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, 2012.

OR

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

For the transition period from to .

Commission file number 1-31234

WESTWOOD HOLDINGS GROUP, INC.
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	**75-2969997** (IRS Employer Identification No.)

200 CRESCENT COURT, SUITE 1200
DALLAS, TEXAS
75201
(Address of principal executive office)
(Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Shares of common stock, par value $0.01 per share, outstanding as of October 16, 2012: 8,026,845.

WESTWOOD HOLDINGS GROUP, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of September 30, 2012 and December 31, 2011
(in thousands, except par value and share amounts)

	September 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 6,777	$ 5,264
Accounts receivable	8,209	7,707
Investments, at fair value	52,913	54,868
Deferred income taxes	2,505	3,142
Prepaid income taxes	1,669	—
Other current assets	2,190	1,501
Total current assets	74,263	72,482
Goodwill	11,255	11,255
Intangible assets, net	4,255	4,621
Property and equipment, net of accumulated depreciation of $1,763 and $1,647	2,170	2,239
Total assets	$ 91,943	$ 90,597
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 1,781	$ 1,674
Dividends payable	3,702	3,074
Compensation and benefits payable	10,710	12,677
Income taxes payable	—	85
Other current liabilities	13	13
Total current liabilities	16,206	17,523
Deferred income taxes	549	969
Deferred rent	1,266	1,348
Total long-term liabilities	1,815	2,317
Total liabilities	18,021	19,840
Stockholders' Equity:		
Common stock, $0.01 par value, authorized 25,000,000 shares, issued 8,522,398 and outstanding 8,026,845 shares at September 30, 2012; issued 8,105,018 and outstanding 7,707,189 shares at December 31, 2011	85	81
Additional paid-in capital	85,584	76,969
Treasury stock, at cost – 495,553 shares at September 30, 2012; 397,829 shares at December 31, 2011	(18,502)	(14,706)
Accumulated other comprehensive income, net of deferred taxes	691	1,940
Retained earnings	6,064	6,473
Total stockholders' equity	73,922	70,757
Total liabilities and stockholders' equity	$ 91,943	$ 90,597

See notes to interim consolidated financial statements.

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WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands, except per share data)
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
REVENUES:				
Advisory fees				
Asset-based	$14,485	$13,376	$42,677	$41,034
Performance-based	69	—	1,251	991
Trust fees	3,715	3,468	10,943	10,297
Other revenues, net	672	(796)	2,000	(406)
Total revenues	18,941	16,048	56,871	51,916
EXPENSES:				
Employee compensation and benefits	11,397	8,295	32,196	27,084
Sales and marketing	350	221	823	666
Westwood mutual funds	292	34	776	523
Information technology	649	503	1,874	1,503
Professional services	739	710	3,681	2,438
General and administrative	1,183	988	3,354	2,870
Total expenses	14,610	10,751	42,704	35,084
Income before income taxes	4,331	5,297	14,167	16,832
Provision for income taxes	1,827	2,014	5,680	6,263
Net income	2,504	3,283	8,487	10,569
Other comprehensive income:				
Unrealized gain (loss) on investment securities, net of income taxes of $0, $5, $(714), and $386, respectively	—	10	(1,309)	717
Foreign currency translation gain	78	—	60	—
Total comprehensive income	$ 2,582	$ 3,293	$ 7,238	$11,286
Earnings per share:				
Basic	$ 0.35	$ 0.47	$ 1.19	$ 1.51
Diluted	$ 0.34	$ 0.46	$ 1.16	$ 1.47
Dividends declared per share	$ 0.37	$ 0.35	$ 1.11	$ 1.05

See notes to interim 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, 2012
(in thousands, except share amounts)
(unaudited)

	Westwood Holdings Group, Inc. Common Stock, Par		Addi-tional Paid-In	Treasury	Accumu-lated Other Comp-rehensive	Retained	
	Shares	Amount	Capital	Stock	Income	Earnings	Total
BALANCE, January 1, 2012	7,707,189	$ 81	$76,969	$(14,706)	$ 1,940	$ 6,473	$70,757
Net income						8,487	8,487
Other comprehensive income					(1,249)		(1,249)
Issuance of restricted stock, net	401,130	4	(4)				—
Dividends declared						(8,896)	(8,896)
Restricted stock amortization			7,635				7,635
Tax benefit related to equity compensation			774				774
Stock options exercised	16,250	—	210				210
Purchase of treasury stock	(97,724)			(3,796)			(3,796)
BALANCE, September 30, 2012	8,026,845	$ 85	$85,584	$(18,502)	$ 691	$ 6,064	$73,922

See notes to interim consolidated financial statements.

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	For the nine months ended September 30, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 8,487	$ 10,569
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	257	184
Amortization of intangible assets	366	374
Fair value adjustment of liabilities	(96)	(126)
(Gain) on sale of available for sale investment	(803)	—
Unrealized (gains) and losses on trading investments	(164)	682
Restricted stock amortization	7,635	7,601
Loss on disposal of property	1	—
Deferred income taxes	931	1,147
Excess tax benefits from stock based compensation	(676)	(692)
Net purchases of investments – trading securities	96	(5,109)
Change in operating assets and liabilities:		
Accounts receivable	(495)	(649)
Other current assets	(684)	(168)
Accounts payable and accrued liabilities	(2,691)	170
Compensation and benefits payable	(1,996)	704
Income taxes payable and prepaid income taxes	(961)	(706)
Other liabilities	(69)	335
Net cash provided by operating activities	9,138	14,316
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of available for sale investment	950	—
Purchase of property and equipment	(238)	(1,092)
Net cash provided by (used in) investing activities	712	(1,092)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of treasury stock	(3,796)	(5,858)
Excess tax benefits from stock based compensation	676	692
Cash dividends	(5,475)	(5,295)
Proceeds from exercise of stock options	210	65
Net cash used in financing activities	(8,385)	(10,396)
EFFECT OF CURRENCY RATE CHANGES ON CASH	48	—
NET INCREASE IN CASH	1,513	2,828
Cash and cash equivalents, beginning of period	5,264	1,744
Cash and cash equivalents, end of period	$ 6,777	$ 4,572
Supplemental cash flow information:		
Cash paid during the period for income taxes	$ 5,708	$ 5,877

See notes to interim 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”, “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 subsidiaries, Westwood Management Corp. (“Westwood Management”), Westwood Trust (“Westwood Trust”) and Westwood International Advisors Inc. (“Westwood International”). Westwood Management provides investment advisory services to corporate retirement plans, public retirement plans, endowments and foundations, mutual funds, individuals and clients of Westwood Trust. Westwood Trust provides institutions and high net worth individuals with trust and custodial services and participation in its sponsored common trust funds. Westwood International provides investment advisory services to institutional investors. Revenue is largely dependent on the total value and composition of assets under management (“AUM”). Accordingly, fluctuations in financial markets and in the composition of AUM impact revenues and results of operations.

Westwood Management is a registered investment adviser under the Investment Advisers Act of 1940. Westwood Trust is chartered and regulated by the Texas Department of Banking. Westwood International is registered as a portfolio manager and exempt market dealer with the Ontario Securities Commission.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared without an audit and reflect all adjustments that, in the opinion of management, are necessary to present fairly our financial position as of September 30, 2012, and results of operations and cash flows for the periods presented. All such adjustments are normal and recurring in nature. The accompanying consolidated financial statements are presented using the accrual basis of accounting and have been prepared in accordance with the instructions for the presentation of interim financial information as prescribed by the Securities and Exchange Commission (“SEC”). The accompanying consolidated financial statements should be read in conjunction with our consolidated financial statements, and notes thereto, included in our Annual Report on Form 10-K for the year ended December 31, 2011. Operating results for the periods in these consolidated financial statements are not necessarily indicative of the results for any future period. The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and include the accounts of Westwood and its subsidiaries. All intercompany accounts and transactions have been eliminated upon consolidation.

Use of Estimates

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

Revenue Recognition

Investment advisory and trust fees are recognized as services are provided. These fees are determined in accordance with contracts between our subsidiaries and their clients and are generally based on a percentage of assets under management. A limited number of our clients have contractual performance-based fee arrangements, which would pay us an additional fee if we outperform a specified index over a specific period of time. We record revenue for performance-based fees at the end of the measurement period. Most advisory and trust fees are payable in advance or in arrears on a calendar quarterly basis. Advance payments are deferred and recognized over the periods services are performed. Since billing periods for most of our advance paying clients coincide with the calendar quarter to which payment relates, revenue is fully recognized within the quarter. Consequently there is not a significant amount of deferred revenue contained in our financial statements. Deferred revenue is shown on the balance sheet under the heading of “Other current liabilities”. Other revenues generally consist of interest and investment income. These revenues are recognized as earned or as the services are performed.

Variable Interest Entities

A variable interest entity ("VIE") is an entity in which either (a) the equity investment at risk is not sufficient to permit the entity to finance its own activities without additional financial support or (b) the voting rights of the equity investors are not proportional to their obligations to absorb expected losses or receive expected residual returns of the entity.

We have examined whether the entities in which we have an interest are VIEs and whether we qualify as the primary beneficiary of the VIEs that we identify. We have included the disclosures related to VIEs in a note to these consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents consist of short-term, highly liquid investments with maturities of three months or less, other than pooled investment vehicles that are considered investments.

Accounts Receivable

Our accounts receivable balances generally consist of advisory and trust fees receivable from customers that we believe and have experienced to be fully collectable. Our trade accounts receivable balances do not include any allowance for doubtful accounts nor has any bad debt expense attributable to trade receivables been recorded for the periods presented in these consolidated financial statements.

Investments

Class A shares of Teton Advisors, Inc. ("Teton shares") are classified as available for sale. The Teton shares are carried at quoted market value with a 25% discount for lack of marketability. Unrealized gains and losses on the Teton shares are recorded through other comprehensive income. All other marketable securities are classified as trading securities and are carried at quoted market value on the accompanying consolidated balance sheet. Net unrealized holding gains or losses on investments classified as trading securities are reflected as a component of other revenues. We measure realized gains and losses on investments using the specific identification method.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the cost of acquired assets over the fair value of the underlying identifiable assets at the date of acquisition. Goodwill is not amortized but is tested annually for impairment.

During the third quarter of 2012, we completed our annual goodwill impairment assessment and determined that no impairment loss was required. We perform annual impairment assessments as of July 1 and reassess if circumstances indicate a potential impairment between annual assessment dates. We assess the fair value of our business units for goodwill purposes using a market multiple approach.

Our intangible assets represent the acquisition date fair value of acquired client relationships, trade names and non-compete agreements and are reflected net of amortization. In valuing these assets, we made significant estimates regarding their useful lives, growth rates and potential attrition. We periodically review intangible assets for events or circumstances that would indicate impairment. For a further discussion of our intangible assets, please see "Note 6. INTANGIBLE ASSETS" of these consolidated financial statements.

Federal Income Taxes

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

We do not have uncertain tax positions for any of the periods presented. If an uncertain tax position should arise, we would report a liability for an unrecognized tax expense from an uncertain tax position taken or expected to be taken on a tax return. We include penalties and interest on income based taxes in “Provision for income taxes” on our consolidated statements of comprehensive income.

Currency Translation

Assets and liabilities of our non-U.S. dollar functional currency subsidiary are translated at exchange rates as of the applicable reporting dates. Revenues and expenses are translated at average exchange rates during the periods indicated. The gains and losses resulting from translating non-U.S. dollar functional currency into U.S. dollars are recorded through other comprehensive income.

Long-term Compensation Agreements

We entered into long-term compensation agreements with certain key employees of Westwood International Advisors Inc., our Canadian subsidiary launched in the second quarter of 2012. These agreements stipulate that cash sign on bonuses paid to these employees can be earned over multi-year periods. In certain circumstances, these payments will be forfeited to us if the employment of these individuals is terminated before completion of the contractual earning period. Payments made in advance under these agreements are included in “Other current assets” on our Consolidated Balance Sheet, net of amounts already amortized.

Stock Based Compensation

We account for stock-based compensation in accordance with Financial Accounting Standards Board (“FASB”) *Accounting Standards Codification* (“ASC”) No. 718, Compensation-Stock Compensation (“ASC 718”). Under ASC 718, stock-based compensation expense reflects the fair value of stock-based awards measured at grant date, is recognized over the relevant service period, and is adjusted each period for anticipated forfeitures. The compensation cost recorded for these awards is based on their grant-date fair value as required by ASC 718.

We have issued restricted stock and granted stock options in accordance with our Third Amended and Restated Westwood Holdings Group, Inc. Stock Incentive Plan as amended, (the “Plan”). We valued stock options granted in accordance with the Black-Scholes option-pricing model and expensed this value over the periods in which the options vested. Implementation of the Black-Scholes option-pricing model required us to make certain assumptions, including expected volatility, risk-free interest rate, expected dividend yield and expected life of the options. We utilized assumptions that we believed to be most appropriate at the time of the valuation. Had we used different assumptions in the pricing model, the expense recognized for stock options may have been different than the expense recognized in our consolidated financial statements. We must also apply judgment in developing an expectation of awards of restricted stock and stock options that may be forfeited. If actual experience differs significantly from these estimates, our stock-based compensation expense and results of operations could be materially affected.

3. EARNINGS PER SHARE

Basic earnings per common share is computed by dividing net income available to common stockholders by the weighted average number of shares outstanding for the periods ended September 30, 2012 and 2011, respectively. Diluted earnings per share for these periods is computed based on the weighted average number of shares outstanding plus the effect of dilutive shares of restricted stock and stock options granted to employees and non-employee directors and contingently issuable shares. There were no anti-dilutive restricted shares or options as of September 30, 2012 or 2011.

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

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Net income	$ 2,504	$ 3,283	$ 8,487	$ 10,569
Weighted average shares outstanding – basic	7,166,020	7,005,473	7,138,878	6,976,988
Dilutive potential shares from unvested restricted shares	157,225	172,430	157,966	186,780
Dilutive contingently issuable shares	—	22,380	—	23,475
Dilutive potential shares from stock options	—	15,855	4,170	17,092
Weighted average shares outstanding – diluted	7,323,245	7,216,138	7,301,014	7,204,335
Earnings per share:				
Basic	$ 0.35	$ 0.47	$ 1.19	$ 1.51
Diluted	$ 0.34	$ 0.46	$ 1.16	$ 1.47

4. INVESTMENTS

Investment balances are presented in the table below (in thousands). All investments are carried at fair value. Our investments in Teton shares are accounted for as available for sale securities. All other investments are accounted for as trading securities.

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
September 30, 2012:				
U.S. Government obligations	$26,999	$ 2	$ —	$27,001
Money Market Funds	10,209	—	—	10,209
Equity – available for sale	—	975	—	975
Equity Funds - trading	3,993	350	—	4,343
Fixed Income Funds - trading	10,333	52	—	10,385
Marketable securities	$51,534	$ 1,379	$ —	$52,913
December 31, 2011:				
U.S. Government obligations	$35,499	$ 8	$ —	$35,507
Money Market Funds	11,458	—	—	11,458
Equity – available for sale	—	2,999	—	2,999
Equity Funds - trading	3,161	248	(9)	3,400
Fixed Income Funds - trading	1,503	1	—	1,504
Marketable securities	$51,621	$ 3,256	$ (9)	$54,868

5. FAIR VALUE MEASUREMENTS

We determined estimated fair values of our financial instruments using available information. The fair value amounts discussed in Notes 4 and 5 to the consolidated financial statements are not necessarily indicative of either the amounts realizable upon disposition of these instruments or our intent or ability to dispose of these assets. The estimated fair value of cash and cash equivalents, as well as accounts receivable and payable, approximates their carrying value due to their short-term maturities. The carrying amount of investments designated as "trading" securities, primarily U.S. Government and Government agency obligations, money market funds, Westwood Funds™ mutual funds and Westwood Trust common trust fund shares, equals their fair value, which is equal to prices quoted in active markets and, with respect to funds, the net asset value of the shares held as reported by the fund. Market values of our money market holdings generally do not fluctuate. The fair value of the Teton shares, which is designated as an "available for sale" security, is equal to the closing market price as of September 30, 2012 of $13.00 per share, less a 25% discount for lack of marketability.

Effective January 1, 2008, we adopted the provisions of FASB ASC No. 820, Fair Value Measurements and Disclosures ("ASC 820"), which defines fair value, establishes a framework for measuring fair value and requires additional disclosures regarding certain fair value measurements. ASC 820 establishes a three-tier hierarchy for measuring fair value as follows:

- level 1 – quoted market prices in active markets for identical assets,
- level 2 – inputs other than quoted prices that are directly or indirectly observable, and
- level 3 – unobservable inputs where there is little or no market activity.

The following table summarizes the values of our assets within the fair value hierarchy (in thousands).

	Level 1	Level 2	Level 3	Total
As of September 30, 2012				
Investments in securities:				
Trading	$47,595	$4,343	$ —	$51,938
Available for sale	—	—	975	975
Total Financial instruments	$47,595	$4,343	$ 975	$52,913
As of December 31, 2011				
Investments in securities:				
Trading	$50,592	$1,277	$ —	$51,869
Available for sale	—	—	2,999	2,999
Total Financial instruments	$50,592	$1,277	$2,999	$54,868

Investments categorized as level 2 assets consist of investments in common trust funds sponsored by Westwood Trust. Common trust funds are private investment vehicles comprised of commingled investments held in trusts that are valued using the Net Asset Value (“NAV”) calculated by us as administrator of the funds. The NAV is quoted on an inactive private market; however, the unit price is based on the market value of the underlying investments that are traded on an active market.

We used level 3 inputs to determine the fair value of our Teton shares. This fair value amount is not necessarily indicative of either the amount we would realize upon disposition of these shares or our intent or ability to dispose of them. There were no transfers of assets (including level 3 assets) to or from other asset classes. In the second quarter of 2012, we sold 100,000 Teton shares and an option to purchase the remaining 100,000 Teton shares by December 31, 2012. The following table presents information regarding this investment.

	Three Months Ended September 30,		Nine months Ended September 30,	
Investments in available for sale securities (in thousands)	2012	2011	2012	2011
Beginning balance	$975	$2,512	$ 2,999	$1,425
Proceeds from sale	—	—	(803)	—
Unrealized gains/(losses) included in Other Comprehensive Income	—	16	(1,221)	1,103
Ending balance	$975	$2,528	$ 975	$2,528

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6. INTANGIBLE ASSETS

The following is a summary of our intangible assets at September 30, 2012 and December 31, 2011 (in thousands):

	Weighted Average Amortization Period (years)	Gross Carrying Amount	Accumu-lated Amortiz-ation	Net Carrying Amount
September 30, 2012				
Client relationships	14.2	$5,005	$ (768)	$4,237
Trade names	2.0	256	(241)	15
Non-compete agreements	2.3	26	(23)	3
Total		$5,287	$(1,032)	$4,255
December 31, 2011				
Client relationships	14.2	$5,005	$ (498)	$4,507
Trade names	2.0	256	(153)	103
Non-compete agreements	2.3	26	(15)	11
Total		$5,287	$ (666)	$4,621

Amortization expense was $366,000 and $374,000 for the nine months ended September 30, 2012 and 2011, respectively. Estimated amortization expense for intangible assets for the next five years follows (in thousands):

For the Year ending December 31,	Estimated Amortization Expense
2012	$ 472
2013	359
2014	359
2015	359
2016	359

7. EQUITY

On July 19, 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. This authorization supersedes a share repurchase program authorized in August 2011 that was scheduled to expire on August 9, 2012. The stock repurchase program does not have an expiration date and may be discontinued at any time by our board of directors.

On July 19, 2012, we declared a quarterly cash dividend of $0.37 per share on common stock payable on October 1, 2012 to stockholders of record on September 14, 2012.

On April 19, 2012, we granted an aggregate of 9,000 shares of restricted stock to non-employee directors. These shares are subject to vesting conditions as described in "Note 9. STOCK BASED COMPENSATION".

On April 19, 2012, we declared a quarterly cash dividend of $0.37 per share on common stock payable on July 2, 2012 to stockholders of record on June 15, 2012.

On March 5 and February 24, 2012, we purchased 462 shares and 85,991 shares of our common stock, respectively, from Westwood employees to assist in satisfying their tax obligations related to vested restricted shares. The shares were purchased at the closing price of our common stock on those days and are shown as treasury shares in the equity section of our balance sheet.

On February 23, 2012, we granted an aggregate of 400,780 shares of restricted stock to certain employees. These shares are subject to vesting conditions as described in "Note 9. STOCK BASED COMPENSATION".

On February 2, 2012, we declared a quarterly cash dividend of $0.37 per share on common stock payable on April 2, 2012 to stockholders of record on March 15, 2012.

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8. VARIABLE INTEREST ENTITIES

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

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

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

	As of September 30, 2012		
	Assets Under Management	Corporate Investment	Risk of Loss
Westwood Funds™	$ 1,594	$ 10.4	$10.4
Common Trust Funds	1,967	4.3	4.3
LLCs	367	—	—
Partnership	—	—	—

	As of December 31, 2011		
	Assets Under Management	Corporate Investment	Risk of Loss
Westwood Funds™	$ 1,293	$ 3.6	$ 3.6
Common Trust Funds	1,675	1.3	1.3
LLCs	435	—	—
Partnership	25	—	—

9. STOCK BASED COMPENSATION

The Plan reserves shares of Westwood common stock for issuance to eligible employees, directors and consultants of Westwood or its subsidiaries in the form of restricted stock and stock options. The total number of shares that may be issued under the Plan (including predecessor plans) may not exceed 3,398,100 shares and as of September 30, 2012, approximately 472,000 shares remained available for issuance under the Plan.

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

	Nine months ended September 30,	
	2012	2011
Service condition restricted stock expense	$5,656	$5,848
Performance-based based restricted stock expense	1,979	1,753
Total stock based compensation expense	$7,635	$7,601

Restricted Stock

Under the Plan, we have granted to employees and non-employee directors restricted stock that is subject to a service condition, and to certain key employees restricted stock that is subject to a service condition and performance goals. As of September 30, 2012, approximately $24.5 million of remaining unrecognized compensation cost is expected to be recognized over a remaining weighted-average period of 2.2 years. Our two types of restricted stock grants are discussed below.

Employee and non-employee director restricted share grants

Restricted shares granted to employees vest over four years and non-employee directors' shares vest over one year. The following table details the status and changes in our restricted stock grants that are subject only to a service condition for the nine months ended September 30, 2012:

Restricted shares subject only to a service condition:	Shares	Weighted Average Grant Date Fair Value
Non-vested, January 1, 2012	561,070	$ 36.37
Granted	209,780	39.26
Vested	(206,375)	36.19
Forfeited	(8,650)	37.48
Non-vested, September 30, 2012	555,825	37.51

Performance-based restricted share grants

Under the Plan, we granted to certain key employees restricted shares that vest over five years, provided that annual performance goals established by Westwood's Compensation Committee are met. In February 2012, the Compensation Committee established the 2012 goal as adjusted pre-tax income of at least $26,661,000, representing a compound annual growth rate of 7% over annual adjusted pre-tax income recorded in 2007. Adjusted pre-tax income is determined based on our audited financial statements and is equal to income before income taxes increased by expenses incurred for the year for (i) incentive compensation for all officers and employees and (ii) performance-based restricted stock awards. Revenues and expenses associated with subsidiaries acquired or newly launched in 2012 are excluded from the calculation of adjusted pre-tax income. In the second quarter of 2012, we concluded that it was probable that we would meet the performance goals required to vest the applicable percentage of the performance-based restricted shares this year and began recording expense related to those shares.

The following table details the status and changes in our restricted stock grants that are subject to service and performance conditions for the nine months ended September 30, 2012:

Restricted shares subject to service and performance conditions:	Shares	Weighted Average Grant Date Fair Value
Non-vested, January 1, 2012	105,000	$ 39.90
Granted	200,000	39.31
Vested	—	—
Forfeited	—	—
Non-vested, September 30, 2012	305,000	39.51

10. CONTINGENCIES

On August 3, 2012, AGF Management Limited and AGF Investments Inc. (“AGF”) filed a lawsuit in the Ontario Superior Court of Justice against Westwood, certain Westwood employees and executive recruiting firm Warren International, LLC (File no. CV-12-460520). The suit is related to the hiring of certain members of Westwood’s Global and Emerging Markets investment team who were previously employed by the plaintiff. AGF is alleging the former employees breached their contractual and fiduciary obligations when they resigned from AGF, and that Westwood and Warren induced such breaches. AGF is seeking an unspecified amount of damages and punitive damages of $10 million. We intend to vigorously defend these allegations.

11. 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. We evaluate the performance of our segments based primarily on income before income taxes. Westwood Holdings, the parent company of Advisory and Trust, does not have revenues or employees and is the entity in which we record stock-based compensation expense.

Advisory

Our Advisory segment provides investment advisory services to corporate retirement plans, public retirement plans, endowments, foundations, individuals and the Westwood Funds™, as well as investment subadvisory services to mutual funds and our Trust segment. Westwood Management and Westwood International Adivsors are included in our Advisory segment.

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.

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	Trust	Westwood Holdings	Eliminations	Consolidated
			(in thousands)		
Three months ended September 30, 2012					
Net revenues from external sources	$15,226	$ 3,715	$ —	$ —	$ 18,941
Net intersegment revenues	1,564	3	—	(1,567)	—
Income before income taxes	6,666	551	(2,886)	—	4,331
Segment assets	83,744	13,932	(5,733)	—	91,943
Segment goodwill	5,219	6,036	—	—	11,255
Three months ended September 30, 2011					
Net revenues from external sources	$12,574	$ 3,474	$ —	$ —	$ 16,048
Net intersegment revenues	1,182	4	—	(1,186)	—
Income before income taxes	7,083	623	(2,409)	—	5,297
Segment assets	71,263	13,954	(1,017)	—	84,200
Segment goodwill	5,259	6,079	—	—	11,338
Nine months ended September 30, 2012					
Net revenues from external sources	$45,927	$10,944	$ —	$ —	$ 56,871
Net intersegment revenues	4,020	12	—	(4,032)	—
Income before income taxes	20,091	1,712	(7,636)	—	14,167
Nine months ended September 30, 2011					
Net revenues from external sources	$41,612	$10,304	$ —	$ —	$ 51,916
Net intersegment revenues	3,574	12	—	(3,586)	—
Income before income taxes	22,866	1,567	(7,601)	—	16,832

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," "may," "target," "designed," "on track," "comfortable with," "optimistic" and other similar expressions, constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results and the timing of some events could differ materially from those projected in or contemplated by the forward-looking statements due to a number of factors, including, without limitation, the risks described under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC, and those set forth below:

- our ability to identify and market services that appeal to our customers;
- the significant concentration of our revenues in four of our customers;
- our relationships with investment consulting firms;
- our relationships with current and potential customers;
- our ability to retain qualified personnel;
- our ability to develop and market new investment strategies successfully;
- our ability to maintain our fee structure in light of competitive fee pressures;
- competition in the marketplace;
- downturns in financial markets;
- new legislation adversely affecting the financial services industries;
- interest rates;
- changes in our effective tax rate;
- our ability to maintain an effective system of internal controls; and
- other risks as detailed from time to time in our SEC reports.

You should not unduly rely on these forward-looking statements, which speak only as of the date of this report. 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, Westwood Trust and Westwood International. Westwood Management provides investment advisory services to corporate and public retirement plans, endowments and foundations, the Westwood Funds™, other mutual funds, individuals and clients of Westwood Trust. Westwood Trust provides trust and custodial services and participation in common trust funds that it sponsors to institutions and high net worth individuals. Westwood International was established in the second quarter of 2012 and provides Global and Emerging Markets investment advisory services to institutional clients. Our revenues are generally derived from fees based on a percentage of assets under management. We have been providing investment advisory services since 1983 and, according to recognized industry sources including Morningstar, Inc., our principal asset classes have consistently ranked above the median in performance within their peer groups when measured over ten years and longer. Percentages stated in this section are rounded to the nearest whole percent.

Revenues

We derive our revenues from investment advisory fees, trust fees, and other revenues. Our advisory fees are generated by Westwood Management and Westwood International, which manage client accounts under investment advisory and subadvisory agreements. Advisory fees are calculated based on a percentage of assets under management and are paid in accordance with the terms of the agreements. Advisory fees are paid quarterly in advance based on assets under management on the last day of the preceding quarter, quarterly in arrears based on assets under management on the last day of the quarter just ended, or are based on a daily or monthly analysis of assets under management for the stated period. We recognize advisory fee revenues as services are rendered. A limited number of our clients have a contractual performance-based fee component in their contract, which generates additional revenues if we outperform a specified index over a specific period of time. We record revenue from performance-based fees at the end of the measurement periods. Since our advance paying clients' billing periods coincide with the calendar quarter to which such payments relate, revenue is fully recognized within the quarter and our consolidated financial statements contain no deferred advisory fee revenues.

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

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

Assets Under Management

Assets under management increased $2.4 billion to $14.1 billion at September 30, 2012 compared with $11.7 billion at September 30, 2011. The average of beginning and ending assets under management for the third quarter of 2012 was $13.6 billion compared to $12.8 billion for the third quarter of 2011, an increase of 6%.

The following table displays assets under management as of September 30, 2012 and 2011:

	As of September 30, (in millions)		% Change September 30, 2012 vs.
	2012	2011	September 30, 2011
Institutional	$ 9,208	$ 7,769	19%
Private Wealth	3,270	2,796	17
Mutual Funds	1,594	1,089	46
Total Assets Under Management	$14,072	$11,654	21%

- *Institutional* includes separate accounts of corporate pension and profit sharing plans, public employee retirement funds, Taft Hartley plans, endowments, foundations and individuals; subadvisory relationships where Westwood provides investment management services for funds offered by other financial institutions; and managed account relationships with brokerage firms and other registered investment advisors which offer Westwood products to their customers.
- *Private Wealth* includes assets for which Westwood Trust provides trust and custodial services and participation in common trust funds that it sponsors to institutions and high net worth individuals pursuant to trust or agency agreements. Investment subadvisory services are provided for the common trust funds by Westwood Management, Westwood International and external, unaffiliated subadvisors. Also included are assets acquired in the McCarthy transaction representing institutional and high net worth clients for which Westwood provides investment management and advisory services.
- *Mutual Funds* include the Westwood Funds™, a family of U.S.-registered mutual funds for which Westwood Management serves as advisor.
- Westwood Trust had assets under management of $2.5 billion at September 30, 2012 compared with $1.9 billion at September 30, 2011. Westwood Trust assets under management are included in "Private Wealth" in the table above.

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- Westwood International, which began providing investment advisory services in the third quarter of 2012, had assets under management for external clients of $486 million as of September 30, 2012. These assets are included in "Institutional" in the above table. In addition, Westwood International subadvised $254 million in Westwood Trust common trust fund assets as of September 30, 2012, for total assets under management of $740 million. The Westwood Trust common trust fund assets are included in "Private Wealth" in the table above.

Roll-Forward of Assets Under Management

($ millions)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine months Ended September 30, 2012	Nine months Ended September 30, 2011
Institutional				
Beginning of period assets	$ 8,511	$ 9,432	$ 8,735	$ 8,359
Inflows	95	278	1,055	1,429
Outflows	(321)	(245)	(1,619)	(894)
Net flows	174	33	(564)	535
Market appreciation/(depreciation)	523	(1,696)	1,037	(1,125)
Net change	697	(1,663)	473	(590)
End of period assets	9,208	7,769	9,208	7,769
Private Wealth				
Beginning of period assets	3,166	3,203	3,051	3,148
Inflows	62	127	290	238
Outflows	(91)	(82)	(347)	(329)
Net flows	(29)	45	(57)	(91)
Market appreciation/(depreciation)	133	(452)	276	(261)
Net change	104	(407)	219	(352)
End of period assets	3,270	2,796	3,270	2,796
Mutual Funds				
Beginning of period assets	1,476	1,288	1,293	970
Inflows	100	99	352	448
Outflows	(55)	(106)	(190)	(200)
Net flows	45	(7)	162	248
Market appreciation/(depreciation)	73	(192)	139	(129)
Net change	118	(199)	301	119
End of period assets	1,594	1,089	1,594	1,089
Total				
Beginning of period assets	13,153	13,923	13,079	12,477
Inflows	657	504	1,697	2,115
Outflows	(467)	(433)	(2,156)	(1,423)
Net flows	190	71	(459)	692
Market appreciation/(depreciation)	729	(2,340)	1,452	(1,515)
Net change	919	(2,269)	993	(823)
End of period assets	$14,072	$11,654	$14,072	$11,654

Three months ended September 30, 2012 and 2011

The $919 million increase in assets under management for the three months ended September 30, 2012 was due to market appreciation of $729 million and inflows of $657 million partially offset by outflows of $467 million. Inflows were primarily driven by new institutional accounts in our Emerging Markets strategy managed by Westwood International and inflows into the Westwood Income Opportunity mutual fund. Outflows were primarily related to rebalancing by clients across multiple products.

The $2.3 billion decrease in assets under management for the three months ended September 30, 2011 was due primarily to market depreciation of $2.3 billion

Nine months ended September 30, 2012 and 2011

The $993 million increase in assets under management for the nine months ended September 30, 2012 was due to inflows of $1.7 billion and market appreciation of $1.5 billion, partially offset by outflows of $2.2 billion. Inflows were primarily driven by new institutional accounts in our Emerging Markets strategy managed by Westwood International, inflows into the Westwood Income Opportunity mutual fund and inflows into new and existing accounts in our Income Opportunity and LargeCap Value strategies. Outflows were primarily related to rebalancing by LargeCap Value institutional accounts.

The $823 million decrease in assets under management for the nine months ended September 30, 2011 was due to market depreciation of $1.5 billion and outflows of $1.4 billion, partially offset by inflows of $2.1 billion. Inflows were driven primarily by additional inflows into institutional separate accounts, the WHG Funds and private wealth accounts. Outflows were primarily related to account closings and outflows from institutional separate accounts, subadvisory and private wealth clients.

Results of Operations

In the second quarter of 2012, as part of our long-standing strategy to expand our research capabilities and product offerings, we established Westwood International Advisors, based in Toronto, to manage Global and Emerging Markets Equity strategies. Westwood International began providing investment management services during the third quarter of 2012 and ended the quarter with assets under management from external clients of $486 million. In addition, Westwood International Subadvised $254 million in Westwood Trust common trust fund assets as of September 30, 2012, for total assets under management of $740 million. Westwood International had 11 full-time employees as of September 30, 2012. As Westwood International has only recently commenced operations, our Consolidated Statement of Comprehensive Income for the nine months ended September 30, 2012 includes minimal revenues and significant costs related to Westwood International's operations.

The following table (dollars in thousands) and discussion of our results of operations for the three and nine months ended September 30, 2012 is based upon data derived from the consolidated statements of comprehensive income contained in our consolidated financial statements and should be read in conjunction with those statements, included elsewhere in this report.

	Three months ended September 30,		Nine months ended September 30,		% Change	
					Three months ended September 30, 2012 vs. September 30, 2011	Nine months ended September 30, 2012 vs. September 30, 2011
	2012	2011	2012	2011		
Revenues						
Advisory fees						
Asset-based	$14,485	$13,376	$42,677	$41,034	8%	4%
Performance-based	69	—	1,251	991	NM	26
Trust fees	3,715	3,468	10,943	10,297	7	6
Other revenues	672	(796)	2,000	(406)	184	593
Total revenues	18,941	16,048	56,871	51,916	18	10
Expenses						
Employee compensation and benefits	11,397	8,295	32,196	27,084	37	19
Sales and marketing	350	221	823	666	58	24
Westwood mutual funds	292	34	776	523	759	48
Information technology	649	503	1,874	1,503	29	25
Professional services	739	710	3,681	2,438	4	51
General and administrative	1,183	988	3,354	2,870	20	17
Total expenses	14,610	10,751	42,704	35,084	36	22
Income before income taxes	4,331	5,297	14,167	16,832	(18)	(16)
Provision for income taxes	1,827	2,014	5,680	6,263	(9)	(9)
Net income	$ 2,504	$ 3,283	$ 8,487	$10,569	(24)%	(20)%

Three months ended September 30, 2012 compared to three months ended September 30, 2011

Total Revenues. Our total revenues increased by 18% to $18.9 million for the three months ended September 30, 2012 compared with $16.0 million for the three months ended September 30, 2011. Asset-based advisory fees increased by 8% to $14.5 million for the three months ended September 30, 2012 compared with $13.4 million for the three months ended September 30, 2011 as a result of increased average assets under management due to market appreciation and asset inflows from new and existing clients, partially offset by the withdrawal of assets by certain clients. Performance-based advisory fees increased $69,000 due to an adjustment to the performance fee we earned in the second quarter of 2012. Trust fees increased by 7% to $3.7 million for the three months ended September 30, 2012 compared with $3.5 million for the three months ended September 30, 2011 as a result of increased assets under management at Westwood Trust primarily due to market appreciation. Other revenues, which generally consist of interest and investment income, increased by 184% to $672,000 for the three months ended September 30, 2012 compared with $(796,000) for the three months ended September 30, 2011. Other revenues are presented on a net basis and increased primarily due to increases of $1.2 million in unrealized gains on investments, $134,000 in dividend income and $133,000 in net realized gains on investments.

Employee Compensation and Benefits. Employee compensation and benefits costs generally consist of salaries, incentive compensation, equity-based compensation expense and benefits. Employee compensation and benefits costs increased by 37% to $11.4 million for the three months ended September 30, 2012 compared with $8.3 million for the three months ended September 30, 2011. The increase was primarily due to increases of $1.6 million in expense related to amortization of multi-year bonus agreements, $709,000 in salary expense due primarily to increased average headcount and salary increases, $405,000 in performance-based restricted stock expense and $224,000 in incentive compensation expense. During the second quarter of 2012, we concluded that it was probable that we would meet the performance goal required in order for the applicable percentage of performance-based restricted shares to vest. We had 97 full-time employees as of September 30, 2012 compared to 81 full-time employees as of September 30, 2011.

Sales and Marketing. Sales and marketing costs relate to our marketing efforts, including travel and entertainment, direct marketing and advertising costs. Sales and marketing costs increased by 58% to $350,000 for the three months ended September 30, 2012 compared with $221,000 for the three months ended September 30, 2011. The increase was primarily the result of increased direct marketing and travel expenses.

Westwood Mutual Funds. Westwood Mutual Funds expenses relate to our marketing, distribution, administration and acquisition efforts related to the Westwood Funds™. Westwood Mutual Funds expenses increased to $292,000 for the three months ended September 30, 2012 compared with $34,000 for the three months ended September 30, 2011. In the third quarter of 2011, we recorded a $166,000 reduction in the Contingent liability related to the 2009 acquisition of the Philadelphia Fund. Excluding this adjustment, Westwood Matual Funds expenses for the three months ended September 30, 2011 were $200,000. The remainder of the year-over-year increase was due to an increase in shareholder servicing costs as well as subadvisory expenses related to a new fund launched in the fourth quarter of 2011.

Information Technology. Information technology expenses are generally costs associated with proprietary investment research tools, maintenance and support, computing hardware, software licenses, telecommunications and other related costs. Information technology costs increased by 29% to $649,000 for the three months ended September 30, 2012 compared with $503,000 for the three months ended September 30, 2011. The increase was primarily due to software and software implementation costs related to upgraded client reporting and portfolio accounting systems, increased research expenses and increased equipment expenses.

Professional Services. Professional services expenses generally consist of costs associated with subadvisory fees, audit, legal and other professional services. Professional services expenses increased by 4% to $739,000 for the three months ended September 30, 2012 compared with $710,000 for the three months ended September 30, 2011 primarily due to legal fees. These increases were partially offset by decreased financial advisory expense due to the termination of subadvisors on International common trust funds in the fourth quarter of 2011 and the second quarter of 2012. Financial advisory expense related to the terminated International subadvisors was $0 and $175,000 for the three months ended September 30, 2012 and 2011, respectively.

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 20% to $1.2 million for the three months ended September 30, 2012 compared with $1.0 million for the three months ended September 30, 2011. The increase was primarily due to rent expense for our new Toronto office, non-marketing travel expenses related to Westwood International and increased custody expense.

Provision for Income Tax Expense. Provision for income tax expenses decreased by 9% to $1.8 million for the three months ended September 30, 2012 compared with $2.0 million for the three months ended September 30, 2011. The effective tax rate increased to 42.2% for the three months ended September 30, 2012 from 38.0% for the three months ended September 30, 2011 primarily due to operating losses from Westwood International, which is taxed at a lower Canadian tax rate.

Nine months ended September 30, 2012 compared to nine months ended September 30, 2011

Total Revenues. Our total revenues increased by 10% to $56.9 million for the nine months ended September 30, 2012 compared with $51.9 million for the nine months ended September 30, 2011. Asset-based advisory fees increased by 4% to $42.7 million for the nine months ended September 30, 2012 compared with $41.0 million for the nine months ended September 30, 2011 as a result of increased average assets under management due to market appreciation and inflows from new and existing clients, partially offset by the withdrawal of assets by certain clients. Performance-based advisory fees increased 26% to $1.3 million for the nine months ended September 30, 2012 compared with $1.0 million for the nine months ended September 30, 2011. Trust fees increased by 6% to $10.9 million for the nine months ended September 30, 2012 compared with $10.3 million for the nine months ended September 30, 2011 as a result of increased assets under management by Westwood Trust due to market appreciation and inflows from new accounts, partially offset by the withdrawal of assets by certain clients. Other revenues, which generally consist of interest and investment income, increased 593% to $2.0 million for the nine months ended September 30, 2012 compared with $(406,000) for the nine months ended September 30, 2011. Other revenues are presented on a net basis and increased primarily due to increases of $1.2 million in net realized gains on investments, which included a gain of $803,000 from the sale of 100,000 Teton shares, $942,000 in unrealized gains and $307,000 in dividend income.

Employee Compensation and Benefits. Employee compensation and benefits costs increased by 19% to $32.2 million for the nine months ended September 30, 2012 compared with $27.1 million for the nine months ended September 30, 2011. The increase was primarily due to increases of $2.8 million in expense related to amortization of multi-year bonus agreements, $1.6 million in salary expense due primarily to increased average headcount and salary increases and $418,000 in incentive compensation expense. In the second quarter of 2012, we concluded that it was probable that we would meet the performance goal required in order for the applicable percentage of performance-based restricted shares to vest. We had 97 full-time employees as of September 30, 2012 compared to 81 full-time employees as of September 30, 2011.

Sales and Marketing. Sales and marketing costs increased by 24% to $823,000 for the nine months ended September 30, 2012 compared with $666,000 for the nine months ended September 30, 2011. The increase is primarily the result of increased direct marketing, travel and entertainment expenses partially offset by decreased referral fee expenses.

Westwood Mutual Funds. Westwood Mutual Funds expenses increased by 48% to $776,000 for the nine months ended September 30, 2012 compared with $523,000 for the nine months ended September 30, 2011 due to increased shareholder servicing costs, a prior year decrease in expense related to the acquisition liability recorded as part of the mutual fund acquisition completed in 2009 and subadvisory expenses related to a new fund launched in the fourth quarter of 2011. These increases were partially offset by decreases in fund related legal expenses and fund expense reimbursements.

Information Technology. Information technology costs increased by 25% to $1.9 million for the nine months ended September 30, 2012 compared with $1.5 million for the nine months ended September 30, 2011. The increase is primarily due to software and software implementation costs related to upgraded client reporting and portfolio accounting systems, increased research expenses, increased equipment expenses and increased support costs.

Professional Services. Professional services expenses increased by 51% to $3.7 million for the nine months ended September 30, 2012 compared with $2.4 million for the nine months ended September 30, 2011 primarily due to one-time recruiting and legal fees related to the hiring of Westwood International employees, increased legal fees and increased tax adviser expense. These increases were partially offset by decreased financial advisory expense due to the termination of subadvisors on International common trust funds in the fourth quarter of 2011 and the second quarter of 2012 and lower audit expense. Financial advisory expense related to the terminated International Subadvisors was $204,000 and $590,000 for the nine months ended September 30, 2012 and 2011, respectively.

General and Administrative. General and administrative expenses increased by 17% to $3.4 million for the nine months ended September 30, 2012 compared with $2.9 million for the nine months ended September 30, 2011. The increase is primarily due to non-marketing travel expenses related to Westwood International, increased rent expense due to a new lease for our Dallas office effective September 2011 and rent expense for our new Toronto office, partially offset by decreases in training expenses and expenses related to our office relocation in 2011.

Provision for Income Tax Expense. Provision for income tax expenses decreased by 9% to $5.7 million for the nine months ended September 30, 2012 compared with $6.3 million for the nine months ended September 30, 2011. The effective tax rate increased to 40.0% for the nine months ended September 30, 2012 from 37.2% for the nine months ended September 30, 2011 primarily due to operating losses from Westwood International, which is taxed at a lower Canadian tax rate, and provision to return adjustments from our 2011 federal tax return.

Supplemental Financial Information

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

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

Our Economic Earnings decreased by 5% to $5.6 million for the three months ended September 30, 2012 compared with $5.9 million for the three months ended September 30, 2011, primarily due to increases in Economic Expenses. For the nine months ended September 30, 2012, Economic Earnings decreased by 11% to $16.6 million compared with $18.7 million for the nine months ended September 30, 2011, primarily due to increases in Economic Expenses.

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

	Three Months Ended September 30		%
	2012	2011	Change
Net Income	$ 2,504	$ 3,283	(24)%
Add: Restricted stock expense	2,886	2,409	20
Add: Intangible amortization	122	125	(2)
Add: Deferred taxes on goodwill	47	47	—
Economic Earnings	$ 5,559	$ 5,864	(5)
Total expenses	$ 14,610	$ 10,751	36
Less: Restricted stock expense	(2,886)	(2,409)	20
Less: Intangible amortization	(122)	(125)	(2)
Economic Expenses	$ 11,602	$ 8,217	41%

	Nine months Ended September 30 2012	2011	% Change
Net Income	$ 8,487	$ 10,569	(20)%
Add: Restricted stock expense	7,635	7,601	—
Add: Intangible amortization	366	374	(2)
Add: Deferred taxes on goodwill	142	142	—
Economic Earnings	$ 16,630	$ 18,686	(11)
Total expenses	$ 42,704	$ 35,084	22
Less: Restricted stock expense	(7,635)	(7,601)	—
Less: Intangible amortization	(366)	(374)	(2)
Economic Expenses	$ 34,703	$ 27,109	28%

Liquidity and Capital Resources

We fund our operations and cash requirements with cash generated from operating activities. As of September 30, 2012, we had no long-term debt. The changes in net cash provided by operating activities generally reflect the changes in earnings plus the effects of non-cash items and changes in working capital. Changes in working capital, especially accounts receivable and accounts payable, are generally the result of timing differences between collection of fees billed and payment of operating expenses.

During the nine months ended September 30, 2012, cash flow provided by operating activities, principally our investment advisory business, was $9.1 million. At September 30, 2012, we had working capital of $58.1 million. Cash flow provided by investing activities during the nine months ended September 30, 2012 of $710,000 was related to the sale of an available for sale investment, partially offset by purchases of fixed assets. Cash flow used in financing activities during the nine months ended September 30, 2012 of $8.4 million was due to the payment of dividends and the purchase of treasury shares partially offset by tax benefits from equity-based compensation and proceeds from the issuance of stock from option exercises.

We had cash and investments of $59.7 million as of September 30, 2012 and $60.1 million as of December 31, 2011. Dividends payable were $3.7 million and $3.1 million as of September 30, 2012 and December 31, 2011, respectively. We had no liabilities for borrowed money at September 30, 2012.

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, 2011 filed with the SEC. We believe that current cash and short-term investment balances and cash generated from operations will be sufficient to meet the operating and capital requirements of our ordinary business operations through at least the next twelve months. However, there can be no assurance that we will not require additional financing within this time frame. The failure to raise needed capital on attractive terms, if at all, could have a material adverse effect on our business, financial condition and results of operations.

Contractual Obligations

There have been no significant changes in our contractual obligations since December 31, 2011.

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, 2011.

Accounting Developments

In May 2011, the Financial Accounting Standards Board ("FASB") issued new guidance regarding the definition and requirements for the measurement of and disclosure about fair value. The new guidance results in a consistent definition of fair value and common requirements for the measurement and disclosure of fair value between U.S. GAAP and International Financial Reporting Standards. This guidance becomes effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We adopted this guidance in these financial statements. It did not have a material effect on our consolidated financial statements.

In June 2011, the FASB issued new guidance regarding the presentation of comprehensive income. Under this new guidance, an entity must present the components of net income and comprehensive income in a single continuous statement of comprehensive income or in two separate but consecutive statements. The new guidance eliminates the option to present other comprehensive income in the statement of shareholders' equity. The new guidance becomes effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We adopted this guidance in our financial statements for the year ending December 31, 2012. It did not have a material effect on our consolidated financial statements.

In September 2011, the FASB issued new guidance regarding the testing of goodwill for impairment. This new guidance allows entities to perform a qualitative assessment to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying value in order to determine if quantitative testing is required. This qualitative assessment is optional and is intended to reduce the cost and complexity of annual goodwill impairment tests. The new guidance is effective for annual and interim impairment tests performed for fiscal years beginning after December 15, 2011, and early adoption is allowed provided the entity has not yet performed its 2011 impairment test or issued its financial statements. This guidance will not have a material effect on our consolidated financial statements.

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no significant changes in our Quantitative and Qualitative Disclosures about Market Risk from those previously reported in our Annual Report on Form 10-K for the year ended December 31, 2011.

ITEM 4. CONTROLS AND PROCEDURES

Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended, (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (2) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure. An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on this evaluation, our management, including our Chief Executive Officer and our Chief Financial Officer, concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

For the quarter ended September 30, 2012, there were no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

On August 3, 2012, AGF Management Limited and AGF Investments Inc. (“AGF”) filed a lawsuit in the Ontario Superior Court of Justice against Westwood, certain Westwood employees and executive recruiting firm Warren International, LLC (File no. CV-12-460520). The suit is related to the hiring of certain members of Westwood’s Global and Emerging Markets investment team who were previously employed by the plaintiff. AGF is alleging the former employees breached their contractual and fiduciary obligations when they resigned from AGF, and that Westwood and Warren induced such breaches. AGF is seeking an unspecified amount of damages and punitive damages of $10 million. We intend to vigorously defend these allegations.

ITEM 1A. RISK FACTORS

We face a number of significant risks and uncertainties in our business, which are detailed under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2011 and summarized in this report under “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” These risks and uncertainties may affect our current position and future prospects and should be considered carefully in evaluating us and an investment in our common stock.

ITEM 6. EXHIBITS

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

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

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

SIGNATURES

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

Dated: October 18, 2012

WESTWOOD HOLDINGS GROUP, INC.

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

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

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
SECURITIES EXCHANGE ACT RULE 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: October 18, 2012

/s/ Brian O. Casey
Brian O. Casey
President & Chief Executive Officer

Exhibit 31.2

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

I, William R. Hardcastle, Jr., 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: October 18, 2012

/s/ William R. Hardcastle, Jr.
William R. Hardcastle, Jr.
Chief Financial 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 ended September 30, 2012 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.

October 18, 2012

/s/ Brian O. Casey
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.

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 ended September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William R. Hardcastle, Jr., 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 (15U.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 18, 2012

/s/ William R. Hardcastle, Jr.
William R. Hardcastle, Jr.
Chief Financial 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.