WESTWOOD HOLDINGS GROUP INC
Form DEF 14A
March 11, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

Westwood Holdings Group, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required

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(1) Amount Previously Paid:

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(3) Filing Party:

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Dear Stockholder:

You are cordially invited to attend the 2014 Annual Meeting of Stockholders of Westwood Holdings Group, Inc., which will be held on Thursday, April 17, 2014, at 10:00 a.m., Central time, at The Crescent Club, 200 Crescent Court, Suite 1700, Dallas, Texas 75201. The official Notice of Annual Meeting together with a proxy statement and proxy card are enclosed. Please give this information your careful attention.

Westwood invites all stockholders to attend the meeting in person. Whether or not you expect to attend the annual meeting, we urge you to complete, sign, date and promptly return the accompanying proxy card in the enclosed postage-paid envelope to assure your representation at the meeting. You can revoke your proxy at any time before it is voted by delivering written notice to our Corporate Secretary at Westwood s principal executive office, by signing and mailing to us a proxy card bearing a later date, or by attending the meeting and voting in person.

Sincerely,

March 10, 2014

Brian O. Casey
Chief Executive Officer and President

WESTWOOD MANAGEMENT WESTWOOD TRUST WESTWOOD INTERNATIONAL ADVISORS

200 CRESCENT COURT, SUITE 1200 DALLAS, TEXAS 75201 T.214.756.6900 F.214.756.6979 www.westwoodgroup.com

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WESTWOOD HOLDINGS GROUP, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON APRIL 17, 2014

To the Stockholders of Westwood Holdings Group, Inc.:

NOTICE IS HEREBY GIVEN that the annual meeting of the stockholders of Westwood Holdings Group, Inc. (Westwood, the Company, we, us or our) will be held at The Crescent Club, 200 Crescent Court, Suite 1700, Dallas, Texas 75201 on Thursday, April 17, 2014, at 10:00 a.m., Central time, to consider and vote on the following proposals:

Proposal 1. The election of eight directors to hold office until the next annual meeting of Westwood s stockholders and until their respective successors shall have been duly elected and qualified;

Proposal 2. The ratification of the appointment of Grant Thornton LLP as Westwood s independent auditors for the year ending December 31, 2014; and

Proposal 3. To cast a non-binding, advisory vote on Westwood s executive compensation.

In addition, we will consider the transaction of such other business as may properly come before the meeting or at any adjournments or postponements.

The foregoing items of business are more fully described in the attached proxy statement.

Only stockholders of record at the close of business on March 3, 2014 are entitled to notice of, and to vote at, the annual meeting and any adjournments or postponements thereof. A holder of shares of our common stock as of the record date is entitled to one vote in person or by proxy for each share of common stock owned by such holder on all matters properly brought before the annual meeting or at any adjournments or postponements.

All of our stockholders are invited to attend the annual meeting. Whether or not you expect to attend the annual meeting, we urge you to complete, sign, date and promptly return the accompanying proxy card in the enclosed postage-paid envelope to assure your representation at the meeting. You can revoke your proxy at any time before it is voted by delivering written notice to our Corporate Secretary at our principal executive office, which is located at 200 Crescent Court, Suite 1200, Dallas, Texas 75201, by signing and mailing to us a proxy bearing a later date, or by attending the annual meeting and voting in person.

If you are the beneficial owner of shares of our common stock held in street name, you will receive voting instructions from your broker, bank or other nominee (who must be the stockholder of record). The voting instructions will provide details regarding how to vote these shares. Additionally, you may vote these shares in person at the annual meeting if you have requested and received a legal proxy from your broker, bank or other nominee giving you the right to vote the shares at the annual meeting, and you complete the legal proxy and present it to us at the annual meeting. Pursuant to the New York Stock Exchange rules, if you hold your shares in street name, nominees will not have discretion to vote these shares on the election of directors. Accordingly, if your shares are held in street name and you do not submit voting instructions to your broker, bank or other nominee, these shares will not be counted in determining the outcome on Proposal 1 set forth in this proxy statement at the annual meeting. We encourage you to provide voting instructions to your broker, bank or other nominee if you hold your shares in street name so that your voice is heard on these proposals.

This proxy statement and proxy card are being mailed to our stockholders on or about March 14, 2014.

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NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS

Important Notice Regarding Internet Availability of Proxy Materials for the Stockholder Meeting to be Held on April 17, 2014

The proxy materials for the Company s Annual Meeting of Stockholders, including the 2013 Annual Report, the Proxy Statement and any other additional soliciting materials, are available over the Internet by accessing our website at http://ir.westwoodgroup.com/annuals.cfm. Other information on our website does not constitute part of the Company s proxy materials.

By Order of the Board of Directors
Westwood Holdings Group, Inc.

Brian O. Casey
Chief Executive Officer and President

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WESTWOOD HOLDINGS GROUP, INC.

PROXY STATEMENT FOR

2014 Annual Meeting OF STOCKHOLDERS

TO BE HELD ON APRIL 17, 2014

GENERAL QUESTIONS AND ANSWERS

The following questions and answers are intended to provide brief answers to frequently asked questions concerning the proposals described in this proxy statement and the proxy solicitation process. These questions and answers do not, and are not intended to, address all the questions that may be important to you. You should carefully read the remainder of this proxy statement. This proxy statement and the accompanying proxy card are being mailed to the stockholders of Westwood Holdings Group, Inc. (Westwood, the Company, we, us or our) on or about March 14, 2014.

The Annual Meeting

Q: When and where is the annual meeting?

A: The annual meeting will be held on Thursday, April 17, 2014, at 10:00 a.m., Central time, at The Crescent Club, 200 Crescent Court, Suite 1700, Dallas, Texas 75201.

Q: What am I being asked to vote on?

A: Our stockholders are being asked to vote on the following proposals at the annual meeting:

To elect eight directors to hold office until the next annual meeting of Westwood s stockholders and until their respective successors shall have been duly elected and qualified;

To ratify the appointment of Grant Thornton LLP as Westwood s independent auditors for the year ending December 31, 2014; and

To cast a non-binding advisory vote on executive compensation.

Q: How does the Board of Directors recommend that I vote?

A: The Board of Directors recommends that you vote your shares (i) FOR each of the eight director nominees for election to the Board of Directors, (ii) FOR the ratification of the appointment of Grant Thornton LLP as Westwood s independent auditors for the year ending December 31, 2014, and (iii) FOR the approval, on a non-binding advisory basis, of Westwood s executive compensation.

If you submit your properly executed proxy without voting instructions, your shares represented by that proxy will be voted as recommended by the Board of Directors.

Q: Who is entitled to vote at the annual meeting?

A: Stockholders of record at the close of business on March 3, 2014 (the record date) are entitled to notice of, and to vote at, the annual meeting and any adjournments or postponements thereof. A holder of shares of our common stock as of the record date is entitled to one vote in person or by proxy for each share of common stock owned by such holder on all matters properly brought before the annual meeting or at any adjournments or postponements thereof. As of March 3, 2014, there were 8,262,430 shares of common stock outstanding and entitled to vote on each of the proposals.

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Q: What constitutes a quorum?

A: In order to carry on the business of the annual meeting, we must have a quorum. This means at least a majority of the shares of common stock outstanding as of the record date must be represented at the annual meeting, either by proxy or in person. Abstentions and broker non-votes, which are described in more detail below, are counted as shares present at the annual meeting for purposes of determining whether a quorum exists.

Q: What is the difference between holding shares as a stockholder of record and as a beneficial owner ?

A: Stockholder of Record: A stockholder of record holds shares registered directly in his or her name with our transfer agent. As a stockholder of record, you have the right to grant your voting proxy directly to us in accordance with the procedures described below or to vote in person at the annual meeting.

Beneficial Owners: If your shares are held through a bank, broker or other nominee, you are the beneficial owner of shares held in street name, and these proxy materials are being forwarded to you by your bank, broker or other nominee, which is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you have the right to direct your bank, broker or other nominee on how to vote your shares by completing the instructions provided to you by your bank, broker or other nominee. However, since you are not a stockholder of record, you may not vote these shares in person at the annual meeting unless you obtain a valid proxy from your bank, broker or other nominee (who must be the stockholder of record) giving you the right to vote the shares.

Q: What is a broker non-vote?

A: Generally, a broker non-vote occurs when a bank, broker or other nominee that holds shares in street name for customers is precluded from exercising voting discretion on a particular proposal because (1) the beneficial owner has not instructed the bank, broker or other nominee how to vote, and (2) the bank, broker or other nominee lacks discretionary voting power to vote such shares. A bank, broker or other nominee does not have discretionary voting power with respect to the approval of non-routine matters absent specific voting instructions from the beneficial owners of such shares.

Under applicable rules, Proposals 1 and 3 are considered non-routine matters, which banks, brokers and other nominees are not allowed to vote on unless they have received voting instructions from the beneficial owners of such shares. The proposal to ratify the appointment of Grant Thornton LLP as Westwood s independent auditor for the year ending December 31, 2014 (Proposal No. 2) is considered a routine matter on which banks, brokers and other nominees may vote in their discretion on behalf of beneficial owners who have not provided voting instructions. Your bank, broker or other nominee will send you instructions on how you can instruct them to vote on Proposal No. 2. If you do not provide voting instructions, your bank, broker or other nominee will have discretionary authority to vote your shares with respect to Proposal No. 2.

Q: What vote is required to approve each proposal?

A: Proposal No. 1: The election of directors requires the affirmative FOR vote of a plurality of the shares represented in person or by proxy at the annual meeting and entitled to vote. This means that the eight director nominees that receive the most votes will be elected. You may vote FOR or WITHHOLD with respect to the election of each director. As the election of directors is a non-routine matter under applicable rules, your bank, broker or other nominee cannot vote without instructions from you. Therefore, although there may be broker non-votes on this proposal, only FOR votes will be counted in determining whether a plurality has been cast in favor of a director. Broker non-votes and WITHHOLD votes will not affect the outcome on the election of directors.

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Proposal No. 2: The ratification of the appointment of Grant Thornton LLP as Westwood s independent auditors for the year ending December 31, 2014 requires the affirmative FOR vote of a majority of the votes cast at the annual meeting. Abstentions will have no effect on the outcome of this proposal.

Proposal No. 3: The non-binding advisory vote on Westwood s executive compensation requires the affirmative FOR vote of a majority of the votes cast at the annual meeting. As the advisory vote on Westwood s executive compensation is a non-routine matter under applicable rules, your bank, broker or other nominee cannot vote without instructions from you. Broker non-votes and abstentions will have no effect on the outcome of this proposal.

Procedures for Voting

Q: Who is entitled to vote?

A: Only stockholders of record as of the close of business on March 3, 2014, the record date, will be entitled to vote on the proposals at the annual meeting. Each share of common stock is entitled to one vote.

Q: How do I vote?

A: If you are the record holder of your shares, you can vote by attending the annual meeting in person or by completing, signing and returning your proxy card in the enclosed postage-paid envelope.

If your shares are held by your broker as your nominee (that is, in street name), you will need to obtain a proxy form from the institution that holds your shares and follow the instructions included on that form regarding how to instruct your broker to vote your shares. If your shares are held in street name, your proxy card may contain instructions from your broker that allow you to vote your shares using the Internet or telephone. Please consult with your broker if you have any questions regarding the electronic voting of shares held in street name.

Q: Is my proxy revocable and can I change my vote?

A: If you are a stockholder of record you may revoke your proxy at any time before it is voted by doing one of the following:

Sending a written notice revoking your proxy to Julie K. Gerron, our Corporate Secretary, at 200 Crescent Court, Suite 1200, Dallas, Texas 75201;

Signing and mailing to us a proxy bearing a later date; or

Attending our annual meeting and voting in person.

If you are not a stockholder of record, but instead hold your shares in street name through a bank, broker or other nominee, the above-described options for revoking your proxy do not apply. Instead, you will need to follow the instructions provided to you by your bank, broker or other nominee in order to revoke your proxy and submit new voting instructions.

Q: Is my vote confidential?

A: Yes. Only the inspector of votes and certain of our employees will have access to your proxy card. All comments will remain confidential, unless you ask that your name be disclosed.

Our Current Stock Ownership

Q: What percentage of stock do the directors and executive officers own?

A: Collectively, our executive officers and directors beneficially owned approximately 917,797 shares, or approximately 11.1 percent, of our outstanding common stock as of March 3, 2014.

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We believe that our executive officers and directors intend to vote their shares of our common stock on each of the proposals presented in this proxy statement as recommended by the Board of Directors.

Q: Who are the largest principal stockholders?

A: Based on our review of Schedule 13G, Schedule 13D, Form 13F and Form 4 filings, as of March 3, 2014, the ten institutional stockholders with the largest percentage ownership of our outstanding common stock were Royce & Associates, LLC (9.0%), GAMCO Investors, Inc. (8.4%), Conestoga Capital Advisors LLC (6.6%), BlackRock, Inc. (5.9%), Third Avenue Management LLC (5.0%), Wellington Management Co LLP (2.8%), Wells Fargo & Company (2.6%), Zuckerman Investment Group, LLC (2.2%), Dimensional Fund Advisors LP (2.0%) and Vanguard Group Inc. (2.0%).

Susan M. Byrne, our Chairman, owned 4.6%, and Brian O. Casey, our President and Chief Executive Officer, owned 3.0% of our outstanding common stock as of March 3, 2014. Our employees and directors, including Ms. Byrne and Mr. Casey, collectively owned approximately 26% of our outstanding common stock as of March 3, 2014.

Other Information

Q: What is the deadline to propose actions for consideration at the 2015 annual meeting of stockholders?

A: To be included in the proxy statement for the 2015 annual meeting, stockholder proposals must be in writing and must be received by Westwood at our principal executive office at the following address: 200 Crescent Court, Suite 1200, Dallas, Texas 75201, Attn: Corporate Secretary, no later than November 14, 2014. In addition, all proposals must comply with Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the Exchange Act), which lists the requirements for the inclusion of stockholder proposals in company-sponsored proxy materials.

If Westwood does not have notice of a stockholder proposal at least 45 days before the mailing date of the proxy statement for the prior year s annual meeting, then your proxy will confer discretionary authority to vote on the proposal if it is properly presented for consideration at a meeting.

Q: How may I recommend or nominate individuals to serve as directors, and what is the deadline to propose or nominate individuals to serve as directors?

A: You may propose director candidates for consideration by the Governance/Nominating Committee of our Board of Directors. Any such recommendations must be in writing to our Corporate Secretary at our principal executive office and received not less than 120 calendar days before the one-year anniversary of the date that the proxy statement for the previous year s annual meeting was released to stockholders.

However, if we did not hold an annual meeting during the previous year, or if the date of the current year s annual meeting has been changed by more than 30 days from the date of the previous year s annual meeting, then the deadline is a reasonable time before we begin to print and mail our proxy materials.

For the 2015 annual meeting, the deadline for proposing or nominating individuals to serve as director is November 14, 2014. Director candidates recommended by stockholders are evaluated by the Governance/Nominating Committee based on the same criteria applied by the Governance/Nominating Committee to director candidates identified by that committee. To be valid, a stockholder s notice to the Corporate Secretary must set forth certain information, as further described in Corporate Governance Information Director Nominees.

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Q: Who is soliciting my proxy and who will pay the solicitation expenses?

A: The Company is soliciting your proxy by and on behalf of our Board of Directors and we will pay the cost of preparing and distributing this proxy statement and the cost of soliciting votes. We will reimburse stockbrokers and other custodians, nominees and fiduciaries for forwarding proxy and solicitation material to the owners of our common stock.

Q: Who can help answer my additional questions?

A: Stockholders who would like additional copies, without charge, of this proxy statement or have additional questions about this proxy statement, including the procedures for voting their shares, should contact:

Mark A. Wallace, Chief Financial Officer & Treasurer

Westwood Holdings Group, Inc.

200 Crescent Court, Suite 1200

Dallas, Texas 75201

Telephone: (214) 756-6900

This question and answer section is qualified in its entirety by the more detailed information contained in this proxy statement. **You are strongly urged to carefully read this proxy statement in its entirety before you vote.**

This proxy statement contains important information that should be read before you vote on the proposals herein. You are strongly urged to read this proxy statement in its entirety. You are also strongly urged to read our Annual Report on Form 10-K for the period ended December 31, 2013, which is being sent to you with this proxy statement.

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PROPOSAL 1:

Election of Directors

Our bylaws provide that the Board of Directors of the Company (the Board) will consist of between three and eleven directors, as determined from time to time by resolution of the Board. The Board has previously set the number of directors at eight. The terms of the seven incumbent directors expire at the 2014 Annual Meeting. Each director elected at the 2014 Annual Meeting will serve until the 2015 Annual Meeting and thereafter until his or her successor has been elected and qualified or until the director s earlier death, resignation or removal. The Board of Directors, upon the recommendation of the Governance/Nominating Committee, has nominated the nominees listed below. Each nominee has consented to being named in this proxy statement and to serve if elected.

We have no reason to believe that any of the nominees will not serve if elected, but if any of them should become unavailable to serve as a director, and if the Board of Directors designates a substitute nominee, the persons named in the accompanying proxy will vote for the substitute nominee designated by the Board of Directors, unless a contrary instruction is given in the proxy.

Each stockholder is entitled to cast one vote for each director nominee per share of common stock held by them at the close of business on March 3, 2014. A plurality of the shares represented in person or by proxy at the annual meeting and entitled to vote is required for the election of directors. This means that the eight director nominees that receive the most votes will be elected. Votes may be cast in favor of a director nominee or withheld. Stockholders may withhold authority to vote for any nominee by striking a line through the name of such nominee in the space provided for such purpose on the proxy card. Broker non-votes and votes that are withheld will be excluded entirely from the vote and will have no effect. Votes that are withheld for a particular nominee will be excluded from the vote for that nominee only.

Nominees

The persons nominated to be directors are listed below. The following information is submitted concerning the nominees for election as directors:

Name	Age	Position(s) With Westwood
Brian O. Casey	50	Chief Executive Officer, President and Director
Susan M. Byrne	67	Chairman of the Board of Directors
Richard M. Frank	66	Director
Ellen H. Masterson	63	Director Nominee
Robert D. McTeer	71	Director
Geoffrey R. Norman	70	Director
Martin J. Weiland	65	Director
Raymond E. Wooldridge	75	Director

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THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE

FOR THE APPROVAL OF EACH OF THE DIRECTOR NOMINEES.

The biographical information for each director nominee is set forth below.

Brian O. Casey has served as Chief Executive Officer of Westwood since January 2006, as President and director of Westwood since its inception in December 2001, as Secretary from 2001 to 2014 and as Chief Operating Officer of Westwood from 2001 to 2005. Mr. Casey has served as Chief Executive Officer of Westwood Management since January 2006, as President since 2002, and as a director since 2000. Mr. Casey served as Chief Operating Officer of Westwood Management from 2000 to 2005, as Executive Vice President from 2000 to 2002, and as Vice President from 1992 to 1996. Mr. Casey has served as director of Westwood Trust since 1996 and he also served as President of Westwood Trust from 1996 to 2013. Since 2002, Mr. Casey has served on the Tartan Board of Directors, a group exclusively devoted to raising money for the Texas Scottish Rite Hospital for Children. Since 2006, he has been a member of the Governor s Business Council for the State of Texas. He was appointed in 2008 to the board of the Baylor Health Care System Foundation, which helps raise money to support Baylor Health Care System s mission of patient care, education, research and community service. In 2011, he was appointed to the Board of the Cooper Institute, an organization dedicated to scientific research in the field of preventative medicine and public health.

As the Chief Executive Officer of the Company and with over 20 years in senior executive roles with the Company, Mr. Casey brings an extensive knowledge of and experience with the Company and its business as well as valuable leadership and management experience. Mr. Casey has deep knowledge of the Company s operations, strategies and competitive environment as well as the asset management industry as a whole. As a board member of several private organizations, Mr. Casey also brings valuable experience in governance matters.

Susan M. Byrne has served as Chairman of the Board of Directors of Westwood since its inception in December 2001. Ms. Byrne has served as Director, Global Initiatives since February 2012, Co-Chief Investment Officer from January 2011 to February 2012, Chief Investment Officer of Westwood from January 2006 to January 2011, and as Chief Executive Officer from December 2001 to December 2005. Ms. Byrne is the founder of Westwood Management and has served as its Chairman of the Board since 1983, as Chief Investment Officer from 1983 to February 2012, as Chief Executive Officer from 1983 to 2005, and as President from 1983 to 2002. She served as a director of Westwood Trust from 1996 to 1999. She has previously served as a member of the Board of Presbyterian Communities & Services Foundation, a member of the Board of the University of Texas Investment Management Company, and as a member of the Board of Trustees for the City of Dallas Employees Retirement Fund.

As the Founder and Chairman of the Board of the Company and as a result of her tenure with the Company and its subsidiaries for over 30 years, Ms. Byrne brings extensive knowledge of and experience with the Company and its business as well as valuable leadership and management experience. Ms. Byrne has deep knowledge of the Company s operations, strategies and competitive environment as well as the asset management industry as a whole. With over 40 years of experience in the investment management business, Ms. Byrne is uniquely qualified to provide insight to the Board on the Company s investment management strategies and operations. As a board member of several private organizations, Ms. Byrne also brings valuable experience in governance matters.

Richard M. Frank has served as a director of Westwood and Westwood Trust since February 2006. Mr. Frank is an employee of CEC Entertainment, Inc. (CEC), a Dallas-based company that operates a chain of pizza and children s entertainment restaurants. CEC was a New York Stock Exchange (NYSE) listed company until February 2014. From December 2008 until February 2014, he served as Executive Chairman of the Board of CEC. Mr. Frank has served CEC as a Director from June 1985 to February 2014, as Chairman of the Board and Chief Executive Officer from March 1986 to December 2008, and as CEC s President and Chief Operating Officer from June 1985 to October 1988.

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Mr. Frank brings extensive knowledge with regard to executive and board level oversight of a public company through his significant experience as chief executive officer, chairman and director of CEC. Mr. Frank also has a deep understanding of business, governance, compensation and financial matters through his service with CEC.

Ellen H. Masterson retired as a partner with PricewaterhouseCoopers LLP (PwC) in 2008, having served in this capacity since 1999 and from 1985 to 1997. Ms. Masterson specialized in audits of companies involved in several sectors of the financial services industry, including investment management firms and public companies with a focus on mergers and acquisitions. She held senior positions within the leadership of PwC from 2001 to 2008, including international responsibilities across the global network of PwC firms. From 1997 to 1999, Ms. Masterson served as Senior Vice President and Chief Financial Officer of American General Corporation, prior to its acquisition by American International Group, Inc. Since 1982, she has served on numerous nonprofit boards, and is currently a Trustee of Presbyterian Communities & Services, a provider of senior care and hospice services, and President of the Board of the First Presbyterian Church of Dallas Foundation.

Ms. Masterson brings extensive knowledge of financial reporting and accounting issues faced by companies in the financial services industry, as well as experience with international business, strategic planning and corporate governance from 40 years of dealing with clients, as a public company Chief Financial Officer and a trustee of nonprofit organizations.

Robert D. McTeer has served as a director of Westwood and Westwood Trust since July 2007. Mr. McTeer has served as a Distinguished Fellow at the National Center for Policy Analysis (NCPA) since January 2007. Prior to joining the NCPA he was Chancellor of the Texas A&M University System from November 2004 through November 2006. Previously, he had a 36-year career with the Federal Reserve System, serving almost 14 years as President of the Federal Reserve Bank of Dallas and as a member of the Federal Open Market Committee (FOMC). Mr. McTeer currently serves on the Board of Directors of Refocus Group, a nonpublic company, headquartered in Dallas, engaged in research and development of surgical procedures for vision disorders. He also serves as a Director of Beal Bank (Plano) and Beal Bank USA (nonpublic). He is a former Director of Aquinas Companies (nonpublic), Guaranty Bank (public), the University of Georgia s College of Business (nonprofit), and the National Council on Economic Education (nonprofit). He is a former Director and President of the Association of Private Enterprise Education (nonprofit).

Mr. McTeer brings extensive knowledge of capital markets and the global economy, having served with the Federal Reserve System for 36 years. Mr. McTeer also brings valuable experience in business, governance, compensation and financial matters through his current and prior service as a director for other public and private companies.

Geoffrey R. Norman has served as a director of Westwood and Westwood Trust since April 2007. He was employed by General Electric from 1968 to 2004, serving in various roles including Comptroller of GE Española, Chief Financial Officer of GE International Contractor Equipment, Vice President & Treasurer of GE Capital, and Executive Vice President of GE Asset Management from April 1988 to March 2004. Mr. Norman graduated from GE s Financial Management Program and spent three years on GE s Corporate Audit Staff, conducting numerous audits of GE s businesses in the United States and internationally. Mr. Norman serves on an advisory board for buildOn, a not-for-profit entity that builds schools in underdeveloped countries and organizes after-school clubs in US high schools. Mr. Norman also serves as a member of the Distribution Committee and as an advisor to 5AM Ventures, an early-stage venture capital biotech firm based in Menlo Park, California.

Mr. Norman brings extensive financial, operational, regulatory and strategy expertise to the Board, having served in several finance and executive management roles over a 36-year career at General Electric. As a former executive with GE Asset Management, where he led the creation of GE s external money management business and served on the Boards of Trustees of the GE Pension Fund and also GE Canada s Pension Plan, Mr. Norman

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brings extensive knowledge of the institutional investment management business from both the asset manager and plan sponsor perspective.

Martin J. Weiland has served as a director of Westwood and Westwood Trust since December 2010. He retired as Chairman, President and Chief Executive Officer of Northern Trust Bank of Texas N.A. in May 2009. Before his appointment in 1997 to CEO, Mr. Weiland served as Chief Fiduciary Officer of Northern Trust Bank of Texas N.A. He has more than 35 years experience in the trust and investment management industry. Mr. Weiland began his career at Continental Illinois National Bank in 1973. He then moved to Texas to become Manager of Employee Benefits for Texas Commerce Bank. In 1987, he joined First Republic Bank (Bank of America) to manage Corporate and Institutional Trust. He is a past Chairman of the Trust Financial Services Division of the Texas Bankers Association and has served on various industry-related committees including the American Bankers Association, as well as the Texas Bankers Association. He is currently on the Board of The Dallas Opera, having served as President/Chairman on two separate occasions.

Mr. Weiland brings extensive knowledge of the trust and investment management industries to the Board, having served over 35 years with Northern Trust Bank of Texas N.A., First Republic Bank, Texas Commerce Bank and Continental Illinois National Bank. Mr. Weiland brings a thorough understanding of competitive, regulatory, client service and strategic issues facing the Company.

Raymond E. Wooldridge has served as a director of Westwood since its inception in December 2001 and has served as a director of Westwood Trust since 2000. He is Chairman of the Board of Reeves Bancshares, Inc., a one-bank holding company whose principal subsidiary is Stockmans Bank, which serves southwestern Oklahoma and the Dallas area. Mr. Wooldridge is also Chairman of the Board of Archaea Solutions, Inc., a private wastewater treatment company. He serves as director of the National Center for Policy Analysis, a Dallas-based think tank, as well as a director and Investment Committee member of the Diocese Educational Endowment Trust Fund. Mr. Wooldridge was a director of CEC Entertainment, Inc., a Dallas-based company that operates a chain of pizza and children s entertainment restaurants from 1997 to 2014. CEC was a NYSE-listed company until February 2014. From 1994 to 2009 he was a Director for Davidson Companies, Inc., a financial services holding company headquartered in Montana. From 2001 to 2005 he also served as a Director of Davidson Trust Company, a wealth management and trust firm. From 1986 to 1999, he was a director of SWS Group, Inc. (SWS); from 1996 to 1999, he served as Vice Chairman and Chairman of the Executive Committee of SWS; from 1993 to 1996, he served as Chief Executive Officer of SWS; and from 1986 to 1993, he served as President and Chief Operating Officer of SWS. He is a past Chairman of the National Securities Clearing Corporation, a national clearing agency registered with the SEC, and past Vice Chairman of the Board of Governors of the National Association of Securities Dealers.

Mr. Wooldridge brings extensive financial, operational, regulatory and strategy expertise to the Board, having served in senior executive roles with SWS for over 13 years. In addition, as a former senior executive and director of SWS, our former parent company, Mr. Wooldridge developed intimate knowledge of the Company s operations, firm history and competitive landscape. Mr. Wooldridge brings valuable experience in business, governance, compensation and financial matters through his current and prior service as a director for other public and private companies.

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Corporate Governance Information

The Board of Directors held six meetings during 2013. All of the incumbent director nominees attended all of the meetings held in 2013. The standing committees of the Board of Directors currently consist of the Audit Committee, the Compensation Committee and the Governance/Nominating Committee. The membership and duties of these committees are described below.

Independent Directors (1)	Audit Committee	Compensation Committee	Governance/Nominating Committee
Richard M. Frank	M	C	M
Robert D. McTeer	M		
Geoffrey R. Norman (2)	M	M	
Martin J. Weiland	M	M	C
Raymond E. Wooldridge (3)	C	M	M

M Committee member
C Committee chairman

(1) The Board of Directors has determined that all members of the Audit, Compensation and Governance/Nominating Committees are independent directors within the meaning of the NYSE Corporate Governance Listing Standards.

(2) The Board of Directors has determined that Geoffrey R. Norman is qualified as an Audit Committee financial expert within the meaning of the regulations of the Securities and Exchange Commission (SEC) and has accounting and related financial management expertise within the meaning of the NYSE Corporate Governance Listing Standards.

(3) Raymond E. Wooldridge is Lead Director, and, as such, he chairs executive sessions of the Board of Directors.

Board Committees

Audit Committee. The Audit Committee operates pursuant to a charter approved by our Board of Directors, which the Audit Committee reviews periodically to determine if revisions are necessary or appropriate. A copy of the charter is posted on our website at www.westwoodgroup.com. In addition, a copy of the charter is available upon written request to our Corporate Secretary at our principal executive office (200 Crescent Court, Suite 1200, Dallas, Texas 75201). The Audit Committee monitors our independent auditors as well as the preparation of our financial statements. The Audit Committee selects an independent accounting firm to conduct the annual audit, monitors the independence of our independent accountants and monitors our accounting and financial reporting processes and audits of our financial statements. The Audit Committee is responsible for reviewing reports from management relating to our financial condition and other matters that may have a material impact on our financial statements and compliance policies. The Audit Committee is responsible for inquiring of our management and independent auditors regarding the appropriateness of the accounting principles we follow, as well as reviewing changes in accounting principles and their impact on our financial statements in terms of the scope of audits conducted or scheduled to be conducted. The Audit Committee is further responsible for preparing a report stating, among other things, whether our audited financial statements should be included in our Annual Report. Finally, the Audit Committee evaluates the adequacy and effectiveness of our risk assessment, risk management policies, and overall enterprise risk management. The Audit Committee met six times during 2013. All members of the Audit Committee attended all of the meetings held in 2013.

Compensation Committee. The Compensation Committee operates pursuant to a charter approved by our Board of Directors, a copy of which is posted on our website at www.westwoodgroup.com. In addition, a copy of the charter is available upon written request to our Corporate Secretary at our principal executive office. The Compensation Committee authorizes and determines all compensation for our executive officers, administers our incentive compensation plans in accordance with the powers granted in such plans, determines any incentive

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awards to be made to our officers, administers our stock incentive plans and other equity ownership, compensation, retirement and benefit plans, approves the performance-based compensation of individuals pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended, and administers other matters relating to compensation and benefits. The Compensation Committee met six times during 2013. All members of the Compensation Committee attended all of the meetings held in 2013.

Governance/Nominating Committee. The Governance/Nominating Committee operates pursuant to a charter approved by our Board of Directors, a copy of which is posted on our website at www.westwoodgroup.com. In addition, a copy of the charter is available upon written request to our Corporate Secretary at our principal executive office. The primary function of the Governance/Nominating Committee is to develop and oversee the application of corporate governance principles to Westwood, to identify and evaluate qualified candidates for Board membership, recommend director nominees to the Board to be voted on at the annual meeting of stockholders, and communicate with members of the Board regarding Board and committee meeting format and procedures. The Governance/Nominating Committee met four times during 2013. All members of the Governance/Nominating Committee attended all of the meetings held in 2013.

Director Independence

Our Board of Directors has adopted Corporate Governance Guidelines, which concern director independence, among other matters. The full text of our Corporate Governance Guidelines is available on our website at www.westwoodgroup.com. In addition, a copy of our Corporate Governance Guidelines is available upon written request to our Corporate Secretary at our principal executive office.

Pursuant to our Corporate Governance Guidelines, a majority of the members of our Board of Directors, as well as all members of each committee of the Board, must be non-management directors who meet the independence requirements of the NYSE Corporate Governance Listing Standards and other governing laws and regulations. In addition, all members of the Audit Committee must meet additional independence standards required under the Exchange Act. Our Board of Directors annually reviews director independence. In the 2013 review, the Board of Directors reviewed directors responses to a questionnaire asking about their relationships, and the relationships of their family members, with us, and other potential conflicts of interest. In addition, our Board of Directors was aware that certain of our directors and individuals or entities affiliated with such directors have asset management accounts held by one of our subsidiaries and managed by us. After noting such items, and based upon its review, the Board of Directors unanimously decided that none of these relationships constituted a material relationship with us that would affect the independence of any such director under SEC and NYSE rules.

As a result, the Board affirmatively determined that Messrs. Frank, McTeer, Norman, Weiland and Wooldridge are all independent as defined under SEC and NYSE rules. Ms. Byrne, who last served as an executive officer of the Company during 2012 and Mr. Casey who served as an executive officer of the Company during 2013, are not independent directors.

Board Leadership Structure

Our Board of Directors currently separates the roles of Chief Executive Officer and Chairman of the Board, however the Board does not have a policy in place that requires these two roles to remain separate. Brian O. Casey serves as our President, Chief Executive Officer and director and Susan M. Byrne serves as our Chairman of the Board. As President and Chief Executive Officer, Mr. Casey has primary responsibility for the day-to-day operations of the Company and provides leadership on the Company s key strategic objectives. As Chairman of the Board, Ms. Byrne provides leadership to the Board and chairs its meetings.

Pursuant to our Corporate Governance Guidelines, if the Chairman of the Board is an employee of the Company, the Board will designate a non-management director as Lead Director. Since Ms. Byrne, our

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Chairman of the Board, is an employee of the Company, the Board has appointed Mr. Wooldridge to serve as Lead Director. As such, he (i) chairs executive sessions of the non-management directors, (ii) serves as the principal liaison between the Chairman of the Board and the independent directors, and (iii) advises the Chairman of the Board with respect to agenda items. In accordance with our Corporate Governance Guidelines, our non-management directors meet in executive session without the presence of management on a regular basis.

With a supermajority of independent directors, an Audit Committee, a Compensation Committee and a Governance/Nominating Committee, each comprised entirely of independent directors, a Lead Director to chair all executive sessions of the non-management directors, and a Chairman of the Board with extensive experience as a leader in the asset management industry and intimate knowledge of the Company s strategy and daily operations, the Board of Directors believes that its current leadership structure provides an appropriate balance that best serves the Company and its stockholders.

Board s Role in Risk Oversight

The Board s role in the Company s risk oversight process includes receiving regular reports from members of senior management on areas of material risk to the Company, including operational, financial, legal and regulatory and strategic risks. The Audit Committee is responsible for oversight of risks relating to the Company s accounting matters, financial reporting and legal and regulatory compliance. To satisfy these oversight responsibilities, the Audit Committee meets regularly with management, the Company s internal auditor and Grant Thornton LLP, the Company s independent auditor. The Compensation Committee is responsible for overseeing risks relating to employment policies and the Company s compensation and benefits programs. To satisfy these oversight responsibilities, the Compensation Committee meets regularly with management to better understand the implications of compensation decisions, particularly the risks the Company s compensation policies pose to the Company s financial condition, human resources and stockholders. The Governance/Nominating Committee is responsible for overseeing risks relating to overall corporate governance and succession planning. To satisfy these oversight responsibilities, the Governance/Nominating Committee annually reviews Board composition, as well as Board and committee performance, and periodically reports to the Board on corporate governance matters.

Additionally, the Board s risk oversight function is supported by the directorships of Mr. Casey and Ms. Byrne, whose industry knowledge and experience provide the Board with a deep understanding of the risks facing the Company. Accordingly, the Board of Directors believes that having Mr. Casey and Ms. Byrne serve on the Board, together with a supermajority of independent directors, three independent Board committees and a Lead Director, provides the appropriate leadership structure to assist in effective risk oversight by the Board.

Risks Related to Compensation Policies and Practices

As part of its oversight of the Company s executive and non-executive compensation programs, the Compensation Committee considers the impact of our compensation programs, and the incentives created by the compensation awards that it administers, on our risk profile. In addition, the Company reviews all of its compensation policies and procedures, including the incentives that they create and factors that may affect the likelihood of excessive risk-taking, to determine whether they present a material risk to the Company. The Compensation Committee also considers the following risk mitigating factors:

- Overall compensation levels that are competitive with the market;
- Limits on annual cash incentive awards;
- The Compensation Committee s discretionary authority to reduce annual cash incentive awards;
- Use of long-term equity incentive awards to reward executives and other key employees for driving sustainable, profitable growth for stockholders and clients;

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Vesting periods for long-term equity incentive awards that encourage executives and other key employees to focus on sustained stock price appreciation; and

The Company s internal control over financial reporting and other financial, operational and compliance policies and practices currently in place that are intended to prevent manipulation of performance.

Based on this review, the Company has concluded that its compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on the Company.

Director Nominees

The Board of Directors has delegated to the Governance/Nominating Committee specific responsibilities relating to selection of directors to serve on the Board. The Governance/Nominating Committee of the Board is responsible for identifying potential candidates for Board membership and for recommending to the Board a slate of director candidates to stand for election at the annual meeting of our stockholders. The Governance/Nominating Committee seeks to identify, and the Board then selects, director candidates who (i) have significant business experience that is relevant and beneficial to the Board and Westwood, (ii) are willing and able to make a sufficient time commitment to the affairs of Westwood to effectively perform the duties of a director, including regular attendance at Board and committee meetings, (iii) are committed to the long-term growth and profitability of Westwood, (iv) are individuals of character and integrity, (v) are individuals with inquiring minds willing to challenge and stimulate management and (vi) represent the interests of Westwood as a whole and not just the interests of a particular stockholder or group. The Governance/Nominating Committee does not have a specific policy considering diversity in identifying director candidates, but uses the criteria listed above. The Governance/Nominating Committee believes these criteria are the key factors in identifying qualified director candidates.

The Governance/Nominating Committee has a policy for considering new director candidates recommended by our stockholders if such recommendations are made in compliance with the following procedures. A stockholder wishing to recommend a candidate for inclusion as a director nominee in the proxy statement for our annual meeting must submit a written notice of the recommendation to our Corporate Secretary at our principal executive office. The submission must be received at our principal executive office not less than 120 calendar days before the one-year anniversary of the date that the proxy statement for the previous year s annual meeting was released to stockholders. However, if we did not hold an annual meeting during the previous year, or if the date of the current year s annual meeting has been changed by more than 30 days from the date of the previous year s meeting, then the deadline will be a reasonable time before we begin to print and mail our proxy materials. For the 2015 annual meeting, the deadline is November 14, 2014. Director candidates recommended by stockholders are evaluated by the Governance/Nominating Committee using the same criteria applied by the Governance/Nominating Committee to director candidates identified by that committee, as described in the previous paragraph.

To be valid, a stockholder s notice to the Corporate Secretary must set forth (i) the name and address of the stockholder recommending such candidate, as such information appears on our books (if the stockholder is a record holder), (ii) the class and number of shares of Westwood stock beneficially owned by the stockholder, (iii) the name, age, business address and residence address of each candidate proposed in the notice, (iv) each candidate s biographical data and qualifications, (v) the class and number of shares of Westwood stock beneficially owned by the candidate, if any, (vi) a description of all arrangements or understandings between the stockholder (or between any person(s) at whose request the stockholder is making the recommendation) and each candidate, and (vii) any other information required to be disclosed in solicitations of proxies for election of directors or otherwise required pursuant to Regulation 14A under the Exchange Act. The foregoing information must be provided with respect to any person that the stockholder proposes to recommend for election or re-election as a director. The candidate s signed written consent to being named in the proxy statement as a nominee and to serving as a director if elected must also be provided.

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For the 2014 Annual Meeting, our Governance/Nominating Committee has not received a candidate recommendation from any stockholder (or group of stockholders), including any stockholder (or group of stockholders) that beneficially owns more than five percent of our common stock.

Communications with the Board

Stockholders or other interested parties may communicate with the Board of Directors or particular Board members (including our Lead Director or non-management directors as a group) by mailing a written communication to our Corporate Compliance Officer at 200 Crescent Court, Suite 1200, Dallas, Texas 75201, by email to compliance@westwoodgroup.com or by telephone to 214-756-6900. All communications are received and processed by the Corporate Compliance Officer before being referred to the appropriate Board member(s). Complaints relating to our accounting, internal accounting controls or auditing matters, and concerns regarding questionable accounting or auditing matters, are referred to the Chairman of the Audit Committee. Other communications intended for the Board of Directors at large are referred to our Lead Director, while communications intended for specific Board members are referred to those Board members. Advertisements, solicitations for periodical or other subscriptions, and similar communications are not forwarded to Board members. In the event that a complaint or concern appears to involve the Corporate Compliance Officer, then the stockholder or other interested party is encouraged to contact directly the Chairman of the Audit Committee, Raymond E. Wooldridge, at rwooldridge@westwoodgroup.com.

Stockholders may also communicate directly with Board members at the annual meetings of stockholders, as it is our policy that Board members should attend such meetings and make themselves available to address any matters properly brought before the meetings. All of our Board members attended the 2013 annual meeting of stockholders.

Code of Business Conduct

All of our employees, including our principal executive officer, principal financial officer and principal accounting officer, and all of our directors are required by our Code of Business Conduct to conduct business in the highest legal and ethical manner. The full text of the Code of Business Conduct is available on our website at www.westwoodgroup.com. In addition, a copy of the Code of Business Conduct is available upon written request to our Corporate Secretary at our principal executive office address. We intend to post amendments to or waivers from the Code of Business Conduct as required by applicable rules on our website.

Our employees are required to report any conduct that they believe could in any way be construed as a fraudulent or illegal act or otherwise in violation of the Code of Business Conduct. The Audit Committee has established procedures to receive, retain and address complaints regarding accounting, internal accounting controls or auditing matters and to allow for the confidential and anonymous submission by employees of related concerns.

Director Compensation

In 2013 we paid each non-employee member of our Board of Directors a $20,000 annual retainer, $5,000 for each regularly scheduled quarterly meeting of the Board of Directors attended by the member and $5,000 per Board or committee meeting attended other than regularly scheduled quarterly meetings. The Lead Director received an additional $5,000 annual retainer. Additionally, upon election or re-election as a member of our Board of Directors, each non-employee director was awarded 1,500 restricted shares of our common stock, which generally vest 12 months from the date of grant. The Compensation Committee reviews our compensation arrangements for directors from time to time. Brian O. Casey, our President and Chief Executive Officer is not included in this table as he is a Company employee and receives no compensation for his service as director. The Company s executive officers do not make recommendations regarding the non-employee directors compensation.

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2013 Director Summary Compensation Table

Name (a)	Fees Earned or Paid in Cash ($) (b)	All Other Compen-sation ($) (c)	Stock Awards ($) (d)	Total ($) (e)
Susan M. Byrne		500,000		500,000
Richard M. Frank	45,000	5,000	62,850	112,850
Robert D. McTeer	45,000	5,000	62,850	112,850
Geoffrey R. Norman	45,000	5,000	62,850	112,850
Martin J. Weiland	45,000	5,000	62,850	112,850
Raymond E. Wooldridge	50,000	5,000	62,850	117,850

Notes, by column letter:

(c) Susan M. Byrne earns $500,000 as a salaried employee of the Company. Each non-employee director also earns a $1,000 annual retainer and $1,000 for each regularly scheduled quarterly meeting for serving on the separate Board of Directors for Westwood Trust.

(d) The amounts contained in column (d) reflect the grant date fair value of the time-based restricted stock granted to directors in 2013 in accordance with Accounting Standards Codification Topic 718 (ASC 718), Stock Compensation (except no assumptions for forfeitures were included). The assumptions used in the valuation of the restricted stock awards are discussed in footnote 10 Employee Benefits of our audited financial statements, which are included in our 2013 Form 10-K filed with the SEC on February 28, 2014.

All restricted stock grants were made under the Third Amended and Restated Westwood Holdings Group, Inc. Stock Incentive Plan and are subject to a one-year vesting period as described above.

As of December 31, 2013, our directors, other than Brian O. Casey, held the following unvested restricted stock:

Name (a)	Unvested Restricted Stock (b)
Susan M. Bryne	
Richard M. Frank	1,500
Robert D. McTeer	1,500
Geoffrey R. Norman	1,500
Martin J. Weiland	1,500
Raymond E. Wooldridge	1,500

Notes, by column letter:

(b) The unvested restricted shares were issued on April 18, 2013 and have a vesting date of April 17, 2014, subject to such director s continued service as a director through the vesting date.

In February 2014, the Board decided to change its director compensation arrangements. Effective in February 2014, we pay each non-employee member of our Board of Directors a $50,000 annual retainer. The Lead Director and all committee chairmen receive an additional $5,000 annual retainer. There are no fees for attendance at Board or committee meetings. Additionally, upon election or re-election as a member of our Board of Directors, each non-employee director is awarded restricted shares of our common stock, which generally vest 12 months from the date of grant. Each restricted share award is to be made in a number of shares equal in value to $90,000 at the date of the award. In February 2014, the Board established a policy that directors should own a minimum of shares of our common stock equal to four times the dollar amount of their

annual retainer within three years of their initial election or the establishment of this policy, whichever is later. In addition, the director stock retention policy was amended where, in the event a significant decline in the price of the Company s common stock causes a director s holdings to fall below the applicable threshold, that director will not be required to purchase additional shares to meet the threshold, but such director shall not sell or transfer any shares until the threshold has again been achieved. Compliance with these stock ownership guidelines will be evaluated periodically as determined by our Board of Directors.

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EXECUTIVE OFFICERS

Biographical information regarding Westwood s current executive officers and other key employees is as follows:

Brian O. Casey. See biographical information under the caption Proposal 1 Election of Directors.

Mark R. Freeman, age 46, has served as Executive Vice President and Chief Investment Officer of Westwood since February 2012. Mr. Freeman served as Westwood s Executive Vice President and Co-Chief Investment Officer from January 2011 to February 2012. He served as Senior Vice President and Portfolio Manager for Westwood from July 2006 to December 2010. He joined Westwood in 1999 as Assistant Vice President and served as Vice President and Portfolio Manager from July 2000 to July 2006. Mr. Freeman is a member of the American Economics Association, the CFA Institute, and the CFA Society of Dallas/Fort Worth. He is also a member of the Board of Trustees of Millsaps College, and serves as a board member for the Wilson Fund.

Mark A. Wallace, age 56, has served as Vice President and Chief Financial Officer of Westwood since November 2012 and as Treasurer since July 2013. Mr. Wallace has extensive experience in senior financial officer roles at several companies, including NYSE listed corporations. His experience includes financial reporting for SEC registrants, capital markets, corporate governance, global tax and treasury matters, mergers and acquisitions, and technology solutions. Prior to joining the Company, Mr. Wallace served as Chief Financial Officer of HCP, Inc., an S&P 500 real estate investment trust (REIT), from March 2004 until March 2009. After working at HCP, Inc., Mr. Wallace served as Chief Financial Officer of Westcore Properties, a privately held international real estate firm, from August to December 2010, focusing on capital markets initiatives, as a financial consultant to a private telecommunication services company from May 2011 to August 2012, and as Chief Financial Officer of Leading Edge Aviation Services, Inc., a privately-held aerospace services company, from September to November 2012. Mr. Wallace has significant experience with publicly-traded companies listed on the NYSE, including serving as Chief Financial Officer of Titanium Metals Corporation and of Tremont Corporation, and as Assistant Controller of Valhi, Inc. His career includes 11 years with Arthur Andersen LLP. Mr. Wallace holds Bachelor s and Master s degrees in business administration and is a certified public accountant.

Julie K. Gerron, age 46, has served as Senior Vice President, General Counsel of Westwood since March of 2013 and Corporate Secretary since March 2014. Prior to that, she served as Vice President, General Counsel from July 2007 to March 2013, and as Vice President, Assistant General Counsel from July 2005 to July 2007. Ms. Gerron previously served as Vice President, Research Analyst from January, 2004 to July 2005. From 1998 to 2004, Ms. Gerron worked at Smith & Summers LLC where she served as portfolio manager for various funds. From 1992 to 1998, she worked for various branches of the State of Oklahoma government, including as Assistant Attorney General, Deputy General Counsel of the Insurance Department, and as Special Counsel to the Executive Director of the House of Representatives. Ms. Gerron received her law degree from the University of Texas School of Law and holds a Bachelor s degree in finance from the University of Texas. Ms. Gerron is a member of the State Bar of Texas and the CFA Institute.

Randall L. Root, age 53, has served as President of Westwood Trust, Dallas since March 2013. Prior to that, he served as Senior Vice President Trust Investment Officer from June 1999 to March 2013. He joined Westwood in 1993 as Assistant Vice President, Research Analyst. He has extensive experience in asset allocation and separate account management of client portfolios, as well as new business development and ongoing client service. Mr. Root is a member of the Westwood Trust Board of Directors and chairs the Westwood Trust Investment and Asset Allocation Committees. Mr. Root earned his Master s degree in business administration from Southern Methodist University and his undergraduate degree from Washington & Lee University. He serves on the Advisory Council of the Dallas Foundation and on the Investment Committee of Equest Therapeutic Horsemanship. He is a member of the CFA Institute and the CFA Society of Dallas-Fort Worth.

There are no family relationships among the directors, executive officers and other key employees of Westwood, except as described under Certain Relationships and Related Party Transactions Review and Approval of Related Party Transactions.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This compensation discussion and analysis provides information regarding our executive compensation program in 2013 for the following executive officers of the Company (collectively, the named executive officers):

Brian O. Casey, President and Chief Executive Officer;

Mark A. Wallace, Vice President, Chief Financial Officer & Treasurer;

Mark R. Freeman, Executive Vice President and Chief Investment Officer;

Julie K. Gerron, Senior Vice President, General Counsel and Corporate Secretary; and

Randall L. Root, President, Westwood Trust Dallas

During 2013, we had five executive officers, all of whom are set forth above.

Overview of our Executive Compensation Program

The intellectual capital of our employees is one of the most important assets of our firm. As an asset manager, our financial results are primarily based upon the amount of assets we manage, which is dependent on our ability to generate competitive long-term investment performance, build strong relationships with clients, investment consulting firms and other financial intermediaries, provide attentive client service and develop new client relationships, all of which depend, in part, on the intellectual capital of our employees, including the named executive officers.

Highlights of our 2013 performance include the following:

Total revenue was a record $91.8 million, an 18% increase over 2012.

Westwood International Advisors Inc. grew assets under management (AUM) 179% to $2.5 billion as of December 31, 2013 up from $888 million at December 31, 2012.

Westwood Investment Funds PLC, an Ireland-based umbrella fund organized pursuant to the European Union s Undertakings for Collective Investment in Transferable Securities (UCITS), was established to offer its emerging markets equity strategy in a pooled fund to non-U.S. investors, amassing approximately $500 million by December 31, 2013 (included in Westwood International s AUM of $2.5 billion noted above).

Firm-wide AUM as of December 31, 2013 reached a record $18.9 billion, 34% higher than December 31, 2012.

Firm-wide net asset inflows aggregated $1.5 billion for 2013.

Firm-wide average AUM for 2013 totaled $16.3 billion, 19% higher than 2012.

As of December 31, 2013, approximately 90 percent of our investment strategies have above-benchmark performance and more than 90 percent have experienced below-benchmark volatility for the past ten years.

Our Westwood Funds family of mutual funds ended the year with $2.8 billion in AUM up 74% versus December 31, 2012, with over $800 million of net asset inflows in 2013.

Our Income Opportunity strategy, focused on current income and lower volatility, recorded net asset inflows exceeding $700 million and finished the year with approximately $2.8 billion in AUM.

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We believe that the quality, expertise and commitment of our named executive officers are critical to achieving our business objectives and strategies. Accordingly, a principal objective of our executive compensation program is to deliver competitive total direct compensation (i.e., base salary, annual cash incentive awards, long-term equity awards, and mutual fund awards) that attract, motivate and retain talented executives who can contribute to the success of our business.

Significant Aspects of our 2013 Executive Compensation Program

Maintained base salaries at 2012 levels for Chief Investment Officer and Chief Financial Officer	The Chief Investment Officer and the Chief Financial Officer did not receive a base salary increase in 2013. Mr. Casey s base salary was increased 20% in 2013 representing his first raise in approximately three years. Ms. Gerron and Mr. Root each received an approximate 6% base salary increase in 2013.
Each of the named executive officers earned an annual cash incentive award(s), in part due to strong Company performance	Messrs. Casey and Freeman received annual cash incentive awards of $1,503,328 and $751,664, respectively, which was based upon our adjusted pre-tax income for 2013 (as defined below under 2013 Executive Compensation Components-Annual Cash Incentive Awards).
	Mr. Freeman earned a discretionary cash bonus award of $250,000 for the performance period ended December 31, 2013.
	Mr. Wallace, Ms. Gerron and Mr. Root earned annual cash incentive awards of $175,000, $160,000 and $225,000, respectively, an increase of 250%, 10% and 29%, respectively, from their 2012 annual cash incentive award, from the Company s cash bonus pool.
Maintained the number of long-term equity awards at 2012 levels	In connection with their performance-based restricted stock awards, Messrs. Casey and Freeman vested in 35,000 shares and 20,000 shares, respectively, as a result of the Company achieving 2013 adjusted pre-tax income (as defined below) of at least $27 million.
	Mr. Wallace received a time-based restricted stock award of 5,000 shares, which was the same number received in 2012.
	Ms. Gerron received a time-based restricted stock award of 5,200 shares, which was the same number received in 2012.
	Mr. Root received a time-based restricted stock award of 5,700 shares, which was the same number received in 2012.
Perquisites were insignificant	The Company did not provide significant perquisites to the named executive officers in 2013.

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A significant portion of the named executive officers total direct compensation was at-risk compensation

As shown in the graph below, a significant portion of the named executive officers 2013 total direct compensation approximately 63% to 83% was at risk compensation, delivered in the form of annual cash incentive awards and long-term equity awards.

Stockholders Advisory Vote on Executive Compensation

As further discussed below, we did not conduct an advisory vote on our executive compensation at last year s Annual Meeting of Stockholders. However, as further discussed in Proposal 3 of this proxy statement, we are conducting an advisory vote on our executive compensation at this year s Annual Meeting of Stockholders.

To date, we have conducted one advisory vote on executive compensation, which occurred at our 2011 Annual Meeting of Stockholders. While this vote was not binding on the Compensation Committee, the Board of Directors or the Company, the Compensation Committee values the opinions of the Company s stockholders on executive compensation matters. Based upon the Inspector of Election s report, the advisory vote on executive compensation received favorable support from 97.6% of the votes cast therein, reflecting strong stockholder support for our 2010 executive compensation program. The Compensation Committee evaluated the results of this advisory vote, together with other factors and data discussed in this Compensation Discussion and Analysis, in fashioning our 2013 executive compensation program. In light of the strong stockholder support for our 2010 executive compensation program, the Compensation Committee did not make any changes to our 2013 executive compensation program solely as a result of this advisory vote.

At our 2011 Annual Meeting of Stockholders, a majority of the votes cast were in favor of conducting an advisory vote on executive compensation once every three years. Partly in response to stockholder support, we have adopted a policy of conducting the advisory vote on executive compensation once every three years. We will revisit this policy following the next advisory vote on the frequency of advisory votes on executive compensation and we may revise this policy in the interim as we deem appropriate.

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The Compensation Committee made the following changes in the first quarter of 2014 to our executive compensation program:

- In February 2014, the Compensation Committee established the performance goal applicable to the 2014 tranche of Messrs. Casey and Freeman s performance-based restricted stock awards, as adjusted pre-tax income, as defined, of $34 million. This represents a five-year compound annual growth rate in excess of 10% over adjusted pre-tax income in 2009. Our adjusted pre-tax income is determined based on our audited financial statements and is equal to income before income taxes increased by the expenses incurred for the year for (i) incentive compensation for all officers and employees and (ii) performance-based restricted stock awards. Adjusted pre-tax income excludes start up, non-recurring, and similar expense items.

Compensation Philosophy and Objectives

In designing and implementing our executive compensation program, the Compensation Committee is guided by the following philosophy and objectives:

- Deliver competitive total direct compensation to attract, motivate and retain talented executives who contribute to the success of our business
- Award compensation that motivates and rewards short and long-term individual and company performance
- Align named executive officers interests with those of our stockholders

As further discussed below, during 2013 the Compensation Committee reviewed and considered market compensation data derived from the McLagan Survey and the Custom Peer Group to ensure, in its subjective judgment, that the named executive officers total direct compensation (i.e., base salary, annual cash incentive awards, long-term equity awards, and mutual fund awards in the case of Mr. Freeman) was competitive in our marketplace for executive talent. Furthermore, a significant portion of the named executive officers 2013 total direct compensation from 63% to 83% represented at risk compensation in the form of annual cash incentive and long-term equity awards. The Compensation Committee designed the annual cash incentive and long-term equity awards to focus our named executive officers on achieving our business objectives and strategies and to align their interests with our stockholders.

Role of Executive Officers in Compensation Decisions

In 2013, Mr. Casey worked closely with the Compensation Committee to formulate specific plans and awards designed to align our executive compensation program with our business objectives and strategies.

Mr. Casey provided the Compensation Committee with his recommendations on the level and form of compensation for Messrs. Wallace, Freeman and Root and Ms. Gerron, based upon his annual review of these executive officers individual performance and their applicable employment arrangements, if any. The Compensation Committee has complete discretion to accept, reject or modify Mr. Casey s recommendations. In 2013, the Compensation Committee accepted Mr. Casey s recommendations without modification regarding the base salary adjustments, if any, annual cash incentive awards and long-term equity awards for Messrs. Wallace, Freeman and Root and Ms. Gerron.

Mr. Casey did not make recommendations to the Compensation Committee with respect to his own compensation.

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Setting Executive Compensation

Based on the foregoing philosophy and objectives, the Compensation Committee aims to structure the executive compensation program to motivate named executive officers to achieve the business objectives and strategies set by the Company and to reward our executives for achieving such strategies and objectives. In establishing the total direct compensation (i.e., base salary, annual cash incentive awards and long-term equity awards) for each of the named executive officers and mutual fund awards for Mr. Freeman, the Compensation Committee performed one or more of the following reviews:

Assessment of Company Performance. Our financial performance has an impact on the compensation of all of our employees, including the named executive officers. In general, in establishing one or more of the compensation components of Messrs. Casey, Wallace, Freeman and Root and Ms. Gerron, the Compensation Committee considered each of the following measures of Company performance: adjusted pre-tax income (as defined below), growth in assets under management, and investment performance of the portfolios managed by us, as further described below.

In approving the (i) adjustment to Mr. Casey s, Mr. Root s and Ms. Gerron s base salaries, (ii) annual cash incentive awards of Messrs. Casey, Wallace, Freeman and Root and Ms. Gerron and (iii) equity awards of Messrs. Casey, Wallace, Freeman and Root and Ms. Gerron, the Compensation Committee did not assess the above performance measures based upon predetermined goals, formulas or weighted factors; however it considered all of these measures subjectively and collectively. As discussed below, the Compensation Committee used our annual adjusted pre-tax income (as defined below) as the starting point for determining (a) the Company s 2013 cash bonus pool, in which Messrs. Wallace, Freeman and Root and Ms. Gerron participated, (b) the annual cash incentive awards of Messrs. Casey and Freeman and the 2013 tranche of performance-based restricted stock shares for Messrs. Casey and Freeman.

The Compensation Committee chose the above performance measures because it believes that they are meaningful indicators of our profitability and performance and align our executive s compensation with the interests of our stockholders. As further described below, our performance was only one of several factors considered by the Compensation Committee in approving executive compensation.

Assessment of Individual Performance. Individual performance has an impact on the compensation of all of our employees, including our named executive officers. The assessment of individual performance for each of the named executive officers is a subjective evaluation of his or her accomplishments and contributions to the Company and is not based on the achievement of specific quantitative goals. Annually, the Compensation Committee reviews the performance of Mr. Casey for the prior year. As discussed above, Mr. Casey reviews the annual performance of Messrs. Wallace, Freeman and Root and Ms. Gerron and reports the results of his reviews to the Compensation Committee for their consideration.

In approving the compensation of Messrs. Casey, Wallace, Freeman and Root and Ms. Gerron in 2013, the Compensation Committee considered the following subjective individual accomplishments and contributions:

Brian O. Casey . In assessing Mr. Casey s base salary and annual cash incentive award, the Compensation Committee considered his:

Comprehensive oversight and management responsibilities across the entire organization;

Contribution to the significant growth the Company has achieved, with a 15% compound annual growth rate in the trading price of the Company s common stock from June 28, 2002 (inception) to December 31, 2013;

Overseeing the growth of Westwood International s AUM to $2.5 billion at December 31, 2013; and

Success in attracting and retaining a talented team of management and investment professionals.

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Mark A. Wallace In assessing Mr. Wallace s base salary, annual cash incentive award and equity award, the Compensation Committee considered his:

- Contribution to the Company s strategic initiatives, including corporate development, financial and tax planning, and international expansion;
- Leadership of the Company s Information Technology Steering Committee and Risk Management and Disclosure Committee;
- Contribution to and significant involvement in a range of activities for Westwood International Advisors;
- Firm-wide oversight and enhancements of our financial reporting process and internal control over financial reporting; and
- Success in attracting and retaining a talented team of accounting and finance professionals.

Mark R. Freeman In assessing Mr. Freeman s base salary and annual cash incentive award, the Compensation Committee considered his:

- Leadership with respect to the management and marketing of the Income Opportunity strategy, which completed a 10-year track record of outstanding performance in 2013, and generating more than $700 million in net inflows in 2013;
- Substantial involvement in the ongoing development of the Company s investment management and research capabilities;
- Effective representation of our investment department to clients, investment consulting firms and other financial intermediaries; and
- Overall leadership with respect to the Company s competitive investment performance, including our Master Limited Partnership (MLP) strategy and SmallCap Value strategy, both of which have performed well for consecutive years.

Julie K. Gerron In assessing Ms. Gerron s base salary, annual cash incentive award and equity award, the Compensation Committee considered her:

- Management and oversight of the Company s compliance with legal and regulatory requirements;
- Management and oversight of risk management issues, including review and negotiation of legal agreements and participation in various internal risk management committees;
- Oversight of external counsel with a goal toward timely resolution of legal issues (e.g. litigation, trademark issues, corporate governance, etc.); and

Effective representation of our legal and compliance program and processes to clients, investment consulting firms and other financial intermediaries.

Randall L. Root In assessing Mr. Root s base salary, annual cash incentive award and equity award, the Compensation Committee considered his:

Oversight responsibilities for the home office of Westwood Trust and leadership of the Westwood Trust Investment Committee and Asset Allocation Committee;

Oversight of significant growth in AUM at Westwood Trust. Westwood Trust s AUM of $3.2 billion at December 31, 2013 was 22% higher versus AUM on December 31, 2012; and

Contribution in increasing Westwood Trust revenue by 23% in 2013 over 2012 to a record level of $18.4 million.

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The Compensation Committee did not assign individual weights to any of the above considerations, but assessed them collectively in making its compensation determinations. As further described below, individual performance was only one of several factors considered by the Compensation Committee in approving executive compensation.

Market Compensation Data. The Compensation Committee reviewed market compensation data from the McLagan 2013 Investment Management Survey U.S., a widely used source for compensation information within public and private investment firms (the McLagan Survey) and a custom peer group of publicly-traded asset management companies (collectively, the Custom Peer Group). The McLagan Survey provides detailed analyses of compensation in greater depth for investment management employees than is available from our public peers and is specifically focused on the asset management industry. The McLagan Survey provides market compensation data for approximately 219 public and private investment management firms. However, the compensation analysis for a particular officer position in the McLagan Survey does not provide the identities of the individual investment management and advisory firms. Instead, market compensation data is presented in several different groupings, including, but not limited to, headquarter location, range of assets under management and job function. Confidentiality obligations to McLagan Partners and its survey participants prevent the disclosure of the firms included in the survey.

For 2013, the companies comprising the Custom Peer Group were:

AllianceBernstein Holding LP	GAMCO Investors, Inc.
Artisan Partners Asset Management	Janus Capital Group Inc.
Calamos Asset Management, Inc.	Legg Mason
Cohen & Steers, Inc.	Manning & Napier
Diamond Hill Investment Group, Inc.	Pzena Investment Management, Inc.
Eaton Vance Corp.	Virtus Investment Partners, Inc.
Federated Investors, Inc.	Waddell & Reed Financial Inc.

The composition of the Custom Peer Group changed in 2013 with the addition of ten companies (AllianceBernstein Holding LP, Artisan Partners Asset Management, Diamond Hill Investment Group, Inc., Eaton Vance Corp., Federated Investors, Inc., Janus Capital Group Inc., Legg Mason, Manning & Napier, Pzena Investment Management, Inc., and Virtus Investment Partners, Inc.) and the removal of three companies (i.e., Affiliated Managers Group, Inc., Epoch Holding Corporation and T. Rowe Price Group, Inc.). The Compensation Committee changed the composition of the Custom Peer Group in 2013 to achieve better alignment between the included companies and Westwood Holdings Group, Inc.

The peer companies were selected primarily based upon their (i) industry, (ii) equity market capitalization at the time of selection and (iii) assets under management, in each case, based on publicly available information during 2013.

Most of the peer companies that comprise the Custom Peer Group are much larger than we are in terms of revenues and assets under management. The Compensation Committee takes this size disparity into account when looking at market compensation data derived from the Custom Peer Group in the context of evaluating and approving compensation for the named executive officers.

The Compensation Committee considers the market compensation data derived from the McLagan Survey and the Custom Peer Group equally relevant and important, with neither source of information being a determinative factor in setting executive compensation levels. The Compensation Committee uses both sources of information as a market check to ensure, in its subjective judgment, that individual pay components remain competitive. The Compensation Committee does not target any individual pay component of the named executive officers to fall within a specific range or percentile of the market compensation data derived from the McLagan Survey or the Custom Peer Group.

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2013 Executive Compensation Components

For 2013, the principal components of compensation for the named executive officers were:

- Base salary;
- Annual cash incentive awards;
- Long-term equity awards;
- Mutual fund awards for Mr. Freeman; and
- Employee and post-retirement benefits.

There is no pre-established target for the allocation between (i) cash and equity-based compensation and (ii) short-term and long-term incentive compensation. Rather, the Compensation Committee considers, among other things, Company performance, individual performance, and the market compensation data derived from the McLagan Survey and Custom Peer Group, as well as its own subjective judgment to determine the appropriate level and mix of each component of the executive compensation program.

Base Salary

Base salary is the fixed component of the named executive officers annual cash compensation. The Company provides the named executive officers with a base salary to compensate them for services rendered during the fiscal year and in recognition of their expertise, skills, knowledge and experience.

Salary levels are typically considered annually as part of our performance review process, as well as upon a promotion, change in job responsibilities, or in connection with the negotiation of terms of employment.

The base salaries of the named executive officers as of the beginning and end of the 2013 fiscal year, including any adjustments made during the year, were as follows:

Named Executive Officers	Base Salary as of 1/1/13	Base Salary as of 12/31/13	Percentage Change
Brian O. Casey, President and Chief Executive Officer	$ 500,000	$ 600,000	20%
Mark A. Wallace, Vice President, Chief Financial Officer & Treasurer	$ 200,000	$ 200,000	
Mark R. Freeman, Executive Vice President and Chief Investment Officer	$ 500,000	$ 500,000	
Julie K. Gerron, Senior Vice President, General Counsel and Corporate Secretary	$ 170,000	$ 180,000	6%

Randall L. Root, President, Westwood Trust Dallas	$ 225,000	$ 237,500	6%

Mr. Casey received a 20% increase in his base salary in February 2013, his first increase in his base salary in approximately three years, in order to increase the competitiveness of his base salary and in recognition of the Company and his personal performance factors discussed above.

While the Compensation Committee reviewed the market compensation data derived from the McLagan Survey and the Custom Peer Group when setting Mr. Casey s base salary, the Compensation Committee did not target his respective base salary to fall within a specific range or percentile of the market compensation data.

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Annual Cash Incentive Awards

In general, the Compensation Committee awards annual cash incentive awards to each of the named executive officers. These awards are intended to focus named executive officers on achieving short-term business objectives and strategies and to enable them to participate in our growth and profitability.

Annual Cash Incentive Awards of Messrs. Casey and Freeman

Pursuant to the terms of their respective employment agreements, Mr. Casey was eligible to earn a maximum annual cash incentive award in 2013 equal to 3% and Mr. Freeman was eligible to earn a minimum annual cash incentive award in 2013 equal to 1.5%, of the Company s 2013 adjusted pre-tax income (as defined below). Each of these cash incentive awards was subject to the Compensation Committee s oversight. In 2013, the Compensation Committee did not reduce or increase the annual cash incentive awards recommended for Messrs. Casey and Freeman.

The Compensation Committee chose adjusted pre-tax income as the basis for the performance formula for Messrs. Casey and Freeman because it believes that this performance measure is a meaningful indicator of our performance and profitability and also believes that structuring the annual cash incentive award in this way closely aligns the interests of these executives with our stockholders. The Compensation Committee chose the 3% and 1.5% levels based on its review of the market compensation data as well as its subjective judgment of the proper allocation of the annual cash incentive award to total direct compensation of these executives.

Our adjusted pre-tax income was determined based on our audited financial statements and in 2013 was equal to our income before income taxes increased by the expenses incurred for the year (a) for the annual cash incentive awards earned by Messrs. Casey and Freeman and one other employee, (b) for incentive compensation for all other Company employees, and (c) for performance-based restricted stock awards to Company employees (including Messrs. Casey and Freeman). The Company s adjusted pre-tax income for 2013 was in excess of $50 million. Messrs. Casey s and Freeman s annual cash incentive awards that were earned in 2013, and paid in February 2014 are listed in column (f) in the 2013 Summary Compensation Table below.

In 2013, the Compensation Committee granted Mr. Freeman an annual discretionary cash incentive award of $250,000 from the Company bonus pool (as discussed below). In determining his cash incentive award, the Compensation Committee subjectively considered the Company and his individual performance factors discussed above along with market compensation data compiled from the McLagan Survey and the Custom Peer Group.

Mutual Fund Award of Mr. Freeman

Pursuant to the terms of his employment agreement, Mr. Freeman is eligible throughout the term of his employment agreement to receive mutual fund share bonus awards that may be granted from time to time by our Board or the Compensation Committee. These mutual fund share bonus awards are annual performance bonus awards the amounts and payment of which are conditioned on one or more of our mutual funds achieving one or more performance goals established by the Compensation Committee. Mr. Freeman s employment agreement provides that any mutual fund bonus award granted to him must be pursuant to an agreement similar to the 2013 MFSI Agreement (as described below) and (i) provide a target bonus amount no less than the amount of his then-current base salary, and (ii) be subject to performance criteria tied to bonus award amounts that provide Mr. Freeman an equal or better opportunity for success than he had under the terms of the 2013 MFSI Agreement.

For 2013, Mr. Freeman and the Company entered into a Mutual Fund Share Incentive Agreement, dated March 19, 2013 (the 2013 MFSI Agreement). The 2013 MFSI Agreement provided that Mr. Freeman was eligible to earn (i) $500,000 (i.e., the target bonus amount) if the Westwood Income Opportunity Fund (the Fund) received a 4-star overall rating from Morningstar for the Fund performance period commencing on

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January 1, 2013 and ending on December 31, 2013 (the performance period) and (ii) $1 million (i.e., the maximum bonus amount) if the Fund received a 5-star overall rating from Morningstar for the performance period, which bonus amount was subject to vesting as further described below. If the Compensation Committee determined that the fund had received a 4-or 5-star overall rating from Morningstar, then the amounts of $500,000 or $1 million, as applicable, would have been notionally credited to a bookkeeping account (the account) maintained by the Company and converted, on a notional basis, to a number of fund shares equal to the bonus amount divided by the net closing value of a Fund share on the date the bonus amount is credited to the account. The value of Mr. Freeman s account adjusts (up or down) to reflect changes in the net value of the Fund shares credited to the account. If and when distributions are paid by the Fund with respect to its shares, the Company would credit Mr. Freeman s account with additional Fund shares having a value equal to the amount of the distributions that would have been payable if the Fund shares credited to the account were issued and outstanding. Mr. Freeman s right to receive payment of the amount credited to his account vests on the earliest of (i) December 31, 2014 provided that he remains continuously employed by the Company through that date, (ii) the date of his death, (iii) the date of his disability (assuming the Compensation Committee exercises its discretion to accelerate such vesting), (iv) upon a change in control of the Company where the successor does not honor the terms of the 2013 MFSI Agreement, or (v) upon Mr. Freeman s involuntary termination without cause or voluntary termination for good reason following a change in control. Payment of the amount credited to Mr. Freeman s account may, in the Compensation Committee s discretion, be in Fund shares, cash or other property, and subject to any applicable tax withholding. Payment is due within 30 days of the applicable date of vesting.

For 2013, Mr. Freeman did not receive a mutual fund bonus award under the 2013 MFSI Agreement since the Fund did not receive a high enough rating for the performance period.

The Compensation Committee created the mutual fund bonus award in an effort to provide significant motivation for Mr. Freeman to maximize the performance of the Fund, which the Compensation Committee believes will benefit the Company and its stockholders by attracting investments into the Fund.

Annual Cash Incentive Award for Messrs. Wallace and Root and Ms. Gerron

We maintained a Company bonus pool in which nearly every U.S. employee of the Company was eligible to participate, including Messrs. Wallace, Freeman, and Root and Ms. Gerron, but excluding Mr. Casey and Ms. Byrne, in 2013. In 2013 the Company bonus pool totaled $8.6 million, representing approximately 17% of the Company s 2013 adjusted pre-tax income (as defined above). The Compensation Committee annually reviews the level of the bonus pool to ensure that in its subjective judgment, such levels reflect industry practices, it will adequately fund potential bonuses, and provide sufficient capacity to reward extraordinary performance, when and if earned. The amount and calculation of the bonus pool are subject to change at any time at the discretion of the Compensation Committee.

In 2013, the Compensation Committee granted Mr. Wallace an annual cash incentive award of $175,000 from the Company bonus pool, a 250% increase from his 2012 award. In determining Mr. Wallace s 2013 cash incentive award, the Compensation Committee subjectively considered the terms of his at will employment offer letter (Offer Letter), the Company performance factors discussed above, his individual performance factors discussed above, and the market compensation data compiled from the McLagan Survey and the Custom Peer Group. Pursuant to the terms of Mr. Wallace s Offer Letter, he was entitled to a cash bonus in February 2013 of $50,000 and a minimum cash bonus of $100,000 in February 2014, provided that he was in good standing with the Company at the time of such payment.

In 2013, the Compensation Committee granted Ms. Gerron an annual cash incentive award of $160,000 from the Company bonus pool, a 10% increase from her 2012 award. In determining Ms. Gerron s 2013 cash incentive award, the Compensation Committee subjectively considered the Company performance factors discussed above, her individual performance factors discussed above, and the market compensation data compiled from the McLagan Survey and the Custom Peer Group.

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In 2013, the Compensation Committee granted Mr. Root an annual cash incentive award of $225,000 from the Company bonus pool, a 29% increase from his 2012 award. In determining Mr. Root s 2013 cash incentive award, the Compensation Committee subjectively considered the Company performance factors discussed above, his individual performance factors discussed above, and the market compensation data compiled from the McLagan Survey and the Custom Peer Group.

While the Compensation Committee reviewed the market compensation data derived from the McLagan Survey and the Custom Peer Group when approving Messrs. Wallace s, Freeman s and Root s and Ms. Gerron s 2013 cash incentive awards, the Compensation Committee did not target their respective cash incentive awards to fall within a specific range or percentile of the market compensation data.

Cash incentive awards that were earned by in 2013 and paid in February 2014 to Messrs. Wallace, Freeman and Root and Ms. Gerron are listed in column (d) in the 2013 Summary Compensation Table below.

Long-Term Equity Awards

Each year, the Compensation Committee grants long-term equity awards to our named executive officers under the Third Amended and Restated Westwood Holdings Group, Inc. Stock Incentive Plan (the Stock Incentive Plan). These equity awards are intended to attract, retain and motivate our named executive officers as well as focus them on our long-term performance.

While the Stock Incentive Plan authorizes the grant of several types of equity awards, the Compensation Committee currently expects that the named executive officers long-term equity awards will be limited to time-based restricted stock awards and performance-based restricted stock awards.

Unless the Compensation Committee determines otherwise, recipients of restricted stock awards will generally have the right to vote the underlying restricted shares. Historically, we paid dividends on underlying restricted shares as and when dividends were paid to our stockholders. Beginning in 2011 however, dividends on restricted stock awards are accrued and payable to the recipient only when the underlying restricted shares vest. None of the restricted shares may be sold, transferred, or pledged during the restricted period.

The Compensation Committee believes that restricted stock awards align the interests of our named executive officers with our stockholders, as the value of the awards is tied to the market value of our common stock.

Time-Based Restricted Stock Awards

In 2013, pursuant to the terms of Mr. Wallace s Offer Letter, he received a time-based restricted stock award of 5,000 shares, the same number as he received in 2012. These awards are subject to a four-year vesting requirement: 50% at the end of year two, 75% at the end of year three, and 100% at the end of year four, in each case, generally subject to the executive s continuing employment through the applicable vesting date. Pursuant to the terms of Mr. Wallace s Offer Letter, he was also entitled to receive a time-based restricted stock award of a minimum of 5,000 shares in February 2014, subject to a four-year vesting term. In approving the grant of these awards the Compensation Committee considered the market compensation data derived at the time of negotiating Mr. Wallace s Offer Letter.

In 2013, Ms. Gerron received a time-based restricted stock award of 5,200 shares, the same number as she received in 2012. These awards are subject to a four-year vesting requirement: 50% at the end of year two, 75% at the end of year three, and 100% at the end of year four, in each case, generally subject to the executive s continuing employment through the applicable vesting date. In approving Ms. Gerron s time-based restricted stock award, the Compensation Committee considered the market compensation data derived from the McLagan Survey and the Custom Peer Group, her individual performance factors discussed above, and the Company performance factors discussed above.

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In 2013, Mr. Root received a time-based restricted stock award of 5,700 shares, the same number as he received in 2012. These awards are subject to a four-year vesting requirement: 50% at the end of year two, 75% at the end of year three, and 100% at the end of year four, in each case, generally subject to the executive s continuing employment through the applicable vesting date. In approving Mr. Root s time-based restricted stock award, the Compensation Committee considered the market compensation data derived from the McLagan Survey and the Custom Peer Group, his individual performance factors discussed above, and the Company performance factors discussed above.

Performance-Based Restricted Stock Awards

The Compensation Committee believes that granting performance-based restricted stock awards to Messrs. Casey and Freeman strengthens the alignment of their interests with our stockholders and clients.

In 2010, the Compensation Committee granted Mr. Casey a performance-based restricted stock award for 175,000 shares, which vest over a period of five years, 35,000 shares per year provided that, with respect to each fiscal year, the performance goal for such period has been met. For 2013, the performance goal was adjusted pre-tax income (as defined below) of not less than $27 million representing a five-year compound annual growth rate of 10% over 2008 adjusted pre-tax income of $16.3 million (excluding a 2008 non-recurring performance fee of $8.7 million). In each subsequent vesting year, the performance goal for further vesting of restricted stock will be determined by the Compensation Committee and established in writing no later than 90 days after the commencement of such fiscal year. If, in any year, the performance goal is not met, the Compensation Committee may establish a goal for a subsequent year which, if achieved or exceeded, may result in full or partial vesting of the shares that did not otherwise become vested in a prior year. Performance goals will in all events be based upon criteria set forth in the Stock Incentive Plan.

In 2012, the Compensation Committee granted a restricted stock award to Mr. Freeman for 100,000 shares, which vests over a period of five years, 20,000 shares per year provided that with respect to each fiscal year the performance goal for such period has been met. For 2013 the performance goal was adjusted pre-tax income (as defined below) of not less than $27 million representing a five-year compound annual growth rate in excess of 10% over 2008 adjusted pre-tax income of $16.3 million (which excludes a 2008 non-recurring performance fee of $8.7 million). In each subsequent vesting year, the performance goal for further vesting of restricted stock will be determined by the Compensation Committee and established in writing no later than 90 days after the commencement of such fiscal year. If, in any year, the performance goal is not met, the Compensation Committee may establish a goal for a subsequent year which, if achieved or exceeded, may result in full or partial vesting of the shares that did not otherwise become vested in a prior year. Performance goals will in all events be based upon criteria set forth in the Stock Incentive Plan.

Adjusted pre-tax income was determined based on our audited financial statements and in 2013 was equal to our income before income taxes increased by expenses incurred for the year for (a) annual cash incentive awards earned by Messrs. Casey and Freeman and one other employee, (b) incentive compensation for all other Company employees, and (c) performance-based restricted stock awards to Company employees (including Messrs. Casey and Freeman). The Compensation Committee chose adjusted pre-tax income as the basis for the performance-based vesting formula because it believes that such financial measure is a meaningful indicator of our performance and profitability and also believes that structuring performance-based restricted stock awards in this way closely aligns the interests of these executives with our stockholders.

On February 21, 2014, the Compensation Committee certified that the performance goal for 2013 was achieved and Mr. Casey vested in 35,000 shares and Mr. Freeman vested in 20,000 shares. As allowed under the Stock Incentive Plan and approved by the Compensation Committee, Mr. Casey surrendered 14,682 and Mr. Freeman surrendered 12,332 of these shares in order to partially satisfy tax withholding requirements due to the vesting of these shares.

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The Company does not have a formal policy on timing equity compensation grants in connection with the release of material non-public information to affect the value of compensation. In the event that material non-public information becomes known to the Compensation Committee prior to granting equity awards, the Compensation Committee will take the existence of such information under advisement and make an assessment in its business judgment whether or not to delay the grant of the equity award in order to avoid any impropriety or appearance of impropriety.

Employee and Post-Retirement Benefits

We offer employee and post-retirement benefits to all U.S. Company employees, including the named executive officers, in order to provide them with a reasonable level of financial support in the event of injury, illness or disability and to help them accumulate retirement savings on a tax-favored basis. U.S. Company employees are generally eligible to participate in benefit programs including medical, dental and vision insurance coverage, disability insurance and life insurance. In addition, such employees are generally eligible to participate in applicable savings plans. The cost of health insurance and savings plans is partially borne by employees, including the named executive officers. We bear the cost of disability insurance and a set amount of term life insurance for all U.S. employees.

Savings Plan and Matching Contributions

Under the Company s U.S. Savings Plan, all U.S. based employees, including the named executive officers, are eligible to make so-called 401(k) contributions to their plan accounts subject to the annual IRS limits. We fully match employee contributions up to 6% of their eligible compensation (subject to IRS limits). Employees are vested immediately in their 401(k) contributions as well as the Company match.

Profit Sharing Contributions

The Company s U.S. Savings Plan also authorizes us to make discretionary annual contributions to U.S. employees Savings Plan accounts based on our profitability and performance. The profit sharing component of the Savings Plan is meant to be broad-based and all U.S. employees, including the named executive officers, are eligible for discretionary profit sharing contributions. Profit sharing contributions are subject to a six-year graded vesting schedule based on an employee s years of service. For 2013, we made a discretionary contribution for all eligible employees equal to 5% of their eligible compensation (subject to IRS limits).

For 2013, the Company made 401(k) Company matching contributions and Company profit sharing contributions totaling $28,050 for each of our named executive officers.

Perquisites

In 2013 we did not provide significant perquisites to our named executive officers.

Tax and Accounting Implications

Compliance with Section 162(m) of the Internal Revenue Code

Section 162(m) of the Internal Revenue Code limits the deductibility of nonperformance-based compensation paid to our Chief Executive Officer and any of our three other most highly compensated executive officers (other than our Chief Financial Officer) to $1 million in any tax year. In establishing the total direct compensation for such executives, the Compensation Committee considers the effect of Section 162(m).

Our objectives and strategies may not always be consistent with the requirements of Section 162(m) for full deductibility of the compensation paid to our named executive officers. Accordingly, deductibility for purposes of Section 162(m) is just one consideration and not the determinative factor in setting our named executive officers compensation, and certain compensation paid by us in the future to the named executive officers may not be fully deductible for purposes of Section 162(m).

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COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

COMPENSATION COMMITTEE

Richard M. Frank, Chairman

Geoffrey R. Norman

Martin J. Weiland

Raymond E. Wooldridge

2013 Summary Compensation Table

The following table summarizes all compensation earned by our named executive officers in the years indicated.

Name and Principal Position (a)	Year (b)	Salary ($) (c)	Bonus ($) (d)	Stock Awards ($) (e)	Non-Equity Incentive Plan Compen-sation ($) (f)	All Other Compen-sation ($) (g)	Total ($) (h)
Brian O. Casey,	2013	600,000		1,396,500	1,503,328	28,050	3,527,878
President and Chief Executive Officer	2012	500,000		1,396,500	1,275,700	27,500	3,199,700
	2011	500,000		1,396,500	1,119,833	26,950	3,043,283
Mark R. Freeman,	2013	500,000	250,000	786,200	751,664		2,315,914
Executive Vice President and Chief Investment Officer	2012	479,109		1,161,818	1,637,850	28,050	3,306,277
	2011	262,500	656,000	347,700		27,500 26,950	1,293,150
Mark A. Wallace,	2013	200,000	175,000	218,950		28,050	622,000
Vice President, Chief Financial Officer & Treasurer	2012	31,923	50,000	195,750		51,915	329,588
Julie K. Gerron,	2013	180,000	160,000	227,708		28,050	595,758
Senior Vice President, General Counsel and Corporate Secretary							
Randall L. Root,	2013	237,500	225,000	249,603		28,050	740,153
President, Westwood Trust Dallas							

Notes, by column/row letter:

(d) Messrs. Wallace, Freeman and Root and Ms. Gerron were granted non-plan cash incentive awards from a Company bonus pool, which was not based upon any pre-established performance goals. However, in accordance with his Offer Letter, Mr. Wallace s 2012 and 2013 minimum cash incentive awards were $50,000 and $100,000, respectively. See the Compensation Discussion and Analysis section above for a further description of Messrs. Wallace s cash incentive awards.

(e) For 2013, the amounts contained in column (e) reflect (1) for Mr. Casey, the grant date fair value of the tranche of his 2010 performance-based restricted stock award that was subject to vesting in 2013 (35,000 shares), (2) for Mr. Wallace, the grant date fair value of his time-vested restricted stock award granted in 2013 (5,000 shares), (3) for Ms. Gerron, the grant date fair value of her time-vested restricted stock award granted in 2013 (5,200 shares), (4) for Mr. Root, the grant date fair value of his time-vested restricted stock award granted in 2013 (5,700 shares), and (5) for Mr. Freeman, the grant date fair value of the tranche of his 2012 performance-based restricted stock award that was subject to vesting in 2013 (20,000 shares).

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For 2012, the amounts contained in column (e) reflect (1) for Mr. Casey, the grant date fair value of the tranche of his 2010 performance-based restricted stock award that was subject to vesting in 2012 (35,000 shares), (2) for Mr. Wallace, the grant date fair value of his time-vested restricted stock award granted in 2012 (5,000 shares), and (3) for Mr. Freeman, the grant date fair value of the tranche of his 2012 performance-based restricted stock award that was subject to vesting in 2012 (20,000 shares) and the grant date fair value of his time-vested restricted stock award granted in 2012 (9,548 shares).

For 2011, the amounts contained in column (e) reflect (1) for Mr. Casey, the grant date fair value of the tranche of his 2010 performance-based restricted stock award that was subject to vesting in 2011 (35,000 shares), and (2) for Mr. Freeman, the grant date fair value of his time-vested restricted stock award granted in 2011 (9,500 shares).

The above grant date fair values reported in column (e) were calculated in accordance with Accounting Standards Codification Topic 718 (ASC 718), Stock Compensation, except no assumptions for forfeitures were included. The assumptions used in the valuation of the performance-based and time-vested restricted stock awards are discussed in footnote 10 Employee Benefits of our audited financial statements, which are included in our 2013 Form 10-K filed with the SEC on February 28, 2014. See the Compensation Discussion and Analysis section above for a further description of these restricted stock awards.

(f) The amounts in column (f) reflect the cash payment of 3% of our adjusted pre-tax income, as defined, for the respective year to Mr. Casey, in accordance with his annual cash incentive award. The amount for Mr. Freeman includes: 1.5% of our adjusted pre-tax income, as defined, for the respective year; and $1.0 million in mutual fund shares he earned under the terms of the Mutual Fund Share Incentive Agreement dated February 7, 2012, as amended (the 2012 MFSI Agreement) as a result of the Westwood Income Opportunity Fund receiving a 5-star overall rating by Morningstar. Per the terms of the 2012 MFSI Agreement, this $1 million award was credited to a notional account maintained by the Company on January 14, 2013 and deemed invested in 79,491 shares of the Westwood Income Opportunity Fund. Mr. Freeman s right to receive payment of the amount credited to this account vested on December 31, 2013. The Company s adjusted pre-tax income, as defined, for 2013, 2012 and 2011 was approximately $50.1 million, $42.5 million and $37.3 million, respectively. See the Compensation Discussion & Analysis section above for a further description of these cash incentive awards.

(g) The amounts in column (g) reflect each named executive officer s 401(k) Company matching contribution and Company profit sharing contribution under the Westwood Holdings Group, Inc. Savings Plan. See the Compensation Discussion and Analysis section above for a further description of the plan contributions in 2013. For Mr. Wallace, the amount in 2012 also includes $50,000 in relocation benefits in the form of reimbursement of his moving and house hunting expenses, which amount is subject to clawback if Mr. Wallace resigns or terminates employment with the Company on or before November 6, 2014, prorated on a monthly basis reduced by the months he is employed prior to such resignation or termination.

We currently have employment agreements with Mr. Casey and Mr. Freeman. Under these agreements these officers: receive a minimum base salary, are eligible to receive performance-based and discretionary bonuses, receive restricted shares (subject to performance conditions), could become fully vested in their unvested equity compensation (depending on the cause of termination of employment), and could receive salary and benefits for one year after the termination of their employment (depending on the cause of termination of employment). In accordance with the terms of his employment agreement, Mr. Casey was paid an annual salary of $600,000 in 2013 and may receive a maximum annual incentive award of 3% of our adjusted pre-tax income, as defined. In accordance with the terms of his employment agreement, Mr. Freeman is paid a minimum annual salary of $500,000. Mr. Freeman is currently eligible to receive a minimum annual incentive award of 1.5% of our adjusted pre-tax income, as defined. The agreements expire on April 30, 2015 for Mr. Casey and January 1, 2017 for Mr. Freeman. See the Employment and Related Agreements section set forth below for further discussion of these employment agreements.

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We entered into an Offer Letter with Mr. Wallace in connection with his hire as our Chief Financial Officer. The Offer Letter provides Mr. Wallace an annual base salary of $200,000, an award of 5,000 shares of time-vested restricted stock in 2012, an award of 5,000 shares of time-vested restricted stock in February 2013, an award of at least 5,000 shares of time-vested restricted stock in February 2014, a 2012 annual cash performance bonus of at least $50,000 (payable in February 2013), and a 2013 annual cash performance bonus of at least $100,000 (payable in February 2014). We also offered to reimburse Mr. Wallace for up to $50,000 of moving and house hunting expenses incurred in connection with his move from Huntington Beach, California to Dallas, Texas. These amounts are subject to clawback if Mr. Wallace resigns or terminates employment with the Company on or before November 6, 2014, prorated on a monthly basis reduced by the months he is employed prior to such resignation or termination.

Grants of Plan-Based Awards in 2013

The following table summarizes all grants of plan-based awards made to our named executive officers in 2013. The equity plan-based awards set forth in the following table consisted solely of restricted shares of our common stock that were granted under the Stock Incentive Plan.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock	Grant Date Fair Value of Stock
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	(#)	($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Brian O. Casey	2/22/13	N/A	1,503,328	N/A					
	2/22/13				N/A	35,000	N/A		1,396,500
Mark A. Wallace	2/22/13							5,000	218,950
Julie K. Gerron	2/22/13							5,200	227,708
Randall L. Root	2/22/13							5,700	249,603
Mark R. Freeman	2/22/13	N/A	751,664	N/A					
	2/22/13				N/A	20,000	N/A		786,200
	3/19/13		500,000	1,000,000					

Notes, by column letter:

(d) The amounts in column (d) reflect the payment of 3% and 1.5% of our 2013 adjusted pre-tax income to Mr. Casey and Mr. Freeman, respectively, in accordance with their annual cash incentive award.

There were no threshold or maximum award levels (or equivalent items) for these annual cash incentive awards. The Company s adjusted pre-tax income for 2013 was in excess of $50 million.

On February 7, 2012, Mr. Freeman received a mutual fund share incentive award under which he was entitled to receive $500,000 if the Westwood Income Opportunity Fund received a 4-star overall rating from Morningstar and $1,000,000 if the fund received a 5-star overall rating from Morningstar for the performance period ending December 31, 2013. For 2013, Mr. Freeman did not receive a mutual fund bonus award since the Fund did not receive a high enough rating for the performance period.

See the Compensation Discussion and Analysis section above for a further description of these cash incentive awards.

(g)

The amounts in column (g) reflect the tranche of Mr. Casey s and Mr. Freeman s performance-based restricted stock awards that was subject to vesting in 2013 upon our adjusted pre-tax income for 2013 being at least $27 million. There were no threshold or maximum award levels (or equivalent items) for these performance-based annual restricted stock awards. See the Compensation Discussion and Analysis section above for a further description of these performance-based restricted stock incentive awards.

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(i) The amount in column (i) reflects the time-vested restricted stock award granted to Messrs. Wallace and Root and Ms. Gerron in 2013. The shares vest as follows: 50% after two years, 75% after three years and 100% after four years.

(j) The amounts in column (j) reflect the grant date fair value of (1) the tranche of Mr. Casey s and Mr. Freeman s performance-based restricted stock award that is subject to vesting in 2013, and (2) Messrs. Wallace s and Root s and Ms. Gerron s time-vested restricted stock award granted in 2013, computed in accordance with ASC 718 (except no assumptions for forfeitures were included). The assumptions used in the valuation of the restricted stock awards are discussed in footnote 10 Employee Benefits of our audited financial statements, which are included in our 2013 Form 10-K filed with the SEC on February 28, 2014. The grant date fair value for Messrs. Wallace and Root and Ms. Gerron s time vested awards was based on $43.79 per share, which was the closing price of our common stock on the original grant date of February 22, 2013, adjusted for the accrual of dividends on unvested shares. The grant date fair value for Mr. Casey and Mr. Freeman s awards were $39.90 and $39.31 per share, respectively, which were based on the closing prices of our common stock on the original grant dates in April 2010 and February 2012, respectively.

Stock Incentive Plan

All equity-based incentive awards, except those granted under the Share Award Plan of Westwood Holdings Group, Inc. for Service Provided in Canada to its Subsidiaries, are governed by the Third Amended and Restated Westwood Holdings Group, Inc. Stock Incentive Plan (the Stock Incentive Plan).

In 2013, equity awards under the Stock Incentive Plan consisted of our authorized restricted common stock. Awards under the Stock Incentive Plan may be made to employees, including officers and directors who may be employees, non-employee directors, and consultants. Any shares issued under the Stock Incentive Plan may consist of authorized but unissued shares or reacquired shares or a combination thereof.

The Stock Incentive Plan authorizes the grant of several types of equity-based awards, including incentive stock options (ISOs), nonstatutory stock options (NSOs), restricted stock, stock purchase rights and performance shares (in the form of deferred stock awards). The Stock Incentive Plan also authorizes cash awards in the form of annual incentive awards, performance-based awards, and discretionary bonus awards. The various types of awards authorized under the Stock Incentive Plan may be utilized in the future if determined to be appropriate by the Compensation Committee. To date the Compensation Committee has limited its equity-based awards under the Stock Incentive Plan to NSOs and restricted stock, and in the future the Compensation Committee currently expects that its equity-based awards will likely be limited to restricted stock. The Compensation Committee believes that restricted stock is the most effective vehicle to align the interests of employees with stockholders and clients. Unless the Compensation Committee determines otherwise, the recipient of restricted shares will generally have the right to vote the restricted shares. The Compensation Committee may also determine whether dividends will be payable with respect to restricted shares (at the same rate that is paid to all our stockholders generally) and, if so, may impose vesting and repayment conditions with respect to such dividends. Historically, we paid dividends on shares of restricted stock as and when dividends were paid to our stockholders. Beginning with the 2011 restricted stock grant, dividends payable on unvested restricted stock are accrued, subject to forfeiture conditions and payable to the recipient only when the underlying shares of restricted stock vest. The Compensation Committee believes that the terms and conditions

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for restricted stock awards offer the best balance of providing value to the employee if we are successful as a company as well as providing a mechanism to retain key employees over the long-term as they build a meaningful portion of their wealth in the form of equity in us.

The Board or the Compensation Committee administers the Stock Incentive Plan with respect to all eligible individuals. Cash incentive awards earned in a given year are typically communicated to employees and paid in the first quarter of the following year to coincide with year-end performance reviews. Annual time-vested restricted stock awards have generally been awarded in the first quarter of the year in order to better synchronize the payment of cash incentive bonus awards with the withholding tax liability resulting from restricted stock vesting.

Time-vested restricted stock awards are subject to the following four-year vesting schedule: 50% after two years, 75% after three years and 100% after four years. The Compensation Committee believes that this long-term vesting schedule is effective in acting as a retention tool for Messrs. Freeman, Wallace and Root and Ms. Gerron and other non-executive employees. All employees are eligible to receive time-vested restricted stock awards.

The Compensation Committee makes all determinations involving awards to covered employees within the meaning of Section 162(m) of the Code. Determinations of the Compensation Committee are final, conclusive, and binding upon all persons having an interest in the Stock Incentive Plan. However, any action or determination by the Compensation Committee specifically affecting or relating to an award to a non-employee director will be approved and ratified by the Board of Directors.

Employment and Related Agreements

The Compensation Committee believes that the retention of our named executive officers and other key employees is critical to our opportunity for future success. In order to formalize a long-term commitment with two of our top executive officers, we executed employment agreements with our Chief Executive Officer, Brian O. Casey, in April 2010 and our Chief Investment Officer, Mark R. Freeman, in February 2012. The agreements broadly address the terms of their employment with the Company, including, among other things, duties, compensation and benefits, termination, and the effect of termination. In addition, the employment agreements include non-solicitation covenants and non-competition covenants that apply in specified circumstances for a period of one year following the date of termination.

The Compensation Committee determined that Mr. Casey is critical to our future success, due to his significant responsibilities and contributions to the ongoing day-to-day operation of the business, his involvement in marketing our products, his development and direction of strategic initiatives and corporate development, as well as his participation in the development of new products. As a result, the Compensation Committee determined that it was in our best interests to enter into an employment agreement with Mr. Casey that is effective through April 30, 2015.

The Compensation Committee determined that Mr. Freeman is critical to our future success, due to his significant responsibilities and contributions to the development and oversight of our investment policy, the development of the Company s macroeconomic and investment outlook, his day-to-day operation and oversight of our investment department, his monitoring of absolute risk and consistency of quality across all investment strategies, his integral importance to the ongoing success of our investment performance as well as his involvement in product development, strategic initiatives and marketing our products. As a result, the Compensation Committee determined that it was in our best interests to enter into an employment agreement with Mr. Freeman that is effective through January 1, 2017.

In November 2012, we entered into an Offer Letter with Mr. Wallace in connection with his hire as our Chief Financial Officer. This offer letter provides Mr. Wallace an annual base salary of $200,000, a sign-on

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equity award of 5,000 shares of time-vested restricted stock, an additional equity award of at least 5,000 shares of time-vested restricted stock in February 2013, an additional equity award of at least 5,000 shares of time-vested restricted stock in February 2014, and a 2012 annual cash performance bonus of at least $50,000 (payable in February 2013) and a 2013 annual cash performance bonus of at least $100,000 (payable in February 2014). The terms of the Offer Letter were conditioned on Mr. Wallace s execution of our standard confidentiality agreement.

Outstanding Equity Awards at December 31, 2013

The following table summarizes all outstanding equity awards held by our named executive officers as of December 31, 2013.

	Option Awards			Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Option Exercise Price ($) (e)	Option Expiration Date (f)	Number of Shares of Stock That Have Not Vested (#) (g)	Market Value of Shares of Stock That Have Not Vested ($) (h)	Equity Incentive Plan Awards: Number of Unearned Shares That Have Not Vested (#) (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares That Have Not Vested ($) (j)
Brian O. Casey						70,000	4,333,700
Mark A. Wallace				10,000	619,100		
Julie K. Gerron				14,150	876,027		
Randall L. Root				15,650	968,892		
Mark R. Freeman				16,548	1,024,487	80,000	4,952,800

Notes, by column letter:

(g) The shares in column (g) will vest in late February of each year according to the following schedule provided the individual is, in most cases, still employed by us on the vesting date.

	Shares scheduled to vest			
Name	2014	2015	2016	2017
Mark A. Wallace		5,000	2,500	2,500
Julie K. Gerron	5,100	5,150	2,600	1,300
Randall L. Root	5,725	5,650	2,850	1,425
Mark R. Freeman	9,399	4,762	2,387	

(i) The shares in column (i) represent (1) an unearned, performance-based restricted stock incentive award granted to Mr. Casey in 2010 and Mr. Freeman in 2012 under the Stock Incentive Plan, which will vest according to the following schedule; provided that Mr. Casey and Mr. Freeman are, in most cases, still employed by us on the vesting date and the applicable performance goal is achieved for the respective year. Each year during the applicable vesting period, the Compensation Committee will establish a specific goal for that year s vesting of the restricted shares. The performance goal will be based upon criteria set forth in the Stock Incentive Plan. The specific performance goal for each year will be established no later than March 31 of the vesting year. If in any year during the vesting period the performance goal is not met, the Compensation Committee may establish a goal for a subsequent vesting period, which if achieved or exceeded may result in full or partial vesting of the shares that did not otherwise become vested in a prior year. See the Compensation Discussion and Analysis section above for a further description of this performance-based restricted stock incentive award.

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Name	Shares scheduled to vest as of December 31, 2014	2015	2016	2017
Brian O. Casey	35,000	35,000		
Mark Freeman	20,000	20,000	20,000	20,000

(h), (j) The amounts in columns (h) and (j) reflect the value of the shares shown in columns (g) and (i), respectively, multiplied by $61.91, the closing market price of our common stock as of December 31, 2013, the last business day in 2013.

Stock Vested in 2013

The following table summarizes all shares vested by our named executive officers for the year ended December 31, 2013.

Name	Stock Awards	
	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
(a)	(a)	(b)
Brian O. Casey	35,000	1,534,050
Julie K. Gerron	5,000	219,150
Randall L. Root	6,250	273,938
Mark R. Freeman	29,500	1,292,985

Notes, by column letter:

(b) Values in column (b) reflect 5,000 shares of time-vested restricted stock for Ms. Gerron that vested as of February 22, 2013 at a market value of $43.83 per share; 6,250 shares of time-vested restricted stock for Mr. Root that vested as of February 22, 2013 at a market value of $43.83 per share; 9,500 shares of time-vested restricted stock for Mr. Freeman that vested as of February 22, 2013 at a market value of $43.83 per share and 20,000 shares of performance-based restricted stock for Mr. Freeman that vested as of February 22, 2013 at a market value of $43.83 per share; and 35,000 shares of performance-based restricted stock for Mr. Casey that vested as of February 22, 2013 at a market value of $43.83 per share.

Potential Payments Upon Termination or Change in Control

Set forth below is a summary of the compensation and benefits payable to Mr. Casey, Mr. Wallace, Mr. Freeman, Mr. Root and Ms. Gerron in the event their employment is terminated. For purposes of this disclosure, we have calculated benefits assuming a December 31, 2013 termination date. As of December 31, 2013, we had executive employment agreements with Mr. Casey and Mr. Freeman. For further information on the employment agreements, see Employment Related Agreements above.

Under the terms of our Stock Incentive Plan, in the event of their death or a change in control of the Company, Messrs. Wallace s, Freeman s and Root s and Ms. Gerron s unvested time-vested restricted stock awards would vest. These shares had a value of $619,100 for Mr. Wallace, $1,024,487 for Mr. Freeman, $968,892 for Mr. Root and $876,027 for Ms. Gerron as of December 31, 2013. Other than the acceleration of Messrs. Wallace s and Root s and Ms. Gerron s restricted stock awards upon death or a change in control, Messrs. Wallace and Root and Ms. Gerron are not contractually entitled to any other severance payments upon their termination or a change in control of the Company.

Under the employment agreement in place, the payments to Mr. Casey could vary depending on the cause of termination and whether or not the Board of Directors elects to enforce a non-compete agreement. Under the employment agreement in place for Mr. Freeman, the payments to Mr. Freeman could vary depending upon the

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cause of termination and whether or not the Board of Directors elects to enforce a Mandatory Inactivity Period. For the purposes hereof, a Mandatory Inactivity Period shall mean the three-month period of time immediately following Mr. Freeman s termination during which he may not (a) in any capacity provide investment advisory services or investment management services in competition with the Company or (b) establish, join, participate in, acquire or maintain ownership in, or provide investment advisory services to, any U.S.-based entity that offers services and/or products that compete with the Company. Additionally, these agreements contain a single trigger change in control provision pursuant to which Mr. Casey and Mr. Freeman are entitled to certain payments and benefits in the event they voluntarily terminate their employment with the Company within the ninety-day period, or in the case of Mr. Freeman, the thirty-day period, immediately following the date that is three (3) months following change in control of the Company. The Compensation Committee believes that a single trigger change in control provision (1) provides a powerful retention device during change in control discussions, and (2) ensures Mr. Casey and Mr. Freeman are not deprived of the benefits that they earned or reasonably should expect to receive if there was no change in control. The various payment scenarios for Mr. Casey are described immediately below, and the various payment scenarios for Mr. Freeman are described thereafter.

The various payment scenarios for Mr. Casey are:

Payments upon termination without cause where the non-compete agreement is enforced

Amounts under this scenario include the following to the extent they have not been already paid:

- amounts earned by the executive during his employment,
- one year s worth of salary paid in monthly installments, less the amount of medical insurance premiums the executive would pay had he remained employed,
- bonus and incentive compensation earned by the executive as of the termination date,
- not less than four weeks of vacation time that was earned and unused by the executive,
- medical benefits for the executive and his eligible dependents for twelve months following termination, and
- all unvested stock options and all unvested restricted shares shall be fully vested for the executive; provided, however, that to the extent that any such awards are subject to performance-based vesting conditions that are intended to qualify for the performance-based compensation exemption from Section 162(m) of the Internal Revenue Code, then those awards will only become vested if and to the extent that such awards would have become vested in accordance with their terms if Mr. Casey s employment had continued.

Payments upon termination without cause where the non-compete agreement is not enforced

Amounts under this scenario include the following to the extent they have not been already paid:

- amounts earned by the executive during his employment,
- bonus and incentive compensation earned by the executive as of the termination date,

not less than four weeks of vacation time that was earned and unused by the executive,

medical benefits for the executive and his eligible dependents for twelve months following termination, and

all unvested stock options and all unvested restricted shares shall be fully vested; provided, however, that to the extent that any such awards are subject to performance-based vesting conditions that are intended to qualify for the performance-based compensation exemption from Section 162(m) of the Internal Revenue Code, then those awards will only become vested if and to the extent that such awards would have become vested in accordance with their terms if Mr. Casey s employment had continued.

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Payments upon termination with cause or by the executive without good reason where the non-compete agreement is enforced

Amounts under this scenario include the following to the extent they have not been already paid:

- amounts earned by the executive during his employment,
- one year s worth of salary paid in monthly installments for twelve months, less the amount of medical insurance premiums the executive would pay had he remained employed,
- bonus and incentive compensation earned by the executive as of the termination date,
- not less than four weeks of vacation time that was earned and unused by the executive, and
- medical benefits for the executive and his eligible dependents for twelve months following termination.

All unvested stock options and all unvested restricted shares shall be forfeited under this scenario.

Payments upon termination with cause or by the executive without good reason where the non-compete agreement is not enforced

Amounts under this scenario include the following to the extent they have not been already paid:

- amounts earned by the executive during his employment,
- bonus and incentive compensation earned by the executive as of the termination date,
- not less than four weeks of vacation time that was earned and unused by the executive, and
- medical benefits for the executive and his eligible dependents for twelve months following termination.

All unvested stock options and all unvested restricted shares shall be forfeited under this scenario.

Payments upon termination by the executive with good reason (the non-compete agreement is automatically enforced)

Amounts under this scenario include the following to the extent they have not been already paid:

- amounts earned by the executive during his employment,
- one year s worth of salary paid in monthly installments, less the amount of medical insurance premiums the executive would pay had he remained employed,

bonus and incentive compensation earned by the executive as of the termination date,

not less than four weeks of vacation time that was earned and unused by the executive,

medical benefits for the executive and his eligible dependents for twelve months following termination, and

all unvested stock options and all unvested restricted shares shall be fully vested for the executive; provided, however, that to the extent that any such awards are subject to performance-based vesting conditions that are intended to qualify for the performance-based compensation exemption from Section 162(m) of the Internal Revenue Code, then those awards will only become vested if and to the extent that such awards would have become vested in accordance with their terms if Mr. Casey s employment had continued.

Payments upon termination due to a change in control (the non-compete agreement is automatically enforced)

Amounts under this scenario include the following to the extent they have not been already paid:

amounts earned by the executive during his employment,

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one year s worth of salary paid in monthly installments, less the amount of medical insurance premiums the executive would pay had he remained employed,

bonus and incentive compensation earned by the executive as of the termination date,

not less than four weeks of vacation time that was earned and unused by the executive,

medical benefits for the executive and his eligible dependents for twelve months following termination, and

all unvested stock options and all unvested restricted shares shall be fully vested; provided, however, that to the extent that any such awards are subject to performance-based vesting conditions that are intended to qualify for the performance-based compensation exemption from Section 162(m) of the Internal Revenue Code, then those awards will only become vested if and to the extent that such awards would have become vested in accordance with their terms if Mr. Casey s employment had continued.

Payments upon termination due to death

Amounts under this scenario include the following to the extent they have not been already paid:

amounts earned by the executive during his employment,

bonus and incentive compensation earned by the executive as of the termination date,

not less than four weeks of vacation time that was earned and unused by the executive,

medical benefits for the executive s eligible dependents for twelve months following termination, and

all unvested stock options and all unvested restricted shares shall be fully vested.

Payments upon termination due to disability

Amounts under this scenario include the following to the extent they have not been already paid:

amounts earned by the executive during his employment,

bonus and incentive compensation earned by the executive as of the termination date,

not less than four weeks of vacation time that was earned and unused by the executive,

disability benefits, if any, at least equal to those then provided by the Company to disabled executives and their families,

medical benefits for the executive and his eligible dependents for twelve months following termination, and

all unvested stock options and all unvested restricted shares shall be fully vested for Mr. Casey.

The various payment scenarios for Mr. Freeman are:

Payments upon termination without cause or by the executive for good reason where the Mandatory Inactivity Period is enforced

Amounts under this scenario include the following to the extent they have not been already paid:

amounts earned by the executive during his employment,

three months worth of salary paid in monthly installments, less the amount of medical insurance premiums the executive would pay had he remained employed,

bonus and incentive compensation earned by the executive as of the termination date,

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not less than four weeks of vacation time that was earned and unused by the executive,

medical benefits for the executive and his eligible dependents for three months following termination, and

all unvested stock options, all unvested restricted shares and all unvested mutual fund share bonus awards shall become vested and exercisable; provided however, that if any such unvested equity or equity-based award is subject to performance-based vesting conditions that are intended to qualify for the performance-based compensation exemption under Section 162(m) of the Code, then such award will become vested only if, when and to the extent such award would have become vested in accordance with its terms if Mr. Freeman s employment had continued; and provided further that, if such award is subject to periodic vesting based upon performance conditions established for each vesting period, then the annual performance conditions applicable to any such award following the termination of Mr. Freeman s employment shall be the same as the last periodic performance goal established with respect to such award prior to the termination of Mr. Freeman s employment or, if more favorable to Mr. Freeman, the periodic performance conditions established for performance-based vesting of equity or equity-based awards granted to other senior executives who are then still employed by the Company.

Payments upon termination without cause or by the executive for good reason where the Mandatory Inactivity Period is not enforced

Amounts under this scenario include the following to the extent they have not been already paid:

amounts earned by the executive during his employment,

bonus and incentive compensation earned by the executive as of the termination date,

not less than four weeks of vacation time that was earned and unused by the executive,

all unvested stock options, all unvested restricted shares and all unvested mutual fund share bonus awards shall become vested and exercisable; provided however, that if any such unvested equity or equity-based award is subject to performance-based vesting conditions that are intended to qualify for the performance-based compensation exemption under Section 162(m) of the Code, then such award will become vested only if, when and to the extent such award would have become vested in accordance with its terms if Mr. Freeman s employment had continued; and provided further that, if such award is subject to periodic vesting based upon performance conditions established for each vesting period, then the annual performance conditions applicable to any such award following the termination of Mr. Freeman s employment shall be the same as the last periodic performance goal established with respect to such award prior to the termination of Mr. Freeman s employment or, if more favorable to Mr. Freeman, the periodic performance conditions established for performance-based vesting of equity or equity-based awards granted to other senior executives who are then still employed by the Company.

Payments upon termination with cause where the Mandatory Inactivity Period is enforced

Amounts under this scenario include the following to the extent they have not been already paid:

amounts earned by the executive during his employment,

three months worth of salary paid in monthly installments, less the amount of medical insurance premiums the executive would pay had he remained employed,

bonus and incentive compensation earned by the executive as of the termination date,

not less than four weeks of vacation time that was earned and unused by the executive, and

medical benefits for the executive and his eligible dependents for three months following termination.

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All unvested stock options, all unvested restricted shares, and all unvested mutual fund share bonus awards shall be forfeited under this scenario.

Payments upon termination with cause where the Mandatory Inactivity Period is not enforced

Amounts under this scenario include the following to the extent they have not been already paid:

- amounts earned by the executive during his employment,
- bonus and incentive compensation earned by the executive as of the termination date, and
- not less than four weeks of vacation time that was earned and unused by the executive.

All unvested stock options, all unvested restricted shares, and all unvested mutual fund share bonus awards shall be forfeited under this scenario.

Payments upon termination by the executive without good reason where the Mandatory Inactivity Period is enforced

Amounts under this scenario include the following to the extent they have not been already paid:

- amounts earned by the executive during his employment,
- three months worth of salary paid in monthly installments, less the amount of medical insurance premiums the executive would pay had he remained employed,
- bonus and incentive compensation earned by the executive as of the termination date,
- not less than four weeks of vacation time that was earned and unused by the executive, and
- medical benefits for the executive and his eligible dependents for three months following termination.

All unvested stock options and all unvested restricted shares shall be forfeited under this scenario. Additionally, all unvested mutual fund share bonus awards shall vest sixty (60) days after the first anniversary of the termination date unless a final determination is made in binding arbitration that the executive either directly or indirectly sold or provided products that are the same or similar to any product that the Company is providing as of, and about which the executive had confidential information during the year prior to, the termination date; provided, however, that if any such unvested equity or equity-based award is subject to performance-based vesting conditions that are intended to qualify for the performance-based compensation exemption under Section 162(m) of the Code, then such award will become vested only if, when and to the extent such award would have become vested in accordance with its terms if Mr. Freeman s employment had continued; and provided further that, if such award is subject to periodic vesting based upon performance conditions established for each vesting period, then the annual performance conditions applicable to any such award following the termination of Mr. Freeman s employment shall be the same as the last periodic performance goal established with respect to such award prior to the termination of Mr. Freeman s employment or, if more favorable to Mr. Freeman, the periodic performance conditions established for performance-based vesting of equity or equity-based awards granted to other senior executives who are then still employed by the Company.

Payments upon termination by the executive without good reason where the Mandatory Inactivity Period is not enforced

Amounts under this scenario include the following to the extent they have not been already paid:

amounts earned by the executive during his employment,

bonus and incentive compensation earned by the executive as of the termination date, and

not less than four weeks of vacation time that was earned and unused by the executive.

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All unvested stock options and all unvested restricted shares shall be forfeited under this scenario. Additionally, all unvested mutual fund share bonus awards shall vest sixty (60) days after the first anniversary of the termination date unless a final determination is made in binding arbitration that the executive either directly or indirectly sold or provided products that are the same or similar to any product that the Company is providing as of, and about which the executive had confidential information during the year prior to, the termination date; provided, however, that if any such unvested equity or equity-based award is subject to performance-based vesting conditions that are intended to qualify for the performance-based compensation exemption under Section 162(m) of the Code, then such award will become vested only if, when and to the extent such award would have become vested in accordance with its terms if Mr. Freeman s employment had continued; and provided further that, if such award is subject to periodic vesting based upon performance conditions established for each vesting period, then the annual performance conditions applicable to any such award following the termination of Mr. Freeman s employment shall be the same as the last periodic performance goal established with respect to such award prior to the termination of Mr. Freeman s employment or, if more favorable to Mr. Freeman, the periodic performance conditions established for performance-based vesting of equity or equity-based awards granted to other senior executives who are then still employed by the Company.

Payments upon termination due to a change in control (assuming that Mr. Freeman terminates his employment after the 90th day, but before the 121st day, immediately following a change in control)

Amounts under this scenario include the following to the extent they have not been already paid:

- amounts earned by the executive during his employment,
- three months worth of salary paid in monthly installments, less the amount of medical insurance premiums the executive would pay had he remained employed,
- bonus and incentive compensation earned by the executive as of the termination date,
- not less than four weeks of vacation time that was earned and unused by the executive,
- medical benefits for the executive and his eligible dependents for three months following termination, and
- all unexercised stock options, all unvested restricted shares, all unvested mutual fund share bonus awards and all other unvested equity-incentive compensation awards shall become vested and exercisable.

Payments upon termination due to death

Amounts under this scenario include the following to the extent they have not been already paid:

- amounts earned by the executive during his employment,
- bonus and incentive compensation earned by the executive as of the termination date,
- accelerated vesting of his unvested mutual fund bonus awards,

not less than four weeks of vacation time that was earned and unused by the executive,

medical benefits for the executive s eligible dependents for twelve months following termination, and

all unexercised stock options, all unvested restricted shares, all unvested mutual fund share bonus awards and all other equity-incentive compensation awards theretofore granted shall become vested and exercisable.

Payments upon termination due to disability

Amounts under this scenario include the following to the extent they have not been already paid:

amounts earned by the executive during his employment,

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bonus and incentive compensation earned by the executive as of the termination date,

accelerated vesting of his unvested mutual fund bonus awards,

not less than four weeks of vacation time that was earned and unused by the executive,

disability benefits, if any, at least equal to those then provided by the Company to disabled executives and their families,

medical benefits for the executive and his eligible dependents for twelve months following termination, and

all unexercised stock options, all unvested restricted shares, all unvested mutual fund share bonus awards and all other equity-incentive compensation awards shall become vested and exercisable.

The following tables show the amounts each officer would receive under different scenarios.

Severance and change in control arrangements for Mr. Casey:

Benefits/payments upon termination	For cause or voluntary Termination without good reason		Without cause		Resign with good reason or terminated due to change in control	Death	Disability
Non-compete enforced?	Y	N	Y	N	Y	N/A	N/A
Base salary for an additional year (1)	$ 595,800	$	$ 595,800	$	$ 595,800	$	$
Performance shares (2)			4,333,700	4,333,700	4,333,700	4,333,700	4,333,700
Medical benefits (3)	14,533	14,533	14,533	14,533	14,533	14,533	14,533
Total	$ 610,333	$ 14,533	$ 4,944,033	$ 4,348,233	$ 4,944,033	$ 4,348,233	$ 4,348,233

Notes:

(1) Amounts reflect one year s base salary, less the amount of medical insurance premiums the executive would pay had he remained employed with the Company.

(2) Amounts reflect the estimated value of the acceleration of the executive s outstanding performance-based restricted stock awards (70,000 shares, which share amounts are equal to the number of outstanding performance-based restricted stock shares that are reported in the Outstanding Equity Awards at December 31, 2013 table), using our stock price as of the last day of business in 2013, $61.91 per share.

(3) The amount reflects the Company s estimated premiums to continue medical benefits for the executive and dependents, as applicable, for twelve months after termination.

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Severance and change in control arrangements for Mr. Freeman:

Benefits/payments upon termination	For cause or voluntary termination without good reason		Without cause/resign with good reason		Resign with good reason or terminated due to change in control	Death	Disability
Mandatory inactivity period enforced?	Y	N	Y	N	Y	N/A	N/A
Base salary for an additional three months (1)	$ 123,950	$	$ 123,950	$	$ 123,950	$	$
Restricted shares (2)			5,977,287	5,977,287	5,977,287	5,977,287	5,977,287
Medical benefits (3)	3,633		3,633		3,633	14,533	14,533
Acceleration of Payment of Mutual Fund Bonus Award (4)							
Total	$ 127,583	$	$ 6,104,870	$ 5,977,287	$ 6,104,870	$ 5,991,819	$ 5,991,819

Notes:

(1) Amounts reflect three months base salary, less the amount of medical insurance premiums Mr. Freeman would pay had he remained employed with the Company.

(2) Amounts reflect the estimated value of acceleration of Mr. Freeman s outstanding time-vested and performance-based restricted stock awards (16,548 shares, which share amount is equal to the number of outstanding time-vested restricted stock shares that are reported in the Outstanding Equity Awards at December 31, 2013 table, and 80,000 shares, which share amount is equal to the number of outstanding performance-based restricted stock shares that are reported in the Outstanding Equity Awards at December 31, 2013 table), using our stock price as of the last day of business in 2013, $61.91 per share.

(3) The amount reflects the Company s estimated premiums to continue medical benefits for Mr. Freeman and his dependents, as applicable, for three months after termination, except in the case of termination due to Mr. Freeman s death or disability, in which case medical benefits for Mr. Freeman and his dependents, as applicable, continue for twelve months after termination.

(4) In the event of Mr. Freeman s termination due to death or disability, or his involuntary termination without cause or voluntary termination for good reason following a change in control, he would vest immediately in his outstanding unvested mutual fund awards. As of December 31, 2013, Mr. Freeman had no unvested mutual fund awards.

The amounts shown in the preceding tables do not include payments and benefits to the extent they are paid to all employees upon termination of employment, including:

accrued salary and vacation pay,

distribution of the balance held by the individual under our Savings Plan, and

amounts paid under other benefit plans, including our family and medical leave of absence and long-term disability programs.

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Definitions under the terms of the Stock Incentive Plan

Change in Control shall mean:

a merger or consolidation of the Company with or into another corporation in which the Company shall not be the surviving corporation (other than a merger undertaken solely in order to reincorporate in another state) (for purposes hereof, the Company shall not be deemed the surviving corporation in any such transaction if, as the result thereof, it becomes a wholly-owned subsidiary of another corporation);

a dissolution of the Company;

a transfer of all or substantially all of the assets of the Company in one transaction or a series of related transactions to one or more other persons or entities;

a transaction or series of transactions that results in any entity, person, or group, becoming the beneficial owner, directly or indirectly, of securities of the Company representing more than 50% of the combined voting power of the Company s then outstanding securities; or during any period of two (2) consecutive years commencing on or after January 1, 2005, individuals who at the beginning of the period constituted the Company s Board of Directors cease for any reason to constitute at least a majority, unless the election of each director who was not a director at the beginning of the period has been approved in advance by directors representing at least two-thirds (2/3) of the directors then in office who were directors at the beginning of the period; provided, however, that a Change in Control shall not be deemed to have occurred if the ownership of 50% or more of the combined voting power of the surviving corporation, asset transferee or Company (as the case may be), after giving effect to the transaction or series of transactions, is directly or indirectly held by (A) a trustee or other fiduciary under an employee benefit plan maintained by the Company, (B) one or more of the executive officers of the Company that held such positions prior to the transaction or series of transactions, or any entity, person or group under their control.

Definitions under the terms of the Executive Employment Agreements

Termination for cause could occur due to any of the following events:

executive s conviction of any felony or other serious crimes;

executive s material breach of any of the terms of the employment agreement or any other written agreement or material company policy to which the executive and the Company are parties or are bound (or, in the case of Mr. Freeman, personal misconduct that is materially detrimental to the best interest of the Company), if such breach (or, in the case of Mr. Freeman, personal misconduct) shall be willful and shall continue beyond a period of twenty (20) days immediately after written notice thereof by the Company to the executive;

wrongful misappropriation by the executive of any money, assets, or other property of the Company or a client of the Company;

willful actions or failures to act by the executive which subject the executive or the Company to censure by the Securities and Exchange Commission as described in and pursuant to Section 203(e) or 203(f) of the Investment Advisers Act of 1940 or Section 9(b) of the Investment Company Act of 1940 or to censure by a state securities administrator pursuant to applicable state securities laws or regulations;

executive s commission of fraud or gross moral turpitude; or

executive s continued willful failure to substantially perform executive s duties under the applicable agreement after receipt of written notice thereof and an opportunity to so perform.

Termination for good reason could occur due to the occurrence of any of the following events without the written consent of the executive:

any material breach by the Company of the employment agreement (including any reduction in the executive s base salary);

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any material adverse change in the status, position or responsibilities of the executive, including in the case of Mr. Casey a change in the executive s reporting relationship so that he no longer reports to the Board of Directors, the removal from or failure to re-elect the executive as a member of the Board or if the Company becomes a wholly-owned subsidiary of another company, and the executive serves only as an officer of the subsidiary company;

assignment of duties to the executive that are materially inconsistent with the executive s position and responsibilities described in his or her employment agreement;

the failure of the Company to assign the employment agreement to a successor to the Company or failure of a successor to the Company to explicitly assume and agree to be bound by the employment agreement; or

requiring the executive to be principally based at any office or location more than twenty-five (25) miles from the current offices of the Company in Dallas, Texas.

The executive may terminate his or her employment *without good reason* at any time by giving at least thirty (30) days notice.

The Company may terminate the executive s employment *without cause* at any time.

Change in Control shall mean:

a merger or consolidation of the Company with or into another corporation (other than a merger undertaken solely in order to reincorporate in another state) immediately following which the beneficial holders of the voting stock of the Company immediately prior to such transaction or series of transactions do not continue to hold 50% or more of the voting stock (based upon voting power) of the Company or (A) any entity that owns, directly or indirectly, the stock of the Company, (B) any entity with which the Company has merged, or (C) any entity that owns an entity with which the Company has merged;

a dissolution of the Company;

a transfer of all or substantially all of the assets of the Company in one or more related transactions to one or more other persons or entities;

a transaction or series of transactions that results in any entity, Person or Group , becoming the beneficial owner, directly or indirectly, of securities of the Company representing more than 50% of the combined voting power of the Company s then outstanding securities; or

during any period of two (2) consecutive years commencing on or after January 1, 2010 (in the case of Mr. Casey) or January 1, 2012 (in the case of Mr. Freeman), individuals who at the beginning of the period constituted the Company s Board of Directors cease for any reason to constitute at least a majority, unless the election of each director who was not a director at the beginning of the period has been approved in advance by directors representing at least two-thirds (2/3) of the directors then in office who were directors at the beginning of the period; provided, however, that a Change in Control shall not be deemed to have occurred if the ownership of 50% or more of the combined voting power of the surviving corporation, asset transferee or Company (as the case may be), after giving effect to the transaction or series of transactions, is directly or indirectly held by (A) a trustee or other fiduciary under an employee benefit plan maintained by the Company, or (B) one or more of the executive officers of the Company that held such positions prior to the transaction or series of transactions, or any entity, Person or Group under their control.

Disability shall mean any medically determinable physical or mental impairment that has lasted for a period of not less than six (6) months in any twelve (12) month period and that renders the executive unable to perform the duties or essential functions required under the employment

agreement.

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PROPOSAL 2:

Ratification of Appointment of Grant Thornton LLP as Independent Auditors

Our Audit Committee has appointed Grant Thornton LLP as our independent auditors for 2014. Representatives of Grant Thornton LLP will attend the annual meeting to answer appropriate questions and may make a statement if they so desire.

Fees Billed by Grant Thornton LLP

Audit Fees. The aggregate fees billed for professional services rendered by Grant Thornton LLP for the audit of our annual financial statements, the review of the financial statements included in our Quarterly Reports on Form 10-Q and testing as required by Sarbanes-Oxley Section 404, or for services that are normally provided in connection with statutory or regulatory filings or engagements, for the years ended December 31, 2013 and 2012 were $232,455 and $197,178, respectively.

Audit-Related Fees. There were no fees billed by Grant Thornton LLP for audit-related services for the years ended December 31, 2013 and 2012.

Tax Fees. There were no fees billed by Grant Thornton LLP for tax services for the years ended December 31, 2013 and 2012.

All Other Fees. The aggregate fees billed for services provided by Grant Thornton LLP and not otherwise included in Audit Fees, Audit-Related Fees or Tax Fees were $269,655 and $223,159 for the years ended December 31, 2013 and 2012. These amounts include fees of $221,805 and $214,284 for the years ended December 31, 2013 and 2012, respectively, not paid by Westwood, but by common trust funds sponsored by Westwood Trust for financial audits provided to the common trust funds by Grant Thornton LLP. Westwood engaged Grant Thornton LLP to provide these services to the common trust funds.

Pre-approval policies and procedures for audit and non-audit services. The Audit Committee has established a policy regarding pre-approval of all audit and non-audit services provided by our independent auditors. Each year the Audit Committee considers for approval the independent auditor s engagement to render audit services, as well as a list prepared by management of anticipated non-audit services and related budget estimates. During the course of the year, management and the independent auditor are responsible for tracking all services and fees to insure that they are within the scope pre-approved by the Audit Committee. To ensure prompt handling of unexpected matters, the Audit Committee has delegated to its chairman the authority to amend or modify the list of approved audit and non-audit services and fees, provided the chairman reports any action taken to the Audit Committee at its next meeting.

The Audit Committee pre-approved all services provided by Grant Thornton LLP for the years ended December 31, 2013 and 2012.

Vote Sought and Recommendation

Although stockholder action on this matter is not required, the appointment of Grant Thornton LLP is being recommended to the stockholders for ratification. The affirmative FOR vote of a majority of the votes cast at the annual meeting is needed to ratify the appointment of Grant Thornton LLP as independent auditors for 2014. Abstentions will not affect the outcome of a vote on this proposal.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE RATIFICATION

OF GRANT THORNTON LLP AS OUR INDEPENDENT AUDITORS FOR 2014.

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PROPOSAL 3:

Advisory Vote on Executive Compensation

We are seeking a non-binding, advisory vote from our stockholders to approve the compensation paid to our named executive officers, as disclosed in this proxy statement pursuant to Item 402 of Regulation S-K.

The Compensation Committee has structured our executive compensation program to reflect our pay-for-performance philosophy. The compensation opportunities provided to the named executive officers are significantly dependent on the Company s financial performance and the named executive officers individual performances and are intended to drive the creation of sustainable stockholder value. The Compensation Committee will continue to emphasize responsible compensation arrangements that attract, retain, and motivate high caliber executive officers to achieve the Company s business strategies and objectives.

You have the opportunity to vote FOR or AGAINST or to ABSTAIN from voting on the following non-binding resolution relating to executive compensation:

Resolved, that the stockholders approve, on a non-binding, advisory basis, the compensation paid to the Company s named executive officers as disclosed in the Company s proxy statement for the 2014 Annual Meeting of Stockholders pursuant to Item 402 of Regulation S-K, including the compensation discussion and analysis, the compensation tables, and the narrative discussion.

In deciding how to vote on this proposal, you are encouraged to consider the Company s executive compensation philosophy and objectives and the components of the Company s executive compensation program as contained in the Compensation Discussion and Analysis section above, as well as the following key aspects of our executive compensation program.

A significant portion of each named executive officer s total direct compensation from approximately 63% to 83% was at risk compensation in 2013, delivered in the form of an annual cash incentive award and an annual equity incentive award.

The annual cash incentive award to the Chief Executive Officer and Chief Investment Officer, excluding the discretionary cash bonus award of $250,000 earned by the Chief Investment Officer for the performance period ending December 31, 2013, is based upon an annual, predetermined performance goal, the formula for which was approved by our stockholders in 2006. An expanded list of performance measures upon which performance goals may be based was approved by our stockholders in 2009 and in 2011.

The vesting of the Chief Executive Officer s and Chief Investment Officer s equity awards is based upon an annual, pre-determined performance goal, the criteria for which were approved by our stockholders in 2006. An expanded list of performance measures upon which performance goals may be based was approved by our stockholders in 2009 and in 2011.

Base salaries of the Chief Investment Officer and Chief Financial Officer remained flat at 2012 levels, while the Chief Executive Officer s base salary was increased 20% in 2013, his first base salary increase in approximately three years. Each of the base salaries of our General Counsel and our President, Westwood Trust Dallas was increased approximately 6% in 2013.

Over the past three years, the named executive officers have not received significant perquisites.

The Compensation Committee endeavors to structure the Company s executive compensation program to motivate and reward our executive officers for taking appropriate business risks while at the same time avoiding pay practices that incentivize excessive risk-taking. In connection with the Compensation Committee s review of our compensation policies and practices for all employees in February 2014, the Compensation Committee concluded that these policies and practices do not encourage the taking of risks that are

reasonably likely to have a material adverse effect on the Company.

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While your vote on this proposal is advisory and will not be binding on the Compensation Committee, the Board of Directors or on the Company, the Compensation Committee values the opinions of the Company s stockholders on executive compensation matters and will take the results of this advisory vote into consideration when making future decisions regarding the Company s executive compensation program.

Vote Sought and Recommendation

The affirmative FOR vote of a majority of the votes cast at the annual meeting is required to approve, on a non-binding, advisory basis, Westwood s executive compensation. Broker non-votes and abstentions will have no effect on the outcome of this proposal.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR APPROVAL, ON A NONBINDING, ADVISORY BASIS, OF THE COMPENSATION PAID TO THE NAMED EXECUTIVE OFFICERS, AS DISCLOSED IN THIS PROXY STATEMENT PURSUANT TO ITEM 402 OF REGULATION S-K.

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COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

No member of our Compensation Committee is a current or former officer or employee of Westwood or its subsidiaries or has had a relationship requiring disclosure by Westwood under applicable federal securities regulations. No executive officer of Westwood served as a director or member of the Compensation Committee of any entity that has one or more executive officers serving as a member of our Board of Directors or Compensation Committee. For 2013 the members of our Compensation Committee were Messrs. Frank (Chairman), Norman, Weiland and Wooldridge.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Other Relationships and Related Transactions

John Porter Montgomery, who is the stepson of Ms. Byrne, Westwood s current Chairman, was employed as Senior Vice President-Trust & Investments by Westwood Trust, a wholly owned subsidiary of Westwood Holdings Group, Inc., during 2013 and received total compensation of $494,420. Mr. Montgomery is compensated in a manner consistent with our policies that apply to all employees.

Review and Approval of Related Party Transactions

All future material transactions involving affiliated parties will be subject to approval by a majority of our disinterested directors. We have a written policy, entitled the Conflict of Interest Policy that addresses the review and approval of related party transactions. The Conflict of Interest Policy provides that, except with the Board of Directors prior knowledge and consent, no director, officer or employee of Westwood or its subsidiaries may be involved in a transaction or relationship that gives rise to a conflict of interest with Westwood. The policy defines conflict of interest as an occurrence where a director, officer or employee s private interests interfere, or appear to interfere, in any way with our interests as a whole, and specifically includes all related party transactions and relationships that we are required to disclose in our proxy statement.

In the event the Board of Directors consent to a conflict of interest is sought, the request must be addressed to our compliance officer (or, where the matter involves the compliance officer, to the Audit Committee) and referred to the Audit Committee for its consideration. If the matter involves any member of the Audit Committee, the matter is required to be addressed by the disinterested members of the Board of Directors. A majority of the members of the Audit Committee (or a majority of the disinterested members of the Board of Directors, where applicable) must approve any request. The terms of any such transaction must be as favorable to us as the terms would be if the transaction were entered into with an unrelated third party.

Management Accounts

Certain of our directors, executive officers and their affiliates invest their personal funds directly in accounts held and managed by us. All such funds are managed along with, and on the same terms as, funds deposited by our other clients. These individuals are charged management fees for our services at a preferred fee rate, which rate is consistent with fees charged to our other select clients who are not members of our Board of Directors or executive officers.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

As of March 3, 2014, there were 8,262,430 shares of common stock issued and entitled to vote at the annual meeting. Except where otherwise indicated, the following table sets forth certain information, as of March 3, 2014, regarding beneficial ownership of the common stock and the percentage of total voting power held by:

- each stockholder known by us to own more than five percent (5%) of outstanding common stock;
- each director and director nominee;
- each named executive officer; and
- all directors and executive officers as a group.

Unless otherwise noted, the persons named below have sole voting and investment power with respect to such shares.

Beneficial Owners	Number of Shares Beneficially Owned	Percent of Class
5% Beneficial Owners		
Royce & Associates, LLC (2)(3)	742,760	9.0%
GAMCO Investors, Inc. (2)(4)	697,300	8.4%
Conestoga Capital Advisors, LLC (2)(5)	542,628	6.6%
BlackRock Inc. (2)(6)	484,716	5.9%
Third Avenue Management LLC (2)(7)	414,877	5.0%
Directors and Named Executive Officers (1)		
Brian O. Casey	245,791	3.0%
Susan M. Byrne	377,601	4.6%
Mark R. Freeman	115,466	1.4%
Julie K. Gerron	27,007	*
Randall L. Root	41,631	*
Mark A. Wallace	16,116	*
Richard M. Frank	23,020	*
Robert D. McTeer	11,500	*
Geoffrey R. Norman	3,250	*
Martin J. Weiland	4,500	*
Raymond E. Wooldridge	51,915	*
Ellen H. Masterson		*
All directors and named executive officers as a group (11 Persons)	917,797	11.1%

* Less than 1%

(1) The address of each director and named executive officer is 200 Crescent Court, Suite 1200, Dallas, Texas, 75201.

(2)

The beneficial ownership information reported for this stockholder is based upon the most recent Form 4, Form 13F, Schedule 13G or Schedule 13D filed with the SEC by such stockholder.

(3) The address of Royce & Associates, LLC is 745 Fifth Avenue, New York, NY 10151. On January 17, 2014, Royce & Associates reported its beneficial ownership, indicating that it held sole dispositive power and sole voting power over 742,760 shares.

(4) The address of GAMCO Investors, Inc., or GAMCO is One Corporate Center, Rye, NY 10580. On February 7, 2014, GAMCO reported its beneficial ownership, indicating that it held sole voting power over 697,300 shares.

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(5) The address of Conestoga Capital Advisors, LLC is 259 N. Radnor-Chester Road, Radnor Court, Suite 120, Radnor, PA 19087. On January 22, 2014, Conestoga Capital Advisors, LLC reported its beneficial ownership, indicating that it held sole dispositive power and sole voting power over 542,628 shares.

(6) The address of BlackRock, Inc. is 40 East 52nd Street, New York, New York 10022. On January 31, 2014, BlackRock, Inc. reported its beneficial ownership, indicating that it held sole dispositive power and sole voting power over 484,716 shares.

(7) The address of Third Avenue Management LLC, or TAM, is 622 Third Avenue, 32nd Floor, New York, New York 10017-6715. On February 14, 2014, TAM reported its beneficial ownership, indicating that it held sole dispositive power and sole voting power over 414,877 shares.

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REPORT OF THE AUDIT COMMITTEE

In accordance with its written charter adopted by the Board of Directors, the Audit Committee assists the Board in fulfilling its oversight responsibilities by, among other things, reviewing the financial reports and other financial information provided by us to any governmental body or the public.

In discharging its oversight responsibilities, the Audit Committee reviewed and discussed the audited consolidated financial statements of Westwood Holdings Group, Inc. (Westwood) as of and for the fiscal year ended December 31, 2013 with management and the independent auditors. Management is responsible for Westwood s financial reporting process, including its system of internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934) and for the preparation of Westwood s consolidated financial statements in accordance with generally accepted accounting principles. The independent auditor is responsible for auditing those financial statements, and expressing an opinion on the effectiveness of internal control over financial reporting. The Audit Committee s responsibility is to monitor and review these processes. The members of the Audit Committee are independent as defined by SEC and NYSE rules, and, although the Board of Directors has determined that Mr. Norman is an audit committee financial expert as defined by SEC rules, neither Mr. Norman, nor any other member of the Audit Committee, represents themselves to be, or to serve as, accountants or auditors by profession or experts in the field of accounting or auditing.

The Audit Committee received from Grant Thornton LLP, Westwood s independent auditors, a formal written statement describing all relationships between the firm and Westwood that might bear on the auditors independence required by applicable requirements of the Public Company Accounting Oversight Board (the PCAOB), discussed with Grant Thornton LLP any relationships that might impact their objectivity and independence and, based on such information, satisfied itself as to Grant Thornton LLP s independence. The Audit Committee also discussed with management, Westwood s internal auditors and the independent auditors the quality and adequacy of Westwood s internal controls and the audit scope and plans for audits performed by the internal auditors and the independent auditors.

The Audit Committee also discussed with Grant Thornton LLP all communications required by generally accepted auditing standards used in the United States, including those described in Auditing Standard No. 16, *Communications with Audit Committees*, issued by the PCAOB and, with and without management present, discussed and reviewed the results of Grant Thornton LLP s examination of the consolidated financial statements of Westwood.

For the fiscal year 2013 management completed the documentation, testing and evaluation of Westwood s system of internal control over financial reporting in response to the requirements set forth in Section 404 of the Sarbanes-Oxley Act of 2002, and related regulations. In making its assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework* (1992 framework). The Audit Committee monitored the progress of the evaluation and provided oversight and guidance to management during the process. In connection with this oversight, the Audit Committee received periodic updates provided by management and the independent auditors. At the conclusion of the process, management provided the Audit Committee with a report on management s assessment of the effectiveness of Westwood s internal control over financial reporting as of December 31, 2013.

Based upon the above-mentioned review and discussions with management and Grant Thornton LLP, the Audit Committee recommended to the Board of Directors that Westwood s audited consolidated financial statements be included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2013 for filing with the Securities and Exchange Commission.

AUDIT COMMITTEE

Raymond E. Wooldridge, Chairman

Richard M. Frank

Robert D. McTeer

Geoffrey R. Norman

Martin J. Weiland

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SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers, and persons who own more than ten percent of our common stock to file with the SEC initial statements of beneficial ownership of securities and subsequent changes in beneficial ownership. Our officers, directors and greater-than-ten-percent stockholders are required by the SEC s regulations to furnish us with copies of all Section 16(a) forms they file.

To Westwood s knowledge, based solely on a review of the copies of such reports furnished to us and written representations that no other reports were required, we believe that our officers, directors and greater-than-ten-percent beneficial owners complied in a timely fashion with all Section 16(a) filing requirements applicable to them, with the exception of one late Form 4 filing made for Susan M. Byrne, a director of the Company, resulting in a failure to timely report one transaction, one late Form 3 filing made for Peter F. Pastorelle, an officer of the Company, resulting in a failure to timely report his appointment as an officer of the Company and one late Form 3 filing made for each of Julie K. Gerron and Randall L. Root, officers of the Company, resulting in a failure to timely report their holdings of Company common stock following their designation as Section 16 officers of the Company.

STOCKHOLDER PROPOSALS

Proposals Included in the Proxy Statement

To be considered for inclusion in next year s proxy statement, stockholder proposals submitted in accordance with Rule 14a-8 under the Exchange Act must be received at our principal executive offices no later than the close of business on November 14, 2014. Proposals should be submitted in writing to 200 Crescent Court, Suite 1200, Dallas, Texas 75201, Attn: Corporate Secretary. In order to be included in next year s proxy statement, stockholder proposals must comply with all applicable legal requirements. Timely submission of a proposal does not guarantee that such proposal will be included.

Proposals Not Included in Proxy Statement

If Westwood does not have notice of a stockholder proposal at least 45 days before the mailing date of the proxy statement for the prior year s annual meeting, then your proxy will confer discretionary authority to vote on the proposal if it is properly presented for consideration at a meeting.

ANNUAL REPORT

Our 2013 Annual Report to Stockholders, which includes our consolidated financial statements as of and for the year ended December 31, 2013, is being mailed to you along with this proxy statement. Upon written request, we will provide without charge to any stockholder a copy of our Annual Report on Form 10-K, including the financial statements and financial statement schedules to such report. Such request should be directed to Brian O. Casey, 200 Crescent Court, Suite 1200, Dallas, Texas 75201.

HOUSEHOLDING OF PROXY MATERIALS

Unless we have received contrary instructions, we may send a single copy of this proxy statement and notice of annual meeting to any household at which two or more stockholders reside if we believe the stockholders are members of the same family. Each stockholder in the household will continue to receive a separate proxy card. This process, known as householding, reduces the volume of duplicate information received at any one household and helps to reduce our expenses. However, if stockholders prefer to receive multiple sets of our

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disclosure documents at the same address this year or in future years, they should follow the instructions described below. Similarly, if an address is shared with another stockholder and together both of the stockholders would like to receive only a single set of our disclosure documents, they should follow these instructions:

If the shares are registered in the name of the stockholder, stockholders should contact us at our offices at 200 Crescent Court, Suite 1200, Dallas Texas 75201, Attention: Corporate Secretary, or by telephone at 214-756-6900, to inform Westwood of their request.

If a bank, broker or other nominee holds the shares, stockholders should contact the bank, broker or other nominee directly.

OTHER MATTERS

Our Board of Directors knows of no other matters that will be presented for consideration at the annual meeting. If any other matters are properly brought before the meeting, it is the intention of the persons named as proxy holder in the accompanying proxy to vote on such matters in their discretion.

By Order of the Board of Directors,

Brian O. Casey
Chief Executive Officer and President

March 10, 2014

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WESTWOOD HOLDINGS GROUP, INC.

PROXY

PROXY SOLICITED BY THE BOARD OF DIRECTORS FOR

THE ANNUAL MEETING TO BE HELD ON APRIL 17, 2014

NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS

Important Notice Regarding Internet Availability of Proxy Materials for the Stockholder Meeting to be Held on April 17, 2014

The proxy materials for the Company s Annual Meeting of Stockholders, including the 2013 Annual Report, the Proxy Statement and any other additional soliciting materials, are available via the Internet by accessing the Company s website at http://ir.westwoodgroup.com/annuals.cfm. Other information on the Company s website does not constitute part of the Company s proxy materials.

The undersigned hereby appoints Brian O. Casey and Mark A. Wallace, jointly and severally, as the undersigned s proxy or proxies, each with full power of substitution and to act without the other, to vote in the manner directed herein all shares of common stock of Westwood Holdings Group, Inc. which the undersigned is entitled to vote at the Annual Meeting of Stockholders to be held at The Crescent Club, 200 Crescent Court, Suite 1700, Dallas, Texas 75201, on Thursday, April 17, 2014, at 10:00 a.m., Central time, and any postponements or adjournments thereof, as fully as the undersigned could if personally present, revoking any proxy or proxies heretofore given.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN ACCORDANCE WITH THE SPECIFICATIONS MADE BELOW, BUT IF NO CHOICE IS INDICATED, THIS PROXY WILL BE VOTED FOR ALL DIRECTOR NOMINEES IN PROPOSAL 1 AND FOR PROPOSALS 2 AND 3, AND

IN THE DISCRETION OF THE PROXIES WITH RESPECT TO ANY OTHER MATTER AS MAY PROPERLY COME BEFORE THE MEETING OR ANY POSTPONEMENTS OR ADJOURNMENTS THEREOF.

(Continued, and to be marked, dated and signed, on the other side.)

¨ **FOLD AND DETACH HERE** ¨

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The Board of Directors recommends a vote **FOR** all director nominees in Proposal 1 and **FOR** Proposals 2 and 3.

Please mark your votes as indicated in this example. **X**

1. Election of eight directors to hold office until the next annual meeting of Westwood s stockholders and until their respective successors shall have been duly elected and qualified.
¨ FOR ALL NOMINEES (except for the names struck out below) ¨ WITHHOLD AUTHORITY FOR ALL NOMINEES

(Susan M. Byrne, Brian O. Casey, Richard M. Frank,
Ellen H. Masterson, Robert D. McTeer,

Geoffrey R. Norman, Martin J. Weiland and

Raymond E. Wooldridge)
INSTRUCTIONS: To withhold authority to vote for any individual nominee, strike a line through that nominee s name above.

2. Ratification of the appointment of Grant Thornton LLP as Westwood s independent auditors for the year ending December 31, 2014.
¨ FOR ¨ AGAINST ¨ ABSTAIN

3. Non-binding, advisory vote on Westwood s executive compensation.
¨ FOR ¨ AGAINST ¨ ABSTAIN

4. IN THEIR DISCRETION, THE PROXIES ARE AUTHORIZED TO VOTE UPON SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE ANNUAL MEETING OR ANY POSTPONEMENTS OR ADJOURNMENTS THEREOF.

Date

Signature

Signature, If Jointly Held

If acting as Attorney, Executor, Trustee or in other representative capacity, please sign your name, title and state your capacity. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name by authorized officer.

FOLD AND DETACH HERE AND READ THE REVERSE SIDE

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14,662

$

9,300

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Operating Activities

During the nine months ended September 30, 2015, operating activities used $16.2 million of cash, primarily resulting from our net loss of $15.8 million and from cash used by our changes in our operating assets and liabilities of $0.7 million offset by non-cash expenses of $0.3 million. Net cash used in changes in our operating assets and liabilities during the nine months ended September 30, 2015 consisted primarily of a $0.5 million decrease in accounts payable and a $0.8 million increase in prepaid expenses and other current assets, both of which were partially offset by a $0.6 million increase in accrued expenses. The decrease in accounts payable was due to the timing of vendor invoicing and payments. The increase in prepaid expenses and other current assets was primarily due to prepayments for clinical trials. The increase in accrued expenses was due to increases in accruals for payroll and payroll-related costs due primarily to bonuses, as well as increases in accruals for IPO-related expenses incurred.

During the nine months ended September 30, 2014, operating activities used $4.9 million of cash, primarily resulting from our net loss of $5.9 million, partially offset by cash provided by changes in our operating assets and liabilities of $1.0 million. Net cash provided by changes in our operating assets and liabilities during the nine months ended September 30, 2014 consisted primarily of a $0.9 million increase in accounts payable and a $0.5 million increase in accrued expenses, both of which were partially offset by a $0.4 million increase in prepaid expenses and other current assets. The increases in accounts payable and accrued expenses were primarily due to costs related to our clinical trials of A-101. The increase in prepaid expenses and other current assets was primarily due to a prepayment for manufacturing scale-up expenses and clinical trials.

Investing Activities

During the nine months ended September 30, 2015, we used cash of $7.5 million in investing activities, consisting of purchases of marketable securities of $13.0 million and purchases of equipment of $0.4 million, partially offset by proceeds from sales and maturities of marketable securities of $5.9 million.

During the nine months ended September 30, 2014, investing activities provided $3.6 million of cash, consisting of proceeds from sales and maturities of marketable securities of $3.7 million, partially offset by purchases of equipment of $0.1 million.

Financing activities

During the nine months ended September 30, 2015, financing activities provided $38.4 million of cash as a result of $39.9 million in proceeds from the issuance of Series C convertible preferred stock, partially offset by payments of IPO costs of $1.5 million.

During the nine months ended September 30, 2014, financing activities provided $10.6 million of cash from the issuance of Series B convertible preferred stock.

Funding Requirements

We plan to focus in the near term on the development, regulatory approval and potential commercialization of A-101 for the treatment of SK. We anticipate we will incur net losses for the next several years as we complete clinical development of A-101 for the treatment of SK and continue research and development of A-101 for the treatment of common warts, A-102 for the treatment of SK and common warts and A-201 and A-301 for the treatment of AA. In addition, we plan to identify, acquire or in-license and develop additional drug candidates, potentially build commercial capabilities and expand our corporate infrastructure. We may not be able to complete the development and initiate commercialization of these programs if, among other things, our clinical trials are not successful or if the FDA does not approve our drug candidate arising out of our current clinical trials when we expect, or at all.

Our primary uses of capital are, and we expect will continue to be, compensation and related expenses, clinical costs, external research and development services, laboratory and related supplies, legal and other regulatory expenses, and administrative and overhead costs. Our future funding requirements will be heavily determined by the resources needed to support development of our drug candidates.

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As a publicly traded company, we will incur significant legal, accounting and other expenses that we were not required to incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, as well as rules adopted by the SEC and The NASDAQ Stock Market, requires public companies to implement specified corporate governance practices that are currently inapplicable to us as a private company. We expect these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly.

We believe that the net proceeds from our offering, together with our existing cash and cash equivalents, will enable us to fund our operating expenses and capital expenditure requirements for at least the next 24 months, including the completion of our three planned Phase 3 clinical trials for A-101 for the treatment of SK, the submission of our NDA with the FDA for the approval of A-101 for the treatment of SK in the United States and the completion of our planned Phase 2 clinical trials for A-101 for the treatment of common warts. We have based this estimate on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we expect. We expect that we will require additional capital to commercialize A-101 for the treatment of SK, if we receive regulatory approval, and to pursue in-licenses or acquisitions of other drug candidates. If we receive regulatory approval for A-101 for the treatment of SK, we expect to incur significant commercialization expenses related to product manufacturing, sales, marketing and distribution, depending on where we choose to commercialize. Additional funds may not be available on a timely basis, on favorable terms, or at all, and such funds, if raised, may not be sufficient to enable us to continue to implement our long-term business strategy. If we are unable to raise sufficient additional capital, we may need to substantially curtail our planned operations and the pursuit of our growth strategy.

We may raise additional capital through the sale of equity or convertible debt securities. In such an event, the terms of these securities may include liquidation or other preferences that adversely affect the rights of a holder of our common stock.

Because of the numerous risks and uncertainties associated with research, development and commercialization of pharmaceutical drugs, we are unable to estimate the exact amount of our working capital requirements. Our future funding requirements will depend on many factors, including:

- the number and characteristics of the drug candidates we pursue;
- the scope, progress, results and costs of researching and developing our drug candidates, and conducting preclinical studies and clinical trials;
- the timing of, and the costs involved in, obtaining regulatory approvals for our drug candidates;
- the cost of manufacturing our drug candidates and any drugs we successfully commercialize;
- our ability to establish and maintain strategic collaborations, licensing or other arrangements and the financial terms of such agreements;

- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims, including litigation costs and the outcome of such litigation; and

- the timing, receipt and amount of sales of, or milestone payments related to or royalties on, our current or future drug candidates, if any.

Contractual Obligations and Commitments

We lease office space in Malvern, Pennsylvania under an operating lease agreement that, as amended, requires future rental payments of $0.1 million during the year ending December 31, 2015, an aggregate of $0.4 million during the years ending December 31, 2016 and 2017, and an aggregate of $0.4 million during the years ending December 31, 2018 and 2019.

Under the assignment agreement pursuant to which we acquired intellectual property, we have agreed to pay royalties on sales of A-101 or related products at rates ranging in low single-digit percentages of net sales, as defined in the agreement. Under the related finder s services agreement, we have agreed to make aggregate payments of up to $1.3 million upon the achievement of specified pre-commercialization milestones, such as clinical trials and regulatory approvals, as described in the agreement. We have also agreed to make aggregate payments of up to $4.5 million upon the achievement of specified commercial milestones. In addition, we have agreed to pay royalties on sales of A-101 or related products at a low single-digit percentage of net sales, as defined in the agreement.

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Under a commercial supply agreement with a third party, we have agreed to pay a termination fee of up to $0.4 million in the event we terminate the agreement without cause or the third party terminates the agreement for cause.

Under a license agreement with Rigel that we entered into in August 2015, we have agreed to make aggregate payments of up to $80.0 million upon the achievement of specified pre-commercialization milestones, such as clinical trials and regulatory approvals. Further, we have agreed to pay up to an additional $10.0 million to Rigel upon the achievement of a second set of development milestones. With respect to any products we commercialize under the agreement, we will pay Rigel quarterly tiered royalties on our annual net sales of each product developed using the licensed JAK inhibitors at a high single-digit percentage of annual net sales, subject to specified reductions.

We enter into contracts in the normal course of business with CROs for clinical trials, preclinical research studies and testing, manufacturing and other services and products for operating purposes. These contracts generally provide for termination upon notice, and therefore we believe that our non-cancelable obligations under these agreements are not material.

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined in the rules and regulations of the SEC.

Emerging Growth Company Status

The Jumpstart Our Business Startups Act of 2012, or the JOBS Act, permits an emerging growth company such as us to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies until those standards would otherwise apply to private companies. We have irrevocably elected to opt out of this provision and, as a result, we will comply with new or revised accounting standards when they are required to be adopted by public companies that are not emerging growth companies.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

As of September 30, 2015 and December 31, 2014, we had $25.0 million and $10.0 million of cash equivalents, respectively, composed of overnight money market funds, and we had no debt. As a result, a change in market interest rates would not have any impact on our financial position or results of operations.

Item 4. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures*

The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, refers to controls and procedures 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 Security and Exchange Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to a company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

In designing and evaluating our disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a control system, misstatements due to error or fraud may occur and not be detected.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2015, the end of the period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of such date at the reasonable assurance level.

(b) *Changes in Internal Controls Over Financial Reporting*

There have not been any changes in our internal controls over financial reporting during our fiscal quarter ended September 30, 2015 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are subject to litigation and claims arising in the ordinary course of business. We are not currently a party to any material legal proceedings and we are not aware of any pending or threatened legal proceeding against us that we believe could have a material adverse effect on our business, operating results, cash flows or financial condition.

Item 1A. Risk Factors

Our business is subject to numerous risks. You should carefully consider the following risks, as well as general economic and business risks, and all of the other information contained in this Quarterly Report on Form 10-Q, together with any other documents we file with the SEC. Any of the following risks could have a material adverse effect on our business, operating results and financial condition and cause the trading price of our common stock to decline.

Risks Related to Our Financial Position and Capital Needs

We have incurred significant losses since our inception. We expect to incur losses over the next several years and may never achieve or maintain profitability.

We are a clinical-stage specialty pharmaceutical company with limited operating history. Since inception, we have incurred significant net losses. We incurred net losses of $8.5 million and $15.8 million for the year ended December 31, 2014 and the nine months ended September 30, 2015, respectively. As of September 30, 2015, we had an accumulated deficit of $38.1 million. To date, we have financed our operations with $71.5 million in gross proceeds raised in private placements of convertible preferred stock and $56.6 million in aggregate net proceeds from our initial public offering in October 2015. We have no products approved for commercialization and have never generated any revenue.

We have devoted substantially all of our financial resources and efforts to development of our lead drug candidate, A-101 for the treatment of SK, including preclinical studies and clinical trials. We have completed three Phase 2 clinical trials of A-101 in patients with SK. In addition to developing A-101 for the treatment of SK, we are also developing A-101 as a prescription treatment for common warts as well as A-102, a gel dosage form of hydrogen peroxide, as a prescription treatment for SK and common warts. We plan to develop A-201 as an oral treatment for severe forms of AA (alopecia totalis and alopecia universalis) and A-301 as a topical treatment for patchy AA. Therefore, we expect to continue to incur significant expenses and operating losses over the next several years. Our net losses may fluctuate significantly from quarter to quarter and year to year. We anticipate that our expenses will increase substantially as we:

- continue our ongoing clinical trials evaluating A-101 for the treatment of SK;

- pursue regulatory approvals for A-101 for the treatment of SK and for any other drug candidates that successfully complete clinical trials;

- initiate clinical trials of our other drug candidates, including A-101 for the treatment of common warts, A-102 for the treatment of SK and common warts, and A-201 and A-301 for the treatment of AA;

- seek to discover and develop additional drug candidates;

- ultimately establish a commercialization infrastructure and scale up external manufacturing and distribution capabilities to commercialize any drug candidates for which we may obtain regulatory approval;

- seek to in-license or acquire additional drug candidates for other dermatological conditions;

- adapt our regulatory compliance efforts to incorporate requirements applicable to marketed drugs;

- maintain, expand and protect our intellectual property portfolio;

- hire additional clinical, manufacturing and scientific personnel;

- add operational, financial and management information systems and personnel, including personnel to support our drug development and planned future commercialization efforts; and

- incur additional legal, accounting and other expenses in operating as a public company.

To become and remain profitable, we must succeed in developing and eventually commercializing drug candidates that generate significant revenue. This will require us to be successful in a range of challenging activities, including completing preclinical testing and clinical trials of our drug candidates, obtaining regulatory approval, and manufacturing, marketing and selling any drug candidates for which we may obtain regulatory approval, as well as discovering and developing additional

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drug candidates. We are only in the preliminary stages of most of these activities. We may never succeed in these activities and, even if we do, may never generate revenue that is significant enough to achieve profitability.

In cases where we are successful in obtaining regulatory approval to market one or more of our drug candidates, our revenue will be dependent, in part, upon the size of the markets in the territories for which we gain regulatory approval, the accepted price for the product, the ability to obtain coverage and reimbursement, and whether we own the commercial rights for that territory. If the number of our addressable patients is not as significant as we estimate, the indication approved by regulatory authorities is narrower than we expect, or the treatment population is narrowed by competition, physician choice or treatment guidelines, we may not generate significant revenue from sales of such drug products, even if approved.

Because of the numerous risks and uncertainties associated with drug development, we are unable to accurately predict the timing or amount of expenses or when, or if, we will be able to achieve profitability. If we are required by regulatory authorities to perform studies in addition to those expected, or if there are any delays in the initiation and completion of our clinical trials or the development of any of our drug candidates, our expenses could increase.

Even if we achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. Our failure to become and remain profitable would depress the value of our company and could impair our ability to raise capital, expand our business, maintain our development efforts, obtain drug approvals, diversify our offerings or continue our operations. A decline in the value of our company could also cause you to lose all or part of your investment.

We will need substantial additional funding to meet our financial obligations and to pursue our business objectives. If we are unable to raise capital when needed, we could be forced to curtail our planned operations and the pursuit of our growth strategy.

Identifying potential drug candidates and conducting preclinical testing and clinical trials is a time-consuming, expensive and uncertain process that takes years to complete, and we may never generate the necessary data or results required to obtain regulatory approval and achieve product sales. We expect to continue to incur significant expenses and operating losses over the next several years as we commence our Phase 3 clinical trials of A-101 in patients with SK, seek marketing approval for A-101 for the treatment of SK and advance our other drug candidates. In addition, our drug candidates, if approved, may not achieve commercial success. Our revenue, if any, will be derived from sales of drugs that we do not expect to be commercially available for a number of years, if at all. If we obtain marketing approval for A-101 for the treatment of SK or any other drug candidates that we develop, we expect to incur significant commercialization expenses related to product sales, marketing, distribution and manufacturing. We also expect an increase in our expenses associated with creating additional infrastructure to support operations as a public company.

As of September 30, 2015, we had cash, cash equivalents and marketable securities of $38.4 million. Subsequent to September 30, 2015, we received net proceeds of $56.6 million from the initial public offering of our common stock. We believe that the net proceeds from our initial public offering, together with our existing cash and cash equivalents as of the date of this report, will enable us to fund our operating expenses and capital expenditure requirements for at least the next 24 months. This estimate is based on assumptions that may prove to be wrong, and we could use our available capital resources sooner than we expect. Changes may occur beyond our control that would cause us to consume our available capital before that time, including changes in and progress of our development activities, acquisitions of additional drug candidates, and changes in regulation. Our future capital requirements will depend on many factors, including:

- the progress and results of the three Phase 3 clinical trials of A-101 in patients with SK that we plan to commence in the first quarter of 2016;

- the progress and results of the toxicology studies and Phase 2 clinical trials evaluating A-101 as a potential treatment for common warts;

- the scope, progress, results and costs of preclinical development, laboratory testing and clinical trials for our other drug candidates, including A-102, A-201 and A-301;

- the extent to which we in-license or acquire other drug candidates and technologies;

- the number and development requirements of other drug candidates that we may pursue;

- the costs, timing and outcome of regulatory review of our drug candidates;

- the costs and timing of future commercialization activities, including drug manufacturing, marketing, sales and distribution, for any of our drug candidates for which we receive marketing approval;

- the revenue, if any, received from commercial sales of our drug candidates for which we receive marketing approval;

- our ability to establish collaborations to commercialize A-101 outside the United States; and

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- the costs and timing of preparing, filing and prosecuting patent applications, maintaining and enforcing our intellectual property rights and defending any intellectual property-related claims.

We expect that we will require additional capital to commercialize A-101 for the treatment of SK. If we receive regulatory approval for A-101 for this indication, we expect to incur significant commercialization expenses related to product manufacturing, sales, marketing and distribution, depending on where we choose to commercialize. Additional funds may not be available on a timely basis, on favorable terms, or at all, and such funds, if raised, may not be sufficient to enable us to continue to implement our long-term business strategy. If we are unable to raise sufficient additional capital, we could be forced to curtail our planned operations and the pursuit of our growth strategy.

Raising additional capital may cause dilution to our stockholders, restrict our operations or require us to relinquish rights to our technologies or drug candidates.

Until such time, if ever, as we can generate substantial revenue, we may finance our cash needs through a combination of equity offerings, debt financings and license and collaboration agreements. We do not currently have any committed external source of funds. To the extent that we raise additional capital through the sale of equity or convertible debt securities, your ownership interest will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect your rights as a common stockholder. Debt financing and preferred equity financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends.

If we raise additional funds through collaborations, strategic alliances or marketing, distribution or licensing arrangements with third parties, we may be required to relinquish valuable rights to our technologies, future revenue streams or drug candidates or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings when needed, we may be required to delay, limit, reduce or terminate our drug development or future commercialization efforts or grant rights to develop and market drug candidates that we would otherwise prefer to develop and market ourselves.

We have a limited operating history and no history of commercializing drugs, which may make it difficult for you to evaluate the success of our business to date and to assess our future viability.

We commenced operations in 2012, and our operations to date have been largely focused on raising capital and developing A-101 for the treatment of SK, including undertaking preclinical studies and conducting clinical trials. A-101 for the treatment of SK is our only drug candidate for which we have conducted clinical trials. We have not yet demonstrated our ability to successfully complete later-stage clinical trials, obtain regulatory approvals, manufacture a drug on a commercial scale, or arrange for a third party to do so on our behalf, or conduct sales and marketing activities necessary for successful commercialization. Consequently, any predictions you make about our future success or viability may not be as accurate as they could be if we had a longer operating history or a history of successfully developing and commercializing drugs.

We may encounter unforeseen expenses, difficulties, complications, delays and other known or unknown factors in achieving our business objectives. We will need to transition at some point from a company with a development focus to a company capable of supporting commercial activities. We may not be successful in such a transition.

Risks Related to the Development of Our Drug Candidates

We are early in our development efforts and have only one drug candidate, A-101 for the treatment of SK, for which we have conducted clinical trials. If we are unable to successfully develop, receive regulatory approval for and commercialize A-101 for the treatment of SK or any other drug candidates, or experience significant delays in doing so, our business will be harmed.

We currently have no drug products that are approved for commercial sale. We are early in our development efforts and have only one drug candidate, A-101 for the treatment of SK, for which we have conducted Phase 2 clinical trials. We have not completed the development of any drug candidates and we may never be able to develop marketable drugs. We have invested substantially all of our efforts and financial resources in the development of A-101 for the treatment of SK, the development of our other drug candidates and the identification of potential drug candidates. Our ability to generate revenue from our drug candidates, which we do not expect will occur for a number of years, if ever, will depend heavily on their successful development, regulatory approval and eventual commercialization of these drug candidates. The success of A-101 or any other drug candidates that we develop, including A-102, A-201 and A-301, will depend on several factors, including:

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- successful completion of preclinical studies and our clinical trials;
- successful development of our manufacturing processes for any of our drug candidates that receive regulatory approval;
- receipt of timely marketing approvals from applicable regulatory authorities;
- launching commercial sales of drugs, if approved;
- acceptance of our drugs, if approved, by patients, the medical community and third-party payors, and willingness of patients to pay out of pocket for procedures using our drug candidates for the treatment of SK;
- our success in educating physicians and patients about the benefits, administration and use of A-101 or any other drug candidates, if approved;
- the prevalence and severity of adverse events experienced with A-101 or our other drug candidates;
- the availability, perceived advantages, cost, safety and efficacy of alternative treatments for SK;
- obtaining and maintaining patent, trademark and trade secret protection and regulatory exclusivity for our drug candidates and otherwise protecting our rights in our intellectual property portfolio;
- maintaining compliance with regulatory requirements, including current good manufacturing practices, or cGMPs;
- competing effectively with other procedures; and
- maintaining a continued acceptable safety, tolerability and efficacy profile of the drugs following approval.

Whether regulatory approval will be granted is unpredictable and depends upon numerous factors, including the substantial discretion of the regulatory authorities. Our drug candidates success in clinical trials will not guarantee regulatory approval. If, following submission, our NDA for A-101 for the treatment of SK or any other drug candidate is not accepted for substantive review, or even if it is accepted for substantive review, the FDA or other comparable foreign regulatory authorities may require that we conduct additional studies or clinical trials, provide additional data, take additional manufacturing steps, or require other conditions before they will reconsider or approve our application. If the FDA or other comparable foreign regulatory authorities require additional studies, clinical trials or data, we would incur increased costs and delays in the marketing approval process, which may require us to expend more resources than we have available. In addition, the FDA or other comparable foreign regulatory authorities may not consider sufficient any additional required studies, clinical trials, data or information that we perform and complete or generate, or we may decide to abandon the program.

It is possible that A-101 or any of our other drug candidates will never obtain regulatory approval, even if we expend substantial time and resources seeking such approval. If we do not achieve one or more of these factors in a timely manner or at all, we could experience significant delays or an inability to successfully commercialize our drug candidates, which would harm our business.

Clinical drug development involves a lengthy and expensive process, with an uncertain outcome. We may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of our drug candidates.

The risk of failure for our drug candidates is high. It is impossible to predict when or if any of our drug candidates will prove effective or safe in humans or will receive regulatory approval. Before obtaining marketing approval from regulatory authorities for the sale of any drug candidate, we must complete preclinical development and then conduct extensive clinical trials to demonstrate the safety and efficacy of our drug candidates in humans. Clinical testing is expensive, difficult to design and implement, can take many years to complete and is inherently uncertain as to outcome. A failure of one or more clinical trials can occur at any stage of testing. The outcome of preclinical testing and early clinical trials may not be predictive of the success of later clinical trials, and interim results of a clinical trial do not necessarily predict final results. Moreover, preclinical and clinical data are often susceptible to varying interpretations and analyses, and many companies that have believed their drug candidates performed satisfactorily in preclinical studies and clinical trials have nonetheless failed to obtain marketing approval of their drugs.

We have not completed all clinical trials required for the approval of any of our drug candidates. Based on the feedback from our meeting with the FDA in May 2015, we plan to commence three Phase 3 clinical trials of A-101 in patients with SK lesions on the face, trunk and extremities in the first quarter of 2016. We have also received written guidance from the EMA regarding the design of our Phase 3 clinical trials for A-101 for the treatment of SK. The development of our other drug candidates is less advanced and we have not commenced any clinical trials. We cannot assure you that any Phase 3 or other clinical trials that we may conduct will demonstrate consistent or adequate efficacy and safety to obtain regulatory approval to market our drug candidates.

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We may experience numerous unforeseen events during or as a result of clinical trials that could delay or prevent our ability to receive marketing approval or commercialize our drug candidates, including:

- regulators or institutional review boards may not authorize us or our investigators to commence a clinical trial or conduct a clinical trial at a prospective trial site;

- we may experience delays in reaching, or fail to reach, agreement on acceptable clinical trial contracts or clinical trial protocols with prospective trial sites or prospective contract research organizations, or CROs, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;

- clinical trials of our drug candidates may produce negative or inconclusive results, including failure to demonstrate statistical significance, and we may decide, or regulators may require us, to conduct additional clinical trials or abandon drug development programs;

- the number of patients required for clinical trials of our drug candidates may be larger than we anticipate, enrollment in these clinical trials may be slower than we anticipate or participants may drop out of these clinical trials or fail to return for post-treatment follow-up at a higher rate than we anticipate;

- our drug candidates may have undesirable side effects or other unexpected characteristics, causing us or our investigators, regulators or institutional review boards to suspend or terminate the trials;

- our third-party contractors may fail to comply with regulatory requirements or meet their contractual obligations to us in a timely manner, or at all;

- regulators or institutional review boards may require that we or our investigators suspend or terminate clinical development for various reasons, including noncompliance with regulatory requirements or a finding that the participants are being exposed to unacceptable health risks;

- the cost of clinical trials of our drug candidates may be greater than we anticipate; and

- the supply or quality of our drug candidates or other materials necessary to conduct clinical trials of our drug candidates may be insufficient or inadequate.

We could also encounter delays if a clinical trial is suspended or terminated by us, by the institutional review boards of the institutions in which such trials are being conducted, by the data safety monitoring board for such trial or by the FDA or other regulatory authorities. Such authorities may impose such a suspension or termination due to a number of factors, including failure to conduct the clinical trial in accordance with regulatory requirements or our clinical protocols, inspection of the clinical trial operations or trial site by the FDA or other regulatory authorities resulting in the imposition of a clinical hold, unforeseen safety issues or adverse side effects, failure to demonstrate a benefit from using a drug, changes in governmental regulations or administrative actions or lack of adequate funding to continue the clinical trial. In addition, if the FDA does not support our proposed design and clinical endpoints for our Phase 3 clinical trials for A-101, our clinical trials could be delayed. If we experience delays in the completion of, or termination of, any clinical trial of our drug candidates, the commercial prospects of our drug candidates will be harmed, and our ability to generate product revenues from any of these drug candidates will be delayed. In addition, any delays in completing our clinical trials will increase our costs, slow down our drug candidate development and approval process and jeopardize our ability to commence product sales and generate revenues. Any of these occurrences may harm our business, financial condition and prospects significantly. In addition, many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may

also ultimately lead to the denial of regulatory approval of our drug candidates. If we are required to conduct additional clinical trials or other testing of our drug candidates beyond those that we currently contemplate, if we are unable to successfully complete clinical trials of our drug candidates or other testing, if the results of these trials or tests are not favorable or if there are safety concerns, we may:

- be delayed in obtaining marketing approval for our drug candidates;
- not obtain marketing approval at all;
- obtain approval for indications or patient populations that are not as broad as intended or desired;
- obtain approval with labeling that includes significant use or distribution restrictions or safety warnings;
- be subject to additional post-marketing testing requirements; or
- have the drug removed from the market after obtaining marketing approval.

Our drug development costs will also increase if we experience delays in testing or marketing approvals. We do not know whether any of our preclinical studies or clinical trials will begin as planned, will need to be restructured or will be completed on schedule, or at all. Significant preclinical study or clinical trial delays also could shorten any periods during which we may have the exclusive right to commercialize our drug candidates or allow our competitors to bring drugs to market before we do and impair our ability to successfully commercialize our drug candidates.

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If we experience delays or difficulties in the enrollment of patients in clinical trials, our receipt of necessary regulatory approvals could be delayed or prevented.

Successful and timely completion of clinical trials will require that we enroll a sufficient number of patients. Patient enrollment, a significant factor in the timing of clinical trials, is affected by many factors including the size and nature of the patient population. Trials may be subject to delays as a result of patient enrollment taking longer than anticipated or patient withdrawal. We may not be able to initiate or continue clinical trials for our drug candidates if we are unable to locate and enroll a sufficient number of eligible patients to participate in these trials as required by the FDA or similar regulatory authorities outside the United States. We cannot predict how successful we will be at enrolling subjects in future clinical trials. Subject enrollment is affected by other factors including:

- the eligibility criteria for the trial in question;
- the perceived risks and benefits of the drug candidate in the trial;
- the availability of drugs approved to treat the skin disease in the trial;
- the efforts to facilitate timely enrollment in clinical trials;
- the patient referral practices of physicians;
- the ability to monitor patients adequately during and after treatment; and
- the proximity and availability of clinical trial sites for prospective patients.

Our inability to enroll a sufficient number of patients for clinical trials would result in significant delays and could require us or them to abandon one or more clinical trials altogether. Enrollment delays in these clinical trials may result in increased development costs for our drug candidates, which would cause the value of our company to decline and limit our ability to obtain additional financing. Furthermore, we rely on and expect to continue to rely on CROs and clinical trial sites to ensure the proper and timely conduct of our clinical trials and we will have limited influence over their performance.

Our clinical trials may fail to demonstrate the safety and efficacy of our drug candidates, or serious adverse or unacceptable side effects may be identified during the development of our drug candidates, which could prevent or delay regulatory approval and commercialization, increase our costs or necessitate the abandonment or limitation of the development of some of our drug candidates.

Before obtaining regulatory approvals for the commercial sale of our drug candidates, we must demonstrate through lengthy, complex and expensive preclinical testing and clinical trials that our drug candidates are both safe and effective for use in each target indication, and failures can occur at any stage of testing. Clinical trials often fail to demonstrate safety and efficacy of the drug candidate studied for the target indication.

If our drug candidates are associated with side effects in clinical trials or have characteristics that are unexpected, we may need to abandon their development or limit development to more narrow uses in which the side effects or other characteristics are less prevalent, less severe or more acceptable from a risk-benefit perspective. The FDA or an institutional review board may also require that we suspend, discontinue, or limit our clinical trials based on safety information. Such findings could further result in regulatory authorities failing to provide marketing authorization for our drug candidates. Many drug candidates that initially showed promise in early stage testing have later been found to cause side effects that prevented further development of the drug candidate.

Additionally, if one or more of our drug candidates receives marketing approval, and we or others identify undesirable side effects caused by such drugs, a number of potentially significant negative consequences could result, including:

- regulatory authorities may withdraw approvals of such product;
- regulatory authorities may require additional warnings on the labels;
- we may be required to create a medication guide outlining the risks of such side effects for distribution to patients;
- we could be sued and held liable for harm caused to patients; and
- our reputation and physician or patient acceptance of our products may suffer.

Any of these events could prevent us from achieving or maintaining market acceptance of the particular drug candidate, if approved, and could significantly harm our business, results of operations and prospects.

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Changes in methods of drug candidate manufacturing or formulation may result in additional costs or delay.

As drug candidates are developed through preclinical studies to late-stage clinical trials towards approval and commercialization, it is common that various aspects of the development program, such as manufacturing methods and formulation, are altered along the way in an effort to optimize processes and results. Such changes carry the risk that they will not achieve these intended objectives. Any of these changes could cause our drug candidates to perform differently and affect the results of planned clinical trials or other future clinical trials conducted with the altered materials. For example, if we need to manufacture A-102, we may experience difficulties manufacturing a stable gel dosage form as opposed to a topical solution. Such changes may also require additional testing, FDA notification or FDA approval. This could delay completion of clinical trials, require the conduct of bridging clinical trials or the repetition of one or more clinical trials, increase clinical trial costs, delay approval of our drug candidates and jeopardize our ability to commence sales and generate revenue.

We may not be successful in our efforts to increase our pipeline of drug candidates, including by in-licensing or acquiring additional drug candidates for other dermatological conditions.

A key element of our strategy is to build and expand our pipeline of drug candidates. In addition, we intend to in-license or acquire additional drug candidates for other dermatological conditions to build a fully integrated dermatology company. We may not be able to identify or develop drug candidates that are safe, tolerable and effective. Even if we are successful in continuing to build our pipeline, the potential drug candidates that we identify, in-license or acquire may not be suitable for clinical development, including as a result of being shown to have harmful side effects or other characteristics that indicate that they are unlikely to be drugs that will receive marketing approval and achieve market acceptance.

We may expend our limited resources to pursue a particular drug candidate or indication and fail to capitalize on drug candidates or indications that may be more profitable or for which there is a greater likelihood of success.

Because we have limited financial and management resources, we focus on development programs and drug candidates that we identify for specific indications. As such, we are currently primarily focused on the development of A-101 for the treatment of SK. As a result, we may forego or delay pursuit of opportunities with other drug candidates or for other indications that later prove to have greater commercial potential. Our resource allocation decisions may cause us to fail to capitalize on viable commercial drugs or profitable market opportunities. Our spending on current and future development programs and drug candidates for specific indications may not yield any commercially viable drugs. If we do not accurately evaluate the commercial potential or target market for a particular drug candidate, we may relinquish valuable rights to that drug candidate through collaboration, licensing or other royalty arrangements in cases in which it would have been more advantageous for us to retain sole development and commercialization rights to such drug candidate.

Risks Related to the Commercialization of Our Drug Candidates

Even if any of our drug candidates receives marketing approval, it may fail to achieve the degree of market acceptance by physicians, patients, third-party payors and others in the medical community necessary for commercial success.

If any of our drug candidates receives marketing approval, it may nonetheless fail to gain sufficient market acceptance by physicians, patients, third-party payors and others in the medical community. If our drug candidates do not achieve an adequate level of acceptance, we may not generate significant revenue and we may not become profitable. The degree of market acceptance of our drug candidates, if approved for commercial sale, will depend on a number of factors, including:

- the efficacy, safety and potential advantages compared to alternative treatments;
- our ability to offer our drugs for sale at competitive prices;
- the ability of dermatologists to charge a premium for A-101 and our other drug candidates;
- the convenience and ease of administration compared to alternative treatments;
- the willingness of the target patient population to try new treatments and of physicians to prescribe these treatments;
- our ability to hire and retain a sales force in the United States;
- the strength of marketing and distribution support;
- the willingness of patients to pay out of pocket for procedures using A-101 for the treatment of SK;
- the availability of third-party coverage and adequate reimbursement;
- the prevalence and severity of any side effects; and
- any restrictions on the use of our drugs together with other medications.

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If we are unable to establish sales, marketing and distribution capabilities for A-101 or any other drug candidate that may receive regulatory approval, we may not be successful in commercializing those drug candidates if and when they are approved.

We do not have sales or marketing infrastructure. To achieve commercial success for A-101 and any other drug candidate for which we may obtain marketing approval, we will need to establish a sales and marketing organization. In the future, we expect to build a focused sales and marketing infrastructure to market or co-promote some of our drug candidates in the United States, if and when they are approved. There are risks involved with establishing our own sales, marketing and distribution capabilities. For example, recruiting and training a sales force is expensive and time consuming and could delay any drug launch. If the commercial launch of a drug candidate for which we recruit a sales force and establish marketing capabilities is delayed or does not occur for any reason, we would have prematurely or unnecessarily incurred these commercialization expenses. This may be costly, and our investment would be lost if we cannot retain or reposition our sales and marketing personnel.

Factors that may inhibit our efforts to commercialize our drugs on our own include:

- our inability to recruit, train and retain adequate numbers of effective sales and marketing personnel;
- the inability of sales personnel to obtain access to physicians or persuade adequate numbers of physicians to prescribe any future drugs;
- the lack of complementary drugs to be offered by sales personnel, which may put us at a competitive disadvantage relative to companies with more extensive product lines; and
- unforeseen costs and expenses associated with creating an independent sales and marketing organization.

If we are unable to establish our own sales, marketing and distribution capabilities and enter into arrangements with third parties to perform these services, our revenue and our profitability, if any, are likely to be lower than if we were to sell, market and distribute any drugs that we develop ourselves. In addition, we may not be successful in entering into arrangements with third parties to sell, market and distribute our drug candidates or may be unable to do so on terms that are favorable to us. We likely will have little control over such third parties, and any of them may fail to devote the necessary resources and attention to sell and market our drugs effectively. If we do not establish sales, marketing and distribution capabilities successfully, either on our own or in collaboration with third parties, we will not be successful in commercializing our drug candidates.

We face substantial competition, which may result in others discovering, developing or commercializing drugs before or more successfully than we do.

The development and commercialization of new drugs is highly competitive. We face competition with respect to our current drug candidates, and will face competition with respect to any drug candidates that we may seek to develop or commercialize in the future, from many different sources, including major pharmaceutical and specialty pharmaceutical companies, academic institutions and governmental agencies and public and private research institutions.

With respect to A-101 for the treatment of SK, we are aware of one biopharmaceutical company developing a combination drug candidate that targets SK, and another company that currently markets a line of cosmetic products targeting skin conditions, including SK.

With respect to A-101 for the treatment of common warts, we are aware of one company developing a prescription treatment for common warts and another company that intends to initiate a Phase 2 clinical trial of a gel as a prescription treatment for common warts. In addition, other drugs have been used off-label as treatments for common warts. We could also encounter competition from over-the-counter treatments for common warts.

With respect to A-201 and A-301 for the treatment of AA, we anticipate competing with sensitizing agents such as diphencyprone, or DPCP, and topical, intralesional and systemic corticosteroids, which have been found to occasionally reduce symptoms of AA. Other treatments utilized for patchy AA include anthralin and minoxidil solution. We may also compete with companies developing chemical agents to be used in topical immunotherapies, as well as companies developing biologics, immunosuppressive agents, laser therapy, phototherapy, other JAK inhibitors and prostaglandin analogues to treat AA.

Our commercial opportunity could be reduced or eliminated if our competitors develop and commercialize drugs that are safer, more effective, have fewer or less severe side effects, are more convenient or are less expensive than A-101 or any

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other drug that we may develop. Our competitors also may obtain FDA or other regulatory approval for their drugs more rapidly than we may obtain approval for our drug, which could result in our competitors establishing a strong market position before we are able to enter the market.

Many of the companies against which we are competing, or against which we may compete in the future, have significantly greater financial resources and expertise in research and development, manufacturing, preclinical testing, conducting clinical trials, obtaining regulatory approvals and marketing approved drugs than we do. Mergers and acquisitions in the pharmaceutical and biotechnology industries may result in even more resources being concentrated among a smaller number of our competitors. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. These competitors also compete with us in recruiting and retaining qualified scientific and management personnel and establishing clinical trial sites and patient registration for clinical trials, as well as in acquiring technologies complementary to, or that may be necessary for, our programs.

We expect third-party payors generally will not cover the use of our drug candidates for the treatment of SK and, accordingly, our success will be dependent upon the willingness of patients to pay out of pocket for procedures using these drug candidates.

We do not expect third-party payors to cover and reimburse providers who use A-101 or A-102 on patients for the treatment of SK. Payors generally do not reimburse the provider for the product used to remove non-malignant lesions, including SK. In addition, they do not generally reimburse providers for the procedure removing such lesions, since the procedure is considered to be cosmetic in nature, unless there is a medical need to remove the lesion such as confirming a diagnosis with a biopsy or treating SK that are causing the patient physical discomfort. We anticipate that in some cases, our drug candidates will be used to remove SK lesions that are inflamed and causing the patient discomfort. Any reduction in reimbursement for the procedure to remove inflamed SK may result in a higher percentage of patients needing to pay out of pocket for treatment with our drug candidates. Accordingly, the commercial success of A-101 and A-102 depends on the extent to which patients will be willing to pay out of pocket for the in-office procedure using these drug candidates.

The success of our drug candidates for the treatment of common warts will depend significantly on continued coverage and adequate reimbursement or the willingness of patients to pay for these procedures.

In the case of A-101 and A-102 for the treatment of common warts, we believe our success depends on continued coverage and adequate reimbursement for in-office wart treatment procedures or, in the absence of coverage and adequate reimbursement, on the extent to which patients will be willing to pay out of pocket for the in-office procedures that include our drug candidates.

Third-party payors determine which medical procedures they will cover and establish reimbursement levels. Even if a third-party payor covers a particular procedure, the resulting reimbursement payment rates may not be adequate. Patients who are treated in-office for a medical condition generally rely on third-party payors to reimburse all or part of the costs associated with the procedure and may be unwilling to undergo such procedures for the removal of warts in the absence of such coverage and reimbursement. Physicians may be unlikely to offer procedures for the treatment of warts if they are not covered by insurance and may be unlikely to purchase and use our product for warts unless coverage is provided and reimbursement is adequate.

Reimbursement by a third-party payor may depend upon a number of factors, including the third-party payor s determination that a procedure is neither cosmetic, experimental, nor investigational; safe, effective, and medically necessary; appropriate for the specific patient; cost-effective;

supported by peer-reviewed medical journals; and included in clinical practice guidelines.

Further, from time to time, typically on an annual basis, payment rates are updated and revised by third-party payors. To the extent that the procedures using our drug candidates, if approved, are covered, the cost of our products are generally recovered by the healthcare provider as part of the payment for performing a procedure and not separately reimbursed. Accordingly, these updates could impact the demand for our drug candidates, if approved. An example of payment updates is the Medicare program updates to physician payments, which is done on an annual basis using a prescribed statutory formula. In the past, when the application of the formula resulted in lower payment, Congress has passed interim legislation to prevent the reductions. Most recently, the Protecting Access to Medicare Act of 2014, signed into law in April 2014, provided for a 0.5% update from 2013 payment rates under the Medicare Physician Fee Schedule through 2014 and a 0% update from January 1 until March 31, 2015. If Congress fails to intervene to prevent the negative update factor in future years, the resulting decrease in payment may adversely affect our revenue and results of operations. In addition, the Medicare physician

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fee schedule has been adapted by some private payors into their plan-specific physician payment schedule. We cannot predict how pending and future healthcare legislation will impact our business, and any changes in coverage and reimbursement that further restricts coverage of our drug candidates or lowers reimbursement for procedures using our products could harm our business.

Foreign governments also have their own healthcare reimbursement systems, which vary significantly by country and region, and we cannot be sure that coverage and adequate reimbursement will be made available with respect to the treatments in which our drugs are used under any foreign reimbursement system.

There can be no assurance that our drug candidates for the treatment of common warts, if they are approved for sale in the United States or in other countries, will be considered medically reasonable and necessary, that they will be considered cost-effective by third-party payors, that coverage or an adequate level of reimbursement will be available, or that reimbursement policies and practices in the United States and in foreign countries where our products are sold will not adversely affect our ability to sell our drugs candidates profitably if they are approved for sale.

Product liability lawsuits against us could cause us to incur substantial liabilities and to limit commercialization of any drugs that we may develop.

We face an inherent risk of product liability exposure related to the testing of our drug candidates in human clinical trials and will face an even greater risk if we commercially sell any drugs that we may develop. If we cannot successfully defend ourselves against claims that our drug candidates or drugs caused injuries, we will incur substantial liabilities. Regardless of merit or eventual outcome, liability claims may result in:

- decreased demand for any drug candidates or drugs that we may develop;
- injury to our reputation and significant negative media attention;
- withdrawal of clinical trial participants;
- significant costs to defend the related litigation;
- substantial monetary awards paid to trial participants or patients;
- loss of revenue;
- reduced resources of our management to pursue our business strategy; and
- the inability to commercialize any drugs that we may develop.

We currently hold $5.0 million in product liability insurance coverage in the aggregate, with a per incident limit of $5.0 million, which may not be adequate to cover all liabilities that we may incur. We may need to increase our insurance coverage as we expand our clinical trials or if we commence commercialization of our drug candidates. Insurance coverage is increasingly expensive. We may not be able to maintain insurance coverage at a reasonable cost or in an amount adequate to satisfy any liability that may arise.

Our business and operations would suffer in the event of computer system failures, cyber-attacks or a deficiency in our cyber-security.

Despite the implementation of security measures, our internal computer systems, and those of third parties on which we rely, are vulnerable to damage from computer viruses, malware, natural disasters, terrorism, war, telecommunication and electrical failures, cyber-attacks or cyber-intrusions over the Internet, attachments to emails, persons inside our organization, or persons with access to systems inside our organization. The risk of a security breach or disruption, particularly through cyber-attacks or cyber intrusion, including by computer hackers, foreign governments, and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. If such an event were to occur and cause interruptions in our operations, it could result in a material disruption of our drug development programs. For example, the loss of clinical trial data from completed or ongoing or planned clinical trials could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. To the extent that any disruption or security breach was to result in a loss of or damage to our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur material legal claims and liability, damage to our reputation, and the further development of our drug candidates could be delayed.

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Risks Related to Our Dependence on Third Parties

We will rely on third parties to conduct our future clinical trials for drug candidates, and those third parties may not perform satisfactorily, including failing to meet deadlines for the completion of such trials.

We have engaged a CRO to conduct our planned clinical trials of A-101 and expect to engage a CRO to conduct clinical trails of our other drug candidates that may progress to clinical development. We expect to continue to rely on third parties, such as clinical data management organizations, medical institutions and clinical investigators, to conduct those clinical trials. If any of our relationships with these third parties terminate, we may not be able to timely enter into arrangements with alternative third parties or to do so on commercially reasonable terms, if at all. In addition, any third parties conducting our clinical trials will not be our employees, and except for remedies available to us under our agreements with such third parties, we cannot control whether or not they devote sufficient time and resources to our clinical programs. If these third parties do not successfully carry out their contractual duties or obligations or meet expected deadlines, if they need to be replaced or if the quality or accuracy of the clinical data they obtain is compromised due to the failure to adhere to our clinical protocols, regulatory requirements or for other reasons, our clinical trials may be extended, delayed or terminated and we may not be able to obtain regulatory approval for or successfully commercialize our drug candidates. Consequently, our results of operations and the commercial prospects for our drug candidates would be harmed, our costs could increase substantially and our ability to generate revenue could be delayed significantly.

Switching or adding CROs involves substantial cost and requires management time and focus. In addition, there is a natural transition period when a new CRO commences work. As a result, delays occur, which can materially impact our ability to meet our desired clinical development timelines. Though we intend to carefully manage our relationships with our CROs, there can be no assurance that we will not encounter challenges or delays in the future or that these delays or challenges will not have a material adverse impact on our business, financial condition and prospects.

We rely on these parties for execution of our preclinical studies and clinical trials, and generally do not control their activities. Our reliance on these third parties for research and development activities will reduce our control over these activities but will not relieve us of our responsibilities. For example, we will remain responsible for ensuring that each of our clinical trials is conducted in accordance with the general investigational plan and protocols for the trial. Moreover, the FDA requires us to comply with standards, commonly referred to as good clinical practices, or GCPs, for conducting, recording and reporting the results of clinical trials to assure that data and reported results are credible and accurate and that the rights, integrity and confidentiality of trial participants are protected. We also are required to register ongoing clinical trials and post the results of completed clinical trials on a government-sponsored database, ClinicalTrials.gov, within specified timeframes. Failure to do so can result in fines, adverse publicity and civil and criminal sanctions. If we or any of our CROs fail to comply with applicable GCPs, the clinical data generated in our clinical trials may be deemed unreliable and the FDA, EMA or comparable foreign regulatory authorities may require us to perform additional clinical trials before approving our marketing applications. We cannot assure you that upon inspection by a given regulatory authority, such regulatory authority will determine that any of our clinical trials complies with GCP regulations. In addition, our clinical trials must be conducted with product produced under cGMP regulations. Our failure to comply with these regulations may require us to repeat clinical trials, which would delay the regulatory approval process.

We also expect to rely on other third parties to store and distribute drug supplies for our clinical trials. Any performance failure on the part of our distributors could delay clinical development or marketing approval of our drug candidates or commercialization of our drugs, producing additional losses and depriving us of potential revenue.

We contract with third parties for the manufacture of A-101 for preclinical and clinical testing and expect to continue to do so for commercialization. This reliance on third parties increases the risk that we will not have sufficient quantities of A-101 or such quantities at an acceptable cost, which could delay, prevent or impair our development or commercialization efforts.

We do not have any manufacturing facilities or personnel. We currently rely, and expect to continue to rely, on third parties for the manufacture of A-101 for preclinical and clinical testing, as well as for commercial manufacture if any of our drug candidates, including A-101, receive marketing approval. For example, we have entered into an exclusive, ten-year, automatically renewable supply agreement with PeroxyChem, a manufacturer of hydrogen peroxide, to provide the active pharmaceutical ingredient that can be used in A-101 for the treatment of SK. This reliance on third parties increases the risk that we will not have sufficient quantities of A-101 or such quantities at an acceptable cost or quality, which could delay, prevent or impair our ability to timely conduct our clinical trials or our other development or commercialization efforts.

We also expect to rely on third-party manufacturers or third-party collaborators for the manufacture of commercial supply of A-101 or any other drug candidates for which we obtain marketing approval. The facilities used by our contract manufacturers to manufacture our drug candidates must be approved by the FDA or other regulatory authorities pursuant to inspections that will be conducted after we submit our NDA or comparable marketing application to the FDA or other regulatory authority. We do not have control over a supplier s or manufacturer s compliance with laws, regulations and applicable cGMP standards and other laws and regulations, such as those related to environmental health and safety matters.

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If our contract manufacturers cannot successfully manufacture material that conforms to our specifications and the strict regulatory requirements of the FDA or others, they will not be able to secure and maintain regulatory approval for their manufacturing facilities. In addition, we have no control over the ability of our contract manufacturers to maintain adequate quality control, quality assurance and qualified personnel. If the FDA or a comparable foreign regulatory authority does not approve these facilities for the manufacture of our drug candidates or if it withdraws any such approval in the future, we may need to find alternative manufacturing facilities, which would significantly impact our ability to develop, obtain regulatory approval for or market our drug candidates, if approved.

We may be unable to establish any agreements with future third-party manufacturers or to do so on acceptable terms. Even if we are able to establish agreements with third-party manufacturers, reliance on third-party manufacturers entails additional risks, including:

- reliance on the third party for regulatory compliance and quality assurance;
- the possible breach of the manufacturing agreement by the third party;
- the possible misappropriation of our proprietary information, including our trade secrets and know-how;
- the possible increase in costs by PeroxyChem for the active pharmaceutical ingredient in A-101; and
- the possible termination or nonrenewal of the agreement by the third party at a time that is costly or inconvenient for us.

Third-party manufacturers may not be able to comply with cGMP regulations or similar regulatory requirements outside the United States. Our failure, or the failure of our third-party manufacturers, to comply with applicable regulations could result in sanctions being imposed on us, including clinical holds, fines, injunctions, civil penalties, delays, suspension or withdrawal of approvals, license revocation, seizures or recalls of drug candidates or drugs, operating restrictions and criminal prosecutions, any of which could significantly and adversely affect supplies of our drugs.

Our drug candidates and any drugs that we may develop may compete with other drug candidates and drugs for access to manufacturing facilities. There are a limited number of manufacturers that operate under cGMP regulations and that might be capable of manufacturing for us. Any performance failure on the part of our existing or future manufacturers could delay clinical development or marketing approval. We do not currently have arrangements in place for redundant supply or a second source for the components of A-101.

If our current contract manufacturers cannot perform as agreed, we may be required to replace such manufacturers. We may incur added costs and delays in identifying and qualifying any such replacement.

We expect to continue to depend on third-party contract manufacturers for the foreseeable future. Our current and anticipated future dependence upon others for the manufacture of our drug candidates or drugs may adversely affect our future profit margins and our ability to commercialize any drugs that receive marketing approval on a timely and competitive basis.

We may seek collaborations with third parties for the development or commercialization of our drug candidates. If those collaborations are not successful, we may not be able to capitalize on the market potential of these drug candidates.

We may seek third-party collaborators for the development and commercialization of our drug candidates, including for the commercialization of any of our drug candidates that are approved for marketing outside the United States. Our likely collaborators for any collaboration arrangements include large and mid-size pharmaceutical companies, regional and national pharmaceutical companies and biotechnology companies. If we do enter into any such arrangements with any third parties, we will likely have limited control over the amount and timing of resources that our collaborators dedicate to the development or commercialization of our drug candidates. Our ability to generate revenue from these arrangements will depend on our collaborators abilities to successfully perform the functions assigned to them in these arrangements.

Collaborations involving our drug candidates would pose the following risks to us:

- collaborators have significant discretion in determining the efforts and resources that they will apply to these collaborations;
- collaborators may not perform their obligations as expected;
- collaborators may not pursue development and commercialization of any drug candidates that achieve regulatory approval or may elect not to continue or renew development or commercialization programs based on clinical trial

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results, changes in the collaborators strategic focus or available funding, or external factors, such as an acquisition, that divert resources or create competing priorities;

- collaborators may delay clinical trials, provide insufficient funding for a clinical trial program, stop a clinical trial or abandon a drug candidate, repeat or conduct new clinical trials or require a new formulation of a drug candidate for clinical testing;

- collaborators could independently develop, or develop with third parties, products that compete directly or indirectly with our drug candidates if the collaborators believe that competitive products are more likely to be successfully developed or can be commercialized under terms that are more economically attractive than ours;

- drug candidates discovered in collaboration with us may be viewed by our collaborators as competitive with their own drug candidates or drugs, which may cause collaborators to cease to devote resources to the commercialization of our drug candidates;

- a collaborator with marketing and distribution rights to one or more of our drug candidates that achieve regulatory approval may not commit sufficient resources to the marketing and distribution of such drugs;

- disagreements with collaborators, including disagreements over proprietary rights, contract interpretation or the preferred course of development, might cause delays or termination of the research, development or commercialization of drug candidates, might lead to additional responsibilities for us with respect to drug candidates, or might result in litigation or arbitration, any of which would be time-consuming and expensive;

- collaborators may not properly maintain or defend our or their intellectual property rights or may use our or their proprietary information in such a way as to invite litigation that could jeopardize or invalidate such intellectual property or proprietary information or expose us to potential litigation;

- collaborators may infringe the intellectual property rights of third parties, which may expose us to litigation and potential liability; and

- collaborations may be terminated for the convenience of the collaborator and, if terminated, we could be required to raise additional capital to pursue further development or commercialization of the applicable drug candidates.

Collaboration agreements may not lead to development or commercialization of drug candidates in the most efficient manner or at all. If a present or future collaborator of ours were to be involved in a business combination, the continued pursuit and emphasis on our drug development or commercialization program could be delayed, diminished or terminated.

If we are not able to establish collaborations, we may have to alter our development and commercialization plans.

Our drug development programs and the potential commercialization of our drug candidates will require substantial additional capital. For some of our drug candidates, we may decide to collaborate with pharmaceutical and biotechnology companies for the development and potential

commercialization of those drug candidates.

We face significant competition in seeking appropriate collaborators. Whether we reach a definitive agreement for a collaboration will depend, among other things, upon our assessment of the collaborator s resources and expertise, the terms and conditions of the proposed collaboration and the proposed collaborator s evaluation of a number of factors. Those factors may include the design or results of clinical trials, the likelihood of approval by the FDA or similar regulatory authorities outside the United States, the potential market for the subject drug candidate, the costs and complexities of manufacturing and delivering such drug candidate to patients, the potential of competing products, the existence of uncertainty with respect to our ownership of technology, which can exist if there is a challenge to such ownership without regard to the merits of the challenge and industry and market conditions generally. The collaborator may also consider alternative drug candidates or technologies for similar indications that may be available to collaborate on and whether such a collaboration could be more attractive than the one with us for our drug candidate. Collaborations are complex and time-consuming to negotiate and document. In addition, there have been a significant number of recent business combinations among large pharmaceutical companies that have resulted in a reduced number of potential future collaborators.

We may not be able to negotiate collaborations on a timely basis, on acceptable terms, or at all. If we are unable to do so, we may have to curtail the development of such drug candidate, reduce or delay its development program or one or more of our other development programs, delay its potential commercialization or reduce the scope of any sales or marketing activities, or increase our expenditures and undertake development or commercialization activities at our own expense. If we elect to increase our expenditures to fund development or commercialization activities on our own, we may need to obtain additional capital, which may not be available to us on acceptable terms or at all. If we do not have sufficient funds, we may not be able to further develop our drug candidates or bring them to market and generate revenue.

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Risks Related to Our Intellectual Property

If we are unable to obtain and maintain patent protection for our drug candidates, or if the scope of the patent protection obtained is not sufficiently broad, our competitors could develop and commercialize technology and drugs similar or identical to ours, and our ability to successfully commercialize our technology and drug candidates may be impaired.

Our success depends in large part on our ability to obtain and maintain patent protection in the United States and other countries with respect to our drug candidates. We seek to protect our proprietary position by filing patent applications in the United States and abroad related to our drug candidates.

The patent prosecution process is expensive and time-consuming, however, and we may not be able to file and prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. It is also possible that we will fail to identify patentable aspects of our development output before it is too late to obtain patent protection. We may not have the right to control the preparation, filing and prosecution of patent applications, or to maintain the rights to patents licensed to third parties. Therefore, these patents and applications may not be prosecuted and enforced in a manner consistent with the best interests of our business.

The patent position of biotechnology and pharmaceutical companies generally is highly uncertain, involves complex legal and factual questions and has in recent years been the subject of much litigation. In addition, the laws of foreign countries may not protect our rights to the same extent as the laws of the United States or vice versa. For example, European patent law restricts the patentability of methods of treatment of the human body more than United States law does. Publications of discoveries in the scientific literature often lag behind the actual discoveries, and patent applications in the United States and other jurisdictions are typically not published until 18 months after filing, or in some cases not at all. Therefore, we cannot know with certainty whether we or our licensors were the first to make the inventions claimed in our patents or pending patent applications, or that we or our licensors were the first to file for patent protection of such inventions. As a result, the issuance, scope, validity, enforceability and commercial value of our patent rights are highly uncertain. Our pending and future patent applications may not result in patents being issued that protect our technology or drugs, in whole or in part, or which effectively prevent others from commercializing competitive technologies and drugs. Changes in either the patent laws or interpretation of the patent laws in the United States and other countries may diminish the value of our patents or narrow the scope of our patent protection.

Recent patent reform legislation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents. On September 16, 2011, the Leahy-Smith America Invents Act, or the Leahy-Smith Act, was signed into law. The Leahy-Smith Act includes a number of significant changes to United States patent law. These include provisions that affect the way patent applications are prosecuted and may also affect patent litigation. The United States Patent Office recently developed new regulations and procedures to govern administration of the Leahy-Smith Act, and many of the substantive changes to patent law associated with the Leahy-Smith Act, and in particular, the first to file provisions, only became effective on March 16, 2013. Accordingly, it is not clear what, if any, impact the Leahy-Smith Act will have on the operation of our business. However, the Leahy-Smith Act and its implementation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents, all of which could have a material adverse effect on our business and financial condition.

Moreover, we may be subject to a third-party preissuance submission of prior art to the U.S. Patent and Trademark Office, or USPTO, or become involved in opposition, derivation, reexamination, *inter partes* review, post-grant review or interference proceedings challenging our patent rights or the patent rights of others. An adverse determination in any such submission, proceeding or litigation could reduce the scope of, or invalidate, our patent rights, allow third parties to commercialize our technology or drugs and compete directly with us, without payment to

us, or result in our inability to manufacture or commercialize drugs without infringing third-party patent rights. In addition, if the breadth or strength of protection provided by our patents and patent applications that we own or license is threatened, it could dissuade companies from collaborating with us to license, develop or commercialize current or future drug candidates.

Even if our patent applications that we own or license issue as patents, they may not issue in a form that will provide us with any meaningful protection, prevent competitors from competing with us or otherwise provide us with any competitive advantage. Our competitors may be able to circumvent our patents by developing similar or alternative technologies or drugs in a non-infringing manner.

In addition, the issuance of a patent is not conclusive as to its inventorship, scope, validity or enforceability, and our patents may be challenged in the courts or patent offices in the United States and abroad. Such challenges may result in loss of exclusivity or freedom to operate or in patent claims being narrowed, invalidated or held unenforceable, in whole or in part, which could limit our ability to stop others from using or commercializing similar or identical technology and drugs, or

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limit the duration of the patent protection of our technology and drugs. Our issued U.S. patents, with claims directed to treatment of SK and acrochordons with A-101, are scheduled to expire in 2022. Certain issued U.S. patents relating to our JAK inhibitors, A-201 and A-301, are scheduled to expire in 2023 and additional U.S. patents, with claims specifically directed to our JAK inhibitors, are scheduled to expire in 2030. Given the amount of time required for the development, testing and regulatory review of new drug candidates, patents protecting such candidates might expire before or shortly after such candidates are commercialized. As a result, our patent portfolio may not provide us with sufficient rights to exclude others from commercializing drugs similar or identical to ours.

We may become involved in lawsuits to protect or enforce our patents or other intellectual property, which could be expensive, time-consuming and unsuccessful.

Competitors may infringe our issued patents or other intellectual property. Our pending applications cannot be enforced against third parties practicing the technology claimed in such applications unless and until a patent issues from such applications. To counter infringement or unauthorized use, we may be required to file infringement claims, which can be expensive and time-consuming. Any claims we assert against perceived infringers could provoke these parties to assert counterclaims against us alleging that we infringe their patents or that our patents are invalid or unenforceable. In a patent infringement proceeding, a court may decide that a patent of ours is invalid or unenforceable, in whole or in part, construe the patent s claims narrowly or refuse to stop the other party from using the technology at issue on the grounds that our patents do not cover the technology. An adverse result in any litigation proceeding could put one or more of our patents at risk of being invalidated or interpreted narrowly. We may find it impractical or undesirable to enforce our intellectual property against some third parties. For instance, we are aware of third parties that have marketed high-concentration hydrogen peroxide solutions over the internet for the treatment of SK. These parties do not appear to have regulatory authority, and we have not authorized them in any way to market these products. However, to date we have refrained from seeking to enforce our intellectual property rights against these third parties due to the transient nature of their activities. With respect to A-201 and A-301, if we do not elect to exercise our first right to do so, Rigel may enforce the licensed patents relating to A-201 and A-301 against any infringing third party in the field of dermatology. In addition, Rigel has the first right, but not the obligation, to enforce the licensed patents relating to A-201 and A-301 against any infringing party outside of the field of dermatology.

If we breach our license and collaboration agreement with Rigel, it could compromise our development and commercialization efforts for our JAK inhibitors.

In August 2015, we entered into an exclusive license and collaboration agreement with Rigel, which grants us the rights to certain patent rights and other intellectual property owned by Rigel relating to our JAK inhibitors. If we materially breach or fail to perform any provision under this license agreement, including failure to make payments to Rigel when due for royalties and failure to use commercially reasonable efforts to develop and commercialize a JAK inhibitor, Rigel has the right to terminate our license, and upon the effective date of such termination, our right to practice the licensed Rigel patent rights and other intellectual property would end. Any uncured, material breach under the license agreement could result in our loss of rights to practice the patent rights and other intellectual property licensed to us under the license and collaboration agreement, and, to the extent such patent rights and other technology relate to our JAK inhibitors, it could compromise our development and commercialization efforts for A-201 or A-301.

We may not be able to protect our intellectual property rights throughout the world.

Filing, prosecuting and defending patents on our drug candidates in all countries throughout the world would be prohibitively expensive, and our intellectual property rights in some countries outside the United States can be less extensive than those in the United States. For example, the use of A-101 for the treatment of SK is currently covered in patents in the United States, Australia, India and New Zealand, but not in the European

Union or other countries. Our JAK inhibitors being used in the development of A-201 and A-301 are currently covered in patents and applications in the United States, Australia, Brazil, Canada, Chile, China, Eurasia, the European Union, Hong Kong, Israel, India, Japan, South Korea, Mexico, Malaysia, New Zealand, Peru, Singapore, Ukraine, Vietnam, and South Africa. In addition, the laws of some foreign countries do not protect intellectual property rights to the same extent as federal and state laws in the United States. Consequently, we may not be able to prevent third parties from practicing our invention in such countries. Competitors may use our technologies in jurisdictions where we have not obtained patent protection to develop their own products and may export otherwise infringing products to territories where we have patent protection, but enforcement rights are not as strong as those in the United States. These products may compete with our drug candidates and our patents or other intellectual property rights may not be effective or sufficient to prevent them from competing.

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Many companies have encountered significant problems in protecting and defending intellectual property rights in foreign jurisdictions. The legal systems of some countries do not favor the enforcement of patents and other intellectual property protection, which could make it difficult for us to stop the infringement of our patents generally. Proceedings to enforce our patent rights in foreign jurisdictions could result in substantial costs and divert our efforts and attention from other aspects of our business, could put our patents at risk of being invalidated or interpreted narrowly and our patent applications at risk of not issuing and could provoke third parties to assert claims against us. We may not prevail in any lawsuits that we initiate, and the damages or other remedies awarded, if any, may not be commercially meaningful.

Many countries, including European Union countries, India, Japan and China, have compulsory licensing laws under which a patent owner may be compelled under specified circumstances to grant licenses to third parties. In those countries, we may have limited remedies if patents are infringed or if we are compelled to grant a license to a third party, which could materially diminish the value of those patents. This could limit our potential revenue opportunities. Accordingly, our efforts to enforce our intellectual property rights around the world may be inadequate to obtain a significant commercial advantage from the intellectual property that we develop or license.

We may need to license intellectual property from third parties, and such licenses may not be available or may not be available on commercially reasonable terms.

A third party may hold intellectual property, including patent rights that are important or necessary to the development of our drug candidates. For example, we exclusively license intellectual property from Rigel in the field of dermatology related to our JAK inhibitors. It may be necessary for us to use the patented or proprietary technology of third parties to commercialize our drug candidates, in which case we would be required to obtain a license from these third parties on commercially reasonable terms, or our business could be harmed, possibly materially.

Rigel or a sublicensee may develop our JAK inhibitors outside of the field of dermatology or another JAK inhibitor.

We exclusively license intellectual property from Rigel in order to develop, use, manufacture, sell and commercialize our JAK inhibitors in the field of dermatology. Rigel retained the rights under such intellectual property to develop, use, manufacture, sell and commercialize such JAK inhibitors outside of the field of dermatology. If Rigel, or a sublicensee, does commercialize such JAK inhibitors outside the field of dermatology, such a product could possibly be used off-label for a dermatology indication, which could negatively impact sales of our JAK inhibitor product candidates, if approved. Rigel also retained the intellectual property rights to develop, use, manufacture, sell and commercialize other structurally similar JAK inhibitors. If Rigel, or a sublicensee, does commercialize a structurally similar JAK inhibitor, such a product could directly compete with our product candidates, if approved.

Third parties may initiate legal proceedings alleging that we are infringing their intellectual property rights, the outcome of which would be uncertain and could have a material adverse effect on the success of our business.

Our commercial success depends upon our ability to develop, manufacture, market and sell our drug candidates and use our proprietary technologies without infringing the proprietary rights of third parties. There is considerable intellectual property litigation in the biotechnology and pharmaceutical industries. We may become party to, or threatened with, future adversarial proceedings or litigation regarding intellectual property rights with respect to our drugs and technology, including interference or derivation proceedings before the USPTO. Numerous U.S. and foreign issued patents and pending patent applications owned by third parties exist in the fields in which we are developing our drug

candidates. For example, we are aware of third parties that are pursuing broad claims directed to the use of JAK inhibitors for the treatment of AA. Third parties may assert infringement claims against us based on existing patents or patents that may be granted in the future.

If we are found to infringe a third party s intellectual property rights, we could be required to obtain a license from such third party to continue developing and marketing our drugs and technology. However, we may not be able to obtain any required license on commercially reasonable terms or at all. Even if we were able to obtain a license, it could be non-exclusive, thereby giving our competitors access to the same technologies licensed to us. We could be forced, including by court order, to cease commercializing the infringing technology or drug. In addition, we could be found liable for monetary damages, including treble damages and attorneys fees if we are found to have willfully infringed a patent. A finding of infringement could prevent us from commercializing our drug candidates or force us to cease some of our business operations. In the event of a successful claim of infringement against us, we may have to pay substantial damages, including treble damages and attorneys fees for willful infringement, pay royalties, redesign our infringing product or obtain one or more licenses from third parties, which may be impossible or require substantial time and monetary expenditure. Claims that we have misappropriated the confidential information or trade secrets of third parties could have a similar negative impact on our business.

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We may be subject to claims by third parties asserting that we, our employees or our licensor have misappropriated their intellectual property, or claiming ownership of what we regard as our own intellectual property.

Many of our employees and our licensor s employees were previously employed at other biotechnology or pharmaceutical companies. Although we and our licensor try to ensure that our employees and our licensor s employees do not use the proprietary information or know-how of others in their work for us, we or our licensor may be subject to claims that these employees, our licensor or we have used or disclosed intellectual property, including trade secrets or other proprietary information, of any such employee s former employer. Litigation may be necessary to defend against these claims.

In addition, while it is our policy to require our employees and contractors who may be involved in the development of intellectual property to execute agreements assigning such intellectual property to us, we may be unsuccessful in executing such an agreement with each party who in fact develops intellectual property that we regard as our own. Our and their assignment agreements may not be self-executing or may be breached, and we may be forced to bring claims against third parties, or defend claims they may bring against us, to determine the ownership of what we regard as our intellectual property.

If we or our licensor fail in prosecuting or defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. Even if we and our licensor are successful in prosecuting or defending against such claims, litigation could result in substantial costs and be a distraction to management.

We may be involved in lawsuits to protect or enforce our patents, which could be expensive, time-consuming and unsuccessful. Further, our issued patents could be found invalid or unenforceable if challenged in court.

If we were to initiate legal proceedings against a third party to enforce a patent directed to our drug candidates, or one of our future drug candidates, the defendant could counterclaim that our patent is invalid or unenforceable. In patent litigation in the United States, defendant counterclaims alleging invalidity or unenforceability are commonplace. Grounds for a validity challenge could be an alleged failure to meet any of several statutory requirements, including lack of novelty, obviousness, non-enablement or insufficient written description. Grounds for an unenforceability assertion could be an allegation that someone connected with prosecution of the patent withheld relevant information from the USPTO or made a misleading statement during prosecution. Third parties may also raise similar claims before the USPTO, even outside the context of litigation. The outcome following legal assertions of invalidity and unenforceability is unpredictable. With respect to the validity question, for example, we cannot be certain that there is no invalidating prior art of which we and the patent examiner were unaware during prosecution. If a defendant were to prevail on a legal assertion of invalidity or unenforceability, we would lose at least part, and perhaps all, of the patent protection on our drug candidates. Such a loss of patent protection would harm our business.

Interference proceedings provoked by third parties or brought by us or declared by the USPTO may be necessary to determine the priority of inventions with respect to our patents or patent applications. An unfavorable outcome could require us to cease using the related technology or to attempt to license rights to it from the prevailing party. Our business could be harmed if the prevailing party does not offer us a license on commercially reasonable terms.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation.

Most of our competitors are larger than we are and have substantially greater resources. They are, therefore, likely to be able to sustain the costs of complex patent litigation longer than we could. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property. Litigation could result in substantial costs and diversion of management resources, which could harm our business. In addition, the uncertainties associated with litigation could compromise our ability to raise the funds necessary to continue our clinical trials, continue our internal research programs, or in-license needed technology or other drug candidates. There could also be public announcements of the results of the hearing, motions, or other interim proceedings or developments. If securities analysts or investors perceive those results to be negative, it could cause the price of shares of our common stock to decline.

Intellectual property litigation could cause us to spend substantial resources and distract our personnel from their normal responsibilities.

Even if resolved in our favor, litigation or other legal proceedings relating to intellectual property claims may cause us to incur significant expenses, and could distract our technical and management personnel from their normal responsibilities.

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In addition, there could be public announcements of the results of hearings, motions or other interim proceedings or developments and if securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our common stock. Such litigation or proceedings could substantially increase our operating losses and reduce the resources available for development activities or any future sales, marketing or distribution activities. We may not have sufficient financial or other resources to conduct such litigation or proceedings adequately. Some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively than we can because of their greater financial resources. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could compromise our ability to compete in the marketplace, including compromising our ability to raise the funds necessary to continue our clinical trials, continue our research programs, license necessary technology from third parties, or enter into development collaborations that would help us commercialize our drug candidates, if approved.

If we are unable to protect the confidentiality of our trade secrets, our business and competitive position would be harmed.

In addition to seeking patents for our drug candidates, we also rely on trade secrets, including unpatented know-how, technology and other proprietary information, to maintain our competitive position. We seek to protect our trade secrets, in part, by entering into non-disclosure and confidentiality agreements with parties who have access to them, such as our employees, corporate collaborators, outside scientific collaborators, contract manufacturers, consultants, advisors and other third parties. We also enter into confidentiality and invention or patent assignment agreements with our employees and consultants. Despite these efforts, any of these parties may breach the agreements and disclose our proprietary information, including our trade secrets, and we may not be able to obtain adequate remedies for such breaches. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive and time-consuming, and the outcome is unpredictable. In addition, some courts inside and outside the United States are less willing or unwilling to protect trade secrets. If any of our trade secrets were to be lawfully obtained or independently developed by a competitor, we would have no right to prevent them, or those to whom they communicate it, from using that technology or information to compete with us. If any of our trade secrets were to be disclosed to or independently developed by a competitor, our competitive position would be harmed.

The validity, scope and enforceability of any patents listed in the Orange Book that cover A-101 and our JAK inhibitors can be challenged by competitors.

If A-101 or one of our JAK inhibitors is approved by the FDA, one or more third parties may challenge the patents covering A-101 or our JAK inhibitors, which could result in the invalidation of, or render unenforceable, some or all of the relevant patent claims or a finding of non-infringement. For example, if a third party files an Abbreviated New Drug Application, or ANDA, for a generic drug containing A-101, and relies in whole or in part on studies conducted by or for us, the third party will be required to certify to the FDA that either: (1) there is no patent information listed in the FDA s Orange Book with respect to our NDA for the applicable approved drug candidate; (2) the patents listed in the Orange Book have expired; (3) the listed patents have not expired, but will expire on a particular date and approval is sought after patent expiration; or (4) the listed patents are invalid or will not be infringed by the manufacture, use or sale of the third party s generic drug. A certification that the new drug will not infringe the Orange Book-listed patents for the applicable approved drug candidate, or that such patents are invalid, is called a paragraph IV certification. If the third party submits a paragraph IV certification to the FDA, a notice of the paragraph IV certification must also be sent to us once the third party s ANDA is accepted for filing by the FDA. We may then initiate a lawsuit to defend the patents identified in the notice. The filing of a patent infringement lawsuit within 45 days of receipt of the notice automatically prevents the FDA from approving the third party s ANDA until the earliest of 30 months or the date on which the patent expires, the lawsuit is settled, or the court reaches a decision in the infringement lawsuit in favor of the third party. If we do not file a patent infringement lawsuit within the required 45-day period, the third party s ANDA will not be subject to the 30-month stay of FDA approval. Litigation or other proceedings to enforce or defend intellectual property rights are often very complex in nature, may be very expensive and time-consuming, may divert our management s attention from our core business, and may result in unfavorable results that could limit our ability to prevent third parties from competing with our drug candidates.

If we do not obtain protection under the Hatch-Waxman Amendments by extending the patent term and obtaining data exclusivity for our drug candidates, our business may be materially harmed.

Our commercial success will largely depend on our ability to obtain and maintain patent and other intellectual property in the United States and other countries with respect to our proprietary technology, drug candidates and our target indications. Our issued U.S. patents, with claims directed to treatment of SK and acrochordons with A-101, are scheduled to expire in 2022. Certain issued U.S. patents relating to our JAK inhibitors, A-201 and A-301, are scheduled to expire in 2023 and additional U.S. patents, with claims specifically directed to our JAK inhibitors, are scheduled to expire in 2030. Given the

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amount of time required for the development, testing and regulatory review of new drug candidates, patents protecting our drug candidates might expire before or shortly after such candidates begin to be commercialized. We expect to seek extensions of patent terms in the United States and, if available, in other countries where we are prosecuting patents.

Depending upon the timing, duration and specifics of FDA marketing approval of our drug candidates, one or more of our U.S. patents may be eligible for limited patent term restoration under the Drug Price Competition and Patent Term Restoration Act of 1984, referred to as the Hatch-Waxman Amendments. The Hatch-Waxman Amendments permit a patent restoration term of up to five years beyond the normal expiration of the patent as compensation for patent term lost during development and the FDA regulatory review process, which is limited to the approved indication (or any additional indications approved during the period of extension). This extension is limited to only one patent that covers the approved product. However, the applicable authorities, including the FDA and the USPTO in the United States, and any equivalent regulatory authority in other countries, may not agree with our assessment of whether such extensions are available, and may refuse to grant extensions to our patents, or may grant more limited extensions than we request. We may not be granted an extension because of, for example, failing to apply within applicable deadlines, failing to apply prior to expiration of relevant patents or otherwise failing to satisfy applicable requirements. Moreover, the applicable time period or the scope of patent protection afforded could be less than we request.

If we are unable to extend the expiration date of our existing patents or obtain new patents with longer expiry dates, our competitors may be able to take advantage of our investment in development and clinical trials by referencing our clinical and preclinical data to obtain approval of competing products following our patent expiration and launch their product earlier than might otherwise be the case.

Any trademarks we have obtained or may obtain may be infringed or successfully challenged, resulting in harm to our business.

We expect to rely on trademarks as one means to distinguish any of our drug candidates that are approved for marketing from the products of our competitors. Once we select new trademarks and apply to register them, our trademark applications may not be approved. Third parties may oppose or attempt to cancel our trademark applications or trademarks, or otherwise challenge our use of the trademarks. In the event that our trademarks are successfully challenged, we could be forced to rebrand our drugs, which could result in loss of brand recognition and could require us to devote resources to advertising and marketing new brands. Our competitors may infringe our trademarks and we may not have adequate resources to enforce our trademarks.

Outside of the United States we cannot be certain that any country s patent or trademark office will not implement new rules that could seriously affect how we draft, file, prosecute and maintain patents, trademarks and patent and trademark applications.

We cannot be certain that the patent or trademark offices of countries outside the United States will not implement new rules that increase costs for drafting, filing, prosecuting and maintaining patents, trademarks and patent and trademark applications or that any such new rules will not restrict our ability to file for patent protection. For example, we may elect not to seek patent protection in some jurisdictions or for some drug candidates in order to save costs. We may be forced to abandon or return the rights to specific patents due to a lack of financial resources.

Intellectual property rights do not necessarily address all potential threats to our competitive advantage.

The degree of future protection afforded by our intellectual property rights is uncertain because intellectual property rights have limitations, and may not adequately protect our business, or permit us to maintain our competitive advantage. The following examples are illustrative:

- others may be able to make formulations or compositions that are the same as or similar to A-101 but that are not covered by the claims of the patents that we own;

- others may be able to make a JAK inhibitor that is similar to the JAK inhibitors we licensed from Rigel that is not covered by the patents that we exclusively licensed and have the right to enforce;

- we, our licensor or any collaborators might not have been the first to make the inventions covered by the issued patents or pending patent applications that we own;

- we, our licensor might not have been the first to file patent applications covering certain of our inventions;

- others may independently develop similar or alternative technologies or duplicate any of our technologies without infringing our intellectual property rights;

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- it is possible that our pending patent applications will not lead to issued patents;

- issued patents that we own may not provide us with any competitive advantages, or may be held invalid or unenforceable as a result of legal challenges;

- our competitors might conduct research and development activities in the United States and other countries that provide a safe harbor from patent infringement claims for certain research and development activities, as well as in countries where we do not have patent rights, and then use the information learned from such activities to develop competitive products for sale in our major commercial markets; and

- we may not develop additional proprietary technologies that are patentable.

Risks Related to Regulatory Approval of Our Drug Candidates and Other Legal Compliance Matters

If we are not able to obtain, or if there are delays in obtaining, required regulatory approvals, we will not be able to commercialize our drug candidates, and our ability to generate revenue will be materially impaired.

Our drug candidates and the activities associated with their development and commercialization, including their design, testing, manufacture, safety, efficacy, recordkeeping, labeling, storage, approval, advertising, promotion, sale and distribution, are subject to comprehensive regulation by the FDA and other regulatory agencies in the United States and by the European Commission and EU Member State Competent Authorities and similar regulatory authorities outside the United States. Failure to obtain marketing approval for a drug candidate will prevent us from commercializing the drug candidate. We have not received approval to market any of our drug candidates from regulatory authorities in any jurisdiction. We have only limited experience in filing and supporting the applications necessary to gain marketing approvals. Securing marketing approval requires the submission of extensive preclinical and clinical data and supporting information to regulatory authorities for each therapeutic indication to establish the drug candidate s safety and efficacy. Securing marketing approval also requires the submission of information about the drug manufacturing process to, and inspection of manufacturing facilities by, the regulatory authorities. Our drug candidates may not be effective, may be only moderately effective or may prove to have undesirable or unintended side effects, toxicities or other characteristics that may preclude our obtaining marketing approval or prevent or limit commercial use. If any of our drug candidates receives marketing approval, the accompanying label may limit the approved use of our drug in this way, which could limit sales of the drug.

The process of obtaining marketing approvals, both in the United States and abroad, is expensive and may take many years if additional clinical trials are required, if approval is obtained at all, and can vary substantially based upon a variety of factors, including the type, complexity and novelty of the drug candidates involved. Changes in marketing approval policies during the development period, changes in or the enactment of additional statutes or regulations, or changes in regulatory review for each submitted drug application, may cause delays in the approval or rejection of an application. Regulatory authorities have substantial discretion in the approval process and may refuse to accept any application or may decide that our data is insufficient for approval and require additional preclinical, clinical or other studies. In addition, varying interpretations of the data obtained from preclinical and clinical testing could delay, limit or prevent marketing approval of a drug candidate. Any marketing approval we ultimately obtain may be limited or subject to restrictions or post-approval commitments that render the approved drug not commercially viable.

If we experience delays in obtaining approval or if we fail to obtain approval of our drug candidates, the commercial prospects for our drug candidates may be harmed and our ability to generate revenue will be materially impaired.

Failure to obtain marketing approval in international jurisdictions would prevent our drug candidates from being marketed abroad.

In order to market and sell our drugs in the European Union and any other jurisdictions, we must obtain separate marketing approvals and comply with numerous and varying regulatory requirements. The approval procedure varies among countries and can involve additional testing. The time required to obtain approval may differ substantially from that required to obtain FDA approval. The regulatory approval process outside the United States generally includes all of the risks associated with obtaining FDA approval. In addition, in many countries outside the United States, it is required that the drug be approved for reimbursement before the drug can be approved for sale in that country. We may not obtain approvals from regulatory authorities outside the United States on a timely basis, if at all. Approval by the FDA does not ensure approval by regulatory authorities in other countries or jurisdictions, and approval by one regulatory authority outside the United States does not ensure approval by regulatory authorities in other countries or jurisdictions or by the FDA. However, failure to obtain approval in one jurisdiction may impact our ability to obtain approval elsewhere. We may not be able to file for marketing approvals and may not receive necessary approvals to commercialize our drugs in any market.

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A variety of risks associated with marketing our drug candidates internationally could harm our business.

We may seek regulatory approval for A-101 and our other drug candidates outside of the United States and, accordingly, we expect that we will be subject to additional risks related to operating in foreign countries if we obtain the necessary approvals, including:

- differing regulatory requirements in foreign countries;
- the potential for so-called parallel importing, which is what happens when a local seller, faced with high or higher local prices, opts to import goods from a foreign market (with low or lower prices) rather than buying them locally;
- unexpected changes in tariffs, trade barriers, price and exchange controls and other regulatory requirements;
- economic weakness, including inflation, or political instability in particular foreign economies and markets;
- foreign reimbursement, pricing and insurance regimes;
- compliance with tax, employment, immigration and labor laws for employees living or traveling abroad;
- foreign taxes, including withholding of payroll taxes;
- foreign currency fluctuations, which could result in increased operating expenses and reduced revenue, and other obligations incident to doing business in another country;
- difficulties staffing and managing foreign operations;
- workforce uncertainty in countries where labor unrest is more common than in the United States;
- potential liability under the Foreign Corrupt Practices Act of 1977 or comparable foreign regulations;
- challenges enforcing our contractual and intellectual property rights, especially in those foreign countries that do not respect and protect intellectual property rights to the same extent as the United States;
- production shortages resulting from any events affecting raw material supply or manufacturing capabilities abroad; and
- business interruptions resulting from geo-political actions, including war and terrorism.

These and other risks associated with our international operations may compromise our ability to achieve or maintain profitability.

Any drug candidate for which we obtain marketing approval could be subject to post-marketing restrictions or recall or withdrawal from the market, and we may be subject to penalties if we fail to comply with regulatory requirements or if we experience unanticipated problems with our drug candidates, when and if any of them are approved.

Any drug candidate for which we obtain marketing approval, along with the manufacturing processes, post-approval clinical data, labeling, advertising and promotional activities for such drug candidate, will be subject to continual requirements of and review by the FDA and other regulatory authorities. These requirements include submissions of safety and other post-marketing information and reports, registration and listing requirements, cGMP requirements relating to manufacturing, quality control, quality assurance and corresponding maintenance of records and documents, requirements regarding the distribution of samples to physicians and recordkeeping. Even if marketing approval of a drug candidate is granted, the approval may be subject to limitations on the indicated uses for which the drug candidate may be marketed or to the conditions of approval, including the requirement to implement a risk evaluation and mitigation strategy. If any of our drug candidates receives marketing approval, the accompanying label may limit the approved use of our drug, which could limit sales of the drug.

The FDA may also impose requirements for costly post-marketing studies or clinical trials and surveillance to monitor the safety or efficacy of the drug. The FDA closely regulates the post-approval marketing and promotion of drugs to ensure drugs are marketed only for the approved indications and in accordance with the provisions of the approved labeling. The FDA imposes stringent restrictions on manufacturers communications regarding off-label use and if we do not market our drugs for their approved indications, we may be subject to enforcement action for off-label marketing. Violations of the Federal Food, Drug, and Cosmetic Act relating to the promotion of prescription drugs may lead to investigations alleging violations of federal and state healthcare fraud and abuse laws, as well as state consumer protection laws.

In addition, later discovery of previously unknown adverse events or other problems with our drugs, manufacturers or manufacturing processes, or failure to comply with regulatory requirements, may have negative consequences, including:

- restrictions on such drugs, manufacturers or manufacturing processes;
- restrictions on the labeling or marketing of a drug;
- restrictions on drug distribution or use;
- requirements to conduct post-marketing studies or clinical trials;

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- warning letters;
- recall or withdrawal of the drugs from the market;
- refusal to approve pending applications or supplements to approved applications that we submit;
- clinical holds;
- fines, restitution or disgorgement of profits or revenue;
- suspension or withdrawal of marketing approvals;
- refusal to permit the import or export of our drugs;
- drug seizure; or
- injunctions or the imposition of civil or criminal penalties.

Non-compliance with the European Union s requirements regarding safety monitoring or pharmacovigilance, and with requirements related to the development of drugs for the pediatric population, can also result in significant financial penalties. Similarly, failure to comply with the European Union s requirements regarding the protection of personal information can also lead to significant penalties and sanctions.

Our current and future relationships with third-party payors, health care professionals and customers in the United States and elsewhere may be subject, directly or indirectly, to applicable anti-kickback, fraud and abuse, false claims, physician payment transparency, health information privacy and security and other healthcare laws and regulations, which could expose us to significant penalties.

Healthcare providers, physicians and third-party payors in the United States and elsewhere will play a primary role in the recommendation and prescription of any drug candidates for which we obtain marketing approval. Our future arrangements with third-party payors, health care professionals and customers may expose us to broadly applicable fraud and abuse and other healthcare laws and regulations, including, without limitation, the federal Anti-Kickback Statute and the federal False Claims Act, that may constrain the business or financial arrangements and relationships through which we sell, market and distribute any drugs for which we obtain marketing approval. In addition, we may be subject to transparency laws and patient privacy regulation by the federal government and by the U.S. states and foreign jurisdictions in which we conduct our business. The applicable federal, state and foreign healthcare laws and regulations that may affect our ability to operate include the following:

- the federal Anti-Kickback Statute, which prohibits, among other things, persons and entities from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in cash or in kind, to induce or reward, or in return for, either the referral of an individual for, or the purchase, order or recommendation of, any good or service, for which payment may be made under federal and state healthcare programs such as Medicare and Medicaid. A person or entity does not need to have actual knowledge of the statute or specific intent to violate it to have committed a violation. Moreover, the government may assert that a claim including items or services resulting

from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the False Claims Act;

- federal civil and criminal false claims laws and civil monetary penalty laws, including the federal False Claims Act, which impose criminal and civil penalties, including civil whistleblower or *qui tam* actions, against individuals or entities for knowingly presenting, or causing to be presented, to the federal government, including the Medicare and Medicaid programs, claims for payment that are false or fraudulent or making a false statement to avoid, decrease or conceal an obligation to pay money to the federal government;

- the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, which imposes criminal and civil liability for, among other things, executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters. Similar to the federal Anti-Kickback Statute, a person or entity does not need to have actual knowledge of the statute or specific intent to violate it to have committed a violation;

- HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act of 2009, or HITECH, and their respective implementing regulations, which impose obligations on covered healthcare providers, health plans, and healthcare clearinghouses, as well as their business associates that create, receive, maintain or transmit individually identifiable health information for or on behalf of a covered entity, with respect to safeguarding the privacy, security and transmission of individually identifiable health information;

- the federal Open Payments program, created under Section 6002 of Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, or collectively the Affordable Care Act, and its implementing regulations, which requires specified manufacturers of drugs, devices, biologics and medical supplies for which payment is available under Medicare, Medicaid or the Children s Health Insurance Program, with specific exceptions, to report annually to the Centers for Medicare & Medicaid Services, or CMS, information related to payments or other transfers of value made to physicians, which is defined to include doctors, dentists,

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optometrists, podiatrists and chiropractors, and teaching hospitals and applicable manufacturers to report annually to CMS ownership and investment interests held by the physicians and their immediate family members by the 90th day of each calendar year. All such reported information is publicly available; and

- analogous state and foreign laws and regulations, such as state anti-kickback and false claims laws, which may apply to sales or marketing arrangements and claims involving healthcare items or services reimbursed by non-governmental third-party payors, including private insurers; state and foreign laws that require pharmaceutical companies to comply with the pharmaceutical industry s voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government or otherwise restrict payments that may be made to healthcare providers; state and foreign laws that require drug manufacturers to report information related to payments and other transfers of value to physicians and other healthcare providers or marketing expenditures; and state and foreign laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and often are not preempted by HIPAA, thus complicating compliance efforts.

Efforts to ensure that our business arrangements with third parties will comply with applicable healthcare laws and regulations may involve substantial costs. It is possible that governmental authorities will conclude that our business practices, including our relationships with physicians and other healthcare providers, some of whom may recommend, purchase and/or prescribe our drug candidates, if approved, may not comply with current or future statutes, regulations or case law involving applicable fraud and abuse or other healthcare laws and regulations. By way of example, some of our consulting arrangements with physicians may not meet all of the criteria of the personal services safe harbor under the federal Anti-Kickback Statute. Accordingly, they may not qualify for safe harbor protection from government prosecution. A business arrangement that does not substantially comply with a safe harbor, however, is not necessarily illegal under the Anti-Kickback Statute, but may be subject to additional scrutiny by the government.

If our operations are found to be in violation of any of these laws or any other governmental regulations that may apply to us, we may be subject to significant civil, criminal and administrative penalties, including, without limitation, damages, fines, disgorgement, imprisonment, exclusion from participation in government healthcare programs, such as Medicare and Medicaid, and the curtailment or restructuring of our operations, which could have a material adverse effect on our business. If any of the physicians or other healthcare providers or entities with whom we expect to do business is found not to be in compliance with applicable laws, it may be subject to criminal, civil or administrative sanctions, including exclusions from participation in government healthcare programs, which could also materially affect our business.

Recently enacted and future legislation may increase the difficulty and cost for us to obtain marketing approval of and commercialize our drug candidates and affect the prices we may obtain.

In the United States and some foreign jurisdictions, there have been a number of legislative and regulatory changes and proposed changes regarding the healthcare system that could prevent or delay marketing approval of our drug candidates, restrict or regulate post-approval activities and affect our ability to profitably sell any drug candidates for which we obtain marketing approval.

Among policy makers and payors in the United States and elsewhere, there is significant interest in promoting changes in healthcare systems with the stated goals of containing healthcare costs, improving quality and/or expanding access. In the United States, the pharmaceutical industry has been a particular focus of these efforts and has been significantly affected by major legislative initiatives. In March 2010, President Obama signed into law the Affordable Care Act, a sweeping law intended to broaden access to health insurance, reduce or constrain the growth of healthcare spending, enhance remedies against fraud and abuse, add new transparency requirements for the healthcare and health insurance

industries, impose new taxes and fees on the health industry and impose additional health policy reforms.

Among the provisions of the Affordable Care Act of importance to our potential drug candidates are the following:

- an annual, nondeductible fee on any entity that manufactures or imports certain branded prescription drugs and biologic agents, apportioned among these entities according to their market share in certain government healthcare programs;

- an increase in the statutory minimum rebates a manufacturer must pay under the Medicaid Drug Rebate Program to 23.1% and 13.0% of the average manufacturer price for branded and generic drugs, respectively;

- expansion of healthcare fraud and abuse laws, including the False Claims Act and the Anti-Kickback Statute, which include new government investigative powers and enhanced penalties for non-compliance;

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- a new Medicare Part D coverage gap discount program, in which manufacturers must agree to offer 50% point-of-sale discounts off negotiated prices of applicable brand drugs to eligible beneficiaries during their coverage gap period, as a condition for the manufacturer s outpatient drugs to be covered under Medicare Part D;

- extension of manufacturers Medicaid rebate liability to covered drugs dispensed to individuals who are enrolled in Medicaid managed care organizations;

- expansion of eligibility criteria for Medicaid programs by, among other things, allowing states to offer Medicaid coverage to additional individuals, thereby potentially increasing manufacturers Medicaid rebate liability;

- expansion of the entities eligible for discounts under the Public Health Service pharmaceutical pricing program;

- the new requirements under the federal Open Payments program and its implementing regulations;

- a new requirement to annually report drug samples that manufacturers and distributors provide to physicians; and

- a new Patient-Centered Outcomes Research Institute to oversee, identify priorities in, and conduct comparative clinical effectiveness research, along with funding for such research.

In addition, other legislative changes have been proposed and adopted since the Affordable Care Act was enacted. These changes included aggregate reductions to Medicare payments to providers of 2% per fiscal year effective April 1, 2013 and, due to subsequent legislative amendments to the statute, will stay in effect through 2024 unless additional Congressional action is taken. In January 2013, President Obama signed into law the American Taxpayer Relief Act of 2012, which, among other things, further reduced Medicare payments to several providers, and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. These new laws may result in additional reductions in Medicare and other healthcare funding, which could have a material adverse effect on customers for our drugs, if approved, and, accordingly, our financial operations.

We expect that the Affordable Care Act, as well as other healthcare reform measures that may be adopted in the future, may result in more rigorous coverage criteria and in additional downward pressure on the price that we receive for any approved drug. Any reduction in reimbursement from Medicare or other government programs may result in a similar reduction in payments from private payors. The implementation of cost containment measures or other healthcare reforms may prevent us from being able to generate revenue, attain profitability, or commercialize our drugs.

Additionally, new litigation challenging the federal tax subsidies received by individuals to purchase health insurance under the Affordable Care Act is currently pending before the U.S. Supreme Court that could affect our business. Final regulations, guidance, and judicial orders are anticipated in the near future and we will continue to assess the Affordable Care Act s impact on us as final regulations, guidance, and orders are issued.

Legislative and regulatory proposals have been made to expand post-approval requirements and restrict sales and promotional activities for drugs. We cannot be sure whether additional legislative changes will be enacted, or whether the FDA regulations, guidance or interpretations

will be changed, or what the impact of such changes on the marketing approvals of our drug candidates, if any, may be. In addition, increased scrutiny by the U.S. Congress of the FDA s approval process may significantly delay or prevent marketing approval, as well as subject us to more stringent drug labeling and post-marketing testing and other requirements.

We may not be able to obtain five-year FDA regulatory exclusivity as an NCE.

The FDA provides periods of regulatory exclusivity following their approval of an NDA, which provide the holder of an approved NDA limited protection from new competition in the marketplace for the innovation represented by its approved drug. Five-year exclusivity precludes approval of 505(b)(2) applications or ANDAs by delaying the submission or approval of such applications, while three-year exclusivity precludes the approval of such applications. We intend to seek new chemical entity, or NCE, status for A-101, and we may seek NCE status for other drug candidates as appropriate. Five years of exclusivity are available to NCEs following the approval of an NDA by the FDA. An NCE is a drug that contains no active moiety that has been approved by FDA in any other NDA. If a drug is not eligible for the NCE exclusivity, it may be eligible for three years of exclusivity. Three-year exclusivity is available to the holder of an NDA for a particular condition of approval, or change to a marketed product, such as a new formulation for a previously approved product, if one or more new clinical trials, other than bioavailability or bioequivalence trials, were essential to the approval of the application and were conducted or sponsored by the applicant.

There is a risk that the FDA may disagree with any claim that we may make that A-101 or any of our other drug candidates are NCEs and therefore entitled to five-year exclusivity.

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If we do obtain either five or three years of exclusivity, such exclusivity will not block all potential competitors from the market. Five-year exclusivity does not block complete 505(b)(1) NDAs and the scope of three-year exclusivity is limited to the conditions for use approved in the NDA.

Governments outside the United States tend to impose strict price controls, which may adversely affect our revenue, if any.

In some countries, particularly the countries of the European Union, the pricing of prescription pharmaceuticals is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a drug. To obtain coverage and reimbursement or pricing approval in some countries, we may be required to conduct a clinical trial that compares the cost-effectiveness of our drug candidate to other available procedures. If reimbursement of our drugs is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, our business could be harmed, possibly materially.

If we fail to comply with environmental, health and safety laws and regulations, we could become subject to fines or penalties or incur costs that could harm our business.

We are subject to numerous environmental, health and safety laws and regulations, including those governing laboratory procedures and the handling, use, storage, treatment and disposal of hazardous materials and wastes. Our operations involve the use of hazardous and flammable materials, including chemicals and biological materials. Our operations also produce hazardous waste products. We generally contract with third parties for the disposal of these materials and wastes. We cannot eliminate the risk of contamination or injury from these materials. In the event of contamination or injury resulting from our use of hazardous materials, we could be held liable for any resulting damages, and any liability could exceed our resources. We also could incur significant costs associated with civil or criminal fines and penalties for failure to comply with such laws and regulations.

Although we maintain workers compensation insurance to cover us for costs and expenses we may incur due to injuries to our employees resulting from the use of hazardous materials, this insurance may not provide adequate coverage against potential liabilities. We do not maintain insurance for environmental liability or toxic tort claims that may be asserted against us in connection with our storage or disposal of biological, hazardous or radioactive materials.

In addition, we may incur substantial costs in order to comply with current or future environmental, health and safety laws and regulations. These current or future laws and regulations may impair our development or production efforts. Our failure to comply with these laws and regulations also may result in substantial fines, penalties or other sanctions.

The inherent dangers in production and transportation of hydrogen peroxide could cause disruptions and could expose us to potentially significant losses, costs or liabilities.

Our operations are subject to significant hazards and risks inherent in the use and transport of hydrogen peroxide, the active ingredient of A-101 and A-102. Hydrogen peroxide can decompose in the presence of organic materials and is categorized as an oxidizer and is corrosive. Hydrogen

peroxide should be stored in cool, dry, well-ventilated areas and away from any flammable or combustible substances. The hazards and risks associated with producing and transporting hydrogen peroxide include fires, explosions, third-party interference (including terrorism) and mechanical failure of equipment at our facilities or those of our supplier of hydrogen peroxide. The occurrence of any of these events could result in production and distribution difficulties and disruptions, personal injury or wrongful death claims and other damage to properties.

We are subject to governmental economic sanctions and export and import controls that could impair our ability to compete in international markets or subject us to liability if we are not in compliance with applicable laws.

As a U.S. company, we are subject to U.S. import and export controls and economic sanctions laws and regulations, and we are required to import and export our drug candidates, technology and services in compliance with those laws and regulations, including the U.S. Export Administration Regulations, the International Traffic in Arms Regulations, and economic embargo and trade sanction programs administered by the Treasury Department s Office of Foreign Assets Control.

U.S. economic sanctions and export control laws and regulations prohibit the shipment of certain products and services to countries, governments and persons targeted by U.S. sanctions. While we are currently taking precautions to prevent doing any business, directly or indirectly, with countries, governments and persons targeted by U.S. sanctions and to ensure that our

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drug candidates, if approved, are not exported or used by countries, governments and persons targeted by U.S. sanctions, such measures may be circumvented.

Furthermore, if we export our drug candidates, if approved, the exports may require authorizations, including a license, a license exception or other appropriate government authorization. Complying with export control and sanctions regulations for a particular sale may be time-consuming and may result in the delay or loss of sales opportunities. Failure to comply with export control and sanctions regulations for a particular sale may expose us to government investigations and penalties.

If we are found to be in violation of U.S. sanctions or import or export control laws, it could result in civil and criminal, monetary and non-monetary penalties, including possible incarceration for those individuals responsible for the violations, the loss of export or import privileges and reputational harm.

We are subject to anti-corruption and anti-money laundering laws with respect to our operations and non-compliance with such laws can subject us to criminal and/or civil liability and harm our business.

We are subject to the U.S. Foreign Corrupt Practices Act of 1977, as amended, or the FCPA, the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Travel Act, the USA PATRIOT Act and possibly other anti-bribery and anti-money laundering laws in countries in which we conduct activities. Anti-corruption laws are interpreted broadly and prohibit companies and their employees and third-party intermediaries from authorizing, offering or providing, directly or indirectly, improper payments or benefits to recipients in the public or private sector. As we commercialize our drug candidates and eventually commence international sales and business, we may engage with collaborators and third-party intermediaries to sell our products abroad and to obtain necessary permits, licenses and other regulatory approvals. We or our third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities. We can be held liable for the corrupt or other illegal activities of these third-party intermediaries, our employees, representatives, contractors, partners and agents, even if we do not explicitly authorize such activities.

Noncompliance with anti-corruption and anti-money laundering laws could subject us to whistleblower complaints, investigations, sanctions, settlements, prosecution, other enforcement actions, disgorgement of profits, significant fines, damages, other civil and criminal penalties or injunctions, suspension and/or debarment from contracting with certain persons, the loss of export privileges, reputational harm, adverse media coverage and other collateral consequences. Responding to any action will likely result in a materially significant diversion of management s attention and resources and significant defense costs and other professional fees.

Risks Related to Employee Matters and Managing Our Growth

Our future success depends on our ability to retain key executives and to attract, retain and motivate qualified personnel.

We are highly dependent on the management, development, clinical, financial and business development expertise of Dr. Neal Walker, our Chief Executive Officer, Christopher Powala, our Chief Operating Officer, Dr. Stuart Shanler, our Chief Scientific Officer, Frank Ruffo, our Chief

Financial Officer, and Kamil Ali-Jackson, our Chief Legal Officer, as well as the other members of our scientific and clinical teams. Although we have entered into employment agreements with our executive officers, each of them may currently terminate their employment with us at any time. We do not maintain key person insurance for any of our executives or employees other than Dr. Walker and Mr. Powala.

Recruiting and retaining qualified scientific and clinical personnel and, if we progress the development of our drug pipeline toward scaling up for commercialization, manufacturing and sales and marketing personnel, will also be critical to our success. The loss of the services of our executive officers or other key employees could impede the achievement of our development and commercialization objectives and seriously harm our ability to successfully implement our business strategy. Furthermore, replacing executive officers and key employees may be difficult and may take an extended period of time because of the limited number of individuals in our industry with the breadth of skills and experience required to successfully develop, gain regulatory approval of and commercialize drugs. Competition to hire from this limited pool is intense, and we may be unable to hire, train, retain or motivate these key personnel on acceptable terms given the competition among numerous pharmaceutical and biotechnology companies for similar personnel. We also experience competition for the hiring of scientific and clinical personnel from universities and research institutions. In addition, we rely on consultants and advisors, including scientific and clinical advisors, to assist us in formulating our development and commercialization strategy. Our consultants and advisors may be employed by employers other than us and may have commitments under consulting or advisory contracts with other entities that may limit their availability to us. If we are unable to continue to attract and retain high quality personnel, our ability to pursue our growth strategy will be limited.

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We expect to expand our development and regulatory capabilities and potentially implement sales, marketing and distribution capabilities, and as a result, we may encounter difficulties in managing our growth, which could disrupt our operations.

As of September 30, 2015, we had 11 full-time employees. As our development progresses, we expect to experience significant growth in the number of our employees and the scope of our operations, particularly in the areas of drug development, regulatory affairs and, if any of our drug candidates receives marketing approval, sales, marketing and distribution. To manage our anticipated future growth, we must continue to implement and improve our managerial, operational and financial systems, expand our facilities and continue to recruit and train additional qualified personnel. Due to our limited financial resources and the limited experience of our management team in managing a company with such anticipated growth, we may not be able to effectively manage the expansion of our operations or recruit and train additional qualified personnel. The expansion of our operations may lead to significant costs and may divert our management and business development resources. Any inability to manage growth could delay the execution of our business plans or disrupt our operations.

Our employees, independent contractors, consultants, commercial collaborators, principal investigators, CROs and vendors may engage in misconduct or other improper activities, including non-compliance with regulatory standards and requirements.

We are exposed to the risk that our employees, independent contractors, consultants, commercial collaborators, principal investigators, CROs and vendors may engage in fraudulent conduct or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to us that violates FDA regulations, including those laws requiring the reporting of true, complete and accurate information to the FDA, manufacturing standards, federal and state healthcare laws and regulations, and laws that require the true, complete and accurate reporting of financial information or data. In particular, sales, marketing and business arrangements in the healthcare industry are subject to extensive laws and regulations intended to prevent fraud, kickbacks, self-dealing and other abusive practices. These laws and regulations may restrict or prohibit a wide range of pricing, discounting, marketing and promotion, sales commission, customer incentive programs and other business arrangements. Misconduct by these parties could also involve the improper use of individually identifiable information, including, without limitation, information obtained in the course of clinical trials, which could result in regulatory sanctions and serious harm to our reputation. We have adopted a code of business conduct and ethics, but it is not always possible to identify and deter misconduct, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business, including the imposition of significant civil, criminal and administrative penalties, including, without limitation, damages, fines, disgorgement, imprisonment, exclusion from participation in government healthcare programs, such as Medicare and Medicaid, and the curtailment or restructuring of our operations.

Risks Related to Ownership of Our Common Stock

An active trading market for our common stock may not continue to develop or be sustained.

Prior to our initial public offering in October 2015, there was no public market for our common stock. Although our common stock is listed on The NASDAQ Global Select Market, we cannot assure you that an active trading market for our shares will continue to develop or be sustained. If an active market for our common stock does not continue to develop or is not sustained, it may be difficult for investors in our common stock to sell shares without depressing the market price for the shares or to sell the shares at all.

The trading price of the shares of our common stock has been and is likely to continue to be volatile.

Since our initial public offering, our stock price has been and is likely to continue to be volatile. The stock market in general and the market for biopharmaceutical companies in particular have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. As a result of this volatility, investors may not be able to sell their common stock at or above the price paid for the shares. The market price for our common stock may be influenced by many factors, including:

- the commencement, enrollment or results of the planned clinical trials of A-101 in patients with SK or any future clinical trials we may conduct, or changes in the development status of our drug candidates;

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- any delay in our regulatory filings for A-101 for the treatment of SK or any other drug candidate and any adverse development or perceived adverse development with respect to the applicable regulatory authority s review of such filings, including without limitation the FDA s issuance of a refusal to file letter or a request for additional information;
- adverse results from, delays in or termination of clinical trials;
- adverse regulatory decisions, including failure to receive regulatory approval of our drug candidates;
- unanticipated serious safety concerns related to the use of A-101 or any other drug candidate;
- changes in financial estimates by us or by any securities analysts who might cover our stock;
- conditions or trends in our industry;
- changes in the market valuations of similar companies;
- stock market price and volume fluctuations of comparable companies and, in particular, those that operate in the biopharmaceutical industry;
- publication of research reports about us or our industry or positive or negative recommendations or withdrawal of research coverage by securities analysts;
- announcements by us or our competitors of significant acquisitions, strategic partnerships or divestitures;
- announcements of investigations or regulatory scrutiny of our operations or lawsuits filed against us;
- investors general perception of our company and our business;
- recruitment or departure of key personnel;
- overall performance of the equity markets;
- trading volume of our common stock;
- disputes or other developments relating to proprietary rights, including patents, litigation matters and our ability to obtain patent protection for our technologies;
- significant lawsuits, including patent or stockholder litigation;
- general political and economic conditions; and
- other events or factors, many of which are beyond our control.

In addition, in the past, stockholders have initiated class action lawsuits against pharmaceutical and biotechnology companies following periods of volatility in the market prices of these companies stock. Such litigation, if instituted against us, could cause us to incur substantial costs and divert management s attention and resources from our business.

If equity research analysts do not publish research or reports, or publish unfavorable research or reports, about us, our business or our market, our stock price and trading volume could decline.

The trading market for our common stock is influenced by the research and reports that equity research analysts publish about us or our business, our market and our competitors. As a newly public company, we have only limited research coverage by equity research analysts. Equity research analysts may elect not to initiate or continue to provide research coverage of our common stock, and such lack of research coverage may adversely affect the market price of our common stock. Even if we have equity research analyst coverage, we will not have any control over the analysts or the content and opinions included in their reports. The price of our stock could decline if one or more equity research analysts downgrade our stock or issue other unfavorable commentary or research. If one or more equity research analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our stock could decrease, which in turn could cause our stock price or trading volume to decline.

The issuance of additional stock in connection with financings, acquisitions, investments, our equity incentive plan or otherwise will dilute all other stockholders.

Our certificate of incorporation authorizes us to issue up to 100,000,000 shares of common stock and up to 10,000,000 shares of preferred stock with such rights and preferences as may be determined by our board of directors. Subject to compliance with applicable rules and regulations, we may issue our shares of common stock or securities convertible into our common stock from time to time in connection with a financing, acquisition, investment, our equity incentive plan or otherwise. Any such issuance could result in substantial dilution to our existing stockholders and cause the trading price of our common stock to decline.

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A significant portion of our total outstanding shares are restricted from immediate resale but may be sold into the market in the near future. This could cause the market price of our common stock to drop significantly, even if our business is doing well.

Sales of a substantial number of shares of our common stock in the public market could occur at any time. If our stockholders sell, or the market perceives that our stockholders intend to sell, substantial amounts of our common stock in the public market, the market price of our common stock could decline significantly.

Upon the closing of our initial public offering, the 5,750,000 shares sold in the offering became freely tradable and the remaining outstanding shares of common stock will be available for sale in the public market in April 2016 following the expiration of lock-up agreements between some of our stockholders and the underwriters. The representatives of the underwriters may release these stockholders from their lock-up agreements with the underwriters at any time and without notice, which would allow for earlier sales of shares in the public market.

In addition, we have filed a registration statement on Form S-8 under the Securities Act registering the issuance of approximately 3,900,000 shares of common stock subject to options or other equity awards issued or reserved for future issuance under our equity incentive plans. Shares registered under this registration statement on Form S-8 are available for sale in the public market subject to vesting arrangements and exercise of options, the lock-up agreements described above and the restrictions of Rule 144 under the Securities Act in the case of our affiliates.

Additionally, the holders of an aggregate of 11,677,076 shares of our common stock, or their transferees, have rights, subject to some conditions, to require us to file one or more registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. If we were to register the resale of these shares, they could be freely sold in the public market. If these additional shares are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common stock could decline.

Provisions in our corporate charter documents and under Delaware law may prevent or frustrate attempts by our stockholders to change our management and hinder efforts to acquire a controlling interest in us, and the market price of our common stock may be lower as a result.

There are provisions in our certificate of incorporation and bylaws that may make it difficult for a third party to acquire, or attempt to acquire, control of our company, even if a change of control was considered favorable by some or all of our stockholders. For example, our board of directors has the authority to issue up to 10,000,000 shares of preferred stock. The board of directors can fix the price, rights, preferences, privileges, and restrictions of the preferred stock without any further vote or action by our stockholders. The issuance of shares of preferred stock may delay or prevent a change of control transaction. As a result, the market price of our common stock and the voting and other rights of our stockholders may be adversely affected. An issuance of shares of preferred stock may result in the loss of voting control to other stockholders.

Our charter documents also contain other provisions that could have an anti-takeover effect, including:

- only one of our three classes of directors is elected each year;

- stockholders are not entitled to remove directors other than by a 662/3% vote and only for cause;
- stockholders are not permitted to take actions by written consent;
- stockholders cannot call a special meeting of stockholders; and
- stockholders must give advance notice to nominate directors or submit proposals for consideration at stockholder meetings.

In addition, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which regulates corporate acquisitions by prohibiting Delaware corporations from engaging in specified business combinations with particular stockholders of those companies. These provisions could discourage potential acquisition proposals and could delay or prevent a change of control transaction. They could also have the effect of discouraging others from making tender offers for our common stock, including transactions that may be in your best interests. These provisions may also prevent changes in our management or limit the price that investors are willing to pay for our stock.

Concentration of ownership of our common stock among our existing executive officers, directors and principal stockholders may prevent new investors from influencing significant corporate decisions.

Our executive officers, directors and current beneficial owners of 5% or more of our common stock and their respective affiliates beneficially own a majority of our common stock. As a result, these persons, acting together, would be able to significantly influence all matters requiring stockholder approval, including the election and removal of directors, any merger, consolidation, sale of all or substantially all of our assets, or other significant corporate transactions. The interests of this group of stockholders may not coincide with our interests or the interests of other stockholders.

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We are an emerging growth company and, as a result of the reduced disclosure and governance requirements applicable to emerging growth companies, our common stock may be less attractive to investors.

We are an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, and we intend to take advantage of some of the exemptions from reporting requirements that are applicable to other public companies that are not emerging growth companies, including:

- being permitted to provide only two years of audited financial statements, in addition to any required unaudited interim financial statements, with correspondingly reduced Management s Discussion and Analysis of Financial Condition and Results of Operations disclosure in this report;
- not being required to comply with the auditor attestation requirements in the assessment of our internal control over financial reporting;
- not being required to comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor s report providing additional information about the audit and the financial statements;
- reduced disclosure obligations regarding executive compensation in our periodic reports, proxy statements and registration statements; and
- not being required to hold a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

We cannot predict if investors will find our common stock less attractive because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile. We may take advantage of these reporting exemptions until we are no longer an emerging growth company. We will remain an emerging growth company until the earlier of (1) December 31, 2020, (2) the last day of the fiscal year in which we have total annual gross revenue of at least $1.0 billion, (3) the last day of the fiscal year in which we are deemed to be a large accelerated filer, which means the market value of our common stock that is held by non-affiliates exceeds $700 million as of the prior June 30th and (4) any date on which we have issued more than $1.0 billion in non-convertible debt during the prior three-year period.

Under Section 107(b) of the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

If we fail to maintain proper and effective internal controls, our ability to produce accurate financial statements on a timely basis could be impaired.

We are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act and the rules and regulations of the stock market on which our common stock is listed. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. Commencing with our fiscal year ending December 31, 2016, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting in our Form 10-K filing for that year, as required by Section 404 of the Sarbanes-Oxley Act. This will require that we incur substantial additional professional fees and internal costs to expand our accounting and finance functions and that we expend significant management efforts. Prior to our initial public offering, we had never been required to test our internal control within a specified period, and, as a result, we may experience difficulty in meeting these reporting requirements in a timely manner.

We may identify weaknesses in our system of internal financial and accounting controls and procedures that could result in a material misstatement of our financial statements. Our internal control over financial reporting will not prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud will be detected.

If we are not able to comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner, or if we are unable to maintain proper and effective internal controls, we may not be able to produce timely and accurate financial

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statements. If that were to happen, the market price of our stock could decline and we could be subject to sanctions or investigations by the stock exchange on which our common stock is listed, the SEC, or other regulatory authorities.

We might not be able to utilize a significant portion of our net operating loss carryforwards and research and development tax credit carryforwards.

As of December 31, 2014, we had federal and state net operating loss carryforwards of $13.8 million and $13.8 million, respectively, and federal research and development tax credit carryforwards of $0.2 million, each of which if not utilized will begin to expire in 2032. These net operating loss and tax credit carryforwards could expire unused and be unavailable to offset future income tax liabilities. In addition, under Section 382 of the Internal Revenue Code of 1986, as amended, and corresponding provisions of state law, if a corporation undergoes an ownership change, which is generally defined as a greater than 50% change, by value, in its equity ownership over a three-year period, the corporation s ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes to offset its post-change income may be limited. We have not determined if we have experienced Section 382 ownership changes in the past and if a portion of our net operating loss and tax credit carryforwards are subject to an annual limitation under Section 382. In addition, we may experience ownership changes in the future as a result of subsequent shifts in our stock ownership, some of which may be outside of our control. If we determine that an ownership change has occurred and our ability to use our historical net operating loss and tax credit carryforwards is materially limited, it would harm our future operating results by effectively increasing our future tax obligations.

We have broad discretion in the use of proceeds from our recent initial public offering and may invest or spend the proceeds in ways with which you do not agree and in ways that may not increase the value of your investment.

We have broad discretion over the use of proceeds from our recent initial public offering. You may not agree with our decisions, and our use of the proceeds may not yield any return on your investment. We expect to use the net proceeds from the offering to fund our research and development expenses and for working capital and general corporate purposes. Our failure to apply the net proceeds effectively could compromise our ability to pursue our strategy and we might not be able to yield a significant return, if any, on our investment of these net proceeds. Stockholders will not have the opportunity to influence our decisions on how to use the net proceeds from the initial public offering.

We do not anticipate paying any cash dividends on our common stock in the foreseeable future and our stock may not appreciate in value.

We have not declared or paid cash dividends on our common stock to date. We currently intend to retain our future earnings, if any, to fund the development and growth of our business. In addition, the terms of any existing or future debt agreements may preclude us from paying dividends. There is no guarantee that shares of our common stock will appreciate in value or that the price at which our stockholders have purchased their shares will be able to be maintained.

We will incur increased costs and demands upon management as a result of being a public company.

As a newly public company listed in the United States, we have begun, and will continue, particularly after we cease to be an emerging growth company, to incur significant additional legal, accounting and other costs. These additional costs could negatively affect our financial results. In addition, changing laws, regulations and standards relating to corporate governance and public disclosure, including regulations implemented by the SEC and The NASDAQ Stock Market, may increase legal and financial compliance costs and make some activities more time-consuming. These laws, regulations and standards are subject to varying interpretations and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management s time and attention from revenue-generating activities to compliance activities. If notwithstanding our efforts to comply with new laws, regulations and standards, we fail to comply, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

Failure to comply with these rules might also make it more difficult for us to obtain some types of insurance, including director and officer liability insurance, and we might be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, on committees of our board of directors or as members of senior management.

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Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for certain litigation that may be initiated by our stockholders, which could limit our stockholders ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim for breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws or (iv) any action asserting a claim governed by the internal affairs doctrine. The choice of forum provision may limit a stockholder s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees. Alternatively, if a court were to find the choice of forum provision contained in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could adversely affect our business and financial condition.

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

(a) Sales of Unregistered Securities

From January 1, 2015 through September 30, 2015, we granted options to purchase an aggregate of 640,262 shares of our common stock under our 2012 equity compensation plan with an exercise price of $10.66 per share. The offers, sales and issuances of these options were exempt from registration under Rule 701 promulgated under the Securities Act, in that the transactions were under a written compensatory benefit plan as provided under Rule 701. The recipients of such securities were our employees, directors or consultants.

In August 2015, we issued an aggregate of 12,944,984 shares of our Series C convertible preferred stock to 28 investors at a purchase price of $3.09 per share, for aggregate consideration of $40.0 million. The offers, sales and issuances of these securities were exempt from registration under Section 4(a)(2) of the Securities Act and Regulation D promulgated under the Securities Act. Each of the purchasers represented to us that they acquired the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the securities issued in these transactions. The purchasers also represented to us that they were accredited investors as defined in Rule 501 promulgated under the Securities Act.

On October 13, 2015, upon the closing of our initial public offering, all 40,286,041 shares of our then-outstanding convertible preferred stock were automatically converted into 11,677,076 shares of common stock. The issuance of such shares of common stock was exempt from the registration under Section 3(a)(9) of the Securities Act.

(b) Use of Proceeds from Public Offering of Common Stock

On October 6, 2015, our Registration Statement on Form S-1, as amended (File No. 333-206437) was declared effective in connection with our initial public offering, pursuant to which we sold 5,750,000 shares of our common stock, including the full exercise of the underwriters option to purchase additional shares, at a price to the public of $11.00 per share. The offering closed on October 13, 2015, and, as a result, we received net proceeds of $56.6 million (after underwriters discounts and commissions of $4.4 million and additional offering related costs of $2.2 million). The joint managing underwriters of the offering were Jefferies LLC and Citigroup Global Markets Inc.

No expenses incurred by us in connection with our initial public offering were paid directly or indirectly to (i) any of our officers or directors or their associates, (ii) any persons owning 10% or more of any class of our equity securities, or (iii) any of our affiliates, other than payments in the ordinary course of business to officers for salaries and to non-employee directors as compensation for board or board committee service.

There has been no material change in the planned use of proceeds from our initial public offering from that described in the final prospectus filed by us with the Securities and Exchange Commission on October 8, 2015 pursuant to Rule 424(b) of the Securities Act.

Item 6. Exhibits

Exhibit No.	Document
3.1	Amended and Restated Certificate of Incorporation of the Registrant (incorporated herein by reference to Exhibit 3.1 to the Registrant s Current Report on Form 8-K (File No. 001-37581), filed with the Commission on October 13, 2015).
3.2	Amended and Restated Bylaws of the Registrant (incorporated herein by reference to Exhibit 3.2 to the Registrant s Current Report on Form 8-K (File No. 001-37581), filed with the Commission on October 13, 2015).
4.1	Specimen stock certificate evidencing shares of Common Stock (incorporated herein by reference to Exhibit 4.1 to Amendment No. 2 to the Registrant s Registration Statement on Form S-1 (File No. 333-206437), filed with the Commission on September 25, 2015).
10.1*	Amended and Restated Employment Agreement, by and between the Registrant and Neal Walker, dated as of October 5, 2015.
10.2*	Employment Agreement, by and between the Registrant and Stuart Shanler, dated as of October 4, 2015.
10.3*	Employment Agreement, by and between the Registrant and Christopher Powala, dated as of September 17,

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Exhibit No.	Document
	2015.
31.1*	Certification of Principal Executive Officer under Section 302 of the Sarbanes-Oxley Act.
31.2*	Certification of Principal Financial Officer under Section 302 of the Sarbanes-Oxley Act.
32.1**	Certifications of Principal Executive Officer and Principal Financial Officer under Section 906 of the Sarbanes-Oxley Act.

* Filed herewith.

** These certifications are being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of the registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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SIGNATURES

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

ACLARIS THERAPEUTICS, INC.

Date: November 18, 2015	By:	/s/ Neal Walker Neal Walker President and Chief Executive Officer *(On behalf of the Registrant)*
Date: November 18, 2015	By:	/s/ Frank Ruffo Frank Ruffo Chief Financial Officer *(Principal Financial Officer)*

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