

WESTWOOD HOLDINGS GROUP INC

Form 10-Q

October 18, 2012

[Table of Contents](#)

**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 September 30, 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)

Edgar Filing: WESTWOOD HOLDINGS GROUP INC - Form 10-Q

**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 October 16, 2012: 8,026,845.

**Table of Contents**

**WESTWOOD HOLDINGS GROUP, INC.**

**INDEX**

|                          | PAGE  |
|--------------------------|---|
| PART I                   |   |
|                          | <b><u>FINANCIAL INFORMATION</u></b>   |
| Item 1.                  |   |
|                          | <b><u>Unaudited Consolidated Financial Statements</u></b>   |
|                          | <b><u>Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011</u></b>  |
|                          | 1   |
|                          | <b><u>Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2012 and September 30, 2011</u></b> |
|                          | 2   |
|                          | <b><u>Consolidated Statement of Stockholders' Equity for the nine months ended September 30, 2012</u></b>                                   |
|                          | 3   |
|                          | <b><u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and September 30, 2011</u></b>                     |
|                          | 4   |
|                          | <b><u>Notes to Interim Consolidated Financial Statements</u></b>  |
|                          | 5   |
| Item 2.                  | <b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>   |
|                          | 14  |
| Item 3.                  | <b><u>Quantitative And Qualitative Disclosures About Market Risk</u></b>  |
|                          | 22  |
| Item 4.                  | <b><u>Controls and Procedures</u></b>   |
|                          | 22  |
| PART II                  |   |
|                          | <b><u>OTHER INFORMATION</u></b>   |
| Item 1.                  | <b><u>Legal Proceedings</u></b>   |
|                          | 23  |
| Item 1A.                 | <b><u>Risk Factors</u></b>  |
|                          | 23  |
| Item 6.                  | <b><u>Exhibits</u></b>  |
|                          | 23  |
| <b><u>Signatures</u></b> | <b>24</b>   |

**Table of Contents****PART I - FINANCIAL INFORMATION****ITEM 1. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

As of September 30, 2012 and December 31, 2011

(in thousands, except par value and share amounts)

|   | September<br>30,<br>2012<br>(unaudited) | December 31,<br>2011 |
|---|---|----------------------|
| <b>ASSETS</b>   |   |                      |
| Current Assets:   |   |                      |
| Cash and cash equivalents   | \$ 6,777                                | \$ 5,264             |
| Accounts receivable   | 8,209                                   | 7,707                |
| Investments, at fair value  | 52,913                                  | 54,868               |
| Deferred income taxes   | 2,505                                   | 3,142                |
| Prepaid income taxes  | 1,669                                   |                      |
| Other current assets  | 2,190                                   | 1,501                |
| <b>Total current assets</b>   | <b>74,263</b>                           | <b>72,482</b>        |
| Goodwill  | 11,255                                  | 11,255               |
| Intangible assets, net  | 4,255                                   | 4,621                |
| Property and equipment, net of accumulated depreciation of \$1,763 and \$1,647  | 2,170                                   | 2,239                |
| <b>Total assets</b>   | <b>\$ 91,943</b>                        | <b>\$ 90,597</b>     |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |   |                      |
| Current Liabilities:  |   |                      |
| Accounts payable and accrued liabilities  | \$ 1,781                                | \$ 1,674             |
| Dividends payable   | 3,702                                   | 3,074                |
| Compensation and benefits payable   | 10,710                                  | 12,677               |
| Income taxes payable  |   | 85                   |
| Other current liabilities   | 13                                      | 13                   |
| <b>Total current liabilities</b>  | <b>16,206</b>                           | <b>17,523</b>        |
| Deferred income taxes   | 549                                     | 969                  |
| Deferred rent   | 1,266                                   | 1,348                |
| <b>Total long-term liabilities</b>  | <b>1,815</b>                            | <b>2,317</b>         |
| <b>Total liabilities</b>  | <b>18,021</b>                           | <b>19,840</b>        |
| Stockholders Equity:  |   |                      |
| Common stock, \$0.01 par value, authorized 25,000,000 shares, issued 8,522,398 and outstanding 8,026,845 shares at September 30, 2012; issued 8,105,018 and outstanding 7,707,189 shares at December 31, 2011 | 85                                      | 81                   |
| Additional paid-in capital  | 85,584                                  | 76,969               |

## Edgar Filing: WESTWOOD HOLDINGS GROUP INC - Form 10-Q

|   |           |           |
|---|-----------|-----------|
| Treasury stock, at cost 495,553 shares at September 30, 2012; 397,829 shares at December 31, 2011 | (18,502)  | (14,706)  |
| Accumulated other comprehensive income, net of deferred taxes                                     | 691       | 1,940     |
| Retained earnings   | 6,064     | 6,473     |
| Total stockholders' equity  | 73,922    | 70,757    |
| Total liabilities and stockholders' equity  | \$ 91,943 | \$ 90,597 |

See notes to interim consolidated financial statements.

**Table of Contents****WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(in thousands, except per share data)****(unaudited)**

|  | <b>Three months ended</b> |                 | <b>Nine months ended</b> |                  |
|--|---------------------------|-----------------|--------------------------|------------------|
|  | <b>September 30,</b>      |                 | <b>September 30,</b>     |                  |
|  | <b>2012</b>               | <b>2011</b>     | <b>2012</b>              | <b>2011</b>      |
| <b>REVENUES:</b>   |                           |                 |                          |                  |
| Advisory fees  |                           |                 |                          |                  |
| Asset-based  | \$ 14,485                 | \$ 13,376       | \$ 42,677                | \$ 41,034        |
| Performance-based  | 69                        |                 | 1,251                    | 991              |
| Trust fees   | 3,715                     | 3,468           | 10,943                   | 10,297           |
| Other revenues, net  | 672                       | (796)           | 2,000                    | (406)            |
| <b>Total revenues</b>  | <b>18,941</b>             | <b>16,048</b>   | <b>56,871</b>            | <b>51,916</b>    |
| <b>EXPENSES:</b>   |                           |                 |                          |                  |
| Employee compensation and benefits   | 11,397                    | 8,295           | 32,196                   | 27,084           |
| Sales and marketing  | 350                       | 221             | 823                      | 666              |
| Westwood mutual funds  | 292                       | 34              | 776                      | 523              |
| Information technology   | 649                       | 503             | 1,874                    | 1,503            |
| Professional services  | 739                       | 710             | 3,681                    | 2,438            |
| General and administrative   | 1,183                     | 988             | 3,354                    | 2,870            |
| <b>Total expenses</b>  | <b>14,610</b>             | <b>10,751</b>   | <b>42,704</b>            | <b>35,084</b>    |
| Income before income taxes   | 4,331                     | 5,297           | 14,167                   | 16,832           |
| Provision for income taxes   | 1,827                     | 2,014           | 5,680                    | 6,263            |
| <b>Net income</b>  | <b>2,504</b>              | <b>3,283</b>    | <b>8,487</b>             | <b>10,569</b>    |
| <b>Other comprehensive income:</b>   |                           |                 |                          |                  |
| Unrealized gain (loss) on investment securities, net of income taxes of \$0, \$5, \$(714), and \$386, respectively |                           | 10              | (1,309)                  | 717              |
| Foreign currency translation gain  | 78                        |                 | 60                       |                  |
| <b>Total comprehensive income</b>  | <b>\$ 2,582</b>           | <b>\$ 3,293</b> | <b>\$ 7,238</b>          | <b>\$ 11,286</b> |
| <b>Earnings per share:</b>   |                           |                 |                          |                  |
| Basic  | \$ 0.35                   | \$ 0.47         | \$ 1.19                  | \$ 1.51          |
| Diluted  | \$ 0.34                   | \$ 0.46         | \$ 1.16                  | \$ 1.47          |
| Dividends declared per share   | \$ 0.37                   | \$ 0.35         | \$ 1.11                  | \$ 1.05          |

See notes to interim consolidated financial statements.

Table of Contents

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

**For the Nine Months Ended September 30, 2012**

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

**(unaudited)**

|  | Westwood Holdings<br>Group, Inc. |                      | Addi-<br>tional    |                   | Accumu-<br>lated                      |                      |               |
|--|----------------------------------|----------------------|--------------------|-------------------|---------------------------------------|----------------------|---------------|
|  | Common<br>Shares                 | Stock, Par<br>Amount | Paid-In<br>Capital | Treasury<br>Stock | Other<br>Compre-<br>hensive<br>Income | Retained<br>Earnings | Total         |
| BALANCE, January 1, 2012                   | 7,707,189                        | \$ 81                | \$ 76,969          | \$ (14,706)       | \$ 1,940                              | \$ 6,473             | \$ 70,757     |
| Net income                                 |                                  |                      |                    |                   |                                       | 8,487                | 8,487         |
| Other comprehensive income                 |                                  |                      |                    |                   | (1,249)                               |                      | (1,249)       |
| Issuance of restricted stock, net          | 401,130                          | 4                    | (4)                |                   |                                       |                      |               |
| Dividends declared                         |                                  |                      |                    |                   |                                       | (8,896)              | (8,896)       |
| Restricted stock amortization              |                                  |                      | 7,635              |                   |                                       |                      | 7,635         |
| Tax benefit related to equity compensation |                                  |                      | 774                |                   |                                       |                      | 774           |
| Stock options exercised                    | 16,250                           |                      | 210                |                   |                                       |                      | 210           |
| Purchase of treasury stock                 | (97,724)                         |                      |                    | (3,796)           |                                       |                      | (3,796)       |
| <br>BALANCE, September 30, 2012            | <br>8,026,845                    | <br>\$ 85            | <br>\$ 85,584      | <br>\$ (18,502)   | <br>\$ 691                            | <br>\$ 6,064         | <br>\$ 73,922 |

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 nine months<br/>ended September 30,</b> |                 |
|---|--|-----------------|
|   | <b>2012</b>  | <b>2011</b>     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |  |                 |
| Net income  | \$ 8,487   | \$ 10,569       |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |                 |
| Depreciation  | 257  | 184             |
| Amortization of intangible assets   | 366  | 374             |
| Fair value adjustment of liabilities  | (96)   | (126)           |
| (Gain) on sale of available for sale investment                                   | (803)  |                 |
| Unrealized (gains) and losses on trading investments                              | (164)  | 682             |
| Restricted stock amortization   | 7,635  | 7,601           |
| Loss on disposal of property  | 1  |                 |
| Deferred income taxes   | 931  | 1,147           |
| Excess tax benefits from stock based compensation                                 | (676)  | (692)           |
| Net purchases of investments trading securities                                   | 96   | (5,109)         |
| Change in operating assets and liabilities:                                       |  |                 |
| Accounts receivable   | (495)  | (649)           |
| Other current assets  | (684)  | (168)           |
| Accounts payable and accrued liabilities  | (2,691)  | 170             |
| Compensation and benefits payable   | (1,996)  | 704             |
| Income taxes payable and prepaid income taxes                                     | (961)  | (706)           |
| Other liabilities   | (69)   | 335             |
| <b>Net cash provided by operating activities</b>                                  | <b>9,138</b>                                       | <b>14,316</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |  |                 |
| Sale of available for sale investment   | 950  |                 |
| Purchase of property and equipment  | (238)  | (1,092)         |
| <b>Net cash provided by (used in) investing activities</b>                        | <b>712</b>   | <b>(1,092)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |  |                 |
| Purchase of treasury stock  | (3,796)  | (5,858)         |
| Excess tax benefits from stock based compensation                                 | 676  | 692             |
| Cash dividends  | (5,475)  | (5,295)         |
| Proceeds from exercise of stock options   | 210  | 65              |
| <b>Net cash used in financing activities</b>                                      | <b>(8,385)</b>                                     | <b>(10,396)</b> |
| <b>EFFECT OF CURRENCY RATE CHANGES ON CASH</b>                                    | <b>48</b>  |                 |
| <b>NET INCREASE IN CASH</b>   | <b>1,513</b>                                       | <b>2,828</b>    |
| Cash and cash equivalents, beginning of period                                    | 5,264  | 1,744           |



Edgar Filing: WESTWOOD HOLDINGS GROUP INC - Form 10-Q

|  |          |          |
|--|----------|----------|
| Cash and cash equivalents, end of period     | \$ 6,777 | \$ 4,572 |
| Supplemental cash flow information:          |          |          |
| Cash paid during the period for income taxes | \$ 5,708 | \$ 5,877 |

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 , us 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 its subsidiaries, Westwood Management Corp. ( Westwood Management ), Westwood Trust ( Westwood Trust ) and Westwood International Advisors Inc. ( Westwood International ). 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 its sponsored common trust funds. Westwood International provides investment advisory services to institutional investors. 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. Westwood International is registered as a portfolio manager and exempt market dealer with the Ontario Securities Commission.

**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 September 30, 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.



## **Table of Contents**

### **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 2012, 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**

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 comprehensive income.

## **Currency Translation**

Assets and liabilities of our non-U.S. dollar functional currency subsidiary are translated at exchange rates as of the applicable reporting dates. Revenues and expenses are translated at average exchange rates during the periods indicated. The gains and losses resulting from translating non-U.S. dollar functional currency into U.S. dollars are recorded through other comprehensive income.

## **Long-term Compensation Agreements**

We entered into long-term compensation agreements with certain key employees of Westwood International Advisors Inc., our Canadian subsidiary launched in the second quarter of 2012. These agreements stipulate that cash sign on bonuses paid to these employees can be earned over multi-year periods. In certain circumstances, these payments will be forfeited to us if the employment of these individuals is terminated before completion of the contractual earning period. Payments made in advance under these agreements are included in Other current assets on our Consolidated Balance Sheet, net of amounts already amortized.

## **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 is computed by dividing net income available to common stockholders by the weighted average number of shares outstanding for the periods ended September 30, 2012 and 2011, respectively. Diluted earnings per share 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 September 30, 2012 or 2011.

**Table of Contents**

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

|   | Three months ended<br>September 30, |           | Nine months ended<br>September 30, |           |
|---|-------------------------------------|-----------|------------------------------------|-----------|
|   | 2012                                | 2011      | 2012                               | 2011      |
| Net income  | \$ 2,504                            | \$ 3,283  | \$ 8,487                           | \$ 10,569 |
| Weighted average shares outstanding basic                 | 7,166,020                           | 7,005,473 | 7,138,878                          | 6,976,988 |
| Dilutive potential shares from unvested restricted shares | 157,225                             | 172,430   | 157,966                            | 186,780   |
| Dilutive contingently issuable shares                     |                                     | 22,380    |                                    | 23,475    |
| Dilutive potential shares from stock options              |                                     | 15,855    | 4,170                              | 17,092    |
| Weighted average shares outstanding diluted               | 7,323,245                           | 7,216,138 | 7,301,014                          | 7,204,335 |
| Earnings per share:                                       |                                     |           |                                    |           |
| Basic   | \$ 0.35                             | \$ 0.47   | \$ 1.19                            | \$ 1.51   |
| Diluted   | \$ 0.34                             | \$ 0.46   | \$ 1.16                            | \$ 1.47   |

**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<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Market<br>Value |
|------------------------------|-----------|------------------------------|-------------------------------|------------------------------|
| September 30, 2012:          |           |                              |                               |                              |
| U.S. Government obligations  | \$ 26,999 | \$ 2                         | \$                            | \$ 27,001                    |
| Money Market Funds           | 10,209    |                              |                               | 10,209                       |
| Equity available for sale    |           | 975                          |                               | 975                          |
| Equity Funds - trading       | 3,993     | 350                          |                               | 4,343                        |
| Fixed Income Funds - trading | 10,333    | 52                           |                               | 10,385                       |
| Marketable securities        | \$ 51,534 | \$ 1,379                     | \$                            | \$ 52,913                    |
| 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™ 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

## Edgar Filing: WESTWOOD HOLDINGS GROUP INC - Form 10-Q

of the shares held as reported by the fund. 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 September 30, 2012 of \$13.00 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

**Table of Contents**

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 within the fair value hierarchy (in thousands).

|                                    | Level 1          | Level 2         | Level 3         | Total            |
|------------------------------------|------------------|-----------------|-----------------|------------------|
| As of September 30, 2012           |                  |                 |                 |                  |
| Investments in securities:         |                  |                 |                 |                  |
| Trading                            | \$ 47,595        | \$ 4,343        | \$              | \$ 51,938        |
| Available for sale                 |                  |                 | 975             | 975              |
| <b>Total Financial instruments</b> | <b>\$ 47,595</b> | <b>\$ 4,343</b> | <b>\$ 975</b>   | <b>\$ 52,913</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 common trust funds 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 an inactive private market; 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 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. In the second quarter of 2012, we sold 100,000 Teton shares and an option to purchase the remaining 100,000 Teton shares by December 31, 2012. The following table presents information regarding this investment.

|  | Three Months<br>Ended<br>September 30, |          | Nine months<br>Ended<br>September 30, |          |
|--|--|----------|---------------------------------------|----------|
|  | 2012                                   | 2011     | 2012                                  | 2011     |
| Investments in available for sale securities (in thousands)      |  |          |                                       |          |
| Beginning balance  | \$ 975                                 | \$ 2,512 | \$ 2,999                              | \$ 1,425 |
| Proceeds from sale   |  |          | (803)                                 |          |
| Unrealized gains/(losses) included in Other Comprehensive Income |  | 16       | (1,221)                               | 1,103    |
| Ending balance   | \$ 975                                 | \$ 2,528 | \$ 975                                | \$ 2,528 |





**Table of Contents****6. INTANGIBLE ASSETS**

The following is a summary of our intangible assets at September 30, 2012 and December 31, 2011 (in thousands):

|                           | Weighted<br>Average<br>Amortization<br>Period<br>(years) | Gross<br>Carrying<br>Amount | Accumu-<br>lated<br>Amortiz-<br>ation | Net<br>Carrying<br>Amount |
|---------------------------|--|-----------------------------|---------------------------------------|---------------------------|
| <b>September 30, 2012</b> |  |                             |                                       |                           |
| Client relationships      | 14.2   | \$ 5,005                    | \$ (768)                              | \$ 4,237                  |
| Trade names               | 2.0  | 256                         | (241)                                 | 15                        |
| Non-compete agreements    | 2.3  | 26                          | (23)                                  | 3                         |
| <b>Total</b>              |  | <b>\$ 5,287</b>             | <b>\$ (1,032)</b>                     | <b>\$ 4,255</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>           |

Amortization expense was \$366,000 and \$374,000 for the nine months ended September 30, 2012 and 2011, respectively. Estimated amortization expense for intangible assets for the next five years follows (in thousands):

| For the Year ending December 31, | Estimated<br>Amortization<br>Expense |
|----------------------------------|--------------------------------------|
| 2012                             | \$ 472                               |
| 2013                             | 359                                  |
| 2014                             | 359                                  |
| 2015                             | 359                                  |
| 2016                             | 359                                  |

**7. EQUITY**

On July 19, 2012, 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. This authorization supersedes a share repurchase program authorized in August 2011 that was scheduled to expire on August 9, 2012. The stock repurchase program does not have an expiration date and may be discontinued at any time by our board of directors.

On July 19, 2012, we declared a quarterly cash dividend of \$0.37 per share on common stock payable on October 1, 2012 to stockholders of record on September 14, 2012.

On April 19, 2012, we granted an aggregate of 9,000 shares of restricted stock to non-employee directors. These shares are subject to vesting conditions as described in Note 9. STOCK BASED COMPENSATION .

On April 19, 2012, we declared a quarterly cash dividend of \$0.37 per share on common stock payable on July 2, 2012 to stockholders of record on June 15, 2012.

## Edgar Filing: WESTWOOD HOLDINGS GROUP INC - Form 10-Q

On March 5 and February 24, 2012, we purchased 462 shares and 85,991 shares of our common stock, respectively, from Westwood employees 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.

**Table of Contents****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).

|                    | As of September 30, 2012 |                      |         |
|--------------------|--------------------------|----------------------|---------|
|                    | Assets                   |                      | Risk    |
|                    | Under Management         | Corporate Investment | of Loss |
| Westwood Funds     | \$ 1,594                 | \$ 10.4              | \$ 10.4 |
| Common Trust Funds | 1,967                    | 4.3                  | 4.3     |
| LLCs               | 367                      |                      |         |
| Partnership        |                          |                      |         |

|                    | 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 September 30, 2012, approximately 472,000 shares remained available for issuance under the Plan.

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

|  | Nine months ended<br>September 30, |          |
|--|------------------------------------|----------|
|  | 2012                               | 2011     |
| Service condition restricted stock expense       | \$ 5,656                           | \$ 5,848 |
| Performance-based based restricted stock expense | 1,979                              | 1,753    |

|  |          |          |
|--|----------|----------|
| Total stock based compensation expense | \$ 7,635 | \$ 7,601 |
|--|----------|----------|

**Table of Contents****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 September 30, 2012, approximately \$24.5 million of remaining unrecognized compensation cost is expected to be recognized over a remaining weighted-average period of 2.2 years. 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. The following table details the status and changes in our restricted stock grants that are subject only to a service condition for the nine months ended September 30, 2012:

| <b>Restricted shares subject only to a service condition:</b> | <b>Shares</b>  | <b>Weighted Average<br/>Grant Date Fair<br/>Value</b> |
|---|----------------|---|
| Non-vested, January 1, 2012                                   | 561,070        | \$ 36.37  |
| Granted   | 209,780        | 39.26   |
| Vested  | (206,375)      | 36.19   |
| Forfeited   | (8,650)        | 37.48   |
| <b>Non-vested, September 30, 2012</b>                         | <b>555,825</b> | <b>37.51</b>  |

*Performance-based restricted share grants*

Under the Plan, we granted to certain key employees restricted shares that vest over five years, provided that annual performance goals established by Westwood's Compensation Committee are met. In February 2012, the Compensation Committee established the 2012 goal 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. Adjusted pre-tax income is determined based on our audited financial statements and is equal to income before income taxes increased by 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. In the second quarter of 2012, we concluded that it was probable that we would meet the performance goals required to vest the applicable percentage of the performance-based restricted shares this year and began recording expense related to those shares.

The following table details the status and changes in our restricted stock grants that are subject to service and performance conditions for the nine months ended September 30, 2012:

| <b>Restricted shares subject to service and performance conditions:</b> | <b>Shares</b>  | <b>Weighted Average<br/>Grant Date Fair<br/>Value</b> |
|---|----------------|---|
| Non-vested, January 1, 2012   | 105,000        | \$ 39.90  |
| Granted   | 200,000        | 39.31   |
| Vested  |                |   |
| Forfeited   |                |   |
| <b>Non-vested, September 30, 2012</b>                                   | <b>305,000</b> | <b>39.51</b>  |

**Table of Contents****10. CONTINGENCIES**

On August 3, 2012, AGF Management Limited and AGF Investments Inc. ( AGF ) filed a lawsuit in the Ontario Superior Court of Justice against Westwood, certain Westwood employees and executive recruiting firm Warren International, LLC (File no. CV-12-460520). The suit is related to the hiring of certain members of Westwood's Global and Emerging Markets investment team who were previously employed by the plaintiff. AGF is alleging the former employees breached their contractual and fiduciary obligations when they resigned from AGF, and that Westwood and Warren induced such breaches. AGF is seeking an unspecified amount of damages and punitive damages of \$10 million. We intend to vigorously defend these allegations.

**11. SEGMENT REPORTING**

We operate two segments: Advisory and 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 Advisory and Trust, does not have revenues or employees and is the entity in which we record stock-based compensation expense.

**Advisory**

Our Advisory segment 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 our Trust segment. Westwood Management and Westwood International Advisors are included in our Advisory segment.

**Trust**

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

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.

|  | Advisory  | Trust     | Westwood Holdings<br>(in thousands) | Eliminations | Consolidated |
|--|-----------|-----------|-------------------------------------|--------------|--------------|
| <b>Three months ended September 30, 2012</b> |           |           |                                     |              |              |
| Net revenues from external sources           | \$ 15,226 | \$ 3,715  | \$                                  | \$           | \$ 18,941    |
| Net intersegment revenues                    | 1,564     | 3         |                                     | (1,567)      |              |
| Income before income taxes                   | 6,666     | 551       | (2,886)                             |              | 4,331        |
| Segment assets                               | 83,744    | 13,932    | (5,733)                             |              | 91,943       |
| Segment goodwill                             | 5,219     | 6,036     |                                     |              | 11,255       |
| <b>Three months ended September 30, 2011</b> |           |           |                                     |              |              |
| Net revenues from external sources           | \$ 12,574 | \$ 3,474  | \$                                  | \$           | \$ 16,048    |
| Net intersegment revenues                    | 1,182     | 4         |                                     | (1,186)      |              |
| Income before income taxes                   | 7,083     | 623       | (2,409)                             |              | 5,297        |
| Segment assets                               | 71,263    | 13,954    | (1,017)                             |              | 84,200       |
| Segment goodwill                             | 5,259     | 6,079     |                                     |              | 11,338       |
| <b>Nine months ended September 30, 2012</b>  |           |           |                                     |              |              |
| Net revenues from external sources           | \$ 45,927 | \$ 10,944 | \$                                  | \$           | \$ 56,871    |
| Net intersegment revenues                    | 4,020     | 12        |                                     | (4,032)      |              |
| Income before income taxes                   | 20,091    | 1,712     | (7,636)                             |              | 14,167       |
| <b>Nine months ended September 30, 2011</b>  |           |           |                                     |              |              |
| Net revenues from external sources           | \$ 41,612 | \$ 10,304 | \$                                  | \$           | \$ 51,916    |
| Net intersegment revenues                    | 3,574     | 12        |                                     | (3,586)      |              |

Edgar Filing: WESTWOOD HOLDINGS GROUP INC - Form 10-Q

|                            |        |       |         |        |
|----------------------------|--------|-------|---------|--------|
| Income before income taxes | 22,866 | 1,567 | (7,601) | 16,832 |
|----------------------------|--------|-------|---------|--------|

13



**Table of Contents**

**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 subsidiaries, Westwood Management, Westwood Trust and Westwood International. 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. Westwood International was established in the second quarter of 2012 and provides Global and Emerging Markets investment advisory services to institutional clients. 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 and Westwood International, which manage 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. 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

**Table of Contents**

assets under management for the stated period. We recognize advisory fee 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 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 \$2.4 billion to \$14.1 billion at September 30, 2012 compared with \$11.7 billion at September 30, 2011. The average of beginning and ending assets under management for the third quarter of 2012 was \$13.6 billion compared to \$12.8 billion for the third quarter of 2011, an increase of 6%.

The following table displays assets under management as of September 30, 2012 and 2011:

|                                      | As of September 30,<br>(in millions) |                  | % Change   |
|--------------------------------------|--------------------------------------|------------------|--|
|                                      | 2012                                 | 2011             | September 30, 2012<br>vs.<br>September 30,<br>2011 |
| Institutional                        | \$ 9,208                             | \$ 7,769         | 19%  |
| Private Wealth                       | 3,270                                | 2,796            | 17   |
| Mutual Funds                         | 1,594                                | 1,089            | 46   |
| <b>Total Assets Under Management</b> | <b>\$ 14,072</b>                     | <b>\$ 11,654</b> | <b>21%</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 provides investment management services for funds offered by other financial institutions; and managed account relationships with brokerage firms and other registered investment advisors which offer Westwood 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. Investment subadvisory services are provided for the common trust funds by Westwood Management, Westwood International and external, unaffiliated subadvisors. 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 U.S.-registered mutual funds for which Westwood Management serves as advisor.

## Edgar Filing: WESTWOOD HOLDINGS GROUP INC - Form 10-Q

Westwood Trust had assets under management of \$2.5 billion at September 30, 2012 compared with \$1.9 billion at September 30, 2011. Westwood Trust assets under management are included in Private Wealth in the table above.

**Table of Contents**

Westwood International, which began providing investment advisory services in the third quarter of 2012, had assets under management for external clients of \$486 million as of September 30, 2012. These assets are included in Institutional in the above table. In addition, Westwood International subadvised \$254 million in Westwood Trust common trust fund assets as of September 30, 2012, for total assets under management of \$740 million. The Westwood Trust common trust fund assets are included in Private Wealth in the table above.

**Roll-Forward of Assets Under Management**

| (\$ millions)                      | Three Months Ended<br>September 30, |           | Nine months Ended<br>September 30, |           |
|------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                                    | 2012                                | 2011      | 2012                               | 2011      |
| <b><i>Institutional</i></b>        |                                     |           |                                    |           |
| Beginning of period assets         | \$ 8,511                            | \$ 9,432  | \$ 8,735                           | \$ 8,359  |
| Inflows                            | 95                                  | 278       | 1,055                              | 1,429     |
| Outflows                           | (321)                               | (245)     | (1,619)                            | (894)     |
| Net flows                          | 174                                 | 33        | (564)                              | 535       |
| Market appreciation/(depreciation) | 523                                 | (1,696)   | 1,037                              | (1,125)   |
| Net change                         | 697                                 | (1,663)   | 473                                | (590)     |
| End of period assets               | 9,208                               | 7,769     | 9,208                              | 7,769     |
| <b><i>Private Wealth</i></b>       |                                     |           |                                    |           |
| Beginning of period assets         | 3,166                               | 3,203     | 3,051                              | 3,148     |
| Inflows                            | 62                                  | 127       | 290                                | 238       |
| Outflows                           | (91)                                | (82)      | (347)                              | (329)     |
| Net flows                          | (29)                                | 45        | (57)                               | (91)      |
| Market appreciation/(depreciation) | 133                                 | (452)     | 276                                | (261)     |
| Net change                         | 104                                 | (407)     | 219                                | (352)     |
| End of period assets               | 3,270                               | 2,796     | 3,270                              | 2,796     |
| <b><i>Mutual Funds</i></b>         |                                     |           |                                    |           |
| Beginning of period assets         | 1,476                               | 1,288     | 1,293                              | 970       |
| Inflows                            | 100                                 | 99        | 352                                | 448       |
| Outflows                           | (55)                                | (106)     | (190)                              | (200)     |
| Net flows                          | 45                                  | (7)       | 162                                | 248       |
| Market appreciation/(depreciation) | 73                                  | (192)     | 139                                | (129)     |
| Net change                         | 118                                 | (199)     | 301                                | 119       |
| End of period assets               | 1,594                               | 1,089     | 1,594                              | 1,089     |
| <b><i>Total</i></b>                |                                     |           |                                    |           |
| Beginning of period assets         | 13,153                              | 13,923    | 13,079                             | 12,477    |
| Inflows                            | 657                                 | 504       | 1,697                              | 2,115     |
| Outflows                           | (467)                               | (433)     | (2,156)                            | (1,423)   |
| Net flows                          | 190                                 | 71        | (459)                              | 692       |
| Market appreciation/(depreciation) | 729                                 | (2,340)   | 1,452                              | (1,515)   |
| Net change                         | 919                                 | (2,269)   | 993                                | (823)     |
| End of period assets               | \$ 14,072                           | \$ 11,654 | \$ 14,072                          | \$ 11,654 |

*Three months ended September 30, 2012 and 2011*

The \$919 million increase in assets under management for the three months ended September 30, 2012 was due to market appreciation of \$729 million and inflows of \$657 million partially offset by outflows of \$467 million. Inflows were primarily driven by new institutional accounts in our Emerging Markets strategy managed by Westwood International and inflows into the Westwood Income Opportunity mutual fund. Outflows were primarily related to rebalancing by clients across multiple products.

The \$2.3 billion decrease in assets under management for the three months ended September 30, 2011 was due primarily to market depreciation of \$2.3 billion

**Table of Contents****Nine months ended September 30, 2012 and 2011**

The \$993 million increase in assets under management for the nine months ended September 30, 2012 was due to inflows of \$1.7 billion and market appreciation of \$1.5 billion, partially offset by outflows of \$2.2 billion. Inflows were primarily driven by new institutional accounts in our Emerging Markets strategy managed by Westwood International, inflows into the Westwood Income Opportunity mutual fund and inflows into new and existing accounts in our Income Opportunity and LargeCap Value strategies. Outflows were primarily related to rebalancing by LargeCap Value institutional accounts.

The \$823 million decrease in assets under management for the nine months ended September 30, 2011 was due to market depreciation of \$1.5 billion and outflows of \$1.4 billion, partially offset by inflows of \$2.1 billion. Inflows were driven primarily by additional inflows into institutional separate accounts, the WHG Funds and private wealth accounts. Outflows were primarily related to account closings and outflows from institutional separate accounts, subadvisory and private wealth clients.

**Results of Operations**

In the second quarter of 2012, as part of our long-standing strategy to expand our research capabilities and product offerings, we established Westwood International Advisors, based in Toronto, to manage Global and Emerging Markets Equity strategies. Westwood International began providing investment management services during the third quarter of 2012 and ended the quarter with assets under management from external clients of \$486 million. In addition, Westwood International Subadvised \$254 million in Westwood Trust common trust fund assets as of September 30, 2012, for total assets under management of \$740 million. Westwood International had 11 full-time employees as of September 30, 2012. As Westwood International has only recently commenced operations, our Consolidated Statement of Comprehensive Income for the nine months ended September 30, 2012 includes minimal revenues and significant costs related to Westwood International's operations.

The following table (dollars in thousands) and discussion of our results of operations for the three and nine months ended September 30, 2012 is based upon data derived from the consolidated statements of comprehensive income contained in our consolidated financial statements and should be read in conjunction with those statements, included elsewhere in this report.

|                                    | Three months ended |                    | Nine months ended  |                    | % Change   |   |
|------------------------------------|--------------------|--------------------|--------------------|--------------------|--|---|
|                                    | September 30, 2012 | September 30, 2011 | September 30, 2012 | September 30, 2011 | Three months ended September 30, 2012 vs. September 30, 2011 | Nine months ended September 30, 2012 vs. September 30, 2011 |
| <b>Revenues</b>                    |                    |                    |                    |                    |  |   |
| Advisory fees                      |                    |                    |                    |                    |  |   |
| Asset-based                        | \$ 14,485          | \$ 13,376          | \$ 42,677          | \$ 41,034          | 8%   | 4%  |
| Performance-based                  | 69                 |                    | 1,251              | 991                | NM   | 26  |
| Trust fees                         | 3,715              | 3,468              | 10,943             | 10,297             | 7  | 6   |
| Other revenues                     | 672                | (796)              | 2,000              | (406)              | 184  | 593   |
| <b>Total revenues</b>              | <b>18,941</b>      | <b>16,048</b>      | <b>56,871</b>      | <b>51,916</b>      | <b>18</b>  | <b>10</b>   |
| <b>Expenses</b>                    |                    |                    |                    |                    |  |   |
| Employee compensation and benefits | 11,397             | 8,295              | 32,196             | 27,084             | 37   | 19  |
| Sales and marketing                | 350                | 221                | 823                | 666                | 58   | 24  |
| Westwood mutual funds              | 292                | 34                 | 776                | 523                | 759  | 48  |
| Information technology             | 649                | 503                | 1,874              | 1,503              | 29   | 25  |
| Professional services              | 739                | 710                | 3,681              | 2,438              | 4  | 51  |
| General and administrative         | 1,183              | 988                | 3,354              | 2,870              | 20   | 17  |
| <b>Total expenses</b>              | <b>14,610</b>      | <b>10,751</b>      | <b>42,704</b>      | <b>35,084</b>      | <b>36</b>  | <b>22</b>   |
| Income before income taxes         | 4,331              | 5,297              | 14,167             | 16,832             | (18)   | (16)  |

Edgar Filing: WESTWOOD HOLDINGS GROUP INC - Form 10-Q

|                            |          |          |          |           |       |       |
|----------------------------|----------|----------|----------|-----------|-------|-------|
| Provision for income taxes | 1,827    | 2,014    | 5,680    | 6,263     | (9)   | (9)   |
| <b>Net income</b>          | \$ 2,504 | \$ 3,283 | \$ 8,487 | \$ 10,569 | (24)% | (20)% |



---

**Table of Contents*****Three months ended September 30, 2012 compared to three months ended September 30, 2011***

**Total Revenues.** Our total revenues increased by 18% to \$18.9 million for the three months ended September 30, 2012 compared with \$16.0 million for the three months ended September 30, 2011. Asset-based advisory fees increased by 8% to \$14.5 million for the three months ended September 30, 2012 compared with \$13.4 million for the three months ended September 30, 2011 as a result of increased average assets under management due to market appreciation and asset inflows from new and existing clients, partially offset by the withdrawal of assets by certain clients. Performance-based advisory fees increased \$69,000 due to an adjustment to the performance fee we earned in the second quarter of 2012. Trust fees increased by 7% to \$3.7 million for the three months ended September 30, 2012 compared with \$3.5 million for the three months ended September 30, 2011 as a result of increased assets under management at Westwood Trust primarily due to market appreciation. Other revenues, which generally consist of interest and investment income, increased by 184% to \$672,000 for the three months ended September 30, 2012 compared with \$(796,000) for the three months ended September 30, 2011. Other revenues are presented on a net basis and increased primarily due to increases of \$1.2 million in unrealized gains on investments, \$134,000 in dividend income and \$133,000 in net realized gains on 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 37% to \$11.4 million for the three months ended September 30, 2012 compared with \$8.3 million for the three months ended September 30, 2011. The increase was primarily due to increases of \$1.6 million in expense related to amortization of multi-year bonus agreements, \$709,000 in salary expense due primarily to increased average headcount and salary increases, \$405,000 in performance-based restricted stock expense and \$224,000 in incentive compensation expense. During the second quarter of 2012, we concluded that it was probable that we would meet the performance goal required in order for the applicable percentage of performance-based restricted shares to vest. We had 97 full-time employees as of September 30, 2012 compared to 81 full-time employees as of September 30, 2011.

**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 58% to \$350,000 for the three months ended September 30, 2012 compared with \$221,000 for the three months ended September 30, 2011. The increase was primarily the result of increased direct marketing and travel 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 increased to \$292,000 for the three months ended September 30, 2012 compared with \$34,000 for the three months ended September 30, 2011. In the third quarter of 2011, we recorded a \$166,000 reduction in the Contingent liability related to the 2009 acquisition of the Philadelphia Fund. Excluding this adjustment, Westwood Mutual Funds expenses for the three months ended September 30, 2011 were \$200,000. The remainder of the year-over-year increase was due to an increase in shareholder servicing costs as well as subadvisory expenses related to a new fund launched in the fourth quarter of 2011.

**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 29% to \$649,000 for the three months ended September 30, 2012 compared with \$503,000 for the three months ended September 30, 2011. The increase was 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 increased by 4% to \$739,000 for the three months ended September 30, 2012 compared with \$710,000 for the three months ended September 30, 2011 primarily due to legal fees. These increases were partially offset by decreased financial advisory expense due to the termination of subadvisors on International common trust funds in the fourth quarter of 2011 and the second quarter of 2012. Financial advisory expense related to the terminated International subadvisors was \$0 and \$175,000 for the three months ended September 30, 2012 and 2011, respectively.

---

**Table of Contents**

*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 20% to \$1.2 million for the three months ended September 30, 2012 compared with \$1.0 million for the three months ended September 30, 2011. The increase was primarily due to rent expense for our new Toronto office, non-marketing travel expenses related to Westwood International and increased custody expense.

*Provision for Income Tax Expense.* Provision for income tax expenses decreased by 9% to \$1.8 million for the three months ended September 30, 2012 compared with \$2.0 million for the three months ended September 30, 2011. The effective tax rate increased to 42.2% for the three months ended September 30, 2012 from 38.0% for the three months ended September 30, 2011 primarily due to operating losses from Westwood International, which is taxed at a lower Canadian tax rate.

***Nine months ended September 30, 2012 compared to nine months ended September 30, 2011***

*Total Revenues.* Our total revenues increased by 10% to \$56.9 million for the nine months ended September 30, 2012 compared with \$51.9 million for the nine months ended September 30, 2011. Asset-based advisory fees increased by 4% to \$42.7 million for the nine months ended September 30, 2012 compared with \$41.0 million for the nine months ended September 30, 2011 as a result of increased average assets under management due to market appreciation and inflows from new and existing clients, partially offset by the withdrawal of assets by certain clients. Performance-based advisory fees increased 26% to \$1.3 million for the nine months ended September 30, 2012 compared with \$1.0 million for the nine months ended September 30, 2011. Trust fees increased by 6% to \$10.9 million for the nine months ended September 30, 2012 compared with \$10.3 million for the nine months ended September 30, 2011 as a result of increased assets under management by Westwood Trust due to market appreciation and inflows from new accounts, partially offset by the withdrawal of assets by certain clients. Other revenues, which generally consist of interest and investment income, increased 593% to \$2.0 million for the nine months ended September 30, 2012 compared with \$(406,000) for the nine months ended September 30, 2011. Other revenues are presented on a net basis and increased primarily due to increases of \$1.2 million in net realized gains on investments, which included a gain of \$803,000 from the sale of 100,000 Teton shares, \$942,000 in unrealized gains and \$307,000 in dividend income.

*Employee Compensation and Benefits.* Employee compensation and benefits costs increased by 19% to \$32.2 million for the nine months ended September 30, 2012 compared with \$27.1 million for the nine months ended September 30, 2011. The increase was primarily due to increases of \$2.8 million in expense related to amortization of multi-year bonus agreements, \$1.6 million in salary expense due primarily to increased average headcount and salary increases and \$418,000 in incentive compensation expense. In the second quarter of 2012, we concluded that it was probable that we would meet the performance goal required in order for the applicable percentage of performance-based restricted shares to vest. We had 97 full-time employees as of September 30, 2012 compared to 81 full-time employees as of September 30, 2011.

*Sales and Marketing.* Sales and marketing costs increased by 24% to \$823,000 for the nine months ended September 30, 2012 compared with \$666,000 for the nine months ended September 30, 2011. The increase is primarily the result of increased direct marketing, travel and entertainment expenses partially offset by decreased referral fee expenses.

*Westwood Mutual Funds.* Westwood Mutual Funds expenses increased by 48% to \$776,000 for the nine months ended September 30, 2012 compared with \$523,000 for the nine months ended September 30, 2011 due to increased shareholder servicing costs, a prior year decrease in expense related to the acquisition liability recorded as part of the mutual fund acquisition completed in 2009 and subadvisory expenses related to a new fund launched in the fourth quarter of 2011. These increases were partially offset by decreases in fund related legal expenses and fund expense reimbursements.

*Information Technology.* Information technology costs increased by 25% to \$1.9 million for the nine months ended September 30, 2012 compared with \$1.5 million for the nine months ended September 30, 2011. The increase is primarily due to software and software implementation costs related to upgraded client reporting and portfolio accounting systems, increased research expenses, increased equipment expenses and increased support costs.

**Table of Contents**

*Professional Services.* Professional services expenses increased by 51% to \$3.7 million for the nine months ended September 30, 2012 compared with \$2.4 million for the nine months ended September 30, 2011 primarily due to one-time recruiting and legal fees related to the hiring of Westwood International employees, increased legal fees and increased tax adviser expense. These increases were partially offset by decreased financial advisory expense due to the termination of subadvisors on International common trust funds in the fourth quarter of 2011 and the second quarter of 2012 and lower audit expense. Financial advisory expense related to the terminated International Subadvisors was \$204,000 and \$590,000 for the nine months ended September 30, 2012 and 2011, respectively.

*General and Administrative.* General and administrative expenses increased by 17% to \$3.4 million for the nine months ended September 30, 2012 compared with \$2.9 million for the nine months ended September 30, 2011. The increase is primarily due to non-marketing travel expenses related to Westwood International, increased rent expense due to a new lease for our Dallas office effective September 2011 and rent expense for our new Toronto office, partially offset by decreases in training expenses and expenses related to our office relocation in 2011.

*Provision for Income Tax Expense.* Provision for income tax expenses decreased by 9% to \$5.7 million for the nine months ended September 30, 2012 compared with \$6.3 million for the nine months ended September 30, 2011. The effective tax rate increased to 40.0% for the nine months ended September 30, 2012 from 37.2% for the nine months ended September 30, 2011 primarily due to operating losses from Westwood International, which is taxed at a lower Canadian tax rate, and 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.

Our Economic Earnings decreased by 5% to \$5.6 million for the three months ended September 30, 2012 compared with \$5.9 million for the three months ended September 30, 2011, primarily due to increases in Economic Expenses. For the nine months ended September 30, 2012, Economic Earnings decreased by 11% to \$16.6 million compared with \$18.7 million for the nine months ended September 30, 2011, primarily due to increases in Economic Expenses.

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

|                                 | Three Months Ended September 30 |                 | %          |
|---------------------------------|---------------------------------|-----------------|------------|
|                                 | 2012                            | 2011            | Change     |
| Net Income                      | \$ 2,504                        | \$ 3,283        | (24)%      |
| Add: Restricted stock expense   | 2,886                           | 2,409           | 20         |
| Add: Intangible amortization    | 122                             | 125             | (2)        |
| Add: Deferred taxes on goodwill | 47                              | 47              |            |
| <b>Economic Earnings</b>        | <b>\$ 5,559</b>                 | <b>\$ 5,864</b> | <b>(5)</b> |
| Total expenses                  | \$ 14,610                       | \$ 10,751       | 36         |
| Less: Restricted stock expense  | (2,886)                         | (2,409)         | 20         |
| Less: Intangible amortization   | (122)                           | (125)           | (2)        |

Edgar Filing: WESTWOOD HOLDINGS GROUP INC - Form 10-Q

|                   |           |          |     |
|-------------------|-----------|----------|-----|
| Economic Expenses | \$ 11,602 | \$ 8,217 | 41% |
|-------------------|-----------|----------|-----|

**Table of Contents**

|                                 | Nine months Ended September 30 |                  | %           |
|---------------------------------|--------------------------------|------------------|-------------|
|                                 | 2012                           | 2011             | Change      |
| Net Income                      | \$ 8,487                       | \$ 10,569        | (20)%       |
| Add: Restricted stock expense   | 7,635                          | 7,601            |             |
| Add: Intangible amortization    | 366                            | 374              | (2)         |
| Add: Deferred taxes on goodwill | 142                            | 142              |             |
| <b>Economic Earnings</b>        | <b>\$ 16,630</b>               | <b>\$ 18,686</b> | <b>(11)</b> |
| Total expenses                  | \$ 42,704                      | \$ 35,084        | 22          |
| Less: Restricted stock expense  | (7,635)                        | (7,601)          |             |
| Less: Intangible amortization   | (366)                          | (374)            | (2)         |
| <b>Economic Expenses</b>        | <b>\$ 34,703</b>               | <b>\$ 27,109</b> | <b>28%</b>  |

**Liquidity and Capital Resources**

We fund our operations and cash requirements with cash generated from operating activities. As of September 30, 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 nine months ended September 30, 2012, cash flow provided by operating activities, principally our investment advisory business, was \$9.1 million. At September 30, 2012, we had working capital of \$58.1 million. Cash flow provided by investing activities during the nine months ended September 30, 2012 of \$710,000 was related to the sale of an available for sale investment, partially offset by purchases of fixed assets. Cash flow used in financing activities during the nine months ended September 30, 2012 of \$8.4 million was due to the payment of dividends and the purchase of treasury shares partially offset by tax benefits from equity-based compensation and proceeds from the issuance of stock from option exercises.

We had cash and investments of \$59.7 million as of September 30, 2012 and \$60.1 million as of December 31, 2011. Dividends payable were \$3.7 million and \$3.1 million as of September 30, 2012 and December 31, 2011, respectively. We had no liabilities for borrowed money at September 30, 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.

## **Table of Contents**

### **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 our financial statements for the year ending December 31, 2012. 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 the year ended December 31, 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 September 30, 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.

On August 3, 2012, AGF Management Limited and AGF Investments Inc. ( AGF ) filed a lawsuit in the Ontario Superior Court of Justice against Westwood, certain Westwood employees and executive recruiting firm Warren International, LLC (File no. CV-12-460520). The suit is related to the hiring of certain members of Westwood's Global and Emerging Markets investment team who were previously employed by the plaintiff. AGF is alleging the former employees breached their contractual and fiduciary obligations when they resigned from AGF, and that Westwood and Warren induced such breaches. AGF is seeking an unspecified amount of damages and punitive damages of \$10 million. We intend to vigorously defend these allegations.

**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 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 Rule 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  |
| 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.

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.

Edgar Filing: WESTWOOD HOLDINGS GROUP INC - Form 10-Q

Dated: October 18, 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