

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
ASSETS		
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
Total current assets	63,792	55,882
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
Total assets	\$ 80,718	\$ 72,628
LIABILITIES AND STOCKHOLDERS EQUITY		
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
Total current liabilities	12,653	11,744
Deferred income taxes	1,212	117
Dividends payable	148	
Deferred rent	171	90
Total long-term liabilities	1,531	207
Total liabilities	14,184	11,951
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		Six months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
REVENUES:				
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)
Total revenues	18,859	13,194	35,868	26,410
EXPENSES:				
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
Total expenses	12,943	9,254	24,333	17,917
Income before income taxes	5,916	3,940	11,535	8,493
Provision for income taxes	2,179	1,447	4,249	3,067
Net income	\$ 3,737	\$ 2,493	\$ 7,286	\$ 5,426
Earnings per share:				
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		Additional		Other		
	Group, Inc.						
	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)

	For the six months ended June 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
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
CASH FLOWS FROM INVESTING ACTIVITIES:		
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)
CASH FLOWS FROM FINANCING ACTIVITIES:		
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)
NET INCREASE IN CASH	3,430	1,776
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
Total Financial instruments	\$ 42,248	\$	\$ 2,512	\$ 44,760
As of December 31, 2010				
Investments in securities:				
Trading	\$ 41,875	\$	\$	\$ 41,875
Available for sale			1,425	1,425
Total Financial instruments	\$ 41,875	\$	\$ 1,425	\$ 43,300

We used level 3 inputs to determine the fair value of our 200,000 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 June 30,		Six Months ended June 30,	
	2011	2010	2011	2010
Investments in available for sale securities (in thousands)				
Beginning balance	\$ 2,250	\$ 1,800	\$ 1,425	\$ 2,399
Unrealized gains/(losses) included in Other Comprehensive Income	262	(450)	1,087	(1,049)

Ending balance	\$ 2,512	\$ 1,350	\$ 2,512	\$ 1,350
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6. OTHER COMPREHENSIVE INCOME

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

	Three Months ended June 30,		Six Months ended June 30,	
	2011	2010	2011	2010
Net income	\$ 3,737	\$ 2,493	\$ 7,286	\$ 5,426
Other comprehensive income (loss), net of tax:				
Change in unrealized gain on available for sale securities	171	(293)	707	(682)
Comprehensive income	\$ 3,908	\$ 2,200	\$ 7,993	\$ 4,744

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

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

	Weighted Average Amortization Period (years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
June 30, 2011				
Client relationships	14.2	\$ 5,005	\$ (319)	\$ 4,686
Trade names	2.0	256	(91)	165
Non-compete agreements	2.3	26	(8)	18
Total		\$ 5,287	\$ (418)	\$ 4,869
December 31, 2010				
Client relationships	14.2	\$ 5,005	\$ (139)	\$ 4,866
Trade names	2.0	256	(27)	229
Non-compete agreements	2.3	26	(2)	24
Total		\$ 5,287	\$ (168)	\$ 5,119

Amortization expense was \$250,000 and \$52,000 for the six months ended June 30, 2011 and 2010, respectively. Estimated amortization expense for the intangible assets for the next five years is as follows (in thousands):

For the Year ending December 31,	Estimated Amortization Expense
2011	\$ 498
2012	472
2013	359
2014	359
2015	359

8. EQUITY

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

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On April 20, 2011, we granted an aggregate of 9,000 shares of restricted stock to non-employee directors. These shares are subject to vesting conditions as described in Note 10. STOCK BASED COMPENSATION .

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

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

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

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

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

9. VARIABLE INTEREST ENTITIES

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

We evaluate all of our advisory relationships and CTFs to determine whether or not we qualify as the primary beneficiary based on whether there is an obligation to absorb the majority of expected losses or a right to receive the majority of residual returns. Since all losses and returns are distributed to the shareholders of the Westwood VIEs, we are not the primary beneficiary and consequently the Westwood VIEs are not included in our consolidated financial statements.

We have not provided any financial support that we were not previously contractually obligated to provide and there are no arrangements that would require us to provide additional financial support to any of the Westwood VIEs. Our investments in the WHG Funds and the CTFs are accounted for as investments in accordance with our other investments described in Note. 4 INVESTMENTS . The following table displays assets under management, corporate money invested and risk of loss in each vehicle (in millions).

	As of June 30, 2011		
	Assets		Risk
	Under Management	Corporate Investment	of Loss
WHG Funds	\$ 1,289	\$ 2.8	\$ 2.8
Common Trust Funds	1,691	2.8	2.8
LLCs	473		
Partnerships	24		
	As of December 31, 2010		
	Assets		Risk
	Under Management	Corporate Investment	of Loss
WHG Funds	\$ 902	\$ 2.7	\$ 2.7
Common Trust Funds	1,631	2.6	2.6
LLCs	443		
Partnerships	27		
McCarthy Multi-Cap Stock Fund	68		

Table of Contents**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****10. STOCK BASED COMPENSATION**

The Plan reserves shares of Westwood common stock for issuance to eligible employees, directors and consultants of Westwood or its subsidiaries in the form of restricted stock and stock options. The total number of shares that may be issued under the Plan (including predecessor plans) may not exceed 3,398,100 shares and at June 30, 2011, approximately 873,000 shares remained available for issuance under the Plan.

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

	Six months ended June 30,	
	2011	2010
Service condition restricted stock expense	\$ 4,024	\$ 3,604
Performance based restricted stock expense	1,168	936
Total stock based compensation expense	\$ 5,192	\$ 4,540

Restricted Stock

Under the Plan, we have granted restricted stock to employees and non-employee directors, which are subject to a service condition, and to our Chief Executive Officer and Chief Investment Officer, which are subject to a service condition and performance goals. As of June 30, 2011, approximately \$20.0 million of remaining unrecognized compensation cost is expected to be recognized over a remaining weighted-average period of 2.3 years. Our two types of restricted stock grants are discussed below.

Employee and non-employee director restricted share grants

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

Restricted shares subject only to a service condition:	Shares	Weighted Average Grant Date Fair Value
Non-vested, January 1, 2011	551,100	\$ 34.83
Granted	220,220	36.64
Vested	(152,400)	32.14
Forfeited	(9,125)	36.35
Non-vested, June 30, 2011	609,795	36.14

CEO and CIO performance based restricted share grants

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

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

Table of Contents**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****11. SEGMENT REPORTING:**

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

Westwood Management

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

Westwood Trust

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

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

	Westwood Management	Westwood Trust	Westwood Holdings (in thousands)	Eliminations	Consolidated
Three months ended June 30, 2011					
Net revenues from external sources	\$ 15,387	\$ 3,472	\$	\$	\$ 18,859
Net intersegment revenues	1,216	4		(1,220)	
Income before income taxes	8,162	563	(2,809)		5,916
Segment assets	65,908	13,546	1,264		80,718
Segment goodwill	5,259	6,079			11,338
Three months ended June 30, 2010					
Net revenues from external sources	\$ 10,087	\$ 3,107	\$	\$	\$ 13,194
Net intersegment revenues	1,048	4		(1,052)	
Income before income taxes	5,895	694	(2,649)		3,940
Segment assets	52,737	3,990	4,562		61,289
Segment goodwill	3,403	512			3,915
Six months ended June 30, 2011					
Net revenues from external sources	\$ 29,038	\$ 6,830	\$	\$	\$ 35,868
Net intersegment revenues	2,392	8		(2,400)	
Income before income taxes	15,783	944	(5,192)		11,535
Six months ended June 30, 2010					
Net revenues from external sources	\$ 20,292	\$ 6,118	\$	\$	\$ 26,410
Net intersegment revenues	2,122	8		(2,130)	
Income before income taxes	11,807	1,226	(4,540)		8,493

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

Forward-Looking Statements

Statements in this report that are not purely historical facts, including statements about our expected future financial position, results of operations or cash flows, as well as other statements including words such as anticipate, believe, plan, estimate, expect, intend, should, goal, target, designed, on track, comfortable with, optimistic and other similar expressions, constitute forward-looking statements within 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, 2010 filed with the SEC, and those set forth below:

our ability to identify and market services that appeal to our customers;

the significant concentration of our revenues in four of our customers;

our relationships with investment consulting firms;

our relationships with current and potential customers;

our ability to retain qualified personnel;

our ability to develop and market new asset classes successfully;

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

competition in the marketplace;

downturns in financial markets;

new legislation adversely affecting the financial services industries;

interest rates;

changes in our effective tax rate;

our ability to maintain an effective system of internal controls; and

other risks as detailed from time to time in our SEC reports.

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

Overview

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

Revenues

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

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

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

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

Assets Under Management

Assets under management increased \$4.2 billion to \$13.8 billion at June 30, 2011, compared with \$9.7 billion at June 30, 2010. The average of beginning and ending assets under management for the second quarter of 2011 was \$13.6 billion compared to \$10.1 billion for the first quarter of 2010, an increase of 34%.

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

	As of June 30, (in millions)		% Change
	2011	2010	June 30, 2011 vs. June 30, 2010
Institutional	\$ 9,357	\$ 7,220	30%
Private Wealth	3,203	1,787	79
Mutual Funds	1,288	652	98
Total Assets Under Management	\$ 13,848	\$ 9,659	43%

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

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

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

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

(\$ millions)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
<i>Institutional</i>				
Beginning of period assets	\$ 8,833	\$ 8,000	\$ 8,359	\$ 7,599
Inflows	917	334	1,151	781
Outflows	(345)	(182)	(649)	(720)
Net flows	572	152	502	61
Market appreciation/(depreciation)	(54)	932	490	(440)
Net change	518	(780)	992	(379)
End of period assets	9,351	7,220	9,351	7,220
<i>Private Wealth</i>				
Beginning of period assets	3,256	1,979	3,148	2,009
Inflows	37	15	112	42
Outflows	(111)	(33)	(246)	(171)
Net flows	(76)	(18)	(135)	(129)
Market appreciation/(depreciation)	23	(174)	190	(93)
Net change	(53)	(192)	55	(222)
End of period assets	3,203	1,787	3,203	1,787
<i>Mutual Funds</i>				
Beginning of period assets	1,194	652	970	566
Inflows	144	98	348	194
Outflows	(53)	(40)	(93)	(80)
Net flows	91	58	255	114
Market appreciation/(depreciation)	4	(58)	64	(28)
Net change	95		319	86
End of period assets	1,289	652	1,289	652
<i>Total</i>				
Beginning of period assets	13,283	10,631	12,477	10,174
Inflows	1,096	447	1,611	1,017
Outflows	(509)	(255)	(988)	(971)
Net flows	587	192	622	46
Market appreciation/(depreciation)	(27)	(1,164)	744	(561)
Net change	560	(972)	1,366	(515)
End of period assets	\$ 13,843	\$ 9,659	\$ 13,843	\$ 9,659

Three months ended June 30, 2011 and 2010

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The \$560 million increase in assets under management for the three months ended June 30, 2011 was due to inflows of \$1.1 billion, partially offset by outflows of \$509 million and market depreciation of \$27 million. Inflows were driven primarily by additional inflows into institutional separate accounts and the WHG Funds. Outflows were primarily related to account closings and outflows from institutional separate account, subadvisory and private wealth clients.

The \$972 million decrease in assets under management for the three months ended June 30, 2010 was due to market depreciation of \$1.2 billion, outflows of \$255 million, partially offset by inflows of \$447 million. Inflows were driven primarily by additional inflows into subadvisory mandates and the WHG Funds. Outflows were primarily related to outflows from institutional separate account clients.

Table of Contents**Six months ended June 30, 2011 and 2010**

The \$1.4 billion increase in assets under management for the six months ended June 30, 2011 was due to inflows of \$1.6 billion and market appreciation of \$744 million, partially offset by outflows of \$988 million. Inflows were driven primarily by additional inflows into institutional separate accounts, the WHG Funds and private wealth accounts. Outflows were primarily related to account closings and outflows from institutional separate account, subadvisory and private wealth clients.

The \$515 million decrease in assets under management for the six months ended June 30, 2010 was due to outflows of \$971 million and market depreciation of \$561 million, partially offset by inflows of \$1.0 billion. Inflows were driven primarily by additional inflows into institutional separate accounts, subadvisory mandates and the WHG Funds. Outflows were primarily related to account closings and outflows from institutional separate account and subadvisory clients.

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, 2011 is based upon data derived from the consolidated statements of income contained in our consolidated financial statements and should be read in conjunction with those statements, included elsewhere in this quarterly report.

	Three months ended		Six months ended		% Change	
	June 30,	June 30,	June 30,	June 30,	June 30, 2011 vs. June 30, 2010	Six months ended June 30, 2011 vs. June 30, 2010
	2011	2010	2011	2010		
Revenues						
Advisory fees						
Asset-based	\$ 14,334	\$ 10,220	\$ 27,658	\$ 20,300	40%	36%
Performance-based	991		991		NM	NM
Trust fees	3,472	3,107	6,829	6,116	12	12
Other revenues	62	(133)	390	(6)	NM	NM
Total revenues	18,859	13,194	35,868	26,410	43	36
Expenses						
Employee compensation and benefits	10,134	7,355	18,789	14,151	38	33
Sales and marketing	247	255	445	388	(3)	15
WHG mutual funds	233	118	489	261	97	87
Information technology	542	322	1,000	649	68	54
Professional services	793	527	1,728	1,099	50	57
General and administrative	994	677	1,882	1,369	47	37
Total expenses	12,943	9,254	24,333	17,917	40	36
Income before income taxes	5,916	3,940	11,535	8,493	50	36
Provision for income taxes	2,179	1,447	4,249	3,067	51	39
Net income	\$ 3,737	\$ 2,493	\$ 7,286	\$ 5,426	50%	34%

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

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Total Revenues. Our total revenues increased by 43% to \$18.9 million for the three months ended June 30, 2011 compared with \$13.2 million for the three months ended June 30, 2010. Asset-based advisory fees increased by 40% to \$14.3 million for the three months ended June 30, 2011 compared with \$10.2 million for the three months ended June 30, 2010 as a result of increased average assets under management by Westwood Management due to market appreciation of assets, assets acquired in the McCarthy acquisition in November 2010, and inflows from new and existing clients, partially offset by the withdrawal of assets by certain clients. We recognized a performance-based advisory fee of \$991,000 for the three months ended June 30, 2011. We did not earn a performance-based advisory fee for the three months ended June 30, 2010. Trust fees increased by 12% to \$3.5 million for the three months ended June 30, 2011 compared with \$3.1 million for the three months ended June 30, 2010 as a result of increased assets under management by Westwood Trust due to market appreciation of assets and inflows from new accounts. Net asset outflows from existing clients partially offset these increases. Other revenues, which generally consist of interest and investment income, increased to \$62,000 for the three months ended June 30, 2011 compared

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with \$(133,000) for the three months ended June 30, 2010. Other revenues are presented net and increased primarily due to an increase of \$156,000 in net unrealized gains on investments and an increase of \$39,000 in realized gains on investments.

Employee Compensation and Benefits. Employee compensation and benefits costs generally consist of salaries, incentive compensation, equity-based compensation expense and benefits. Employee compensation and benefits costs increased by 38% to \$10.1 million for the three months ended June 30, 2011 compared with \$7.4 million for the three months ended June 30, 2010. The increase was primarily due to increases of \$1.9 million in incentive compensation expense as a result of higher pretax income and performance-based incentive compensation related to investment and marketing goals, \$445,000 in salary expense due primarily to increased average headcount and salary increases, \$276,000 in service-based restricted stock expense due to additional grants in February and April 2011, and \$80,000 in 401(k) match expense. These increases were partially offset by a decrease of \$116,000 in performance-based restricted stock expense. In the first quarter of 2011 we concluded that it was probable that we would meet the performance goal required in order for the applicable percentage of the performance-based restricted shares awarded to our Chief Investment Officer and Chief Executive Officer to vest. As a result, we recognized expense of approximately \$584,000 in the first and second quarters of 2011 related to these performance-based restricted stock grants. We had 76 full-time employees as of June 30, 2011 compared to 63 full-time employees as of June 30, 2010.

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 3% to \$247,000 for the three months ended June 30, 2011 compared with \$255,000 for the three months ended June 30, 2010. The decrease is primarily the result of decreased travel and direct marketing expenses partially offset by increased referral fees.

WHG Mutual Funds. WHG Mutual Funds expenses generally consist of costs associated with our marketing, distribution, administration and acquisition efforts related to the WHG Funds. WHG Mutual Funds expenses increased by 97% to \$233,000 for the three months ended June 30, 2011 compared with \$118,000 for the three months ended June 30, 2010 due to increased shareholder servicing and marketing costs.

Information Technology. Information technology expenses are generally costs associated with proprietary investment research tools, maintenance and support, computing hardware, software licenses, telecommunications and other related costs. Information technology costs increased by 68% to \$542,000 for the three months ended June 30, 2011 compared with \$322,000 for the three months ended June 30, 2010. The increase is primarily due to increased expenses for software and software implementation costs related to upgraded client reporting and portfolio accounting systems.

Professional Services. Professional services expenses generally consist of costs associated with subadvisory fees, audit, legal and other professional services. Professional services expenses increased by 50% to \$793,000 for the three months ended June 30, 2011 compared with \$527,000 for the three months ended June 30, 2010. The increase is primarily due to increases of \$163,000 in subadvisor fees related to common trust funds sponsored by Westwood Trust, \$67,000 in professional services related to growth initiatives and \$47,000 in audit fees related to unconsolidated investment vehicles we acquired in 2010. A \$15,000 decrease in legal fees partially offset these increases.

General and Administrative. General and administrative expenses generally consist of costs associated with the lease of our office space, investor relations, licenses and fees, depreciation, insurance, office supplies and other miscellaneous expenses. General and administrative expenses increased by 47% to \$994,000 for the three months ended June 30, 2011 compared with \$677,000 for the three months ended June 30, 2010. The increase is primarily due to increases in amortization expense related to intangible assets acquired in November 2010, rent expense related to an additional office lease acquired in November 2010, directors fees related to a new director compensation plan, moving expenses to an interim office space and investor relations expense.

Provision for Income Tax Expense. Provision for income tax expenses increased by 51% to \$2.2 million for the three months ended June 30, 2011 compared with \$1.4 million for the three months ended June 30, 2010. The effective tax rate increased to 36.8% for the three months ended June 30, 2011 from 36.7% for the three months ended June 30, 2010 primarily due to current year taxable income in a higher federal tax bracket and an additional state tax liability related to an acquisition we made in November 2010.

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Six months ended June 30, 2011 compared to six months ended June 30, 2010

Total Revenues. Our total revenues increased by 36% to \$35.9 million for the six months ended June 30, 2011 compared with \$26.4 million for the six months ended June 30, 2010. Asset-based advisory fees increased by 36% to \$27.7 million for the six months ended June 30, 2011 compared with \$20.3 million for the six months ended June 30, 2010 as a result of increased average assets under management by Westwood Management due to market appreciation of assets, assets acquired in the McCarthy acquisition in November 2010, and inflows from new and existing clients, partially offset by the withdrawal of assets by certain clients. We recognized a performance-based advisory fee of \$991,000 for the six months ended June 30, 2011. We did not earn a performance-based advisory fee for the six months ended June 30, 2010. Trust fees increased by 12% to \$6.8 million for the six months ended June 30, 2011 compared with \$6.1 million for the six months ended June 30, 2010 as a result of increased assets under management by Westwood Trust due to market appreciation of assets and inflows from new accounts. Net asset outflows from existing clients partially offset these increases. Other revenues, which generally consist of interest and investment income, increased to \$390,000 for the six months ended June 30, 2011 compared with \$(6,000) for the six months ended June 30, 2010. Other revenues are presented net and increased primarily due to an increase of \$300,000 in net unrealized gains on investments and an increase of \$94,000 in realized gains on investments.

Employee Compensation and Benefits. Employee compensation and benefits costs increased by 33% to \$18.8 million for the six months ended June 30, 2011 compared with \$14.2 million for the six months ended June 30, 2010. The increase was primarily due to increases of \$2.6 million in incentive compensation expense as a result of higher pretax income and performance-based incentive compensation related to investment and marketing goals, \$885,000 in salary expense due primarily to increased average headcount and salary increases, \$652,000 in restricted stock expense due to increases of \$419,000 of expense related to service-based grants and \$233,000 of expense related to performance-based grants, and \$250,000 in payroll tax expense related to increased salaries and an increase in the number of shares of restricted stock that vested. In the first quarter of 2011 we concluded that it was probable that we would meet the performance goal required in order for the applicable percentage of the performance-based restricted shares awarded to our Chief Investment Officer and Chief Executive Officer to vest. As a result, we recognized expense of approximately \$584,000 in the first and second quarters of 2011 related to these performance-based restricted stock grants. We had 76 full-time employees as of June 30, 2011 compared to 63 full-time employees as of June 30, 2010.

Sales and Marketing. Sales and marketing costs increased by 15% to \$445,000 for the six months ended June 30, 2011 compared with \$388,000 for the six months ended June 30, 2010. The increase is primarily the result of increased referral fees.

WHG Mutual Funds. WHG Mutual Funds expenses increased by 87% to \$489,000 for the six months ended June 30, 2011 compared with \$261,000 for the six months ended June 30, 2010 due to increased legal costs related to the reorganization of the McCarthy Multi-Cap Stock Fund, which was acquired in November 2010, into the WHG Dividend Growth Fund and increased shareholder servicing and marketing costs.

Information Technology. Information technology expenses increased by 54% to \$1.0 million for the six months ended June 30, 2011 compared with \$649,000 for the six months ended June 30, 2010. The increase is primarily due to increased expenses for software and software implementation costs related to upgraded client reporting and portfolio accounting systems.

Professional Services. Professional services expenses increased by 57% to \$1.7 million for the six months ended June 30, 2011 compared with \$1.1 million for the six months ended June 30, 2010. The increase is primarily due to increases of \$246,000 in subadvisor fees related to common trust funds sponsored by Westwood Trust, \$211,000 in professional services related to growth initiatives and \$148,000 in audit fees related to unconsolidated investment vehicles we acquired in 2010.

General and Administrative. General and administrative expenses increased by 37% to \$1.9 million for the six months ended June 30, 2011 compared with \$1.4 million for the six months ended June 30, 2010. The increase

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is primarily due to increases in amortization expense related to intangible assets acquired in November 2010, rent expense related to an additional office lease acquired in November 2010, training and seminar expenses, moving expenses to an interim office space, directors fees related to a new director compensation plan and investor relations expense.

Provision for Income Tax Expense. Provision for income tax expenses increased by 39% to \$4.2 million for the six months ended June 30, 2011 compared with \$3.1 million for the six months ended June 30, 2010. The effective tax rate increased to 36.8% for the six months ended June 30, 2011 from 36.1% for the six months ended June 30, 2010 primarily due to current year taxable income in a higher federal tax bracket and an additional state tax liability related to an acquisition we made in November 2010.

Supplemental Financial Information

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

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

Our Economic Earnings increased by 30% to \$6.7 million for the three months ended June 30, 2011 compared with \$5.2 million for the three months ended June 30, 2010, primarily due to an increase in total revenues. For the six months ended June 30, 2011, Economic Earnings increased by 28% to \$12.8 million compared to \$10.0 million for the six months ended June 30, 2010, primarily due to increased revenues.

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

	Three Months Ended		% Change
	2011	2010	
Net Income	\$ 3,737	\$ 2,493	50%
Add: Restricted stock expense	2,809	2,649	6
Add: Intangible amortization	125	26	381
Add: Deferred taxes on goodwill	52	9	478
Economic earnings	\$ 6,723	\$ 5,177	30
Total expenses	\$ 12,943	\$ 9,254	40
Less: Restricted stock expense	(2,809)	(2,649)	6
Less: Intangible amortization	(125)	(26)	381
Economic expenses	\$ 10,009	\$ 6,579	52%

	Six Months Ended		% Change
	2011	2010	
Net Income	\$ 7,286	\$ 5,426	34%

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Add: Restricted stock expense	5,192	4,540	14
Add: Intangible amortization	250	53	372
Add: Deferred taxes on goodwill	105	19	453
Economic earnings	\$ 12,833	\$ 10,038	28
Total expenses	\$ 24,333	\$ 17,917	36
Less: Restricted stock expense	(5,192)	(4,540)	14
Less: Intangible amortization	(250)	(53)	372
Economic expenses	\$ 18,891	\$ 13,324	42%

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Liquidity and Capital Resources

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

During the six months ended June 30, 2011, cash flow provided by operating activities, principally our investment advisory business, was \$8.7 million. At June 30, 2011, we had working capital of \$51.1 million. Cash flow used in investing activities during the six months ended June 30, 2011 of \$576,000 was related to purchases of fixed assets. Cash flow used in financing activities during the six months ended June 30, 2011 of \$4.7 million was due to the payment of dividends and the purchase of treasury shares partially offset by tax benefits from equity-based compensation and cash from the exercise of stock options.

We had cash and investments of \$49.9 million as of June 30, 2011 and \$45.0 million as of December 31, 2010. Dividends payable were \$2.8 million and \$0 as of June 30, 2011 and December 31, 2010, respectively. We had no liabilities for borrowed money at June 30, 2011. We have a deferred acquisition liability to be paid in the fourth quarter of 2011, which we expect to pay with funds generated from operations.

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

Contractual Obligations

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

Critical and Significant Accounting Policies and Estimates

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

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no significant changes in our Quantitative and Qualitative Disclosures about Market Risk from those previously reported in our Annual Report on Form 10-K for 2010.

ITEM 4. CONTROLS AND PROCEDURES

Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended, (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (2) is accumulated and

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

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

PART II. OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

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

ITEM 1A. RISK FACTORS

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

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

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

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
April 1 through April 30, 2011	554	\$ 37.65		
May 1 through May 31, 2011				
June 1 through June 30, 2011				
Total	554	\$ 37.65		

Note: The treasury shares were purchased from Westwood employees at the market close price on the date of purchase in order to satisfy their tax obligations from vested restricted shares. We anticipate purchasing additional shares in 2011 and in subsequent years for the same purpose.

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ITEM 6. EXHIBITS

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

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

** These exhibits are furnished herewith. In accordance with Rule 406T of Regulation S-T, these exhibits are not deemed to be filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are not deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.

SIGNATURES

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

Dated: July 20, 2011

WESTWOOD HOLDINGS GROUP, INC.

By: */s/ BRIAN O. CASEY*
Brian O. Casey
President & Chief Executive Officer

By: */s/ WILLIAM R. HARDCASTLE, JR.*
William R. Hardcastle, Jr.
Chief Financial Officer