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United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Quarterly Period Ended September 30, 2004.

☐ **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)

TELEPHONE NUMBER (214) 756-6900
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods 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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, $0.01 Par Value — 5,756,147 shares as of October 27, 2004.

WESTWOOD HOLDINGS GROUP, INC.

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
As of September 30, 2004 and December 31, 2003
(in thousands, except par value and share amounts)
(unaudited)

	September 30, 2004	December 31, 2003
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 5,301	$ 3,643
Accounts receivable	1,999	1,931
Investments, at market value	17,784	17,413
Total current assets	25,084	22,987
Goodwill	2,302	2,302
Other assets, net	2,891	948
Total assets	$ 30,277	$ 26,237
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 1,422	$ 935
Dividends payable	4,778	167
Compensation and benefits payable	2,312	2,776
Income taxes payable	193	472
Total current liabilities	8,705	4,350
Other liabilities	840	34
Total liabilities	9,545	4,384
Stockholders' Equity:		
Common stock, $0.01 par value, authorized 10,000,000 shares, issued 5,756,147 and outstanding 5,755,845 shares at September 30, 2004; issued 5,550,472 and outstanding 5,550,119 shares at December 31, 2003	58	56
Additional paid-in capital	16,928	12,952
Treasury stock, at cost – 302 shares at September 30, 2004 and 353 shares at December 31, 2003	(5)	(6)
Unamortized stock compensation	(5,277)	(2,609)
Retained earnings	9,028	11,460
Total stockholders' equity	20,732	21,853
Total liabilities and stockholders' equity	$ 30,277	$ 26,237

See notes to consolidated financial statements.

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
REVENUES:				
Advisory fees	$3,171	$ 3,491	$ 9,840	$10,804
Trust fees	1,430	1,260	4,324	3,470
Other revenues	333	539	753	1,098
Total revenues	4,934	5,290	14,917	15,372
EXPENSES:				
Employee compensation and benefits	2,657	2,176	7,341	6,497
Sales and marketing	113	130	361	451
Information technology	172	214	504	597
Professional services	376	258	847	676
General and administrative	450	368	1,270	1,080
Total expenses	3,768	3,146	10,323	9,301
Income before income taxes	1,166	2,144	4,594	6,071
Provision for income tax expense	481	825	1,804	2,303
Net income	$ 685	$ 1,319	$ 2,790	$ 3,768
Earnings per share:				
Basic	$ 0.13	$ 0.24	$ 0.52	$ 0.70
Diluted	$ 0.13	$ 0.24	$ 0.51	$ 0.70

See notes to consolidated financial statements.

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WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the Nine Months Ended September 30, 2004
(in thousands)
(unaudited)

	Westwood Holdings Group, Inc. Common Stock, Par	Additional Paid-In Capital	Treasury Stock	Unamort-ized Stock Compen-sation	Retained Earnings	Total
BALANCE, January 1, 2004	$ 56	$ 12,952	$ (6)	$(2,609)	$11,460	$21,853
Net income					2,790	2,790
Dividends declared ($0.91 per share)					(5,222)	(5,222)
Stock options exercised	—	144				144
Stock options vested		187				187
Amortization of stock compensation				831		831
Issuance of restricted stock	2	3,497		(3,499)		—
Sale of treasury stock – 51 shares			1			1
Tax benefit related to equity compensation		148				148
BALANCE, September 30, 2004	$ 58	$ 16,928	$ (5)	$(5,277)	$ 9,028	$20,732

See notes to consolidated financial statements.

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WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	For the nine months ended September 30, 2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,790	$ 3,768
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	125	84
Loss on sale of other assets	3	—
Stock option expense	187	202
Amortization of stock compensation	831	190
Accretion of discount on notes receivable from stockholders	—	(495)
Purchases of investments – trading securities	(13,788)	(6,444)
Sales of investments – trading securities	10,997	5,474
Change in operating assets and liabilities:		
Increase in accounts receivable	(68)	(10)
(Increase) decrease in other assets	(216)	96
Increase in accounts payable and accrued liabilities	487	232
Decrease in compensation and benefits payable	(464)	(1,228)
Decrease in income taxes payable	(131)	(116)
Increase (decrease) in other liabilities	51	(21)
Net cash provided by operating activities	804	1,732
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of money market funds	(20,250)	(2,464)
Sales of money market funds	22,670	1,404
Purchase of other assets	(1,127)	(108)
Sale of other assets	27	—
Net cash provided by (used in) investing activities	1,320	(1,168)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Sale of treasury stock	1	—
Proceeds from exercise of stock options	144	52
Cash dividends	(611)	(755)
Payments on notes receivable from stockholders	—	4,093
Net cash (used in) provided by financing activities	(466)	3,390
NET INCREASE IN CASH	1,658	3,954
Cash and cash equivalents, beginning of period	3,643	4,359
Cash and cash equivalents, end of period	$ 5,301	$ 8,313
Supplemental cash flow information:		
Cash paid during the period for income taxes	$ 2,135	$ 2,428
Issuance of restricted stock	3,499	2,789
Tax benefit allocated directly to equity	148	50
Assets acquired by recording liabilities	755	—

See notes to consolidated financial statements.

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. DESCRIPTION OF THE BUSINESS:

Westwood Holdings Group, Inc. (“Westwood”, the “Company”, “we” or “our”) was incorporated under the laws of the State of Delaware on December 12, 2001, as a subsidiary of SWS Group, Inc. (“SWS”). On June 28, 2002, SWS completed the spin-off of Westwood by effecting a dividend distribution of all of the Westwood common stock held by SWS to all of its stockholders on a pro rata basis.

Westwood manages investment assets and provides services for its clients through two subsidiaries, Westwood Management Corp. (“Management”) and Westwood Trust (“Trust”). Management provides investment advisory services to corporate pension funds, public retirement plans, endowments and foundations, mutual funds and also clients of Trust. Trust provides to institutions and high net worth individuals trust and custodial services and participation in common trust funds that it sponsors. Revenue is largely dependent on the total value and composition of assets under management (“AUM”). Accordingly, fluctuations in financial markets and in the composition of AUM impact revenue and results of operations.

Management is a registered investment advisor under the Investment Advisers Act of 1940. 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 audit and reflect all adjustments that, in the opinion of management, are necessary to present fairly the Company’s financial position as of September 30, 2004, and results of operations and cash flows for the periods presented. All such adjustments are normal and recurring in nature. The accompanying consolidated financial statements are presented using the accrual basis of accounting and have been prepared in accordance with the instructions for the presentation of interim financial information as prescribed by the Securities and Exchange Commission (SEC) and, therefore, do not purport to contain all necessary financial disclosures required by accounting principles generally accepted in the United States of America that might otherwise be necessary in the circumstances, and should be read in conjunction with the Company’s consolidated financial statements, and notes thereto, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2003. Refer to the accounting policies described in the notes to the Company’s annual financial statements, which were consistently followed in preparing this interim financial information. Operating results for the three months or nine months ended September 30, 2004 are not necessarily indicative of the results for the year ending December 31, 2004 or any future period.

Within these consolidated financial statements and accompanying notes, historical transactions and events involving Management and Trust are discussed as if the Company were the entity involved in the transaction or event.

Use of Estimates

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

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Revenue Recognition

Investment advisory and trust fees are recognized as services are provided. These fees are determined in accordance with contracts between the Company's subsidiaries and their clients and are generally based on a percentage of AUM. Advisory and trust fees are generally payable in advance on a calendar quarterly basis. Advance payments are deferred and recognized over the periods services are performed. Other revenues generally consist of interest and investment income and consulting fees. These revenues are recognized as earned or as the services are performed.

Cash and Cash Equivalents

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

Investments

Money market securities are classified as available for sale securities and have no significant fluctuating values. All other marketable securities are classified as trading securities. All securities are carried at quoted market value on the accompanying balance sheet. Net unrealized holding gains or losses on investments classified as trading securities are reflected as a component of other revenues. The Company measures realized gains and losses on investments using the specific identification method.

Goodwill

Effective January 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." Upon adoption of SFAS 142 the Company discontinued its amortization of goodwill. During the third quarter of 2004, the Company completed its annual impairment assessment as required by SFAS 142. No impairment loss was required. The Company performs its annual impairment assessment as of July 1.

Reclassifications

Certain reclassifications of prior period amounts have been made to conform to the current period presentation.

Federal Income Taxes

The Company files a Federal income tax return as a consolidated group for the Company and its subsidiaries.

Deferred income tax assets and liabilities are determined based on the differences between the financial statement and income tax bases of assets and liabilities as measured at enacted income tax rates that will be in effect when these differences reverse, and are included in other assets in the accompanying consolidated balance sheets. Deferred income tax expense is generally the result of changes in the deferred tax assets and liabilities.

Stock Options

Effective January 1, 2002, the Company elected to begin expensing the cost associated with stock options granted subsequent to January 1, 2002 to employees as well as non-employee directors under the SFAS No. 123,

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

"Accounting for Stock Based Compensation" fair value model. The Company values stock options issued based upon an option pricing model and recognizes this value as an expense over the periods in which the options vest. For stock options granted prior to January 1, 2002, the Company accounted for its option plan under the APB 25 intrinsic value model, which resulted in no compensation cost being recognized at date of grant or at the vesting of the SWS options on June 28, 2002. If the Company had continued to account for option grants under APB 25, reported net income would have been $726,000 and $2,913,000 for the three and nine months ended September 30, 2004.

Fair Value of Financial Instruments

The estimated fair values of the Company's financial instruments have been determined by the Company using available information. The fair value amounts discussed in Note 3 are not necessarily indicative of either the amounts the Company would realize upon disposition of these instruments or the Company's intent or ability to dispose of these assets. The estimated fair value of cash and cash equivalents, as well as accounts receivable and payable, approximates their carrying value due to their short-term maturities. The carrying amount of investments designated as "trading" securities, primarily U.S. Government and Government agency obligations as well as mutual fund and common trust fund shares, equals their fair value, which is equal to prices quoted in active markets and, with respect to funds, the net asset value of the shares held as reported by the fund. The carrying amount of investments designated as "available for sale" securities, primarily money market accounts, equals their fair value, which is equal to the net asset value of the shares held as reported by the fund. The market values of the Company's money market holdings generally do not fluctuate.

Earnings per Share

Basic earnings per common share is computed by dividing net income available to common stockholders by the weighted average number of shares outstanding for the periods ended September 30, 2004 and 2003, respectively. Diluted earnings per share for these periods is computed based on the weighted average number of shares outstanding plus the effect of the dilutive impact of stock options and shares of restricted stock granted to employees and non-employee directors, as well as the dilutive impact of shares of the Company's common stock held in the deferred compensation plan. Diluted earnings per common share is computed using the treasury stock method.

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

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Net income	$ 685	$ 1,319	$ 2,790	$ 3,768
Weighted average shares outstanding – basic	5,408,583	5,396,694	5,401,976	5,395,017
Dilutive potential shares from stock options	32,473	19,235	28,843	2,281
Dilutive potential shares from deferred compensation plan	302	353	302	353
Weighted average shares outstanding – diluted	5,441,358	5,416,282	5,431,121	5,397,651
Earnings per share – basic	$ 0.13	$ 0.24	$ 0.52	$ 0.70
Earnings per share – diluted	$ 0.13	$ 0.24	$ 0.51	$ 0.70

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

3. INVESTMENTS:

Investments held as trading securities and investments held as available for sale securities are as follows (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
September 30, 2004:				
U.S. Government and Government agency obligations	$ 1,595	$ 1	$ —	$ 1,596
Funds:				
Money Market	12,930	—	—	12,930
Equity	2,851	298	(5)	3,144
Bond	112	2	—	114
Marketable securities	$17,488	$ 301	$ (5)	$17,784
December 31, 2003:				
U.S. Government and Government agency obligations	$ 1,601	$ 1	$ —	$ 1,602
Funds:				
Money Market	15,137	—	—	15,137
Equity	485	109	(4)	590
Bond	81	3	—	84
Marketable securities	$17,304	$ 113	$ (4)	$17,413

All of these investments are carried at market value. The money market funds are available for sale securities. The other investments are trading securities.

4. EQUITY:

On July 27, 2004, Westwood's Board of Directors approved the payment of a special cash dividend of $0.75 per common share as well as a quarterly cash dividend of $0.08 per common share payable on October 1, 2004 to shareholders of record on September 15, 2004. The combined special and quarterly dividends payable was $4.8 million at September 30, 2004.

Effective July 1, 2004, under the Amended and Restated Westwood Holdings Group, Inc. Stock Incentive Plan, the Company granted restricted stock to certain key employees as well as non-employee directors of the Company representing an aggregate of 195,500 shares of Westwood common stock. The restricted stock will vest over a period of four years for employees and one year for non-employee directors. The Company records compensation cost for restricted stock grants based on the fair market value of its common stock at the date of grant and amortizes this cost over the applicable vesting period. The weighted-average grant-date fair value of all restricted shares issued in the first nine months of 2004, net of forfeitures, was $17.99 per share. For the nine months ended September 30, 2004, the Company recorded compensation expense related to restricted stock of approximately $831,000. Unamortized stock compensation is shown as a separate component of stockholders' equity.

On April 21, 2004, Westwood's Board of Directors approved the payment of a quarterly cash dividend of $0.04 per common share payable on July 1, 2004 to stockholders of record on June 15, 2004.

On February 3, 2004, Westwood's Board of Directors approved the payment of a quarterly cash dividend of $0.04 per common share payable on April 1, 2004 to stockholders of record on March 15, 2004.

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WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

5. SEGMENT REPORTING:

The Company operates two segments: the Management segment and the Trust segment. Such segments are managed separately based on types of products and services offered and their related client bases. The Company evaluates the performance of its segments based primarily on income before income taxes.

Management

The Management segment provides investment advisory services to corporate pension funds, public retirement plans, endowments and foundations, and investment subadvisory services to mutual funds and clients of Trust.

Trust

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

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.

	Management	Trust	Other	Eliminations	Consolidated
			(in thousands)		
Three months ended September 30, 2004					
Net revenues from external sources	$ 3,455	$1,474	$ 5	$ —	$ 4,934
Net intersegment revenues	575	2	—	(577)	—
Income before income taxes	1,538	187	(559)	—	1,166
Segment assets	19,991	3,875	6,411	—	30,277
Segment goodwill	1,790	512	—	—	2,302
Three months ended September 30, 2003					
Net revenues from external sources	$ 3,633	$1,267	$ 390	$ —	$ 5,290
Net intersegment revenues	484	—	—	(484)	—
Income before income taxes	1,853	167	124	—	2,144
Segment assets	19,889	3,634	6,519	—	30,042
Segment goodwill	1,790	512	—	—	2,302

	Management	Trust	Other	Eliminations	Consolidated
			(in thousands)		
Nine months ended September 30, 2004					
Net revenues from external sources	$ 10,502	$4,380	$ 35	$ —	$ 14,917
Net intersegment revenues	1,765	6	—	(1,771)	—
Income before income taxes	5,035	657	(1,098)	—	4,594
Segment assets	19,991	3,875	6,411	—	30,277
Segment goodwill	1,790	512	—	—	2,302
Nine months ended September 30, 2003					
Net revenues from external sources	$ 11,249	$3,496	$ 627	$ —	$ 15,372
Net intersegment revenues	1,285	—	—	(1,285)	—
Income before income taxes	5,426	461	184	—	6,071
Segment assets	19,889	3,634	6,519	—	30,042
Segment goodwill	1,790	512	—	—	2,302

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

All statements other than statements of historical fact contained in this report, including statements in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" concerning our financial position and liquidity, results of operations, prospects for future growth, and other matters are forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove correct. Factors that could cause our results to differ materially from the results discussed in, or contemplated by, such forward-looking statements include the risks described under "Business—Forward-Looking Statements and Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2003 filed with the Securities and Exchange Commission. Such risks include, without limitation, risks related to our limited operating history as an independent public company; risks related to some members of our management being critical to our success and our inability to attract and retain key employees, which could compromise our future success; risks related to some of our executive officers having substantial influence over our investment policies; risks related to the negative performance of the securities markets; risks related to poor investment performance of the assets managed by us; risks related to our business being dependent on investment advisory, subadvisory and trust agreements that are subject to termination or non-renewal and the related risk of losing any of our clients on very short notice; risks related to having a small number of clients account for a substantial portion of our business; risks related to any event that negatively affects the asset management industry; risk related to the substantial cost and time required to introduce new asset classes in our industry; risks related to our inability to successfully and timely expand our asset classes; risks related to our business being subject to pervasive regulation with attendant costs of compliance and serious consequences for violations; risks related to potential misuse of assets and information in the possession of our portfolio managers and employees; risks related to acquisitions, which may be part of our long-term business strategy and involve inherent risks that could compromise the success of the combined business and dilute the holdings of our stockholders; risks related to various factors hindering our ability to declare and pay dividends; risks related to our business being vulnerable to systems failures; risks related to our potential inability to fund our capital requirements; risks related to the indemnification obligations contained in the distribution agreement and the tax separation agreement that we entered into with SWS and that neither party may be able to satisfy; risks related to conflicts of interests of members of our Board of Directors due to their relationship with SWS; and risks related to certain provisions in our charter documents discouraging a third party from acquiring control of us.

Overview

Westwood Holdings Group, Inc. ("Westwood") manages investment assets and provides services for its clients through its two subsidiaries, Westwood Management Corp. ("Management") and Westwood Trust ("Trust"). Management provides investment advisory services to corporate pension funds, public retirement plans, endowments and foundations, mutual funds and clients of Trust. Trust provides to institutions and high net worth individuals trust and custodial services and participation in common trust funds that it sponsors. We have been providing investment advisory services since 1983 and, according to recognized industry sources, including Morningstar, Inc., when measured over multi-year periods, five years and longer, our principal asset classes rank above the median in performance within their peer groups.

Revenues

We derive our revenues from investment advisory fees, trust fees, and other revenues. Our advisory fees are generated by Westwood Management, which manages its clients' accounts under investment advisory and subadvisory agreements. Advisory fees are calculated based on a percentage of assets under management, and are paid in accordance with the terms of the agreements. Most of Westwood Management's advisory fees are paid quarterly in advance based on the assets under management on the last day of the preceding quarter. However, some fees are paid quarterly in arrears 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.

Our trust fees are generated by Westwood Trust pursuant to trust or custodial agreements. Trust fees are separately negotiated with each client and are generally based on a percentage of assets under management, which in turn is influenced by the complexity of the operations of the trust and the services provided. Westwood Trust also provides trust services to a small number of clients on a fixed fee basis. Similar to advisory fees generated by Westwood Management, most trust fees are paid quarterly in advance and are recognized as services are rendered.

Our other revenues generally consist of interest income, investment income and consulting fees. We invest most of our cash in money market funds, although we do invest smaller amounts in bonds and equity instruments. The most significant component of our other revenues is consulting fees paid to us by Gabelli Advisers, Inc.

Assets Under Management

Assets under management increased $137 million, or 3.8%, to $3.8 billion at September 30, 2004, compared with $3.6 billion at September 30, 2003. Average assets under management for the third quarter of 2004 were $3.8 billion compared to $4.0 billion for the third quarter of 2003, a decrease of 4.5%. The increase in period ending assets under management was principally attributable to market appreciation of assets under management, partially offset by the withdrawal of assets by certain clients. The following table sets forth Management and Trust's assets under management as of September 30, 2004 and September 30, 2003:

	As of September 30, (1) (in millions)		% Change
	2004	2003	September 30, 2004 vs. September 30, 2003
Westwood Management Corp.			
Separate Accounts	$1,794	$ 1,750	2.5%
Subadvisory	542	535	1.3
Gabelli Westwood Funds	365	426	(14.3)
Managed Accounts	154	134	14.1
Total	2,855	2,845	0.4
Westwood Trust			
Commingled Funds	782	668	17.1
Private Accounts	94	83	13.3
Agency/Custody Accounts	51	49	4.1
Total	927	800	15.9
Total Assets Under Management	$3,782	$ 3,645	3.8%

(1) The above table excludes the SWS cash reserve funds for which Westwood Management serves as investment advisor and Westwood Trust serves as custodian. The SWS cash reserve funds were $202 million and $224 million as of September 30, 2004 and 2003, respectively. These accounts are noted separately due to their unique nature within our business and because they can experience significant fluctuations on a weekly basis.

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

Trust. In the preceding table, "Commingled Funds" represent funds that have been established to facilitate investment of fiduciary funds of multiple clients by combining assets into a single trust for taxable and tax-exempt entities. "Private Accounts" represent discretionary accounts where Trust acts as trustee or agent and has full investment discretion. "Agency/Custody Accounts" represent non-discretionary accounts in which Trust provides agent or custodial services for a fee, but does not act in an advisory capacity.

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Results of Operations

The following table and discussion of our results of operations for the three and nine months ended September 30, 2004 is based upon data derived from the consolidated statements of income contained in our consolidated financial statements and should be read in conjunction with these statements, which are included elsewhere in this quarterly report.

	Three months ended September 30,		Nine months ended September 30,		% Change	
	2004	2003	2004	2003	Three months ended September 30, 2004 vs. September 30, 2003	Nine months ended September 30, 2004 vs. September 30, 2003
Revenues						
Advisory fees	$ 3,171	$ 3,491	$ 9,840	$10,804	(9.2)%	(8.9)%
Trust fees	1,430	1,260	4,324	3,470	13.5	24.6
Other revenues	333	539	753	1,098	(38.2)	(31.4)
Total revenues	4,934	5,290	14,917	15,372	(6.7)	(3.0)
Expenses						
Employee compensation and benefits	2,657	2,176	7,341	6,497	22.1	13.0
Sales and marketing	113	130	361	451	(13.1)	(20.0)
Information technology	172	214	504	597	(19.6)	(15.6)
Professional services	376	258	847	676	45.7	25.3
General and administrative	450	368	1,270	1,080	22.3	17.6
Total expenses	3,768	3,146	10,323	9,301	19.8	11.0
Income before income taxes	1,166	2,144	4,594	6,071	(45.6)	(24.3)
Provision for income tax expense	481	825	1,804	2,303	(41.7)	(21.7)
Net income	$ 685	$ 1,319	$ 2,790	$ 3,768	(48.1)%	(26.0)%

Three months ended September 30, 2004 compared to three months ended September 30, 2003

Total Revenues. Our total revenues decreased by 6.7% to $4.9 million for the three months ended September 30, 2004 compared with $5.3 million for the three months ended September 30, 2003. Advisory fees decreased by 9.2% to $3.2 million for the three months ended September 30, 2004 compared with $3.5 million for the three months ended September 30, 2003, primarily as a result of decreased average assets under management due to the withdrawal of assets by certain clients. These withdrawals were offset to some extent by market appreciation of assets under management. Trust fees increased by 13.5% to $1.4 million for the three months ended September 30, 2004 compared with $1.3 million for the three months ended September 30, 2003, primarily due to increased average assets under management due to inflows from new and existing clients and market appreciation of assets as well as a higher average fee due to a change in the mix of Trust assets under management. Other revenues, which generally consist of interest and investment income and consulting fees, decreased by 38.2% to $333,000 for the three months ended September 30, 2004 compared with $539,000 for the three months ended September 30, 2003. Other revenues decreased primarily as a result of reduced interest income due to accrued interest and accretion of discount on notes receivable from stockholders that occurred in the 2003 period in the amount of $377,000, but did not occur in the 2004 period, as well as a $26,000 decrease in consulting income due to decreased assets under management in the Gabelli Westwood Funds. These decreases were partially offset by increased mark to market recorded on the Company’s investments, increased interest, dividends and realized gains on investments and other miscellaneous, non-recurring income.

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 increased by 22.1% to $2.7 million for the three months ended September 30, 2004 compared with $2.2 million for the three months ended September 30, 2003. This increase resulted primarily from increased restricted stock expense of approximately $426,000 due to additional restricted stock grants in July 2004 compared to an expense of approximately $190,000 in the third quarter of 2003, a $125,000 profit sharing contribution in the 2004 period that did not occur in 2003, an increase in deferred compensation expense and salary increases due to a higher average salaried staff and increased headcount. We had 44 full-time employees as of September 30, 2004 compared to 42 full-time employees as of September 30, 2003. These increases were partially offset by lower incentive compensation expense. The Company has made the decision to terminate the deferred compensation plan and recognized an expense in the third quarter 2004 of approximately $70,000 related to the vesting of the Company's prior matching contributions. In conjunction with the termination of the deferred compensation plan, the Company initiated a broad-based profit sharing contribution in the third quarter.

Sales and Marketing. Sales and marketing costs generally consist of costs associated with our marketing efforts, including travel and entertainment, advertising and consultant marketing costs. Sales and marketing costs decreased by 13.1% to $113,000 for the three months ended September 30, 2004 compared with $130,000 for the three months ended September 30, 2003. The decrease is primarily the result of decreased travel and entertainment costs.

Information Technology. Information technology expenses generally consist of costs associated with computing hardware and software licenses, maintenance, support and depreciation, telecommunications, proprietary investment research tools and other related costs. Information technology costs decreased by 19.6% to $172,000 for the three months ended September 30, 2004 compared with $214,000 for the three months ended September 30, 2003. The decrease is primarily due to decreased infrastructure maintenance costs related to prior year period expenditures and lower costs associated with investment research tools.

Professional Services. Professional services expenses generally consist of costs associated with audit, subadvisory fees, legal and other professional services. Professional services expenses increased by 45.7% to $376,000 for the three months ended September 30, 2004 compared with $258,000 for the three months ended September 30, 2003. The increase is primarily the result of professional fees related to Sarbanes-Oxley compliance, higher advisory fees paid to external subadvisors due to the engagement of a subadvisor this year to manage growth portfolios at Westwood Trust as well as increased assets under management in high yield and international common trust funds sponsored by Westwood Trust. These increases were partially offset by a decrease in legal expense.

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 22.3% to $450,000 for the three months ended September 30, 2004 compared with $368,000 for the three months ended September 30, 2003. The increase is primarily due to increased rent expense, higher depreciation expense due to fixed asset purchases related to the Company's new office space, other costs of furnishing the office space and increased director's fees.

Provision for Income Tax Expense. Provision for income tax expense decreased by 41.7% to $481,000 for the three months ended September 30, 2004 compared with $825,000 for the three months ended September 30, 2003. The effective tax rate was 41.3% and 38.5% for the three months ended September 30, 2004 and September 30, 2003, respectively. The increased effective tax rate reflects an increased provision in the current period to adjust the Company's state franchise tax liability.

Nine months ended September 30, 2004 compared to nine months ended September 30, 2003

Total Revenues. Total revenues decreased by 3.0% to $14.9 million for the nine months ended September 30, 2004 compared with $15.4 million for the nine months ended September 30, 2003. Advisory fees decreased by 8.9% to $9.8 million for the nine months ended September 30, 2004 compared with $10.8 million for the nine months ended September 30, 2003, primarily as a result of decreased average assets under management due to the withdrawal of assets by certain clients. These withdrawals were offset to some extent by market appreciation of assets under management. Trust fees increased by 24.6% to $4.3 million for the nine months ended September 30, 2004 compared with $3.5 million for the nine months ended September 30, 2003, primarily due to increased average assets under management due to inflows from new and existing clients and market appreciation of assets as well as a higher average fee due to a change in the mix of Trust assets under management. Other revenues decreased by 31.4% to $753,000 for the nine months ended September 30, 2004 compared with $1,098,000 for the nine months ended September 30, 2003. Other revenues decreased primarily as a result of reduced interest and accretion of discount on notes receivable from stockholders created by principal payments by certain executive officers that occurred in the 2003 period in the amount of $577,000, but did not occur in the 2004 period. These decreases were partially offset by increased mark to market recorded on the Company's investments, increased realized gains on investments and miscellaneous, nonrecurring income in the current period.

Employee Compensation and Benefits. Employee compensation and benefits increased by 22.1% to $7.3 million for the nine months ended September 30, 2004 compared with $6.5 million for the nine months ended September 30, 2003. This increase resulted primarily from increased restricted stock expense of approximately $831,000 that was recognized in the 2004 period related to prior year and current year grants of restricted stock compared to one quarter's worth of amortization of approximately $190,000 in the prior year period. Higher salary expense, the initiation of a broad-based profit sharing contribution in the 2004 period and higher deferred compensation expense also contributed to the increase. These increases were partially offset by a decrease in incentive compensation expense in the 2004 period compared to the 2003 period.

Sales and Marketing. Sales and marketing costs decreased by 20.0% to $361,000 for the nine months ended September 30, 2004 compared with $451,000 for the nine months ended September 30, 2003. The decrease is primarily the result of decreased travel and entertainment costs partially offset by higher direct marketing costs.

Information Technology. Information technology costs decreased by 15.6% to $504,000 for the nine months ended September 30, 2004 compared with $597,000 for the nine months ended September 30, 2003. The decrease is primarily due to lower costs associated with investment research tools, decreased infrastructure maintenance costs related to prior year period expenditures and lower software maintenance costs related to prior year system upgrades.

Professional Services. Professional services expenses increased by 25.3% to $847,000 for the nine months ended September 30, 2004 compared with $676,000 for the nine months ended September 30, 2003. The increase is primarily due to professional fees related to Sarbanes-Oxley compliance, higher advisory fees paid to external subadvisors due to the engagement of a subadvisor in 2004 to manage growth portfolios at Westwood Trust as well as increased assets under management in high yield and international common trust funds sponsored by Westwood Trust. These increases were partially offset by professional recruiting fees that were incurred in the 2003 period but not in the 2004 period and lower legal expense.

General and Administrative. General and administrative expenses increased by 17.6% to $1.3 million for the nine months ended September 30, 2004 compared with $1.1 million for the nine months ended September 30, 2003. The increase is primarily due to costs incurred in 2004 associated with moving and furnishing the Company's corporate office, higher rent expense, higher custody expense, increased corporate insurance costs and increased director's fees.

Provision for Income Tax Expense. Provision for income tax expense decreased by 21.7% to $1.8 million for the nine months ended September 30, 2004 compared with $2.3 million for the nine months ended September 30, 2003. The effective tax rate was 39.3% and 37.9% for the nine months ended September 30, 2004 and September 30, 2003, respectively. The increased effective tax rate reflects an increased provision in the current period to adjust the Company's state franchise tax liability.

Liquidity and Capital Resources

We fund our operations and cash requirements with cash generated from operating activities. As of September 30, 2004, we had no long-term debt. The changes in net cash provided by operating activities generally reflect the changes in earnings plus the effect of non-cash items and changes in working capital. Changes in working capital, especially accounts receivable and accounts payable, are generally the result of timing differences between collection of fees billed and payment of operating expenses.

During the nine months ended September 30, 2004, cash flow provided by operating activities, principally our investment advisory business, was $804,000. At September 30, 2004, we had working capital of $16.4 million. Cash flow provided by investing activities during the nine months ended September 30, 2004 was $1.3 million, primarily related to the sale of money market funds in order to fund the special dividend paid on October 1, 2004 and partially offset by the purchase of fixed assets related to our new office space. Cash flow used in financing activities during the nine months ended September 30, 2004 was $466,000, primarily due to cash dividends paid and partially offset by proceeds from the issuance of common stock related to the exercise of stock options.

We had cash and investments, net of dividends payable, of $18.3 million at September 30, 2004, compared to $20.9 million at December 31, 2003. Dividends payable were $4.8 million and $167,000 as of September 30, 2004 and December 31, 2003, respectively. We had no liabilities for borrowed money at September 30, 2004. Accounts payable were $133,000 at September 30, 2004 and $33,000 at December 31, 2003.

Our future liquidity and capital requirements will depend upon numerous factors. We believe that current cash and short-term investment balances and cash generated from operations will be sufficient to meet the operating and capital requirements of our ordinary business operations through at least the next twelve months. However, there can be no assurance that we will not require additional financing within this time frame. Our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary. The failure to raise needed capital on attractive terms, if at all, could have a material adverse effect on our business, financial condition and results of operations.

Contractual Obligations

Our obligation under the deferred compensation plan was $733,000 at September 30, 2004, an increase of $270,000 compared to the balance at December 31, 2003. This liability can fluctuate, increasing while deferred compensation plan participants remain employed with Westwood and the investments increase in value, or decreasing if participants' employment is terminated or the related investments decrease in value. We have made the decision to terminate the deferred compensation plan and expect to pay the liability under the deferred compensation plan during the fourth quarter of 2004. Our obligation under this plan will be satisfied with specific cash and investments that are segregated from the assets that we use in the course of running our business.

The Company may incur additional costs of approximately $21,000 to furnish the new office space in the fourth quarter of 2004.

Critical Accounting Policies and Estimates

There have been no significant changes in the Company's critical accounting policies and estimates since December 31, 2003.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

Interest Rates and Securities Markets

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

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

ITEM 4. CONTROLS AND PROCEDURES

Westwood's management evaluated, with the participation of Westwood's Chief Executive Officer and Chief Operating Officer (performing functions similar to a Chief Financial Officer), the effectiveness of Westwood's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Operating Officer have concluded that Westwood's disclosure controls and procedures were effective as of the end of the period covered by this report. There has been no change in Westwood's internal control over financial reporting that occurred during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, Westwood's 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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

31.1 Certification of Chief Executive Officer Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14

31.2 Certification of President and Chief Operating Officer Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14

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 President and Chief Operating Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

Dated: October 28, 2004

WESTWOOD HOLDINGS GROUP, INC.

By: /s/ Susan M. Byrne

Susan M. Byrne
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Brian O. Casey

Brian O. Casey
President and Chief Operating Officer
(Principal Financial and Accounting Officer)

Exhibit 31.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13A-14 AND 15D-14**

I, Susan M. Byrne, Chief Executive Officer of the registrant, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Westwood Holdings Group, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 28, 2004

/s/ Susan M. Byrne

Susan M. Byrne
Chief Executive Officer

Exhibit 31.2

**CERTIFICATION OF PRESIDENT AND CHIEF OPERATING OFFICER
PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13A-14 AND 15D-14**

I, Brian O. Casey, President and Chief Operating Officer of the registrant (performing similar functions as a chief financial officer), certify that:

1. I have reviewed this quarterly report on Form 10-Q of Westwood Holdings Group, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 28, 2004

/s/ Brian O. Casey

Brian O. Casey
President and Chief Operating Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Westwood Holdings Group, Inc. (the Company) on Form 10-Q for the period ending September 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Susan M. Byrne, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

October 28, 2004

/s/ Susan M. Byrne

Susan M. Byrne
Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Westwood Holdings Group, Inc. (the Company) on Form 10-Q for the period ending September 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Brian O. Casey, President and Chief Operating Officer of the Company (performing similar functions as a chief financial officer), certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

October 28, 2004

/s/ Brian O. Casey

Brian O. Casey
President and Chief Operating Officer