WESTWOOD HOLDINGS GROUP INC
Form 10-Q
April 20, 2011
**Table of Contents**

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the quarterly period ended March 31, 2011.**

**OR**

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the transition period from _____ to _____.**

**Commission file number 1-31234**

# WESTWOOD HOLDINGS GROUP, INC.

**(Exact name of registrant as specified in its charter)**

| **DELAWARE** | **75-2969997** |
|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(IRS Employer Identification No.)** |

**200 CRESCENT COURT, SUITE 1200**

**DALLAS, TEXAS**

**75201**

**(Address of principal executive office)**

**(Zip Code)**

**(214) 756-6900**

**(Registrant s telephone number, including area code)**

**(Former name, former address and former fiscal year, if changed since last report)**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

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

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

Shares of common stock, par value $0.01 per share, outstanding as of April 19, 2011: 7,786,443.

**Table of Contents**

**WESTWOOD HOLDINGS GROUP, INC.**

**INDEX**


| | | PAGE |
|---|---|---|
| PART I | FINANCIAL INFORMATION | |
| Item 1. | Unaudited Consolidated Financial Statements | |
| | Consolidated Balance Sheets as of March 31, 2011 and December 31, 2010 | 1 |
| | Consolidated Statements of Income for the three months ended March 31, 2011 and March 31, 2010 | 2 |
| | Consolidated Statement of Stockholders Equity for the three months ended March 31, 2011 | 3 |
| | Consolidated Statements of Cash Flows for the three months ended March 31, 2011 and March 31, 2010 | 4 |
| | Notes to Interim Consolidated Financial Statements | 5 |
| Item 2. | Management s Discussion and Analysis of Financial Condition and Results of Operations | 15 |
| Item 3. | Quantitative And Qualitative Disclosures About Market Risk | 21 |
| Item 4. | Controls and Procedures | 21 |
| PART II | OTHER INFORMATION | |
| Item 1. | Legal Proceedings | 21 |
| Item 1A. | Risk Factors | 21 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 22 |
| Item 6. | Exhibits | 22 |
| Signatures | | 22 |

Table of Contents

**PART I - FINANCIAL INFORMATION**

**ITEM 1. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

**As of March 31, 2011 and December 31, 2010**

**(in thousands, except par value and share amounts)**

| | March 31, 2011 (unaudited) | December 31, 2010 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 4,651 | $ 1,744 |
| Accounts receivable | 8,699 | 7,348 |
| Investments, at fair value | 39,243 | 43,300 |
| Deferred income taxes | 1,654 | 2,757 |
| Other current assets | 1,014 | 733 |
| Total current assets | 55,261 | 55,882 |
| Goodwill | 11,281 | 11,281 |
| Intangible assets, net | 4,994 | 5,119 |
| Property and equipment, net of accumulated depreciation of $1,621 and $1,542 | 485 | 346 |
| Total assets | $ 72,021 | $ 72,628 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current Liabilities: | | |
| Accounts payable and accrued liabilities | $ 1,307 | $ 1,290 |
| Dividends payable | 2,651 | |
| Compensation and benefits payable | 3,373 | 9,369 |
| Income taxes payable | 1 | 173 |
| Deferred acquisition liability | 941 | 899 |
| Other current liabilities | 13 | 13 |
| Total current liabilities | 8,286 | 11,744 |
| Deferred income taxes | 1,064 | 117 |
| Dividends payable | 74 | |
| Deferred rent | 134 | 90 |
| Total long-term liabilities | 1,272 | 207 |
| Total liabilities | 9,558 | 11,951 |
| Stockholders Equity: | | |
| Common stock, $0.01 par value, authorized 25,000,000 shares, issued 8,085,918 and outstanding 7,786,443 shares at March 31, 2011; issued 7,874,873 and outstanding 7,645,678 shares at December 31, | 81 | 79 |

| | | |
|---|---|---|
| 2010 | | |
| Additional paid-in capital | 68,659 | 65,639 |
| Treasury stock, at cost 299,475 shares at March 31, 2011; 229,195 shares at December 31, 2010 | (11,346) | (8,749) |
| Accumulated other comprehensive income, net of deferred taxes | 1,462 | 926 |
| Retained earnings | 3,607 | 2,782 |
| Total stockholders equity | 62,463 | 60,677 |
| Total liabilities and stockholders equity | $ 72,021 | $ 72,628 |

See notes to interim consolidated financial statements.

Table of Contents

**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**

**(in thousands, except per share data)**

**(unaudited)**

| | Three months ended March 31, | |
|---|---|---|
| | **2011** | **2010** |
| REVENUES: | | |
| Advisory fees Asset-based | $ 13,324 | $ 10,080 |
| Trust fees | 3,357 | 3,009 |
| Other revenues, net | 328 | 127 |
| Total revenues | 17,009 | 13,216 |
| EXPENSES: | | |
| Employee compensation and benefits | 8,655 | 6,796 |
| Sales and marketing | 198 | 133 |
| WHG mutual funds | 256 | 143 |
| Information technology | 458 | 327 |
| Professional services | 935 | 572 |
| General and administrative | 888 | 692 |
| Total expenses | 11,390 | 8,663 |
| Income before income taxes | 5,619 | 4,553 |
| Provision for income taxes | 2,070 | 1,620 |
| Net income | $ 3,549 | $ 2,933 |
| Earnings per share: | | |
| Basic | $ 0.51 | $ 0.40 |
| Diluted | $ 0.50 | $ 0.40 |
| Dividends declared per share | $ 0.35 | $ 0.33 |

See notes to interim consolidated financial statements.

Table of Contents

**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY**

**For the Three Months Ended March 31, 2011**

**(in thousands, except share amounts)**

**(unaudited)**

| | Westwood Holdings Group, Inc. Common Stock, Par Amount Shares | Amount | Additional Paid-In Capital | Treasury Stock | Accumulated Other Comprehensive Income | Retained Earnings | Total |
|---|---|---|---|---|---|---|---|
| BALANCE, January 1, 2011 | 7,645,678 | $ 79 | $ 65,639 | $ (8,749) | $ 926 | $ 2,782 | $ 60,677 |
| Net income | | | | | | 3,549 | 3,549 |
| Other comprehensive income unrealized gain on investment securities, net of $289 in taxes | | | | | 536 | | 536 |
| Comprehensive income | | | | | | | 4,085 |
| Issuance of restricted stock, net | 209,545 | 2 | (2) | | | | |
| Dividends declared ($0.35 per share) | | | | | | (2,724) | (2,724) |
| Restricted stock amortization | | | 2,383 | | | | 2,383 |
| Tax benefit related to equity compensation | | | 619 | | | | 619 |
| Stock options exercised | 1,500 | | 20 | | | | 20 |
| Purchase of treasury stock | (70,280) | | | (2,597) | | | (2,597) |
| BALANCE, March 31, 2011 | 7,786,443 | $ 81 | $ 68,659 | $ (11,346) | $ 1,462 | $ 3,607 | $ 62,463 |

See notes to interim consolidated financial statements.

Table of Contents

**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(in thousands)**

**(unaudited)**

| | For the three months ended March 31, | |
|---|---|---|
| | **2011** | **2010** |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net income | $ 3,549 | $ 2,933 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 67 | 78 |
| Amortization of intangible assets | 125 | 26 |
| Fair value adjustment of deferred acquisition liabilities | 42 | 46 |
| Unrealized gains on trading investments | (227) | (84) |
| Restricted stock amortization | 2,383 | 1,891 |
| Deferred income taxes | 1,761 | 1,045 |
| Excess tax benefits from stock based compensation | (548) | (643) |
| Net sales of investments trading securities | 5,109 | 982 |
| Change in operating assets and liabilities: | | |
| Accounts receivable | (1,351) | 144 |
| Other current assets | (281) | (273) |
| Accounts payable and accrued liabilities | 17 | 96 |
| Compensation and benefits payable | (5,996) | (3,554) |
| Income taxes payable and prepaid income taxes | 447 | 33 |
| Other liabilities | 71 | (17) |
| Net cash provided by operating activities | 5,168 | 2,703 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Purchases of available for sale investments | | (10,196) |
| Sales of available for sale investments | | 11,516 |
| Purchase of property and equipment | (233) | (16) |
| Net cash (used in)/provided by investing activities | (233) | 1,304 |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Purchase of treasury stock | (2,597) | (2,055) |
| Excess tax benefits from stock based compensation | 548 | 643 |
| Cash dividends | 1 | (2,360) |
| Proceeds from exercise of stock options | 20 | 57 |
| Net cash used in financing activities | (2,028) | (3,715) |
| **NET INCREASE (DECREASE) IN CASH** | 2,907 | 292 |
| Cash and cash equivalents, beginning of period | 1,744 | 2,879 |
| Cash and cash equivalents, end of period | $ 4,651 | $ 3,171 |

| | | |
|---|---|---|
| Supplemental cash flow information: | | |
| Cash paid during the period for income taxes | $ 33 | $ 541 |

See notes to interim consolidated financial statements.

Table of Contents

**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. DESCRIPTION OF THE BUSINESS:**

Westwood Holdings Group, Inc. ( Westwood , we or our ) was incorporated under the laws of the State of Delaware on December 12, 2001. Westwood manages investment assets and provides services for its clients through two subsidiaries, Westwood Management Corp. ( Westwood Management ) and Westwood Trust ( Westwood Trust ). Westwood Management provides investment advisory services to corporate retirement plans, public retirement plans, endowments and foundations, mutual funds, individuals and clients of Westwood Trust. Westwood Trust provides institutions and high net worth individuals with trust and custodial services and participation in common trust funds that it sponsors. Revenue is largely dependent on the total value and composition of assets under management ( AUM ). Accordingly, fluctuations in financial markets and in the composition of AUM impact revenues and results of operations.

Westwood Management is a registered investment adviser under the Investment Advisers Act of 1940. Westwood Trust is chartered and regulated by the Texas Department of Banking.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

***Basis of Presentation***

The accompanying consolidated financial statements have been prepared without an audit and reflect all adjustments that, in the opinion of management, are necessary to present fairly our financial position as of March 31, 2011, and results of operations and cash flows for the periods presented. All such adjustments are normal and recurring in nature. The accompanying consolidated financial statements are presented using the accrual basis of accounting and have been prepared in accordance with the instructions for the presentation of interim financial information as prescribed by the Securities and Exchange Commission ( SEC ). The accompanying consolidated financial statements should be read in conjunction with our consolidated financial statements, and notes thereto, included in our Annual Report on Form 10-K for the year ended December 31, 2010. Operating results for the periods in these consolidated financial statements are not necessarily indicative of the results for any future period. The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ( GAAP ) and include the accounts of Westwood and its subsidiaries. All intercompany accounts and transactions have been eliminated upon consolidation.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Revenue Recognition***

Investment advisory and trust fees are recognized as services are provided. These fees are determined in accordance with contracts between our subsidiaries and their clients and are generally based on a percentage of assets under management. A limited number of our clients have a contractual performance-based fee component, which would pay us an additional fee if we outperform a specified index over a specific period of time. We record revenue for performance-based fees at the end of the measurement period. Most advisory and trust fees are payable in advance or in arrears on a calendar quarterly basis. Advance payments are deferred and recognized as services are performed, usually within the same calendar quarter, and our consolidated financial statements do not contain significant amounts of deferred revenue. Deferred revenue is shown on the balance sheet under the heading of Other current liabilities . Other revenues generally consist of interest and investment income. These revenues are recognized as earned or as the services are performed.

Table of Contents

**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

***Variable Interest Entities***

A variable interest entity (VIE) is an entity in which either (a) the equity investment at risk is not sufficient to permit the entity to finance its own activities without additional financial support or (b) the voting rights of the equity investors are not proportional to their obligations to absorb expected losses or receive expected residual returns of the entity.

We have examined whether the entities in which we have an interest are VIEs and whether we qualify as the primary beneficiary of the VIEs that we identify. We have included the disclosures related to VIEs in a note to these consolidated financial statements.

***Cash and Cash Equivalents***

Cash and cash equivalents consist of short-term, highly liquid investments with maturities of three months or less, other than pooled investment vehicles that are considered investments.

***Accounts Receivable***

The majority of our accounts receivable balances consists of advisory and trust fees receivable from customers that we believe and have experienced to be fully collectable. Our trade accounts receivable balances do not include any allowance for doubtful accounts nor has any bad debt expense attributable to trade receivables been recorded for the periods presented in these consolidated financial statements.

***Investments***

Prior to the fourth quarter of 2010, money market securities were classified as available for sale securities. In the fourth quarter of 2010, we reevaluated our investment classifications and determined that money market securities more closely fit the trading classification and began to account for them accordingly. In that money market securities do not have significantly fluctuating values, our balance sheet and income statement were not impacted upon reclassification of these securities. Class A shares of Teton Advisors, Inc. ( Teton shares ) are classified as available for sale. The Teton shares are carried at quoted market value with a 25% discount for lack of marketability. Unrealized gains and losses on the Teton shares are recorded through other comprehensive income. All other marketable securities are classified as trading securities and are carried at quoted market value on the accompanying consolidated balance sheet. Net unrealized holding gains or losses on investments classified as trading securities are reflected as a component of other revenues. We measure realized gains and losses on investments using the specific identification method.

***Goodwill and Other Intangible Assets***

Goodwill represents the excess of the cost of acquired assets over the fair value of the underlying identifiable assets at the date of acquisition. Goodwill is not amortized but is tested annually for impairment.

During the third quarter of 2010, we completed our annual goodwill impairment assessment and determined that no impairment loss was required. We perform annual impairment assessments as of July 1 and reassess if circumstances indicate a potential impairment between annual assessment dates. We assess the fair value of our business units for goodwill purposes using a market multiple approach. Our review at the end of 2010 determined that no events had occurred in the last half of 2010 to indicate that these assets should be retested for impairment.

Our intangible assets represent the acquisition date fair value of acquired client relationships, trade names and non-compete agreements and are reflected net of amortization. In valuing these assets, we made significant estimates regarding their useful lives, growth rates and potential attrition. We periodically review intangible assets for events or circumstances that would indicate impairment. For a further discussion of our intangible assets, please see Note 7. INTANGIBLE ASSETS of these consolidated financial statements.

Table of Contents

**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

***Federal Income Taxes***

We file a Federal income tax return as a consolidated group for Westwood and its subsidiaries. Deferred income tax assets and liabilities are determined based on the differences between the financial statement and income tax bases of assets and liabilities as measured at enacted income tax rates. Deferred income tax expense is generally the result of changes in deferred tax assets and liabilities. Deferred taxes relate primarily to stock-based compensation expense.

We do not have uncertain tax positions for any of the periods presented. If an uncertain tax position should arise, we would report a liability for an unrecognized tax expense from an uncertain tax position taken or expected to be taken on a tax return. We include penalties and interest on income based taxes in Provision for income taxes on our consolidated statements of income.

***Stock Based Compensation***

We account for stock-based compensation in accordance with Financial Accounting Standards Board ( FASB ) *Accounting Standards Codification* ( ASC ) No. 718, Compensation-Stock Compensation ( ASC 718 ). Under ASC 718, stock-based compensation expense reflects the fair value of stock-based awards measured at grant date, is recognized over the relevant service period, and is adjusted each period for anticipated forfeitures. The compensation cost recorded for these awards is based on their grant-date fair value as required by ASC 718.

We have issued restricted stock and granted stock options in accordance with our Third Amended and Restated Westwood Holdings Group, Inc. Stock Incentive Plan (the Plan ). We valued stock options granted upon the Black-Scholes option-pricing model and expensed this value over the periods in which the options vested. Implementation of the Black-Scholes option-pricing model required us to make certain assumptions, including expected volatility, risk-free interest rate, expected dividend yield and expected life of the options. We utilized assumptions that we believed to be most appropriate at the time of the valuation. Had we used different assumptions in the pricing model, the expense recognized for stock options may have been different than the expense recognized in our consolidated financial statements. We must also apply judgment in developing an expectation of awards of restricted stock and stock options that may be forfeited. If actual experience differs significantly from these estimates, our stock-based compensation expense and results of operations could be materially affected.

**3. EARNINGS PER SHARE**

Basic earnings per common share ( EPS ) is computed by dividing net income available to common stockholders by the weighted average number of shares outstanding for the periods ended March 31, 2011 and 2010, respectively. Diluted EPS for these periods is computed based on the weighted average number of shares outstanding plus the effect of dilutive shares of restricted stock and stock options granted to employees and non-employee directors and contingently issuable shares.

Under FASB ASC No. 620, Earnings Per Share, shares of unvested restricted stock that contain non-forfeitable rights to dividends are treated as participating securities, which requires allocating a portion of net income to those shares as if they were a separate class of stock, which reduces net income available to common stockholders. Prior to the third quarter of 2010, shares of unvested restricted stock contained non-forfeitable rights to dividends and accordingly were participating securities. EPS presented for the three month period ended March 31, 2010 is different than previously reported due to the use of the two-class method. The change in previously reported EPS is not considered material and will be reflected in all applicable comparative presentations going forward. In the third quarter of 2010, the Plan was modified such that dividends on unvested restricted shares no longer contain non-forfeitable rights to dividends, which removes requirements to treat such shares as a separate class of stock and to allocate a portion of net income to such shares for the third quarter of 2010 and future periods. There were no anti-dilutive restricted shares or options as of March 31, 2011 or 2010.

Table of Contents

**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

The following table sets forth the computation of basic and diluted shares (in thousands, except per share and share amounts):

| | Three months ended March 31, | |
|---|---|---|
| | 2011 | 2010 |
| Net income | $ 3,549 | $ 2,933 |
| Less: Income allocated to participating restricted shares | | (299) |
| Net income available to common stockholders | $ 3,549 | $ 2,634 |
| Weighted average shares outstanding basic | 6,937,128 | 6,518,565 |
| Dilutive potential shares from unvested restricted shares | 187,917 | |
| Dilutive contingently issuable shares | 23,388 | |
| Dilutive potential shares from stock options | 18,144 | 25,553 |
| Weighted average shares outstanding diluted | 7,166,577 | 6,544,118 |
| Earnings per share: | | |
| Basic | $ 0.51 | $ 0.40 |
| Diluted | $ 0.50 | $ 0.40 |

**4. INVESTMENTS:**

Investment balances are presented in the table below (in thousands). All investments are carried at fair value. Our investments in Teton shares are accounted for as available for sale securities. All other investments are accounted for as trading securities.

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|---|---|---|---|---|
| March 31, 2011: | | | | |
| U.S. Government obligations | $ 28,489 | $ 6 | $ | $ 28,495 |
| Funds: | | | | |
| Money market | 2,899 | | | 2,899 |
| Equity available for sale | | 2,250 | | 2,250 |
| Equity trading | 4,839 | 760 | | 5,599 |
| Marketable securities | $ 36,227 | $ 3,016 | $ | $ 39,243 |
| December 31, 2010: | | | | |
| U.S. Government obligations | $ 32,774 | $ 11 | $ | $ 32,785 |
| Funds: | | | | |
| Money market | 3,795 | | | 3,795 |

| | | | | | |
|---|---|---|---|---|---|
| Equity | available for sale | | 1,425 | | 1,425 |
| Equity | trading | 4,767 | 533 | (5) | 5,295 |
| Marketable securities | | $ 41,336 | $ 1,969 | $ (5) | $ 43,300 |

**5. FAIR VALUE MEASUREMENTS**

We determined estimated fair values of our financial instruments using available information. The fair value amounts discussed in Notes 4 and 5 are not necessarily indicative of either the amounts realizable upon disposition of these instruments or our intent or ability to dispose of these assets. The estimated fair value of cash and cash equivalents, as well as accounts receivable and payable, approximates their carrying value due to their short-term maturities. The carrying amount of investments designated as trading securities, primarily U.S. Government and Government agency obligations, money market funds, WHG Funds mutual funds and Westwood Trust common trust fund shares, equals their fair value, which is equal to prices quoted in active markets and, with respect to funds, the net asset value of the shares held as reported by the fund. The market values of our money

Table of Contents

**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

market holdings generally do not fluctuate. The fair value of the Teton shares, which is designated as an available for sale security, is equal to the closing market price as of March 31, 2011 of $15.00 per share less a 25% discount for lack of marketability.

Effective January 1, 2008, we adopted the provisions of FASB ASC No. 820, Fair Value Measurements and Disclosures ( ASC 820 ), which defines fair value, establishes a framework for measuring fair value and requires additional disclosures regarding certain fair value measurements. ASC 820 establishes a three-tier hierarchy for measuring fair value as follows:

level 1 quoted market prices in active markets for identical assets,

level 2 inputs other than quoted prices that are directly or indirectly observable, and

level 3 unobservable inputs where there is little or no market activity.

The following table summarizes the values of our assets as of within the fair value hierarchy (in thousands).

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| As of March 31, 2011 | | | | |
| Investments in securities: | | | | |
| Trading | $ 36,993 | $ | $ | $ 36,993 |
| Available for sale | | | 2,250 | 2,250 |
| Total Financial instruments | $ 36,993 | $ | $ 2,250 | $ 39,243 |
| As of December 31, 2010 | | | | |
| Investments in securities: | | | | |
| Trading | $ 41,875 | $ | $ | $ 41,875 |
| Available for sale | | | 1,425 | 1,425 |
| Total Financial instruments | $ 41,875 | $ | $ 1,425 | $ 43,300 |

We used level 3 inputs to determine the fair value of our 200,000 Class A shares of Teton Advisors, Inc. This fair value amount is not necessarily indicative of either the amount we would realize upon disposition of these shares or our intent or ability to dispose of them. There were no transfers of assets (including level 3 assets) to or from other asset classes and there were no gains, losses, purchases or sales of the Teton shares. The following table presents information regarding this investment.

| Investments in available for sale securities (in thousands) | Three Months ended March 31, 2011 | 2010 |
|---|---|---|

| | | |
|---|---|---|
| Beginning balance | $ 1,425 | $ 2,399 |
| Unrealized gains/(losses) included in Other Comprehensive Income | 825 | (599) |
| Ending balance | $ 2,250 | $ 1,800 |

**6. OTHER COMPREHENSIVE INCOME**

We record changes in other comprehensive income in the Consolidated Statement of Stockholder s Equity. Other comprehensive income includes unrealized gains on available for sale securities. A summary of other comprehensive income follows (in thousands):

| | Three Months ended March 31, | |
|---|---|---|
| | **2011** | **2010** |
| Net income | $ 3,549 | $ 2,933 |
| Other comprehensive income (loss), net of tax: | | |
| Change in unrealized gain on available for sale securities | 536 | (389) |
| Comprehensive income | $ 4,085 | $ 2,544 |

Table of Contents

**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**7. INTANGIBLE ASSETS**

The following is a summary of our intangible assets at March 31, 2011 and December 31, 2010 (in thousands):

| | Weighted Average Amortization Period (years) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|---|---|---|---|---|
| **March 31, 2011** | | | | |
| Client relationships | 14.2 | $ 5,005 | $ (229) | $ 4,776 |
| Trade names | 2.0 | 256 | (59) | 197 |
| Non-compete agreements | 2.3 | 26 | (5) | 21 |
| Total | | $ 5,287 | $ (293) | $ 4,994 |
| **December 31, 2010** | | | | |
| Client relationships | 14.2 | $ 5,005 | $ (139) | $ 4,866 |
| Trade names | 2.0 | 256 | (27) | 229 |
| Non-compete agreements | 2.3 | 26 | (2) | 24 |
| Total | | $ 5,287 | $ (168) | $ 5,119 |

Amortization expense was $125,000 and $26,000 for the three months ended March 31, 2011 and 2010, respectively. Estimated amortization expense for the intangible assets for the next five years is as follows (in thousands):

| For the Year ending December 31, | Estimated Amortization Expense |
|---|---|
| 2011 | $ 498 |
| 2012 | 472 |
| 2013 | 359 |
| 2014 | 359 |
| 2015 | 359 |

**8. EQUITY**

On February 23, 2011, we purchased 70,280 of our common stock from employees of Westwood to assist in satisfying their tax obligations related to vested restricted shares. The shares purchased on February 23 were purchased at $36.95 per share, the closing price of our common stock on that day, and are shown as treasury shares in the equity section of our balance sheet at cost.

On February 23, 2011, we granted an aggregate of 211,220 shares of restricted stock to certain employees. These shares are subject to vesting conditions as described in Note 10. EQUITY-BASED COMPENSATION .

On February 3, 2011, we declared a quarterly cash dividend of $0.35 per share on common stock payable on April 1, 2011 to stockholders of record on March 15, 2011.

**9. VARIABLE INTEREST ENTITIES**

Westwood Trust sponsors common trust funds ( CTFs ) for its clients. These funds allow clients to commingle assets to achieve economies of scale. Westwood Management provides investment advisory services to the

Table of Contents

**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

WHG Funds, a family of mutual funds. Some clients of Westwood Management hold their investments in ten limited liability companies and two limited partnerships that we formed and sponsor. The CTFs, WHG Funds, limited liability companies and partnerships (the Westwood VIEs ) are considered VIEs because our clients, who hold the equity at risk, do not have direct or indirect ability through voting or similar rights to make decisions about the funds that have a significant effect on their success. We receive fees for managing assets in these entities commensurate with market rates.

We evaluate all of our advisory relationships and CTFs to determine whether or not we qualify as the primary beneficiary based on whether there is an obligation to absorb the majority of expected losses or a right to receive the majority of residual returns. Since all losses and returns are distributed to the shareholders of the Westwood VIEs, we are not the primary beneficiary and consequently the Westwood VIEs are not consolidated into our consolidated financial statements.

We have not provided any financial support that we were not previously contractually obligated to provide and there are no arrangements that would require us to provide additional financial support to any of the Westwood VIEs. Our investments in the WHG Funds and the CTFs are accounted for as investments in accordance with our other investments described in Note. 4 INVESTMENTS . The following table displays assets under management, corporate money invested and risk of loss in each vehicle (in millions).

| | As of March 31, 2011 | | |
|---|---|---|---|
| | Assets Under Management | Corporate Investment | Risk of Loss |
| WHG Funds | $ 1,194 | $ 2.8 | $ 2.8 |
| Common Trust Funds | 1,725 | 2.8 | 2.8 |
| LLCs | 465 | | |
| Partnerships | 31 | | |

| | As of December 31, 2010 | | |
|---|---|---|---|
| | Assets Under Management | Corporate Investment | Risk of Loss |
| WHG Funds | $ 902 | $ 2.7 | $ 2.7 |
| Common Trust Funds | 1,631 | 2.6 | 2.6 |
| LLCs | 443 | | |
| Partnerships | 27 | | |
| McCarthy Multi-Cap Stock Fund | 68 | | |

**10. EQUITY-BASED COMPENSATION**

We have issued stock options and restricted shares to our employees and non-employee directors. The Plan reserves shares of Westwood common stock for issuance to eligible employees, directors and consultants of Westwood or its subsidiaries in the form of restricted stock and stock options. The total number of shares that may be issued under the Plan (including predecessor plans) may not exceed 2,648,100 shares. In the event of a change in control of Westwood, the Plan contains provisions providing for the acceleration of the vesting of restricted stock and stock options. At March 31, 2011, approximately 122,000 shares remained available for issuance under the Plan.

The following table presents the total equity-based compensation expense recorded and the total income tax benefit recognized for equity-based compensation arrangements (in thousands):

11

Table of Contents

**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

| | Three months ended March 31, | |
|---|---|---|
| | **2011** | **2010** |
| Total equity-based compensation expense | $ 2,383 | $ 1,891 |
| Total income tax benefit recognized related to equity-based compensation | 3,058 | 2,218 |

***Restricted Stock***

Under the Plan, we have granted restricted stock to employees and non-employee directors, which are subject to a service condition, and to our Chief Executive Officer and Chief Investment Officer, which are subject to a service condition and performance goals. Until the shares vest, they are restricted from sale, transfer or assignment in accordance with the terms of the agreements under which they were issued. We calculate compensation cost for restricted stock grants by using the fair market value of our common stock at the date of grant, an estimate of the decrease in fair value of the shares due to the delayed receipt of dividends, the number of shares issued and an estimate of shares that will not vest due to forfeitures. This compensation cost is amortized on a straight-line basis over the requisite service period. As of March 31, 2011, approximately $23.3 million of unrecognized compensation cost is expected to be recognized over a weighted-average period of 2.5 years. In order to satisfy tax liabilities employees will owe on vested shares, we may withhold a sufficient number of vested shares from employees on the vesting date. We estimate that we may withhold 80,000 shares for this purpose in 2011, depending upon employee elections. Any withheld shares are purchased at the closing market price on vesting day and are added to treasury shares in the equity section of our balance sheet. Our two types of restricted stock grants are discussed below.

*Employee and non-employee director restricted share grants*

Restricted shares granted to employees vest over four years and non-employee directors shares vest over one year. For the three months ended March 31, 2011, we recorded approximately $1.8 million of expense for these grants. The following table details the status and changes in our restricted stock grants that are subject only to a service condition for the three months ended March 31, 2011:

| **Restricted shares subject only to a service condition:** | **Shares** | **Weighted Average Grant Date Fair Value** |
|---|---|---|
| Non-vested, January 1, 2011 | 551,100 | $ 34.83 |
| Granted | 211,220 | 36.60 |
| Vested | (150,475) | 32.08 |
| Forfeited | (1,675) | 35.76 |
| Non-vested, March 31, 2011 | 610,170 | 36.12 |

*CEO and CIO performance-based restricted share grants*

Under the Plan, we granted restricted shares to our Chief Executive Officer and Chief Investment Officer that vest over five and six years, respectively, provided annual performance goals established by the Compensation Committee of Westwood s board of directors are met. Each year during the applicable vesting period, the Compensation Committee will establish a specific goal for that year s vesting of restricted shares, which will always be based on Westwood s adjusted pre-tax income, as defined. In February 2011, the Compensation Committee established the goal for 2011 as adjusted pre-tax income of at least $19,330,265, representing a compound annual growth rate of 10% over annual adjusted pre-tax income recorded in 2006. If the performance goal is not met in any year during the vesting period, 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 shares that did not

otherwise become vested in a prior year. In no event will the maximum number of shares which may become vested over the vesting period exceed 175,000 shares in the case of our Chief Executive Officer or 300,000 shares in the case of our Chief Investment Officer. If a portion of the performance-based restricted shares do not vest, no compensation expense is

Table of Contents

**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

recognized for that portion and any previously recognized compensation expense related to the shares that do not vest would be reversed.

| Restricted shares subject to service and performance conditions: | Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Non-vested, January 1, 2011 | 190,000 | $ 34.35 |
| Granted | | |
| Vested | | |
| Forfeited | | |
| Non-vested, March 31, 2011 | 190,000 | $ 34.35 |

Because the performance goal was met in 2010, shares subject to vesting were vested in substance pending certification by the Compensation Committee, at which time a share price was determined for tax purposes. On February 23, 2011, the 2010 shares, which were expensed in 2010, were certified as vested and the total fair value of the shares was determined to be $3,140,750, utilizing a share price of $36.95, the closing price of our common stock as of the day of certification.

In the first quarter of 2011, we concluded that it was probable that we would meet the performance goals required in order for the applicable percentage of the performance-based restricted shares to vest this year and began recording expense related to those shares. For the three month period ended March 31, 2011, we recorded expense of approximately $584,000 related to these grants.

***Stock Options***

Options granted under the Plan have a maximum ten-year term and vested over a period of four years. All of our stock options are vested and exercisable and became fully expensed in 2006. The following table sets forth the summary of option activity under our stock option program for the three months ended March 31, 2011:

| | Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Options outstanding, January 1, 2011 | 38,400 | $ 12.90 | | |
| Granted | | | | |
| Exercised | (1,500) | 12.90 | | |
| Forfeited/expired | | | | |
| Options outstanding, March 31, 2011 | 36,900 | 12.90 | 1.3 | $ 1,009,000 |

The total intrinsic values of options exercised during the three month periods ended March 31, 2011 and 2010 were $38,000 and $117,000, respectively. Options exercised represent newly issued shares.

**11. SEGMENT REPORTING:**

We operate two segments: Westwood Management and Westwood Trust. These segments are managed separately based on the types of products and services offered and their related client bases. We evaluate the performance of our segments based primarily on income before income taxes. Westwood Holdings, the parent company of Westwood Management and Westwood Trust, does not have revenues or employees and is the entity in which we record stock-based compensation expense.

Table of Contents

**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

***Westwood Management***

Westwood Management provides investment advisory services to corporate retirement plans, public retirement plans, endowments, foundations, the WHG Funds and individuals, as well as investment subadvisory services to mutual funds and clients of Westwood Trust.

***Westwood Trust***

Westwood Trust provides trust and custodial services and participation in common trust funds that it sponsors to institutions and high net worth individuals.

All segment accounting policies are the same as those described in the summary of significant accounting policies. Intersegment balances that eliminate in consolidation have been applied to the appropriate segment.

| | Westwood Management | Westwood Trust | Westwood Holdings (in thousands) | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Three months ended March 31, 2011 | | | | | |
| Net revenues from external sources | $ 13,651 | $ 3,358 | $ | $ | $ 17,009 |
| Net intersegment revenues | 1,176 | 4 | | (1,180) | |
| Income before income taxes | 7,621 | 381 | (2,383) | | 5,619 |
| Segment assets | 61,346 | 13,273 | (2,598) | | 72,021 |
| Segment goodwill | 5,245 | 6,036 | | | 11,281 |
| Three months ended March 31, 2010 | | | | | |
| Net revenues from external sources | $ 10,205 | $ 3,011 | $ | $ | $ 13,216 |
| Net intersegment revenues | 1,074 | 4 | | (1,078) | |
| Income before income taxes | 5,911 | 533 | (1,891) | | 4,553 |
| Segment assets | 50,208 | 4,257 | 2,362 | | 56,827 |
| Segment goodwill | 3,403 | 512 | | | 3,915 |

Table of Contents

**ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

***Forward-Looking Statements***

Statements in this report that are not purely historical facts, including statements about our expected future financial position, results of operations or cash flows, as well as other statements including words such as anticipate, believe, plan, estimate, expect, intend, should, goal, target, designed, on track, comfortable with, optimistic and other similar expressions, constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results and the timing of some events could differ materially from those projected in or contemplated by the forward-looking statements due to a number of factors, including, without limitation, the risks described under Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC, and those set forth below:

our ability to identify and market services that appeal to our customers;

the significant concentration of our revenues in four of our customers;

our relationships with investment consulting firms;

our relationships with current and potential customers;

our ability to retain qualified personnel;

our ability to develop and market new asset classes successfully;

our ability to maintain our fee structure in light of competitive fee pressures;

competition in the marketplace;

downturns in financial markets;

new legislation adversely affecting the financial services industries;

interest rates;

changes in our effective tax rate;

our ability to maintain an effective system of internal controls; and

other risks as detailed from time to time in our SEC reports.

You should not unduly rely on these forward-looking statements, which speak only as of the date of this report. Except as required by law, we are not obligated to release publicly any revisions to these forward-looking statements to reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events.

***Overview***

We manage investment assets and provide services for our clients through our two subsidiaries, Westwood Management and Westwood Trust. Westwood Management provides investment advisory services to corporate and public retirement plans, endowments and foundations, the WHG Funds, other mutual funds, individuals and clients of Westwood Trust. Westwood Trust provides trust and custodial services and participation in common trust funds that it sponsors to institutions and high net worth individuals. Our revenues are generally derived from fees based on a percentage of assets under management. We have been providing investment advisory services since 1983 and, according to recognized industry sources including Morningstar, Inc., our principal asset classes have consistently ranked above the median in performance within their peer groups when measured over ten years and longer. Percentages stated in this section are rounded to the nearest whole percent.

***Revenues***

We derive our revenues from investment advisory fees, trust fees, and other revenues. Our advisory fees are generated by Westwood Management, which manages client accounts under investment advisory and subadvisory agreements. Advisory fees are calculated based on a percentage of assets under management and are paid in accordance with the terms of the agreements. Westwood Management s advisory fees are paid quarterly in advance based on assets under management on the last day of the preceding quarter, quarterly in arrears based on assets under management on the last day of the quarter just ended, or are based on a daily or monthly analysis of assets under management for the stated period. Westwood Management recognizes revenues as services are rendered. A limited number of our clients have a contractual performance-based fee component in their contract, which generates additional revenues if we outperform a specified index over a specific period of time. We record

Table of Contents

revenue from performance-based fees at the end of the measurement periods. Since our advance paying clients billing periods coincide with the calendar quarter to which such payments relate, revenue is fully recognized within the quarter and our consolidated financial statements contain no deferred advisory fee revenues.

Our trust fees are generated by Westwood Trust pursuant to trust or custodial agreements. Trust fees are separately negotiated with each client and are generally based on a percentage of assets under management. Westwood Trust also provides trust services to a small number of clients on a fixed fee basis. Most trust fees are paid quarterly in advance and are recognized as services are rendered. Since billing periods for most of Westwood Trust s advance paying clients coincide with the calendar quarter, revenue is fully recognized within the quarter and our consolidated financial statements do not contain a significant amount of deferred revenue.

Our other revenues generally consist of interest and investment income. Although we invest most of our cash in U.S. Treasury securities, we also invest in equity and fixed income instruments and money market funds.

***Assets Under Management***

Assets under management increased $2.7 billion to $13.3 billion at March 31, 2011, compared with $10.6 billion at March 31, 2010. The average of beginning and ending assets under management for the first quarter of 2011 was $12.9 billion compared to $10.4 billion for the first quarter of 2010, an increase of 24%.

The following table displays assets under management as of March 31, 2011 and 2010:

| | As of March 31, (in millions) | | % Change March 31, 2011 vs. March 31, 2010 |
|---|---|---|---|
| | 2011 | 2010 | |
| Institutional | $ 8,833 | $ 8,000 | 10% |
| Private Wealth | 3,256 | 1,979 | 65 |
| Mutual Funds | 1,194 | 652 | 83 |
| **Total Assets Under Management** | $ 13,283 | $ 10,631 | 25% |

*Institutional* includes: separate accounts of corporate pension and profit sharing plans, public employee retirement funds, Taft Hartley plans, endowments, foundations and individuals; subadvisory relationships where Westwood Management provides investment management services for funds offered by other financial institutions; and managed account relationships with brokerage firms and other registered investment advisors who offer Westwood Management s products to their customers.

*Private Wealth* includes assets for which Westwood Trust provides trust and custodial services and participation in common trust funds that it sponsors to institutions and high net worth individuals pursuant to trust or agency agreements. Also included are assets acquired in the McCarthy transaction representing institutional and high net worth clients for which Westwood provides investment management and advisory services.

*Mutual Funds* include the WHG Funds, a family of mutual funds for which Westwood Management serves as advisor.

Table of Contents

**Roll-Forward of Assets Under Management**

| | Three Months Ended March 31, 2011 (in millions) | | | |
|---|---|---|---|---|
| | Institutional | Private Wealth | Mutual Funds | Total |
| Beginning of period assets | $ 8,359 | $ 3,148 | $ 970 | $ 12,477 |
| Client flows: | | | | |
| Inflows/new accounts | 234 | 76 | 204 | 514 |
| Outflows/closed accounts | (303) | (135) | (41) | (479) |
| Net inflows/(outflows) | (69) | (59) | 163 | 35 |
| Market appreciation | 543 | 167 | 61 | 771 |
| Net change | 474 | 108 | 224 | 806 |
| End of period assets | $ 8,833 | $ 3,256 | $ 1,194 | $ 13,283 |

The increase in assets under management for the three months ended March 31, 2011 was primarily due to market appreciation of $771 million and new inflows of $514 million, partially offset by outflows of $479 million. Inflows were driven primarily by additional inflows into the WHG Funds, institutional separate accounts, subadvisory mandates and private wealth accounts. Outflows were primarily related to rebalancing and some account closings by institutional separate account clients and outflows from subadvisory mandates, the WHG Funds and private wealth accounts.

**Roll-Forward of Assets Under Management**

| | Three Months Ended March 31, 2010 (in millions) | | | |
|---|---|---|---|---|
| | Institutional | Private Wealth | Mutual Funds | Total |
| Beginning of period assets | $ 7,599 | $ 2,009 | $ 566 | $ 10,174 |
| Client flows: | | | | |
| Inflows/new accounts | 447 | 27 | 96 | 570 |
| Outflows/closed accounts | (538) | (138) | (40) | (716) |
| Net inflows/(outflows) | (91) | (111) | 56 | (146) |
| Market appreciation | 492 | 81 | 30 | 603 |
| Net change | 401 | (30) | 86 | 457 |
| End of period assets | $ 8,000 | $ 1,979 | $ 652 | $ 10,631 |

The increase in assets under management for the three months ended March 31, 2010 was primarily due to market appreciation of $603 million and new inflows of $570 million, partially offset by outflows of $716 million. Inflows were driven primarily by additional inflows into institutional separate accounts and the WHG Funds. Outflows were primarily related to outflows from subadvisory mandates, rebalancing and some account closings by institutional separate account clients and outflows from the WHG Funds.

Table of Contents

***Results of Operations***

The following table (dollars in thousands) and discussion of our results of operations for the three months ended March 31, 2011 is based upon data derived from the consolidated statements of income contained in our consolidated financial statements and should be read in conjunction with those statements, included elsewhere in this quarterly report.

| | Three months ended March 31, | | % Change Three months ended March 31, 2011 vs. March 31, 2010 |
|---|---|---|---|
| | 2011 | 2010 | |
| **Revenues** | | | |
| Advisory fees | | | |
| Asset-based | $ 13,324 | $ 10,080 | 32% |
| Trust fees | 3,357 | 3,009 | 12 |
| Other revenues | 328 | 127 | 158 |
| Total revenues | 17,009 | 13,216 | 29 |
| **Expenses** | | | |
| Employee compensation and benefits | 8,655 | 6,796 | 27 |
| Sales and marketing | 198 | 133 | 49 |
| WHG mutual funds | 256 | 143 | 79 |
| Information technology | 458 | 327 | 40 |
| Professional services | 935 | 572 | 63 |
| General and administrative | 888 | 692 | 28 |
| Total expenses | 11,390 | 8,663 | 31 |
| Income before income taxes | 5,619 | 4,553 | 23 |
| Provision for income taxes | 2,070 | 1,620 | 28 |
| **Net income** | $ 3,549 | $ 2,933 | 21% |

*Three months ended March 31, 2011 compared to three months ended March 31, 2010*

*Total Revenues*. Our total revenues increased by 29% to $17.0 million for the three months ended March 31, 2011 compared with $13.2 million for the three months ended March 31, 2010. Asset-based advisory fees increased by 32% to $13.3 million for the three months ended March 31, 2011 compared with $10.1 million for the three months ended March 31, 2010 as a result of increased average assets under management by Westwood Management due to market appreciation of assets and inflows from new and existing clients, partially offset by the withdrawal of assets by certain clients. Trust fees increased by 12% to $3.4 million for the three months ended March 31, 2011 compared with $3.0 million for the three months ended March 31, 2010 as a result of increased assets under management by Westwood Trust due to market appreciation of assets and inflows from new accounts. Net asset outflows from existing clients partially offset these increases. Other revenues, which generally consist of interest and investment income, increased to $328,000 for the three months ended March 31, 2011 compared with $127,000 for the three months ended March 31, 2010. Other revenues are presented net and increased primarily due to an increase of $144,000 in net unrealized gains on investments and an increase of $54,000 in realized gains from sales of investments.

*Employee Compensation and Benefits*. Employee compensation and benefits costs generally consist of salaries, incentive compensation, equity-based compensation expense and benefits. Employee compensation and benefits costs increased by 27% to $8.7 million for the three months ended March 31, 2011 compared with $6.8 million for the three months ended March 31, 2010. The increase was primarily due to

increases of $635,000 in incentive compensation expense as a result of higher pretax income, $493,000 in restricted stock expense due to increases of $349,000 of expense related to performance-based grants and $144,000 of expense related to service-based grants, $441,000 in salary expense due primarily to increased average headcount and salary increases, and $172,000 in payroll tax expense related to an increase in the number of shares of restricted stock that vested. In the first quarter of 2011 we concluded that it was probable that we would meet the performance goal required in order

Table of Contents

for the applicable percentage of the performance-based restricted shares awarded to our Chief Investment Officer and Chief Executive Officer to vest. As a result, we recognized expense of approximately $584,000 in the first quarter related to these performance-based restricted stock grants. We expect to recognize amounts in the second, third and fourth quarters of 2011 related to these performance-based restricted stock grants. We had 75 full-time employees as of March 31, 2011 compared to 65 full-time employees as of March 31, 2010.

*Sales and Marketing*. Sales and marketing costs generally consist of costs associated with our marketing efforts, including travel and entertainment, direct marketing and advertising costs. Sales and marketing costs increased by 49% to $198,000 for the three months ended March 31, 2011 compared with $133,000 for the three months ended March 31, 2010. The increase is primarily the result of increased referral fees and travel costs.

*WHG Mutual Funds*. WHG Mutual Funds expenses generally consist of costs associated with our marketing, distribution, administration and acquisition efforts related to the WHG Funds. WHG Mutual Funds expenses increased by 79% to $256,000 for the three months ended March 31, 2011 compared with $143,000 for the three months ended March 31, 2010 due to increased legal costs related to the reorganization of the McCarthy Multi-Cap Stock Fund, which was acquired in November 2010, into the WHG Dividend Growth Fund and increased shareholder servicing costs.

*Information Technology*. Information technology expenses are generally costs associated with proprietary investment research tools, maintenance and support, computing hardware, software licenses, telecommunications and other related costs. Information technology costs increased by 40% to $458,000 for the three months ended March 31, 2011 compared with $327,000 for the three months ended March 31, 2010. The increase is primarily due to increased expenses for software and software implementation costs related to upgraded client reporting and portfolio accounting systems.

*Professional Services*. Professional services expenses generally consist of costs associated with subadvisory fees, audit, legal and other professional services. Professional services expenses increased by 63% to $935,000 for the three months ended March 31, 2011 compared with $572,000 for the three months ended March 31, 2010. The increase is primarily due to increases of $143,000 in professional services related to growth initiatives, $101,000 in audit fees related to unconsolidated investment vehicles we acquired in 2010, $83,000 in subadvisor fees related to common trust funds sponsored by Westwood Trust and $28,000 in legal fees.

*General and Administrative*. General and administrative expenses generally consist of costs associated with the lease of our office space, investor relations, licenses and fees, depreciation, insurance, office supplies and other miscellaneous expenses. General and administrative expenses increased by 28% to $888,000 for the three months ended March 31, 2011 compared with $692,000 for the three months ended March 31, 2010. The increase is primarily due to increases in amortization expense related to new intangible assets, rent expense related to an additional office acquired in November 2010, training and seminar expenses and charitable contributions.

*Provision for Income Tax Expense*. Provision for income tax expenses increased by 28% to $2,070,000 for the three months ended March 31, 2011 compared with $1,620,000 for the three months ended March 31, 2010. The effective tax rate increased to 36.8% for the three months ended March 31, 2011 from 35.6% for the three months ended March 31, 2010 primarily due to current year taxable income in a higher federal tax bracket and an additional state tax liability related to an acquisition we made in November 2010.

***Supplemental Financial Information***

As supplemental information, we are providing non-generally accepted accounting principles ( non-GAAP ) performance measures that we refer to as Economic earnings and Economic Expenses. We provide these measures in addition to, but not as a substitute for, net income and total expenses, which are reported on a U.S. generally accepted accounting principles ( GAAP ) basis. Both our Management and Board of Directors review Economic Earnings and Economic Expenses to evaluate our ongoing performance, allocate resources and review dividend policy. We believe that these non-GAAP performance measures, while not substitutes for GAAP net income and total expenses, are useful for management and investors when evaluating our underlying operating and financial performance and our available resources. We do not advocate that investors consider these non-GAAP measures without considering financial information prepared in accordance with GAAP.

Table of Contents

In calculating Economic Earnings, we add to net income the non-cash expense associated with equity-based compensation awards of restricted stock and stock options, amortization of intangible assets and the deferred taxes related to the tax-basis amortization of goodwill. We define Economic Expenses as total expenses less non-cash equity-based compensation expense and amortization of intangible assets. Although depreciation on property and equipment is a non-cash expense, we do not add it back when calculating Economic Earnings or deduct it when calculating Economic Expenses because depreciation charges represent a decline in the value of the related assets that will ultimately require replacement.

Our Economic Earnings increased by 26% to $6.1 million for the three months ended March 31, 2011 compared with $4.9 million for the three months ended March 31, 2010, primarily due to an increase in total revenues.

The following tables provide a reconciliation of net income to Economic Earnings and total expenses to Economic Expenses (in thousands):

| | Three Months Ended March 31 | | % |
|---|---|---|---|
| | 2011 | 2010 | Change |
| Net Income | $ 3,549 | $ 2,933 | 21% |
| Add: Restricted stock expense | 2,383 | 1,891 | 26 |
| Add: Intangible amortization | 125 | 26 | 381 |
| Add: Deferred taxes on goodwill | 52 | 9 | 478 |
| Economic Earnings | $ 6,109 | $ 4,859 | 26 |
| Total expenses | $ 11,390 | $ 8,663 | 31 |
| Less: Restricted stock expense | (2,383) | (1,891) | 26 |
| Less: Intangible amortization | (125) | (26) | 381 |
| Economic Expenses | $ 8,882 | $ 6,746 | 32% |

***Liquidity and Capital Resources***

We fund our operations and cash requirements with cash generated from operating activities. As of March 31, 2011, we had no long-term debt. The changes in net cash provided by operating activities generally reflect the changes in earnings plus the effects of non-cash items and changes in working capital. Changes in working capital, especially accounts receivable and accounts payable, are generally the result of timing differences between collection of fees billed and payment of operating expenses.

During the three months ended March 31, 2011, cash flow provided by operating activities, principally our investment advisory business, was $5.2 million. The cash generated from operations was partially supplemented by the sale of trading securities to fund annual incentive compensation payments. At March 31, 2011, we had working capital of $46.9 million. Cash flow used in investing activities during the three months ended March 31, 2011 of $233,000 was related to purchases of fixed assets. Cash flow used in financing activities during the three months ended March 31, 2011 of $2.0 million was due to the purchase of treasury shares partially offset by tax benefits from equity-based compensation and cash from the exercise of stock options.

We had cash and investments of $43.9 million as of March 31, 2011 and $45.0 million as of December 31, 2010. Dividends payable were $2.7 million and $0 as of March 31, 2011 and December 31, 2010, respectively. We had no liabilities for borrowed money at March 31, 2011. We have a deferred acquisition liability to be paid in the fourth quarter of 2011, which we expect to pay with funds generated from operations.

Our future liquidity and capital requirements will depend upon numerous factors, including our results of operations, the timing and magnitude of capital expenditures or strategic initiatives, our dividend policy and other business and risk factors described under Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC. We believe that current cash and short-term investment balances and cash generated from operations will be sufficient to meet the operating and capital requirements of our ordinary business operations through at least the next twelve months. However, there can be no assurance that we will not require

20

Table of Contents

additional financing within this time frame. The failure to raise needed capital on attractive terms, if at all, could have a material adverse effect on our business, financial condition and results of operations.

***Contractual Obligations***

There have been no significant changes in our contractual obligations since December 31, 2010.

***Critical and Significant Accounting Policies and Estimates***

There have been no significant changes in our critical or significant accounting policies and estimates since December 31, 2010.

**ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no significant changes in our Quantitative and Qualitative Disclosures about Market Risk from those previously reported in our Annual Report on Form 10-K for 2010.

**ITEM 4. CONTROLS AND PROCEDURES**

Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended, (1) is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and (2) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure. An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on this evaluation, our management, including our Chief Executive Officer and our Chief Financial Officer, concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and is accumulated and communicated to management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

For the quarter ended March 31, 2011, there were no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

We are subject from time to time to certain claims and legal proceedings arising in the ordinary course of our business. We do not believe the outcome of these proceedings will have a material impact on our financial position, operations or cash flow.

**ITEM 1A. RISK FACTORS**

We face a number of significant risks and uncertainties in our business, which are detailed under Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010 and summarized in this report under Management s Discussion and Analysis of Financial Condition and Results of Operations. These risks and uncertainties may affect our current position and future prospects and should be considered carefully in evaluating us and an investment in our common stock.

21

Table of Contents

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table displays information with respect to the treasury shares we purchased during the three months ended March 31, 2011.

| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs | Maximum number of shares that may yet be purchased under the plans or programs |
|---|---|---|---|---|
| January 1 through January 31, 2011 | | | | |
| February 1 through February 28, 2011 | 70,280 | $ 36.95 | | |
| March 1 through March 31, 2011 | | | | |
| Total | 70,280 | $ 36.95 | | |

Note: The treasury shares were purchased from Westwood employees at the market close price on the date of purchase in order to satisfy their tax obligations from vested restricted shares. We anticipate purchasing additional shares in 2011 and in subsequent years for the same purpose.

**ITEM 6. EXHIBITS**

| | |
|---|---|
| 31.1 | Certification of Chief Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a) |
| 31.2 | Certification of Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) |
| 32.1* | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2* | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

* Pursuant to Item 601(b)(32) of SEC Regulation S-K, these exhibits are furnished rather than filed with this report.

**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.

Dated: April 20, 2011

WESTWOOD HOLDINGS GROUP, INC.

By: /s/ Brian O. Casey
**Brian O. Casey**
**President & Chief Executive Officer**

By: /s/ William R. Hardcastle, Jr.
**William R. Hardcastle, Jr.**
**Chief Financial Officer**