
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, 2005.

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

For the Transition Period from _____ to _____.

Commission file number 1-31234

WESTWOOD HOLDINGS GROUP, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or Other Jurisdiction of
Incorporation or Organization)

75-2969997
(IRS Employer
Identification No.)

200 CRESCENT COURT, SUITE 1200
DALLAS, TEXAS 75201
(Address of Principal Executive Office)(Zip Code)

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

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

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

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

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

Common Stock, \$0.01 Par Value — 5,746,897 shares as of April 25, 2005.

WESTWOOD HOLDINGS GROUP, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. UNAUDITED CONDENSED FINANCIAL STATEMENTS

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

As of March 31, 2005 and December 31, 2004
(in thousands, except par value and share amounts)
(unaudited)

	March 31, 2005	December 31, 2004
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,542	\$ 720
Accounts receivable	2,019	1,832
Investments, at market value	16,845	18,632
Other current assets	364	414
Total current assets	20,770	21,598
Goodwill	2,302	2,302
Deferred income taxes	673	517
Property and equipment, net of accumulated depreciation of \$317 and \$250	1,787	1,860
Total assets	\$25,532	\$ 26,277
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 524	\$ 629
Dividends payable	460	460
Compensation and benefits payable	764	2,703
Income taxes payable	452	—
Other current liabilities	6	17
Total current liabilities	2,206	3,809
Deferred rent	788	805
Total liabilities	2,994	4,614
Stockholders' Equity:		
Common stock, \$0.01 par value, authorized 10,000,000 shares, issued and outstanding 5,746,897 shares at March 31, 2005; issued and outstanding 5,754,147 shares at December 31, 2004	58	58
Additional paid-in capital	16,897	16,962
Unamortized stock compensation	(4,296)	(4,821)
Retained earnings	9,879	9,464
Total stockholders' equity	22,538	21,663
Total liabilities and stockholders' equity	\$25,532	\$ 26,277

See notes to consolidated financial statements.

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

	Three months ended March 31,	
	2005	2004
REVENUES:		
Advisory fees	\$ 3,191	\$ 3,420
Trust fees	1,703	1,452
Other revenues	188	171
Total revenues	5,082	5,043
EXPENSES:		
Employee compensation and benefits	2,598	2,337
Sales and marketing	82	100
Information technology	185	172
Professional services	319	224
General and administrative	477	381
Total expenses	3,661	3,214
Income before income taxes	1,421	1,829
Provision for income taxes	546	712
Net income	\$ 875	\$ 1,117
Earnings per share:		
Basic	\$ 0.16	\$ 0.21
Diluted	\$ 0.16	\$ 0.21

See notes to consolidated financial statements.

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the Three Months Ended March 31, 2005
(in thousands)
(unaudited)

	Westwood Holdings Group, Inc. Common Stock, Par		Additional Paid-In Capital	Unamortized Stock Compensation	Retained Earnings	Total
	Shares	Amount				
BALANCE, January 1, 2005	5,754,147	\$ 58	\$ 16,962	\$ (4,821)	\$ 9,464	\$21,663
Net income					875	875
Cancellation of restricted stock	(7,500)	—	(140)	140		—
Dividends declared (\$0.08 per share)					(460)	(460)
Amortization of stock compensation				385		385
Stock options vested			63			63
Tax benefit related to equity compensation			9			9
Stock options exercised	250	—	3			3
BALANCE, March 31, 2005	5,746,897	\$ 58	\$ 16,897	\$ (4,296)	\$ 9,879	\$22,538

See notes to consolidated financial statements.

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

	For the three months ended March 31,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 875	\$ 1,117
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	67	23
Unrealized gains on investments	(26)	(33)
Stock option expense	63	62
Restricted stock amortization	385	202
Deferred income taxes	(156)	(69)
Purchases of investments – trading securities	(870)	(2,122)
Sales of investments – trading securities	843	1,930
Change in operating assets and liabilities:		
Increase in accounts receivable	(187)	(182)
Decrease in other assets	28	22
(Decrease) increase in accounts payable and accrued liabilities	(105)	177
Decrease in compensation and benefits payable	(1,939)	(2,038)
Increase in income taxes payable and decrease in prepaid taxes	484	810
Decrease in other liabilities	(1)	(9)
Net cash used in operating activities	(539)	(110)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of money market funds	(392)	(706)
Sales of money market funds	2,232	2
Purchase of property and equipment	(22)	(59)
Net cash provided by (used in) investing activities	1,818	(763)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	3	—
Cash dividends	(460)	(167)
Net cash used in financing activities	(457)	(167)
NET INCREASE (DECREASE) IN CASH	822	(1,040)
Cash and cash equivalents, beginning of period	720	3,643
Cash and cash equivalents, end of period	\$ 1,542	\$ 2,603
Supplemental cash flow information:		
Cash paid during the period for income taxes	\$ 217	\$ (32)
Cancellation of restricted stock	(140)	(20)
Tax benefit allocated directly to equity	9	1

See notes to consolidated financial statements.

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

1. DESCRIPTION OF THE BUSINESS:

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

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

Management is a registered investment advisor under the Investment Advisers Act of 1940. Trust is chartered and regulated by the Texas Department of Banking.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation

The accompanying consolidated financial statements have been prepared without audit and reflect all adjustments that, in the opinion of management, are necessary to present fairly the Company’s financial position as of March 31, 2005, and results of operations and cash flows for the periods presented. All such adjustments are normal and recurring in nature. The accompanying consolidated financial statements are presented using the accrual basis of accounting and have been prepared in accordance with the instructions for the presentation of interim financial information as prescribed by the Securities and Exchange Commission (SEC) and, therefore, do not purport to contain all necessary financial disclosures required by accounting principles generally accepted in the United States of America that might otherwise be necessary in the circumstances, and should be read in conjunction with the Company’s consolidated financial statements, and notes thereto, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2004. Refer to the accounting policies described in the notes to the Company’s annual financial statements, which were consistently followed in preparing this interim financial information. Operating results for the three months ended March 31, 2005 are not necessarily indicative of the results for the year ending December 31, 2005 or any future period.

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

Use of Estimates

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

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

Revenue Recognition

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

Cash and Cash Equivalents

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

Investments

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

Goodwill

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

Reclassifications

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

Federal Income Taxes

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

Deferred income tax assets and liabilities are determined based on the differences between the financial statement and income tax bases of assets and liabilities as measured at enacted income tax rates. Deferred income tax expense is generally the result of changes in the deferred tax assets and liabilities.

Stock Options

Effective January 1, 2002, the Company elected to begin expensing the cost associated with stock options granted subsequent to January 1, 2002 to employees as well as non-employee directors under the SFAS No. 123, "Accounting for Stock Based Compensation" fair value model. The Company values stock options issued based upon an option pricing model and recognizes this value as an expense over the periods in which the options vest.

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

Fair Value of Financial Instruments

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

Earnings per Share

Basic earnings per common share is computed by dividing net income available to common stockholders by the weighted average number of shares outstanding for the periods ended March 31, 2005 and 2004, respectively. Diluted earnings per share for these periods is computed based on the weighted average number of shares outstanding plus the effect of the dilutive impact of stock options and shares of restricted stock granted to employees and non-employee directors, as well as the dilutive impact of shares of the Company's common stock that were held in the deferred compensation plan. Diluted earnings per common share is computed using the treasury stock method.

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

	Three months ended March 31,	
	2005	2004
Net income	\$ 875	\$ 1,117
Weighted average shares outstanding – basic	5,414,889	5,398,619
Dilutive potential shares from stock options	40,192	18,818
Dilutive potential shares from restricted shares	112,690	11,932
Dilutive potential shares from deferred compensation plan	—	353
Weighted average shares outstanding – diluted	5,567,771	5,429,722
Earnings per share – basic	\$ 0.16	\$ 0.21
Earnings per share – diluted	\$ 0.16	\$ 0.21

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

3. INVESTMENTS:

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

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
March 31, 2005:				
U.S. Government and Government agency obligations	\$ 1,689	\$ 5	\$ —	\$ 1,694
Funds:				
Money Market	13,995	—	—	13,995
Equity	1,005	151	—	1,156
Marketable securities	<u>\$16,689</u>	<u>\$ 156</u>	<u>\$ —</u>	<u>\$16,845</u>
December 31, 2004:				
U.S. Government and Government agency obligations	\$ 1,639	\$ 4	\$ —	\$ 1,643
Funds:				
Money Market	15,864	—	—	15,864
Equity	999	126	—	1,125
Marketable securities	<u>\$18,502</u>	<u>\$ 130</u>	<u>\$ —</u>	<u>\$18,632</u>

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

4. EQUITY:

On February 9, 2005, the Company declared a quarterly cash dividend of \$0.08 per share on common stock payable on April 1, 2005 for stockholders of record on March 15, 2005.

5. SEGMENT REPORTING:

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

Management

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

Trust

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

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

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

	<u>Management</u>	<u>Trust</u>	<u>Other</u>	<u>Eliminations</u>	<u>Consolidated</u>
	(in thousands)				
Three months ended March 31, 2005					
Net revenues from external sources	\$ 3,365	\$1,717	\$ —	\$ —	\$ 5,082
Net intersegment revenues	645	1	—	(646)	—
Income before income taxes	1,504	365	(448)	—	1,421
Segment assets	19,958	4,161	1,413	—	25,532
Segment goodwill	1,790	512	—	—	2,302
Three months ended March 31, 2004					
Net revenues from external sources	\$ 3,561	\$1,457	\$ 25	\$ —	\$ 5,043
Net intersegment revenues	611	—	—	(611)	—
Income before income taxes	1,834	262	(267)	—	1,829
Segment assets	21,031	4,027	1,333	—	26,391
Segment goodwill	1,790	512	—	—	2,302

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

All statements other than statements of historical fact contained in this report, including statements in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" concerning our financial position and liquidity, results of operations, prospects for future growth, and other matters are forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove correct. Factors that could cause our results to differ materially from the results discussed in, or contemplated by, such forward-looking statements include the risks described under "Business—Forward-Looking Statements and Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2004 filed with the Securities and Exchange Commission. Such risks include, without limitation, risks related to poor investment performance of the assets managed by us; risks related to our inability to capitalize on the costs we have recently incurred and are continuing to incur to develop some new asset classes and otherwise broaden Westwood's capabilities; risks related to some members of our management being critical to our success and our inability to attract and retain key employees, which could compromise our future success; risks related to some of our executive officers having substantial influence over our investment policies; risks related to the negative performance of the securities markets; risks related to our business being dependent on investment advisory, subadvisory and trust agreements that are subject to termination or non-renewal and the related risk of losing any of our clients on very short notice; risks related to having a small number of clients account for a substantial portion of our business; risks related to any event that negatively affects the asset management industry; risk related to the substantial cost and time required to introduce new asset classes in our industry; risks related to our inability to successfully and timely expand our asset classes; risks related to our business being subject to pervasive regulation with attendant costs of compliance and serious consequences for violations; risks related to potential misuse of assets and information in the possession of our investment professionals and employees; risks related to acquisitions, which may be part of our long-term business strategy and involve inherent risks that could compromise the success of the combined business and dilute the holdings of our stockholders; risks related to various factors hindering our ability to declare and pay dividends; risks related to our business being vulnerable to systems failures; risks related to our potential inability to fund our capital requirements; risks related to the indemnification obligations contained in the tax separation agreement that we entered into with SWS and that neither party may be able to satisfy; and risks related to certain provisions in our charter documents discouraging a third party from acquiring control of us.

Overview

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

Revenues

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

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

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

Assets Under Management

Assets under management increased \$201 million, or 5.2%, to \$4.1 billion at March 31, 2005, compared with \$3.9 billion at March 31, 2004. Average assets under management for the first quarter of 2005 were \$4.0 billion compared to \$3.9 billion for the first quarter of 2004, an increase of 3.1%. The increase in period ending assets under management was principally attributable to market appreciation of assets under management and asset inflows from new clients, partially offset by the withdrawal of assets by certain clients. The following table sets forth Management's and Trust's assets under management as of March 31, 2005 and March 31, 2004:

	As of March 31, (1) (in millions)		% Change
	2005	2004	March 31, 2005 vs. March 31, 2004
Westwood Management Corp.			
Separate Accounts	\$1,824	\$1,780	2.5%
Subadvisory	638	633	0.8
Westwood Funds	359	405	(11.4)
Managed Accounts	173	154	12.3
Total	2,994	2,972	0.7
Westwood Trust			
Commingled Funds	905	772	17.2
Private Accounts	138	82	68.3
Agency/Custody Accounts	45	55	(18.2)
Total	1,088	909	19.7
Total Assets Under Management	\$4,082	\$3,881	5.2%

- (1) The above table excludes the SWS cash reserve funds for which Westwood Management serves as investment advisor and Westwood Trust serves as custodian. The SWS cash reserve funds were \$195 million and \$168 million as of March 31, 2005 and 2004, respectively. These accounts are noted separately due to their unique nature within our business and because they can experience significant fluctuations on a weekly basis.

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

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

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Results of Operations

The following table and discussion of our results of operations for the three months ended March 31, 2005 is based upon data derived from the consolidated statements of income contained in our consolidated financial statements and should be read in conjunction with these statements, which are included elsewhere in this quarterly report.

	Three months ended March 31,		% Change Three months ended March 31, 2005 vs. March 31, 2004
	2005	2004	
Revenues			
Advisory fees	\$3,191	\$3,420	(6.7)%
Trust fees	1,703	1,452	17.3
Other revenues	188	171	9.9
Total revenues	5,082	5,043	0.8
Expenses			
Employee compensation and benefits	2,598	2,337	11.2
Sales and marketing	82	100	(18.0)
Information technology	185	172	7.6
Professional services	319	224	42.4
General and administrative	477	381	25.2
Total expenses	3,661	3,214	13.9
Income before income taxes	1,421	1,829	(22.3)
Provision for income tax expense	546	712	(23.3)
Net income	\$ 875	\$1,117	(21.7)%

Three months ended March 31, 2005 compared to three months ended March 31, 2004

Total Revenues. Our total revenues increased by 0.8% to \$5.1 million for the three months ended March 31, 2005 compared with \$5.0 million for the three months ended March 31, 2004. Advisory fees decreased by 6.7% to \$3.2 million for the three months ended March 31, 2005 compared with \$3.4 million for the three months ended March 31, 2004, primarily as a result of decreased average assets under management by Management due to the withdrawal of assets by certain clients. These withdrawals were offset to some extent by market appreciation of assets under management and inflows from new clients. Trust fees increased by 17.3% to \$1.7 million for the three months ended March 31, 2005 compared with \$1.5 million for the three months ended March 31, 2004, primarily due to increased average assets under management by Trust due to inflows from new clients and market appreciation of assets. Other revenues, which generally consist of interest and investment income and consulting fees, increased by 9.9% to \$188,000 for the three months ended March 31, 2005 compared with \$171,000 for the three months ended March 31, 2004. Other revenues increased primarily as a result of increased interest and dividends from the Company's investments. These increases were partially offset by a \$29,000 decrease in consulting income due to decreased assets under management in the Westwood Funds and a slight decrease in mark to market recorded on the Company's investments in the 2005 period due primarily to the termination in 2004 of the Company's deferred compensation plan.

Employee Compensation and Benefits. Employee compensation and benefits costs generally consist of salaries, incentive compensation, equity based compensation expense and benefits. Employee compensation and benefits increased by 11.2% to \$2.6 million for the three months ended March 31, 2005 compared with \$2.3 million for the three months ended March 31, 2004. This increase resulted primarily from increased restricted stock expense of approximately \$385,000 due to additional restricted stock grants in July 2004 compared to an expense of approximately \$202,000 in the first quarter of 2004, a \$65,000 profit sharing contribution in the 2005 period that did not occur in 2004, and increased salary expense due to increased headcount. We had 45 full-time employees as of March 31, 2005 compared to 44 full-time employees as of March 31, 2004. These increases were partially offset by lower incentive compensation expense and lower deferred compensation expense. The deferred compensation plan was terminated in 2004.

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Sales and Marketing. Sales and marketing costs generally consist of costs associated with our marketing efforts, including travel and entertainment, direct and consultant marketing and advertising costs. Sales and marketing costs decreased by 18.0% to \$82,000 for the three months ended March 31, 2005 compared with \$100,000 for the three months ended March 31, 2004. The decrease is primarily the result of decreased direct marketing, travel and entertainment costs.

Information Technology. Information technology expenses are generally costs associated with proprietary investment research tools, computing hardware, software licenses, maintenance and support, telecommunications and other related costs. Information technology costs increased by 7.6% to \$185,000 for the three months ended March 31, 2005 compared with \$172,000 for the three months ended March 31, 2004. The increase is primarily due to increased depreciation from new computing equipment and increased software costs for applications not in place in the prior year period. These increases were partially offset by lower costs associated with investment research tools and reduced equipment leasing costs.

Professional Services. Professional services expenses generally consist of costs associated with subadvisory fees, audit, legal and other professional services. Professional services expenses increased by 42.4% to \$319,000 for the three months ended March 31, 2005 compared with \$224,000 for the three months ended March 31, 2004. The increase is primarily the result of professional fees related to Sarbanes-Oxley compliance and higher advisory fees paid to external subadvisors due to the engagement of a subadvisor in the second quarter of 2004 to manage growth portfolios at Westwood Trust and increased assets under management in international and high yield common trust funds sponsored by Westwood Trust. These increases were partially offset by a decrease in legal expense.

General and Administrative. General and administrative expenses generally consist of costs associated with the lease of our office space, investor relations, licenses and fees, depreciation, insurance, office supplies and other miscellaneous expenses. General and administrative expenses increased by 25.2% to \$477,000 for the three months ended March 31, 2005 compared with \$381,000 for the three months ended March 31, 2004. The increase is primarily due to increased rent expense, higher depreciation expense due to fixed asset purchases related to the Company's new office space, other costs of furnishing the office space and increased custody expense.

Provision for Income Tax Expense. Provision for income tax expense decreased by 23.3% to \$546,000 for the three months ended March 31, 2005 compared with \$712,000 for the three months ended March 31, 2004. The effective tax rate was 38.4% and 38.9% for the three months ended March 31, 2005 and March 31, 2004, respectively.

Liquidity and Capital Resources

We fund our operations and cash requirements with cash generated from operating activities. As of March 31, 2005, we had no long-term debt. The changes in net cash provided by operating activities generally reflect the changes in earnings plus the effect of non-cash items and changes in working capital. Changes in working capital, especially accounts receivable and accounts payable, are generally the result of timing differences between collection of fees billed and payment of operating expenses.

During the three months ended March 31, 2005, cash flow used in operating activities, principally our investment advisory business, was \$539,000. At March 31, 2005, we had working capital of \$18.6 million. Cash flow provided by investing activities during the three months ended March 31, 2005 was \$1.8 million, primarily related to the sale of money market funds in order to fund the Company's annual incentive compensation payments and expenses. Cash flow used in financing activities during the three months ended March 31, 2005 of \$457,000 was primarily due to cash dividends paid.

We had cash and investments, net of dividends payable, of \$17.9 million at March 31, 2005, compared to \$19.4 million at December 31, 2004. Dividends payable were \$460,000 as of March 31, 2005 and December 31, 2004, respectively. We had no liabilities for borrowed money at March 31, 2005.

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

Contractual Obligations

There have been no significant changes in the Company's contractual obligations since December 31, 2004.

Recent Accounting Pronouncements

In April 2005, the Securities and Exchange Commission ("SEC") adopted a rule that amends the compliance date for the Financial Accounting Standards Board's ("FASB") revised Statement of Financial Accounting Standards No. 123 ("SFAS No. 123 (R)"), which requires public companies to recognize the cost resulting from all share-based payment transactions in their financial statements. The standard requires us to estimate the number of instruments that will ultimately be issued, rather than accounting for forfeitures as they occur. The SEC rule requires adoption of the revised statement for the Company's fiscal year beginning January 1, 2006 instead of the Company's third quarter beginning July 1, 2005, as described in SFAS No. 123 (R). We have commenced our analysis of the impact of SFAS No. 123 (R) and will adopt the provisions of SFAS No. 123 (R) by the January 1, 2006 deadline. The Company has applied the fair value provisions of the original SFAS No. 123 for all options and restricted shares it has issued. The Company expects SFAS 123 (R) to have an impact on its financial statements, but has not determined the extent of the impact.

Critical Accounting Policies and Estimates

There have been no significant changes in the Company's critical accounting policies and estimates since December 31, 2004.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

Interest Rates and Securities Markets

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

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

ITEM 4. CONTROLS AND PROCEDURES

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

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

- | | |
|-------|---|
| 31.1 | Certification of Chief Executive Officer Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 |
| 31.2 | Certification of President and Chief Operating Officer Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 |
| 32.1* | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2* | Certification of President and Chief Operating Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

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

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 26, 2005

WESTWOOD HOLDINGS GROUP, INC.

By: /s/ Susan M. Byrne

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

By: /s/ Brian O. Casey

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

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

I, Susan M. Byrne, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Westwood Holdings Group, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 quarterly 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 quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: April 26, 2005

/s/ Susan M. Byrne

Susan M. Byrne
Chief Executive Officer

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

I, Brian O. Casey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Westwood Holdings Group, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 quarterly 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 quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: April 26, 2005

/s/ Brian O. Casey

Brian O. Casey
President and Chief Operating Officer

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

In connection with the Quarterly Report of Westwood Holdings Group, Inc. (the Company) on Form 10-Q for the period ending March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Susan M. Byrne, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

April 26, 2005

/s/ Susan M. Byrne

Susan M. Byrne
Chief Executive Officer

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

In connection with the Quarterly Report of Westwood Holdings Group, Inc. (the Company) on Form 10-Q for the period ending March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Brian O. Casey, President and Chief Operating Officer of the Company (performing similar functions as a chief financial officer), certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (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.

April 26, 2005

/s/ Brian O. Casey

Brian O. Casey
President and Chief Operating Officer