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, 2008.

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	**75-2969997**
(State or other jurisdiction of incorporation or organization)	(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 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 ☒

The number of shares of the issuer's common stock, par value $0.01 per share, outstanding as of October 20, 2008: 6,954,488.

WESTWOOD HOLDINGS GROUP, INC.

INDEX

Table of Contents

PART I - FINANCIAL INFORMATION

ITEM 1. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of September 30, 2008 and December 31, 2007
(in thousands, except par value and share amounts)

	September 30, 2008 (unaudited)	December 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,941	$ 4,560
Accounts receivable	4,780	6,599
Investments, at market value	25,537	22,144
Deferred income taxes	1,110	1,512
Prepaid taxes	2,295	—
Other current assets	412	651
Total current assets	37,075	35,466
Goodwill	2,302	2,302
Deferred income taxes	472	225
Property and equipment, net of accumulated depreciation of $1,175 and $1,002	899	1,031
Total assets	$ 40,748	$ 39,024
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 1,194	$ 1,024
Dividends payable	2,087	1,702
Compensation and benefits payable	3,342	4,848
Income taxes payable	—	1,505
Other current liabilities	11	11
Total current liabilities	6,634	9,090
Deferred rent	480	588
Total liabilities	7,114	9,678
Stockholders' Equity:		
Common stock, $0.01 par value, authorized 25,000,000 shares, issued 7,048,977 and outstanding 6,954,488 shares at September 30, 2008; authorized 10,000,000 shares, issued 6,840,327 and outstanding 6,807,408 shares at December 31, 2007	70	68
Additional paid-in capital	35,332	27,770
Treasury stock, at cost – 94,489 shares at September 30, 2008; 32,919 shares at December 31, 2007	(3,500)	(1,070)
Retained earnings	1,732	2,578
Total stockholders' equity	33,634	29,346
Total liabilities and stockholders' equity	$ 40,748	$ 39,024

See notes to interim consolidated financial statements.

Table of Contents

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

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
REVENUES:				
Advisory fees				
Asset-based	$ 7,381	$5,782	$20,377	$15,368
Performance-based	—	—	80	
Trust fees	2,845	2,666	8,270	7,558
Other revenues, net	(134)	291	143	1,123
Total revenues	10,092	8,739	28,870	24,049
EXPENSES:				
Employee compensation and benefits	5,498	4,669	15,512	12,644
Sales and marketing	263	164	595	432
WHG mutual funds	94	43	235	144
Information technology	296	239	823	721
Professional services	450	420	1,337	1,199
General and administrative	727	565	1,993	1,690
Total expenses	7,328	6,100	20,495	16,830
Income before income taxes	2,764	2,639	8,375	7,219
Provision for income taxes	1,028	957	2,953	2,557
Net income	$ 1,736	$1,682	$ 5,422	$ 4,662
Earnings per share:				
Basic	$ 0.28	$ 0.28	$ 0.89	$ 0.80
Diluted	$ 0.27	$ 0.27	$ 0.84	$ 0.76

See notes to interim consolidated financial statements.

Table of Contents

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the Nine Months Ended September 30, 2008
(in thousands)
(unaudited)

	Westwood Holdings Group, Inc. Common Stock, Par		Additional Paid-In	Treasury	Retained	
	Shares	Amount	Capital	Stock	Earnings	Total
BALANCE, January 1, 2008	6,807,408	$ 68	$ 27,770	$(1,070)	$ 2,578	$29,346
Net income					5,422	5,422
Issuance of restricted stock	192,500	2	(2)			—
Dividends declared ($0.90 per share)					(6,268)	(6,268)
Restricted stock amortization			4,926			4,926
Tax benefit related to equity compensation			2,430			2,430
Stock options exercised	16,150	—	208			208
Purchase of treasury stock	(61,570)			(2,430)		(2,430)
BALANCE, September 30, 2008	6,954,488	$ 70	$ 35,332	$(3,500)	$ 1,732	$33,634

See notes to interim consolidated financial statements.

Table of Contents

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

	For the nine months ended September 30, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 5,422	$ 4,662
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	173	176
Unrealized (gains) and losses on investments	505	(52)
Restricted stock amortization	4,927	3,797
Deferred income taxes	155	439
Excess tax benefits from stock-based compensation	(2,188)	(1,226)
Net purchases of investments – trading securities	(13,510)	(1,089)
Change in operating assets and liabilities:		
Accounts receivable	1,819	(569)
Other current assets	242	(82)
Accounts payable and accrued liabilities	170	(3)
Compensation and benefits payable	(1,506)	(235)
Income taxes payable	(1,370)	361
Other liabilities	(27)	(10)
Net cash (used in) provided by operating activities	(5,188)	6,169
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of money market funds – available for sale	(20,098)	(5,320)
Sales of money market funds – available for sale	29,710	4,909
Purchase of property and equipment	(125)	(45)
Net cash provided by (used in) investing activities	9,487	(456)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of treasury stock	(2,430)	(1,042)
Excess tax benefits from stock-based compensation	2,188	1,226
Proceeds from exercise of stock options	208	533
Cash dividends	(5,884)	(3,654)
Net cash used in financing activities	(5,918)	(2,937)
NET (DECREASE) INCREASE IN CASH	(1,619)	2,776
Cash and cash equivalents, beginning of period	4,560	2,177
Cash and cash equivalents, end of period	$ 2,941	$ 4,953
Supplemental cash flow information:		
Cash paid during the period for income taxes	$ 4,170	$ 1,756
Issuance of restricted stock	7,032	5,330
Tax benefit allocated directly to equity	2,430	1,475

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,” 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. (“Westwood Management”) and Westwood Trust (“Westwood Trust”). Westwood Management provides investment advisory services to corporate pension funds, public retirement plans, endowments, foundations, and a family of mutual funds, which we call the WHG Funds, and investment subadvisory services to mutual funds and clients of Westwood Trust. Westwood 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation

The accompanying consolidated financial statements have been prepared without an audit and reflect all adjustments that, in the opinion of management, are necessary to present fairly our financial position as of September 30, 2008, 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, as permitted by SEC rules, do not contain certain information and footnote disclosures required by accounting principles generally accepted in the United States of America. 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, 2007. Refer to the accounting policies described in the notes to our annual financial statements, which were consistently followed in preparing this interim financial information. Operating results for the nine months ended September 30, 2008 are not necessarily indicative of the results for the year ending December 31, 2008 or any future period.

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.

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

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

AUM. A limited number of our clients have a performance-based fee component in their contract, which would pay us an additional fee if we outperform a specified index over a specific period of time. We would record as revenue any performance-based fees earned at the end of the performance 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 most of our advance paying clients' billing periods coincide with the calendar quarter to which payment relates, the revenue related to those clients is fully recognized within the quarter; consequently, there is not a significant amount of deferred revenue contained in these 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 and unrealized gains and losses on our investments. 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. We measure realized gains and losses on investments using the specific identification method.

Goodwill

During the third quarter of 2008, we completed our annual impairment assessment as required by the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No.142. No impairment loss was required. We perform our annual impairment assessment in the third quarter as of July 1.

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 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 and relates primarily to stock-based compensation expense.

Fair Value of Financial Instruments

The estimated fair values of our financial instruments have been determined by us using available information. The fair value amounts discussed in Note 3 are not necessarily indicative of either the amounts we would realize 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 as well as mutual funds 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 our money market holdings generally do not fluctuate.

Effective January 1, 2008, we adopted the provisions of FASB SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value and requires additional disclosures regarding certain fair value measurements. SFAS No. 157 establishes a three tier hierarchy for measuring fair value as follows: level 1 – quoted market prices in active markets, 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

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

fair value of our investments in "Note 3. Investments" were determined using quoted prices from active markets (level 1). The implementation of SFAS No. 157 had no effect on our financial statements.

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, 2008 and 2007, 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. Diluted earnings per common share is computed using the treasury stock method.

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,		Nine months ended September 30,	
	2008	2007	2008	2007
Net income	$ 1,736	$ 1,682	$ 5,422	$ 4,662
Weighted average shares outstanding – basic	6,190,630	5,937,270	6,077,341	5,820,673
Dilutive potential shares from stock options	33,624	41,942	35,487	44,365
Dilutive potential shares from restricted shares	288,466	284,010	325,300	277,158
Weighted average shares outstanding – diluted	6,512,720	6,263,222	6,438,128	6,142,196
Earnings per share:				
Basic	$ 0.28	$ 0.28	$ 0.89	$ 0.80
Diluted	$ 0.27	$ 0.27	$ 0.84	$ 0.76

Stock-Based Compensation

We account for stock-based compensation in accordance with FASB SFAS No. 123 Revised ("SFAS No. 123R"). Under SFAS No. 123R, 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 we record for these awards is based on their grant-date fair value as required by SFAS No. 123R.

We have issued restricted stock and stock options in accordance with our Third Amended and Restated Westwood Holdings Group, Inc. Stock Incentive Plan. We valued stock options issued based upon the Black-Scholes option-pricing model and recognized this value as an expense 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 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, stock-based compensation expense and our results of operations could be materially affected.

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

3. INVESTMENTS:

Investment balances are presented in the table below (in thousands). All of these investments are carried at market value, using prices from active markets as of the balance sheet date. The money market funds are accounted for as available for sale securities. The other investments are accounted for as trading securities.

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
September 30, 2008:				
U.S. Government and Government agency obligations	$15,391	$ 30	$ —	$15,421
Funds:				
Money market	5,505	—	—	5,505
Equity and fixed income	4,915	11	(315)	4,611
Marketable securities	$25,811	$ 41	$ (315)	$25,537
December 31, 2007:				
U.S. Government and Government agency obligations	$ 1,942	$ 1	$ —	$ 1,943
Funds:				
Money market	15,117	—	—	15,117
Equity and fixed income	4,854	230	—	5,084
Marketable securities	$21,913	$ 231	$ —	$22,144

4. EQUITY:

On July 23, 2008, we declared a quarterly cash dividend of $0.30 per share on common stock payable on October 1, 2008 to stockholders of record on September 15, 2008.

On July 23, 2008, we granted an aggregate of 10,500 shares of restricted stock to non-employee directors. These shares are subject to vesting conditions as described in “Note 5. Stock Based Compensation”.

On July 1, 2008, we purchased 39,070 shares of our common stock from employees of Westwood to satisfy tax obligations related to vested restricted shares. The shares were purchased at $41.66, the closing price of our common stock on that date, and are shown as treasury shares at cost in the equity section of our balance sheet.

On April 24, 2008, we declared a quarterly cash dividend of $0.30 per share on common stock payable on July 1, 2008 to stockholders of record on June 13, 2008.

On February 27, 2008, we granted an aggregate of 183,800 shares of restricted stock to certain employees. These shares are subject to vesting conditions as described in “Note 5. Stock-Based Compensation”.

On February 27, 2008, we purchased 22,500 shares of our common stock from employees of Westwood to assist our employees in satisfying their tax obligations related to vested restricted shares. The shares were purchased at $35.65, the closing price of our common stock on that date, and are shown as treasury shares in the equity section of our balance sheet at cost.

On February 6, 2008, we declared a quarterly cash dividend of $0.30 per share on common stock payable on April 1, 2008 to stockholders of record on March 14, 2008.

5. STOCK-BASED COMPENSATION

We have issued stock options and restricted shares to our employees, non-employee directors and a non-employee consultant. The Third Amended and Restated Westwood Holdings Group, Inc. Stock Incentive Plan (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 the predecessor plans to the Plan) may not exceed 1,948,100 shares. In the event of a change in control of Westwood, the Plan contains provisions providing for the acceleration of the vesting of restricted stock and stock options. At September 30, 2008, approximately 232,000 shares remain available for issuance under the Plan.

The following table presents the total stock-based compensation expense we recorded and the total income tax benefit recognized for stock-based compensation arrangements:

	Nine months ended September 30,	
	2008	2007
Total stock-based compensation expense	$4,927,000	$3,797,000
Total income tax benefit recognized related to stock-based compensation	4,067,000	2,957,000

Restricted Stock

Under the Plan, we have granted restricted stock to employees, non-employee directors and a non-employee consultant, which are subject to a service condition, and to our Chief Executive Officer and Chief Investment Officer, which are subject to a service condition and performance goals. Until the shares vest, they are restricted from sale, transfer or assignment in accordance with the terms of the agreements under which they were issued. We calculate compensation cost for restricted stock grants by using the fair market value of our common stock at the date of grant, the number of shares issued and an estimate of shares that will not vest due to forfeitures. This compensation cost is amortized on a straight-line basis over the applicable vesting period. As of September 30, 2008, there was approximately $15.3 million of unrecognized compensation cost, which we expect to recognize over a weighted-average period of 2.2 years. In order to satisfy tax liabilities employees will owe on their vested shares, we may withhold a sufficient number of vested shares from employees on the date vesting occurs. For 2008, we expect the number of shares withheld for this purpose to total 61,570 shares. Our two types of restricted stock grants are discussed below.

Employee and non-employee director restricted share grants

Restricted stock granted to employees vest over four years and the non-employee directors' shares vest over one year. For the nine months ended September 30, 2008, we recorded $4.0 million of expense for these grants. The following table details the status and changes in our restricted stock grants that are subject only to a service condition for the three months ended September 30, 2008:

Restricted shares subject only to a service condition:	Shares	Weighted Average Grant Date Fair Value
Non-vested, January 1, 2008	523,175	$ 22.95
Granted	194,300	36.51
Vested	(208,225)	18.94
Forfeited	(1,800)	34.37
Non-vested, September 30, 2008	507,450	29.74

CEO and CIO performance-based restricted share grants

Under the Plan, we granted restricted shares to our Chief Executive Officer and Chief Investment Officer that vest over four years and six years, respectively, provided annual performance goals established by the Compensation Committee of Westwood's board of directors are met. In each year during the applicable vesting period, the Compensation Committee will establish a specific goal for that year's vesting of the restricted shares, which will be based in all cases upon Westwood's adjusted pre-tax income, as defined. In February 2008, the Compensation Committee established the goal for 2008 as an increase of at least 7% in adjusted pre-tax income over the adjusted pre-tax income for the year 2007. If in any year during the vesting period the performance goal is not met, the Compensation Committee may establish a goal for a subsequent vesting period, which if achieved or exceeded may result in full or partial vesting of the shares that did not otherwise become vested in a prior year. However, in no event will the maximum number of shares, which may become vested over the vesting period, exceed 100,000 shares in the case of our Chief Executive Officer and 300,000 shares in the case of our Chief Investment Officer. If a portion of the performance-based restricted shares do not vest, no compensation expense is recognized for that portion and any previously recognized compensation expense related to the shares that do not vest would be reversed.

Restricted shares subject to service and performance conditions:	Shares	Weighted Average Grant Date Fair Value
Non-vested, January 1, 2008	250,000	$ 18.81
Granted	—	—
Vested	—	—
Forfeited	—	—
Non-vested, September 30, 2008	250,000	18.81

Because the performance goal was met in 2007, the shares subject to vesting were vested in substance, but required certification by the Compensation Committee, at which time a share price was determined for tax purposes. On February 27, 2008, the 2007 shares, which were expensed in 2007, were certified as vested and the total fair value of the shares was determined to be $2,674,000, utilizing a share price of $35.65, the closing price of our common stock as of the day of certification. In the second quarters of 2008 and 2007, we concluded that it was probable that we would meet the performance goals required in order for the applicable percentage of the performance-based restricted shares awarded to our Chief Executive Officer and Chief Investment Officer to vest in each year. As a result, we recognized expense of approximately $470,000 in both the current and prior year second and third quarters related to these performance-based restricted stock grants.

Stock Options

Options granted under the Plan have a maximum ten-year term and vested over a period of four years. All of our stock options are vested and exercisable. All of our options became fully expensed in 2007. The following table sets forth the summary of option activity under our stock option program for the nine months ended September 30, 2008:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Options outstanding, January 1, 2008	77,300	$ 12.92		
Granted	—	—		
Exercised	(16,150)	12.90		
Forfeited/expired	—	—		
Options outstanding and exercisable, September 30, 2008	61,150	12.93	3.75	$2,108,000

The total intrinsic value of options exercised during the three months ended September 30, 2008 and 2007 was $531,000 and $541,000, respectively. Options exercised represent newly issued shares.

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

6. SEGMENT REPORTING:

We operate two segments: the Westwood Management segment and the Westwood Trust segment. These segments are managed separately based on 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. The entity Westwood Holdings, the parent company of Westwood Management and Westwood Trust, does not have revenues or employees and is the entity in which we record the expense for stock based compensation.

Westwood Management

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

Westwood Trust

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

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

	Westwood Management	Westwood Trust	Westwood Holdings (in thousands)	Eliminations	Consolidated
Three months ended September 30, 2008					
Net revenues from external sources	$ 7,227	$ 2,865	$ —	$ —	$ 10,092
Net intersegment revenues	986	2	—	(988)	—
Income before income taxes	4,015	524	(1,775)	—	2,764
Segment assets	31,855	4,506	4,387	—	40,748
Segment goodwill	1,790	512	—	—	2,302
Three months ended September 30, 2007					
Net revenues from external sources	$ 6,023	$ 2,716	$ —	$ —	$ 8,739
Net intersegment revenues	965	1	—	(966)	—
Income before income taxes	3,453	724	(1,538)	—	2,639
Segment assets	23,106	4,411	5,958	—	33,475
Segment goodwill	1,790	512	—	—	2,302

	Westwood Management	Westwood Trust	Westwood Holdings (in thousands)	Eliminations	Consolidated
Nine months ended September 30, 2008					
Net revenues from external sources	$ 20,534	$ 8,336	$ —	$ —	$ 28,870
Net intersegment revenues	2,940	6	—	(2,946)	—
Income before income taxes	11,508	1,794	(4,927)	—	8,375
Segment assets	31,855	4,506	4,387	—	40,748
Segment goodwill	1,790	512	—	—	2,302
Nine months ended September 30, 2007					
Net revenues from external sources	$ 16,358	$ 7,691	$ —	$ —	$ 24,049
Net intersegment revenues	2,811	4	—	(2,815)	—
Income before income taxes	9,082	1,934	(3,797)	—	7,219
Segment assets	23,106	4,411	5,958	—	33,475
Segment goodwill	1,790	512	—	—	2,302

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

Forward-Looking Statements

Statements in this report that are not purely historical facts, including statements about our expected future financial position, results of operations or cash flows, as well as other statements including words such as "anticipate," "believe," "plan," "estimate," "expect," "intend," "should," "could," "goal," "target," "designed," "on track," "comfortable with," "optimistic" and other similar expressions, constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results and the timing of some events could differ materially from those projected in or contemplated by the forward-looking statements due to a number of factors, including, without limitation, the risks described under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2007 filed with the SEC, and those set forth below:

- our ability to identify and successfully 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 successfully develop and market new asset classes;
- our ability to maintain our fee structure in light of competitive fee pressures;
- competition in the marketplace;
- downturn in the financial markets;
- the passage of 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
- the other risks detailed from time to time in our SEC reports.

You should not unduly rely on these forward-looking statements, which speak only as of the date of this report. Except as required by law, we are not obligated to 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.

Overview

We manage investment assets and provide services for our clients through our two subsidiaries, Westwood Management and Westwood Trust. Westwood Management provides investment advisory services to corporate pension funds, public retirement plans, endowments, foundations and a family of mutual funds, which we call the WHG Funds, as well as investment subadvisory services to other mutual funds and clients of Westwood Trust. Westwood Trust provides trust and custodial services and participation in common trust funds that it sponsors to institutions and high net worth individuals. Our revenues are generally derived from fees based on a percentage of assets under management. We have been providing investment advisory services since 1983 and, according to recognized industry sources, including Morningstar, Inc., 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. Percentages stated in this section are rounded to the nearest whole percent.

Revenues

We derive our revenues from investment advisory fees, trust fees, and other revenues. Our advisory fees are generated by Westwood Management, which manages 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. Westwood Management's advisory fees are paid quarterly in advance based on the assets under management on the last day of the preceding quarter, quarterly in arrears based on the assets under management on the last day of the quarter just ended, or are based on a daily or monthly analysis of assets under management for the stated period. Westwood Management recognizes revenues as services are rendered. A limited number of our clients have a performance-based fee component in their contract, which would pay us an additional fee if we outperform a specified index over a specific period of time. We would record as revenue any performance-based fees earned at the end of the performance period. We recognized a performance-based fee in the second quarter of 2008 related to a client that has an annual performance period that ends in June. In addition, as of September 30, 2008, we were on track to earn a performance-based fee in 2008 as we did in the fourth quarter of 2007 from a client that has an annual performance period that ends in December. The exact amount of this fee will remain uncertain and will not be recorded as revenue until the performance period ends on December 31, 2008. Since most of our advance paying clients' billing periods coincide with the calendar quarter to which payment relates, the revenue related to those clients is fully recognized within the quarter; consequently, there is not a significant amount of deferred revenue contained in our financial statements.

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. Most trust fees are paid quarterly in advance and are recognized as services are rendered. Since the majority of Westwood Trusts' advance paying clients' billing periods coincide with the calendar quarter to which payment relates, the revenue related to those clients is fully recognized within the quarter; consequently, there is not a significant amount of deferred revenue contained in our financial statements.

Our other revenues generally consist of interest and investment income and unrealized gains and losses on our investments. We invest most of our cash in U.S. Treasury Bills, although we also invest smaller amounts in money market funds and equity instruments.

Assets Under Management

Assets under management increased $600 million to $8.3 billion at September 30, 2008, compared with $7.7 billion at September 30, 2007. Average assets under management for the third quarter of 2008 were $8.0 billion compared to $7.3 billion for the third quarter of 2007, an increase of 10%. The increase in period ending assets under management was principally attributable to asset inflows from new and existing clients and was partially offset by market depreciation of assets under management and the withdrawal of assets by certain clients. The following table sets forth Westwood Management's and Westwood Trust's assets under management as of September 30, 2008 and 2007:

Table of Contents

	As of September 30, (in millions) 2008	2007	% Change September 30, 2008 vs. September 30, 2007
Westwood Management			
Separate Accounts	$3,613	$ 3,701	(2)%
Subadvisory	1,756	1,062	65
WHG Funds	322	228	41
Westwood Funds	335	363	(8)
Managed Accounts	484	484	—
Total	6,510	5,838	12
Westwood Trust			
Commingled Funds	1,362	1,400	(3)
Private Accounts	304	331	(8)
Agency/Custody Accounts	108	123	(12)
Total	1,774	1,854	(4)
Total Assets Under Management	$8,284	$ 7,692	8%

Westwood 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 Westwood Management provides investment management services for funds offered by other financial institutions. “WHG Funds” represent the family of mutual funds for which Westwood Management serves as advisor. “Westwood Funds” represent the family of mutual funds for which Westwood Management serves as subadvisor. “Managed Accounts” represent relationships with brokerage firms and other registered investment advisors who offer Westwood Management’s products to their customers.

Westwood 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 Westwood Trust acts as trustee or agent and has full investment discretion. “Agency/Custody Accounts” represent non-discretionary accounts in which Westwood Trust provides agent or custodial services, but does not act in an advisory capacity. For certain assets in this category, Westwood Trust provides limited custody services for a minimal or zero fee currently, but views these assets as potentially converting to fee-generating managed assets in the future. As an example, some assets in this category consist of low-basis stock that is being held in custody for clients currently, but may transfer to fee-generating managed assets during an intergenerational transfer of wealth at some point in the future.

Table of Contents

Results of Operations

The following table (dollars in thousands) and discussion of our results of operations for the three and nine months ended September 30, 2008 is based upon data derived from the consolidated statements of income contained in our consolidated financial statements and should be read in conjunction with these statements, which are included elsewhere in this quarterly report.

	Three months ended September 30,		Nine months ended September 30,		% Change	
	2008	2007	2008	2007	Three months ended September 30, 2008 vs. September 30, 2007	Nine months ended September 30, 2008 vs. September 30, 2007
Revenues						
Advisory fees						
Asset-based	$ 7,381	$5,782	$20,377	$15,368	28%	33%
Performance-based	—	—	80	—	—	—
Trust fees	2,845	2,666	8,270	7,558	7	9
Other revenues	(134)	291	143	1,123	(146)	(87)
Total revenues	10,092	8,739	28,870	24,049	15	20
Expenses						
Employee compensation and benefits	5,498	4,669	15,512	12,644	18	23
Sales and marketing	263	164	595	432	60	38
WHG mutual funds	94	43	235	144	119	63
Information technology	296	239	823	721	24	14
Professional services	450	420	1,337	1,199	7	12
General and administrative	727	565	1,993	1,690	29	18
Total expenses	7,328	6,100	20,495	16,830	20	22
Income before income taxes	2,764	2,639	8,375	7,219	5	16
Provision for income taxes	1,028	957	2,953	2,557	7	15
Net income	$ 1,736	$1,682	$ 5,422	$ 4,662	3%	16%

Three months ended September 30, 2008 compared to three months ended September 30, 2007

Total Revenues. Our total revenues increased by 15% to $10.1 million for the three months ended September 30, 2008 compared with $8.7 million for the three months ended September 30, 2007. Asset-based advisory fees increased by 28% to $7.4 million for the three months ended September 30, 2008 compared with $5.8 million for the three months ended September 30, 2007, as a result of increased average assets under management by Westwood Management due to inflows from new and existing clients as well as higher average fee realization, which was partially offset by the market depreciation of assets and the withdrawal of assets by certain clients. Trust fees increased by 7% to $2.8 million for the three months ended September 30, 2008 compared with $2.7 million for the three months ended September 30, 2007, as a result of higher average fee realization. Average assets under management by Westwood Trust declined slightly as market depreciation of assets offset inflows from new and existing clients. Other revenues, which generally consist of interest and investment income, decreased by 146% to $(134,000) for the three months ended September 30, 2008 compared with $291,000 for the three months ended September 30, 2007. Other revenues are presented net and decreased primarily due to a decrease of $290,000 in realized and unrealized gains/losses on investments and a decrease of $128,000 in interest and dividend income due to lower interest rates as well as a shift into lower yielding U.S. Treasury Bills.

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 18% to $5.5 million for the three months ended September 30, 2008 compared with $4.7 million for the three months ended September 30, 2007. This increase was due primarily to increased salary and benefits expense due to increased headcount and salary increases for certain employees, an increase of approximately $238,000 in restricted stock expense due to additional employee restricted stock grants in February 2008 and independent director grants in July 2008, increased payroll taxes due on vested restricted shares, increased incentive compensation expense due to higher pretax income and increased health insurance costs. Beginning in 2008, employee restricted stock grants were awarded in the first quarter of the year in order to synchronize the payment of cash incentive bonus awards with employees' personal tax liabilities resulting from restricted stock vesting. In the second quarters of 2008 and 2007, we concluded that it was probable that we would meet the performance goals required in order for the applicable percentage of the performance-based restricted shares awarded to our Chief Executive Officer and Chief Investment Officer to vest in each year. In the current and prior year third quarters, we reaffirmed our conclusions that it was probable that these performance-based restricted shares would vest. As a result, we recognized expense of approximately $470,000 in each of the second and third quarters of both the current and prior year quarters related to these performance-based restricted stock grants. We expect to recognize a similar amount in the fourth quarter of 2008 related to these performance-based restricted stock grants. The conclusion related to the 2008 expense is based, in part, on our belief that it is likely that we will recognize a performance-based fee in the fourth quarter of 2008 related to a client that has an annual performance period that ends in December. As stated above, the exact amount of this fee will remain uncertain and we will not record it until the related performance period ends on December 31, 2008. We had 63 full-time employees as of September 30, 2008 compared to 51 full-time employees as of September 30, 2007.

Sales and Marketing. Sales and marketing costs generally consist of costs associated with our marketing efforts, including travel and entertainment, direct marketing and advertising costs. Sales and marketing costs increased by 60% to $263,000 for the three months ended September 30, 2008 compared with $164,000 for the three months ended September 30, 2007. The increase is primarily the result of increased travel and direct marketing expenses.

WHG Mutual Funds. WHG Mutual Funds expenses generally consist of costs associated with our marketing, distribution and administration efforts related to the WHG Funds. WHG Mutual Funds expenses increased by 119% to $94,000 for the three months ended September 30, 2008 compared with $43,000 for the three months ended September 30, 2007 due to increased shareholder servicing fees related to the funds. Decreased fund expense reimbursements due to a higher level of assets in the funds partially offset this increase.

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 24% to $296,000 for the three months ended September 30, 2008 compared with $239,000 for the three months ended September 30, 2007. The increase is primarily due to increased expenses for support services, data fees, software, quotations, telephone costs and depreciation.

Professional Services. Professional services expenses generally consist of costs associated with subadvisory fees, audit, legal and other professional services. Professional services expenses increased by 7% to $450,000 for the three months ended September 30, 2008 compared with $420,000 for the three months ended September 30, 2007. The increase is primarily due to higher advisory fees paid to external subadvisors due to increased average assets under management in international equity, growth and high-yield common trust funds sponsored by Westwood Trust and increased public relations fees. A decrease in legal expenses partially offset these increases.

General and Administrative. General and administrative expenses generally consist of costs associated with the lease of our office space, investor relations, licenses and fees, depreciation, insurance, office supplies and other miscellaneous expenses. General and administrative expenses increased by 29% to $727,000 for the three months ended September 30, 2008 compared with $565,000 for the three months ended September 30, 2007. The increase is primarily due to increases in custody expense, charitable contributions, office supplies and occupancy expenses. These increases were partially offset by decreases in other miscellaneous expenses.

Provision for Income Tax Expense. Provision for income tax expenses increased by 7% to $1,028,000 for the three months ended September 30, 2008 compared with $957,000 for the three months ended September 30, 2007 as a result of increased income. The effective tax rate was 37.2% for the three months ended September 30, 2008 compared to 36.3% for the three months ended September 30, 2007.

Nine months ended September 30, 2008 compared to nine months ended September 30, 2007

Total Revenues. Our total revenues increased by 20% to $28.9 million for the nine months ended September 30, 2008 compared with $24.0 million for the nine months ended September 30, 2007. Asset-based advisory fees increased by 33% to $20.4 million for the nine months ended September 30, 2008 compared with $15.4 million for the nine months ended September 30, 2007, as a result of increased average assets under management by Westwood Management due to inflows from new and existing clients as well as higher average fee realization, partially offset by the market depreciation of assets and the withdrawal of assets by certain clients. Performance-based advisory fees were $80,000 for the nine months ended September 30, 2008 compared to zero for the first nine months of the prior year, as a result of a performance-based fee earned in the annual measurement period ended June 30, 2008. Trust fees increased by 9% to $8.3 million for the nine months ended September 30, 2008 compared with $7.6 million for the nine months ended September 30, 2007, as a result of higher average fee realization. Other revenues decreased by 87% to $143,000 for the nine months ended September 30, 2008 compared with $1,123,000 for the nine months ended September 30, 2007. Other revenues decreased primarily due to a decrease of $865,000 in realized and unrealized gains/losses on investments and a decrease of $195,000 in interest income due to lower interest rates and a shift into lower yielding U.S. Treasury Bills. An increase of $86,000 in dividend income partially offset these decreases.

Employee Compensation and Benefits. Employee compensation and benefits increased by 23% to $15.5 million for the nine months ended September 30, 2008 compared with $12.6 million for the nine months ended September 30, 2007. This increase was due primarily to an increase of approximately $1.1 million in restricted stock expense due to additional employee and independent director restricted stock grants in July 2007, employee grants in February 2008 and independent director grants in July 2008, increased salary and benefits expense due to increased headcount and salary increases for certain employees, increased incentive compensation expense due to higher pretax income, increased payroll taxes due to vested restricted stock, increased health insurance expense, increased 401(k) match expense related to increased salaries and incentive compensation expense and increased profit sharing expense. Beginning in 2008, employee restricted stock grants were awarded in the first quarter of the year in order to synchronize the payment of cash incentive bonus awards with employees' personal tax liabilities resulting from restricted stock vesting. We had 63 full-time employees as of September 30, 2008 compared to 51 full-time employees as of September 30, 2007.

Sales and Marketing. Sales and marketing costs increased by 38% to $595,000 for the nine months ended September 30, 2008 compared with $432,000 for the nine months ended September 30, 2007. The increase is primarily the result of increases in travel and direct marketing expenses.

WHG Mutual Funds. WHG Mutual Funds expenses increased by 63% to $235,000 for the nine months ended September 30, 2008 compared with $144,000 for the nine months ended September 30, 2007. Decreased fund expense reimbursements due to a higher level of assets in the funds was offset by increased shareholder servicing fees related to the funds.

Information Technology. Information technology costs increased by 14% to $823,000 for the nine months ended September 30, 2008 compared with $721,000 for the nine months ended September 30, 2007. The increase is primarily due to increased expenses for support services, software licenses and maintenance, quotations, research tools and telephone expense. Decreases in data fees and equipment rental expense partially offset these increases.

Professional Services. Professional services expenses increased by 12% to $1,337,000 for the nine months ended September 30, 2008 compared with $1,199,000 for the nine months ended September 30, 2007. The increase is primarily due to higher advisory fees paid to external subadvisors due to increased average assets under management in international equity, growth and high-yield common trust funds sponsored by Westwood Trust and increased professional fees related to new products and human resources. Decreases in legal expenses partially offset these increases.

General and Administrative. General and administrative expenses increased by 18% to $2.0 million for the nine months ended September 30, 2008 compared with $1.7 million for the nine months ended September 30, 2007. The increase is primarily due to increases in custody expense, charitable contributions, miscellaneous expenses, occupancy expenses, office supplies expense and employee training and seminar expenses. These increases were partially offset by decreases in insurance expense.

Provision for Income Tax Expense. Provision for income tax expenses increased by 15% to $3.0 million for the nine months ended September 30, 2008 compared with $2.6 million for the nine months ended September 30, 2007 as a result of increased income. The effective tax rate was 35.3% for the nine months ended September 30, 2008 compared to 35.4% for the nine months ended September 30, 2007.

Supplemental Financial Information

As supplemental information, we are providing non-generally accepted accounting principles ("non-GAAP") performance measures that we refer to as cash earnings and cash 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. Management and our board of directors review cash earnings and cash 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 both management and investors to evaluate 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 cash earnings, we add to net income the non-cash expense associated with equity-based compensation awards of restricted stock and stock options. We define cash expenses as total expenses less non-cash equity-based compensation expense. Although depreciation on fixed assets is a non-cash expense, we do not add it back when calculating cash earnings or deduct it when calculating cash expenses because depreciation charges represent a decline in the value of the related assets that will ultimately require replacement. In addition, we do not adjust cash earnings for tax deductions related to restricted stock expense.

Our cash earnings increased by 9% to $3.5 million for the three months ended September 30, 2008 compared with $3.2 million for the three months ended September 30, 2007 primarily due to a 15% increase in total revenues. For the nine months ended September 30, 2008, cash earnings increased by 22% to $10.3 million compared with $8.5 million for he nine months ended September 30, 2007, primarily due to a 20% increase in total revenues.

The following tables provide a reconciliation of net income to cash earnings and total expenses to cash expenses (in thousands):

	Three Months Ended September 30		%
	2008	2007	Change
Net Income	$ 1,736	$ 1,682	3%
Add: Restricted stock expense	1,775	1,537	15
Cash earnings	$ 3,511	$ 3,219	9
Total expenses	$ 7,328	$ 6,100	20
Less: Restricted stock expense	(1,775)	(1,537)	15
Cash expenses	$ 5,553	$ 4,563	22%

	Nine Months Ended September 30		%
	2008	2007	Change
Net Income	$ 5,422	$ 4,662	16%
Add: Restricted stock expense	4,927	3,797	30
Cash earnings	$10,349	$ 8,459	22
Total expenses	$20,495	$16,830	22
Less: Restricted stock expense	(4,927)	(3,797)	30
Cash expenses	$15,568	$13,033	19%

Liquidity and Capital Resources

We fund our operations and cash requirements with cash generated from operating activities. As of September 30, 2008, we had no long-term debt. The changes in net cash provided by operating activities generally reflect the changes in earnings plus the effect of non-cash items and changes in working capital. Changes in working capital, especially accounts receivable and accounts payable, are generally the result of timing differences between collection of fees billed and payment of operating expenses.

During the nine months ended September 30, 2008, cash flow used in operating activities, principally our investment advisory business, was $5.2 million. The cash we generated from operations was more than offset by the net purchase of trading securities that resulted from a shift into U.S. Treasury Bills. At September 30, 2008, we had working capital of $30.4 million. Cash flow provided by investing activities during the nine months ended September 30, 2008 of $9.5 million was related to net sales of investments, which was partially offset by purchases of fixed assets. Cash flow used in financing activities during the nine months ended September 30, 2008 of $5.9 million was due to cash dividends paid to our stockholders and the purchase of treasury shares. Those cash uses were partially offset by tax benefits from stock-based compensation.

We had cash and investments of $28.5 million as of September 30, 2008 and $26.7 million as of December 31, 2007. Dividends payable were $2.1 million and $1.7 million as of September 30, 2008 and December 31, 2007, respectively. We had no liabilities for borrowed money at September 30, 2008.

Our future liquidity and capital requirements will depend upon numerous factors, including our results of operations, the timing and magnitude of capital expenditures and strategic initiatives (if any) and our dividend policy. 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 our contractual obligations since December 31, 2007.

Recent Accounting Pronouncements

In June 2007, the FASB ratified a consensus opinion reached by the Emerging Issues Task Force (“EITF”) on EITF issue 06-11, “Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards.” EITF Issue 06-11 requires an employer to recognize tax benefits realized from dividend or dividend equivalents paid to employees for certain share-based payment awards as an increase to additional paid-in capital and include such amounts in the pool of excess tax benefits available to absorb future tax deficiencies on share-based payment awards. If an entity’s estimate of forfeitures increases, or if an award is no longer expected to vest, entities should reclassify the dividends or dividend equivalents paid on that award from retained earnings to compensation cost. The provisions of EITF Issue 06-11 are effective for fiscal years beginning after December 15, 2007 and interim periods within those fiscal years. We have adopted EITF Issue 06-11 and do not expect it to have a significant effect on our financial statements since we have historically accounted for the income tax benefits of dividends paid for share-based payment awards in the manner described.

In December 2007, the FASB amended SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS 141R”). SFAS 141R establishes principles and requirements for how an acquirer: (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (2) recognizes and measures the goodwill acquired in the business combination or gain from a bargain purchase; and (3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first reporting period for fiscal years beginning on or after December 15, 2008 and will have no impact on our transactions recorded to date.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS 157”), which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under GAAP. The provisions of SFAS 157 are effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We adopted SFAS 157 on January 1, 2008 and have determined that SFAS 157 did not have a material impact on our financial statements.

In February 2007, the FASB issued FASB Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"), which permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of the statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The provisions of SFAS 159 are effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We adopted SFAS 159 on January 1, 2008. We did not make any fair value elections upon adoption and have determined that SFAS 159 did not have a material impact on our financial statements.

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, 2007.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We utilize 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

Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us 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. 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 quarter just completed, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us 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 Securities and Exchange Commission's rules and forms.

For the quarter just completed, there were no changes in our internal control 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.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

We face a number of significant risks and uncertainties in our business, which are detailed under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2007 and summarized in this report under "Management's Discussion and Analysis of Financial Condition and Results of Operations." These risks and uncertainties may affect our current position and future prospects, and should be considered carefully in evaluating us and an investment in our common stock.

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

The following table displays information with respect to the treasury shares we purchased during the three months ended September 30, 2008.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
July 1 through July 31, 2008	39,070	$ 41.66	—	—
August 1 through August 31, 2008	—	—	—	—
September 1 through September 30, 2008	—	—	—	—
Total	39,070	$ 41.66	—	—

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

ITEM 6. EXHIBITS

31.1 Certification of Chief Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a)

31.2 Certification of Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a)

32.1* Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2* Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* 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: October 22, 2008

WESTWOOD HOLDINGS GROUP, INC.

By: /s/ Brian O. Casey
Brian O. Casey
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 22, 2008

/s/ Brian O. Casey
Brian O. Casey
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 22, 2008

/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, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian O. Casey, 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 22, 2008

/s/ Brian O. Casey
Brian O. Casey
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, 2008 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 22, 2008

/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.