

WESTWOOD HOLDINGS GROUP INC

Form 10-Q

October 19, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2011.

OR

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

Commission file number 1-31234

WESTWOOD HOLDINGS GROUP, INC.

(Exact name of registrant as specified in its charter)

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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 18, 2011: 7,696,093.

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WESTWOOD HOLDINGS GROUP, INC.

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

As of September 30, 2011 and December 31, 2010

(in thousands, except par value and share amounts)

	September 30, 2011 (unaudited)	December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,572	\$ 1,744
Accounts receivable	7,997	7,348
Investments, at fair value	48,830	43,300
Deferred income taxes	2,383	2,757
Prepaid income taxes	1,428	-
Other current assets	869	733
Total current assets	66,079	55,882
Goodwill	11,338	11,281
Intangible assets, net	4,745	5,119
Property and equipment, net of accumulated depreciation of \$1,697 and \$1,542	2,038	346
Total assets	\$ 84,200	\$ 72,628
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 1,461	\$ 1,290
Dividends payable	2,628	-
Compensation and benefits payable	10,073	9,369
Income taxes payable	-	173
Deferred acquisition liability	773	899
Other current liabilities	14	13
Total current liabilities	14,949	11,744
Deferred income taxes	1,276	117
Dividends payable	224	-
Deferred rent	1,233	90
Total long-term liabilities	2,733	207
Total liabilities	17,682	11,951
Stockholders Equity:		
Common stock, \$0.01 par value, authorized 25,000,000 shares, issued 8,091,068 and outstanding 7,696,093 shares at September 30, 2011; issued 7,874,873 and outstanding 7,645,678 shares at	81	79

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December 31, 2010		
Additional paid-in capital	74,198	65,639
Treasury stock, at cost 394,975 shares at September 30, 2011; 229,195 shares at December 31, 2010	(14,607)	(8,749)
Accumulated other comprehensive income, net of deferred taxes	1,643	926
Retained earnings	5,203	2,782
Total stockholders' equity	66,518	60,677
Total liabilities and stockholders' equity	\$ 84,200	\$ 72,628

See notes to interim consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
REVENUES:				
Advisory fees				
Asset-based	\$ 13,376	\$ 10,157	\$ 41,034	\$ 30,457
Performance-based	-	-	991	-
Trust fees	3,468	2,834	10,297	8,950
Other revenues, net	(796)	482	(406)	476
Total revenues	16,048	13,473	51,916	39,883
EXPENSES:				
Employee compensation and benefits	8,295	7,296	27,084	21,447
Sales and marketing	221	181	666	569
WHG mutual funds	34	83	523	344
Information technology	503	328	1,503	977
Professional services	710	817	2,438	1,916
General and administrative	988	657	2,870	2,026
Total expenses	10,751	9,362	35,084	27,279
Income before income taxes	5,297	4,111	16,832	12,604
Provision for income taxes	2,014	1,512	6,263	4,579
Net income	\$ 3,283	\$ 2,599	\$ 10,569	\$ 8,025
Earnings per share:				
Basic	\$ 0.47	\$ 0.39	\$ 1.51	\$ 1.13
Diluted	\$ 0.46	\$ 0.38	\$ 1.47	\$ 1.11
Dividends declared per share	\$ 0.35	\$ 0.33	\$ 1.05	\$ 0.99

See notes to interim consolidated financial statements.

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

For the Nine Months Ended September 30, 2011

(in thousands, except share amounts)

(unaudited)

	Westwood Holdings Group, Inc. Common Stock, Par		Addi- tional Paid-In Capital	Treasury Stock	Accumu- lated Other Comp- rehensive Income	Retained Earnings	Total
	Shares	Amount					
BALANCE, January 1, 2011	7,645,678	\$ 79	\$ 65,639	\$ (8,749)	\$ 926	\$ 2,782	\$ 60,677
Net income						10,569	10,569
Other comprehensive income — unrealized gain on investment securities, net of \$386 in taxes					717		717
Comprehensive income							11,286
Issuance of restricted stock, net	211,095	2	(2)				-
Dividends declared						(8,148)	(8,148)
Restricted stock amortization			7,601				7,601
Tax benefit related to equity compensation			895				895
Stock options exercised	5,100	-	65				65
Purchase of treasury stock	(165,780)			(5,858)			(5,858)
BALANCE, September 30, 2011	7,696,093	\$ 81	\$ 74,198	\$ (14,607)	\$ 1,643	\$ 5,203	\$ 66,518

See notes to interim consolidated financial statements.

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

	For the nine months ended September 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 10,569	\$ 8,025
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	184	206
Amortization of intangible assets	374	79
Fair value adjustment of deferred acquisition liabilities	(126)	46
Unrealized (gains) and losses on trading investments	682	(312)
Restricted stock amortization	7,601	6,927
Deferred income taxes	1,147	205
Excess tax benefits from stock based compensation	(692)	(979)
Net purchases of investments trading securities	(5,109)	(3,872)
Change in operating assets and liabilities:		
Accounts receivable	(649)	(181)
Other current assets	(168)	86
Accounts payable and accrued liabilities	170	354
Compensation and benefits payable	704	478
Income taxes payable and prepaid income taxes	(706)	(588)
Other liabilities	335	(59)
Net cash provided by operating activities	14,316	10,415
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available for sale investments	-	(39,877)
Sales of available for sale investments	-	39,257
Purchase of property and equipment	(1,092)	(43)
Net cash used in investing activities	(1,092)	(663)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of treasury stock	(5,858)	(2,723)
Excess tax benefits from stock based compensation	692	979
Cash dividends	(5,295)	(7,231)
Proceeds from exercise of stock options	65	183
Net cash used in financing activities	(10,396)	(8,792)
NET INCREASE IN CASH		
Cash and cash equivalents, beginning of period	1,744	2,879
Cash and cash equivalents, end of period	\$ 4,572	\$ 3,839

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Supplemental cash flow information:

Cash paid during the period for income taxes	\$ 5,877	\$ 4,961
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See notes to interim consolidated financial statements.

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WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. DESCRIPTION OF THE BUSINESS:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation

The accompanying consolidated financial statements have been prepared without an audit and reflect all adjustments that, in the opinion of management, are necessary to present fairly our financial position as of September 30, 2011, and results of operations and cash flows for the periods presented. All such adjustments are normal and recurring in nature. The accompanying consolidated financial statements are presented using the accrual basis of accounting and have been prepared in accordance with the instructions for the presentation of interim financial information as prescribed by the Securities and Exchange Commission (SEC). The accompanying consolidated financial statements should be read in conjunction with our consolidated financial statements, and notes thereto, included in our Annual Report on Form 10-K for the year ended December 31, 2010. Operating results for the periods in these consolidated financial statements are not necessarily indicative of the results for any future period. The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and include the accounts of Westwood and its subsidiaries. All intercompany accounts and transactions have been eliminated upon consolidation.

Use of Estimates

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

Revenue Recognition

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

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WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Variable Interest Entities

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

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

Cash and Cash Equivalents

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

Accounts Receivable

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

Investments

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

Goodwill and Other Intangible Assets

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

During the third quarter of 2011, we completed our annual goodwill impairment assessment and determined that no impairment loss was required. We perform annual impairment assessments as of July 1 and reassess if circumstances indicate a potential impairment between annual assessment dates. We assess the fair value of our business units for goodwill purposes using a market multiple approach.

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

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WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Federal Income Taxes

We file a Federal income tax return as a consolidated group for Westwood and its subsidiaries. Deferred income tax assets and liabilities are determined based on the differences between the financial statement and income tax 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.

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

Stock Based Compensation

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

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

3. EARNINGS PER SHARE

Basic earnings per common share (EPS) is computed by dividing net income available to common stockholders by the weighted average number of shares outstanding for the periods ended September 30, 2011 and 2010, respectively. Diluted EPS for these periods is computed based on the weighted average number of shares outstanding plus the effect of dilutive shares of restricted stock and stock options granted to employees and non-employee directors and contingently issuable shares.

Under FASB ASC No. 620, Earnings Per Share, shares of unvested restricted stock that contain non-forfeitable rights to dividends are treated as participating securities, which requires allocating a portion of net income to those shares as if they were a separate class of stock, which reduces net income available to common stockholders. Prior to the third quarter of 2010, shares of unvested restricted stock contained non-forfeitable rights to dividends and accordingly were participating securities. In the third quarter of 2010, the Plan was modified such that dividends on unvested restricted shares no longer contain non-forfeitable rights to dividends, which removes requirements to treat such shares as a separate class of stock and to allocate a portion of net income to such shares for the third quarter of 2010 and future periods. There were no anti-dilutive restricted shares or options as of September 30, 2011 or 2010.

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net income	\$ 3,283	\$ 2,599	\$ 10,569	\$ 8,025
Less: Income allocated to participating restricted shares	-	-	-	(576)
Net income available to common stockholders	\$ 3,283	\$ 2,599	\$ 10,569	\$ 7,449
Weighted average shares outstanding basic	7,005,473	6,634,585	6,976,988	6,567,429
Dilutive potential shares from unvested restricted shares	172,430	158,437	186,780	66,506
Dilutive contingently issuable shares	22,380	54,651	23,475	54,651
Dilutive potential shares from stock options	15,855	18,855	17,092	22,130
Weighted average shares outstanding diluted	7,216,138	6,866,528	7,204,335	6,710,716
Earnings per share:				
Basic	\$ 0.47	\$ 0.39	\$ 1.51	\$ 1.13
Diluted	\$ 0.46	\$ 0.38	\$ 1.47	\$ 1.11

4. INVESTMENTS:

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

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
September 30, 2011:				
U.S. Government obligations	\$ 38,484	\$ 9	\$ -	\$ 38,493
Funds:				
Money market	3,011	-	-	3,011
Equity available for sale	-	2,528	-	2,528
Equity trading	4,950	-	(152)	4,798
Marketable securities	\$ 46,445	\$ 2,537	\$ (152)	\$ 48,830
December 31, 2010:				
U.S. Government obligations	\$ 32,774	\$ 11	\$ -	\$ 32,785
Funds:				
Money market	3,795	-	-	3,795

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

5. FAIR VALUE MEASUREMENTS

We determined estimated fair values of our financial instruments using available information. The fair value amounts discussed in Notes 4 and 5 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, WHG Funds mutual funds and Westwood Trust common trust fund shares, equals their fair value, which is equal to prices quoted in active markets and, with respect to funds, the net asset value of the shares held as reported by the fund. The

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

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, 2011 of \$16.85 per share less a 25% discount for lack of marketability.

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

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

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

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

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

	Level 1	Level 2	Level 3	Total
As of September 30, 2011				
Investments in securities:				
Trading	\$ 46,302	\$ -	\$ -	\$ 46,302
Available for sale	-	-	2,528	2,528
Total Financial instruments	\$ 46,302	\$ -	\$ 2,528	\$ 48,830
As of December 31, 2010				
Investments in securities:				
Trading	\$ 41,875	\$ -	\$ -	\$ 41,875
Available for sale	-	-	1,425	1,425
Total Financial instruments	\$ 41,875	\$ -	\$ 1,425	\$ 43,300

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

Three Months	Nine Months
Ended	Ended
September 30,	September 30,

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Investments in available for sale securities (in thousands)	2011	2010	2011	2010
Beginning balance	\$ 2,512	\$ 1,350	\$ 1,425	\$ 2,399
Unrealized gains/(losses) included in Other Comprehensive Income	16	-	1,103	(1,049)
Ending balance	\$ 2,528	\$ 1,350	\$ 2,528	\$ 1,350

6. OTHER COMPREHENSIVE INCOME

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

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

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2010	
Net income	\$ 3,283	\$ 2,599	\$ 10,569	\$ 8,025
Other comprehensive income (loss), net of tax:				
Change in unrealized gain on available for sale securities	10	-	717	(682)
Comprehensive income	\$ 3,293	\$ 2,599	\$ 11,286	\$ 7,343

7. INTANGIBLE ASSETS

The following is a summary of our intangible assets at September 30, 2011 and December 31, 2010 (in thousands):

	Weighted Average Amortization Period (years)	Gross Carrying Amount	Accumu- lated Amortiz- ation	Net Carrying Amount
September 30, 2011				
Client relationships	14.2	\$ 5,005	\$ (408)	\$ 4,597
Trade names	2.0	256	(123)	133
Non-compete agreements	2.3	26	(11)	15
Total		\$ 5,287	\$ (542)	\$ 4,745
December 31, 2010				
Client relationships	14.2	\$ 5,005	\$ (139)	\$ 4,866
Trade names	2.0	256	(27)	229
Non-compete agreements	2.3	26	(2)	24
Total		\$ 5,287	\$ (168)	\$ 5,119

Amortization expense was \$374,000 and \$79,000 for the nine months ended September 30, 2011 and 2010, respectively. Estimated amortization expense for the intangible assets for the next five years is as follows (in thousands):

For the Year ending December 31,	Estimated Amortization Expense
2011	\$498
2012	472

2013	359
2014	359
2015	359

8. EQUITY

On August 9, 2011, our board of directors authorized management to repurchase up to \$10.0 million of our outstanding common stock on the open market or in privately negotiated transactions. The stock repurchase program expires August 9, 2012. From August 10, 2011 through September 30, 2011, we purchased 87,686 shares of our common stock in accordance with the stock purchase plan. The shares were purchased at an average cost of \$33.78 per share and are shown as treasury shares in the equity section of our balance sheet at cost. Approximately \$7.0 million remains available for such purchases.

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WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

On July 20, 2011, we declared a quarterly cash dividend of \$0.35 per share on common stock payable on October 3, 2011 to stockholders of record on September 15, 2011.

On July 1, 2011, we purchased 7,260 shares of our common stock from employees of Westwood to assist in satisfying their tax obligations related to vested restricted shares. The shares were purchased at \$38.30 per share, the closing price of our common stock on that day, and are shown as treasury shares in the equity section of our balance sheet at cost.

On April 29, 2011, we purchased 554 shares of our common stock from an employee of Westwood to assist in satisfying her tax obligation related to vested restricted shares. The shares were purchased at \$37.65 per share, the closing price of our common stock on that day, and are shown as treasury shares in the equity section of our balance sheet at cost.

On April 20, 2011, 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 10. STOCK BASED COMPENSATION .

On April 20, 2011, we declared a quarterly cash dividend of \$0.35 per share on common stock payable on July 1, 2011 to stockholders of record on June 15, 2011.

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

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

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

9. VARIABLE INTEREST ENTITIES

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

We evaluate all of our advisory relationships and CTFs to determine whether or not we qualify as the primary beneficiary based on whether there is an obligation to absorb the majority of expected losses or a right to receive the majority of residual returns. Since all losses and returns are distributed to the shareholders of the Westwood VIEs, we are not the primary beneficiary and consequently the Westwood VIEs are not 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 WHG Funds and the CTFs are accounted for as investments in accordance with our other investments described in Note. 4 INVESTMENTS . The following table displays assets under management, corporate money invested and risk of loss in each vehicle (in millions).

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

	As of September 30, 2011		
	Assets Under Management	Corporate Investment	Risk of Loss
WHG Funds	\$ 1,089	\$ 2.6	\$ 2.6
Common Trust Funds	1,503	2.2	2.2
LLCs	417	-	-
Partnerships	23	-	-

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

10. 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 at September 30, 2011, approximately 870,000 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 September 30,	
	2011	2010
Service condition restricted stock expense	\$ 5,848	\$ 5,291
Performance based restricted stock expense	1,753	1,636
Total stock based compensation expense	\$ 7,601	\$ 6,927

Restricted Stock

Under the Plan, we have granted restricted stock to employees and non-employee directors, which are subject to a service condition, and to our Chief Executive Officer and Chief Investment Officer, which are subject to a service condition and performance goals. As of September 30, 2011, approximately \$19.1 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

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Restricted shares granted to employees vest over four years and non-employee directors' shares vest over one year. The following table details the status and changes in our restricted stock grants that are subject only to a service condition for the nine months ended September 30, 2011:

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

Restricted shares subject only to a service condition:	Shares	Weighted Average Grant Date Fair Value
Non-vested, January 1, 2011	551,100	\$34.83
Granted	220,220	36.64
Vested	(198,025)	32.39
Forfeited	(9,125)	36.35
Non-vested, September 30, 2011	564,170	36.37

CEO and CIO performance based restricted share grants

Under the Plan, we granted restricted shares to our Chief Executive Officer and Chief Investment Officer that vest over five and six years, respectively, provided annual performance goals established by the Compensation Committee of Westwood's board of directors are met. In February 2011, the Compensation Committee established the goal for 2011 as adjusted pre-tax income of at least \$19,330,265, representing a compound annual growth rate of 10% over annual adjusted pre-tax income recorded in 2006. At September 30, 2011 there were 190,000 shares of unvested performance based restricted shares outstanding.

In the first quarter of 2011, we concluded that it was probable that we would meet the performance goals required in order for the applicable percentage of the performance-based restricted shares to vest this year and began recording expense related to those shares.

11. SEGMENT REPORTING:

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

Westwood Management

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

Westwood Trust

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

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

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

	Westwood Management	Westwood Trust	Westwood Holdings (in thousands)	Eliminations	Consolidated
Three months ended September 30, 2011					
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
Three months ended September 30, 2010					
Net revenues from external sources	\$ 10,638	\$ 2,835	\$ -	\$ -	\$ 13,473
Net intersegment revenues	985	4	-	(989)	-
Income before income taxes	6,153	345	(2,387)	-	4,111
Segment assets	56,327	4,067	4,974	-	65,368
Segment goodwill	3,403	512	-	-	3,915
Nine months ended September 30, 2011					
Net revenues from external sources	\$ 41,612	\$ 10,304	\$ -	\$ -	\$ 51,916
Net intersegment revenues	3,574	12	-	(3,586)	-
Income before income taxes	22,866	1,567	(7,601)	-	16,832
Nine months ended September 30, 2010					
Net revenues from external sources	\$ 30,931	\$ 8,952	\$ -	\$ -	\$ 39,883
Net intersegment revenues	3,108	13	-	(3,121)	-
Income before income taxes	17,960	1,571	(6,927)	-	12,604

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

Forward-Looking Statements

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

- our ability to identify and market services that appeal to our customers;
- the significant concentration of our revenues in four of our customers;
- our relationships with investment consulting firms;
- our relationships with current and potential customers;
- our ability to retain qualified personnel;
- our ability to develop and market new asset classes successfully;
- our ability to maintain our fee structure in light of competitive fee pressures;
- competition in the marketplace;
- downturns in financial markets;
- new legislation adversely affecting the financial services industries;
- interest rates;
- changes in our effective tax rate;
- our ability to maintain an effective system of internal controls; and
- other risks as detailed from time to time in our SEC reports.

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

Overview

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

Revenues

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

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

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

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

Assets Under Management

Assets under management increased \$1.0 billion to \$11.7 billion at September 30, 2011, compared with \$10.6 billion at September 30, 2010. The average of beginning and ending assets under management for the third quarter of 2011 was \$12.8 billion compared to \$10.2 billion for the third quarter of 2010, an increase of 26%.

The following table displays assets under management as of September 30, 2011 and 2010:

	As of September 30, (in millions)		% Change September 30, 2011 vs. September 30, 2010
	2011	2010	
Institutional	\$ 7,769	\$ 7,952	(2)%
Private Wealth	2,796	1,929	45
Mutual Funds	1,089	760	43
Total Assets Under Management	\$ 11,654	\$ 10,641	9%

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

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

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

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

(\$ millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<i>Institutional</i>				
Beginning of period assets	\$ 9,432	\$ 7,220	\$ 8,359	\$ 7,599
Inflows	278	57	1,429	838
Outflows	(245)	(160)	(894)	(880)
Net flows	33	(103)	535	(42)
Market appreciation/(depreciation)	(1,696)	835	(1,125)	395
Net change	(1,663)	732	(590)	353
End of period assets	7,769	7,952	7,769	7,952
<i>Private Wealth</i>				
Beginning of period assets	3,203	1,787	3,148	2,009
Inflows	127	23	238	65
Outflows	(82)	(33)	(329)	(203)
Net flows	45	(10)	(91)	(138)
Market appreciation/(depreciation)	(452)	152	(261)	58
Net change	(407)	142	(352)	(80)
End of period assets	2,796	1,929	2,796	1,929
<i>Mutual Funds</i>				
Beginning of period assets	1,288	652	970	566
Inflows	99	80	448	274
Outflows	(106)	(40)	(200)	(120)
Net flows	(7)	40	248	154
Market appreciation/(depreciation)	(192)	68	(129)	40
Net change	(199)	108	119	194
End of period assets	1,089	760	1,089	760
<i>Total</i>				
Beginning of period assets	13,923	9,659	12,477	10,174
Inflows	504	160	2,115	1,177
Outflows	(433)	(233)	(1,423)	(1,203)
Net flows	71	(73)	692	(26)
Market appreciation/(depreciation)	(2,340)	1,055	(1,515)	493
Net change	(2,269)	982	(823)	467
End of period assets	\$ 11,654	\$ 10,641	\$ 11,654	\$ 10,641

Three months ended September 30, 2011 and 2010

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The \$2.3 billion decrease in assets under management for the three months ended September 30, 2011 was due to market depreciation of \$2.3 billion and outflows of \$433 million, partially offset by inflows of \$504 million. Inflows were primarily into existing institutional separate accounts and subadvisory mandates and new private wealth accounts. Outflows were primarily related to account closings and outflows from institutional separate accounts, subadvisory mandates and private wealth clients. The WHG Funds had net outflows due primarily to a clients rebalancing withdrawal during the quarter.

The \$982 million increase in assets under management for the three months ended September 30, 2010 was due to market appreciation of \$1.1 billion and inflows of \$160 million, partially offset by outflows of \$233 million. Inflows were primarily into the WHG Funds, existing institutional separate accounts and subadvisory mandates. Outflows were primarily related to outflows from institutional separate accounts and subadvisory mandates.

Table of Contents**Nine months ended September 30, 2011 and 2010**

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.

The \$467 million increase in assets under management for the nine months ended September 30, 2010 was due to inflows of \$1.2 billion and market appreciation of \$493 million, partially offset by outflows of \$1.2 billion. Inflows were driven primarily by additional inflows into institutional separate accounts, subadvisory mandates and the WHG Funds. Outflows were primarily related to account closings and outflows from institutional separate accounts and subadvisory clients.

Results of Operations

The following table (dollars in thousands) and discussion of our results of operations for the three and nine months ended September 30, 2011 is based upon data derived from the consolidated statements of income contained in our consolidated financial statements and should be read in conjunction with those statements, included elsewhere in this quarterly report.

	Three months ended September 30,		Nine months ended September 30,		% Change Three months ended September 30, 2011 vs. September 30, 2010		Nine months ended September 30, 2011 vs. September 30, 2010	
	2011	2010	2011	2010				
Revenues								
Advisory fees								
Asset-based	\$ 13,376	\$ 10,157	\$ 41,034	\$ 30,457	32%		35%	
Performance-based	-	-	991	-	NM		NM	
Trust fees	3,468	2,834	10,297	8,950	22		15	
Other revenues	(796)	482	(406)	476	NM		NM	
Total revenues	16,048	13,473	51,916	39,883	19		30	
Expenses								
Employee compensation and benefits	8,295	7,296	27,084	21,447	14		26	
Sales and marketing	221	181	666	569	22		17	
WHG mutual funds	34	83	523	344	(59)		52	
Information technology	503	328	1,503	977	53		54	
Professional services	710	817	2,438	1,916	(13)		27	
General and administrative	988	657	2,870	2,026	50		42	
Total expenses	10,751	9,362	35,084	27,279	15		29	
Income before income taxes	5,297	4,111	16,832	12,604	29		34	
Provision for income taxes	2,014	1,512	6,263	4,579	33		37	
Net income	\$ 3,283	\$ 2,599	\$ 10,569	\$ 8,025	26%		32%	

Three months ended September 30, 2011 compared to three months ended September 30, 2010

Total Revenues. Our total revenues increased by 19% to \$16.0 million for the three months ended September 30, 2011 compared with \$13.5 million for the three months ended September 30, 2010. Asset-based advisory fees increased by 32% to \$13.4 million for the three months ended September 30, 2011 compared with \$10.2 million for the three months ended September 30, 2010 as a result of increased average assets under management by Westwood Management due to assets acquired in the McCarthy acquisition in November 2010, and inflows from new and existing clients, partially offset by market depreciation of assets and the withdrawal of assets by certain clients. Trust fees increased by 22% to

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\$3.5 million for the three months ended September 30, 2011 compared with \$2.8 million for the three months ended September 30, 2010 as a result of increased assets under management by Westwood Trust due to inflows from new accounts. Market depreciation of assets and net asset outflows from existing clients partially offset these increases. Other revenues, which generally consist of interest and investment income, decreased to \$(796,000) for the three months ended September 30, 2011 compared with \$482,000 for the three months ended September 30, 2010. Other revenues are presented net and decreased primarily due to an increase of \$1.3 million in net unrealized losses on investments.

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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 14% to \$8.3 million for the three months ended September 30, 2011 compared with \$7.3 million for the three months ended September 30, 2010. The increase was primarily due to increases of \$515,000 in incentive compensation expense as a result of higher pretax income, \$399,000 in salary expense due primarily to increased average headcount and salary increases, \$139,000 in service-based restricted stock expense due to additional grants in February and April 2011, and \$52,000 in health insurance expense. These increases were partially offset by a decrease of \$116,000 in performance-based restricted stock expense. In the first quarter of 2011 we concluded that it was probable that we would meet the performance goal required in order for the applicable percentage of the performance-based restricted shares awarded to our Chief Investment Officer and Chief Executive Officer to vest. As a result, we recognized expense of approximately \$584,000 in the first, second and third quarters of 2011 related to these performance-based restricted stock grants. We had 81 full-time employees as of September 30, 2011 compared to 67 full-time employees as of September 30, 2010.

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 22% to \$221,000 for the three months ended September 30, 2011 compared with \$181,000 for the three months ended September 30, 2010. The increase is primarily the result of increased referral fees and travel expenses partially offset by decreased direct marketing expenses.

WHG Mutual Funds. WHG Mutual Funds expenses relate to our marketing, distribution, administration and acquisition efforts related to the WHG Funds. WHG Mutual Funds expenses decreased by 59% to \$34,000 for the three months ended September 30, 2011 compared with \$83,000 for the three months ended September 30, 2010 due to a decrease in the acquisition liability we recorded as part of the mutual fund acquisition we completed in 2009. The acquisition liability fluctuates based on the value of the accounts we acquired and will be paid in the fourth quarter of 2011. Partially offsetting this decrease was an increase in shareholder servicing and marketing costs.

Information Technology. Information technology expenses are generally costs associated with proprietary investment research tools, maintenance and support, computing hardware, software licenses, telecommunications and other related costs. Information technology costs increased by 53% to \$503,000 for the three months ended September 30, 2011 compared with \$328,000 for the three months ended September 30, 2010. The increase is primarily due to software and software implementation costs related to upgraded client reporting and portfolio accounting systems and increased research expenses.

Professional Services. Professional services expenses generally consist of costs associated with subadvisory fees, audit, legal and other professional services. Professional services expenses decreased by 13% to \$710,000 for the three months ended September 30, 2011 compared with \$817,000 for the three months ended September 30, 2010. The decrease is primarily due to decreases of \$98,000 in legal fees and \$65,000 in professional services related to growth initiatives. Increases of \$30,000 in subadvisor fees related to common trust funds sponsored by Westwood Trust and \$23,000 in tax consultation fees partially offset these decreases.

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 50% to \$988,000 for the three months ended September 30, 2011 compared with \$657,000 for the three months ended September 30, 2010. The increase is primarily due to increased amortization expense related to intangible assets acquired in November 2010, increased rent expense due to a new lease for our Dallas office effective June 2011 and a lease related to our Omaha office acquired in November 2010, increased charitable contributions and higher fees related to a new director compensation plan.

Provision for Income Tax Expense. Provision for income tax expenses increased by 33% to \$2.0 million for the three months ended September 30, 2011 compared with \$1.5 million for the three months ended September 30, 2010. The effective tax rate increased to 38.0% for the three months ended September 30, 2011 from 36.8% for the three months ended September 30, 2010 primarily due to current year taxable income in a higher federal tax bracket, provision to return adjustments from our 2010 federal tax return and an additional state tax liability related to an acquisition we made in November 2010.

Table of Contents***Nine months ended September 30, 2011 compared to nine months ended September 30, 2010***

Total Revenues. Our total revenues increased by 30% to \$51.9 million for the nine months ended September 30, 2011 compared with \$39.9 million for the nine months ended September 30, 2010. Asset-based advisory fees increased by 35% to \$41.0 million for the nine months ended September 30, 2011 compared with \$30.5 million for the nine months ended September 30, 2010 as a result of increased average assets under management by Westwood Management due to assets acquired in the McCarthy acquisition in November 2010 and inflows from new and existing clients, partially offset by market depreciation of assets and the withdrawal of assets by certain clients. We recognized a performance-based advisory fee of \$991,000 for the nine months ended September 30, 2011. We did not earn a performance-based advisory fee for the nine months ended September 30, 2010. Trust fees increased by 15% to \$10.3 million for the nine months ended September 30, 2011 compared with \$9.0 million for the nine months ended September 30, 2010 as a result of increased assets under management by Westwood Trust due to inflows from new accounts. Market depreciation of assets and net asset outflows from existing clients partially offset these increases. Other revenues, which generally consist of interest and investment income, decreased to \$(406,000) for the nine months ended September 30, 2011 compared with \$476,000 for the nine months ended September 30, 2010. Other revenues are presented net and increased primarily due to an increase of \$994,000 in net unrealized losses on investments partially offset by an increase of \$102,000 in realized gains on investments.

Employee Compensation and Benefits. Employee compensation and benefits costs increased by 26% to \$27.1 million for the nine months ended September 30, 2011 compared with \$21.4 million for the nine months ended September 30, 2010. The increase was primarily due to increases of \$3.1 million in incentive compensation expense as a result of higher pretax income and performance-based incentive compensation related to investment and marketing goals, \$1.3 million in salary expense due primarily to increased average headcount and salary increases, \$675,000 in restricted stock expense due to increases of \$558,000 of expense related to service-based grants and \$117,000 of expense related to performance-based grants, \$222,000 in payroll tax expense related to increased salaries and an increase in the number of shares of restricted stock that vested and \$145,000 in health insurance costs. In the first quarter of 2011 we concluded that it was probable that we would meet the performance goal required in order for the applicable percentage of the performance-based restricted shares awarded to our Chief Investment Officer and Chief Executive Officer to vest. As a result, we recognized expense of approximately \$584,000 in the first, second and third quarters of 2011 related to these performance-based restricted stock grants. We had 81 full-time employees as of September 30, 2011 compared to 67 full-time employees as of September 30, 2010.

Sales and Marketing. Sales and marketing costs increased by 17% to \$666,000 for the nine months ended September 30, 2011 compared with \$569,000 for the nine months ended September 30, 2010. The increase is primarily the result of increased referral fees and travel expenses partially offset by decreased direct marketing expenses.

WHG Mutual Funds. WHG Mutual Funds expenses increased by 52% to \$523,000 for the nine months ended September 30, 2011 compared with \$344,000 for the nine months ended September 30, 2010 due to increased legal costs related to the reorganization of the McCarthy Multi-Cap Stock Fund, which was acquired in November 2010, into the WHG Dividend Growth Fund and higher shareholder servicing and marketing costs. These increases were partially offset by a decrease in the acquisition liability we recorded as part of the mutual fund acquisition we completed in 2009. The acquisition liability fluctuates based on the value of the accounts we acquired and will be paid in the fourth quarter of 2011.

Information Technology. Information technology expenses increased by 54% to \$1.5 million for the nine months ended September 30, 2011 compared with \$1.0 million for the nine months ended September 30, 2010. The increase is primarily due to software and software implementation costs related to upgraded client reporting and portfolio accounting systems, increased quotation expense and increased research costs.

Professional Services. Professional services expenses increased by 27% to \$2.4 million for the nine months ended September 30, 2011 compared with \$1.9 million for the nine months ended September 30, 2010. The increase is primarily due to increases of \$276,000 in subadvisor fees related to common trust funds sponsored by Westwood Trust, \$145,000 in professional services related to growth initiatives and \$152,000 in audit fees related to

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unconsolidated investment vehicles we acquired in 2010. An \$85,000 decrease in legal fees partially offset these increases.

General and Administrative. General and administrative expenses increased by 42% to \$2.9 million for the nine months ended September 30, 2011 compared with \$2.0 million for the nine months ended September 30, 2010. The increase is primarily due to increased amortization expense related to intangible assets acquired in November 2010, increased rent expense due to a new lease for our Dallas office effective June 2011 and a lease related to our Omaha office acquired in November 2010, increased charitable contributions and higher fees related to a new director compensation plan.

Provision for Income Tax Expense. Provision for income tax expenses increased by 37% to \$6.3 million for the nine months ended September 30, 2011 compared with \$4.6 million for the nine months ended September 30, 2010. The effective tax rate increased to 37.2% for the nine months ended September 30, 2011 from 36.3% for the nine months ended September 30, 2010 primarily due to current year taxable income in a higher federal tax bracket, provision to return adjustments from our 2010 federal tax return and an additional state tax liability related to an acquisition we made in November 2010.

Supplemental Financial Information

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

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

Our Economic Earnings increased by 17% to \$5.9 million for the three months ended September 30, 2011 compared with \$5.0 million for the three months ended September 30, 2010, primarily due to an increase in total revenues. For the nine months ended September 30, 2011, Economic Earnings increased by 24% to \$18.7 million compared to \$15.1 million for the nine months ended September 30, 2010, primarily due to increased revenues.

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

	Three Months Ended		% Change
	September 30		
	2011	2010	
Net Income	\$ 3,283	\$ 2,599	26%
Add: Restricted stock expense	2,409	2,387	1
Add: Intangible amortization	125	26	381
Add: Deferred taxes on goodwill	47	9	422
Economic earnings	\$ 5,864	\$ 5,021	17
Total expenses	\$ 10,751	\$ 9,362	15
Less: Restricted stock expense	(2,409)	(2,387)	1
Less: Intangible amortization	(125)	(26)	381
Economic expenses	\$ 8,217	\$ 6,949	18%

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	Nine Months Ended		% Change
	September 30		
	2011	2010	
Net Income	\$ 10,569	\$ 8,025	32%
Add: Restricted stock expense	7,601	6,927	10
Add: Intangible amortization	374	79	373
Add: Deferred taxes on goodwill	142	28	407
Economic earnings	\$ 18,686	\$ 15,059	24
Total expenses	\$ 35,084	\$ 27,279	29
Less: Restricted stock expense	(7,601)	(6,927)	10
Less: Intangible amortization	(374)	(79)	373
Economic expenses	\$ 27,109	\$ 20,273	34%

Liquidity and Capital Resources

We fund our operations and cash requirements with cash generated from operating activities. As of September 30, 2011, we had no long-term debt. The changes in net cash provided by operating activities generally reflect the changes in earnings plus the effects of non-cash items and changes in working capital. Changes in working capital, especially accounts receivable and accounts payable, are generally the result of timing differences between collection of fees billed and payment of operating expenses.

During the nine months ended September 30, 2011, cash flow provided by operating activities, principally our investment advisory business, was \$14.3 million. At September 30, 2011, we had working capital of \$51.1 million. Cash flow used in investing activities during the nine months ended September 30, 2011 of \$1.1 million was related to purchases of fixed assets. Cash flow used in financing activities during the nine months ended September 30, 2011 of \$10.4 million was due to the purchase of treasury shares and the payment of dividends and partially offset by tax benefits from equity-based compensation and cash from the exercise of stock options.

We had cash and investments of \$53.4 million as of September 30, 2011 and \$45.0 million as of December 31, 2010. Dividends payable were \$2.9 million and \$0 as of September 30, 2011 and December 31, 2010, respectively. We had no liabilities for borrowed money at September 30, 2011. We have a deferred acquisition liability to be paid in the fourth quarter of 2011, which we expect to pay with funds generated from operations.

Our future liquidity and capital requirements will depend upon numerous factors, including our results of operations, the timing and magnitude of capital expenditures or strategic initiatives, our dividend policy and other business and risk factors described under **Risk Factors** in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC. We believe that current cash and short-term investment balances and cash generated from operations will be sufficient to meet the operating and capital requirements of our ordinary business operations through at least the next twelve months. However, there can be no assurance that we will not require additional financing within this time frame. The failure to raise needed capital on attractive terms, if at all, could have a material adverse effect on our business, financial condition and results of operations.

Contractual Obligations

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

Critical and Significant Accounting Policies and Estimates

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

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Accounting Developments

In June 2011, the Financial Accounting Standards Board (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 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The new guidance is effective for our 2012 fiscal year, which begins on January 1, 2012. This guidance will 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 2010.

ITEM 4. CONTROLS AND PROCEDURES

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

For the quarter ended September 30, 2011, there were no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

Table of Contents**ITEM 1A. RISK FACTORS**

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

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

The following table displays information with respect to the treasury shares we purchased during the three months ended September 30, 2011.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs (1)
July 1 through July 30, 2011	7,260	\$ 38.30	-	\$ 10,000,000
August 1 through August 31, 2011	31,733	34.40	31,733	8,908,528
September 1 through September 30, 2011	55,953	33.43	55,953	7,037,954
Total	94,946	\$ 34.13	87,686	\$ 7,037,954

(1) On August 9, 2011, our board of directors authorized management to repurchase up to \$10.0 million of our outstanding common stock on the open market or in privately negotiated transactions. The share repurchase program expires on August 9, 2012.

Note: The treasury shares purchased in July were purchased from Westwood employees at the market close price on the date of purchase in order to satisfy their tax obligations from vested restricted shares. We anticipate purchasing additional shares in subsequent years for the same purpose. The August and September purchases were made in accordance with our publicly announced share repurchase plan to purchase up to \$10 million of our outstanding shares.

ITEM 6. EXHIBITS

31.1	Certification of Chief Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a)
31.2	Certification of Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a)
32.1*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document

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101.LAB** XBRL Taxonomy Extension Label Linkbase Document
101.PRE** XBRL Taxonomy Extension Presentation Linkbase Document

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

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: October 18, 2011

WESTWOOD HOLDINGS GROUP, INC.

By: */s/ Brian O. Casey*
Brian O. Casey

President & Chief Executive Officer

By: */s/ William R. Hardcastle, Jr.*
William R. Hardcastle, Jr.

Chief Financial Officer