



WESTWOOD  
HOLDINGS GROUP, INC.\*  
October 26, 2006

## **Westwood Holdings Group, Inc. Reports Third Quarter 2006 Results and Declares Quarterly Dividend**

### **Assets Under Management Rise to Record \$5.7 Billion at September 30, 2006; Third Quarter Revenue Increases 24.1% and Cash EPS Increases 42.9% Year-Over-**

DALLAS, Oct. 26 /PRNewswire-FirstCall/ -- Westwood Holdings Group, Inc. (NYSE: WHG) today reported 2006 third quarter revenues of \$6.9 million, net income of \$921,000 and earnings per diluted share of \$0.16. This compares to revenues of \$5.6 million, net income of \$814,000 and earnings per diluted share of \$0.15 in the third quarter of 2005. For the nine months ended September 30, 2006, Westwood reported revenues of \$20.0 million and net income of \$3.2 million, or \$0.57 per diluted share, compared to revenues of \$15.9 million and net income of \$2.6 million, or \$0.48 per diluted share, for the same 2005 period.

Cash earnings for the third quarter of 2006 were \$2.3 million compared to \$1.5 million for the third quarter of 2005, while cash earnings per share ("Cash EPS") for the third quarter of 2006 was \$0.40 per diluted share compared to \$0.28 per diluted share for the third quarter of 2005. Cash earnings for the nine months ended September 30, 2006 were \$6.4 million compared to \$4.3 million for the same period in 2005, while Cash EPS for the nine months ended September 30, 2006 was \$1.15 per diluted share compared to \$0.78 per diluted share for the same period in 2005. (Cash earnings and Cash EPS are non-GAAP financial measures that are defined, explained and reconciled with the most comparable GAAP financial measures in the attached tables.)

Revenues for the 2006 third quarter increased 24.1% compared to the 2005 third quarter and increased 26.2% for the nine months ended September 30, 2006 compared to the same 2005 period, primarily as a result of increased average assets under management. Assets under management reached the highest level in the Company's history at \$5.7 billion as of September 30, 2006, an increase of 24.7% compared to \$4.6 billion on September 30, 2005. Average assets under management for the third quarter of 2006 were \$5.5 billion, an increase of 25.6% compared with the same period in 2005. The increase in period ending assets under management was principally attributable to inflows of assets from new and existing clients and the market appreciation of assets under management, partially offset by the withdrawal of assets by certain clients.

Total expenses for the third quarter 2006 were \$5.3 million compared to \$4.1 million for the third quarter 2005. Cash expenses, which exclude non-cash equity-based compensation expenses, for the third quarter 2006 were \$3.9 million compared to \$3.4 million for the third quarter 2005. (A definition, explanation and reconciliation of cash expenses to total expenses are included in the attached tables.) The primary driver of the increase in total expenses was higher employee compensation and benefits costs, most of which was due to an increase of approximately \$730,000 in non-cash restricted stock expense due to additional restricted stock grants in July 2006 and grants of performance-based restricted stock to our Chief Executive Officer and Chief Investment Officer in May 2006. Total non-cash equity-based compensation expense was \$1.4 million, or 24 cents per diluted share in the third quarter 2006 compared to \$720,000, or 12 cents per diluted share in the third quarter 2005. In the second quarter of 2006, we concluded that it is probable that we will meet the performance goal required in order for the applicable percentage of these performance-based shares to vest for 2006. As a result, we recognized expense of approximately \$470,000 in each of the second and third quarters of 2006 related to the expected vesting of these shares. We expect to recognize the remaining \$470,000 in the fourth quarter of 2006 related to the 2006 vesting of these performance-based restricted stock grants. The other primary components of the increase in employee compensation and benefits costs were increased salary expense due to salary increases for certain employees and increased headcount as well as increased incentive compensation expense.

Additional items of increased expense for the first nine months of 2006 are the costs related to the recently launched WHG Funds. We launched the WHG Income Opportunity and WHG SMidCap Funds in December 2005, the WHG LargeCap Value Fund in July 2006 and the WHG Balanced Fund in September 2006. We recognized expense of approximately \$80,000 for the third quarter of 2006 and \$167,000 for the nine months ended September 30, 2006 related to the WHG Funds, while we did not incur these expenses in the same 2005 periods. The largest component of these costs is fund expense reimbursements reflecting our partial subsidy of fund expenses as we have capped the expense ratios for the funds in order to competitively position them in the defined contribution marketplace.

Westwood Trust contributed revenue of \$2.1 million and net income of \$300,000 in the third quarter of 2006, compared to revenue of \$1.8 million and net income of \$217,000 in the third quarter of 2005. Westwood Trust assets under management as of September 30, 2006 were \$1.4 billion, an increase of 18.9% compared to September 30, 2005. Westwood Trust continues to enjoy referrals from existing clients and local professionals.

Westwood also announced today that its Board of Directors has approved the payment of a quarterly cash dividend of \$0.15 per common share, payable on January 2, 2007 to stockholders of record on December 15, 2006.

Mr. Casey commented, "We are pleased to have reached a record \$5.7 billion in assets under management as well as continued strong growth in cash earnings. We are beginning to see renewed interest in our LargeCap Value product as recent improved performance has led to increased search activity. Interest in our SMidCap Value product continues to grow and we are beginning to talk to institutional consultants and clients about our SmallCap Value product, which will complete a three-year track record at the end of 2006. Westwood Trust has enjoyed positive new client growth and our WHG Funds are gaining momentum in the marketplace."

#### About Westwood

Westwood Holdings Group, Inc. manages investment assets and provides services for its clients through two subsidiaries, Westwood Management Corp. and Westwood Trust. Westwood Management Corp. is a registered investment advisor and provides investment advisory services to corporate pension funds, public retirement plans, endowments, foundations, the WHG Funds, a family of institutional, no-load mutual funds, other 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. Westwood Holdings Group, Inc. trades on the New York Stock Exchange under the symbol "WHG". For more information, please visit the Company's website at <http://www.westwoodgroup.com>.

#### Note on Forward-looking Statements

Statements that are not purely historical facts, including statements about anticipated or expected future revenue and earnings growth and profitability, as well as other statements including words such as "anticipate," "believe," "plan," "estimate," "expect," "intend," "should," "could," "goal," "target," "designed," "on track," "continue," "comfortable with," "optimistic," "look forward to" 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. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors, which may cause actual results to be materially different from those contemplated by the forward-looking statements. Such factors include the risks and uncertainties referenced in our documents filed with, or furnished to, the Securities and Exchange Commission, including without limitation those identified under the caption "Risk Factors" in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance on forward-looking statements.

#### WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

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

|                                       | Three months ended<br>September 30, |         | Nine months ended<br>September 30, |         |
|---------------------------------------|-------------------------------------|---------|------------------------------------|---------|
|                                       | 2006                                | 2005    | 2006                               | 2005    |
| REVENUES:                             |                                     |         |                                    |         |
| Advisory fees                         | \$4,391                             | \$3,466 | \$12,881                           | \$9,966 |
| Trust fees                            | 2,086                               | 1,773   | 6,026                              | 5,144   |
| Other revenues                        | 418                                 | 315     | 1,138                              | 779     |
| Total revenues                        | 6,895                               | 5,554   | 20,045                             | 15,889  |
| EXPENSES:                             |                                     |         |                                    |         |
| Employee compensation<br>and benefits | 4,058                               | 3,049   | 10,979                             | 8,328   |

|  |       |       |         |         |
|--|-------|-------|---------|---------|
| Sales and marketing  | 148   | 110   | 431     | 337     |
| WHG mutual funds   | 80    | ---   | 167     | ---     |
| Information technology   | 225   | 199   | 682     | 576     |
| Professional services  | 312   | 315   | 1,040   | 908     |
| General and administrative   | 508   | 448   | 1,522   | 1,360   |
| Total expenses   | 5,331 | 4,121 | 14,821  | 11,509  |
| Income before income taxes   | 1,564 | 1,433 | 5,224   | 4,380   |
| Provision for income taxes   | 643   | 619   | 2,060   | 1,754   |
| Income before cumulative effect of accounting change                             | 921   | 814   | 3,164   | 2,626   |
| Cumulative effect of change in accounting principle, net of income taxes of \$21 | ---   | ---   | 39      | ---     |
| Net income   | \$921 | \$814 | \$3,203 | \$2,626 |

Earnings per share:

Basic:

|   |        |        |        |        |
|---|--------|--------|--------|--------|
| Continuing operations                     | \$0.16 | \$0.15 | \$0.58 | \$0.48 |
| Cumulative effect of an accounting change | ---    | ---    | ---    | ---    |
| Net income                                | \$0.16 | \$0.15 | \$0.58 | \$0.48 |

Diluted:

|   |        |        |        |        |
|---|--------|--------|--------|--------|
| Continuing operations                     | \$0.16 | \$0.15 | \$0.56 | \$0.48 |
| Cumulative effect of an accounting change | ---    | ---    | 0.01   | ---    |
| Net income                                | \$0.16 | \$0.15 | \$0.57 | \$0.48 |

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of September 30, 2006 and December 31, 2005  
(in thousands, except par value and share amounts)  
(unaudited)

|  | September 30,<br>2006 | December 31,<br>2005 |
|--|-----------------------|----------------------|
| ASSETS   |                       |                      |
| Current Assets:  |                       |                      |
| Cash and cash equivalents  | \$7,772               | \$1,897              |
| Accounts receivable  | 2,504                 | 2,452                |
| Investments, at market value   | 15,343                | 17,878               |
| Other current assets   | 533                   | 410                  |
| Total current assets   | 26,152                | 22,637               |
| Goodwill   | 2,302                 | 2,302                |
| Deferred income taxes  | 1,092                 | 817                  |
| Property and equipment, net of accumulated depreciation of \$718 and \$523 | 1,334                 | 1,554                |
| Total assets   | \$30,880              | \$27,310             |

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

|  |       |       |
|--|-------|-------|
| Accounts payable and accrued liabilities | \$652 | \$715 |
| Dividends payable                        | 6,630 | 539   |
| Compensation and benefits payable        | 1,896 | 2,980 |
| Income taxes payable                     | 47    | 694   |
| Other current liabilities                | 9     | 7     |
| Total current liabilities                | 9,234 | 4,935 |

|                   |       |       |
|-------------------|-------|-------|
| Deferred rent     | 741   | 816   |
| Total liabilities | 9,975 | 5,751 |

Stockholders' Equity:

|   |          |          |
|---|----------|----------|
| Common stock, \$0.01 par value, authorized<br>10,000,000 shares, issued and outstanding<br>6,630,056 shares at September 30, 2006;<br>issued and outstanding 5,986,647 shares<br>at December 31, 2005 | 66       | 60       |
| Additional paid-in capital  | 18,768   | 21,459   |
| Unamortized stock compensation  | ---      | (6,572)  |
| Retained earnings   | 2,071    | 6,612    |
| Total stockholders' equity  | 20,905   | 21,559   |
| Total liabilities and stockholders' equity  | \$30,880 | \$27,310 |

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

|   | For the nine months<br>ended September 30, |         |
|---|--|---------|
|   | 2006                                       | 2005    |
| CASH FLOWS FROM OPERATING ACTIVITIES:   |  |         |
| Net income  | \$3,203                                    | \$2,626 |
| Adjustments to reconcile net income<br>to net cash provided by operating<br>activities: |  |         |
| Depreciation and amortization   | 202  | 203     |
| Unrealized losses (gains) on investments  | 13   | (132)   |
| Stock option expense  | 122  | 188     |
| Restricted stock amortization   | 3,152                                      | 1,457   |
| Deferred income taxes   | (296)                                      | (53)    |
| Cumulative effect of change in accounting<br>principle                                  | (39)                                       | ---     |
| Net purchases of investments - trading<br>securities                                    | (788)                                      | (469)   |
| Change in operating assets and<br>liabilities:  |  |         |
| Accounts receivable   | (52)                                       | (420)   |
| Other current assets  | (129)                                      | (19)    |
| Accounts payable and accrued liabilities  | (63)                                       | 92      |
| Compensation and benefits payable   | (1,084)                                    | (719)   |
| Income taxes payable  | (286)                                      | 358     |
| Other liabilities   | 8  | 105     |
| Net cash provided by operating<br>activities  | 3,963                                      | 3,217   |
| CASH FLOWS FROM INVESTING ACTIVITIES:   |  |         |
| Purchases of money market funds -<br>available for sale                                 | (5,536)                                    | (3,574) |
| Sales of money market funds -<br>available for sale                                     | 8,846                                      | 6,718   |
| Purchase of property and equipment  | (57)                                       | (57)    |
| Net cash provided by investing<br>activities  | 3,253                                      | 3,087   |
| CASH FLOWS FROM FINANCING ACTIVITIES:   |  |         |
| Excess tax benefits from stock based  |  |         |

|  |         |         |
|--|---------|---------|
| compensation                                   | 19      | ---     |
| Proceeds from exercise of stock options        | 293     | 261     |
| Cash dividends                                 | (1,653) | (1,381) |
| Net cash used in financing activities          | (1,341) | (1,120) |
| NET INCREASE IN CASH                           | 5,875   | 5,184   |
| Cash and cash equivalents, beginning of period | 1,897   | 720     |
| Cash and cash equivalents, end of period       | \$7,772 | \$5,904 |
| Supplemental cash flow information:            |         |         |
| Cash paid during the period for income taxes   | \$2,622 | \$1,448 |
| Issuance of restricted stock                   | 11,507  | 3,866   |
| Tax benefit allocated directly to equity       | 380     | 150     |

Reconciliation of Net Income to Cash Earnings and Total Expenses to Cash Expenses

|   | Three Months Ended September 30, 2006 | Three Months Ended September 30, 2005 | % Change |
|---|---------------------------------------|---------------------------------------|----------|
| Net Income  | \$921,000                             | \$814,000                             | 13.1%    |
| Restricted stock expense                                  | 1,387,000                             | 657,000                               | 111.1    |
| Stock option expense                                      | 500                                   | 63,000                                | (99.2)   |
| Cash earnings   | \$2,308,500                           | \$1,534,000                           | 50.5     |
| Diluted weighted average shares                           | 5,817,330                             | 5,573,015                             | 4.4      |
| Cash earnings per share                                   | \$0.40                                | \$0.28                                | 42.9     |
| Total expenses  | \$5,331,000                           | \$4,121,000                           | 29.4     |
| Less: Restricted stock expense                            | (1,387,000)                           | (657,000)                             | 111.1    |
| Less: Stock option expense                                | (500)                                 | (63,000)                              | (99.2)   |
| Cash expenses   | \$3,943,500                           | \$3,401,000                           | 16.0%    |
|   | Nine Months Ended September 30, 2006  | Nine Months Ended September 30, 2005  | % Change |
| Net Income  | \$3,203,000                           | \$2,626,000                           | 22.0%    |
| Restricted stock expense                                  | 3,152,000                             | 1,457,000                             | 116.3    |
| Stock option expense                                      | 122,000                               | 187,000                               | (34.8)   |
| Less: Cumulative effect of change in accounting principle | (39,000)                              | ---                                   | ---      |
| Cash earnings   | \$6,438,000                           | \$4,270,000                           | 50.8     |
| Diluted weighted average shares                           | 5,612,516                             | 5,488,816                             | 2.3      |
| Cash earnings per share                                   | \$1.15                                | \$0.78                                | 47.4     |
| Total expenses  | \$14,821,000                          | \$11,509,000                          | 28.8     |
| Less: Restricted stock expense                            | (3,152,000)                           | (1,457,000)                           | 116.3    |
| Less: Stock option expense                                | (122,000)                             | (187,000)                             | (34.8)   |
| Cash expenses   | \$11,547,000                          | \$9,865,000                           | 17.1%    |

As supplemental information, we are providing non-GAAP performance measures that we refer to as cash earnings, cash earnings per share (or Cash EPS), and cash expenses. We provide these measures in addition to, but not as a substitute for, net income, earnings per share and total expenses, which are reported on a GAAP basis. Management and our Board of Directors review cash earnings, Cash EPS and cash expenses to evaluate the Company's ongoing performance, allocate resources and review dividend policy. We believe that these non-GAAP performance measures, while not substitutes for GAAP net income, earnings per share and total expenses, are useful for both management and investors to evaluate the Company's underlying operating and financial performance and its available resources. We do not advocate that investors consider these non-GAAP measures without considering financial information prepared in accordance with GAAP.

We define cash earnings as net income plus the non-cash expense associated with equity-based compensation awards of restricted stock and stock options. In calculating cash earnings for the nine months ended September 30, 2006, we also eliminate the non-cash cumulative effect of change in accounting principle associated with our implementation of SFAS 123R. 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. Cash EPS represents cash earnings divided by diluted weighted average shares outstanding.

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