

**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 March 31, 2021

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**

(Address of principal executive office)

**75201**

(Zip Code)

**(214) 756-6900**

(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Each Exchange on Which Registered</u>
Common stock, par value \$0.01 per share	WHG	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 April 23, 2021: 8,296,956.

## WESTWOOD HOLDINGS GROUP, INC.

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**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands, except par value and share amounts)  
(Unaudited)

	March 31, 2021	December 31, 2020
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 12,989	\$ 13,016
Accounts receivable	11,744	9,450
Investments, at fair value	73,880	69,542
Prepaid income taxes	336	1,700
Other current assets	2,588	2,606
Total current assets	101,537	96,314
Investments	4,455	8,154
Noncurrent investments at fair value	3,981	3,527
Goodwill	16,401	16,401
Deferred income taxes	1,418	1,468
Operating lease right-of-use assets	5,796	6,103
Intangible assets, net	13,129	13,535
Property and equipment, net of accumulated depreciation of \$8,099 and \$8,056	2,488	3,186
Other long-term assets	459	464
Total assets	\$ 149,664	\$ 149,152
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,431	\$ 1,627
Dividends payable	1,109	810
Compensation and benefits payable	2,426	7,448
Operating lease liabilities	1,420	1,718
Accrued stock repurchases	359	—
Income taxes payable	2,450	191
Total current liabilities	10,195	11,794
Accrued dividends	230	526
Noncurrent operating lease liabilities	5,794	6,121
Total long-term liabilities	6,024	6,647
Total liabilities	16,219	18,441
Commitments and contingencies (Note 10)		
Stockholders' Equity:		
Common stock, \$0.01 par value, authorized 25,000,000 shares, issued 10,630,452 and outstanding 8,313,003 shares at March 31, 2021; issued 10,500,549 and outstanding 8,326,948 shares at December 31, 2020	107	105
Additional paid-in capital	211,988	210,268
Treasury stock, at cost - 2,317,449 shares at March 31, 2021; 2,173,559 shares at December 31, 2020	(80,255)	(77,967)
Retained earnings (accumulated deficit)	1,605	(1,695)
Total stockholders' equity	133,445	130,711
Total liabilities and stockholders' equity	\$ 149,664	\$ 149,152

See Notes to Condensed Consolidated Financial Statements.

**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(In thousands, except per share data and share amounts)  
(Unaudited)

	Three Months Ended March 31,	
	2021	2020
<b>REVENUES:</b>		
Advisory fees:		
Asset-based	\$ 10,450	\$ 11,102
Performance-based	1,959	—
Trust fees	6,065	5,951
Other, net	(155)	(384)
Total revenues	<u>18,319</u>	<u>16,669</u>
<b>EXPENSES:</b>		
Employee compensation and benefits	11,548	12,668
Sales and marketing	230	478
Westwood mutual funds	391	515
Information technology	1,992	2,031
Professional services	1,317	1,193
General and administrative	2,072	2,306
(Gain) loss on foreign currency transactions	—	(2,938)
Total expenses	<u>17,550</u>	<u>16,253</u>
<b>Net operating income</b>	<u>769</u>	<u>416</u>
Realized gains on private investments	8,325	—
Net change in unrealized appreciation (depreciation) on private investments	(2,326)	(995)
Investment income	196	544
Other income	50	34
<b>Income (loss) before income taxes</b>	<u>7,014</u>	<u>(1)</u>
Income tax expense (benefit)	2,913	(1,103)
<b>Net income</b>	<u>\$ 4,101</u>	<u>\$ 1,102</u>
Other comprehensive income (loss):		
Foreign currency translation adjustments	—	(3,242)
<b>Total comprehensive income (loss)</b>	<u>\$ 4,101</u>	<u>\$ (2,140)</u>
<b>Earnings per share:</b>		
Basic	\$ 0.52	\$ 0.13
Diluted	\$ 0.52	\$ 0.13
<b>Weighted average shares outstanding:</b>		
Basic	7,887,044	8,414,393
Diluted	7,917,390	8,458,473

See Notes to Condensed Consolidated Financial Statements.

**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**For the Three Months Ended March 31, 2021 and 2020**  
(In thousands, except share amounts)  
(Unaudited)

	Common Stock, Par		Additional Paid-In Capital	Treasury Stock	Retained Earnings (Accumulated Deficit)	Total
	Shares	Amount				
<b>Balance, December 31, 2020</b>	8,326,948	\$ 105	\$ 210,268	\$ (77,967)	\$ (1,695)	\$ 130,711
Net income	—	—	—	—	4,101	4,101
Issuance of restricted stock, net of forfeitures	129,905	2	(2)	—	—	—
Dividends declared (\$0.10 per share)	—	—	—	—	(801)	(801)
Stock-based compensation expense	—	—	1,722	—	—	1,722
Purchases of treasury stock	(92,491)	—	—	(1,404)	—	(1,404)
Restricted stock returned for payment of taxes	(51,359)	—	—	(884)	—	(884)
<b>Balance, March 31, 2021</b>	<u>8,313,003</u>	<u>\$ 107</u>	<u>\$ 211,988</u>	<u>\$ (80,255)</u>	<u>\$ 1,605</u>	<u>\$ 133,445</u>

	Common Stock, Par		Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares	Amount					
<b>Balance, December 31, 2019</b>	8,881,086	\$ 103	\$ 203,441	\$ (63,281)	\$ (2,943)	\$ 10,967	\$ 148,287
Net income	—	—	—	—	—	1,102	1,102
Foreign currency translation adjustments	—	—	—	—	(3,242)	—	(3,242)
Issuance of restricted stock, net of forfeitures	241,533	3	(3)	—	—	—	—
Dividends declared (\$0.43 per share)	—	—	—	—	—	(3,903)	(3,903)
Stock-based compensation expense	—	—	2,616	—	—	—	2,616
Reclassification of compensation liability to be paid in shares	—	—	213	—	—	—	213
Purchases of treasury stock	(272,059)	—	—	(4,867)	—	—	(4,867)
Purchase of treasury stock under employee stock plans	(27,474)	—	—	(697)	—	—	(697)
Restricted stock returned for payment of taxes	(43,045)	—	—	(1,120)	—	—	(1,120)
<b>Balance, March 31, 2020</b>	<u>8,780,041</u>	<u>\$ 106</u>	<u>\$ 206,267</u>	<u>\$ (69,965)</u>	<u>\$ (6,185)</u>	<u>\$ 8,166</u>	<u>\$ 138,389</u>

See Notes to Condensed Consolidated Financial Statements.

**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 4,101	\$ 1,102
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	207	233
Amortization of intangible assets	406	423
Net change in unrealized (appreciation) depreciation on investments	2,432	1,133
Realized gains on private investments	(8,325)	—
Stock based compensation expense	1,722	2,616
Deferred income taxes	40	(1,643)
Non-cash lease expense	307	305
Gain on asset disposition	(148)	—
Change in operating assets and liabilities:		
Net (purchases) sales of trading securities	(4,444)	12,916
Accounts receivable	(2,295)	1,844
Other current assets	23	326
Accounts payable and accrued liabilities	803	(469)
Compensation and benefits payable	(5,026)	(7,356)
Income taxes payable	3,630	475
Other liabilities	(478)	(383)
Net cash (used in) provided by operating activities	(7,045)	11,522
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sale of investments	9,258	—
Sale of property and equipment	501	—
Purchase of property and equipment	(9)	(16)
Purchase of investments	(15)	—
Net cash provided by (used in) investing activities	9,735	(16)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Purchases of treasury stock	(1,045)	(3,947)
Purchase of treasury stock under employee stock plans	—	(697)
Restricted stock returned for payment of taxes	(884)	(1,120)
Cash dividends paid	(801)	(7,324)
Net cash used in financing activities	(2,730)	(13,088)
Effect of currency rate changes on cash	13	(3,068)
<b>Net Change in Cash and Cash Equivalents</b>	<b>(27)</b>	<b>(4,650)</b>
Cash and cash equivalents, beginning of period	13,016	49,766
Cash and cash equivalents, end of period	<u>\$ 12,989</u>	<u>\$ 45,116</u>
<b>Supplemental cash flow information:</b>		
Cash paid during the period for income taxes	\$ 769	\$ 64
Accrued dividends	\$ 1,339	\$ 5,245
Accrued purchases of treasury stock	\$ 359	\$ 920

See Notes to Condensed Consolidated Financial Statements.

**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. DESCRIPTION OF THE BUSINESS**

Westwood Holdings Group, Inc. (“Westwood”, “the Company”, “we”, “us” 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 its wholly-owned subsidiaries, Westwood Management Corp. and Westwood Advisors, L.L.C. (referred to hereinafter together as “Westwood Management”), Westwood Trust and Westwood International Advisors Inc. (“Westwood International Advisors”). On July 27, 2020, Westwood’s Board of Directors approved the liquidation of Westwood International Advisors, which occurred effective September 30, 2020.

Westwood Management provides investment advisory services to institutional clients, a family of mutual funds called the Westwood Funds®, other mutual funds, individual investors and clients of Westwood Trust. Prior to its liquidation, our wholly owned subsidiary, Westwood International Advisors, provided investment advisory services to institutional clients, the Westwood Funds®, other mutual funds, the UCITS Fund (which was liquidated in June 2020), individual investors and clients of Westwood Trust. Westwood Trust provides trust and custodial services and participation in self-sponsored common trust funds (“CTFs”) to institutions and high net worth individuals. 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 our revenues and results of operations.

Westwood Management is registered with the Securities and Exchange Commission (“SEC”) as an investment advisor (“RIA”) 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 Condensed Consolidated Financial Statements are unaudited and are presented in accordance with the requirements for quarterly reports on Form 10-Q and consequently do not include all of the information and footnote disclosures required by accounting principles generally accepted in the United States of America (“GAAP”). The Company’s Condensed Consolidated Financial Statements reflect all adjustments (consisting only of normal recurring adjustments) necessary in the opinion of management to present fairly our interim financial position and results of operations and cash flows for the periods presented. The accompanying Condensed Consolidated Financial Statements are presented in accordance with GAAP and the rules and regulations of the SEC.

The accompanying unaudited Condensed 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, 2020, filed with the SEC. Operating results for the periods in these Condensed Consolidated Financial Statements are not necessarily indicative of results for any future period. The accompanying Condensed Consolidated Financial Statements include the accounts of Westwood and its subsidiaries. All intercompany accounts and transactions have been eliminated upon consolidation.

**Recent Accounting Pronouncements**

*Recently Adopted*

In December 2019, the FASB issued ASU No. 2019-12, *Simplifying the Accounting for Income Taxes*, which is intended to simplify various aspects of the income tax accounting guidance, including interim-period accounting for enacted changes in tax law. ASU 2019-12 is effective for public business entities for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years, and early adoption is permitted. We adopted this ASU as of January 1, 2021 and it did not have a significant effect on our Condensed Consolidated Financial Statements.

**3. REVENUE**

**Revenue Recognition**

Revenues are recognized when the performance obligation (the investment management and advisory or trust services provided to the client) defined by the investment advisory or sub-advisory agreement is satisfied. For each performance obligation, we determine at contract inception whether the revenue satisfies over time or at a point in time. We derive our

revenues from investment advisory fees, trust fees and other sources of revenues. Advisory and trust fees are calculated based on a percentage of AUM and the performance obligation is realized over the current calendar quarter. Once clients receive our investment advisory services we have an enforceable right to payment.

#### **Advisory Fee Revenues**

Our advisory fees are generated by Westwood Management and Westwood International Advisors (prior to its closure, effective September 30, 2020), which manage client accounts under investment advisory and sub-advisory agreements. Advisory fees are typically calculated based on a percentage of AUM and are paid in accordance with the terms of the agreements. Advisory fees are paid quarterly in advance based on AUM on the last day of the preceding quarter, quarterly in arrears based on AUM on the last day of the quarter just ended or are based on a daily or monthly analysis of AUM for the stated period. We recognize advisory fee revenues as services are rendered. Since our advance paying clients' billing periods coincide with the calendar quarter to which such payments relate, revenue is recognized within the quarter and our Condensed Consolidated Financial Statements contain no deferred advisory fee revenues. Advisory clients typically consist of institutional and mutual fund accounts.

Institutional investors include separate accounts of (i) corporate pension and profit sharing plans, public employee retirement funds, Taft-Hartley plans, endowments, foundations and individuals; (ii) subadvisory relationships where Westwood provides investment management services for funds offered by other financial institutions; (iii) pooled investment vehicles, including the UCITS Fund and collective investment trusts; and (iv) managed account relationships with brokerage firms and other registered investment advisors that offer Westwood products to their customers. The UCITS Fund was liquidated in June 2020.

Mutual funds include the Westwood Funds®, a family of mutual funds for which Westwood Management serves as advisor. These funds are available to individual investors, as well as offered as part of our investment strategies for institutional investors and wealth management accounts.

#### **Arrangements with Performance-Based Obligations**

A limited number of our advisory clients have a contractual performance-based fee component in their contracts, which generates additional revenues if we outperform a specified index over a specific period of time, and a limited number of our mutual fund offerings have fees that generate additional revenues if we outperform specified indices over specific periods of time.

The revenue is based on future market performance and is subject to factors outside our control. We cannot conclude that a significant reversal in the cumulative amount of revenue recognized will not occur during the measurement period, and therefore the revenue is recorded at the end of the measurement period when the performance obligation has been satisfied.

#### **Trust 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 AUM. Westwood Trust also provides trust services to a small number of clients on a fixed fee basis. The fees for most of our trust clients are calculated quarterly in arrears, based on a daily average of AUM for the quarter, or monthly, based on the month-end value of AUM. Since billing periods for most of Westwood Trust's clients coincide with the calendar quarter, revenue is fully recognized within the quarter and our Condensed Consolidated Financial Statements contain no deferred advisory fee revenues.

#### **Revenue Disaggregated**



**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**(Unaudited)**

Sales taxes are excluded from revenues. The following table presents our revenue disaggregated by account type (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Advisory Fees:</b>		
Institutional	\$ 8,858	\$ 7,900
Mutual Funds	3,414	3,071
Wealth Management	137	131
Trust Fees	6,065	5,951
Other, net	(155)	(384)
<b>Total revenues</b>	<b>\$ 18,319</b>	<b>\$ 16,669</b>

We serve clients primarily in the United States, but also in various locations around the world. The following table presents our revenue disaggregated by our clients' geographical locations (in thousands):

<b>Three Months Ended March 31, 2021</b>	<b>Advisory</b>	<b>Trust</b>	<b>Performance- based</b>	<b>Other</b>	<b>Total</b>
Canada	\$ 276	\$ —	\$ —	\$ —	\$ 276
Europe	638	—	262	—	900
United States	9,546	6,065	1,687	(155)	17,143
<b>Total</b>	<b>\$ 10,460</b>	<b>\$ 6,065</b>	<b>\$ 1,949</b>	<b>\$ (155)</b>	<b>\$ 18,319</b>

<b>Three Months Ended March 31, 2020</b>	<b>Advisory</b>	<b>Trust</b>	<b>Performance-based</b>	<b>Other</b>	<b>Total</b>
Asia	\$ 417	\$ —	\$ —	\$ —	\$ 417
Canada	490	—	—	—	490
Europe	1,009	—	—	—	1,009
United States	9,186	5,951	—	(384)	14,753
<b>Total</b>	<b>\$ 11,102</b>	<b>\$ 5,951</b>	<b>\$ —</b>	<b>\$ (384)</b>	<b>\$ 16,669</b>

#### 4. SEGMENT REPORTING

We operate two segments: Advisory and Trust. These segments are managed separately based on the types of products and services offered and their related client bases. The Company's segment information is prepared on the same basis that management reviews the financial information for operational decision-making purposes. The Company's chief operating decision maker, our Chief Executive Officer, evaluates the performance of our segments based primarily on fee revenues and Economic Earnings (Loss). Refer to the "Supplemental Financial Information" section in Item 2. "Management Discussion and Analysis of Financial Conditions and Results" for the Economic Earnings (Loss) calculation. Westwood Holdings Group, Inc., the parent company of Advisory and Trust, does not have revenues and is the entity in which we record typical holding company expenses including employee compensation and benefits for holding company employees, directors' fees and investor relations costs. 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.

##### Advisory

Our Advisory segment provides investment advisory services to (i) corporate pension and profit sharing plans, public employee retirement funds, Taft-Hartley plans, endowments, foundations and individuals, (ii) subadvisory relationships where Westwood provides investment management services to the Westwood Funds®, funds offered by other financial institutions and funds offered by our Trust segment and (iii) pooled investment vehicles, including the UCITS Fund (liquidated in June 2020) and collective investment trusts. Westwood Management and Westwood International Advisors (prior to its closure, effective September 30, 2020), which provide investment advisory services to similar clients, are included in our Advisory segment.

**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**(Unaudited)**

**Trust**

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

<i>(in thousands)</i>	<b>Advisory</b>	<b>Trust</b>	<b>Westwood Holdings</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Three Months Ended</b>					
<b>March 31, 2021</b>					
Net fee revenues from external sources	\$ 12,409	\$ 6,065	\$ —	\$ —	\$ 18,474
Net intersegment revenues	676	81	—	(757)	—
Other, net	(155)	—	—	—	(155)
<b>Total revenues</b>	<b>\$ 12,930</b>	<b>\$ 6,146</b>	<b>\$ —</b>	<b>\$ (757)</b>	<b>\$ 18,319</b>
Segment assets	\$ 207,193	\$ 54,143	\$ 12,603	\$ (124,275)	\$ 149,664
Segment goodwill	\$ —	\$ 16,401	\$ —	\$ —	\$ 16,401
<b>Three Months Ended</b>					
<b>March 31, 2020</b>					
Net fee revenues from external sources	\$ 11,102	\$ 5,951	\$ —	\$ —	\$ 17,053
Net intersegment revenues	624	50	—	(674)	—
Net interest and dividend revenue	20	—	—	—	20
Other, net	(404)	—	—	—	(404)
<b>Total revenues</b>	<b>\$ 11,342</b>	<b>\$ 6,001</b>	<b>\$ —</b>	<b>\$ (674)</b>	<b>\$ 16,669</b>
Segment assets	\$ 236,817	\$ 49,606	\$ 21,962	\$ (150,583)	\$ 157,802
Segment goodwill	\$ 3,403	\$ 16,401	\$ —	\$ —	\$ 19,804

**5. INVESTMENTS**

During 2018, we made a \$5.4 million strategic investment in InvestCloud, a digital financial services provider ("InvestCloud"), which is included in "Investments" on our Condensed Consolidated Balance Sheets. This investment represents an equity interest in a private company without a readily determinable fair value. The Company has elected to apply the measurement alternative of cost minus impairment, if any, plus or minus changes resulting from observable price changes.

Following observable price changes for this investment in the year ended December 31, 2019, we recorded an unrealized gain of \$2.8 million. Following InvestCloud's recapitalization in the first quarter of 2021, we recorded a realized gain of approximately \$8.3 million when our originally purchased shares were redeemed. Following this redemption we re-invested \$4.4 million of our proceeds into newly issued shares of InvestCloud.

Our investment in Charis, the parent company of Westwood Private Bank ("Charis"), is included in "Noncurrent investments at fair value" on our Condensed Consolidated Balance Sheets and is measured at fair value on a recurring basis. In the three months ended March 31, 2021, we recorded an unrealized gain of \$0.4 million following fair values increases from market transactions. In the three months ended March 31, 2020, we recorded an unrealized loss of \$1.0 million, primarily as a result of the global macroeconomic effects of the COVID-19 pandemic.

In 2019 we made a \$0.3 million investment in Westwood Hospitality Fund I, LLC, a private investment fund. Our investment is included in "Noncurrent investments at fair value" on our Condensed Consolidated Balance Sheets and is measured at fair value on a recurring basis using net asset value ("NAV") as a practical expedient.

All other investments are carried at fair value on a recurring basis and are accounted for as trading securities.

**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**(Unaudited)**

Investments carried at fair value are presented in the table below (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>March 31, 2021:</b>				
U.S. Government and Government agency obligations	\$ 59,722	\$ —	\$ (298)	\$ 59,424
Money market funds	12,552	—	—	12,552
Equity funds	95	—	—	95
Equities	307	114	—	421
Exchange-traded bond funds	1,394	—	(6)	1,388
Total trading securities	74,070	114	(304)	73,880
Private investment fund	265	—	(156)	109
Private equity	3,420	452	—	3,872
Total investments carried at fair value	<u>\$ 77,755</u>	<u>\$ 566</u>	<u>\$ (460)</u>	<u>\$ 77,861</u>
<b>December 31, 2020:</b>				
U.S. Government and Government agency obligations	\$ 65,132	\$ 2	\$ (180)	\$ 64,954
Money market funds	4,003	—	—	4,003
Equity funds	90	—	(5)	85
Equities	288	94	—	382
Exchange-traded bond funds	115	3	—	118
Total trading securities	69,628	99	(185)	69,542
Private investment fund	250	—	(154)	96
Private equity	3,420	11	—	3,431
Total investments carried at fair value	<u>\$ 73,298</u>	<u>\$ 110</u>	<u>\$ (339)</u>	<u>\$ 73,069</u>

**6. FAIR VALUE MEASUREMENTS**

ASC 820, Fair Value Measurements, defines fair value, establishes a framework for measuring fair value and requires 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
- Level 3 – significant unobservable inputs where there is little or no market activity

Our strategic investment in InvestCloud, discussed in Note 5 “Investments,” is excluded from the recurring fair value table shown below because we have elected to apply the measurement alternative for this investment.

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**(Unaudited)**

The following table summarizes the values of our investments measured at fair value on a recurring basis within the fair value hierarchy as of the dates indicated (in thousands):

	Level 1	Level 2	Level 3	Investments Measured at NAV <sup>(1)</sup>	Total
<b>As of March 31, 2021:</b>					
Investments in trading securities	\$ 73,880	\$ —	\$ —	\$ —	\$ 73,880
Private investment fund	—	—	—	109	109
Private equity	—	—	3,872	—	3,872
Total assets measured at fair value	<u>\$ 73,880</u>	<u>\$ —</u>	<u>\$ 3,872</u>	<u>\$ 109</u>	<u>\$ 77,861</u>
<b>As of December 31, 2020:</b>					
Investments in trading securities	\$ 69,542	\$ —	\$ —	\$ —	\$ 69,542
Private investment fund	—	—	—	96	96
Private equity	—	—	3,431	—	3,431
Total assets measured at fair value	<u>\$ 69,542</u>	<u>\$ —</u>	<u>\$ 3,431</u>	<u>\$ 96</u>	<u>\$ 73,069</u>

(1) Comprised of certain investments measured at fair value using net asset value ("NAV") as a practical expedient. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented on our Condensed Consolidated Balance Sheets.

Our investment in Charis is included within Level 3 of the fair value hierarchy as we value that investment utilizing inputs not observable in the market. Our investment is measured at fair value on a recurring basis using a market approach based on a price to tangible book value multiple range that is determined to be reasonable in the current environment, or market transactions. Management believes this valuation methodology is consistent with the banking industry and we will reevaluate our methodology and inputs on a quarterly basis.

The following table summarizes the changes in Level 3 investments measured at fair value on a recurring basis for the periods presented (in thousands):

	Fair Value using Significant Unobservable Inputs (Level 3)	
	Three Months Ended March 31,	
	2021	2020
<b>Beginning balance</b>	\$ 3,431	\$ 3,975
Unrealized gains (losses) on private investments	441	(995)
<b>Ending balance</b>	<u>\$ 3,872</u>	<u>\$ 2,980</u>

The March 31, 2021 private investment fair value of \$3.9 million was valued using a market approach based on a price to tangible book value multiple, with unobservable book value multiples ranging from \$1.26 to \$2.29 per share, with a weighted average of \$1.45 per share. Significant increases (decreases) in book value multiples in isolation would have resulted in a significantly higher (lower) fair value measurement.

## 7. INCOME TAXES

Our effective income tax rate differed from the 21% statutory rate for the first quarter of 2021 and 2020 due to permanent differences between book and tax restricted stock expense based on a decrease in our stock price between the restricted stock grant and vesting dates. In addition, in the first quarter of 2020, a discrete benefit adjustment related to the remeasurement of certain deferred taxes following the enactment of the Coronavirus Aid, Relief, and Economic Security Act lowered our effective tax rate.

## 8. 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 applicable period. Diluted earnings per share is computed based on the weighted average number of shares outstanding plus the effect of any dilutive shares of restricted stock granted to

**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES**  
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employees and non-employee directors. There were approximately 234,000 and 131,000 anti-dilutive restricted shares outstanding for the three months ended March 31, 2021 and March 31, 2020, respectively.

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 March 31,	
	2021	2020
<b>Net income</b>	\$ 4,101	\$ 1,102
<b>Weighted average shares outstanding - basic</b>	7,887,044	8,414,393
Dilutive potential shares from unvested restricted shares	30,346	44,080
<b>Weighted average shares outstanding - diluted</b>	7,917,390	8,458,473
<b>Earnings per share:</b>		
Basic	\$ 0.52	\$ 0.13
Diluted	\$ 0.52	\$ 0.13

## 9. GOODWILL AND OTHER INTANGIBLE ASSETS

### Goodwill

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 for impairment at least annually. We completed our most recent annual goodwill impairment assessment during the third quarter of 2020, and recorded \$3.4 million of impairment expense related to our Advisory segment. No impairments on goodwill were recorded during the three months ended March 31, 2021 or 2020.

### Other Intangible Assets

Our intangible assets represent the acquisition date fair value of acquired client relationships, trade names, non-compete agreements and internally developed software 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. No intangible asset impairments were recorded during the three months ended March 31, 2021 or 2020.

## 10. LEASES

In February 2021, we sublet approximately 10,000 square feet of our Dallas, Texas office space to a third party. The agreement began in the first quarter of 2021 and provides for monthly rent of approximately \$20,000 through the fourth quarter of 2025.

In February 2021, we terminated our Toronto, Ontario office space lease, originally expiring in October 2021.

As of March 31, 2021, aside from the above, there have been no material changes outside the ordinary course of business to our leases since December 31, 2020. For information regarding our leases, refer to Note 11 “Leases” in Part IV, Item 15. “Exhibits, Financial Statement Schedules” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

## 11. STOCKHOLDERS' EQUITY

### Share Repurchase Program

In February 2020, our Board of Directors authorized management to repurchase up to an additional \$10.0 million of our outstanding common stock on the open market or in privately negotiated transactions. In April 2020, our Board of

**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES**  
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Directors authorized management to repurchase up to an additional \$10.0 million of share repurchases under our share repurchase program.

During the three months ended March 31, 2021, the Company repurchased 92,491 shares of our common stock at an average price of \$15.19 per share, including commissions, for an aggregate purchase price of \$1.4 million under our share repurchase plan. During the three months ended March 31, 2020, the Company repurchased 272,059 shares of our common stock at an average price of \$17.89 per share, including commissions, for an aggregate purchase price of \$4.9 million under our share repurchase plan.

**12. VARIABLE INTEREST ENTITIES**

We evaluated (i) our relationship as sponsor of the Common Trust Funds (“CTFs”) and managing member of the private equity funds Westwood Hospitality Fund I, LLC and Westwood Technology Opportunities Fund I, LP (collectively the “Private Funds”), (ii) our advisory relationships with the Westwood Funds®, and (iii) our investments in InvestCloud and Charis discussed in Note 5 “Investments” (“Private Equity”) to determine whether each of these entities is a variable interest entity (“VIE”) or voting ownership entity (“VOE”).

Based on our analyses, we determined that the CTFs and Private Funds were VIEs, as the at-risk equity holders do not have the ability to direct the activities that most significantly impact the entities' economic performance, and the Company and its representatives have a majority control of the entities' respective boards of directors and can influence the respective entities' management and affairs.

Based on our analyses, we determined the Westwood Funds® and Private Equity (i) have sufficient equity at risk to finance the entities' activities independently, (ii) have the obligation to absorb losses, the right to receive residual returns and the right to direct the activities of the entities that most significantly impact the entities' economic performance, and (iii) are not structured with disproportionate voting rights.

Based on our analyses of our investments in these entities for the periods ended March 31, 2021 and December 31, 2020, we have not consolidated the CTFs or Private Funds under the VIE method or the Westwood Funds® or Private Equity under the VOE method.

We recognized fee revenue from the Westwood VIEs and Westwood VOEs as follows (in millions):

	Three Months Ended	
	March 31, 2021	March 31, 2020
<b>Fee Revenues</b>	\$ 4.9	\$ 5.7

The following table displays the AUM and the risk of loss in each vehicle (in millions):

	As of March 31, 2021		
	Assets Under Management	Corporate Investment	Amount at Risk
<b>VIEs/VOEs:</b>			
Westwood Funds®	\$ 2,564	\$ —	\$ —
Common Trust Funds	1,014	—	—
Private Funds	4	0.1	0.1
Private Equity	—	8.3	8.3
<b>All other assets:</b>			
Wealth Management	3,342		
Institutional	7,569		
<b>Total Assets Under Management</b>	<b>\$ 14,493</b>		

**13. RELATED PARTY TRANSACTIONS**

**WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES**  
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Some of our directors, executive officers and their affiliates invest personal funds directly in trust accounts that we manage. For both the three months ended March 31, 2021 and March 31, 2020, we recorded trust fees from these accounts of \$0.1 million. There were no amounts due from these accounts as of March 31, 2021, and there was \$0.1 million due from these accounts as of December 31, 2020.

The Company engages in transactions with its affiliates in the ordinary course of business. Westwood International Advisors (prior to its closure, effective September 30, 2020) and Westwood Management provide investment advisory services to the UCITS Fund and the Westwood Funds®. Certain members of our management served on the board of directors of the UCITS Fund (liquidated as of June 2020). Under the terms of the investment advisory agreements, the Company earns quarterly fees paid by clients of the fund or by the funds directly. The fees are based on negotiated fee schedules applied to AUM. The Company earned no fees from the affiliated funds for the three months ended March 31, 2021, and earned \$0.5 million for the three months ended March 31, 2020.

#### **14. SUBSEQUENT EVENTS**

##### *Dividends Declared*

On April 28, 2021, the Board of Directors declared a quarterly cash dividend of \$0.10 per share of common stock payable on July 1, 2021 to stockholders of record on June 4, 2021.

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

### Forward-Looking Statements

Statements in this report and the Annual Report to Stockholders that are not purely historical facts, including, without limitation, statements about our expected future financial position, results of operations or cash flows, as well as other statements including, without limitation, words such as “anticipate,” “believe,” “plan,” “estimate,” “expect,” “intend,” “should,” “could,” “goal,” “potentially,” “may,” “designed” 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, 2020, filed with the SEC, and those risks set forth below:

- the composition and market value of our AUM;
- our ability to maintain our fee structure in light of competitive fee pressures
- inclusion of foreign company investments in our AUM;
- regulations adversely affecting the financial services industry;
- litigation risks;
- our ability to develop and market new investment strategies successfully;
- our reputation and our relationships with current and potential customers;
- our ability to attract and retain qualified personnel;
- our ability to perform operational tasks;
- our ability to select and oversee third-party vendors;
- our dependence on the operations and funds of our subsidiaries;
- our ability to maintain effective cyber security;
- our ability to maintain effective information systems;
- our ability to prevent misuse of assets and information in the possession of our employees and third-party vendors, which could damage our reputation and result in costly litigation and liability for our clients and us;
- our stock is thinly traded and may be subject to volatility;
- our organizational documents contain provisions that may prevent or deter another group from paying a premium over the market price to our stockholders to acquire our stock;
- competition in the investment management industry;
- our ability to avoid termination of client agreements and the related investment redemptions;
- the significant concentration of our revenues in a small number of customers;
- our relationships with investment consulting firms;
- the impact of the COVID-19 pandemic;
- our ability to identify and execute on our strategic initiatives;
- our ability to declare and pay dividends;
- our ability to fund future capital requirements on favorable terms;
- our ability to properly address conflicts of interest;
- our ability to maintain adequate insurance coverage; and
- our ability to maintain an effective system of internal controls.



You should not unduly rely on these forward-looking statements, which speak only as of the date of this report. We are not obligated and do not undertake an obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events or otherwise.

## **Overview**

We manage investment assets and provide services for our clients through our subsidiaries, Westwood Management Corp. and Westwood Advisors, L.L.C. (each of which is an SEC-registered investment advisor and referred to hereinafter together as “Westwood Management”), Westwood International Advisors Inc. (“Westwood International Advisors”) and Westwood Trust. Westwood Management provides investment advisory services to institutional investors, a family of mutual funds called the Westwood Funds®, other mutual funds, individuals and clients of Westwood Trust.

On July 27, 2020, Westwood’s Board of Directors approved the closure of Westwood International Advisors and Westwood’s office in Toronto, Canada.

Westwood Trust provides trust and custodial services and participation in common trust funds to institutions and high net worth individuals. Our revenues are generally derived from fees based on a percentage of AUM. Westwood International Advisors provided investment advisory services to an Irish investment company authorized pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulation 2011 (as amended) (the “UCITS Fund”), which was liquidated in June 2020.

We continue to closely monitor the impact of the COVID-19 pandemic on all aspects of our business, particularly the impact on global stock markets. Beginning in 2020, we have taken a number of precautionary measures designed to help minimize the risk of the spread of the virus to our employees, including suspending all non-essential travel for our employees and encouraging our employees to work remotely. The investments we have made in technology over the past several years, particularly our significant investments in cloud-based systems and business continuity planning, have allowed our entire team to serve our clients from their homes. While our ability to meet with clients declined at the beginning of the pandemic, we were able to rebound in the second half of the year as our clients embraced digital interactions.

### *Revenues*

We derive our revenues from investment advisory fees, trust fees and other revenues. Our advisory fees are generated by Westwood Management and Westwood International Advisors (prior to its closure, effective September 30, 2020), which manage client accounts under investment advisory and subadvisory agreements. Advisory fees are typically calculated based on a percentage of AUM and are paid in accordance with the terms of the agreements. Advisory fees are paid quarterly in advance based on AUM on the last day of the preceding quarter, quarterly in arrears based on AUM on the last day of the quarter just ended or are based on a daily or monthly analysis of AUM for the stated period. We recognize advisory fee revenues as services are rendered. Certain of our clients have a contractual performance-based fee component in their contracts, which generates additional revenues 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. Since our advance paying clients’ billing periods coincide with the calendar quarter to which such payments relate, revenue is recognized within the quarter, and our Condensed 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 AUM. Westwood Trust also provides trust services to a small number of clients on a fixed fee basis. Trust fees are primarily calculated quarterly in arrears based on a daily average of AUM for the quarter. Since billing periods for most of Westwood Trust’s clients coincide with the calendar quarter, revenue is fully recognized within the quarter, and our Condensed Consolidated Financial Statements contain no deferred advisory fee revenues.

Our other revenues primarily consist of investment income from our seed money investments into new investment strategies.

### *Employee Compensation and Benefits*

Employee compensation and benefits expenses generally consist of salaries, incentive compensation, equity-based compensation and benefits.

### *Sales and Marketing*

Sales and marketing expenses relate to our marketing efforts, including travel and entertainment, direct marketing and advertising costs.

#### *Westwood Mutual Funds*

Westwood Mutual Funds expenses relate to our marketing, distribution and administration of the Westwood Funds®.

#### *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.

#### *Professional Services*

Professional services expenses generally consist of costs associated with subadvisory fees, audit, tax, legal and other professional services.

#### *General and Administrative*

General and administrative expenses generally consist of costs associated with the lease of office space, amortization, depreciation, insurance, custody expense, Board of Directors fees, investor relations, licenses and fees, office supplies and other miscellaneous expenses.

#### *Gain (Loss) on Foreign Currency Transactions*

Gain (loss) on foreign currency transactions consists of foreign currency transactions primarily related to Westwood International Advisors.

#### *Realized Gains on Private Investments*

Realized gains on private investments includes amounts by which the net proceeds from the sale or redemption of our private investments exceeded costs.

#### *Net change in unrealized appreciation (depreciation) on Private Investments*

Net change in unrealized appreciation (depreciation) on private investments includes changes in the value of our private equity investments.

#### *Investment Income*

Investment income primarily includes interest and dividend income on fixed income securities and money market funds.

#### *Other Income*

Other income consists of income from the sublease of a portion of our corporate offices.

### **Assets Under Management**

AUM increased \$2.9 billion to \$14.5 billion at March 31, 2021 compared with \$11.6 billion at March 31, 2020. The average of beginning and ending AUM for the first quarter of 2021 was \$13.8 billion compared to \$13.4 billion for the first quarter of 2020.

The following table displays AUM as of March 31, 2021 and 2020 (in millions):

	<b>As of March 31,</b>		<b>Change</b>	
	<b>2021</b>	<b>2020</b>		
Institutional <sup>(1)</sup>	\$ 7,569	\$ 6,335	19	%
Wealth Management <sup>(2)</sup>	4,360	3,765	16	
Mutual Funds <sup>(3)</sup>	2,564	1,500	71	
<b>Total AUM<sup>(4)</sup></b>	<b>\$ 14,493</b>	<b>\$ 11,600</b>	<b>25</b>	<b>%</b>

(1) Institutional includes (i) separate accounts of corporate pension and profit sharing plans, public employee retirement funds, Taft-Hartley plans, endowments, foundations and individuals; (ii) subadvisory relationships where Westwood provides investment management services for funds offered by other financial institutions; (iii) pooled investment vehicles, including the UCITS Fund and collective investment trusts; and (iv) managed account

- relationships with brokerage firms and other registered investment advisors that offer Westwood products to their customers. The UCITS Fund was liquidated in June 2020.
- (2) Wealth Management 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 and assets for which Westwood Advisors, L.L.C. provides advisory services to high net worth individuals. Investment subadvisory services are provided for the common trust funds by Westwood Management, Westwood International Advisors (prior to its closure, effective September 30, 2020) and external unaffiliated subadvisors. For certain assets in this category Westwood Trust currently provides limited custody services for a minimal or no fee, viewing these assets as potentially converting to fee-generating managed assets in the future.
  - (3) Mutual Funds include the Westwood Funds®, a family of mutual funds for which Westwood Management serves as advisor. These funds are available to individual investors, as well as offered as part of our investment strategies for institutional and wealth management accounts.
  - (4) AUM excludes \$272 million and \$222 million of assets under advisement (“AUA”) as of March 31, 2021 and 2020, respectively, related to our model portfolios for which we provided consulting advice but for which we did not have direct discretionary investment authority.

### **Roll-Forward of Assets Under Management**

<i>(in millions)</i>	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
<b><u>Institutional</u></b>		
Beginning of period assets	\$ 6,567	\$ 8,739
Inflows	732	313
Outflows	(219)	(731)
Net client flows	513	(418)
Market appreciation (depreciation)	489	(1,986)
Net change	1,002	(2,404)
End of period assets	\$ 7,569	\$ 6,335
<b><u>Wealth Management</u></b>		
Beginning of period assets	\$ 4,335	\$ 4,438
Inflows	60	73
Outflows	(207)	(127)
Net client flows	(147)	(54)
Market appreciation (depreciation)	172	(619)
Net change	25	(673)
End of period assets	\$ 4,360	\$ 3,765
<b><u>Mutual Funds</u></b>		
Beginning of period assets	\$ 2,143	\$ 2,058
Inflows	438	174
Outflows	(209)	(310)
Net client flows	229	(136)
Market appreciation (depreciation)	192	(422)
Net change	421	(558)
End of period assets	\$ 2,564	\$ 1,500
<b><u>Total AUM</u></b>		
Beginning of period assets	\$ 13,045	\$ 15,235
Inflows	1,230	560
Outflows	(635)	(1,168)
Net client flows	595	(608)
Market appreciation (depreciation)	853	(3,027)
Net change	1,448	(3,635)
End of period assets	\$ 14,493	\$ 11,600

### ***Three months ended March 31, 2021 and 2020***

The \$1.4 billion increase in AUM for the three months ended March 31, 2021 was due to market appreciation of \$0.9 billion and net inflows of \$0.6 billion. Net inflows were primarily related to our SmallCap strategy.

The \$3.6 billion decrease in AUM for the three months ended March 31, 2020 was due to market depreciation of \$3.0 billion and net outflows of \$608 million. Net outflows were primarily related to our LargeCap Value and Income Opportunity strategies, partially offset by net inflows to our SmallCap Value strategies.

### **Results of Operations**

The following table (dollars in thousands) and discussion of our results of operations are based upon data derived from the Condensed Consolidated Statements of Comprehensive Income (Loss) contained in our Condensed Consolidated Financial Statements and should be read in conjunction with those statements included elsewhere in this report.

	Three Months Ended March 31,		Change
	2021	2020	
<b>Revenues:</b>			
Advisory fees: asset-based	\$ 10,450	\$ 11,102	(6) %
Advisory fees: performance-based	1,959	—	NM
Trust fees: asset-based	6,065	5,951	2
Other, net	(155)	(384)	(60)
Total revenues	18,319	16,669	10
<b>Expenses:</b>			
Employee compensation and benefits	11,548	12,668	(9)
Sales and marketing	230	478	(52)
Westwood mutual funds	391	515	(24)
Information technology	1,992	2,031	(2)
Professional services	1,317	1,193	10
General and administrative	2,072	2,306	(10)
Gain on foreign currency transactions	—	(2,938)	(100)
Total expenses	17,550	16,253	8
<b>Net operating income</b>	769	416	
Realized gains on private investments	8,325	—	NM
Net change in unrealized appreciation (depreciation) on private investments	(2,326)	(995)	1
Investment income	196	544	-1
Other income	50	34	47
<b>Income (loss) before income taxes</b>	7,014	(1)	
Income tax expense (benefit)	2,913	(1,103)	(364)
<b>Net income (loss)</b>	\$ 4,101	\$ 1,102	272 %

NM Not meaningful

#### **Three months ended March 31, 2021 compared to three months ended March 31, 2020**

**Total Revenues.** Total revenues increased \$1.6 million, or 10%, to \$18.3 million for the three months ended March 31, 2021 compared with \$16.7 million for the three months ended March 31, 2020. Asset-based advisory fees decreased \$0.6 million, or 6%, and Trust fees increased \$0.1 million, or 2%. Performance-based advisory fees increased \$2.0 million, due to higher realization of performance fees in the three months ended March 31, 2021.

**Employee Compensation and Benefits.** Employee compensation and benefits decreased \$1.2 million, or 9%, to \$11.5 million for the three months ended March 31, 2021 compared with \$12.7 million for the three months ended March 31, 2020. The decrease was primarily due to reductions in headcount and stock-based compensation expense.

**Sales and marketing.** Sales and marketing expenses decreased \$0.3 million, or 52%, to \$0.2 million for the three months ended March 31, 2021 compared with \$0.5 million for the three months ended March 31, 2020. The decrease was primarily due to lower travel costs as a result of COVID-19.

**(Gain) loss on foreign currency transactions.** We recorded foreign currency gains and losses as a result of fluctuations in the Canadian dollar exchange rate, prior to closing WIA in 2020.

**Realized gains on private investments.** Following InvestCloud's recapitalization in the first quarter of 2021, we recorded a realized gain of approximately \$8.3 million.

*Income Tax Expense (Benefit).* Our effective tax rate of 41.5% differed from the 21% statutory rate for the first quarter of 2021 primarily due to permanent differences between book and tax restricted stock expense based on a decrease in our stock price between the restricted stock grant and vesting dates. Our effective income tax rate differed from the 21% statutory rate for the first quarter of 2020 primarily due to a similar restricted stock impact, and a discrete benefit adjustment related to the remeasurement of certain deferred taxes following the enactment of the Coronavirus Aid, Relief, and Economic Security Act.

### **Supplemental Financial Information**

As supplemental information, we are providing non-GAAP performance measures that we refer to as Economic Earnings and Economic EPS. We provide these measures in addition to, not as a substitute for, net income and earnings per share, which are reported on a GAAP basis. Our management and Board of Directors review Economic Earnings and Economic EPS to evaluate our ongoing performance, allocate resources, and review our dividend policy. We believe that these non-GAAP performance measures, while not substitutes for GAAP net income or earnings per share, 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 also considering financial information prepared in accordance with GAAP.

We define Economic Earnings as net income plus non-cash equity-based compensation expense, amortization of intangible assets, and deferred taxes related to goodwill. Although depreciation on fixed assets is a non-cash expense, we do not add it back when calculating Economic Earnings because depreciation charges represent an allocation of the decline in the value of the related assets that will ultimately require replacement. In addition, we do not adjust Economic Earnings for tax deductions related to restricted stock expense or amortization of intangible assets. Economic EPS represents Economic Earnings divided by diluted weighted average shares outstanding.

The following tables provide a reconciliation of Net income to Economic Earnings and Economic Earnings by segment (in thousands, except share and per share amounts):

	<b>Three Months Ended March 31,</b>		<b>Change</b>	
	<b>2021</b>	<b>2020</b>		
<b>Net income</b>	\$ 4,101	\$ 1,102	272	%
Add: Stock-based compensation expense	1,722	2,616	(34)	
Add: Intangible amortization	406	423	(4)	
Add: Tax benefit from goodwill amortization	59	59	—	
<b>Economic Earnings</b>	<u>\$ 6,288</u>	<u>\$ 4,200</u>	50	%
Diluted weighted average shares outstanding	7,917,390	8,458,473		
<b>Economic Earnings per share</b>	\$ 0.79	\$ 0.50		
<b>Economic Earnings by Segment:</b>				
Advisory	\$ 6,550	\$ 4,293	53	%
Trust	2,984	992	201	
Westwood Holdings	(3,246)	(1,085)	199	
<b>Consolidated</b>	<u>\$ 6,288</u>	<u>\$ 4,200</u>	50	%

### **Liquidity and Capital Resources**

We fund our operations and cash requirements with cash generated from operating activities. We may also use cash from operations to pay dividends to our stockholders. We reinstated our dividend in the first quarter of 2021, following a suspension in the second quarter of 2020 as we preserved capital and provided additional financial flexibility amid the uncertainties created by COVID-19. As of March 31, 2021 and December 31, 2020, we had no debt. The changes in net cash provided by operating activities generally reflect changes in earnings plus the effects of non-cash items and changes in working capital, including liquidation of investments used to cover current liabilities. 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 three months ended March 31, 2021, cash flow used in operating activities was \$7.0 million, which included net purchases of \$4.4 million of current investments, a reduction in compensation and benefits payable of \$5.0 million, and a \$2.3 million change in accounts receivable, partially offset by income taxes payable and positive adjustments to net income. During the three months ended March 31, 2020, cash flow provided by operating activities was \$11.5 million, which included a \$12.9 million net liquidation of investments partially offset by an \$7.4 million decrease in compensation and benefits payables.

Cash flow provided by investing activities during the three months ended March 31, 2021 was related to realized gains on private investments and the sale of property and equipment following the sublease of a portion of our Dallas, Texas corporate office space. Cash flow used in investing activities during the three months ended March 31, 2020 was related to purchases of property and equipment.

Cash flows used in financing activities of \$2.7 million for the three months ended March 31, 2021 reflected treasury stock repurchases, the payment of dividends and restricted stock returned for the payment of taxes. Cash flow used in financing activities of \$13.1 million for the three months ended March 31, 2020 reflected the payment of dividends, purchases of treasury shares, restricted stock returned for payment of taxes and purchases of treasury stock under employee stock plans.

We had cash and short-term investments of \$86.9 million as of March 31, 2021 and \$82.6 million as of December 31, 2020. At March 31, 2021 and December 31, 2020, working capital aggregated \$91.3 million and \$84.5 million, respectively.

Westwood Trust must maintain cash and investments in an amount equal to the minimum restricted capital of \$4.0 million, as required by the Texas Finance Code. Restricted capital is included in Investments in the accompanying Condensed Consolidated Balance Sheets. At March 31, 2021, Westwood Trust had approximately \$13.7 million in excess of its minimum capital requirement.

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, 2020, filed with the SEC. We believe that current cash and short-term investment balances plus cash generated from operations will be sufficient to meet both 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**

As of March 31, 2021, there have been no material changes outside of the ordinary course of business to our contractual obligations since December 31, 2020. For information regarding our contractual obligations, refer to “Contractual Obligations” in Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

### **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, 2020. Information with respect to our critical accounting policies and estimates that we believe could have the most significant effect on our reported consolidated results and require difficult, subjective or complex judgment by management is described under “Critical Accounting Policies and Estimates” in Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

### **Accounting Developments**

Refer to Note 2 “Summary of Significant Accounting Policies” in our Condensed Consolidated Financial Statements included in Part I, Item 1. “Financial Statements” of this Quarterly Report on Form 10-Q for a description of recently issued accounting guidance.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE 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 the year ended December 31, 2020.

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

#### **Evaluation of Disclosure 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 (the “Exchange Act”), (1) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (2) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure. An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) 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 Exchange Act 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.

#### **Changes in Internal Controls over Financial Reporting**

During the quarter ended March 31, 2021, there were no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Due to our significant investments in cloud-based systems, the impact of our workforce working remotely did not hinder the execution of our internal control processes and procedures.



## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

None.

### ITEM 1A. RISK FACTORS

Our business and future results may be affected by a number of risks and uncertainties that should be considered carefully. In addition, this report also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in such forward-looking statements as a result of certain factors, including the risks described in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2020 and the risks set forth below.

The Company believes that there has been no material change in its risk factors as previously disclosed in the Form 10-K.

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

On July 20, 2012, our Board of Directors authorized management to repurchase up to \$10.0 million of our outstanding common stock on the open market or in privately negotiated transactions. Westwood's Board of Directors authorized an additional \$5.0 million of repurchases under the share repurchase program in July 2016, an additional \$10.0 million in February 2020, and an additional \$10.0 million in April 2020. The share repurchase program has no expiration date and may be discontinued at any time by the Board of Directors.

The following table displays information with respect to the treasury shares we purchased during the three months ended March 31, 2021:

	<b>Total number of shares purchased</b>	<b>Average price paid per share</b>	<b>Total number of shares purchased as part of publicly announced plans or programs</b>	<b>Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs (1)</b>
Repurchase program <sup>(1)</sup>				\$ 10,000,000
March 2021	92,491	\$ 15.19	92,491	

(1) These purchases relate to the share repurchase program and were authorized in April 2020.

**ITEM 6. EXHIBITS**

[fication of Chief Executive Officer Pursuant to Securities Exchange Act Rule 13a-14\(a\)](#)

[fication of Chief Financial Officer Pursuant to Securities Exchange Act Rule 13a-14\(a\)](#)

[fication 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](#)

[fication 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](#)

Following financial information from Westwood Holdings Group, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2021, formatted in Inline eXtensible Business Reporting Language (iXBRL): (i) Condensed Consolidated Balance Sheets as of March 31, 2021 and December 31, 2020; (ii) Condensed Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2021 and 2020; (iii) Condensed Consolidated Statements of Stockholders' Equity; (iv) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2021 and 2020; and (v) Notes to the Condensed Consolidated Financial Statements.

or Page Interactive Data File (formatted as iXBRL and contained in Exhibit 101)

\* Filed herewith.

\*\* Furnished herewith.

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: April 28, 2021

WESTWOOD HOLDINGS GROUP, INC.

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

By: /s/ Murray Forbes III  
Murray Forbes III  
Chief Financial Officer and Treasurer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO  
SECURITIES EXCHANGE ACT RULES 13a-14(a)**

I, Brian O. Casey, certify that:

1. I have reviewed this report on Form 10-Q of Westwood Holdings Group, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this 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
  - d. Disclosed in this 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: April 28, 2021

/s/ Brian O. Casey

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Brian O. Casey

President & Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO  
SECURITIES EXCHANGE ACT RULES 13a-14(a)**

I, Murray Forbes III, certify that:

1. I have reviewed this report on Form 10-Q of Westwood Holdings Group, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this 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
  - d. Disclosed in this 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: April 28, 2021

/s/ Murray Forbes III

Murray Forbes III

Chief Financial Officer and Treasurer

**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 ended March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian O. Casey, President & 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, to the best of my knowledge:

(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.

Dated: April 28, 2021

/s/ Brian O. Casey

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Brian O. Casey

President & Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Westwood Holdings Group, Inc. and will be retained by Westwood Holdings Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request. The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

**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 ended March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Murray Forbes III, Chief Financial 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, to the best of my knowledge:

- (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.

Dated: April 28, 2021

/s/ Murray Forbes III

Murray Forbes III

Chief Financial Officer and Treasurer

A signed original of this written statement required by Section 906 has been provided to Westwood Holdings Group, Inc. and will be retained by Westwood Holdings Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request. The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.