

WESTWOOD HOLDINGS GROUP INC

Form 10-Q

April 19, 2012

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended March 31, 2012.

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**  
(State or other jurisdiction of  
incorporation or organization)

**75-2969997**  
(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  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

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

Shares of common stock, par value \$0.01 per share, outstanding as of April 18, 2012: 8,018,516.

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**WESTWOOD HOLDINGS GROUP, INC.**

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**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, 2012 and December 31, 2011

(in thousands, except par value and share amounts)

	March 31, 2012 (unaudited)	December 31, 2011
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 4,505	\$ 5,264
Accounts receivable	7,808	7,707
Investments, at fair value	47,238	54,868
Deferred income taxes	956	3,142
Prepaid income taxes	937	
Other current assets	1,889	1,501
<b>Total current assets</b>	<b>63,333</b>	<b>72,482</b>
Goodwill	11,255	11,255
Intangible assets, net	4,499	4,621
Property and equipment, net of accumulated depreciation of \$1,586 and \$1,647	2,187	2,239
<b>Total assets</b>	<b>\$ 81,274</b>	<b>\$ 90,597</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 1,674	\$ 1,674
Dividends payable	3,262	3,074
Compensation and benefits payable	3,536	12,677
Income taxes payable		85
Other current liabilities	13	13
<b>Total current liabilities</b>	<b>8,485</b>	<b>17,523</b>
Deferred income taxes	1,210	969
Deferred rent	1,321	1,348
<b>Total long-term liabilities</b>	<b>2,531</b>	<b>2,317</b>
<b>Total liabilities</b>	<b>11,016</b>	<b>19,840</b>
Stockholders Equity:		
Common stock, \$0.01 par value, authorized 25,000,000 shares, issued 8,502,798 and outstanding 8,018,516 shares at March 31, 2012; issued 8,105,018 and outstanding 7,707,189 shares at December 31, 2011	85	81
Additional paid-in capital	79,473	76,969
Treasury stock, at cost 484,282 shares at March 31, 2012; 397,829 shares at December 31, 2011	(18,109)	(14,706)
Accumulated other comprehensive income, net of deferred taxes	1,505	1,940

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Retained earnings	7,304	6,473
Total stockholders' equity	70,258	70,757
Total liabilities and stockholders' equity	\$ 81,274	\$ 90,597

See notes to interim consolidated financial statements.

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**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands, except per share data)

(unaudited)

	Three months ended March 31,	
	2012	2011
<b>REVENUES:</b>		
Advisory fees		
Asset-based	\$ 14,090	\$ 13,324
Trust fees	3,471	3,357
Other revenues, net	303	328
Total revenues	17,864	17,009
<b>EXPENSES:</b>		
Employee compensation and benefits	8,914	8,655
Sales and marketing	212	198
Westwood mutual funds	209	256
Information technology	596	458
Professional services	879	935
General and administrative	970	888
Total expenses	11,780	11,390
Income before income taxes	6,084	5,619
Provision for income taxes	2,299	2,070
Net income	\$ 3,785	\$ 3,549
Other comprehensive income		
unrealized gain (loss) on investment securities, net of income taxes of \$(238) and \$289, respectively	(435)	536
Total comprehensive income	\$ 3,350	\$ 4,085
Earnings per share:		
Basic	\$ 0.53	\$ 0.51
Diluted	\$ 0.52	\$ 0.50
Dividends declared per share	\$ 0.37	\$ 0.35

See notes to interim consolidated financial statements.

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**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY**

**For the Three Months Ended March 31, 2012**

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

**(unaudited)**

	Westwood Holdings Group, Inc.		Addi- tional	Accumulated			Total
				Common Stock, Par Shares	Amount	Paid-In Capital	
							Comprehensive Income
BALANCE, January 1, 2012	7,707,189	\$ 81	\$ 76,969	\$ (14,706)	\$ 1,940	\$ 6,473	\$ 70,757
Net income						3,785	3,785
Other comprehensive income unrealized loss on investment securities						(435)	(435)
Issuance of restricted stock, net	396,030	4	(4)				
Dividends declared						(2,954)	(2,954)
Restricted stock amortization			1,865				1,865
Tax benefit related to equity compensation			621				621
Stock options exercised	1,750		22				22
Purchase of treasury stock	(86,453)			(3,403)			(3,403)
BALANCE, March 31, 2012	8,018,516	\$ 85	\$ 79,473	\$ (18,109)	\$ 1,505	\$ 7,304	\$ 70,258

See notes to interim consolidated financial statements.

**Table of Contents****WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	<b>For the three months ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 3,785	\$ 3,549
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	81	67
Amortization of intangible assets	122	125
Fair value adjustment of deferred acquisition liabilities		42
Unrealized (gains) and losses on trading investments	138	(227)
Restricted stock amortization	1,865	2,383
Loss on disposal of property	1	
Deferred income taxes	2,666	1,761
Excess tax benefits from stock based compensation	(588)	(548)
Net purchases of investments trading securities	6,818	5,109
Change in operating assets and liabilities:		
Accounts receivable	(101)	(1,351)
Other current assets	(391)	(281)
Accounts payable and accrued liabilities	(7)	17
Compensation and benefits payable	(9,141)	(5,996)
Income taxes payable and prepaid income taxes	(401)	447
Other liabilities	(6)	71
Net cash provided by operating activities	4,841	5,168
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(48)	(233)
Net cash used in investing activities	(48)	(233)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Purchase of treasury stock	(3,403)	(2,597)
Excess tax benefits from stock based compensation	588	548
Cash dividends	(2,759)	1
Proceeds from exercise of stock options	22	20
Net cash used in financing activities	(5,552)	(2,028)
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>(759)</b>	<b>2,907</b>
Cash and cash equivalents, beginning of period	5,264	1,744
Cash and cash equivalents, end of period	\$ 4,505	\$ 4,651
<b>Supplemental cash flow information:</b>		
Cash paid during the period for income taxes	\$ 35	\$ 33

See notes to interim consolidated financial statements.





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**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, 2012, 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, 2011. 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 contractual performance-based fee arrangements, 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 over the periods services are performed. Since billing periods for most of our advance paying clients coincide with the calendar quarter to which payment relates, revenue is fully recognized within the quarter. Consequently there is not a significant amount of deferred revenue contained in our financial statements. 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.

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**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**

Our accounts receivable balances generally consist 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**

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 2011, 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 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 6. INTANGIBLE ASSETS of these consolidated financial statements.

**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 basis 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.

**Table of Contents****WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

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, as amended, (the Plan ). We valued stock options granted in accordance with 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, 2012 and 2011, 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. There were no anti-dilutive restricted shares or options as of March 31, 2012 or 2011.

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

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2012</b>	<b>2011</b>
Net income	\$ 3,785	\$ 3,549
Weighted average shares outstanding basic	7,087,778	6,937,128
Dilutive potential shares from unvested restricted shares	172,991	187,917
Dilutive contingently issuable shares		23,388
Dilutive potential shares from stock options	7,584	18,144
Weighted average shares outstanding diluted	7,268,353	7,166,577
<b>Earnings per share:</b>		
Basic	\$ 0.53	\$ 0.51
Diluted	\$ 0.52	\$ 0.50



**Table of Contents****WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****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, 2012:				
U.S. Government obligations	\$ 28,005	\$ 1	\$	\$ 28,006
Money Market Funds	4,599			4,599
Equity available for sale		2,325		2,325
Equity Funds trading	2,145	139		2,284
Fixed Income Funds trading	10,054		(30)	10,024
Marketable securities	\$ 44,803	\$ 2,465	\$ (30)	\$ 47,238
December 31, 2011:				
U.S. Government obligations	\$ 35,499	\$ 8	\$	\$ 35,507
Money Market Funds	11,458			11,458
Equity available for sale		2,999		2,999
Equity Funds trading	3,161	248	(9)	3,400
Fixed Income Funds trading	1,503	1		1,504
Marketable securities	\$ 51,621	\$ 3,256	\$ (9)	\$ 54,868

**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 to the consolidated financial statements 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, Westwood Funds<sup>TM</sup> 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 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, 2012 of \$15.50 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:

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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.



**Table of Contents****WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

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, 2012				
Investments in securities:				
Trading	\$ 44,913	\$	\$	\$ 44,913
Available for sale			2,325	2,325
<b>Total Financial instruments</b>	<b>\$ 44,913</b>	<b>\$</b>	<b>\$ 2,325</b>	<b>\$ 47,238</b>
As of December 31, 2011				
Investments in securities:				
Trading	\$ 50,592	\$ 1,277	\$	\$ 51,869
Available for sale			2,999	2,999
<b>Total Financial instruments</b>	<b>\$ 50,592</b>	<b>\$ 1,277</b>	<b>\$ 2,999</b>	<b>\$ 54,868</b>

Investments categorized as level 2 assets consist of investments in a common trust fund sponsored by Westwood Trust. Common trust funds are private investment vehicles comprised of commingled investments held in trusts that are valued using the Net Asset Value ( NAV ) calculated by us as administrator of the funds. The NAV is quoted on a private market that is not active; however, the unit price is based on the market value of the underlying investments that are traded on an active market.

We used level 3 inputs to determine the fair value of our 200,000 Teton shares. 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.

	Three Months Ended March 31,	
	2012	2011
Investments in available for sale securities (in thousands)		
Beginning balance	\$ 2,999	\$ 1,425
Unrealized gains/(losses) included in Other Comprehensive Income	(674)	825
<b>Ending balance</b>	<b>\$ 2,325</b>	<b>\$ 2,250</b>

**6. INTANGIBLE ASSETS**

The following is a summary of our intangible assets at March 31, 2012 and December 31, 2011 (in thousands):

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	Weighted Average Amortization Period (years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>March 31, 2012</b>				
Client relationships	14.2	\$ 5,005	\$ (588)	\$ 4,417
Trade names	2.0	256	(183)	73
Non-compete agreements	2.3	26	(17)	9
<b>Total</b>		<b>\$ 5,287</b>	<b>\$ (788)</b>	<b>\$ 4,499</b>
<b>December 31, 2011</b>				
Client relationships	14.2	\$ 5,005	\$ (498)	\$ 4,507
Trade names	2.0	256	(153)	103
Non-compete agreements	2.3	26	(15)	11
<b>Total</b>		<b>\$ 5,287</b>	<b>\$ (666)</b>	<b>\$ 4,621</b>

**Table of Contents****WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

Amortization expense was \$122,000 and \$125,000 for the three months ended March 31, 2012 and 2011, 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
2012	\$ 472
2013	359
2014	359
2015	359
2016	359

**7. EQUITY**

On March 5 and February 24, 2012, we purchased 462 shares and 85,991 shares of our common stock, respectively, from employees of Westwood to assist in satisfying their tax obligations related to vested restricted shares. The shares were purchased at the closing price of our common stock on those days and are shown as treasury shares in the equity section of our balance sheet.

On February 23, 2012, we granted an aggregate of 400,780 shares of restricted stock to certain employees. These shares are subject to vesting conditions as described in Note 9. STOCK BASED COMPENSATION .

On February 2, 2012, we declared a quarterly cash dividend of \$0.37 per share on common stock payable on April 2, 2012 to stockholders of record on March 15, 2012.

**8. 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 Westwood Funds , a family of mutual funds. Some clients of Westwood Management hold their investments in ten limited liability companies and one limited partnership that we formed and sponsor. The CTFs, Westwood 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 included in 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 Westwood 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).

**Table of Contents****WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

	As of March 31, 2012		
	Assets		Risk
	Under Management	Corporate Investment	of Loss
Westwood Funds	\$ 1,475	\$ 12.3	\$ 12.3
Common Trust Funds	1,856		
LLCs	472		
Partnership	25		

	As of December 31, 2011		
	Assets		Risk
	Under Management	Corporate Investment	of Loss
Westwood Funds	\$ 1,293	\$ 3.6	\$ 3.6
Common Trust Funds	1,675	1.3	1.3
LLCs	435		
Partnership	25		

**9. STOCK BASED COMPENSATION**

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 3,398,100 shares and as of March 31, 2012, approximately 477,000 shares remained available for issuance under the Plan.

The following table presents the total expense recorded for stock based compensation (in thousands):

	Three months ended March 31,	
	2012	2011
Service condition restricted stock expense	\$ 1,865	\$ 1,799
Performance based restricted stock expense		584
<b>Total stock based compensation expense</b>	<b>\$ 1,865</b>	<b>\$ 2,383</b>

**Restricted Stock**

Under the Plan, we have granted to employees and non-employee directors restricted stock that is subject to a service condition, and to certain key employees restricted stock that is subject to a service condition and performance goals. As of March 31, 2012, approximately \$30.0 million of remaining unrecognized compensation cost is expected to be recognized over a remaining weighted-average period of 2.8 years. Our two types of restricted stock grants are discussed below.

*Employee and non-employee director restricted share grants*

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Restricted shares granted to employees vest over four years and non-employee directors' shares vest over one year. 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, 2012:

**Table of Contents****WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

	Shares	Weighted Average Grant Date Fair Value
<b>Restricted shares subject only to a service condition:</b>		
Non-vested, January 1, 2012	561,070	\$ 36.37
Granted	200,780	39.34
Vested	(197,375)	36.12
Forfeited	(4,750)	37.01
Non-vested, March 31, 2012	559,725	37.52

*Performance based restricted share grants*

Under the Plan, we granted restricted shares to our certain key employees that vest over five years, provided annual performance goals established by the Compensation Committee of Westwood's board of directors are met. In February 2012, the Compensation Committee established the goal for 2012 as adjusted pre-tax income of at least \$26,661,000, representing a compound annual growth rate of 7% over annual adjusted pre-tax income recorded in 2007. Our adjusted pre-tax income is determined based on our audited financial statements and is equal to our 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. Revenues and expenses associated with subsidiaries acquired or newly launched in 2012 are excluded from the calculation of adjusted pre-tax income. The following table details the status and changes in our restricted stock grants that are subject service and performance conditions for the three months ended March 31, 2012:

	Shares	Weighted Average Grant Date Fair Value
<b>Restricted shares subject to service and performance conditions:</b>		
Non-vested, January 1, 2012	105,000	\$ 39.90
Granted	200,000	39.31
Vested		
Forfeited		
Non-vested, March 31, 2012	305,000	39.51

**10. 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.

**Westwood Management**

Westwood Management provides investment advisory services to corporate retirement plans, public retirement plans, endowments, foundations, individuals and the Westwood Funds, 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.

**Table of Contents****WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

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
<b>Three months ended March 31, 2012</b>					
Net revenues from external sources	\$ 14,393	\$ 3,471	\$	\$	\$ 17,864
Net intersegment revenues	1,174	5		(1,179)	
Income before income taxes	7,505	444	(1,865)		6,084
Segment assets	69,006	13,924	(1,656)		81,274
Segment goodwill	5,219	6,036			11,255
<b>Three months ended March 31, 2011</b>					
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



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

**Forward-Looking Statements**

Statements in this Report and the Annual Report to Stockholders that are not purely historical facts, including, without limitation, statements about our expected future financial position, results of operations or cash flows, as well as other statements including, without limitation, words such as anticipate, believe, plan, estimate, expect, intend, should, could, goal, may, target, designed, on track, complete, 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, 2011 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 investment strategies 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. We are not obligated and do not undertake an obligation to publicly release 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 or otherwise.

### **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 Westwood 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,

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which generates additional revenues if we outperform a specified index over a specific period of time. We record 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 generally 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 \$590 million to \$13.9 billion at March 31, 2012, compared with \$13.3 billion at March 31, 2011. The average of beginning and ending assets under management for the first quarter of 2012 was \$13.5 billion compared to \$12.9 billion for the first quarter of 2011, an increase of 5%.

The following table displays assets under management as of March 31, 2012 and 2011:

	As of March 31, (in millions)		% Change
	2012	2011	March 31, 2012 vs. March 31, 2011
Institutional	\$ 9,068	\$ 8,833	3%
Private Wealth	3,330	3,256	2
Mutual Funds	1,475	1,194	24
<b>Total Assets Under Management</b>	<b>\$ 13,873</b>	<b>\$ 13,283</b>	<b>4%</b>

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

**Table of Contents****Roll-Forward of Assets Under Management**

(\$ millions)	Three Months Ended	
	March 31,	
	2012	2011
<b><i>Institutional</i></b>		
Beginning of period assets	\$ 8,735	\$ 8,359
Inflows	166	234
Outflows	(745)	(303)
Net flows	(579)	(69)
Market appreciation/(depreciation)	912	543
Net change	333	474
End of period assets	9,068	8,833
<b><i>Private Wealth</i></b>		
Beginning of period assets	3,051	3,148
Inflows	155	76
Outflows	(114)	(135)
Net flows	41	(59)
Market appreciation/(depreciation)	238	167
Net change	279	108
End of period assets	3,330	3,256
<b><i>Mutual Funds</i></b>		
Beginning of period assets	1,293	970
Inflows	166	204
Outflows	(85)	(41)
Net flows	81	163
Market appreciation/(depreciation)	101	61
Net change	182	224
End of period assets	1,475	1,194
<b><i>Total</i></b>		
Beginning of period assets	13,079	12,477
Inflows	487	514
Outflows	(944)	(479)
Net flows	(457)	35
Market appreciation/(depreciation)	1,251	771
Net change	794	806
End of period assets	\$ 13,873	\$ 13,283

*Three months ended March 31, 2012 and 2011*

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The \$794 million increase in assets under management for the three months ended March 31, 2012 was due to market appreciation of \$1.3 billion and inflows of \$487 million, partially offset by outflows of \$944 million. Inflows were evenly distributed into new and existing institutional separate accounts, the Westwood Funds and new and existing private wealth accounts. Outflows were primarily related to rebalancing by institutional separate accounts.

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 Westwood 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.

**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, 2012 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, 2012 vs. March 31, 2011
	2012	2011	
<b>Revenues</b>			
Advisory fees			
Asset-based	\$ 14,090	\$ 13,324	6%
Trust fees	3,471	3,357	3
Other revenues	303	328	(8)
Total revenues	17,864	17,009	5
<b>Expenses</b>			
Employee compensation and benefits	8,914	8,655	3
Sales and marketing	212	198	7
Westwood mutual funds	209	256	(18)
Information technology	596	458	30
Professional services	879	935	(6)
General and administrative	970	888	9
Total expenses	11,780	11,390	3
Income before income taxes	6,084	5,619	8
Provision for income taxes	2,299	2,070	11
<b>Net income</b>	<b>\$ 3,785</b>	<b>\$ 3,549</b>	<b>7%</b>

**Three months ended March 31, 2012 compared to three months ended March 31, 2011**

**Total Revenues.** Our total revenues increased by 5% to \$17.9 million for the three months ended March 31, 2012 compared with \$17.0 million for the three months ended March 31, 2011. Asset-based advisory fees increased by 6% to \$14.1 million for the three months ended March 31, 2012 compared with \$13.3 million for the three months ended March 31, 2011 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 3% to \$3.5 million for the three months ended March 31, 2012 compared with \$3.4 million for the three months ended March 31, 2011 as a result of increased assets under management by Westwood Trust due to inflows from new accounts. Other revenues, which generally consist of interest and investment income, decreased 8% to \$303,000 for the three months ended March 31, 2012 compared with \$328,000 for the three months ended March 31, 2011. Other revenues are presented on a net basis and decreased primarily due to an increase of \$365,000 in net unrealized losses on investments, partially offset by increases of \$307,000 in realized gains on investments and \$44,000 in dividend income.

**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 3% to \$8.9 million for the three months ended March 31, 2012 compared with \$8.7 million for the three months ended March 31, 2011. The increase was primarily due to increases of \$398,000 in incentive compensation expense as a result of higher pretax income and performance-based incentive compensation granted in 2012, \$287,000 in salary expense due primarily to increased average headcount and salary increases and \$66,000 in service-based

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restricted stock expense due to additional annual grants. These increases were partially offset by a decrease of \$584,000 in performance-based restricted stock expense. In the first quarter of 2011 we concluded that it was probable that we would meet the performance goal required in order for the applicable percentage of the performance-based restricted shares to vest. As a result, we recognized expense of approximately \$584,000 in the first quarter of 2011 related to these performance-based restricted stock grants. We have not concluded that the current year performance-based shares will vest nor recorded the related expense. We had 83 full-time employees as of March 31, 2012 compared to 75 full-time employees as of March 31, 2011.

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*Sales and Marketing.* Sales and marketing costs relate to our marketing efforts, including travel and entertainment, direct marketing and advertising costs. Sales and marketing costs increased by 7% to \$212,000 for the three months ended March 31, 2012 compared with \$198,000 for the three months ended March 31, 2011. The increase is primarily the result of increased travel and entertainment expenses partially offset by decreased referral fee expenses.

*Westwood Mutual Funds.* Westwood Mutual Funds expenses relate to our marketing, distribution, administration and acquisition efforts related to the Westwood Funds . Westwood Mutual Funds expenses decreased by 18% to \$209,000 for the three months ended March 31, 2012 compared with \$256,000 for the three months ended March 31, 2011 due to a prior year expense to increase the acquisition liability recorded as part of the mutual fund acquisition completed in 2009 and a decrease in fund related legal expenses, partially offset by 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 30% to \$596,000 for the three months ended March 31, 2012 compared with \$458,000 for the three months ended March 31, 2011. The increase is primarily due to software and software implementation costs related to upgraded client reporting and portfolio accounting systems, increased research expenses and increased equipment expenses.

*Professional Services.* Professional services expenses generally consist of costs associated with subadvisory fees, audit, legal and other professional services. Professional services expenses decreased by 6% to \$879,000 for the three months ended March 31, 2012 compared with \$935,000 for the three months ended March 31, 2011 primarily due to a decrease of \$87,000 in audit 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 9% to \$970,000 for the three months ended March 31, 2012 compared with \$888,000 for the three months ended March 31, 2011. The increase is primarily due to increased rent expense due to a new lease for our Dallas office effective June 2011 and higher fees related to a new director compensation plan, partially offset by decreased custody expense.

*Provision for Income Tax Expense.* Provision for income tax expenses increased by 11% to \$2.3 million for the three months ended March 31, 2012 compared with \$2.1 million for the three months ended March 31, 2011. The effective tax rate increased to 37.8% for the three months ended March 31, 2012 from 36.8% for the three months ended March 31, 2011 primarily due to provision to return adjustments from our 2011 federal tax return.

## **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.

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.



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Our Economic Earnings decreased by 5% to \$5.8 million for the three months ended March 31, 2012 compared with \$6.1 million for the three months ended March 31, 2011, primarily due to increases in Economic Expenses and income tax expense.

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		%
	2012	2011	Change
Net Income	\$ 3,785	\$ 3,549	7%
Add: Restricted stock expense	1,865	2,383	(22)
Add: Intangible amortization	122	125	(2)
Add: Deferred taxes on goodwill	47	52	(10)
<b>Economic Earnings</b>	<b>\$ 5,819</b>	<b>\$ 6,109</b>	<b>(5)</b>
Total expenses	\$ 11,780	\$ 11,390	3
Less: Restricted stock expense	(1,865)	(2,382)	(22)
Less: Intangible amortization	(122)	(125)	(2)
<b>Economic Expenses</b>	<b>\$ 9,793</b>	<b>\$ 8,882</b>	<b>10%</b>

**Liquidity and Capital Resources**

We fund our operations and cash requirements with cash generated from operating activities. As of March 31, 2012, 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, 2012, cash flow provided by operating activities, principally our investment advisory business, was \$4.8 million. The cash generated from operations was partially supplemented by the sale of trading securities to fund annual incentive compensation payments. At March 31, 2012, we had working capital of \$54.8 million. Cash flow used in investing activities during the three months ended March 31, 2012 of \$48,000 was related to purchases of fixed assets. Cash flow used in financing activities during the three months ended March 31, 2012 of \$5.6 million was due to the purchase of treasury shares and the payment of dividends partially offset by tax benefits from equity-based compensation.

We had cash and investments of \$51.7 million as of March 31, 2012 and \$60.1 million as of December 31, 2011. Dividends payable were \$3.3 million and \$3.1 million as of March 31, 2012 and December 31, 2011, respectively. We had no liabilities for borrowed money at March 31, 2012.

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, 2011 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 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, 2011.

**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, 2011.



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### **Accounting Developments**

In May 2011, the Financial Accounting Standards Board ( FASB ) issued new guidance regarding the definition and requirements for the measurement of and disclosure about fair value. The new guidance results in a consistent definition of fair value and common requirements for the measurement and disclosure of fair value between U.S. GAAP and International Financial Reporting Standards. This guidance becomes effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We adopted this guidance in these financial statements. It did not have a material effect on our consolidated financial statements.

In June 2011, the FASB issued new guidance regarding the presentation of comprehensive income. Under this new guidance, an entity must present the components of net income and comprehensive income in a single continuous statement of comprehensive income or in two separate but consecutive statements. The new guidance eliminates the option to present other comprehensive income in the statement of shareholders equity. The new guidance becomes effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We adopted this guidance in these financial statements. It did not have a material effect on our consolidated financial statements.

In September 2011, the FASB issued new guidance regarding the testing of goodwill for impairment. This new guidance allows entities to perform a qualitative assessment to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying value in order to determine if quantitative testing is required. This qualitative assessment is optional and is intended to reduce the cost and complexity of annual goodwill impairment tests. The new guidance is effective for annual and interim impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption is allowed provided the entity has not yet performed its 2011 impairment test or issued its financial statements. This guidance will not have a material effect on our consolidated financial statements.

### **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 2011.

### **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, 2012, 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.

**Table of Contents****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 such 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, 2011 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.

**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, 2012.

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 (or approximate dollar value) of shares that may yet be purchased under the plans or programs (1)
January 1 through January 31, 2012				\$ 6,939,238
February 1 through February 29, 2012 (2)	85,991	\$ 39.38		6,939,238
March 1 through March 31, 2012 (2)	462	36.77		6,939,238
Total	86,453	\$ 39.37		\$ 6,939,238

- (1) On August 9, 2011, our board of directors authorized management to repurchase up to \$10.0 million of our outstanding common stock on the open market or in privately negotiated transactions. The share repurchase program expires on August 9, 2012.
- (2) The treasury shares purchased in February and March were purchased from Westwood employees at the market close price on the date of purchase in order to satisfy their tax withholding obligations from vested restricted shares. We anticipate purchasing additional shares 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
101.INS**	XBRL Instance Document

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101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

- \* Pursuant to Item 601(b)(32) of SEC Regulation S-K, these exhibits are furnished rather than filed with this report.
- \*\* These exhibits are furnished herewith. In accordance with Rule 406T of Regulation S-T, these exhibits are not deemed to be filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are not deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.

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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.

Dated: April 19, 2012

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