

WESTWOOD HOLDINGS GROUP INC  
Form 10-Q  
July 20, 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 June 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)

**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)

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(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 July 19, 2011: 7,781,779.

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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 June 30, 2011 and December 31, 2010

(in thousands, except par value and share amounts)

	June 30, 2011 (unaudited)	December 31, 2010
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 5,174	\$ 1,744
Accounts receivable	9,336	7,348
Investments, at fair value	44,760	43,300
Deferred income taxes	2,315	2,757
Prepaid income taxes	1,122	
Other current assets	1,085	733
<b>Total current assets</b>	<b>63,792</b>	<b>55,882</b>
Goodwill	11,338	11,281
Intangible assets, net	4,869	5,119
Property and equipment, net of accumulated depreciation of \$1,643 and \$1,542	719	346
<b>Total assets</b>	<b>\$ 80,718</b>	<b>\$ 72,628</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 1,712	\$ 1,290
Dividends payable	2,650	
Compensation and benefits payable	7,338	9,369
Income taxes payable		173
Deferred acquisition liability	939	899
Other current liabilities	14	13
<b>Total current liabilities</b>	<b>12,653</b>	<b>11,744</b>
Deferred income taxes	1,212	117
Dividends payable	148	
Deferred rent	171	90
<b>Total long-term liabilities</b>	<b>1,531</b>	<b>207</b>
<b>Total liabilities</b>	<b>14,184</b>	<b>11,951</b>
Stockholders Equity:		
	81	79

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Common stock, \$0.01 par value, authorized 25,000,000 shares, issued 8,089,068 and outstanding 7,789,039 shares at June 30, 2011; issued 7,874,873 and outstanding 7,645,678 shares at December 31, 2010		
Additional paid-in capital	71,564	65,639
Treasury stock, at cost 300,029 shares at June 30, 2011; 229,195 shares at December 31, 2010	(11,367)	(8,749)
Accumulated other comprehensive income, net of deferred taxes	1,633	926
Retained earnings	4,623	2,782
Total stockholders' equity	66,534	60,677
Total liabilities and stockholders' equity	\$ 80,718	\$ 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 June 30,		Six months ended June 30,	
	2011	2010	2011	2010
<b>REVENUES:</b>				
Advisory fees				
Asset-based	\$ 14,334	\$ 10,220	\$ 27,658	\$ 20,300
Performance-based	991		991	
Trust fees	3,472	3,107	6,829	6,116
Other revenues, net	62	(133)	390	(6)
<b>Total revenues</b>	<b>18,859</b>	<b>13,194</b>	<b>35,868</b>	<b>26,410</b>
<b>EXPENSES:</b>				
Employee compensation and benefits	10,134	7,355	18,789	14,151
Sales and marketing	247	255	445	388
WHG mutual funds	233	118	489	261
Information technology	542	322	1,000	649
Professional services	793	527	1,728	1,099
General and administrative	994	677	1,882	1,369
<b>Total expenses</b>	<b>12,943</b>	<b>9,254</b>	<b>24,333</b>	<b>17,917</b>
Income before income taxes	5,916	3,940	11,535	8,493
Provision for income taxes	2,179	1,447	4,249	3,067
<b>Net income</b>	<b>\$ 3,737</b>	<b>\$ 2,493</b>	<b>\$ 7,286</b>	<b>\$ 5,426</b>
<b>Earnings per share:</b>				
Basic	\$ 0.53	\$ 0.34	\$ 1.05	\$ 0.74
Diluted	\$ 0.52	\$ 0.34	\$ 1.01	\$ 0.74
Dividends declared per share	\$ 0.35	\$ 0.33	\$ 0.70	\$ 0.66

See notes to interim consolidated financial statements.

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

**For the Six Months Ended June 30, 2011**

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

**(unaudited)**

	Accumulated						
	Westwood Holdings Group, Inc.		Additional		Other		
	Common Stock, Par Shares	Amount	Paid-In Capital	Treasury Stock	Comprehensive Income	Retained Earnings	Total
BALANCE, January 1, 2011	7,645,678	\$ 79	\$ 65,639	\$ (8,749)	\$ 926	\$ 2,782	\$ 60,677
Net income						7,286	7,286
Other comprehensive income — unrealized gain on investment securities, net of \$381 in taxes					707		707
Comprehensive income							7,993
Issuance of restricted stock, net	211,095	2	(2)				
Dividends declared						(5,445)	(5,445)
Restricted stock amortization			5,192				5,192
Tax benefit related to equity compensation			695				695
Stock options exercised	3,100		40				40
Purchase of treasury stock	(70,834)			(2,618)			(2,618)
BALANCE, June 30, 2011	7,789,039	\$ 81	\$ 71,564	\$ (11,367)	\$ 1,633	\$ 4,623	\$ 66,534

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>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 7,286	\$ 5,426
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	130	142
Amortization of intangible assets	250	52
Fair value adjustment of deferred acquisition liabilities	40	46
Unrealized gains and losses on trading investments	(213)	87
Restricted stock amortization	5,192	4,540
Deferred income taxes	1,157	78
Excess tax benefits from stock based compensation	(558)	(701)
Net purchases of investments trading securities	(160)	(26)
Change in operating assets and liabilities:		
Accounts receivable	(1,988)	590
Other current assets	(381)	(27)
Accounts payable and accrued liabilities	420	124
Compensation and benefits payable	(2,031)	(1,285)
Income taxes payable and prepaid income taxes	(600)	(417)
Other liabilities	127	(35)
Net cash provided by operating activities	8,671	8,594
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of available for sale investments		(24,626)
Sales of available for sale investments		23,790
Purchase of property and equipment	(576)	(35)
Net cash used in investing activities	(576)	(871)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Purchase of treasury stock	(2,618)	(2,055)
Excess tax benefits from stock based compensation	558	701
Cash dividends	(2,645)	(4,763)
Proceeds from exercise of stock options	40	170
Net cash used in financing activities	(4,665)	(5,947)
<b>NET INCREASE IN CASH</b>		
Cash and cash equivalents, beginning of period	1,744	2,879
Cash and cash equivalents, end of period	\$ 5,174	\$ 4,655



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Supplemental cash flow information:

Cash paid during the period for income taxes	\$ 3,750	\$ 3,406
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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 June 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***

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

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



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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 (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 June 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 June 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 June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Net income	\$ 3,737	\$ 2,493	\$ 7,286	\$ 5,426
Less: Income allocated to participating restricted shares		(274)		(576)
Net income available to common stockholders	\$ 3,737	\$ 2,219	\$ 7,286	\$ 4,850
Weighted average shares outstanding basic	6,987,612	6,547,862	6,962,509	6,533,294
Dilutive potential shares from unvested restricted shares	156,806		179,695	
Dilutive contingently issuable shares	24,658		24,023	
Dilutive potential shares from stock options	17,315	22,108	17,726	23,826
Weighted average shares outstanding diluted	7,186,391	6,569,970	7,183,953	6,557,120
Earnings per share:				
Basic	\$ 0.53	\$ 0.34	\$ 1.05	\$ 0.74
Diluted	\$ 0.52	\$ 0.34	\$ 1.01	\$ 0.74

**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
June 30, 2011:				
U.S. Government obligations	\$ 30,986	\$ 6	\$	\$ 30,992
Funds:				
Money market	5,618			5,618
Equity available for sale		2,512		2,512
Equity trading	4,892	746		5,638
Marketable securities	\$ 41,496	\$ 3,264	\$	\$ 44,760
December 31, 2010:				
U.S. Government obligations	\$ 32,774	\$ 11	\$	\$ 32,785

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Funds:				
Money market	3,795			3,795
Equity available for sale		1,425		1,425
Equity trading	4,767	533	(5)	5,295
 Marketable securities	 \$ 41,336	 \$ 1,969	 \$ (5)	 \$ 43,300

### 5. FAIR VALUE MEASUREMENTS

We determined estimated fair values of our financial instruments using available information. The fair value amounts discussed in Notes 4 and 5 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 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 June 30, 2011 of \$16.75 per share less a 25% discount for lack of marketability.

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

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 June 30, 2011				
Investments in securities:				
Trading	\$ 42,248	\$	\$	\$ 42,248
Available for sale			2,512	2,512
<b>Total Financial instruments</b>	<b>\$ 42,248</b>	<b>\$</b>	<b>\$ 2,512</b>	<b>\$ 44,760</b>
As of December 31, 2010				
Investments in securities:				
Trading	\$ 41,875	\$	\$	\$ 41,875
Available for sale			1,425	1,425
<b>Total Financial instruments</b>	<b>\$ 41,875</b>	<b>\$</b>	<b>\$ 1,425</b>	<b>\$ 43,300</b>

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

	Three Months ended		Six Months ended	
	June 30,		June 30,	
Investments in available for sale securities (in thousands)	2011	2010	2011	2010
Beginning balance	\$ 2,250	\$ 1,800	\$ 1,425	\$ 2,399
Unrealized gains/(losses) included in Other Comprehensive Income	262	(450)	1,087	(1,049)