially the form of Annex I hereto, relating to such sale in accordance with Section 3 of this Agreement.

Section 1. Representations and Warranties. The Company represents and warrants to the Agent that, as of the date that the Company elects by notice to the Agent to have the Agent commence offerings of the Shares pursuant to this Agreement (the "Commencement Time") and on each Representation Date (as defined in Section 3(k) below), each Applicable Time (as defined in Section 18 below), and each Settlement Date (as defined in Section 2(a) below):

(a) Compliance with Registration Requirements. The Company has prepared and filed with the Commission a registration statement, including a related Base Prospectus, under the 1933 Act, on Form S-3 (File No. 333-218915), in respect of the Company's Common Stock (including the Shares) (collectively, the "Securities"), and any pre-effective amendment thereto. Such Registration Statement has become effective. The initial Effective Date of the Registration Statement was not earlier than the date three years before the Commencement Time. No stop order suspending the effectiveness of the Registration Statement or any part thereof has been issued and no proceeding for that purpose has been initiated or, to the knowledge of the Company, threatened by the Commission. The Company has prepared and filed with the Commission the Prospectus Supplement to the Base Prospectus specifically relating to the Shares prepared and filed with the Commission pursuant to Rule 424(b) under the 1933 Act. Any reference herein to the Registration Statement, the Base Prospectus, the Prospectus Supplement, or the Prospectus shall be deemed to refer to and include the documents incorporated by reference therein pursuant to Item 12 of Form S-3 which were filed under the 1934 Act on or before the Effective Date of the Registration Statement or the issue date of the Base Prospectus, the Prospectus Supplement, or the Prospectus, as the case may be; and any reference herein to the terms "amend," "amendment" or "supplement" with respect to the Registration Statement, the Base Prospectus, the Prospectus Supplement, or the Prospectus shall be deemed to refer to and include the filing of any document under the 1934 Act after the Effective Date of the Registration Statement or the issue date of the Base Prospectus, the Prospectus Supplement, or the Prospectus, as the case may be, deemed to be incorporated therein by reference. To the extent that the Company elects to file a successor registration statement with respect to the Shares, after the effectiveness of any such registration statement, all references to "Registration Statement" included in this Agreement shall be deemed to include such new registration statement, including all documents incorporated by reference therein pursuant to Item 12 of Form S-3, and all references to "Base Prospectus" included in this Agreement shall be deemed to include the final form of prospectus, including all documents incorporated therein by reference, included in any such registration statement at the time such registration statement became effective.

At the Commencement Time, on each Effective Date, at each Applicable Time, at each Settlement Date and at all times during which a prospectus is required by the 1933 Act to be delivered (whether physically, deemed to be delivered pursuant to Rule 153 or through compliance with Rule 172 or any similar rule) in connection with any offer or sale of Shares, the Registration Statement complied and will comply in all material respects with the applicable requirements of the 1933 Act and the respective rules thereunder and did not and will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading; and on the date of any filing pursuant to Rule 424(b), at the Commencement Time, at each Applicable Time, on each Settlement Date and at all times during which a prospectus is required by the 1933 Act to be delivered (whether physically, deemed to be delivered pursuant to Rule 153 or through compliance with Rule 172 or any similar rule) in connection with any offer or sale of Shares, the Prospectus (together with any supplement thereto) complied and will comply in all material respects with the applicable requirements of the 1933 Act and the respective rules thereunder and did not and will not include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the Company makes no representations or warranties as to the information contained in or omitted from the Registration Statement or the Prospectus (or any supplement thereto) in reliance upon and in conformity with information furnished in writing to the Company by the Agent specifically for inclusion in the Registration Statement or the Prospectus (or any supplement thereto).

At the Commencement Time, at each Applicable Time and at each Settlement Date, the General Disclosure Package will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The preceding sentence does not apply to statements in or omissions from the General Disclosure Package based upon and in conformity with written information furnished to the Company by the Agent specifically for use therein.

(b) Incorporation of Documents by Reference. The documents incorporated or deemed to be incorporated by reference in the Registration Statement and the Prospectus, when they became effective or were filed with the Commission, as the case may be, complied in all material respects with the 1934 Act and, when read together with the other information in the Registration Statement and the Prospectus at the Commencement Time and at the time the Prospectus was issued, did not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(c) Independent Accountants. Ernst & Young LLP, who have certified certain financial statements of the Company and its consolidated subsidiaries and delivered their report with respect to the audited consolidated financial statements and schedules included in the Registration Statement, the General Disclosure Package and the Prospectus, are independent public accountants with respect to the Company within the meaning of the 1933 Act and the rules and regulations thereunder.

(d) Financial Statements. The consolidated historical financial statements and schedules of the Company and its consolidated subsidiaries included in the Registration Statement, the General Disclosure Package and the Prospectus present fairly, in all material respects, the financial condition, results of operations and cash flows of the Company as of the dates and for the periods indicated, comply in all material respects as to form with the applicable accounting requirements of the 1933 Act and have been prepared in conformity with generally accepted accounting principles ("GAAP") applied on a consistent basis throughout the periods involved (except as otherwise noted therein); provided that unaudited interim financial statements are subject to normal year-end audit adjustments and do not contain all footnotes required by GAAP.

(e) No Material Adverse Change in Business. Since the respective dates as of which information is given in the Registration Statement, the General Disclosure Package or the Prospectus, except as otherwise stated therein, (A) there has been no material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Company and its subsidiaries, taken as a whole, whether or not arising from transactions in the ordinary course of business (a "Material Adverse Effect"), (B) there have been no transactions entered into by the Company or any of its Subsidiaries, other than those in the ordinary course of business, which

are material with respect to the Company and its Subsidiaries considered as one enterprise, and (C) there has been no dividend or distribution of any kind declared, paid or made by the Company on any class of its capital stock.

(f) Good Standing of the Company and its Subsidiaries. Each of the Company and its subsidiaries has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction in which it is chartered or organized with full corporate power and authority to own or lease, as the case may be, and to operate its properties and conduct its business as described in the Registration Statement, the General Disclosure Package and the Prospectus, and is duly qualified to do business as a foreign corporation and is in good standing under the laws of each jurisdiction which requires such qualification.

(g) Capitalization. The shares of issued and outstanding Common Stock and shares of issued and outstanding Class B common stock, par value $0.001 (the "Class B Common Stock"), have been duly authorized and validly issued and are fully paid and non-assessable; none of the outstanding shares of capital stock was issued in violation of the preemptive or other similar rights of any securityholder of the Company. The Common Stock has been registered pursuant to Section 12(b) of the 1934 Act and is listed on the Nasdaq Global Market ("Nasdaq"), and the Company has taken no action designed to, or likely to have the effect of, terminating the registration or listing of the Common Stock from the Nasdaq, nor has the Company received any notification that the Commission or the Nasdaq is contemplating terminating such registration or listing.

(h) Capitalization of Subsidiaries. All the outstanding shares of capital stock of each subsidiary have been duly and validly authorized and issued and are fully paid and nonassessable, and, except as otherwise set forth in the Registration Statement, the General Disclosure Package and the Prospectus, all outstanding shares of capital stock of the subsidiaries are owned by the Company either directly or through wholly owned subsidiaries free and clear of any perfected security interest or any other security interests, claims, liens or encumbrances.

(i) Authorization of Agreements. This Agreement has been, and any Terms Agreement will be, duly authorized, executed, and delivered by the Company.

(j) Authorization and Description of Securities. The Shares have been duly authorized and reserved for issuance and sale pursuant to this Agreement and, when issued and delivered by the Company pursuant to this Agreement or any Terms Agreement against payment of the consideration set forth herein, will be validly issued, fully paid and non-assessable. The Common Stock conforms to all statements relating thereto contained in the Registration Statement, the General Disclosure Package and the Prospectus and such description conforms to the rights set forth in the instruments defining the same. No holder of the Shares will be subject to personal liability by reason of being such a holder; and the issuance of the Shares is not subject to the preemptive or other similar rights of any securityholder of the Company.

(k) Absence of Defaults and Conflicts. Neither the Company nor any subsidiary is in violation or default of (i) any provision of its charter or bylaws, (ii) the terms of any indenture, contract, lease, mortgage, deed of trust, note agreement, loan agreement or other agreement, obligation, condition, covenant or instrument to which it is a party or bound or to which its property is subject, or (iii) any statute, law, rule, regulation, judgment, order or decree of any court, regulatory body, administrative agency, governmental body, arbitrator or other authority having jurisdiction over the Company or such subsidiary or any of its properties, as applicable, except, in the case of clauses (ii) and (iii), for such violations or defaults as would not reasonably be expected to have a Material Adverse Effect.

(l) Absence of Labor Dispute. No labor problem or dispute with the employees of the Company or any of its subsidiaries exists or is threatened or imminent, and the Company is not aware of any existing or imminent labor disturbance by the employees of any of its or its subsidiaries' principal suppliers, contractors or customers, that would reasonably be expected to have a Material Adverse Effect.

(m) Absence of Proceedings. No action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any of its subsidiaries or its or their property is pending or, to the best knowledge of the Company, threatened that would reasonably be expected to have a Material Adverse Effect.

(n) Accuracy of Exhibits. There are no contracts or documents which are required to be described in the Registration Statement or the Prospectus or the documents incorporated by reference therein or to be filed as exhibits thereto which have not been so described and filed as required.

(o) Possession of Intellectual Property. The Company and its subsidiaries own, possess, license or have other rights to use, on reasonable terms, all patents, patent applications, trade and service marks, trade and service mark registrations, trade names, copyrights, licenses, inventions, trade secrets, technology, know-how and other intellectual property necessary for the conduct of the Company's business as now conducted or as proposed in the Registration Statement, the General Disclosure Package and Prospectus to be conducted (collectively, the "Intellectual Property"). Except as set forth in the Registration Statement, the General Disclosure Package and the Prospectus (i) there are no rights of third parties to any such Intellectual Property; (ii) there is no material infringement by third parties of any such Intellectual Property; (iii) there is no pending or threatened action, suit, proceeding or claim by others challenging the Company's rights in or to any such Intellectual Property, and the Company is unaware of any facts which would form a reasonable basis for any such claim; (iv) there is no pending or threatened action, suit, proceeding or claim by others challenging the validity or scope of any such Intellectual Property, and the Company is unaware of any facts which would form a reasonable basis for any such claim; (v) there is no pending or threatened action, suit, proceeding or claim by others that the Company infringes or otherwise violates any patent, trademark, copyright, trade secret or other proprietary rights of others, and the Company is unaware of any other fact which would form a reasonable basis for any such claim; and (vi) there is no prior art of which the Company is aware that may render any U.S. patent held by the Company invalid or any U.S. patent application held by the Company unpatentable which has not been disclosed to the U.S. Patent and Trademark Office; except, in the case of clauses (i) through (vi) above, as would not reasonably be expected to have a Material Adverse Effect.

(p) Absence of Further Requirements. No consent, approval, authorization, filing with or order of any court or governmental agency or body is required in connection with the transactions contemplated herein, except such as have been made or obtained under the 1933 Act and such as may be required under the 1934 Act, FINRA and the blue sky laws of any jurisdiction in connection with the purchase and distribution of the Shares by the Agent in the manner contemplated herein and in the Registration Statement, the General Disclosure Package and the Prospectus.

(q) Absence of Manipulation. The Company has not taken, directly or indirectly, any action designed to or that would constitute or that might reasonably be expected to cause or result in, under the 1934 Act or otherwise, stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Shares.

(r) Possession of Licenses and Permits. The Company and its subsidiaries possess all licenses, certificates, permits and other authorizations (collectively, "Permits") issued by, and has made all declarations and filings with, the applicable federal, state, local or foreign governmental or regulatory authorities that are necessary for the ownership or lease of its properties or the conduct of its businesses as described in the Registration Statement, the General Disclosure Package and the Prospectus, or to permit all clinical and nonclinical studies and trials conducted by or on behalf of the Company, including, without limitation, all necessary United States Food and Drug Administration ("FDA") and applicable foreign regulatory agency approvals, except where the failure to possess or make the same would not reasonably be expected to have a Material Adverse Effect; the Company and its subsidiaries are not in violation of, or in default under, any such Permit, except where such violation or default would not reasonably be expected to have a Material Adverse Effect; and the Company and its subsidiaries have not received notice of any revocation or modification of any such Permit and do not have any reason to believe that any such Permit will not be renewed in the ordinary course, in each case which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a Material Adverse Effect. The Company has not received any FDA Form 483, written notice of adverse finding, warning letter, untitled letter or other correspondence or written notice from any court or arbitrator or governmental or regulatory authority alleging or asserting non-compliance with (A) any Applicable Laws (as defined below) or (B) any Permits required by any such Applicable Laws, in each case which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a Material Adverse Effect.

(s) Investment Company Act. The Company is not and, after giving effect to the offering and sale of the Shares and the application of the proceeds thereof as described in the General Disclosure Package and the Prospectus, will not be an "investment company" as defined in the Investment Company Act of 1940, as amended.

(t) Environmental Laws. The Company and its subsidiaries are (i) in compliance with any and all applicable foreign, federal, state and local laws and regulations relating to the protection of human health and safety, the environment or hazardous or toxic substances or wastes, pollutants or contaminants ("Environmental Laws"), (ii) have received and are in compliance with all permits, licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses and (iii) have not received notice of any actual or potential liability under any environmental law, except where such non-compliance with Environmental Laws, failure to receive required permits, licenses or other approvals, or liability would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Except as set forth in the Registration Statement, General Disclosure Package or the Prospectus, neither the Company nor any of the subsidiaries has been named as a "potentially responsible party" under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended.

(u) Registration Rights. Except as described in the Registration Statement, the General Disclosure Package or the Prospectus, there are no persons with registration rights or other similar rights to have any securities registered pursuant to the Registration Statement or otherwise registered by the Company under the 1933 Act.

(v) Accounting Controls and Disclosure Controls. The Company and each of its subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Except as described in the Registration Statement, the General Disclosure Package or the Prospectus, the Company and its subsidiaries' internal controls over financial reporting are effective at a reasonable assurances level and the Company and its subsidiaries are not aware of any material weakness in their internal controls over financial reporting.

The Company and its consolidated Subsidiaries employ disclosure controls and procedures that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the 1934 Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and is accumulated and communicated to the Company's management, including its principal executive officer or officers and principal financial officer or officers, as appropriate, to allow timely decisions regarding disclosure.

(w) S-3 Eligibility. (A)(i) At the time of filing the Registration Statement and (ii) at the time of the most recent amendment thereto for the purposes of complying with Section 10(a)(3) of the 1933 Act (whether such amendment was by post-effective amendment, incorporated report filed pursuant to Section 13(a) or 15(d) of the 1934 Act or form of prospectus), the Company met the then applicable requirements for use of Form S-3 under the 1933 Act and (B) at the earliest time after the filing of the Registration Statement that the Company or another offering participant made a bona fide offer (within the meaning of Rule 164(h)(2) under the 1933 Act) of the Shares, the Company was not an "ineligible issuer" as defined in Rule 405 under the 1933 Act.

(x) No Commissions. Neither the Company nor any of its Subsidiaries is a party to any contract, agreement or understanding with any person (other than as contemplated by this Agreement or any Terms Agreement) that would give rise to a valid claim against the Company or any of its Subsidiaries or the Agent for a brokerage commission, finder's fee or like payment in connection with the offering and sale of the Shares.

(y) Deemed Representation. Any certificate signed by any officer of the Company delivered to the Agent pursuant to or in connection with this Agreement or any Terms Agreement shall be deemed a representation and warranty by the Company to the Agent as to the matters covered thereby as of the date or dates indicated in such certificate.

(z) Compliance with the Sarbanes-Oxley Act. There is and has been no failure on the part of the Company or any of the Company's directors or officers, in their capacities as such, to comply in all material respects with any provision of the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated in connection therewith (the "Sarbanes-Oxley Act"), including Section 402 related to loans and Sections 302 and 906 related to certifications.

(aa) Payment of Taxes. The Company has filed all tax returns that are required to be filed or has requested extensions thereof (except in any case in which the failure so to file would not reasonably be expected to have a Material Adverse Effect) and has paid all taxes required to be paid by it and any other assessment, fine or penalty levied against it, to the extent that any of the foregoing is due and payable, except for any such assessment, fine or penalty that is currently being contested in good faith or as would not reasonably be expected to have a Material Adverse Effect.

(bb) Insurance. The Company and each of its subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as it reasonably believes are prudent and customary in the businesses in which they are engaged; all policies of insurance and fidelity or surety bonds insuring the Company or any of its subsidiaries or their respective businesses, assets, employees, officers and directors are in full force and effect; the Company and its subsidiaries are in compliance with the terms of such policies and instruments in all material respects; and there are no claims by the Company or any of its subsidiaries under any such policy or instrument as to which any insurance company is denying liability or defending under a reservation of rights clause; neither the Company nor any such subsidiary has been refused any insurance coverage sought or applied for; and neither the Company nor any such subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not reasonably be expected to have a Material Adverse Effect.

(cc) Statistical and Market-Related Data. Any statistical and market-related data included in the Registration Statement, the General Disclosure Package and the Prospectus are based on or derived from sources that the Company believes to be reliable and accurate, and, where required, the Company has obtained the written consent to the use of such data from such sources.

(dd) Foreign Corrupt Practices Act. Neither the Company nor, to the knowledge of the Company, any director, officer, agent, employee, affiliate or other person acting on behalf of the Company or any of its Subsidiaries is aware of or has taken any action, directly or indirectly, that would result in a violation by such persons of the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder (the "FCPA"), including, without limitation, making use of the mails or any means or instrumentality of interstate commerce corruptly in furtherance of an offer, payment, promise to pay or authorization of the payment of any money, or other property, gift, promise to give, or authorization of the giving of anything of value to any "foreign official" (as such term is defined in the FCPA) or any foreign political party or official thereof or any candidate for foreign political office, in contravention of the FCPA and the Company and, to the knowledge of the Company, its affiliates have conducted their businesses in compliance with the FCPA and have instituted and maintain policies and procedures designed to ensure, and which are reasonably expected to continue to ensure, continued compliance therewith.

(ee) Money Laundering Laws. The operations of the Company and its subsidiaries are and have been conducted at all times in compliance with applicable financial recordkeeping and reporting requirements and the money laundering statutes and the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency (collectively, the "Money Laundering Laws") and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any of its subsidiaries with respect to the Money Laundering Laws is pending or, to the best knowledge of the Company, threatened.

(ff) OFAC. Neither the Company nor any of its subsidiaries nor, to the knowledge of the Company, any director, officer, agent, employee or affiliate of the Company or any of its subsidiaries (i) is, or is controlled or

50% or more owned in the aggregate by or is acting on behalf of, one or more individuals or entities that are currently the subject of any sanctions administered or enforced by the United States (including any administered or enforced by the Office of Foreign Assets Control of the U.S. Department of the Treasury, the U.S. Department of State, or the Bureau of Industry and Security of the U.S. Department of Commerce), the United Nations Security Council, the European Union, a member state of the European Union (including sanctions administered or enforced by Her Majesty's Treasury of the United Kingdom) or other relevant sanctions authority (collectively, "Sanctions" and such persons, "Sanctioned Persons" and each such person, a "Sanctioned Person"), (ii) is located, organized or resident in a country or territory that is, or whose government is, the subject of Sanctions that broadly prohibit dealings with that country or territory (collectively, "Sanctioned Countries" and each, a "Sanctioned Country") or (iii) will, directly or indirectly, use the proceeds of this offering, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other individual or entity in any manner that would result in a violation of any Sanctions by, or could result in the imposition of Sanctions against, any individual or entity (including any individual or entity participating in the offering, whether as underwriter, advisor, investor or otherwise).

(gg) Compliance with Applicable Laws. Except as described in the Registration Statement, the General Disclosure Package and the Prospectus, as applicable, the Company and its subsidiaries (i) are and at all times have been in compliance with all statutes, rules and regulations applicable to the ownership, testing, development, manufacture, packaging, processing, use, distribution, marketing, advertising, labeling, promotion, sale, offer for sale, storage, import, export or disposal of any product manufactured or distributed by the Company, including, without limitation, the Federal Food, Drug and Cosmetic Act (21 U.S.C. § 301 et seq.), the federal Anti-kickback Statute (42 U.S.C. § 1320a-7b(b)), the Health Insurance Portability and Accountability Act of 1996, as amended by the Health Information Technology for Economic and Clinical Health Act of 2009, and the Patient Protection and Affordable Care Act of 2010, as amended by the Health Care and Education Affordability Reconciliation Act of 2010, the regulations promulgated pursuant to such laws, and any successor government programs, and comparable state laws, regulations relating to Good Clinical Practices, Good Laboratory Practices and Good Manufacturing Practices and all other local, state, federal, national and foreign laws, and final administrative guidance relating to the regulation of the Company (collectively, the "Applicable Laws"); (ii) have not received any written notice from any court or arbitrator or governmental or regulatory authority or third party alleging or asserting non-compliance with any Applicable Laws or any licenses, exemptions, certificates, approvals, clearances, authorizations, permits, registrations and supplements or amendments thereto required by any such Applicable Laws ("Authorizations"); (iii) possess all material Authorizations and such Authorizations are valid and in full force and effect and is not in violation of any term of any such Authorizations; (iv) have not received written notice of any claim, action, suit, proceeding, hearing, enforcement, investigation, arbitration or other action from any court or arbitrator or governmental or regulatory authority or third party alleging that any product operation or activity is in violation of any Applicable Laws or Authorizations nor is any such claim, action, suit, proceeding, hearing, enforcement, investigation, arbitration or other action threatened; (v) have not received written notice that any court or arbitrator or governmental or regulatory authority has taken, is taking or intends to take action to materially limit, suspend, materially modify or revoke any Authorizations nor is any such limitation, suspension, modification or revocation threatened; (vi) has filed, obtained, maintained or submitted all material reports, documents, forms, notices, applications, records, claims, submissions and supplements or amendments as required by any Applicable Laws or Authorizations and that all such reports, documents, forms, notices, applications, records, claims, submissions and supplements or amendments were complete and accurate on the date filed (or were corrected or supplemented by a subsequent submission); and (vii) is not a party to any corporate integrity agreements, monitoring agreements, consent decrees, settlement orders, or similar agreements with or imposed by any governmental or regulatory authority; except, in the case of clauses (i) through (vii), as would not reasonably be expected to have a Material Adverse Effect.

(hh) Clinical and Nonclinical Studies. The clinical trials and nonclinical studies conducted by or on behalf of or sponsored by the Company or its subsidiaries, or in which the Company or its subsidiaries has participated, that are described in the Registration Statement, the General Disclosure Package and the Prospectus or the results of which are referred to in the Registration Statement, the General Disclosure Package and the Prospectus, as applicable, and are intended to be submitted to Regulatory Authorities as a basis for product approval, were and, if still pending, are being conducted in all material respects in accordance with standard medical and scientific research procedures and all applicable statutes, rules and regulations of the FDA and comparable drug regulatory

agencies outside of the United States to which it is subject (collectively, the "Regulatory Authorities") and current Good Clinical Practices and Good Laboratory Practices. The descriptions in the Registration Statement, the General Disclosure Package or the Prospectus of the results of the studies and trials described therein are accurate and complete and fairly present in all material respects the data derived from such studies and trials. Except as described in the Registration Statement, the General Disclosure Package and the Prospectus, (i) the Company and its subsidiaries have no knowledge of any other studies or trials the results of which are inconsistent with or otherwise call into question the results described or referred to in the Registration Statement, the General Disclosure Package and the Prospectus, (ii) the Company and its subsidiaries have not received any written notices, correspondence or other communication from the Regulatory Authorities or any other governmental agency which could lead to the termination or suspension of any clinical trials or nonclinical studies that are described in the Registration Statement, the General Disclosure Package and the Prospectus or the results of which are referred to in the Registration Statement, the General Disclosure Package or the Prospectus, and (iii) there are no reasonable grounds for same.

(ii) Facilities and Operations. To the Company's knowledge, the manufacturing facilities and operations of its suppliers are operated in compliance in all material respects with all applicable statutes, rules, regulations and policies of the Regulatory Authorities.

Section 2. Sale and Delivery of Shares.

(a) Subject to the terms and conditions set forth herein, the Company agrees to issue and sell exclusively through the Agent acting as sales agent or directly to the Agent acting as principal from time to time, and the Agent agrees to use its commercially reasonable efforts to sell as sales agent for the Company, the Shares. Sales of the Shares, if any, through the Agent acting as sales agent or directly to the Agent acting as principal may be made in negotiated transactions or transactions that are deemed to be "at the market offerings" as defined in Rule 415 under the 1933 Act.

(i) The Shares are to be sold on a daily basis or otherwise as shall be agreed to by the Company and the Agent on any day that (A) is a trading day for the Nasdaq (other than a day on which the Nasdaq is scheduled to close prior to its regular weekday closing time, each, a "Trading Day"), (B) that the Company has satisfied its obligations under Section 6 of this Agreement and (C) that the Company has instructed the Agent to make such sales. For the avoidance of doubt, the foregoing limitation shall not apply to sales solely to employees or securityholders of the Company or its subsidiaries, or to a trustee or other person acquiring such securities for the accounts of such persons in which Stifel Nicolaus is acting for the Company in a capacity other than as Agent under this Agreement. On any Trading Day, the Company, through its Chief Executive Officer, Chief Financial Officer, or Chief Legal Officer (each, an "Authorized Representative"), may instruct the Agent by telephone (confirmed promptly by telecopy or email to each of the authorized individuals from the Agent set forth on Schedule 2, as such Schedule 2 may be amended from time to time, which confirmation will be promptly acknowledged by the Agent) as to the maximum number of Shares to be sold by the Agent on such day (in any event not in excess of the number available for issuance under the Prospectus and the currently effective Registration Statement) and the minimum price per Share at which such Shares may be sold. Subject to the terms and conditions hereof, the Agent shall use its commercially reasonable efforts to sell as sales agent all of the Shares so designated by the Company.

(ii) The Company and the Agent each acknowledge and agree that (A) there can be no assurance that the Agent will be successful in selling the Shares, (B) the Agent will incur no liability or obligation to the Company or any other person or entity if they do not sell Shares for any reason other than a failure by the Agent to use its commercially reasonable efforts consistent with its normal trading and sales practices and applicable law and regulations to sell such Shares as required by this Agreement, and (C) the Agent shall be under no obligation to purchase Shares on a principal basis except as otherwise specifically agreed by each of the Agent and the Company pursuant to a Terms Agreement. In the event of a conflict between the terms of this Agreement and the terms of a Terms Agreement, the terms of such Terms Agreement will control.

(iii) Notwithstanding the foregoing, the Company shall not authorize the issuance and sale of, and the Agent as sales agent shall not be obligated to use its commercially reasonable efforts to sell, any Shares (i) at a price lower than the minimum price therefor authorized from time to time, or (ii) in a number in excess of the number of Shares authorized from time to time to be issued and sold under this Agreement, in each case, by the Company's board of directors, or a duly authorized committee thereof, or any individual to whom such authority has been duly and properly delegated by the Company's board of directors or a duly authorized committee thereof, and notified to the Agent in writing. The Agent shall not make any sales or offers to sell Shares before the Commencement Time. In addition, the Company may, upon notice to the Agent, suspend the offering of the Shares, or the Agent may, upon notice to the Company, suspend the offering of the Shares with respect to which the Agent is acting as sales agent, for any reason and at any time; provided, however, that such suspension or termination shall not affect or impair the parties' respective obligations with respect to the Shares sold hereunder prior to the giving of such notice. Any notice given pursuant to the preceding sentence, and the Company's notice of the Commencement Time, may be given by telephone (confirmed promptly by telecopy or email, which confirmation will be promptly acknowledged).

(iv) The compensation payable to the Agent for sales of Shares with respect to which the Agent acts as sales agent shall be equal to up to 3% of the gross sales price of the Shares for amounts of Shares sold pursuant to this Section 2(a). The Company may sell Shares to the Agent, acting as principal, at a price agreed upon with the Agent at the relevant Applicable Time and pursuant to a separate Terms Agreement, in which case, for the avoidance of doubt, the foregoing rate shall not apply. The remaining proceeds after the foregoing compensation payable to the Agent and after further deduction for any transaction fees imposed by any governmental, regulatory or self-regulatory organization in respect of such sales (the "Transaction Fees"), shall constitute the net proceeds to the Company for such Shares (the "Net Proceeds"). The Agent shall notify the Company as promptly as practicable if any deduction referenced in the preceding sentence will be required. The Agent shall provide statements to the Company from time to time reflecting the gross sales price of Shares, Agent compensation and any Transaction Fees.

(v) If acting as a sales agent hereunder, the Agent shall provide written confirmation to the Company following the close of trading on the Nasdaq, each day in which Shares are sold under this Agreement setting forth the number of Shares sold on such day, the aggregate gross sales proceeds of the Shares, the Net Proceeds to the Company and the compensation payable by the Company to the Agent with respect to such sales.

(vi) Settlement for sales of Shares pursuant to this Section 2(a) will occur on the second Business Day that is also a Trading Day following the trade date on which such sales are made, unless another date shall be agreed to by the Company and the Agent (each such day, a "Settlement Date"). On each Settlement Date, the Shares sold through the Agent for settlement on such date shall be delivered by the Company to the Agent against payment of the Net Proceeds from the sale of such Shares. Settlement for all Shares shall be effected by book-entry delivery of Shares to the Agent's account at The Depository Trust Company against payments by the Agent of the Net Proceeds from the sale of such Shares in same day funds delivered to an account designated by the Company. If the Company shall default on its obligation to deliver Shares on any Settlement Date, the Company shall (i) indemnify and hold the Agent harmless against any loss, claim or damage arising from or as a result of such default by the Company and (ii) pay the Agent any commission to which it would otherwise be entitled absent such default.

(vii) The Agent hereby covenants and agrees not to make any sales of the Shares on behalf of the Company, pursuant to this Section 2(a), other than as shall be permitted by law and agreed upon by the Company and the Agent.

(viii) At each Applicable Time, Settlement Date and Representation Date, the Company shall be deemed to have affirmed each representation and warranty contained in this Agreement, modified as necessary to relate to the Registration Statement and the Prospectus as amended as of such date. Any obligation of the Agent to use its commercially reasonable efforts to sell the Shares on behalf of the Company as sales agent shall be subject to the continuing accuracy of the representations and warranties of

the Company herein, to the performance by the Company of its obligations hereunder and to the continuing satisfaction of the additional conditions specified in Section 6 of this Agreement.

(b) Notwithstanding any other provision of this Agreement, the Company and the Agent agree that no sales of Shares shall take place, and the Company shall not request the sale of any Shares that would be sold, and the Agent shall not be obligated to sell, during any period in which the Company is in possession of material non-public information.

Section 3. Covenants. The Company agrees with the Agent:

(a) During any period when the delivery of a prospectus is required in connection with the offering or sale of Shares (whether physically or through compliance with Rule 153 or 172, or in lieu thereof, a notice referred to in Rule 173(a) under the 1933 Act), to make no further amendment or any supplement to the Registration Statement or the Prospectus (other than any amendment or supplement which does not relate to the sale of the Shares and not including any reports or documents and any preliminary or definitive proxy or information statement required to be filed by the Company with the Commission in order to comply with the 1934 Act) unless the Company has furnished to the Agent a copy for their review a reasonable time period prior to filing and will not file any such proposed amendment or supplement to which the Agent reasonably objects. At the Commencement Time, the Company will have filed the Prospectus, in a form approved by the Agent, with the Commission pursuant to the applicable paragraph of Rule 424(b) by the Commencement Time and will cause any supplement to the Prospectus to be properly completed, in a form approved by the Agent, and will file such supplement with the Commission pursuant to the applicable paragraph of Rule 424(b) within the time period prescribed thereby and will provide evidence satisfactory to the Agent of such timely filing. The Company will promptly advise the Agent (i) when the Prospectus, and any supplement thereto, shall have been filed (if required) with the Commission pursuant to Rule 424(b), (ii) when, during any period when the delivery of a prospectus (whether physically, deemed to be delivered pursuant to Rule 153 or through compliance with Rule 172 or any similar rule) is required under the 1933 Act in connection with the offering or sale of the Shares, any amendment to the Registration Statement shall have been filed or become effective, (iii) of any request by the Commission or its staff for any amendment of the Registration Statement, or for any supplement to the Prospectus or for any additional information, (iv) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of any notice objecting to its use or the institution or threatening of any proceeding for that purpose and (v) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Shares for sale in any jurisdiction or the institution or threatening of any proceeding for such purpose. The Company will use its best efforts to prevent the issuance of any such stop order or the occurrence of any such suspension or objection to the use of the Registration Statement and, upon such issuance, occurrence or notice of objection, to obtain as soon as possible the withdrawal of such stop order or relief from such occurrence or objection, including, if necessary, by filing an amendment to the Registration Statement or a new registration statement, at the Company's expense (references herein to the Registration Statement shall include any such amendment or new registration statement).

(b) Promptly from time to time to take such action as the Agent may reasonably request to qualify the Shares for offering and sale under the securities laws of such jurisdictions as the Agent may request and to comply with such laws so as to permit the continuance of sales and dealings therein in such jurisdictions for as long as may be necessary to complete the sale of the Shares, provided that in connection therewith the Company shall not be required to qualify as a foreign corporation or to file a general consent to service of process in any jurisdiction; and to promptly advise the Agent of the receipt by the Company of any notification with respect to the suspension of the qualification of the Shares for offer or sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose.

(c) During any period when the delivery of a prospectus is required (whether physically or through compliance with Rules 153 or 172, or in lieu thereof, a notice referred to in Rule 173(a) under the 1933 Act) in connection with the offering or sale of Shares, the Company will make available to the Agent, as soon as practicable after the Commencement Time, and thereafter from time to time furnish to the Agent, electronic copies of the most recent Prospectus in such quantities and at such locations as the Agent may reasonably request for the purposes contemplated by the 1933 Act.

(d) During any period when the delivery of a prospectus is required (whether physically or through compliance with Rules 153 or 172, or in lieu thereof, a notice referred to in Rule 173(a) under the 1933 Act) in connection with the offering or sale of Shares, and if at such time any event shall have occurred as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made when such Prospectus is delivered, not misleading, or, if for any other reason it shall be necessary during such same period to amend or supplement the Prospectus or to file under the 1934 Act any document incorporated by reference in the Prospectus in order to comply with the 1933 Act or the 1934 Act, to notify the Agent and to file such document and to prepare and furnish without charge to the Agent as many written and electronic copies as the Agent may from time to time reasonably request of an amended Prospectus or a supplement to the Prospectus which will correct such statement or omission or effect such compliance.

(e) To make generally available to its securityholders as soon as practicable an earnings statement of the Company and its Subsidiaries (which need not be audited) complying with Section 11(a) of the 1933 Act and the rules and regulations of the Commission thereunder (including, at the option of the Company, Rule 158).

(f) To use the Net Proceeds received by it from the sale of the Shares pursuant to this Agreement and any Terms Agreement in the manner specified in the General Disclosure Package.

(g) In connection with the offering and sale of the Shares, the Company will file with the Nasdaq all documents and notices, and make all certifications, required by the Nasdaq of companies that have securities that are listed or quoted on the Nasdaq and will maintain such listings or quotations.

(h) To not take, directly or indirectly, and to cause its affiliates to refrain from taking, any action designed to cause or result in, or that has constituted or might reasonably be expected to constitute, under the 1934 Act or otherwise, the stabilization or manipulation of the price of any securities of the Company to facilitate the sale or resale of the Shares.

(i) At each Applicable Time, each Settlement Date, and each Representation Date, the Company shall be deemed to have affirmed each representation, warranty, covenant and other agreement contained in this Agreement or any Terms Agreement (except that such representations, warranties, covenants and other agreements shall be deemed to relate to the Registration Statement and the Prospectus as amended and supplemented relating to such Shares).

(j) In each Annual Report on Form 10-K or Quarterly Report on Form 10-Q filed by the Company in respect of any quarter in which sales of Shares were made by or through the Agent under this Agreement or any Terms Agreement, the Company shall set forth with regard to such quarter the number of Shares sold through the Agent under this Agreement or any Terms Agreement and the Net Proceeds received by the Company with respect to sales of Shares pursuant to this Agreement or any Terms Agreement.

(k) Upon commencement of the offering of Shares under this Agreement (and upon recommencement of the offering of the Shares under this Agreement following the termination of a suspension of sales hereunder) and each time after the Commencement Time that (i) the Shares are delivered to the Agent as principal pursuant to a Terms Agreement (ii) the Registration Statement or the Prospectus shall be amended or supplemented (other than (1) by an amendment or supplement providing solely for the determination of the terms of the Shares, (2) in connection with the filing of a prospectus supplement filed pursuant to Section 3(a) hereof, (3) any amendment or supplement effected by the filing with the Commission of any document incorporated by reference therein (other than any current reports on Form 8-K that contain financial statements, supporting schedules or other financial data, including any current report on Form 8-K under Item 2.02 of such form that is considered "filed" instead of "furnished" under the 1934 Act) or (4) by a prospectus supplement relating to the offering of other securities (including, without limitation, other shares of Common Stock)), (iii) the Company shall file an Annual Report on Form 10-K or a Quarterly Report on Form 10-Q, or (iv) otherwise as the Agent may reasonably request (such commencement or recommencement date and each such date referred to in clauses (i), (ii), (iii), and (iv), excluding any date occurring during the suspension of sales hereunder, a "Representation Date"), the Company will furnish or

cause to be furnished within two (2) Business Days thereafter to the Agent a certificate in a form reasonably satisfactory to the Agent to the effect that the statements contained in the certificate referred to in Section 6(e) of this Agreement which were last furnished to the Agent are true and correct at the time of such Representation Date, as though made at and as of such time (except that such statements shall be deemed to relate to the Registration Statement, the General Disclosure Package and the Prospectus as amended and supplemented to such time) or, in lieu of such certificate, a certificate of the same tenor as the certificate referred to in said Section 6(e), but modified as necessary to relate to the Registration Statement and the Prospectus as amended and supplemented, or to the document incorporated by reference into the Prospectus, to the time of delivery of such certificate. The requirement to provide a certificate under this Section 3(k) shall be waived for any Representation Date occurring at a time at which no instruction by the Company to the Agent to sell Shares under this Agreement is in effect, which waiver shall continue until the earlier to occur of the date the Company delivers an instruction to the Agent to sell Shares pursuant to Section 2(a) hereof (which for such calendar quarter shall be considered a Representation Date) and the next occurring Representation Date for which no such waiver is made; provided, however, that the Company may elect, in its sole discretion, to provide a certificate under this Section 3(k) notwithstanding the fact that no instruction by the Company to the Agent to sell Shares under this Agreement is in effect. Notwithstanding the foregoing, if the Company subsequently decides to sell Shares following a Representation Date when the Company relied on such waiver and did not provide the Agent with a certificate under this Section 3(j), then before the Company delivers an instruction pursuant to Section 2(a) or the Agent sells any Shares, the Company shall provide the Agent with a certificate of the same tenor as the certificate referred to in Section 6(e) of this Agreement.

(l) Upon commencement of the offering of Shares under this Agreement and within two (2) Business Days after each Representation Date, the Company will furnish or cause to be furnished to the Agent the written opinion and letter of Vinson & Elkins LLP, counsel to the Company (" Company Counsel") or other counsel reasonably satisfactory to the Agent, dated the date of effectiveness of such amendment or the date of filing with the Commission of such supplement or other document, as the case may be, in a form and substance reasonably satisfactory to the Agent, of the same tenor as the opinions and letters referred to in Section 6(c) of this Agreement, but modified as necessary to relate to the Registration Statement, the General Disclosure Package and the Prospectus as amended and supplemented, or to the document incorporated by reference into the Prospectus, to the time of delivery of such opinion and letter or, in lieu of such opinion and letter, counsel last furnishing such letter to the Agent shall furnish such Agent with a letter substantially to the effect that the Agent may rely on such last opinion and letter to the same extent as though each were dated the date of such letter authorizing reliance (except that statements in such last letter shall be deemed to relate to the Registration Statement and the Prospectus as amended and supplemented to the time of delivery of such letter authorizing reliance).

(m) Upon commencement of the offering of Shares under this Agreement (and upon the recommencement of the offering of the Shares under this Agreement following the termination of a suspension of sales as contemplated herein), and within two (2) Business Days after each time after the Commencement Time that (i) the Registration Statement or the Prospectus shall be amended or supplemented to include additional amended financial information, (ii) the Shares are delivered to the Agent as principal pursuant to a Terms Agreement, (iii) the Company files a Quarterly Report on Form 10-Q or an Annual Report on Form 10-K, or (iv) at the Agent's request and upon reasonable advance notice to the Company (such recommencement date and each such date referred to in (i), (ii), (iii) and (iv) above, an "Auditor Representation Date"), there is filed with the Commission any document which contains financial information incorporated by reference into the Prospectus, the Company will cause Ernst & Young LLP, or other independent accountants reasonably satisfactory to the Agent (the "Accountants"), to furnish to the Agent a letter, dated the date of effectiveness of such amendment or the date of filing of such supplement or other document with the Commission, as the case may be, in form reasonably satisfactory to the Agent, of the same tenor as the letter referred to in Section 6(d) hereof, but modified as necessary to relate to the Registration Statement, the General Disclosure Package and the Prospectus, as amended and supplemented, or to the document incorporated by reference into the Prospectus, to the date of such letter. The requirement to provide a letter or letters under this Section 3(m) shall be waived for any Auditor Representation Date occurring at a time at which no instruction by the Company to the Agent to sell Shares under this Agreement is in effect, which waiver shall continue until the earlier to occur of the date the Company delivers an instruction to the Agent to sell Shares pursuant to Section 2(a) hereof (which for such calendar quarter shall be considered an Auditor Representation Date) and the next occurring Auditor Representation Date for which no such waiver is made; provided, however, that the Company may elect, in its sole discretion, to cause the Accountants to provide the Agent a letter or letters

under this Section 3(m) notwithstanding the fact that no instruction by the Company to the Agent to sell Shares under this Agreement is in effect. Notwithstanding the foregoing, if the Company subsequently decides to sell Shares following an Auditor Representation Date when the Company relied on such waiver and did not cause the Accountants to provide the Agent with a letter or letters under this Section 3(l), then before the Company delivers an instruction pursuant to Section 2(a) or the Agent sells any Shares, the Company shall cause the Accountants to furnish the Agent a letter or letters, dated the date of the Auditor Representation Date, in form satisfactory to the Agent, of the same tenor as the letter referred to in Section 6(d) of this Agreement but modified to relate to the Registration Statement and the Prospectus, as amended and supplemented to the date of such letter.

(n) The Company consents to Stifel Nicolaus trading in the Company's Common Stock for Stifel Nicolaus' own account and for the account of its clients at the same time as sales of Shares occur pursuant to this Agreement or any Terms Agreement.

(o) If, to the knowledge of the Company, all filings required by Rule 424 in connection with this offering shall not have been made or the representations in Section 1(a) shall not be true and correct on the applicable Settlement Date, the Company will offer to any person who has agreed to purchase Shares from the Company as the result of an offer to purchase solicited by the Agent the right to refuse to purchase and pay for such Shares.

(p) Within two (2) Business Days after each Representation Date, the Company will conduct a due diligence session, in form and substance satisfactory to the Agent, which shall include representatives of the management and the independent accountants of the Company. The Company will cooperate timely with any reasonable due diligence review conducted by or on behalf of the Agent from time to time in connection with the transactions contemplated hereby or in any Terms Agreement, including, without limitation, and upon reasonable notice providing information and making available documents and appropriate corporate officers, during regular business hours and at the Company's principal offices, as the Agent may reasonably request.

(q) The Company will not, without (i) giving the Agent at least three (3) Business Days' prior written notice specifying the nature of the proposed sale and the date of such proposed sale and (ii) the Agent suspending activity under this program for such period of time as requested by the Company or as deemed appropriate by the Agent in light of the proposed sale, (A) offer, pledge, announce the intention to sell, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of, lend or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or securities convertible into or exchangeable or exercisable for or repayable with Common Stock, or file any registration statement under the 1933 Act with respect to any of the foregoing (other than a shelf registration statement under Rule 415 under the 1933 Act, a registration statement on Form S-8, or any post-effective amendment to the Registration Statement) or (B) enter into any swap or other agreement or any transaction that transfers in whole or in part, directly or indirectly, any of the economic consequence of ownership of the Common Stock, or any securities convertible into or exchangeable or exercisable for or repayable with Common Stock, whether any such swap or transaction described in clause (A) or (B) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (x) conversion of shares of the Company's Class B Common Stock into shares of Common Stock pursuant to the Company's Certificate of Incorporation, (y) the Shares to be offered and sold through the Agent pursuant to this Agreement or any Terms Agreement and (z) equity incentive awards approved by the board of directors of the Company or the compensation committee thereof or the issuance of Common Stock upon exercise thereof.

Section 4. Free Writing Prospectus.

(a) (i)The Company represents and agrees that without the prior consent of the Agent, it has not made and will not make any offer relating to the Shares that would constitute a Free Writing Prospectus; and

(ii) the Agent represents and agrees that, without the prior consent of the Company, it has not made and will not make any offer relating to the Shares that would constitute a Free Writing Prospectus required to be filed with the Commission.

(b) The Company has complied and will comply with the requirements of Rule 433 under the 1933 Act applicable to any Issuer Free Writing Prospectus (including any free writing prospectus identified in Section 4(a) hereof), including timely filing with the Commission or retention where required and legending.

Section 5. Payment of Expenses. The Company covenants and agrees with the Agent that the Company will pay or cause to be paid the following: (i) the fees, disbursements and expenses of the Company's counsel and accountants in connection with the registration of the Shares under the 1933 Act and all other expenses in connection with the preparation, printing and filing of the Registration Statement, the Base Prospectus, Prospectus Supplement, any Issuer Free Writing Prospectus and the Prospectus and amendments and supplements thereto and the mailing and delivering of copies thereof to the Agent; (ii) the cost of printing or producing this Agreement or any Terms Agreement, any Blue Sky and Legal Investment Memoranda, closing documents (including any compilations thereof) and any other documents in connection with the offering, purchase, sale and delivery of the Shares; (iii) all expenses in connection with the qualification of the Shares for offering and sale under state securities laws as provided in Section 3(b) hereof, including the reasonable fees and disbursements of counsel for the Agent in connection with such qualification and in connection with the Blue Sky and Legal Investment Surveys; (iv) any filing fees incident to, and the reasonable fees and disbursements of counsel for the Agent in connection with, any required review by the Financial Industry Regulatory Authority, Inc. ("FINRA") of the terms of the sale of the Shares; (v) all fees and expenses in connection with listing or quoting the Shares on the Nasdaq; (vi) the cost of preparing the Shares; (vii) the costs and charges of any transfer agent or registrar or any dividend distribution agent; (viii) the reasonable fees and disbursements of counsel to the Agent in an aggregate amount not to exceed $50,000 (which amount shall include all fees and disbursements of such counsel described in clauses (iii) and (iv) above) and (ix) all other costs and expenses incident to the performance of its obligations hereunder which are not otherwise specifically provided for in this Section. Such expenses set forth in clauses (iii), (iv) and (viii) above shall invoiced in statements from the Agent to the Company, with payment to be made by the Company promptly after its receipt thereof. It is understood, however, that, except as provided in this Section, and Section 7 hereof, the Agent will pay all of its own costs and expenses, including the fees of its counsel, transfer taxes on resale of any of the Shares by it, and any advertising expenses connected with any offers it may make.

Section 6. Conditions of Agent's Obligation. The obligations of the Agent hereunder shall be subject, in its discretion, to the condition that all representations and warranties and other statements of the Company herein or in certificates of any officer of the Company delivered pursuant to the provisions hereof are true and correct as of the Commencement Time, the date of any executed Terms Agreement and as of each Registration Statement Amendment Date, Applicable Time and Settlement Date, to the condition that the Company shall have performed all of its obligations hereunder theretofore to be performed, and the following additional conditions:

(a) The Prospectus Supplement shall have been filed with the Commission pursuant to Rule 424(b) under the 1933 Act on or prior to the Commencement Time and in accordance with Section 3(a) hereof, any other material required to be filed by the Company pursuant to Rule 433(d) under the 1933 Act shall have been filed with the Commission within the applicable time periods prescribed for such filings by Rule 433; no stop order suspending the effectiveness of the Registration Statement or any part thereof shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the Commission and no notice of objection of the Commission to the use of the form of the Registration Statement or any post-effective amendment thereto pursuant to Rule 401(g)(2) under the 1933 Act shall have been received; no stop order suspending or preventing the use of the Prospectus or any Issuer Free Writing Prospectus shall have been initiated or threatened by the Commission; and all requests for additional information on the part of the Commission shall have been complied with to the reasonable satisfaction of the Agent.

(b) On every date specified in Section 3(k) hereof and on such other dates as reasonably requested by the Agent, Duane Morris LLP, counsel for the Agent, shall have furnished to the Agent such written opinion or opinions, dated as of such date, with respect to such matters as the Agent may reasonably request, and such counsel shall have received such papers and information as they may reasonably request to enable them to pass upon such matters.

(c) On every date specified in Section 3(l) hereof and on such other dates as reasonably requested by the Agent, Vinson & Elkins LLP, counsel for the Company, shall have furnished to the Agent a written opinion or opinions, dated as of such date, in form and substance reasonably satisfactory to the Agent.

(d) At the dates specified in Section 3(m) hereof and on such other dates as reasonably requested by the Agent, the independent accountants of the Company who have certified the financial statements of the Company and its Subsidiaries included or incorporated by reference in the Registration Statement, the General Disclosure Package and the Prospectus shall have furnished to the Agent a letter dated as of the date of delivery thereof and addressed to the Agent in form and substance reasonably satisfactory to the Agent, containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements of the Company and its Subsidiaries included or incorporated by reference in the Registration Statement, the General Disclosure Package and the Prospectus.

(e) Prior to commencement of the offering of Shares under this Agreement, the Agent shall have received a certificate, signed on behalf of the Company by its corporate Secretary, in form and substance satisfactory to the Agent.

(f) Prior to commencement of the offering of Shares under this Agreement, Hyman, Phelps & McNamara, P.C., regulatory counsel for the Company, shall have furnished to the Agent a written opinion or opinions, in form and substance reasonably satisfactory to the Agent.

(g) Prior to commencement of the offering of Shares under this Agreement, Parker Highland PLLC, intellectual property counsel for the Company, shall have furnished to the Agent a written opinion or opinions, in form and substance reasonably satisfactory to the Agent.

(h) Prior to commencement of the offering of Shares under this Agreement, Schwegman Lundberg & Woessner, P.A., intellectual property counsel for the Company, shall have furnished to the Agent a written opinion or opinions, in form and substance reasonably satisfactory to the Agent.

(i) (i) Upon commencement of the offering of Shares under this Agreement and on such other dates as reasonably requested by Agent, the Company will furnish or cause to be furnished promptly to the Agent a certificate of an officer in a form satisfactory to the Agent stating the minimum price for the sale of such Shares pursuant to this Agreement and the maximum number of Shares that may be issued and sold pursuant to this Agreement or, alternatively, maximum gross proceeds from such sales, as authorized from time to time by the Company's board of directors or a duly authorized committee thereof or, in connection with any amendment, revision or modification of such minimum price or maximum Share number or amount, a new certificate with respect thereto and (ii) on each date specified in Section 3(k) and on such other dates as reasonably requested by Agent, the Agent shall have received a certificate of executive officers of the Company, one of whom shall be the Chief Financial Officer, Chief Accounting Officer, Treasurer, or Executive Vice President in the area of capital markets and investments, dated as of the date thereof, to the effect that (A) there has been no Material Adverse Effect since the date as of which information is given in the General Disclosure Package and the Prospectus as then amended or supplemented, (B) the representations and warranties in Section 1 hereof are true and correct as of such date and (C) the Company has complied with all of the agreements entered into in connection with the transaction contemplated herein and satisfied all conditions on its part to be performed or satisfied.

(j) Since the date of the latest audited financial statements then included or incorporated by reference in the General Disclosure Package and the Prospectus, no Material Adverse Effect shall have occurred.

(k) The Company shall have complied with the provisions of Section 3(c) hereof with respect to the timely furnishing of prospectuses.

(l) On or around each date specified in Section 3(p) and on such dates as reasonably requested by the Agent, the Company shall have conducted due diligence sessions, in form and substance satisfactory to the Agent.

(m) All filings with the Commission required by Rule 424 under the 1933 Act to have been filed by each Applicable Time or related Settlement Date shall have been made within the applicable time period prescribed for such filing by Rule 424 (without reliance on Rule 424(b)(8)).

(n) The Shares shall have received approval for listing or quotation on the Nasdaq prior to the first Settlement Date.

(o) Prior to any Settlement Date, the Company shall have furnished to the Agent such further information, documents or certificates as the Agent may reasonably request.

Section 7. Indemnification.

(a) The Company will indemnify and hold harmless the Agent against any losses, claims, damages or liabilities, joint or several, to which the Agent may become subject, under the 1933 Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, the Base Prospectus, the Prospectus Supplement or the Prospectus or any amendment or supplement thereto, any Issuer Free Writing Prospectus or any "issuer information" filed or required to be filed pursuant to Rule 433(d) under the 1933 Act, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Agent for any legal or other expenses reasonably incurred by the Agent in connection with investigating or defending any such action or claim as such expenses are incurred; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in the Registration Statement, the Base Prospectus, the Prospectus Supplement or the Prospectus, or any amendment or supplement thereto, or any Issuer Free Writing Prospectus, in reliance upon and in strict conformity with written information furnished to the Company by the Agent expressly for use therein.

(b) The Agent will indemnify and hold harmless the Company against any losses, claims, damages or liabilities to which the Company may become subject, under the 1933 Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, the Base Prospectus, the Prospectus Supplement or the Prospectus, or any amendment or supplement thereto, or any Issuer Free Writing Prospectus, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in the Registration Statement, the Base Prospectus, the Prospectus Supplement or the Prospectus, or any such amendment or supplement thereto, or any Issuer Free Writing Prospectus, in reliance upon and in strict conformity with written information furnished to the Company by the Agent expressly for use therein; and will reimburse the Company for any legal or other expenses reasonably incurred by the Company in connection with investigating or defending any such action or claim as such expenses are incurred.

(c) Promptly after receipt by an indemnified party under this Section 7 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 7, notify the indemnifying party in writing of the commencement thereof; but the failure so to notify the indemnifying party (i) will not relieve it from liability under paragraph (a) or (b) above unless and to the extent it did not otherwise learn of such action and such failure results in the forfeiture by the indemnifying party of substantial rights and defenses and (ii) will not, in any event, relieve the indemnifying party from any obligations to any indemnified party other than the indemnification obligation provided in paragraph (a) or (b) above. The indemnifying party shall be entitled to appoint counsel of the indemnifying party's choice at the indemnifying party's expense to represent the indemnified party in any action for which indemnification is sought (in which case the indemnifying party shall not thereafter be responsible for the fees and expenses of any separate counsel retained by the indemnified party or parties except as set forth below); provided, however, that such counsel shall be satisfactory to the indemnified party. Notwithstanding the indemnifying party's election to appoint counsel to represent the indemnified party in an action, the indemnified party shall have the right to employ separate counsel

(including local counsel), and the indemnifying party shall bear the reasonable fees, costs and expenses of such separate counsel if (i) the use of counsel chosen by the indemnifying party to represent the indemnified party would present such counsel with a conflict of interest, (ii) the actual or potential defendants in, or targets of, any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, (iii) the indemnifying party shall not have employed counsel satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of the institution of such action or (iv) the indemnifying party shall authorize the indemnified party to employ separate counsel at the expense of the indemnifying party. An indemnifying party will not, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent: (i) includes an unconditional release of each indemnified party from all liability arising out of such claim, action, suit or proceeding and (ii) does not include an admission of fault.

(d) If the indemnification provided for in this Section 7 is unavailable to hold harmless an indemnified party under subsection (a) or (b) above in respect of any losses, claims, damages or liabilities (or actions in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Agent on the other from the offering of the Shares to which such loss, claim, damage or liability (or action in respect thereof) relates. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law, then each indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company on the one hand and the Agent on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Agent on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bear to the total commissions received by the Agent. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or the Agent on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Agent agree that it would not be just and equitable if contribution pursuant to this subsection (d) were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to above in this subsection (d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this subsection (d), the Agent shall not be required to contribute any amount in excess of the amount by which the total compensation received by the Agent with respect to sales of the Shares sold by it to the public exceeds the amount of any damages which the Agent has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

(e) The obligations of the Company under this Section 7 shall be in addition to any liability which the Company may otherwise have and shall extend, upon the same terms and conditions, to the directors, officers, employees, attorneys and agents of the Agent and to each person, if any, who controls the Agent within the meaning of the 1933 Act and each broker dealer affiliate of the Agent; and the obligations of the Agent under this Section 7 shall be in addition to any liability which the Agent may otherwise have and shall extend, upon the same terms and conditions, to each director, officer, employee, attorney and agent of the Company and to each person, if any, who controls the Company within the meaning of the 1933 Act.

Section 8. Representations, Warranties and Agreements to Survive Delivery. The respective indemnities, agreements, representations, warranties and other statements of the Company and the Agent, as set forth in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall remain in full force and effect, regardless of any investigation (or any statement as to the results thereof) made by or on behalf of the Agent or any controlling person of the Agent, or the Company, or any officer or director or controlling person of the Company, and shall survive delivery of and payment for the Shares.

Section 9. No Advisory or Fiduciary Relationship. The Company acknowledges and agrees that (i) the Agent is acting solely in the capacity of an arm's-length contractual counterparty to the Company with respect to the offering of Shares contemplated hereby (including in connection with determining the terms of such offering), (ii) the Agent has not assumed an advisory or fiduciary responsibility in favor of the Company with respect to the offering contemplated hereby or the process leading thereto (irrespective of whether the Agent has advised or is currently advising the Company on other matters) or any other obligation to the Company except the obligations expressly set forth in this Agreement, and (iii) the Company has consulted its own legal and financial advisors to the extent it deemed appropriate. The Company agrees that it will not claim that the Agent has rendered advisory services of any nature or respect, or owe a fiduciary or similar duty to the Company, in connection with such transaction or the process leading thereto.

Section 10. Termination.

(a) The Company shall have the right, by giving written notice as hereinafter specified, to terminate this Agreement in its sole discretion at any time. Any such termination shall be without liability of any party to any other party, except that (i) with respect to any pending sale through the Agent for the Company, the obligations of the Company, including in respect of compensation of the Agent, shall remain in full force and effect notwithstanding such termination; and (ii) the provisions of Section 1, Section 5, Section 7, Section 8, Section 14 and Section 15 of this Agreement shall remain in full force and effect notwithstanding such termination.

(b) The Agent shall have the right, by giving written notice as hereinafter specified, to terminate this Agreement in its sole discretion at any time. Any such termination shall be without liability of any party to any other party except that the provisions of Section 1, Section 5, Section 7, Section 8, Section 14 and Section 15 of this Agreement shall remain in full force and effect notwithstanding such termination.

(c) Unless earlier terminated pursuant to this Section 10, this Agreement shall automatically terminate upon the issuance and sale of all of the Shares by Stifel Nicolaus on the terms and subject to the conditions set forth herein except any termination pursuant to this clause (c) shall in all cases be deemed to provide that Section 1, Section 5, Section 7, Section 8, Section 14 and Section 15 of this Agreement shall remain in full force and effect.

(d) This Agreement shall remain in full force and effect until and unless terminated pursuant to Section 10(a), (b) or (c) above or otherwise by mutual agreement of the parties; provided that any such termination by mutual agreement or pursuant to this clause (c) shall in all cases be deemed to provide that Section 1, Section 5, Section 7, Section 8, Section 14 and Section 15 of this Agreement shall remain in full force and effect.

(e) Any termination of this Agreement shall be effective on the date specified in such notice of termination; provided that such termination shall not be effective until the close of business on the date of receipt of such notice by the Agent or the Company, as the case may be. If such termination shall occur prior to the Settlement Date for any sale of Shares, such sale shall settle in accordance with the provisions of Section 2(h) hereof.

(f) In the case of any purchase by the Agent pursuant to a Terms Agreement, the Agent may terminate this Agreement, at any time at or prior to the Settlement Date (i) if there has been, since the Commencement Time or since the respective dates as of which information is given in the General Disclosure Package or the Prospectus, any Material Adverse Effect, or (ii) if there has occurred any material adverse change in the financial markets in the United States or the international financial markets, any outbreak of hostilities or escalation thereof or other calamity or crisis or any change or development involving a prospective change in national or international political, financial or economic conditions, in each case the effect of which is such as to make it, in the judgment of the Agent, impracticable or inadvisable to market the Shares or to enforce contracts for the sale of Shares, or (iii) if trading in

any securities of the Company has been suspended or materially limited by the Commission or the Nasdaq, or if trading generally on the American Stock Exchange or the NYSE or Nasdaq has been suspended or materially limited, or minimum or maximum prices for trading have been fixed, or maximum ranges for prices have been required, by any of said exchanges or by such system or by order of the Commission, FINRA or any other governmental authority, or (iv) a material disruption has occurred in commercial banking or securities settlement or clearance services in the United States, or (v) if a banking moratorium has been declared by either Federal or New York authorities.

Section 11. Notices. All statements, requests, notices and agreements hereunder shall be in writing, and if to Stifel Nicolaus shall be delivered or sent by mail, telex or facsimile transmission to:

Stifel, Nicolaus & Company, Incorporated
One South Street, 15th Floor
Baltimore, Maryland 21202
Fax No. (443) 224-1273
Attention: Syndicate Department

with copies (which shall not constitute notice) to:

Duane Morris LLP
One Riverfront Plaza
1037 Raymond Boulevard
Newark, NJ 07102
Attention: James T. Seery
e-mail jtseery@duanemorris.com

and if to the Company to:

Reata Pharmaceuticals, Inc.
2801 Gateway Drive, Suite 150
Irving, TX 75063
Attention: Jason Wilson, Chief Financial Officer

with copies (which shall not constitute notice) to:

Vinson & Elkins LLP
3700 Trammell Crow Center
2001 Ross Avenue
Dallas, TX 75201
Attention: Robert L. Kimball
Email: rkimball@velaw.com

Any such statements, requests, notices or agreements shall take effect upon receipt thereof. Notwithstanding anything to the contrary herein, any instruction to sell Shares pursuant to this Agreement shall be made by an Authorized Representative to the authorized individuals for the Agent set forth on Schedule 2, as such Schedule 2 may be amended from time to time, in the manner described in Section 2(a)(i) hereof.

Section 12. Parties. This Agreement shall be binding upon, and inure solely to the benefit of, the Agent and the Company and, to the extent provided in Sections 7 and 8 hereof, the officers, directors, employees, attorneys and agents of the Company and the Agent and each person who controls the Company or the Agent, and their respective heirs, executors, administrators, successors and assigns, and no other person shall acquire or have any right under or by virtue of this Agreement. No purchaser of Shares through the Agent shall be deemed a successor or assign by reason merely of such purchase.

Section 13. Time of the Essence. Time shall be of the essence of this Agreement.

Section 14. Waiver of Jury Trial. The Company and the Agent hereby irrevocably waive, to the fullest extent permitted by applicable law, any and all right to jury trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby.

Section 15. Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REFERENCE TO ITS PRINCIPLES OF CONFLICTS OF LAW.

Section 16. Counterparts. This Agreement and any Terms Agreement may be executed by any one or more of the parties hereto and thereto in any number of counterparts, each of which shall be deemed to be an original, but all such respective counterparts shall together constitute one and the same instrument. This Agreement and any Terms Agreement may be delivered by any party by facsimile or other electronic transmission.

Section 17. Severability. The invalidity or unenforceability of any Section, paragraph or provision of this Agreement shall not affect the validity or enforceability of any other Section, paragraph or provision hereof. If any Section, paragraph or provision of this Agreement is for any reason determined to be invalid or unenforceable, there shall be deemed to be made such minor changes (and only such minor changes) as are necessary to make it valid and enforceable.

Section 18. Definitions. The terms that follow, when used in this Agreement and any Terms Agreement, shall have the meanings indicated.

"1933 Act" shall mean the Securities Act of 1933 and the rules and regulations of the Commission promulgated thereunder.

"1934 Act" shall mean the Securities Exchange Act of 1934 and the rules and regulations of the Commission promulgated thereunder.

"Applicable Time" shall mean, with respect to any offered Shares, the time of sale of such Shares pursuant to this Agreement or any relevant Terms Agreement.

"Base Prospectus" shall mean the base prospectus referred to in Section 2(a) above contained in the Registration Statement at the date of this Agreement.

"Business Day" shall mean any day other than a Saturday, a Sunday or a legal holiday or a day on which banking institutions or trust companies are authorized or obligated by law to close in New York City.

"Commission" shall mean the Securities and Exchange Commission.

"Effective Date" shall mean each date and time that the Registration Statement and any post-effective amendment or amendments thereto became or becomes effective.

"Free Writing Prospectus" shall mean a free writing prospectus, as defined in Rule 405.

"General Disclosure Package" shall mean (i) the Base Prospectus, (ii) the Prospectus Supplement, (iii) the public offering price of Shares sold at the relevant Applicable Time and (iv) any other Free Writing Prospectus that the parties hereto shall hereafter expressly agree in writing to treat as part of the General Disclosure Package.

"Issuer Free Writing Prospectus" shall mean an issuer free writing prospectus, as defined in Rule 433.

"Prospectus" shall mean the Base Prospectus, as supplemented by the Prospectus Supplement and the most recently filed Interim Prospectus Supplement (if any).

"Prospectus Supplement" shall mean the most recent prospectus supplement relating to the Shares that was first filed pursuant to Rule 424(b) at or prior to the Commencement Time.

"Registration Statement" shall mean the registration statement referred to in Section 2(a) above, including exhibits and financial statements and any prospectus supplement relating to the Shares that is filed with the Commission pursuant to Rule 424(b) and deemed part of such registration statement pursuant to Rule 430B, as amended on each Effective Date and, in the event any post-effective amendment thereto becomes effective, shall also mean such registration statement as so amended.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Company a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement between the Agent and the Company in accordance with its terms.

[*Signature pages follow*]

Schedule 1

Very truly yours,

REATA PHARMACEUTICALS, INC.

By: /s/ Jason D. Wilson
Name: Jason D. Wilson
Title: Chief Financial Officer

Accepted as of the date hereof:

STIFEL, NICOLAUS & COMPANY, INCORPORATED

By: /s/ Daniel J. Covatta
Name: Daniel J. Covatta
Title: Managing Director

Schedule 2

Notice Parties

Agent

Daniel Covatta dcovatta@stifel.com

Mark White whitem@stifel.com

Schedule 1

Annex 1

REATA PHARMACEUTICALS, INC.

Class A Common Stock
($0.001 par value per share)

TERMS AGREEMENT

STIFEL, NICOLAUS & COMPANY, INCORPORATED
One South Street, 15th Floor
Baltimore, MD 21202
Attn: Syndicate Department

Ladies and Gentlemen:

Reata Pharmaceuticals, Inc., a Delaware corporation (the "Company"), proposes, subject to the terms and conditions stated herein and in the At-the-Market Equity Offering Sales Agreement, dated November 9, 2017 (the "Sales Agreement"), between the Company and Stifel, Nicolaus & Company, Incorporated (the "Agent"), to issue and sell to the Agent the securities specified in the Schedule hereto (the "Purchased Securities").

Each of the provisions of the Sales Agreement not specifically related to the solicitation by the Agent, as agent of the Company, of offers to purchase securities is incorporated herein by reference in its entirety, and shall be deemed to be part of this Terms Agreement to the same extent as if such provisions had been set forth in full herein. Each of the representations and warranties set forth therein shall be deemed to have been made at and as of the date of this Terms Agreement and the Applicable Time, except that each representation and warranty in Section 1 of the Sales Agreement which makes reference to the Prospectus (as therein defined) shall be deemed to be a representation and warranty as of the date of the Sales Agreement in relation to the Prospectus, and also a representation and warranty as of the date of this Terms Agreement and the Settlement Date in relation to the Prospectus as amended and supplemented to relate to the Purchased Securities.

An amendment to the Registration Statement (as defined in the Sales Agreement), or a supplement to the Prospectus, as the case may be, relating to the Purchased Securities, in the form heretofore delivered to the Agent is now proposed to be filed with the Securities and Exchange Commission.

Subject to the terms and conditions set forth herein and in the Sales Agreement which are incorporated herein by reference, the Company agrees to issue and sell to the Agent and the latter agrees to purchase from the Company the number of shares of the Purchased Securities at the time and place and at the purchase price set forth in the Schedule hereto.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Company a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement between the Agent and the Company in accordance with its terms.

[*Signature pages follow*]

Very truly yours,

REATA PHARMACEUTICALS, INC.

By:

Name:
Title:

Accepted as of the date hereof:

STIFEL, NICOLAUS & COMPANY, INCORPORATED

By:

Name:
Title:

Schedule I

Title of Purchased Securities [and Additional Securities]:
Common Stock

Number of Purchased Securities:

[Number of Additional Securities:]

[Price to Public:]

Purchase Price to the Agent:

Method of and Specified Funds for Payment of Purchase Price:
By wire transfer to a bank account specified by the Company in same day funds.

Method of Delivery:
Free delivery of the Shares to the Agent's account at The Depository Trust Company in return for payment of the purchase price.

Time of Delivery:

Closing Location:

Documents to be Delivered:

The following documents referred to in the Sales Agreement shall be delivered as a condition to the closing at the Time of Delivery [and on any Option Closing Date]:
(1) The opinions referred to in Section 6(b).
(2) The opinion referred to in Section 6(c).
(3) The accountants' letter referred to in Section 6(d).
(4) The officers' certificate referred to in Section 6(e).
(5) Such other documents as the Agent shall reasonably request.

Exhibit 5.1

Vinson&Elkins

November 13, 2017

Reata Pharmaceuticals, Inc.
2801 Gateway Drive, Suite 150
Irving, Texas 75063

Ladies and Gentlemen:

We have acted as counsel to Reata Pharmaceuticals, Inc., a Delaware corporation (the "Company"), with respect to certain legal matters in connection with the offer and sale from time to time (the "Offering") by the Company of up to $50,000,000 of the Company's Class A common stock, par value $0.001 per share (the "Securities"), which will be offered and sold pursuant to the At-the-Market Equity Sales Agreement dated as of November 9, 2017 (the "Equity Sales Agreement"), between the Company and Stifel, Nicolaus & Company, Incorporated, as sales agent (the "Sales Agent"), a copy of which is being filed with the Securities and Exchange Commission (the "Commission") as an exhibit to the Company's Quarterly Report on Form 10-Q filed on or about the day hereof; the Securities will be offered for sale pursuant to a prospectus supplement dated November 13, 2017 (the "Prospectus Supplement"), that will be filed with the Commission pursuant to Rule 424(b) on or after November 13, 2017, to a prospectus dated July 14, 2017 (as amended and supplemented by the Prospectus Supplement, the "Prospectus") that constitutes a part of the Company's Registration Statement on Form S-3 (Registration No. 333-218915), filed with the Commission on June 23, 2017, as amended by Pre-Effective Amendment No. 1 filed with the Commission on July 10, 2017 (the "Registration Statement"), which Registration Statement was declared effective by the Commission on July 14, 2017.

We have examined (i) the Equity Sales Agreement; (ii) the Registration Statement; (iii) the Prospectus Supplement; (iv) the Prospectus; (v) the Thirteenth Amended and Restated Certificate of Incorporation of the Company and the Second Amended and Restated Bylaws of the Company; (vi) resolutions (the "Resolutions") adopted by the Board of Directors of the Company relating to the Registration Statement, the Offering and related matters including those resolutions designating each of the Chief Executive Officer, the Chief Financial Officer, and the Chief Legal Officer (the "Authorized Officers") to effect sales under the Equity Sales Agreement; and (vii) such other certificates, statutes and other instruments and documents as we considered appropriate for purposes of the opinions hereafter expressed. In addition, we reviewed such questions of law as we considered appropriate.

As to any facts material to the opinions contained herein, we have made no independent investigation of such facts and have relied, to the extent that we deem such reliance proper, upon certificates of public officials and officers or other representatives of the Company.

In connection with rendering the opinion set forth below, we have assumed that (i) all information contained in all documents reviewed by us is true and correct; (ii) all signatures on all documents examined by us are genuine; (iii) all documents submitted to us as originals are authentic and complete; (iv) all documents submitted to us as copies conform to the originals of those documents; (v) all persons executing and delivering the documents we examined were competent to execute and deliver such documents; (vi) all Securities will be issued and sold in compliance with applicable federal and state securities laws and in the manner stated in the Registration Statement, Prospectus Supplement, and Prospectus; and (vii) the Equity Sales Agreement has been duly authorized and validly executed and delivered by the Sales Agent and constitutes a legal, valid and binding obligation of the Sales Agent, and the Sales Agent has the requisite organizational and legal power and authority to perform its obligations under the Equity Sales Agreement.

Based on the foregoing, and subject to the assumptions, qualifications, limitations and exceptions set forth herein, we are of the opinion that the Securities to be issued and sold by the Company as contemplated by the Equity Sales Agreement have been duly authorized for issuance and, upon approval of the terms of any sale of Securities pursuant to the Equity Sales Agreement by an Authorized Officer pursuant to the Resolutions and payment and delivery in accordance with the Equity Sales Agreement, the Prospectus Supplement and the Prospectus, will be validly issued, fully paid and non-assessable.

The foregoing opinions are limited in all respects to the Delaware General Corporation Law (including the applicable provisions of the Delaware Constitution and the reported judicial decisions interpreting these laws) and the federal laws of the United States of America as in effect on the date hereof, and we undertake no duty to update or supplement the foregoing opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. We express no opinion as to the effect of the laws of any other jurisdiction, domestic or foreign, or to any matter other than as expressly set forth above, and no opinion on any other matter may be inferred or implied herefrom.

We hereby consent to the filing of this opinion as an exhibit to the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2017, to be filed on or about the date hereof, and to the use of our name in the Prospectus forming a part of the Registration Statement under the caption “Legal Matters.” By giving such consent, we do not admit that we are within the category of persons whose consent is required under Section 7 of the Securities Act or the rules and regulations of the Commission thereunder.

Very truly yours,

/s/ Vinson & Elkins L.L.P.

VINSON & ELKINS L.L.P.

Exhibit 10.1

LEASE AMENDMENT NO. 11

THIS LEASE AMENDMENT NO. 11 (this "**Amendment**") is made and entered into effective as of November 9, 2017 (the "**Effective Date**") by and between SDCO GATEWAY COMMERCE I & II, INC., a Delaware corporation (" **Landlord**"), and REATA PHARMACEUTICALS, INC., a Delaware corporation ("**Tenant**").

Recitals:

WHEREAS, by Lease dated with a Lease Reference Date as of May 25, 2006 between Landlord and Tenant (the "**Original Lease**"), as amended by Lease Amendment No. 1 dated March 2, 2010 between Landlord and Tenant (the "**First Amendment**"), Lease Amendment No. 2 dated May 24, 2010 between Landlord and Tenant (the "**Second Amendment**"), Lease Amendment No. 3 dated July 30, 2010 (referenced in subsequent Amendments as being dated July 1, 2010 and in fact intended to be dated June 30, 2010) between Landlord and Tenant (the "**Third Amendment**"), Lease Amendment No. 4 dated February 17, 2011 between Landlord and Tenant (the "**Fourth Amendment**"), Lease Amendment No. 5 dated May 1, 2011 between Landlord and Tenant (the " **Fifth Amendment**"), Lease Amendment No. 6 dated July 7, 2011 between Landlord and Tenant (the "**Sixth Amendment**"), Lease Amendment No. 7 dated July 23, 2012 between Landlord and Tenant (the "**Seventh Amendment**"), Lease Amendment No. 8 dated September 25, 2012 between Landlord and Tenant (the "**Eighth Amendment**"), Lease Amendment No. 9 dated June 12, 2013 (the "**Ninth Amendment**"), and Lease Amendment No. 10 dated May 26, 2015 (the "**Tenth Amendment**") (which Original Lease together with the First Amendment, Second Amendment, Third Amendment, Fourth Amendment, Fifth Amendment, Sixth Amendment, Seventh Amendment, Eighth Amendment, Ninth Amendment, Tenth Amendment and all Commencement Date Agreements executed by Landlord and Tenant in connection therewith are herein together called the "**Lease**"), the leased space measuring approximately 34,890 square feet (collectively, the "**Premises**"), within that part of the Building (as defined in the Lease) known as Gateway Commerce II (herein so called), at 2801 Gateway Drive, Irving, Texas 75063 was leased to Tenant upon the terms and subject to the conditions contained in the Lease; and

WHEREAS, Landlord and Tenant have agreed to modify the Lease in the manner hereinafter appearing.

Agreement:

NOW, THEREFORE, for and in consideration of the foregoing recitals, Ten and No/100 Dollars ($10.00) in hand paid and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant hereby acknowledge and agree to the following:

1.**Recitals; Definitions**. The above Recitals are true and correct and are incorporated herein by reference. Capitalized but otherwise undefined terms herein shall have the meanings set forth for such terms in the Lease.

2.**Extension of Term**. Notwithstanding anything to the contrary contained in the Lease, the Lease Term is extended from its current expiration date of October 31, 2018, so that the same shall expire on October 31, 2020 unless sooner terminated as provided in the Lease as modified by this Amendment. As of the Effective Date, all references to the Term in the Lease shall mean the Term as extended by this Amendment. Tenant shall have no further right to extend the Term of the Lease except only as set forth in Paragraph 6 below.

3.**"As-Is" Delivery**. Subject to compliance by Landlord with its repair and maintenance obligations in the Lease, Tenant accepts the Premises for the Term as extended by this Amendment in its "AS-IS" condition. Tenant acknowledges that (a) no representations, express or implied, regarding the condition of the Premises or the Building have been made by Landlord to Tenant; all implied warranties with respect to the Premises and the Building, including but not limited to those of fitness for a particular purpose, are expressly negated and waived, and (b) Landlord shall not be required to perform any demolition work or tenant finish work in the Premises or to provide any allowances therefor, except however that, on or before ninety (90) days after the Effective Date (subject only to any delay caused by Tenant or any Tenant Entity, or by a force majeure event outside of the reasonable control of Landlord, including a casualty event), Landlord will replace, at Landlord's cost, heating and air conditioning units numbered RTU 5, RTU 10, RTU 13 and RTU 18 servicing the Premises ("**Landlord's Work**"). Tenant shall continue to remain responsible for the repair and, when needed, replacement of the heating and air conditioning systems servicing the Premises on the terms set forth in the Lease (including the units hereinabove listed following Landlord's replacement of the same).

4.**Rent**. Rent shall remain payable as set forth in the Lease through October 31, 2018. Thereafter and notwithstanding anything to the contrary contained in the Lease, the Annual Rent and Monthly Installment of Rent for the Premises during the Term, as extended by this Amendment, shall be as follows:

Period		Rentable Square Footage	Annual Rent Per Square Foot	Annual Rent	Monthly Installment of Rent
11/1/2018	10/31/2019	34,890	$18.00	$628,020.00	$52,335.00
11/1/2019	10/31/2020	34,890	$18.50	$645,465.00	$53,788.75

All other charges due under the Lease with respect to the Premises including Tenant's Proportionate Share of excess Expenses and Taxes over Base Year (Expenses) and Base Year (Taxes) respectively (as modified by Paragraph 5 below) , shall remain payable as set forth in the Lease during the remainder of the Term as extended by this Amendment.

5.**Base Year**. Effective as of November 1, 2018 and continuing for the remainder of the Term as extended by this Amendment, the Lease shall be is revised so that (i) Base Year (Expenses) shall be Expenses for January 1, 2019 to December 31, 2019 and (ii) Base Year (Taxes) shall be Taxes for January 1, 2019 to December 31, 2019.

6.**Renewal Option**. Tenant shall be allowed a renewal option on the terms more particularly set forth in **Exhibit A** attached to this Amendment and made a part hereof. All other renewal options in the Lease, including as set forth in Paragraph 12 of the Seventh Amendment, are deleted.

7.**Right of First Refusal Option**. Tenant shall be allowed a one-time only right of first refusal option on the immediately adjacent leasable space on the terms more particularly set forth in **Exhibit B** attached to this Amendment and made a part hereof. All other right of first refusal options, right of first offer options, expansion options, or any other similar options previously given under the Lease, including as set forth in Paragraph 11 of the Seventh Amendment, are deleted.

8.**Landlord Remedies in the Event of a Default**. Section 19.3 in the Original Lease, as amended, is further amended so that the Concession Amount as therein defined shall include the aggregate of all amounts expended by Landlord for Landlord's Work and for brokers' commissions payable by reason of this Amendment.

9.**Tenant's Authority** . Tenant represents and warrants that Tenant has been and is qualified to do business in the State of Texas and that the entity has full right and authority to enter into this Amendment. Each of the persons executing this Amendment on behalf of Tenant warrants that such person has been duly authorized to sign on behalf of Tenant by appropriate actions.

10.**Exculpation**. Article 41 of the Original Lease shall apply in full to this Amendment.

11.**Brokerage**. Landlord and Tenant each hereby warrant to the other that it has not dealt with any broker or agent in connection with the negotiation or execution of this Amendment, other than Fults Commercial, LLC (representing Landlord) and Colliers International (representing Tenant). LANDLORD AND TENANT SHALL EACH INDEMNIFY THE OTHER AGAINST ALL COSTS, EXPENSES, ATTORNEYS' FEES, AND OTHER LIABILITY FOR COMMISSIONS OR OTHER COMPENSATION CLAIMED BY ANY OTHER BROKER OR AGENT CLAIMING THE SAME BY, THROUGH, OR UNDER THE INDEMNIFYING PARTY IN RESPECT OF THIS AMENDMENT.

12.**Ratification**. Landlord and Tenant hereby ratify and affirm the Lease, and agree that the Lease is and shall remain in full force and effect, except as expressly amended hereby.

13.**Successors and Assigns**. The covenants, conditions, provisions and agreements contained in this Amendment shall bind Tenant, its successors and assigns and inure to the benefit of Landlord and its successors and assigns.

14.**Counterparts**. This Amendment may be executed in any number of identical counterparts each of which shall be deemed to be an original and all, when taken together, shall constitute one and the same instrument. Landlord shall not be bound by this Amendment until it has received a copy of this Amendment duly executed by Tenant and has delivered to Tenant a copy of this Amendment duly executed by Landlord.

[*Signature Page Follows*]

IN WITNESS WHEREOF, this Amendment is hereby executed by Landlord and Tenant as of the Effective Date.

LANDLORD:

SDCO GATEWAY COMMERCE I & II, INC.,
a Delaware corporation

By: /s/ Kim Boudreau

Kim Boudreau, Vice President

TENANT:

REATA PHARMACEUTICALS, INC.,
a Delaware corporation

By: /s/ Jason D. Wilson

Jason D. Wilson, Chief Financial Officer

EXHIBIT A

attached to and made a part of Lease Amendment No. 11
dated as of the Effective Date and made between
SDCO Gateway Commerce I & II, Inc. as Landlord, and
Reata Pharmaceuticals, Inc., as Tenant

RENEWAL OPTION

Provided that (i) there has not been a violation of Section 19.9 of the Original Lease (if Tenant fails to pay Landlord an amount exceeding $2,500.00 on more than two (2) occasions during the twelve (12) month period immediately preceding Tenant's exercise of the renewal option under this Exhibit), (ii) Tenant is not then in default beyond any applicable cure, grace or notice period at the time of exercise of the renewal option hereunder permitted, and (iii) Tenant is then in occupation of at least fifty percent (50%) of the Premises, Tenant shall have the option to renew the Lease for one (1) additional term of one (1) year commencing as of November 1, 2020, on the same terms and conditions set forth in the Lease, except as modified by the terms, covenants and conditions as set forth below:

(a) If Tenant elects to exercise said option, then Tenant shall provide Landlord with an irrevocable written notice of exercise of the option no earlier than November 1, 2019 and no later than February 1, 2020. **Time shall be of the essence herein** so that if Tenant fails to provide such notice, Tenant shall have no further or additional right to extend or renew the term of the Lease.

(b) The Annual Rent in effect at the expiration of the then Term of the Lease shall be adjusted to reflect the then current fair market rental for comparable space in other comparable buildings in the submarket in which the Building is located, having regard to all allowances and leasing concessions including the availability of parking and any parking charges therefor as of the date the renewal term is to commence and taking into account the specific provisions of the Lease except to the extent hereunder provided. Landlord shall advise Tenant of the new Annual Rent and Monthly Installment of Rent for the Premises no later than thirty (30) days after receipt of Tenant's written request therefor. Said request shall be made no earlier than thirty (30) days prior to the date on which Tenant may exercise its option under this Exhibit. Tenant shall have twenty (20) days from said notification to provide Landlord with written notice that Tenant accepts or rejects the revised Annual Rent and Monthly Installment of Rent for the renewal Term. If Tenant fails to provide such notice, then Tenant shall be deemed to have waived its option to renew the Lease, and Tenant shall have no further or additional right to extend the Term of the Lease. If Tenant accepts in writing Landlord's determination of the revised Annual Rent and Monthly Installment of Rent for the renewal Term then such acceptance shall be irrevocable; provided, however, that Tenant shall not be deemed to exercise its option to renew the Lease until Tenant provides Landlord with the written notice pursuant to paragraph (a) above. If Tenant, within the 20-day period, notifies Landlord in writing that it rejects Landlord's determination of the Annual Rent and Monthly Installment of Rent for the renewal Term and if the parties do not agree upon the new revised Annual Rent and Monthly Installment of Rent for the renewal Term within thirty (30) days of Landlord's receipt of Tenant's notice, then this option shall be of no further force or effect and Tenant shall have no further or additional right to extend the Term of the Lease.

(c) The Premises shall be taken by Tenant during the renewal Term, in its "AS-IS" condition and Landlord shall have no liability to perform any renovation work nor to provide any improvement allowances therefor unless otherwise agreed upon in the determination of fair market rental.

KB	JW

(d) Upon exercise of this option, Tenant shall execute an amendment to the Lease prepared by Landlord confirming the exercise of the option and the new Annual Rent and Monthly Installment of Rent for the Premises during the renewal Term. Landlord's failure to prepare or Tenant's failure to execute such amendment shall not affect the validity of the exercise of this option or alter Tenant's obligations during the renewal Term as determined hereby.

(e) This option is personal to Reata Pharmaceuticals, Inc. and its Affiliate (as such term is defined in Section 9.8 of the Original Lease) and cannot be exercised by any sublessee or other assignee. This option shall no longer be effective if Tenant subleases or transfers possession of any portion of the Premises other than to an Affiliate. In addition, without limitation on any other provisions of this Exhibit, this option shall terminate and be of no further force or effect if (i) Landlord terminates Tenant's right to possession due to an Event of Default, or (ii) Tenant, is in occupation of less than fifty percent (50%) of the Premises, or (iii) Tenant ceases operating business from the Premises or vacates the Premises for in excess of thirty (30) days for reasons other than casualty or approved repairs (notwithstanding that it has left furniture, fixtures or equipment in the Premises), or (iv) Tenant assigns or is deemed to have assigned its interest under the Lease, other than to an Affiliate. Upon exercise of this renewal option Tenant shall have no further right to extend the Term of the Lease other than by agreement with Landlord in its sole discretion.

[*Remainder Of This Page Is Intentionally Left Blank*]

KB	JW

EXHIBIT B

attached to and made a part of Lease Amendment No. 11
dated as of the Effective Date and made between
SDCO Gateway Commerce I & II, Inc. as Landlord, and
Reata Pharmaceuticals, Inc., as Tenant

RIGHT OF FIRST REFUSAL OPTION (ONE TIME ONLY)

Subject to and upon the terms and provisions set forth in this **Exhibit B**, provided that (i) there has not been a violation of Section 19.9 of the Original Lease (if Tenant fails to pay Landlord an amount exceeding $2,500.00 on more than two (2) occasions during the twelve (12) month period immediately preceding Tenant's exercise of the right of first refusal option under this Exhibit), (ii) Tenant is not then in default beyond any applicable cure, grace or notice period at the time of exercise of the right of first refusal option hereunder permitted, and (iii) Tenant is then in occupation of at least fifty percent (50%) of the Premises, Tenant shall have a one-time only right of first refusal to lease the leasable space located immediately adjacent to the Premises as of the Effective Date of this Amendment (the "**ROFR Space**") exercisable upon receipt by Landlord and Landlord's notice to Tenant containing the basic terms (the "**ROFR Notice**") of a bona fide third party offer (the "**ROFR Offer**") to lease all or any part of such ROFR Space (the "**Available ROFR Space"**) when the same becomes available for lease on the terms set forth below.

(a) Upon receipt of the ROFR Notice, Tenant shall have a period of five (5) business days from and after the date of delivery of the ROFR Notice in which to unconditionally and irrevocably exercise Tenant's right to lease the Available ROFR Space pursuant to the terms and conditions of the ROFR Offer. If Tenant fails or is unable to timely exercise its right hereunder with respect to the Available ROFR Space, then such right shall lapse, time being of the essence with respect to the exercise thereof (it being understood that Tenant's right hereunder is a one-time right only as to each Available ROFR Space the first time it is offered to Tenant hereunder), and Landlord may lease all or a portion of the Available ROFR Space to any other party (the "**Prospect**") if there is not a change in material economic terms and conditions (hereafter defined) as set forth in the ROFR Offer (Landlord shall not be obligated to lease the Available ROFR Space to the original offeror under the ROFR Offer), and, if so leased, Tenant will then have no further rights to the Available ROFR Space which is thereby fully released from this option. Tenant acknowledges that if Tenant counteroffers the ROFR Offer, or does not timely deliver Tenant's unconditional and irrevocable acceptance of the ROFR Offer, then Landlord shall be at liberty at any time thereafter in its sole and absolute discretion (even if Landlord has commenced negotiations with Tenant) to determine that Tenant has waived its option to take the Available ROFR Space, and Landlord may thereupon lease the Available ROFR Space to a Prospect as aforesaid. Landlord must re-offer the Available ROFR Space to Tenant if, in the Landlord's subsequent negotiations or re-negotiations with the Prospect, the average Annual Rent per square foot is reduced by more than ten percent (10%), if any available tenant improvement allowance is increased by more than ten percent (10%) per square foot, or if there is any other change in material economic terms and conditions (collectively, a "**change in material economic terms and conditions**"). In the event of such material economic change, upon receipt of a written notification Landlord with the terms of such re-offer (the "**Re-Offer**"), Tenant shall have a period of five (5) days from and after the date of delivery of the re-offer notice in which to exercise Tenant's right to lease the Available ROFR Space pursuant to the terms and conditions of the Re-Offer, failing which Landlord shall be at liberty to lease the Available ROFR Space to a Prospect on substantially the same material economic terms and conditions set forth in the Re-Offer. Unless otherwise agreed in writing by Landlord and Tenant's real estate broker, in no event shall Landlord be obligated to pay a commission with respect to any space leased by Tenant under this Exhibit,

KB	JW

AND TENANT AND LANDLORD SHALL EACH INDEMNIFY THE OTHER AGAINST ALL COSTS, EXPENSES, ATTORNEYS' FEES, AND OTHER LIABILITY FOR COMMISSIONS OR OTHER COMPENSATION CLAIMED BY ANY BROKER OR AGENT CLAIMING THE SAME BY, THROUGH, OR UNDER THE INDEMNIFYING PARTY. Such indemnity shall survive the termination of the Lease. In no event may Tenant elect to accept only a portion of the Available ROFR Space offered to Tenant under the ROFR Offer.

(b) If Tenant exercises such option, then effective as of the date Landlord delivers the Available ROFR Space, the Available ROFR Space shall automatically be included within the Premises and subject to all the terms and conditions of the Lease, except as set forth in the ROFR Offer and as follows:

(i) Tenant's Proportionate Share shall be recalculated, using the total square footage of the Premises, as increased by the Available ROFR Space.

(ii) Unless otherwise set forth in the ROFR Offer, the Available ROFR Space shall be leased on an "AS-IS", "WITH ALL FAULTS" basis and Landlord shall have no obligation to improve the Available ROFR Space or grant Tenant any improvement allowance thereon.

(iii) Landlord will use reasonable diligence to make the Available ROFR Space available to Tenant on the date specified in the ROFR Offer. Landlord shall not be liable for the failure to give possession of the Available ROFR Space to Tenant on such date, and such failure shall not impair the validity of the Lease, or extend the Term, but the rent for the Available ROFR Space shall be abated until possession is delivered to Tenant and such abatement shall constitute full settlement of all claims that Tenant might otherwise have against Landlord by reason of such failure to give possession of the Available ROFR Space to Tenant on the date originally identified by Landlord.

(c) Within thirty (30) days of Tenant's acceptance of the ROFR Offer and its compliance with the terms of this Exhibit, Landlord shall prepare and deliver and Tenant shall execute an amendment to the Lease confirming the inclusion of the Available ROFR Space, Tenant's Proportionate Share, as revised, and the terms of the ROFR Offer including the Annual Rent and the Monthly Installment of Rent for the Available ROFR Space and the Lease Term for the Available ROFR Space; provided however that Landlord's failure to prepare or Tenant's failure to execute such amendment shall not affect the validity of the exercise of the option or Tenant's obligations with respect to the Available ROFR Space.

(d) This option is subordinate to all rights of renewal, extension, expansion, relocation or first offer or refusal rights or any similar rights as to the ROFR Space in favor of other tenants in the Building as of the Effective Date of this Amendment. Tenant acknowledges that this option is also subordinate to Landlord's right to negotiate new leases with any occupant of the ROFR Space pursuant to existing leases or agreements whether or not such leases or agreements contain rights of renewal, and Landlord shall not be required to deliver a ROFR Notice to Tenant before consummating any new lease between Landlord and such occupant for ROFR Space, and Tenant may not exercise its option hereunder with respect to such ROFR Space.

(e) This option and Tenant's rights under this Exhibit are personal to Reata Pharmaceuticals, Inc. and its Affiliate, and cannot be exercised by any sublessee or other assignee of Tenant. Without limitation on any other provisions of this Exhibit, this option shall terminate and be of no further force or effect if (i) Tenant does not timely and properly exercise the option, or has declined to lease the Available

ROFR Space, (ii) Landlord terminates Tenant's right to possession due to an Event of Default, (iii) Tenant is in occupation of less than the entire of the Premises, (iv) Tenant ceases operating business from the Premises for in excess of thirty (30) days for reasons other than casualty or approved repairs, (v) Tenant assigns or is deemed to have assigned its interest under this Lease other than to an Affiliate, (vi) Tenant has advised Landlord in writing that it does not intend to renew its lease of the Premises upon expiration of the Term, or (vii) there is less than nine (9) months remaining in the Term and Tenant has not exercised its renewal option.

[*Remainder Of This Page Is Intentionally Left Blank*]

KB	JW

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, J. Warren Huff, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Reata Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2017

By: /s/ J. Warren Huff

J. Warren Huff
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jason D. Wilson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Reata Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2017

By: /s/ Jason D. Wilson

Jason D. Wilson
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Reata Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, J. Warren Huff, as Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 13, 2017

By: /s/ J. Warren Huff
J. Warren Huff
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Reata Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jason D. Wilson, Chief Financial Officer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 13, 2017

By: /s/ Jason D. Wilson
Jason D. Wilson
Chief Financial Officer
(Principal Financial Officer)