

WESTWOOD HOLDINGS GROUP INC

Form 10-Q

July 23, 2009

[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 June 30, 2009.

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

The number of shares of the issuer's common stock, par value \$0.01 per share, outstanding as of July 22, 2009: 7,124,088.

**Table of Contents**

**WESTWOOD HOLDINGS GROUP, INC.**

**INDEX**

	<b>PAGE</b>
<b>PART I</b>	
<b><u>FINANCIAL INFORMATION</u></b>	
Item 1.	
<u>Unaudited Consolidated Financial Statements</u>	
<u>Consolidated Balance Sheets as of June 30, 2009 and December 31, 2008 (audited)</u>	1
<u>Consolidated Statements of Income for the three and six months ended June 30, 2009 and June 30, 2008</u>	2
<u>Consolidated Statement of Stockholders' Equity for the six months ended June 30, 2009</u>	3
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2009 and June 30, 2008</u>	4
<u>Notes to Interim Consolidated Financial Statements</u>	5
Item 2.	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
Item 3.	
<u>Quantitative And Qualitative Disclosures About Market Risk</u>	19
Item 4.	
<u>Controls and Procedures</u>	19
<b>PART II</b>	
<b><u>OTHER INFORMATION</u></b>	
Item 1.	
<u>Legal Proceedings</u>	20
Item 1A.	
<u>Risk Factors</u>	20
Item 4.	
<u>Submission of matters to a vote of security holders</u>	20
Item 6.	
<u>Exhibits</u>	20
<u>Signatures</u>	21

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

As of June 30, 2009 and December 31, 2008

(in thousands, except par value and share amounts)

	June 30, 2009 (unaudited)	December 31, 2008
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 5,112	\$ 3,498
Accounts receivable	5,211	12,638
Investments, at market value	29,754	28,152
Deferred income taxes	2,674	1,781
Other current assets	610	700
Total current assets	43,361	46,769
Goodwill	2,302	2,302
Deferred income taxes	389	934
Property and equipment, net of accumulated depreciation of \$1,354 and \$1,234	712	842
Total assets	\$ 46,764	\$ 50,847
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 865	\$ 1,105
Dividends payable	2,149	2,087
Compensation and benefits payable	2,274	7,052
Income taxes payable	260	1,359
Other current liabilities	9	9
Total current liabilities	5,557	11,612
Deferred rent	362	441
Total liabilities	5,919	12,053
Stockholders Equity:		
Common stock, \$0.01 par value, authorized 25,000,000 shares, issued 7,281,427 and outstanding 7,163,638 shares at June 30, 2009; issued 7,052,727 and outstanding 6,958,238 shares at December 31, 2008	73	71
Additional paid-in capital	41,815	37,458
Treasury stock, at cost 117,789 shares at June 30, 2009; 94,489 shares at December 31, 2008	(4,369)	(3,500)
Retained earnings	3,326	4,765

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Total stockholders' equity	40,845	38,794
Total liabilities and stockholders' equity	\$ 46,764	\$ 50,847

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 June 30,		Six months ended June 30,	
	2009	2008	2009	2008
<b>REVENUES:</b>				
Advisory fees				
Asset-based	\$ 7,215	\$ 6,606	\$ 13,345	\$ 12,996
Performance-based		80		80
Trust fees	2,303	2,677	4,724	5,425
Other revenues, net	454	288	120	277
<b>Total revenues</b>	<b>9,972</b>	<b>9,651</b>	<b>18,189</b>	<b>18,778</b>
<b>EXPENSES:</b>				
Employee compensation and benefits	5,890	5,352	10,584	10,014
Sales and marketing	164	195	294	332
WHG mutual funds	103	106	280	141
Information technology	306	266	616	527
Professional services	359	439	754	887
General and administrative	646	695	1,228	1,266
<b>Total expenses</b>	<b>7,468</b>	<b>7,053</b>	<b>13,756</b>	<b>13,167</b>
Income before income taxes	2,504	2,598	4,433	5,611
Provision for income taxes	874	867	1,573	1,925
<b>Net income</b>	<b>\$ 1,630</b>	<b>\$ 1,731</b>	<b>\$ 2,860</b>	<b>\$ 3,686</b>
<b>Earnings per share:</b>				
Basic	\$ 0.26	\$ 0.29	\$ 0.46	\$ 0.61
Diluted	\$ 0.25	\$ 0.27	\$ 0.43	\$ 0.58

See notes to interim consolidated financial statements.

Table of Contents

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

**For the Six Months Ended June 30, 2009**

(in thousands)

(unaudited)

	Westwood Holdings Group, Inc.		Additional		Retained Earnings	Total
	Common Stock, Par Shares	Amount	Paid-In Capital	Treasury Stock		
BALANCE, January 1, 2009	6,958,238	\$ 71	\$ 37,458	\$ (3,500)	\$ 4,765	\$ 38,794
Net income					2,860	2,860
Issuance of restricted stock, net	228,700	2	(2)			
Dividends declared (\$0.60 per share)					(4,299)	(4,299)
Restricted stock amortization			3,722			3,722
Tax benefit related to equity compensation			637			637
Purchase of treasury stock	(23,300)			(869)		(869)
BALANCE, June 30, 2009	7,163,638	\$ 73	\$ 41,815	\$ (4,369)	\$ 3,326	\$ 40,845

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 six months ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 2,860	\$ 3,686
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	119	114
Unrealized (gains) and losses on investments	(347)	249
Restricted stock amortization	3,722	3,151
Deferred income taxes	(348)	(536)
Excess tax benefits from stock-based compensation	(471)	(450)
Net sales (purchases) of investments trading securities	1,305	(69)
Change in operating assets and liabilities:		
Accounts receivable	7,427	2,430
Other assets	91	(856)
Accounts payable and accrued liabilities	(240)	36
Compensation and benefits payable	(4,778)	(2,169)
Income taxes payable	(462)	114
Other liabilities	(25)	(14)
Net cash provided by operating activities	8,853	5,686
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of money market funds available for sale	(28,269)	(3,478)
Sales of money market funds available for sale	25,709	2,404
Purchase of property and equipment	(44)	(66)
Net cash used in investing activities	(2,604)	(1,140)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Purchase of treasury stock	(869)	(802)
Excess tax benefits from stock-based compensation	471	450
Cash dividends	(4,237)	(3,793)
Proceeds from exercise of stock options	48	48
Net cash used in financing activities	(4,635)	(4,097)
<b>NET INCREASE IN CASH</b>	<b>1,614</b>	<b>449</b>
Cash and cash equivalents, beginning of period	3,498	4,560
Cash and cash equivalents, end of period	\$ 5,112	\$ 5,009

Supplemental cash flow information:



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Cash paid during the period for income taxes	\$ 2,383	\$ 2,348
Issuance of restricted stock, net	7,018	6,552
Tax benefit allocated directly to equity	637	623

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, the Company, 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 and public retirement plans, endowments and foundations, mutual funds and clients of Westwood Trust. Westwood Trust provides institutions and high net worth individuals 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 revenue and results of operations.

Westwood Management is a registered investment advisor 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 June 30, 2009, 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 ) and, therefore, as permitted by SEC rules, do not contain certain information and footnote disclosures required by accounting principles generally accepted in the United States of America. 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, 2008. Refer to the accounting policies described in the notes to our annual financial statements, which were consistently followed in preparing this interim financial information. Operating results for the three and six months ended June 30, 2009 are not necessarily indicative of the results for the year ending December 31, 2009 or any future period.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 AUM. A limited number of our clients have a performance-based fee component in their contract, which would pay us an additional fee if we outperform a specified index over a specific period of time. We would record revenue from 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 most of our advance paying clients' billing periods coincide with the calendar quarter to which payment relates, the revenue related to those clients is fully recognized within the quarter.

**Table of Contents**

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

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

**(Unaudited)**

Consequently, there is not a significant amount of deferred revenue contained in these financial statements. Deferred revenue is shown on the balance sheet under the heading of Other current liabilities. Other revenues generally consist of unrealized gains and losses on our investments and interest and investment income. These revenues are recognized as earned or as the services are performed.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of short-term, highly liquid investments with maturities of three months or less.

**Investments**

Money market securities are classified as available for sale securities and have no significant fluctuating values. All other marketable securities are classified as trading securities. All securities are carried at quoted market value on the accompanying 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**

During the third quarter of 2008, we completed our annual impairment assessment as required by the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No.142. No impairment loss was required. We perform our annual impairment assessment in the third quarter as of July 1 and would reassess if circumstances indicated a potential impairment between our annual assessment dates. We assess the fair value of our business units with goodwill using a market multiple approach. No events occurred since our last assessment that indicated that these assets should be retested for impairment.

**Federal Income Taxes**

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

**Fair Value of Financial Instruments**

The estimated fair values of our financial instruments have been determined by us using available information. The fair value amounts discussed in Note 3 are not necessarily indicative of either the amounts we would realize 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 as well as mutual funds and 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 carrying amount of investments designated as available for sale securities, primarily money market accounts, equals their fair value, which is equal to the net asset value of the shares held as reported by the fund. The market values of our money market holdings generally do not fluctuate.

Effective January 1, 2008, we adopted the provisions of FASB SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value and requires additional disclosures regarding certain fair value measurements. SFAS No. 157 establishes a three tier hierarchy for measuring fair value as follows: level 1 quoted market prices in active markets, 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 fair value of our investments in Note 3. Investments were determined using quoted prices from active markets (level 1).



**Table of Contents****WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****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 June 30, 2009 and 2008, respectively. Diluted earnings per share for these periods is computed based on the weighted average number of shares outstanding plus the effect of the dilutive impact of shares of restricted stock and stock options granted to employees and non-employee directors. Diluted earnings per common share is computed using the treasury stock method.

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

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Net income	\$ 1,630	\$ 1,731	\$ 2,860	\$ 3,686
Weighted average shares outstanding basic	6,252,488	6,014,074	6,269,351	6,020,074
Dilutive potential shares from stock options	28,137	35,950	27,285	36,047
Dilutive potential shares from restricted shares	357,988	362,274	333,394	334,680
Weighted average shares outstanding diluted	6,638,613	6,412,298	6,630,030	6,390,801
Earnings per share:				
Basic	\$ 0.26	\$ 0.29	\$ 0.46	\$ 0.61
Diluted	\$ 0.25	\$ 0.27	\$ 0.43	\$ 0.58

**Stock-Based Compensation**

We account for stock-based compensation in accordance with FASB SFAS No. 123 Revised ( SFAS No. 123R ). Under SFAS No. 123R, 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 we record for these awards is based on their grant-date fair value as required by SFAS No. 123R.

We have issued restricted stock and stock options in accordance with our Third Amended and Restated Westwood Holdings Group, Inc. Stock Incentive Plan (the Plan ). We valued stock options issued based upon the Black-Scholes option-pricing model and recognized this value as an expense 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 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, stock-based compensation expense and our results of operations could be materially affected.

**Table of Contents****WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****3. INVESTMENTS:**

Investment balances are presented in the table below (in thousands). All of these investments are carried at market value. The money market funds are accounted for as available for sale securities. The other investments are accounted for as trading securities.

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
<b>June 30, 2009:</b>				
U.S. Government and Government agency obligations	\$ 22,953	\$ 19	\$	\$ 22,972
<b>Funds:</b>				
Money market	4,404			4,404
Equity	2,793	5	(420)	2,378
Marketable securities	\$ 30,150	\$ 24	\$ (420)	\$ 29,754
<b>December 31, 2008:</b>				
U.S. Government and Government agency obligations	\$ 22,142	\$ 83	\$	\$ 22,225
<b>Funds:</b>				
Money market	1,843			1,843
Equity	4,910		(826)	4,084
Marketable securities	\$ 28,895	\$ 83	\$ (826)	\$ 28,152

**4. EQUITY:**

On April 21, 2009, we declared a quarterly cash dividend of \$0.30 per share on common stock payable on July 1, 2009 to stockholders of record on June 15, 2009.

On February 27, 2009, we purchased 23,300 shares of our common stock from employees of Westwood to assist our employees in satisfying their tax obligations related to vested restricted shares. The shares were purchased at \$37.29, the closing price of our common stock on that date, and are shown as treasury shares in the equity section of our balance sheet at cost.

On February 5, 2009, we declared a quarterly cash dividend of \$0.30 per share on common stock payable on April 1, 2009 to stockholders of record on March 13, 2009.

On February 5, 2009, we granted an aggregate of 232,000 shares of restricted stock to certain employees. These shares are subject to vesting conditions as described in Note 5. Stock-Based Compensation .

**5. STOCK-BASED COMPENSATION**

We have issued stock options and restricted shares to our employees, non-employee directors and a non-employee consultant. 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 the predecessor plans to the Plan)

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may not exceed 2,648,100 shares. In the event of a change in control of Westwood, the Plan contains provisions providing for the acceleration of the vesting of restricted stock and stock options. At June 30, 2009, approximately 704,000 shares remain available for issuance under the Plan.

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

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

	Six months ended	
	June 30,	
	2009	2008
Total stock-based compensation expense	\$ 3,722	\$ 3,151
Total income tax benefit recognized related to stock-based compensation	951	937

**Restricted Stock**

Under the Plan, we have granted restricted stock to employees, non-employee directors and a non-employee consultant, which are subject to a service condition, and to our Chief Executive Officer and Chief Investment Officer, which are subject to a service condition and performance goals. Until the shares vest, they are restricted from sale, transfer or assignment in accordance with the terms of the agreements under which they were issued. We calculate compensation cost for restricted stock grants by using the fair market value of our common stock at the date of grant, the number of shares issued and an estimate of shares that will not vest due to forfeitures. This compensation cost is amortized on a straight-line basis over the applicable vesting period. As of June 30, 2009, there was approximately \$17.2 million of unrecognized compensation cost, which we expect to recognize over a weighted-average period of 2.2 years. In order to satisfy tax liabilities employees will owe on their vested shares, we may withhold a sufficient number of vested shares from employees on the date vesting occurs. For 2009, we expect the number of shares withheld for this purpose to total 62,900 shares. 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 the non-employee directors' shares vest over one year. For the six months ended June 30, 2009, we recorded approximately \$3.3 million of expense for these grants. The following table details the status and changes in our restricted stock grants that are subject only to a service condition for the six months ended June 30, 2009:

	Shares	Weighted Average
		Grant Date Fair Value
<b>Restricted shares subject only to a service condition:</b>		
Non-vested, January 1, 2009	507,450	\$ 29.74
Granted	232,000	30.69
Vested		
Forfeited	(3,300)	30.78
Non-vested, June 30, 2009	736,150	30.04

*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 four years and six years, respectively, provided annual performance goals established by the Compensation Committee of Westwood's board of directors are met. In each year during the applicable vesting period, the Compensation Committee will establish a specific goal for that year's vesting of the restricted shares, which will be based in all cases upon Westwood's adjusted pre-tax income, as defined. In January 2009, the Compensation Committee



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established the goal for 2009 as adjusted pre-tax income of at least \$12,075,000, representing a compound annual growth rate of 7% over the adjusted pre-tax income for the year 2004. If in any year during the vesting period the performance goal is not met, the Compensation Committee may establish a goal for a subsequent vesting period, which if achieved or exceeded may result in full or partial vesting of the shares that did not otherwise become vested in a prior year. However, in no event will the maximum number of shares, which may become vested over the vesting period, exceed 100,000 shares in the case of our Chief Executive Officer and 300,000 shares

Table of Contents

## WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

in the case of our Chief Investment Officer. If a portion of the performance-based restricted shares do not vest, no compensation expense is recognized for that portion and any previously recognized compensation expense related to the shares that do not vest would be reversed.

	Shares	Weighted Average Grant Date Fair Value
<b>Restricted shares subject to service and performance conditions:</b>		
Non-vested, January 1, 2009	175,000	\$ 18.81
Granted		
Vested		
Forfeited		
Non-vested, June 30, 2009	175,000	18.81

Because the performance goal was met in 2008, the shares subject to vesting were vested in substance, but required certification by the Compensation Committee, at which time a share price was determined for tax purposes. On February 25, 2009, the 2008 shares, which were expensed in 2008, were certified as vested and the total fair value of the shares was determined to be \$2,797,000, utilizing a share price of \$37.29, the closing price of our common stock as of the day of certification. In the second quarters of 2009 and 2008, 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 awarded to our Chief Executive Officer and Chief Investment Officer to vest in each year. As a result, we recognized expense of approximately \$470,000 in both the current and prior year second quarters related to these performance-based restricted stock grants.

**Stock Options**

Options granted under the Plan have a maximum ten-year term and vested over a period of four years. All of our stock options are vested and exercisable. All of our options became fully expensed in 2006. The following table sets forth the summary of option activity under our stock option program for the six months ended June 30, 2009:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Options outstanding, January 1, 2009	57,400	\$ 12.93		
Granted				
Exercised				
Forfeited/expired				
Options outstanding, June 30, 2009	57,400	12.93	3.00	\$ 1,658,000

There were no options exercised during the six months ended June 30, 2009. The total intrinsic value of options exercised during the six months ended June 30, 2008 was \$83,000. Options exercised represent newly issued shares.

**6. SUBSEQUENT EVENTS**

There were no subsequent events to report between June 30, 2009, the date of these financial statements, and July 23, 2009, the date these financial statements were available to be issued and were issued.

**Table of Contents****WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****7. SEGMENT REPORTING:**

We operate two segments: the Westwood Management segment and the Westwood Trust segment. These segments are managed separately based on 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. The entity 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 the expense for stock based compensation.

**Westwood Management**

Westwood Management provides investment advisory services to corporate retirement plans, public retirement plans, endowments, foundations and the family of mutual funds for which Westwood Management serves as advisor ( WHG Funds ), as well as investment subadvisory services to mutual funds and clients of Westwood Trust.

**Westwood Trust**

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

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

	Westwood Management	Westwood Trust	Westwood Holdings (in thousands)	Eliminations	Consolidated
<b>Three months ended June 30, 2009</b>					
Net revenues from external sources	\$ 7,666	\$ 2,306	\$	\$	\$ 9,972
Net intersegment revenues	758	3		(761)	
Income before income taxes	4,314	429	(2,239)		2,504
Segment assets	37,377	4,272	5,115		46,764
Segment goodwill	1,790	512			2,302
<b>Three months ended June 30, 2008</b>					
Net revenues from external sources	\$ 6,956	\$ 2,695	\$	\$	\$ 9,651
Net intersegment revenues	948	2		(950)	
Income before income taxes	3,944	596	(1,942)		2,598
Segment assets	31,023	4,531	3,673		39,227
Segment goodwill	1,790	512			2,302
	Westwood Management	Westwood Trust	Westwood Holdings (in thousands)	Eliminations	Consolidated
<b>Six months ended June 30, 2009</b>					
Net revenues from external sources	\$ 13,461	\$ 4,728	\$	\$	\$ 18,189
Net intersegment revenues	1,597	6		(1,603)	
Income before income taxes	7,219	936	(3,722)		4,433

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Six months ended June 30, 2008

Net revenues from external sources	\$ 13,307	\$ 5,471	\$	\$	\$ 18,778
Net intersegment revenues	1,954	4		(1,958)	
Income before income taxes	7,493	1,269	(3,151)		5,611

11

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**Forward-Looking Statements**

Statements in this report that are not purely historical facts, including statements about our expected future financial position, results of operations or cash flows, as well as other statements including words such as anticipate, believe, plan, estimate, expect, intend, should, goal, target, designed, on track, comfortable with, optimistic and other similar expressions, constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results and the timing of some events could differ materially from those projected in or contemplated by the forward-looking statements due to a number of factors, including, without limitation, the risks described under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC, and those set forth below:

our ability to identify and successfully 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 successfully develop and market new asset classes;

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

our ability to realize potential performance-based advisory fees;

competition in the marketplace;

downturn in the financial markets;

the passage of 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

the other risks 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 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.

### **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, a family of mutual funds, which we call the WHG Funds, other mutual funds 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., when measured over multi-year periods ten years and longer, our principal asset classes rank above the median in performance within their peer groups. Percentages stated in this section are rounded to the nearest whole percent.

**Table of Contents****Revenues**

We derive our revenues from investment advisory fees, trust fees, and other revenues. Our advisory fees are generated by Westwood Management, which manages its clients' 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 the assets under management on the last day of the preceding quarter, quarterly in arrears based on the 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 performance-based fee component in their contract, which would pay us an additional fee 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 period. Since most of our advance paying clients' billing periods coincide with the calendar quarter to which payment relates, the revenue related to those clients is fully recognized within the quarter; consequently, there is not a significant amount of deferred revenue contained in our financial statements.

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, which in turn is influenced by the complexity of the operations of the trust and the services provided. 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 the majority of Westwood Trusts' advance paying clients' billing periods coincide with the calendar quarter to which payment relates, the revenue related to those clients is fully recognized within the quarter; consequently, there is not a significant amount of deferred revenue contained in our financial statements.

Our other revenues generally consist of unrealized gains and losses on our investments and interest and investment income. We invest most of our cash in U.S. Treasury Bills, although we also invest smaller amounts in money market funds and equity instruments.

**Assets Under Management**

Assets under management increased \$456 million to \$8.2 billion at June 30, 2009, compared with \$7.7 billion at June 30, 2008. The average of beginning and ending assets under management for the second quarter of 2009 were \$7.7 billion compared to \$7.6 billion for the second quarter of 2008, an increase of 1%. The increase in period ending assets under management was principally due to asset inflows from new and existing clients and was partially offset by market depreciation of assets under management and the withdrawal of assets by certain clients. The following table sets forth Westwood Management's and Westwood Trust's assets under management as of June 30, 2009 and 2008:

	As of June 30, (in millions)		% Change
	2009	2008	June 30, 2009 vs. June 30, 2008
<b>Westwood Management</b>			
Separate Accounts	\$ 3,886	\$ 3,725	4%
Subadvisory	1,593	1,068	49
WHG Funds	372	319	17
Westwood Funds	279	357	(22)
Managed Accounts	392	493	(21)
<b>Total</b>	<b>6,522</b>	<b>5,962</b>	<b>9</b>
<b>Westwood Trust</b>			
Commingled Funds	1,258	1,395	(10)
Private Accounts	333	304	10
Agency/Custody Accounts	90	86	5
<b>Total</b>	<b>1,681</b>	<b>1,785</b>	<b>(6)</b>
<b>Total Assets Under Management</b>	<b>\$ 8,203</b>	<b>\$ 7,747</b>	<b>6%</b>





**Table of Contents**

*Westwood Management.* In the preceding table, Separate Accounts represent corporate pension and profit sharing plans, public employee retirement accounts, Taft Hartley plans, endowments, foundations and individuals. Subadvisory represents relationships where Westwood Management provides investment management services for funds offered by other financial institutions. WHG Funds represent the family of mutual funds for which Westwood Management serves as advisor. Westwood Funds represent the family of mutual funds for which Westwood Management serves as subadvisor. Managed Accounts represent relationships with brokerage firms and other registered investment advisors who offer Westwood Management's products to their customers.

*Westwood Trust.* In the preceding table, Commingled Funds represent funds that have been established to facilitate investment of fiduciary funds of multiple clients by combining assets into a single trust for taxable and tax-exempt entities. Private Accounts represent discretionary accounts where Westwood Trust acts as trustee or agent and has full investment discretion. Agency/Custody Accounts represent non-discretionary accounts in which Westwood Trust provides agent or custodial services, but does not act in an advisory capacity. For certain assets in this category, Westwood Trust provides limited custody services for a minimal or zero fee, but views these assets as potentially converting to fee-generating managed assets. As an example, some assets in this category consist of low-basis stock that is being held in custody for clients, but may transfer to fee-generating managed assets during an inter-generational transfer of wealth at some future date.

**Results of Operations**

The following table (dollars in thousands) and discussion of our results of operations for the three and six months ended June 30, 2009 is based upon data derived from the consolidated statements of income contained in our consolidated financial statements and should be read in conjunction with these statements, which are included elsewhere in this quarterly report.

	Three months ended		Six months ended		% Change	
	June 30, 2009	2008	June 30, 2009	2008	Three months ended June 30, 2009 vs. June 30, 2008	Six months ended June 30, 2009 vs. June 30, 2008
<b>Revenues</b>						
Advisory fees						
Asset-based	\$ 7,215	\$ 6,606	\$ 13,345	\$ 12,996	9%	3%
Performance-based		80		80	(100)	(100)
Trust fees	2,303	2,677	4,724	5,425	(14)	(13)
Other revenues	454	288	120	277	58	(57)
<b>Total revenues</b>	<b>9,972</b>	<b>9,651</b>	<b>18,189</b>	<b>18,778</b>	<b>3</b>	<b>(3)</b>
<b>Expenses</b>						
Employee compensation and benefits	5,890	5,352	10,584	10,014	10	6
Sales and marketing	164	195	294	332	(16)	(11)
WHG mutual funds	103	106	280	141	(3)	99
Information technology	306	266	616	527	15	17
Professional services	359	439	754	887	(18)	(15)
General and administrative	646	695	1,228	1,266	(7)	(3)
<b>Total expenses</b>	<b>7,468</b>	<b>7,053</b>	<b>13,756</b>	<b>13,167</b>	<b>6</b>	<b>4</b>
Income before income taxes	2,504	2,598	4,433	5,611	(4)	(21)
Provision for income taxes	874	867	1,573	1,925	1	(18)
<b>Net income</b>	<b>\$ 1,630</b>	<b>\$ 1,731</b>	<b>\$ 2,860</b>	<b>\$ 3,686</b>	<b>(6)%</b>	<b>(22)%</b>

*Three months ended June 30, 2009 compared to three months ended June 30, 2008*

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*Total Revenues.* Our total revenues increased by 3% to \$10.0 million for the three months ended June 30, 2009 compared with \$9.7 million for the three months ended June 30, 2008. Asset-based advisory fees increased by 9% to \$7.2 million for the three months ended June 30, 2009 compared with \$6.6 million for the three months ended June 30, 2008, as a result of increased average assets under management by Westwood Management due to inflows from new and existing clients, which was partially offset by the market depreciation of assets and the withdrawal of assets by certain clients. Trust fees decreased by 14% to \$2.3 million for the three months ended June 30, 2009 compared with \$2.7 million for the three months ended June 30, 2008, as a result of decreased average assets under management by Westwood Trust due to market depreciation of assets and the withdrawal of assets by certain clients. Inflows from new clients partially offset these decreases. Other revenues, which generally consist of interest and

**Table of Contents**

investment income, increased by 58% to \$454,000 for the three months ended June 30, 2009 compared with \$288,000 for the three months ended June 30, 2008. Other revenues are presented net and increased primarily due to an increase of \$317,000 in net realized and unrealized gains on investments, which was partially offset by a decrease of \$151,000 in interest and dividend income due to lower interest rates, a shift into lower yielding U.S. Treasury Bills and lower dividends from Teton Advisors.

*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 10% to \$5.9 million for the three months ended June 30, 2009 compared with \$5.4 million for the three months ended June 30, 2008. The increase was primarily due to increases of \$297,000 in restricted stock expense due to additional employee restricted stock grants in February 2009, as well as the higher price at which these shares were granted compared to prior grants, \$170,000 in salary expense due primarily to increased headcount and \$72,000 in incentive compensation expense. In the second quarters of 2009 and 2008, 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 awarded to our Chief Executive Officer and Chief Investment Officer to vest in each year. As a result, we recognized expense of approximately \$470,000 in both the current and prior year second quarters related to these performance-based restricted stock grants. We expect to recognize a similar amount in the third and fourth quarters of 2009 related to these performance-based restricted stock grants. We had 63 full-time employees as of June 30, 2009 compared to 57 full-time employees as of June 30, 2008.

*Sales and Marketing.* Sales and marketing costs generally consist of costs associated with our marketing efforts, including travel and entertainment, direct marketing and advertising costs. Sales and marketing costs decreased by 16% to \$164,000 for the three months ended June 30, 2009 compared with \$195,000 for the three months ended June 30, 2008. The decrease is primarily the result of decreased travel and direct marketing expense, partially offset by increased entertainment expenses.

*WHG Mutual Funds.* WHG Mutual Funds expenses generally consist of costs associated with our marketing, distribution and administration efforts related to the WHG Funds. WHG Mutual Funds expenses decreased by 3% to \$103,000 for the three months ended June 30, 2009 compared with \$106,000 for the three months ended June 30, 2008 due to decreased shareholder servicing fees, which was partially offset by increased legal costs related to a planned mutual fund acquisition. We have entered into an asset purchase agreement with Baxter Financial Corporation, the investment advisor to the Philadelphia Fund (PHILX), that would result in Westwood acquiring substantially all of the assets of Baxter related to its management of the Philadelphia Fund. The asset purchase agreement is subject to certain customary closing conditions. In connection with this acquisition, the Philadelphia Fund would be reorganized into the WHG LargeCap Value Fund (WHGLX), a mutual fund advised by Westwood. The related agreement and plan of reorganization has been approved by both funds' boards and is subject to approval by shareholders of the Philadelphia Fund and other closing conditions. Currently it is anticipated that the reorganization agreement will be submitted to Philadelphia Fund shareholders for their approval at a special meeting during the third or fourth quarter of 2009. As of June 30, 2009 the Philadelphia Fund had net assets of approximately \$50 million and the WHG LargeCap Value Fund had net assets of approximately \$109 million.

*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 15% to \$306,000 for the three months ended June 30, 2009 compared with \$266,000 for the three months ended June 30, 2008. The increase is primarily due to increased expenses for support services, data fees, software and research.

*Professional Services.* Professional services expenses generally consist of costs associated with subadvisory fees, audit, legal and other professional services. Professional services expenses decreased by 18% to \$359,000 for the three months ended June 30, 2009 compared with \$439,000 for the three months ended June 30, 2008. The decrease is primarily due to lower advisory fees paid to external subadvisors due to decreased average assets under management in international equity and decreased fees related to growth common trust funds sponsored by Westwood Trust. Increase in legal expenses and other professional expenses 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 decreased by 7% to \$646,000 for the three

**Table of Contents**

months ended June 30, 2009 compared with \$695,000 for the three months ended June 30, 2008. The decrease is primarily due to decreases in miscellaneous expenses and occupancy expense. These decreases were partially offset by increases in insurance expense and custody expense.

*Provision for Income Tax Expense.* Provision for income tax expenses increased by 1% to \$874,000 for the three months ended June 30, 2009 compared with \$867,000 for the three months ended June 30, 2008. The effective tax rate was 34.9% for the three months ended June 30, 2009 compared to 33.4% for the three months ended June 30, 2008.

***Six months ended June 30, 2009 compared to six months ended June 30, 2008***

*Total Revenues.* Our total revenues decreased by 3% to \$18.2 million for the six months ended June 30, 2009 compared with \$18.8 million for the six months ended June 30, 2008. Asset-based advisory fees increased by 3% to \$13.3 million for the six months ended June 30, 2009 compared with \$13.0 million for the six months ended June 30, 2008, as a result of increased average assets under management by Westwood Management due to inflows from new and existing clients, which was partially offset by the market depreciation of assets and the withdrawal of assets by certain clients. Trust fees decreased by 13% to \$4.7 million for the six months ended June 30, 2009 compared with \$5.4 million for the six months ended June 30, 2008, as a result of decreased average assets under management by Westwood Trust due to market depreciation of assets and the withdrawal of assets by certain clients. Inflows from new clients partially offset these decreases. Other revenues decreased by 57% to \$120,000 for the six months ended June 30, 2009 compared with \$277,000 for the six months ended June 30, 2008. Other revenues decreased primarily due to a decrease of \$266,000 in interest and dividend income due to lower interest rates, a shift into lower yielding U.S. Treasury Bills and lower dividends from Teton Advisors, which was partially offset by a decrease in net realized and unrealized losses on investments of \$109,000.

*Employee Compensation and Benefits.* Employee compensation and benefits costs increased by 6% to \$10.6 million for the six months ended June 30, 2009 compared with \$10.0 million for the six months ended June 30, 2008. The increase is primarily due to increases of \$571,000 in restricted stock expense due to additional employee restricted stock grants in February 2009, as well as the higher price at which these shares were granted compared to prior grants, \$357,000 in salary expense due primarily to increased headcount and \$35,000 in health insurance expense. These increases were offset by decreased incentive compensation expense due to lower pretax income and decreased profit sharing expense. We had 63 full-time employees as of June 30, 2009 compared to 57 full-time employees as of June 30, 2008.

*Sales and Marketing.* Sales and marketing costs decreased by 11% to \$294,000 for the six months ended June 30, 2009 compared with \$332,000 for the six months ended June 30, 2008. The decrease is primarily the result of decreased direct marketing, travel and advertising expenses.

*WHG Mutual Funds.* WHG Mutual Funds expenses increased by 99% to \$280,000 for the six months ended June 30, 2009 compared with \$141,000 for the six months ended June 30, 2008 due to legal costs related to the asset purchase agreement with Baxter Financial and planned reorganization of the Philadelphia Fund into the WHG LargeCap Value Fund.

*Information Technology.* Information technology costs increased by 17% to \$616,000 for the six months ended June 30, 2009 compared with \$527,000 for the six months ended June 30, 2008. The increase is primarily due to increased expenses for support services, data fees and software.

*Professional Services.* Professional services expenses decreased by 15% to \$754,000 for the six months ended June 30, 2009 compared with \$887,000 for the six months ended June 30, 2008. The decrease is primarily due to lower advisory fees paid to external subadvisors due to decreased average assets under management in international equity and decreased fees related to growth common trust funds sponsored by Westwood Trust. Increased legal expenses partially offset these decreases.

*General and Administrative.* General and administrative expenses decreased by 3% to \$1,228,000 for the six months ended June 30, 2009 compared with \$1,266,000 for the six months ended June 30, 2008. The decrease is primarily due to decreases in miscellaneous expenses, occupancy expense and office supplies expense. These decreases were partially offset by increases in insurance expense and custody expense.

**Table of Contents**

*Provision for Income Tax Expense.* Provision for income tax expenses decreased by 18% to \$1,573,000 for the six months ended June 30, 2009 compared with \$1,925,000 for the six months ended June 30, 2008 as a result of decreased income. The effective tax rate was 35.5% for the six months ended June 30, 2009 compared to 34.3% for the six months ended June 30, 2008.

**Supplemental Financial Information**

As supplemental information, we are providing non-generally accepted accounting principles ( non-GAAP ) performance measures that we refer to as cash earnings and cash 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. Management and our board of directors review cash earnings and cash 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 both management and investors to evaluate 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 cash earnings, we add to net income the non-cash expense associated with equity-based compensation awards of restricted stock and stock options. We define cash expenses as total expenses less non-cash equity-based compensation expense. Although depreciation on fixed assets is a non-cash expense, we do not add it back when calculating cash earnings or deduct it when calculating cash expenses because depreciation charges represent a decline in the value of the related assets that will ultimately require replacement. In addition, we do not adjust cash earnings for tax deductions related to restricted stock expense.

Our cash earnings increased by 5% to \$3.9 million for the three months ended June 30, 2009 compared with \$3.7 million for the three months ended June 30, 2008 primarily due to an increase in total revenues. For the six months ended June 30, 2009, cash earnings decreased by 4% to \$6.6 million compared with \$6.8 million for the six months ended June 30, 2008 primarily due to a decrease in total revenues.

The following tables provide a reconciliation of net income to cash earnings and total expenses to cash expenses (in thousands):

	<b>Three Months Ended</b>		<b>% Change</b>
	<b>June 30</b>		
	<b>2009</b>	<b>2008</b>	
Net Income	\$ 1,630	\$ 1,731	(6)%
Add: Restricted stock expense	2,239	1,942	15
<b>Cash earnings</b>	<b>\$ 3,869</b>	<b>\$ 3,673</b>	<b>5</b>
Total expenses	\$ 7,468	\$ 7,053	6
Less: Restricted stock expense	(2,239)	(1,942)	15
<b>Cash expenses</b>	<b>\$ 5,229</b>	<b>\$ 5,111</b>	<b>2%</b>

	<b>Six Months Ended</b>		<b>% Change</b>
	<b>June 30</b>		
	<b>2009</b>	<b>2008</b>	
Net Income	\$ 2,860	\$ 3,686	(22)%
Add: Restricted stock expense	3,722	3,151	18
<b>Cash earnings</b>	<b>\$ 6,582</b>	<b>\$ 6,837</b>	<b>(4)</b>
Total expenses	\$ 13,756	\$ 13,167	4
Less: Restricted stock expense	(3,722)	(3,151)	18
<b>Cash expenses</b>	<b>\$ 10,034</b>	<b>\$ 10,016</b>	<b>0%</b>



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## **Table of Contents**

### **Liquidity and Capital Resources**

We fund our operations and cash requirements with cash generated from operating activities. As of June 30, 2009, we had no long-term debt. The changes in net cash provided by operating activities generally reflect the changes in earnings plus the effect 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 six months ended June 30, 2009, cash flow provided by operating activities, principally our investment advisory business, was \$8.9 million. The cash we generated from operations was supplemented by collections of receivables and the net sales of trading securities, which were partially offset by incentive compensation payments. At June 30, 2009, we had working capital of \$37.8 million. Cash flow used in investing activities during the six months ended June 30, 2009 of \$2.6 million was related to net purchases of investments and purchases of fixed assets. Cash flow used in financing activities during the six months ended June 30, 2009 of \$4.6 million was due to cash dividends paid to our stockholders and the purchase of treasury shares. Those cash uses were partially offset by tax benefits from stock-based compensation.

We had cash and investments of \$34.9 million as of June 30, 2009 and \$31.7 million as of December 31, 2008. Dividends payable were \$2.1 million as of June 30, 2009 and December 31, 2008, respectively. We had no liabilities for borrowed money at June 30, 2009.

Our future liquidity and capital requirements will depend upon numerous factors, including our results of operations, the timing and magnitude of capital expenditures and strategic initiatives (if any) and our dividend policy. 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. Our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary. 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, 2008.

### **Recent Accounting Pronouncements**

In December 2007, the FASB amended SFAS No. 141 (revised 2007), *Business Combinations* ( SFAS 141R ). SFAS 141R establishes principles and requirements for how an acquirer: (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (2) recognizes and measures the goodwill acquired in the business combination or gain from a bargain purchase; and (3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first reporting period for fiscal years beginning on or after December 15, 2008 and will have no impact on our transactions recorded to date.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* ( SFAS 165 ). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. SFAS is effective for the quarter just ended and did not have an impact on our financial statements.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* ( FSP 107-1 ). FSP 107-1 amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements to improve the transparency and quality of financial reporting. FSP 107-1 also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. FSP 107-1 is effective for the quarter just ended and did not have a material impact on our financial statements.



## **Table of Contents**

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* ( FSP 157-4 ). FSP 157-4 provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, *Fair Value Measurements*, when the volume and level of activity for the asset or liability have significantly decreased along with providing guidance on identifying circumstances that indicate a transaction is not orderly. FSP 157-4 is effective for the quarter just ended and did not have a material impact on our financial statements.

### **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, 2008.

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

We utilize various financial instruments, which entail certain inherent market risks. We do not currently participate in any hedging activities, nor do we currently utilize any derivative financial instruments. The following information describes the key aspects of certain financial instruments that have market risks.

#### **Interest Rates and Securities Markets**

Our cash equivalents and other investment instruments are exposed to financial market risk due to fluctuation in interest rates, which may affect our interest income. These instruments are not entered into for speculative trading purposes. We do not expect our interest income to be significantly affected by a sudden change in market interest rates.

The value of our assets under management is affected by changes in interest rates and fluctuations in securities markets. Since we derive a substantial portion of our revenues from investment advisory and trust fees based on the value of assets under management, our revenues may be adversely affected by changing interest rates or a decline in the prices of securities generally.

### **ITEM 4. CONTROLS AND PROCEDURES**

Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us 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. 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 quarter just completed, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us 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 Securities and Exchange Commission's rules and forms.

For the quarter just completed, there were no changes in our internal control 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 these proceedings will have a material impact on our financial position, operations or cash flow.

**ITEM 1A. RISK FACTORS**

We face a number of significant risks and uncertainties in our business, which are detailed under **Risk Factors** in our Annual Report on Form 10-K for the year ended December 31, 2008 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The Annual Meeting of Stockholders of Westwood Holdings Group, Inc. was held on April 21, 2009 in Dallas, Texas, for the purpose of considering and acting upon the following:

- (a) Election of directors. The stockholders elected the following directors to hold office until the next annual meeting or until their respective successors shall have been duly elected and qualified.

<b>Nominee</b>	<b>For</b>	<b>Withheld</b>
Susan M. Byrne	6,838,887	41,750
Brian O. Casey	6,849,130	31,507
Tom C. Davis	6,845,601	35,036
Richard M. Frank	6,026,542	854,095
Robert D. McTeer	6,847,097	33,540
Frederick R. Meyer	6,025,454	855,183
Jon L. Mosle, Jr.	6,826,268	54,369
Geoffrey Norman	6,025,881	854,756
Raymond E. Wooldridge	6,027,695	852,942

- (b) The ratification of Grant Thornton LLP as our independent auditors for the year ending December 31, 2009.

<b>For</b>	<b>Against</b>	<b>Abstain</b>
6,876,293	3,566	777

- (c) Approval of Amendments to the Third Amended and Restated Westwood Holdings Group, Inc. Stock Incentive Plan.

<b>For</b>	<b>Against</b>	<b>Abstain</b>
5,225,663	1,282,007	3,222

**ITEM 6. EXHIBITS**

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

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

**Table of Contents**

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: July 23, 2009

WESTWOOD HOLDINGS GROUP, INC.

By: /s/ Brian O. Casey  
Brian O. Casey  
Chief Executive Officer

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

21