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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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FORM 10

Amendment No. 2

GENERAL FORM FOR REGISTRATION OF SECURITIES
Pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934

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Westwood Holdings Group, Inc.
(Exact name of registrant as specified in its charter)

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Delaware 75-2969997
(State or other (I.R.S. Employer
jurisdiction of Identification No.)
incorporation or
organization)

300 Crescent Court, Suite 1300
Dallas, Texas 75201
(214) 756-6900

(Address, including zip code, and telephone number, including area code, of
principal executive offices)

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

Table with 2 columns: Title of each class to be so registered, Name of exchange on which each class is to be registered. Row 1: Common Stock, \$0.01 par value, New York Stock Exchange

Securities to be registered pursuant to Section 12(g) of the Act: None

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Copies of Communications Sent To:

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EXPLANATORY NOTE: THIS REGISTRATION STATEMENT HAS BEEN PREPARED ON A
PROSPECTIVE BASIS ON THE ASSUMPTION THAT, AMONG OTHER THINGS, THE SPIN-OFF (AS
DESCRIBED IN THE INFORMATION STATEMENT WHICH IS A PART OF THIS REGISTRATION
STATEMENT) AND THE RELATED TRANSACTIONS CONTEMPLATED TO OCCUR PRIOR TO OR
CONTEMPORANEOUSLY WITH THE SPIN-OFF WILL BE CONSUMMATED AS CONTEMPLATED BY THE
INFORMATION STATEMENT. THERE CAN BE NO ASSURANCE, HOWEVER, THAT ANY OR ALL OF
SUCH TRANSACTIONS WILL OCCUR OR WILL OCCUR AS SO CONTEMPLATED. ANY SIGNIFICANT
MODIFICATIONS OR VARIATIONS IN THE TRANSACTIONS CONTEMPLATED WILL BE REFLECTED
IN AN AMENDMENT OR SUPPLEMENT TO THIS REGISTRATION STATEMENT.

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WESTWOOD HOLDINGS GROUP, INC.

I. INFORMATION INCLUDED IN INFORMATION STATEMENT AND INCORPORATED IN FORM 10 BY REFERENCE

CROSS-REFERENCE SHEET BETWEEN INFORMATION STATEMENT AND ITEMS OF FORM 10

Item No.	Item Caption	Location in Information Statement
Item 1.	Business	"Summary," (pg. 1) "Risk Factors," (pg. 6) "Relationship Between SWS and Westwood After the Spin-off," (pg. 23) "Management's Discussion and Analysis of Financial Condition and Results of Operations," (pg. 31) "Business" (pg. 37)
Item 2.	Financial Information	"Selected Consolidated Financial Data," (pg. 29) "Management's Discussion and Analysis of Financial Condition and Results of Operations" (pg. 31)
Item 3.	Properties	"Business - Properties" (pg. 43)
Item 4.	Security Ownership of Certain Beneficial Owners and Management	"Principal Stockholders" (pg. 52)
Item 5.	Directors and Executive Officers	"Management" (pg. 44)
Item 6.	Executive Compensation	"Management" (pg. 44)
Item 7.	Certain Relationships and Related Transactions	"Relationship Between SWS and Westwood After the Spin-off," (pg. 23) "Certain Relationships and Related Transactions" (pg. 54)
Item 8.	Legal Proceedings	"Business - Legal Proceedings" (pg. 43)
Item 9.	Market Price and Dividends on the Registrant's Common Equity and Related Stockholder Matters	"Summary," (pg. 1) "Risk Factors," (pg. 6) "The Spin-off," (pg. 14) "Dividend Policy," (pg. 28) "Description of Capital Stock" (pg. 55)
Item 11.	Description of Registrant's Securities to be Registered	"Description of Capital Stock" (pg. 55)
Item 12.	Indemnification of Directors and Officers	"Description of Capital Stock - Liability and Indemnification of Directors and Officers" (pg. 57)
Item 13.	Financial Statements and Supplementary Data	"Selected Consolidated Financial Data," (pg. 29) "Consolidated Financial Statements" (pg. F-1)
Item 15.	Financial Statements and Exhibits	"Index to Consolidated Financial Statements" (pg. F-1)

II. INFORMATION NOT INCLUDED IN INFORMATION STATEMENT

Item 10. Recent Sales of Unregistered Securities

On December 14, 2001, in connection with the incorporation of Westwood Holdings Group, Inc. ("Westwood"), Westwood issued 5,372,310 shares of its common stock to SWS Group, Inc. in return for the contribution of all of the issued and outstanding capital stock of Westwood Management Corporation and Westwood Trust to Westwood. The exemption from registration was pursuant to Section 4(2) of the Securities Act of 1933, as amended, and the rules and regulations promulgated under the Securities Act on the basis that the transaction did not involve a public offering.

Item 14. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 15. Financial Statements and Exhibits

(b) Exhibits:

Exhibit  
Number  
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Description  
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- 2.1 Form of Distribution Agreement between SWS Group, Inc. and Westwood Holdings Group, Inc.\*\*
- 3.1 Amended and Restated Certificate of Incorporation of Westwood Holdings Group, Inc.\*
- 3.2 Amended and Restated Bylaws of Westwood Holdings Group, Inc.\*
- 4.1 Form of Common Stock Certificate of Westwood Holdings Group, Inc.\*
- 8.1 Tax Opinion from Gardere Wynne Sewell LLP\*
- 10.1 Westwood Holdings Group, Inc. Stock Incentive Plan\*
- 10.2 Westwood Holdings Group, Inc. Deferred Compensation Plan\*\*
- 10.3 Form of Tax Separation Agreement between SWS Group, Inc. and Westwood Holdings Group, Inc.\*\*
- 10.4 Form of Transition Services Agreement between SWS Group, Inc., Westwood Management Corporation and Westwood Trust\*\*
- 10.5 Promissory Note and Pledge Agreement between Susan Byrne and Westwood Holdings Group, Inc.\*\*
- 10.6 Promissory Note and Pledge Agreement between Brian Casey and Westwood Holdings Group, Inc.\*\*
- 10.7 Promissory Note and Pledge Agreement between Patricia Fraze and Westwood Holdings Group, Inc.\*\*
- 10.8 Promissory Note and Pledge Agreement between Lynda Calkin and Westwood Holdings Group, Inc.\*\*
- 10.9 Promissory Note and Pledge Agreement between Joyce Schaer and Westwood Holdings Group, Inc.\*\*
- 10.10 Office Lease between Westwood Management Corporation and Crescent Real Estate Funding I, L.P., dated as of April 4, 1990, and amendment thereto\*\*
- 10.11 Software License Agreement between Infovisa and Westwood Trust, dated as of December 1, 2001\*\*
- 10.12 Software License and Support Agreement between Advent Software, Inc. and Westwood Management Corporation, dated as of December 30, 1996\*\*
- 21.1 Subsidiaries\*\*
- 23.1 Consent of Gardere Wynne Sewell LLP (included in Exhibit 8.1)\*
- 99.1 Information Statement of SWS Group, Inc.\*

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\* Filed herewith.

\*\* Previously filed.

#### SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

WESTWOOD HOLDINGS GROUP, INC.

By: /s/ SUSAN M. BYRNE

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Susan M. Byrne, Chief  
Executive Officer

Dated April 29, 2002



AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION  
OF  
WESTWOOD HOLDINGS GROUP, INC.

This Amended and Restated Certificate of Incorporation amends and restates in its entirety the Certificate of Incorporation of Westwood Holdings Group, Inc., which was originally incorporated in Delaware on December 12, 2001. This Amended and Restated Certificate of Incorporation has been duly adopted pursuant to Section 245 of the Delaware General Corporation Law.

Section 1. The name of the Corporation is Westwood Holdings Group, Inc.

Section 2. The address of the Corporation's registered office in the State of Delaware is 1209 Orange Street, Corporation Trust Center, in the City of Wilmington, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

Section 3. The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

Section 4. The Corporation shall have the authority to issue 10,000,000 shares of Common Stock with a par value of \$0.01 per share. The Board of Directors of the Corporation has the authority, without further action by the stockholders, to issue 1,000,000 shares of Preferred Stock, par value \$0.01 per share, in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including without limitation dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of such series, without any further vote or action by the stockholders.

At every annual or special meeting of stockholders of the Corporation, every holder of Common Stock shall be entitled to one vote, in person or by proxy, for each share of Common Stock standing in such holder's name on the books of the Corporation, subject to the rights of the holders of Preferred Stock. Subject to the rights of the holders of the Preferred Stock, the Common Stock shall be entitled to dividends out of funds legally available therefore, when, as and if declared and paid to the holders of Common Stock, and upon liquidation, dissolution or winding up of the Corporation, to share ratably in the assets of the Corporation. The Common Stock shall not be redeemable.

Section 5. The number of directors of the Corporation shall be fixed in the manner provided in the Bylaws of the Corporation.

Section 6. Subject to the rights, if any, of the holders of any series of Preferred Stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation,

disqualification or removal may be filled only by a majority vote of the directors then in office, though less than a quorum, and directors so chosen shall hold office for a term expiring at the next annual meeting of stockholders and until such director's successor shall have been duly elected and qualified.

Section 7. In furtherance and not in limitation of the powers conferred by statute, the Bylaws of the Corporation may be altered, amended, or repealed or new Bylaws may be adopted by the Board of Directors at any regular or special meeting of the Board, subject to the stockholders' right to adopt, amend or repeal these Bylaws or adopt new Bylaws. Notwithstanding the foregoing and anything contained in the Bylaws to the contrary, the Bylaws shall not be amended or repealed by the stockholders, and no provision inconsistent therewith shall be adopted by the stockholders, without the affirmative vote of the holders of at least two-thirds (2/3) of the voting power of all shares of the Corporation entitled to vote generally in the election of directors voting together as a single class.

Section 8. Any director or the entire Board of Directors may be removed only for

cause and only by the vote of the holders of two-thirds (2/3) of the securities of the Corporation then entitled to vote at an election of directors voting together as a single class.

Section 9. Cumulative voting in the election of directors or otherwise is hereby expressly prohibited. No stockholder shall have, as a stockholder of the Corporation, any preemptive right to acquire, purchase or subscribe for the purchase of any or all additional issues of stock of the Corporation or any or all classes or series thereof, or for any securities convertible into such stock, whether now or hereafter authorized. Nothing in this Article will prohibit the Corporation from granting by contract preemptive rights or other rights to purchase stock of the Corporation.

Section 10. The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

Section 11. A director or former director of the Corporation shall not, to the fullest extent permitted by the Delaware General Corporation Law as the same exists or may hereafter be amended, be liable to the Corporation or its stockholders for monetary damages for breach of his or her fiduciary duty to the Corporation or its stockholders.

Section 12. To the fullest extent permitted by the General Corporation Law of Delaware, as the same may be amended from time to time, the Corporation shall indemnify any and all of its directors, officers, employees or agents of the Corporation or former directors and officers, or any person who is or was serving at the Corporation's request as a director or officer of another corporation, partnership, joint venture, trust or other enterprise. The Corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, limited liability company or other enterprise, against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's

status as such, whether or not the Corporation would have the power to indemnify such person against such liability.

No amendment nor repeal of this Article, nor the adoption of any provision of this Corporation's Certificate of Incorporation inconsistent with this Article, shall eliminate or reduce the effect of this Article, in respect of any matter occurring, or any action or proceeding accruing or arising or that, but for this Article, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

Section 13. Any action required or permitted to be taken at any annual or special meeting of stockholders may only be taken upon the vote of the stockholders at an annual or special meeting duly called and may not be taken by written consent of the stockholders. Special meetings of the stockholders, unless otherwise prescribed by statute, may be called at any time only by the Chairman of the Board or the Chief Executive Officer of the Corporation or a majority of the Board of Directors.

Section 14. The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation. In addition to any affirmative vote required by applicable law or any other provision of this Certificate of Incorporation or specified in any agreement, the affirmative vote of the holders of not less than two-thirds (2/3) of the voting power of all securities of the Corporation entitled to vote generally in the election of directors shall be required to amend, add, alter, change, repeal or adopt any provisions inconsistent with Sections 6, 8, 9, 13 or this Section 14 of this Certificate of Incorporation.

The undersigned, being an authorized officer of the Corporation, does make this certificate, hereby declaring and certifying that this is his act and deed and the facts herein stated are true, and accordingly has hereunto set his hand this day of May, 2002.

By: /s/ Brian Casey

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Brian Casey, President

BYLAWS  
Of  
WESTWOOD HOLDINGS GROUP, INC.  
(A DELAWARE CORPORATION)

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ARTICLE I

OFFICES

Section 1. Registered Office. The registered office of the Corporation shall be  
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in the City of Wilmington, County of New Castle, State of Delaware.

Section 2. Other Offices. The Corporation may also have offices at such other  
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place or places, both within and without the State of Delaware, as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE II

MEETINGS OF STOCKHOLDERS

Section 1. Time and Place of Meetings. All meetings of the stockholders for the

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election of directors shall be held at such time and place, either within or without the State of Delaware, as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting. Meetings of stockholders for any other purpose may be held at such time and place, within or without the State of Delaware, as shall be stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2. Annual Meetings. Annual meetings of stockholders shall be held on

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such date and at such time as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting, at which meeting the stockholders shall elect by a plurality vote a Board of Directors and transact such other business as may properly be brought before the meeting.

Section 3. Notice of Annual Meetings. Written notice of the annual meeting,

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stating the place, date, and hour of the meeting, shall be given to each stockholder of record entitled to vote at such meeting not less than 10 or more than 60 days before the date of the meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the stockholder at his address as it appears on the stock transfer books of the Corporation with postage thereon prepaid.

Section 4. Special Meetings. Special meetings of the stockholders for any

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purpose or purposes, unless otherwise prescribed by statute or by the Certificate of Incorporation, may be called only by the Chairman of the Board, the Chief Executive Officer, or a majority of the members of the Board of Directors then in office. Such request shall state the purpose or purposes of the proposed special meeting. Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice.

Section 5. Notice of Special Meetings. Written notice of a special meeting,

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stating the place, date, and hour of the meeting and the purpose or purposes for which the meeting is called, shall be given to each stockholder of record entitled to vote at such meeting not less than 10 or more than 60 days before the date of the meeting. If mailed, such notice shall be deemed

to be delivered when deposited in the United States mail, addressed to the stockholder at his address as it appears on the stock transfer books of the Corporation with postage thereon prepaid.

Section 6. Quorum. Except as otherwise provided by statute or the Certificate of

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Incorporation, the holders of stock having a majority of the voting power of the stock entitled to be voted thereat, present in person or represented by proxy, shall constitute a quorum for the transaction of business at all meetings of the stockholders. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time without notice (other than announcement at the meeting at which the adjournment is taken of the time and place of the adjourned meeting) until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 7. Organization. At each meeting of the stockholders, the Chairman of

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the Board or the President, determined as provided in Article V of these Bylaws, or if those officers shall be absent therefrom, another officer of the Corporation chosen as chairman present in person or by proxy and entitled to vote thereat, or if all the officers of the Corporation shall be absent therefrom, a stockholder holding of record shares of stock of the Corporation so chosen, shall act as chairman of the meeting and preside thereat. The Secretary, or if he shall be absent from such meeting or shall be required pursuant to the

provisions of this Section 7 to act as chairman of such meeting, the person (who shall be an Assistant Secretary, if an Assistant Secretary shall be present thereat) whom the chairman of such meeting shall appoint, shall act as secretary of such meeting and keep the minutes thereof.

Section 8. Voting. Except as otherwise provided in the Certificate of

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Incorporation, each stockholder shall, at each meeting of the stockholders, be entitled to one vote in person or by proxy for each share of stock of the Corporation held by him and registered in his name on the books of the Corporation on the date fixed pursuant to the provisions of Section 5 of Article VII of these Bylaws as the record date for the determination of stockholders who shall be entitled to notice of and to vote at such meeting. Shares of its own stock belonging to the Corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other corporation is held directly or indirectly by the Corporation, shall not be entitled to vote. Any vote by stock of the Corporation may be given at any meeting of the stockholders by the stockholder entitled thereto, in person or by his proxy appointed by an instrument in writing subscribed by such stockholder or by his attorney thereunto duly authorized and delivered to the Secretary of the Corporation or to the secretary of the meeting; provided, however, that no proxy shall be voted or acted upon after three years from its date, unless said proxy shall provide for a longer period. Each proxy shall be revocable unless expressly provided therein to be irrevocable and unless otherwise made irrevocable by law. At all meetings of the stockholders all matters, except where other provision is made by law, the Certificate of Incorporation, or these Bylaws, shall be decided by the vote of a majority of the votes cast by the stockholders present in person or by proxy and entitled to vote thereat, a quorum being present. Unless demanded by a stockholder of the Corporation present in person

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or by proxy at any meeting of the stockholders and entitled to vote thereat, or so directed by the chairman of the meeting, the vote thereat on any question other than the election or removal of directors need not be by written ballot. Upon a demand of any such stockholder for a vote by written ballot on any question or at the direction of such chairman that a vote by written ballot be taken on any question, such vote shall be taken by written ballot. On a vote by written ballot, each ballot shall be signed by the stockholder voting, or by his proxy, if there be such proxy, and shall state the number of shares voted.

Section 9. List of Stockholders. It shall be the duty of the Secretary or other

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officer of the Corporation who shall have charge of its stock ledger, either directly or through another officer of the Corporation designated by him or through a transfer agent appointed by the Board of Directors, to prepare and make, at least 10 days before every meeting of the stockholders, a complete list of the stockholders entitled to vote thereat, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least 10 days before said meeting, either at a place within the city where said meeting is, to be held, which place shall be specified in the notice of said meeting, or, if not so specified, at the place where said meeting is to be held. The list shall also be produced and kept at the time and place of said meeting during the whole time thereof, and may be inspected by any stockholder of record who shall be present thereat. The stock ledger shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, such list or the books of the Corporation, or to vote in person or by proxy at any meeting of stockholders.

Section 10. Inspectors of Votes. At each meeting of the stockholders,, the

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chairman of such meeting may appoint two Inspectors of Votes to act thereat, unless the Board of Directors shall have theretofore made such appointments. Each Inspector of Votes so appointed shall first subscribe an oath or affirmation faithfully to execute the duties of an Inspector of Votes at such meeting with strict impartiality and according to the best of his ability. Such Inspectors of Votes, if any, shall take charge of the ballots, if any, at such meeting and, after the balloting thereat on any question, shall count the ballots cast thereon and shall make a report in writing to the secretary of such meeting of the results thereof. An Inspector of Votes need not be a stockholder

of the Corporation, and any officer of the Corporation may be an Inspector of Votes on any question other than a vote for or against his election to any position with the Corporation or on any other question in which he may be directly interested.

Section 11. Actions Without a Meeting. Any action required or permitted to be  
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taken at any annual or special meeting of the stockholders may only be taken upon the vote of the stockholders at an annual or special meeting called and may not be taken by written consent of the stockholders.

### ARTICLE III

#### BOARD OF DIRECTORS

Section 1. Powers. The business and affairs of the Corporation shall be managed  
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by its Board of Directors, which shall have and may exercise all such powers of the Corporation and

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do all such lawful acts and things as are not by statute, the Certificate of Incorporation, or these Bylaws directed or required to be exercised or done by the stockholders.

Section 2. Number, Qualification and Term of Office. The number of directors  
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which shall constitute the whole Board of Directors shall not be less than three (3) nor more than eleven (11). Within the limits above specified, the number of directors which shall constitute the whole Board of Directors shall be determined by resolution of the Board of Directors or by the stockholders at any annual or special meeting or otherwise pursuant to action of the stockholders. Directors need not be stockholders. The directors shall be elected at the annual meeting of the stockholders, except as provided in Sections 4 and 5 of this Article III, and each director elected shall hold office until the annual meeting next after his election and until his successor is duly elected and qualified, or until his death or retirement or until he resigns or is removed in the manner hereinafter provided, but no decrease in the number of directors shall have the effect of shortening the term of any incumbent director. Directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy and entitled to vote on the election of directors at any annual or special meeting of stockholders. Such election shall be by written ballot.

Section 3. Resignations. Any director may resign at any time by giving written  
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notice of his resignation to the Corporation. Any such resignation shall take effect at the time specified therein, or if the time when it shall become effective shall not be specified therein, then it shall take effect immediately upon its receipt by the Secretary. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 4. Removal of Directors. At any meeting of stockholders called expressly  
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for the purpose of removing a director or directors, any director or the entire Board of Directors may be removed, only for cause, by a vote of the holders of two-thirds of the shares then entitled to vote at an election of directors.

Section 5. Vacancies. Vacancies and newly created directorships resulting from  
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any increase in the authorized number of directors may be filled by a majority of the directors then in office though less than a quorum, or by a sole remaining director, and the directors so chosen shall hold office until the annual meeting next after their election and until their successors are elected and qualified, unless sooner displaced. If there are no directors in office, then an election of directors may be held in the manner provided by statute.

#### MEETINGS OF THE BOARD OF DIRECTORS

Section 6. Place of Meetings. The Board of Directors of the Corporation may hold  
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meetings, both regular and special, either within or without the State of

Delaware.

Section 7. Annual Meetings. The first meeting of each newly elected Board of

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Directors shall be held immediately following the annual meeting of stockholders, and no notice of such meeting to the newly elected directors shall be necessary in order legally to constitute the meeting, provided a quorum shall be present. In the event such meeting is not held immediately following the annual meeting of stockholders, the meeting may be held at such time and place as

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shall be specified in a notice given as hereinafter provided for special meetings of the Board of Directors, or as shall be specified in a written waiver signed by all of the directors.

Section 8. Regular Meetings. Regular meetings of the Board of Directors may be

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held without notice at such time and at such place as shall from time to time be determined by the Board of Directors.

Section 9. Special Meetings: Notice. Special meetings of the Board of Directors

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may be called by the Chairman of the Board, the President, or the Secretary on 24 hours' notice to each director, either personally or by telephone or by mail, telegraph, telex, cable, wireless, or other form of recorded communication; special meetings shall be called by the Chairman of the Board, the President, or the Secretary in like manner and on like notice on the written request of two directors. Notice of any such meeting need not be given to any director, however, if waived by him in writing or by telegraph, telex, cable, wireless, or other form of recorded communication, or if he shall be present at such meeting. Neither the business to be transacted at, nor the purpose of, any special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting.

Section 10. Quorum and Manner of Acting. At all meetings of the Board of

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Directors, a majority of the directors at the time in office (but not less than one-third of the whole Board of Directors) shall constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board of Directors, except as may be otherwise specifically provided by statute or by the Certificate of Incorporation. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 11. Interested Directors. No contract or transaction between the

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Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one (1) or more of the Corporation's directors or officers or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof that authorizes the contract or transaction, or solely because his or their votes are counted for such purpose, if:

(a) The material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative vote of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or

(b) The material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or

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(c) The contract or transaction is fair as to the Corporation as of the time it is authorized, approved, or ratified by the Board of Directors, a committee thereof, or the stockholders.

(d) Interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee that authorizes the contract or transaction.

Section 12. Remuneration. Unless otherwise expressly provided by resolution

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adopted by the Board of Directors, none of the directors shall, as such, receive any stated remuneration for his services; but the Board of Directors may at any time and from time to time by resolution provide that a specified sum shall be paid to any director of the Corporation, either as his annual remuneration as such director or member of any committee of the Board of Directors or as remuneration for his attendance at each meeting of the Board of Directors or any such committee. The Board of Directors may also likewise provide that the Corporation shall reimburse each director for any expenses paid by him on account of his attendance at any meeting. Nothing in this Section 12 shall be construed to preclude any director from serving the Corporation in any other capacity and receiving remuneration therefore.

#### COMMITTEES OF DIRECTORS

Section 13. Executive Committee; How Constituted and Powers. The Board of

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Directors may in its discretion, by resolution passed by a majority of the whole Board of Directors, designate an Executive Committee consisting of one or more of the directors of the Corporation. Subject to the provisions of Section 141 of the General Corporation Law of the State of Delaware, the Certificate of Incorporation, and these Bylaws, the Executive Committee shall have and may exercise, when the Board of Directors is not in session, all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and shall have the power to authorize the seal of the Corporation to be affixed to all papers which may require it; but the Executive Committee shall not have the power to fill vacancies in the Board of Directors, the Executive Committee, or any other committee of directors or to elect or approve officers of the Corporation. The Executive Committee shall have the power and authority to authorize the issuance of common stock and grant and authorize options and other rights with respect to such issuance. The Board of Directors shall have the power at any time, by resolution passed by a majority of the whole Board of Directors, to change the membership of the Executive Committee, to fill all vacancies in it, or to dissolve it, either with or without cause.

Section 14. Organization. The Chairman of the Executive Committee, to be

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selected by the Board of Directors, shall act as chairman at all meetings of the Executive Committee and the Secretary shall act as secretary thereof. In case of the absence from any meeting of the Executive Committee of the Chairman of the Executive Committee or the Secretary, the Executive Committee may appoint a chairman or secretary, as the case may be, of the meeting.

Section 15. Meetings. Regular meetings of the Executive Committee, of which no

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notice shall be necessary, may be held on such days and at such places, within or without the State of Delaware, as shall be fixed by resolution adopted by a majority of the Executive Committee and communicated in writing to all its members. Special meetings of the Executive

Committee shall be held whenever called by the Chairman of the Executive Committee or a majority of the members of the Executive Committee then in office. Notice of each special meeting of the Executive Committee shall be given by mail, telegraph, telex, cable, wireless, or other form of recorded communication or be delivered personally or by telephone to each member of the Executive Committee not later than the day before the day on which such meeting is to be held. Notice of any such meeting need not be given to any member of the Executive Committee, however, if waived by him in writing or by telegraph, telex, cable, wireless, or other form of recorded communication, or if he shall be present at such meeting; and any meeting of the Executive Committee shall be

a legal meeting without any notice thereof having been given, if all the members of the Executive Committee shall be present thereat. Subject to the provisions of this Article III, the Executive Committee, by resolution adopted by a majority of the whole Executive Committee, shall fix its own rules of procedure.

Section 16. Quorum and Manner of Acting. A majority of the Executive Committee  
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shall constitute a quorum for the transaction of business, and the act of a majority of those present at a meeting thereof at which a quorum is present shall be the act of the Executive Committee.

Section 17. Other Committees. The Board of Directors may, by resolution or  
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resolutions passed by a majority of the whole Board of Directors, designate one or more other committees consisting of one or more directors of the Corporation, which, to the extent provided in said resolution or resolutions, shall have and may exercise, subject to the provisions of Section 141 of the General Corporation Law of the State of Delaware, the Certificate of Incorporation, and these Bylaws, the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and shall have the power to authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power to fill vacancies in the Board of Directors, the Executive Committee, or any other committee or in their respective membership, to appoint or remove officers of the Corporation, or to authorize the issuance of shares of the capital stock of the Corporation, except that such a committee may, to the extent provided in said resolutions, grant and authorize options and other rights with respect to the common stock of the Corporation pursuant to and in accordance with any plan approved by the Board of Directors. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors. A majority of all the members of any such committee may determine its action and fix the time and place of its meetings and specify what notice thereof, if any, shall be given, unless the Board of Directors shall otherwise provide. The Board of Directors shall have power to change the members of any such committee at any time to fill vacancies, and to discharge any such committee, either with or without cause, at any time.

Section 18. Alternate Members of Committees. The Board of Directors may  
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designate one or more directors as alternate members of the Executive Committee or any other committee, who may replace any absent or disqualified member at any meeting of the committee, or if none be so appointed, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

Section 19. Minutes of Committees. Each committee shall keep regular minutes of  
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its meetings and proceedings and report the same to the Board of Directors at the next meeting thereof.

GENERAL

Section 20. Actions Without a Meeting. Unless otherwise restricted by the  
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Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board of Directors or committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the Board of Directors or the committee.

Section 21. Presence at Meetings by Means of Communications Equipment. Members  
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of the Board of Directors, or of any committee designated by the Board of Directors, may participate in a meeting of the Board of Directors or such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting conducted pursuant to this Section 21 shall constitute presence in person at such meeting.

ARTICLE IV

NOTICES

Section 1. Type of Notice. Whenever, under the provisions of any applicable  
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statute, the Certificate of Incorporation, or these Bylaws, notice is required to be given to any director or stockholder, it shall not be construed to mean personal notice, but such notice may be given in writing, in person or by mail, addressed to such director or stockholder, at his address as it appears on the records of the Corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Notice to directors may also be given in any manner permitted by Article III hereof and shall be deemed to be given at the time when first transmitted by the method of communication selected.

Section 2. Waiver of Notice. Whenever any notice is required to be given under  
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the provisions of any applicable permitted statute, the Certificate of Incorporation, or these Bylaws, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto, and transmission of a waiver of notice by a director or stockholder by mail, telegraph, telex, cable, wireless, or other form of recorded communication may constitute such a waiver.

ARTICLE V

OFFICERS

Section 1. Elected and Appointed Officers. The elected officers of the  
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Corporation shall be a President, one or more Vice Presidents, with or without such descriptive titles as the Board of Directors shall deem appropriate, a Secretary, and a Treasurer, and, if the Board of

Directors so elects, a Chairman of the Board (who shall be a director), and a Controller. The Board of Directors or the Executive Committee of the Board of Directors by resolution also may appoint one or more Assistant Vice Presidents, Assistant Treasurers, Assistant Secretaries, Assistant Controllers, and such other officers and agents as from time to time may appear to be necessary or advisable in the conduct of the affairs of the Corporation.

Section 2. Time of Election or Appointment. The Board of Directors at its annual  
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meeting shall elect or appoint, as the case may be, the officers to fill the positions designated in or pursuant to Section 1 of this Article V. Officers of the Corporation may also be elected or appointed, as the case may be, at any other time.

Section 3. Salaries of Elected Officers. The salaries of all elected officers of  
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the Corporation shall be fixed by the Board of Directors.

Section 4. Term. Each officer of the Corporation shall hold his office until his  
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successor is duly elected or appointed and qualified or until his earlier resignation or removal. Any officer may resign at any time upon written notice to the Corporation. Any officer elected or appointed by the Board of Directors or the Executive Committee may be removed at any time by the affirmative vote of a majority of the whole Board of Directors. Any vacancy occurring in any office of the Corporation by death, resignation, removal, or otherwise may be filled by the Board of Directors or the appropriate committee thereof.

Section 5. Duties of the Chairman of the Board. The Chairman of the Board shall  
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be the Chief Executive Officer of the Corporation, and shall have, subject to the provisions of these Bylaws, general supervision of the affairs of the Corporation and general and active control of all its business. He shall preside at all meetings of stockholders and, in the absence of any other person designated thereto by these Bylaws, at all meetings of the Board of Directors.



He shall see that all orders and resolutions of the Board of Directors and the stockholders are carried into effect. He shall have general authority to execute bonds, deeds, and contracts in the name of the Corporation and affix the corporate seal thereto; to sign stock certificates; to cause the employment or appointment of such employees and agents of the Corporation as the proper conduct of operations may require, and to fix their compensation, subject to the provisions of these Bylaws; to remove or suspend any employee or agent who shall have been employed or appointed under his authority or under authority of an officer subordinate to him; to suspend for cause, pending final action by the authority which shall have elected or appointed him, any officer subordinate to the Chairman of the Board; and, in general, to exercise all the powers and authority usually appertaining to the chief executive officer of a corporation, except as otherwise provided in these Bylaws.

Section 6. Duties of the President. The President shall be the Chief Operating  
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Officer of the Corporation, shall in the absence or disability of the Chairman of the Board perform the duties and exercise the powers of the Chief Executive Officer, and shall have, subject to review and approval of the Chairman of the Board, responsibility for the general day-to-day operations of the Corporation's properties and facilities and such other duties and responsibilities as (i) are customarily possessed by a chief operating officer of a corporation similar in size and line of business as the Corporation and (ii) may be delegated to him from time to time by the Board of Directors of the Corporation.

Section 7. Duties of Vice Presidents. In the absence of the President or in the  
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event of his inability or refusal to act, the Vice President (or in the event there be more than one Vice President, the Vice Presidents in the order designated, or in the absence of any designation, then in the order of their election) shall perform the duties of the President and, when so acting, shall have all the powers of and be subject to all the restrictions upon the President. The Vice Presidents shall perform such other duties and have such other powers as the Board of Directors or the President may from time to time prescribe.

Section 8. Duties of Assistant Vice Presidents. In the absence of a Vice  
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President or in the event of his inability or refusal to act, the Assistant Vice President (or in the event there shall be more than one, the Assistant Vice Presidents in the order designated by the Board of Directors, or in the absence of any designation, then in the order of their appointment) shall perform the duties and exercise the powers of that Vice President, and shall perform such other duties and have such other powers as the Board of Directors, the President, or the Vice President under whose supervision he is appointed may from time to time prescribe.

Section 9. Duties of the Secretary. The Secretary shall attend all meetings the  
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Board of Directors and all meetings of the stockholders and record all the proceedings of the meetings of the Corporation and of the Board of Directors in a book to be kept for that purpose and shall perform like duties for the Executive Committee or other standing committees when required. He shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or the President, under whose supervision he shall be. He shall have custody of the corporate seal of the Corporation, and he, or an Assistant Secretary, shall have authority to affix the same to any instrument requiring it, and when so affixed, it may be attested by his signature or by the signature of such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by his signature. The Secretary shall keep and account for all books, documents, papers, and records of the Corporation, except those for which some other officer or agent is properly accountable. He shall have authority to sign stock certificates and shall generally perform all the duties usually appertaining to the office of the secretary of a corporation.

Section 10. Duties of Assistant Secretaries. In the absence of the Secretary or  
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in the event of his inability or refusal to act, the Assistant Secretary (or, if

there shall be more than one, the Assistant Secretaries in the order designated by the Board of Directors, or in the absence of any designation, then in the order of their appointment) shall perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Board of Directors, the President, or the Secretary may from time to time prescribe.

Section 11. Duties of the Treasurer. The Treasurer shall have the custody of the

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corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. He shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the President and the Board of Directors, at its regular meetings or when the Board of Directors so requires, an account of all his transactions as Treasurer and of the financial

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condition of the Corporation. If required by the Board of Directors, he shall give the Corporation a bond (which shall be renewed every six years) in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his office and for the restoration to the Corporation, in case of his death, resignation, retirement, or removal from office, of all books, papers, vouchers, money, and other property of whatever kind in his possession or under his control belonging to the Corporation. The Treasurer shall be under the supervision of the Vice President in charge of finance, if one is so designated, and he shall perform such other duties as may be prescribed by the Board of Directors, the President, or any such Vice President in charge of finance.

Section 12. Duties of Assistant Treasurers. The Assistant Treasurer or Assistant

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Treasurers shall assist the Treasurer, and in the absence of the Treasurer or in the event of his inability or refusal to act, the Assistant Treasurer (or in the event there shall be more than one, the Assistant Treasurers in the order designated by the Board of Directors, or in the absence of any designation, then in the order of their appointment) shall perform the duties and exercise the powers of the Treasurer and shall perform such other duties and have such other powers as the Board of Directors, the President, or the Treasurer may from time to time prescribe.

Section 13. Duties of the Controller. The Controller, if one is appointed, shall

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have supervision of the accounting practices of the Corporation and shall prescribe the duties and powers of any other accounting personnel of the Corporation. He shall cause to be maintained an adequate system of financial control through a program of budgets and interpretive reports. He shall initiate and enforce measures and procedures whereby the business of the Corporation shall be conducted with the maximum efficiency and economy. If required, he shall prepare a monthly report covering the operating results of the Corporation. The Controller shall be under the supervision of the Vice President in charge of finance, if one is so designated, and he shall perform such other duties as may be prescribed by the Board of Directors, the President, or any such Vice President in charge of finance.

Section 14. Duties of Assistant Controllers. The Assistant Controller or

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Assistant Controllers shall assist the Controller, and in the absence of the Controller or in the event of his inability or refusal to act, the Assistant Controller (or, if there shall be more than one, the Assistant Controllers in the order designated by the Board of Directors, or in the absence of any designation, then in the order of their appointment) shall perform the duties and exercise the powers of the Controller and perform such other duties and have such other powers as the Board of Directors, the President, or the Controller may from time to time prescribe.

ARTICLE VI

INDEMNIFICATION

Section 1. Actions Other than by or in the Right of the Corporation. The

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Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened; pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative (other than an action, suit, or proceeding by or in the right of the Corporation) (collectively referred to in this Section 1 as an "Action"), by reason of the fact that he is or was a director or officer of the Corporation, against expenses (including, without

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limitation, attorneys' fees), judgments, fines, and amounts paid in settlement (collectively, "Expenses") actually and reasonably incurred by him in connection with such Action if (i) he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, (ii) the Action does not relate (even in part) to his service or the performance of his duties as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise (whether or not he was so serving at the request of the Corporation), and (iii) with respect to any criminal Action, had no reasonable cause to believe his conduct was unlawful. The Corporation may indemnify any person who was or is a party or is threatened to be made a party to any Action by reason of the fact that he is or was an employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise (each such person being hereinafter referred to in this Article VI as a "Corporate Functionary"), against Expenses actually and reasonably incurred by him in connection with such Action. if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation and, with respect to any criminal Action, had no reasonable cause to believe his conduct was unlawful. The termination of any Action by judgment, order, settlement, or conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation or, with respect to any criminal Action, that he had reasonable cause to believe that his conduct was unlawful. In this Article VI, an "other enterprise" includes, without limitation, an employee benefit plan, and a fine includes, without limitation, any excise tax imposed with respect to an employee benefit plan.

Section 2. Actions by or in the Right of the Corporation. The Corporation shall

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indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit, or proceeding by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a director or officer of the Corporation against expenses (including, without limitation, attorneys' fees) actually and reasonable incurred by him in connection with the defense or settlement of such action, suit, or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, except that (i) no indemnification shall be made in respect of any claim, issue, or matter as to which such person shall have been adjudged to be liable to the Corporation, unless and to the extent that the Court of Chancery or the Court in which such action, suit, or proceeding has been brought, shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnify for such expenses which the Court of Chancery or such other court shall deem proper, and (ii) the Corporation shall not be required to (but, to the extent permitted by the preceding part of this sentence, may indemnify any such person in respect of any claim, issue, or matter relating to his employee, or any of another corporation, partnership, joint venture, trust, or other enterprise (whether or not he was so serving at the request of the Corporation). The Corporation may indemnify any person who was or is a party or is threatened to be made a part, to any threatens depending, or completed action, suit, or proceeding by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a Corporate Functionary against expenses (including, without limitation, attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action, suit, or proceeding, if he acted in good faith and in a manner he

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reasonably believed to be in or not opposed to the best interests of the Corporation, except that no indemnification shall be made in respect of any claim, issue, or matter as to which such Corporate Functionary shall have been adjudged to be liable to the Corporation, unless and only to the extent that the Court of Chancery or the court in which such action, suit, or proceeding has brought shall determine upon application that despite the adjudication of liability but in view of all the circumstances of the case, such Corporate Functionary is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery, or such other court shall deem proper.

Section 3. Determination of Right to Indemnification. Any indemnification under  
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Section 1 or Section 2 of this Article VI (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director or officer or of the Corporate Functionary is proper in the circumstances because such person has met the applicable standard of conduct set forth in Section 1 or Section 2 of this Article VI. Such determination shall be made (i) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit, or proceeding, or (ii) if such a quorum is not obtainable, or even if obtainable if a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (iii) by the stockholders.

Section 4. Right to Indemnification. Notwithstanding the other provisions of  
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this Article VI, to the extent that a director, officer, or Corporate Functionary has been successful on the merits or otherwise in defense of any action, suit, or proceeding referred to in Section 1 or Section 2 of this Article VI (including, without limitation, the dismissal of an action, suit, or proceeding without prejudice or the settlement of an action, suit, or proceeding without admission of liability), or in defense of any claim, issue, or matter therein, the Corporation shall indemnify him against expenses (including, without limitation, attorneys' fees) actually and reasonably incurred by him in connection therewith.

Section 5. Prepaid Expenses. Expenses incurred by a director or officer of the  
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Corporation in defending a civil or criminal action, suit, or proceeding shall be paid by the Corporation upon receipt of an undertaking by or on behalf of such person to repay such amount if it shall ultimately be determined he is not entitled to be indemnified by the Corporation as authorized in this Article VI. Expenses incurred by a Corporate Functionary in defending a civil or criminal action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit, or proceeding, upon (i) receipt of an undertaking by or on behalf of such person to repay such amount if it shall ultimately be determined he is not entitled to be indemnified by the Corporation as authorized in this Article VI and (ii) such other terms and conditions, if any, as the Board of Directors deems appropriate.

Section 6. Indemnification Upon Application: Procedure upon Application.  
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(a) Any indemnification of a director or officer of the Corporation under Sections 1, and 4, or any advance to a director or officer of the Corporation under Section 5, of this Article VI shall be made promptly upon, and in any event within 60 days after, the written request of the director or officer. The right to indemnification or an advance of expenses granted by this Article VI shall be enforceable by the director or officer of the Corporation in any Court of competent jurisdiction if his claim is not paid in full within 60 days. The expenses of the director or officer incurred in connection with successfully establishing his right to

indemnification or an advance of expenses, in whole or in part, in any such proceeding shall also be indemnified by the Corporation.

(b) Within 60 days after receipt of a written application by any Corporate Functionary for indemnification in his capacity as such under any of Sections 1, 2, and 4, or any advance under Section 5, of this Article VI (i) a determination as to whether indemnification shall be made under Section 3 of this Article VI, or (ii) if the request is for an advance of expenses, the Board of Directors, by

majority vote of a quorum consisting of disinterested directors, shall determine whether such advance shall be made. In the case described in clause (ii) of the preceding sentence, if no quorum of disinterested directors is obtainable, the Board of Directors shall promptly direct independent legal counsel to decide whether the requested indemnification or advance shall be made. The expenses of the Corporate Functionary incurred in connection with successfully requesting indemnification or advancement of expenses in any such proceeding shall be reimbursed by the Corporation, but no such expenses in connection with an unsuccessful or only partially successful request shall be reimbursed.

(c) In any suit brought by the director, officer or Corporate Functionary to enforce a right to indemnification under this Article VI (but not in a suit brought to enforce a right to an advance of expenses), it shall be a defense that the director, officer or Corporate Functionary has not met the applicable standard of conduct for indemnification under Section 1 or Section 2 of this Article VI. In any suit by the Corporation to recover expenses advanced to the director, officer or Corporate Functionary pursuant to the terms of an undertaking, the Corporation shall be entitled to recover those expenses upon a final adjudication that the director, officer or Corporate Functionary has not met the applicable standard of conduct for indemnification under Section 1 or Section 2 of this Article VI. In any suit by the director, officer or Corporate Functionary to enforce a right to indemnification or to an advance of expenses under this Article VI, or by the Corporation to recover expenses advanced pursuant to the terms of an undertaking, the burden of proof shall be on the Corporation.

Section 7. Other Rights and Remedies. The indemnification and advancement of  
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expenses provided by or granted pursuant to this Article VI shall not be deemed exclusive of any other rights to which any person seeking indemnification and advancement of expenses or may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors, or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director or officer of the Corporation or a Corporate Functionary and shall inure to the benefit of the heirs, executors, and administrators of such a person. Any repeal or modification of these Bylaws or relevant provisions of the Delaware General Corporation Law and other applicable law, if any, shall not affect any then existing rights of a director or officer of the Corporation or a Corporate Functionary to indemnification or advancement of expenses.

Section 8. Insurance. Upon resolution passed by the Board of Directors, the  
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Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise against any liability asserted against him and incurred by him in

any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article VI.

Section 9. Savings Provision. If this Article VI or any portion hereof shall be  
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invalidated on any ground by a court of competent jurisdiction, the Corporation shall nevertheless indemnify each director or officer of the Corporation, and may indemnify each Corporate Functionary, as to expense (including attorneys' fees), judgments, fines, and amounts paid in settlement with respect to any action, suit, proceeding, or investigation, whether civil, criminal, or administrative, including a grand jury proceeding or action or suit brought by or in the right of the Corporation, to the full extent permitted by any applicable portion of this Article VI that shall not have been invalidated.

## ARTICLE VII

### CERTIFICATES REPRESENTING STOCK

Section 1. Right to Certificate. Every holder of stock in the Corporation shall  
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be entitled to have a certificate, signed by, or in the name of the Corporation by, the Chairman of the Board, the President, or a Vice President and by the Secretary or an Assistant Secretary of the Corporation, certifying the number of shares owned by him in the Corporation. If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences, and relative, participating, optional, or other special rights of each class of stock or series thereof and the qualifications, limitations, or restrictions of such preferences or rights shall be set forth in full or summarized on the face or back of the certificate which the Corporation shall issue to that, except as represent such class or series of Stock; provided, that, except as otherwise provided in Section 202 of the General Corporation Law of the State of Delaware, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences, and relative, participating, optional, or other special rights of each class of stock or series thereof and the qualifications, limitations, or restrictions of such preferences or rights.

Section 2. Facsimile Signatures. Any of or all the signatures on the certificate  
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may be facsimile. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent, or registrar at the date of issue.

Section 3. New Certificates. The Board of Directors may direct a new certificate  
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or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation and alleged to have been lost, stolen, or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen, or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen, or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require or to give the Corporation a bond in such sum as it may direct as

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indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen, or destroyed or the issuance of such new certificate.

Section 4. Transfers. Upon surrender to the Corporation or the transfer agent of  
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the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation, or authority to transfer, it shall be the duty of the Corporation, subject to any proper restrictions on transfer, to issue a new certificate to the person entitled thereto, cancel the old certificate, and record the transaction upon its books.

Section 5. Transfer Agents and Registrars. The Board of Directors may appoint,  
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or authorize any officer or officers to appoint, one or more transfer agents and one or more registrars.

Section 6. Record Date. The Board of Directors may fix in advance a date, not  
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preceding the date on which the resolution fixing the record date is adopted, and

- (i) not more than 60 days nor less than 10 days preceding the date of any meeting of stockholders, as a record date for the determination of the stockholders entitled to notice of, and to vote at, any such meeting and any adjournment thereof,
- (ii) not more than 10 days after the date on which the resolution fixing the record date is adopted, as a record date in connection with obtaining a consent of the stockholders in writing to corporate action without a meeting, or

(iii) not more than 60 days before the date for payment of any dividend or distribution, or the date for the allotment of rights, or the date when any change, or conversion or exchange of capital stock shall go into effect, or the date on which any other lawful action shall be taken, as the record date for determining the stockholders entitled to receive payment of any such dividend or distribution, or to receive any such allotment of rights, or to exercise the rights in respect of any such change, conversion or exchange of capital stock or other lawful action of the Corporation,

and in such case such stockholders and only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to such notice of, and to vote at, any such meeting and any adjournment thereof (provided, however, that the Board of Directors may fix a new record date for an adjourned meeting), or to give such consent, or to receive payment of such dividend or distribution, or to receive such allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any stock on the books of the Corporation after any such record date fixed as aforesaid.

Section 7. Registered Stockholders. The Corporation shall be entitled to

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recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable

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or other claim to or interest in such share or shares on the part of any other person, whether or not provided by the laws of the State of Delaware.

Section 8. Voting Agreements. A written counterpart of any voting agreement

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entered into among any number of stockholders of the Corporation, or any number of stockholders of the Corporation and the Corporation itself, for the purpose of providing that shares of the Corporation shall be voted in the manner prescribed in the agreement shall be deposited with the Corporation at its registered office in Delaware and shall be subject to the inspection by any stockholder of the Corporation or any beneficiary of the agreement daily during business hours. In addition, certificates of stock or uncertificated stock shall be issued to the person or persons, or corporation or corporations authorized to act as trustee for purposes of vesting in such person or persons, corporation or corporations, the right to vote such shares, to represent any stock of an original issue so deposited with him or them, and any certificates of stock or uncertificated stock so transferred to the voting trustee or trustees shall be surrendered and cancelled and new certificates or uncertificated stock shall be issued therefore to the voting trustee or trustees. In the certificate so issued, if any, it shall be stated that it is issued pursuant to such agreement, and that fact shall also be stated in the stock ledger of the Corporation.

## ARTICLE VIII

### GENERAL PROVISIONS

Section 1. Dividends. Dividends upon the capital stock of the Corporation, if

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any, subject to the provisions of the Certificate of Incorporation, may be declared by the Board of Directors (but not any committee thereof) at any regular meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the Certificate of Incorporation.

Section 2. Reserves. Before payment of any dividend, there may be set aside out

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of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in their absolute discretion, thinks proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the Board of Directors shall think conducive to the interest of the Corporation, and the Board of Directors may modify or abolish any such reserve in the manner in which it was created.

Section 3. Annual Statement. The Board of Directors shall present at each annual  
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meeting, and at any special meeting of the stockholders when called for by vote  
of the stockholders, a full and clear statement of the business and condition of  
the Corporation.

Section 4. Checks. All checks or demands for money and promissory notes of the  
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Corporation shall be signed by such officer or officers or such other person or  
persons as the Board of Directors may from time to time prescribe.

Section 5. Fiscal Year. The fiscal year of the Corporation shall be determined  
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by the Board of Directors.

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Section 6. Corporate Seal. The corporate seal shall have inscribed thereon the  
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name of the Corporation, the year of its organization, and the word "Delaware."  
The seal may be used by causing it or a facsimile thereof to be impressed,  
affixed, reproduced, or otherwise.

#### ARTICLE IX

##### RESTRICTIONS ON TRANSFER OF STOCK

Section 1. Securities Laws. Shares of capital stock of the Corporation that have  
-----  
been issued by the Corporation without registration under the Securities Act of  
1933, as amended from time to time, and any other applicable securities laws  
shall not be offered for sale, sold, assigned, transferred, or pledged by the  
holder thereof unless they have been duly registered under the applicable  
securities laws or unless the Corporation shall have received advice of counsel  
to the Corporation or an opinion of other counsel satisfactory to the  
Corporation to the effect that the proposed transfer would not be in violation  
of said laws, and (in addition to the legends set forth in Section 3 of this  
Article IX) a restrictive legend substantially in the form of that set forth  
below may be placed conspicuously on the certificate for any such shares:

"The shares represented by this certificate have not been registered  
under the Securities Act of 1933 (the "Act") or under any other  
applicable securities laws. The shares may not be offered for sale,  
sold, assigned, transferred or pledged without registration under the  
Act and any other applicable securities laws or without an opinion of  
counsel satisfactory to the Corporation that registration is not  
required."

#### ARTICLE X

##### AMENDMENTS

These Bylaws may be altered, amended, or repealed or new Bylaws  
may be adopted by the Board of Directors at any regular or special meeting of  
the Board, subject to the stockholders' right to adopt, amend or repeal these  
Bylaws or adopt new Bylaws. Notwithstanding the foregoing and anything contained  
in the Bylaws to the contrary, the Bylaws shall not be amended or repealed by  
the stockholders, and no provision inconsistent therewith shall be adopted by  
the stockholders, without the affirmative vote of the holders of at least  
two-thirds (2/3) of the voting power of all shares of the Corporation entitled  
to vote generally in the election of directors voting together as a single  
class.

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[LOGO]

American Bank Note Company

INCORPORATED UNDER THE LAWS  
OF THE STATE OF DELAWARE

----- NUMBER -----	COMMON STOCK ----- SHARES ----- PAR VALUE \$0.01 PER SHARE
--------------------------	--

THIS CERTIFICATE IS TRANSFERABLE  
IN NEW YORK, NY AND DENVER, CO

[LOGO]

CUSIP 961765 10 4  
SEE REVERSE FOR CERTAIN RESTRICTIONS

WESTWOOD HOLDINGS GROUP, INC.

THIS CERTIFIES THAT

IS THE OWNER OF

FULLY PAID AND NON-ASSESSABLE SHARES OF THE COMMON STOCK OF

Westwood Holdings Group, Inc. (the "Corporation") transferable on the books of the Corporation by the holder hereof in person or by duly authorized attorney, upon surrender of this Certificate properly endorsed. This Certificate and the shares represented hereby are issued and shall be held subject to all the provisions of the Certificate of Incorporation and the Bylaws of the Corporation, and all amendments thereto, to all of which the holder, by acceptance hereof, consents. This Certificate is not valid until countersigned by the Transfer Agent and registered by the Registrar.

Witness the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.

Dated

/s/ Susan M Byrne  
CHAIRMAN OF THE BOARD

[SEAL]

/s/ Bill Casey  
SECRETARY

COUNTERSIGNED AND REGISTERED:  
COMPUTERSHARE TRUST COMPANY, INC.  
P.O. Box 1596  
Denver, Colorado 80201  
TRANSFER AGENT AND REGISTRAR

BY  
AUTHORIZED SIGNATURE

WESTWOOD HOLDINGS GROUP, INC.

The Corporation will furnish, without charge, to each stockholder who so requests a statement of the powers, designations, preferences and relative, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or

rights.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM -- as tenants in common	UNIF GIFT MIN ACT- _____ Custodian _____
TEN ENT -- as tenants by the entireties	(Cust) _____ (Minor)
JT TEN -- as joint tenants with right of survivorship and not as tenants in common	under Uniform Gifts to Minors Act _____ (State)

Additional abbreviations may also be used though not in the above list.

For value received, \_\_\_\_\_ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

-----  
-----

PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING POSTAL ZIP CODE, OF ASSIGNEE

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\_\_\_\_\_ Shares of the capital stock of the Corporation represented by the within Certificate, and do hereby irrevocably constitute and appoint \_\_\_\_\_

Attorney to transfer the said stock on the books of the Corporation with full power of substitution in the premises.

Dated, \_\_\_\_\_

X \_\_\_\_\_  
(SIGNATURE)

NOTICE: THE SIGNATURE(S) TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME(S) AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER.

X \_\_\_\_\_  
(SIGNATURE)

-----  
THE SIGNATURE(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM), PURSUANT TO S.E.C. RULE 17Ad-15.

-----  
SIGNATURE(S) GUARANTEED BY:  
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-----  
AMERICAN BANK NOTE COMPANY  
55TH STREET AT SANSOM STREET  
PHILADELPHIA, PA 19139  
(215) 764-8600

PRODUCTION COORDINATOR: BELINDA BECK: 215-764-8619  
PROOF OF MARCH 8, 2002  
WESTWOOD  
H72515bk

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SALES: M. GARRETT: 214-823-270

OPERATOR:

HJ/JW/eg

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NET/BANKNOTE/HOME 23/MAC 6/WESTWOOD 72515

Rev. 2  
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[GARDERE WYNNE SEWELL LLP LETTERHEAD]

April 9, 2002

SWS Group, Inc.  
1201 Elm Street, Suite 3500  
Dallas, Texas

Ladies and Gentlemen:

You have requested our opinion with respect to material federal income tax consequences arising out of the proposed distribution by SWS Group, Inc. ("SWS"), a Delaware corporation, to its stockholders of the shares of Westwood Holdings Group, Inc., a Delaware corporation ("Westwood"), owned by SWS (the "Spin-off"). Unless otherwise defined herein or the context hereof otherwise requires, each term used herein with its initial letter capitalized has the meaning given to such term in the Registration Statement on Form 10, as filed on March 21, 2002, under the Securities Exchange Act of 1934, as amended (the "Registration Statement").

In connection with the delivery of our opinion, we have examined, are familiar with and are relying upon the following:

- (i) the Registration Statement;
- (ii) the Distribution Agreement, dated as of April 8, 2002, between SWS and Westwood (the "Distribution Agreement");
- (iii) the Tax Separation Agreement, dated as of April 8, 2002, between SWS and Westwood (the "Tax Agreement");
- (iv) certificates of officers or other representative of SWS and Westwood; and
- (v) such other documents, certificates and records as we have deemed necessary or appropriate as a basis for our opinion set forth below.

In rendering the opinion set forth below, we have assumed the truth and accuracy, at all relevant times, of all information and representations contained in each of those documents. We have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the

April 9, 2002

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conformity to original documents of all documents submitted to us as copies, the authenticity of the originals of such copies and the accuracy and completeness of all information submitted to us. We have assumed that the Registration Statement when declared effective will not contain revisions that would have a material effect on the tax consequences of the Spin-off. As to various facts material to this opinion letter, we have relied upon statements and representations of SWS and Westwood and their respective officers and other representatives, set forth in certificates delivered to us, without independently verifying the accuracy of the information contained therein.

In connection with rendering our opinion, we have considered applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), Department of Treasury Regulations promulgated under the Code (whether proposed, temporary, or final) now in effect (collectively, "Treasury Regulations"), pertinent judicial authorities regarding applicable provisions of the Code and Treasury Regulations, interpretative rulings of the Internal Revenue Service ("IRS") and such other federal tax-related authorities as we have considered relevant.

Based on the foregoing and subject to the assumptions, exceptions, qualifications and limitations set forth herein, we are of the opinion that the Spin-off will, under current law, constitute a tax-free transaction under Code ss. 355, with the following results:

- (a) except for cash received in lieu of fractional shares, if any, the holders of shares of SWS common stock, \$0.10 par value per share (the "SWS Common Stock"), will not recognize any income, gain or loss as a result of the receipt of shares of Westwood common stock, \$0.01 par value per share (the "Westwood Common Stock"), in the Spin-off;
- (b) after the Spin-off, each holder of SWS Common Stock will have an aggregate tax basis in the shares of Westwood Common Stock received in the Spin-off and the shares of SWS Common Stock held immediately following the Spin-off equal to the basis in the shares of SWS Common Stock held immediately prior to the Spin-off. This aggregate basis will be allocated between the shares of Westwood Common Stock and SWS Common Stock in proportion to each of their fair market values on the Spin-off date. The stockholder will assign basis to each share of Westwood Common stock on a pro-rata basis. If a stockholder has multiple blocks of SWS Common Stock, the stockholder will then allocate the SWS basis (as determined above) back to a specific block of SWS Common Stock in the amount of the total basis attributable to SWS Common Stock multiplied by a fraction, the numerator of which is the pre Spin-off basis attributable to that block of SWS Common Stock and the denominator of which is the pre Spin-off basis of all of the stockholder's SWS Common Stock. After the total basis for each block has been determined, the stockholder will assign basis to the shares within each block on a pro-rata basis;
- (c) the holding period of the shares of Westwood Common Stock received in the Spin-off will include the holding period for the shares of SWS

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Common Stock held at the time of the Spin-off (assuming the stockholder held the SWS Common Stock as a capital asset on the Spin-off date). If a stockholder has multiple blocks of SWS Common Stock, the stockholder will take multiple holding periods for each share of Westwood Common Stock, allocated on the basis of the fair market value of the SWS Common Stock in each block (assuming the stockholder held the SWS Common Stock as a capital asset on the Spin-off date);

- (d) each stockholder who receives cash in lieu of fractional shares will be treated as if such fractional share had been received by the stockholder as part of the Spin-off and then sold by the stockholder. This gain or loss, if any, will be capital gain or loss (assuming the stockholder holds the SWS Common Stock as a capital asset on the Spin-off date); and
- (e) except for gain attributable to the recognition of previously deferred intercompany transactions, if any, and gain that may result from application of Code ss. 355(e), if any, neither SWS nor Westwood will recognize any gain or loss as a result of the Spin-off.

The opinion herein is also subject to the following exceptions, limitations and qualifications:

A. No opinion is expressed (i) as to any transaction other than the Spin-off as described in the Registration Statement, (ii) as to any transaction, including the Spin-off, if the transactions described in the Registration Statement are not consummated or (iii) if the representations, warranties, statements and assumptions upon which we have relied are not true and accurate in all material respects at all relevant times. If any one of the representations, warranties, statements or assumptions upon which we have relied to issue this opinion is incorrect in any material respect, our opinion might be adversely affected and may not be relied upon.

B. This opinion letter is as of the date hereof, and we undertake no obligation, and expressly disclaim any obligation, to advise SWS or any other person or entity of any change in any matter set forth herein.

C. This opinion letter is limited to the matters expressly stated, and no opinion other than upon the matters so expressly stated is implied or may be inferred.

This opinion letter is delivered to SWS solely for use in connection with the Spin-off and may not be used or relied upon for any other purpose.

We hereby consent to the use of this opinion as an exhibit to the Registration Statement and to the discussion regarding our firm and this opinion in the Registration Statement.

April 9, 2002

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Very truly yours,

Gardere Wynne Sewell LLP

By: /s/ Neil J. O'Brien

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Neil J. O'Brien, Partner

WESTWOOD HOLDINGS GROUP, INC.  
STOCK INCENTIVE PLAN  
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1. ESTABLISHMENT, PURPOSE AND TERM OF PLAN.  
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- 1.1 Establishment. This Westwood Holdings Group, Inc. Stock Incentive Plan (the "Plan") is hereby established effective as of February 1, 2002.
- 1.2 Purpose. The purpose of the Plan is to advance the interests of the Participating Company Group and its stockholders by providing an incentive to attract and retain persons performing services for the Participating Company Group and by motivating such persons to contribute to the growth and profitability of the Participating Company Group.
- 1.3 Term of Plan. The Plan shall continue in effect until the earlier of its termination by the Board or the date on which all of the shares of Stock available for issuance under the Plan have been issued and all restrictions on such shares (if any) under the terms of the Plan and the agreements evidencing the Awards granted under the Plan have lapsed. However, all Awards shall be granted, if at all, within ten (10) years from the earlier of the date the Plan is adopted by the Board or the date the Plan is duly approved by the stockholders of the Company.

2. DEFINITIONS AND CONSTRUCTION.  
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- 2.1 Definitions. Whenever used herein, the following terms shall have their respective meanings set forth below:
  - (a) "Acquiring Corporation" has the meaning given to it in Section 13.2.
  - (b) "Annual Incentive Award" has the meaning given to it in Section 11.1.
  - (c) "Award" means any form of incentive or performance award granted under the Plan, whether singly or in combination, to a Participant by the Board pursuant to such terms, conditions, restrictions and/or limitations (if any) as the Board may establish. Awards granted under the Plan may include:
    - (i) Options awarded pursuant to Sections 6-8;
    - (ii) Restricted Stock awarded pursuant to Section 9;
    - (iii) Purchase Rights awarded pursuant to Section 10;
  
    - (iv) Annual Incentive Awards awarded pursuant to Section 11; and
    - (v) Performance-Based Awards awarded pursuant to Section 12.
  - (d) "Award Certificate" has the meaning given to it in Section 12.3.
  - (e) "Board" means the Board of Directors of the Company. If one or more Committees have been appointed by the Board to administer the Plan, "Board" also means such Committee(s).
  - (f) "Cashless Exercise" has the meaning given to it in Section 6.3(a).
  - (g) "Cause" shall mean any of the following: (i) the Participant's

theft of a Participating Company's property or falsification of any Participating Company documents or records; (ii) the Participant's improper use or disclosure of a Participating Company's confidential or proprietary information; (iii) any action by the Participant which has a detrimental effect on a Participating Company's reputation or business; (iv) the Participant's failure or inability to perform any reasonable assigned duties after written notice from the Participating Company Group or any Participating Company of, and a reasonable opportunity to cure, such failure or inability; (v) any material breach by the Participant of any employment agreement between the Participant and the Participating Company Group or any Participating Company, which breach is not cured pursuant to the terms of such agreement; or (vi) the Participant's conviction (including any plea of guilty or nolo contendere) of any felony or any other criminal act which impairs the Participant's ability to perform his or her duties with the Participating Company Group or any Participating Company.

- (h) "Change in Control" has the meaning given to it in Section 13.1.
- (i) "Code" means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.
- (j) "Committee" means the Compensation Committee or other committee of the Board duly appointed to administer the Plan and having such powers as shall be specified by the Board. Unless the powers of the Committee have been specifically limited, the Committee shall have all of the powers of the Board granted herein, including, without limitation, the power to amend or terminate the Plan at any time, subject to the terms of the Plan and any applicable limitations imposed by law.
- (k) "Company" means Westwood Holdings Group, Inc., a Delaware corporation, or any successor corporation thereto.
- (l) "Consultant" means a person engaged to provide consulting or advisory services (other than as an Employee or a Director) to a Participating

Page 2

Company, provided that the identity of such person, the nature of such services or the entity to which such services are provided would not preclude the Company from offering or selling securities to such person pursuant to the Plan in reliance on either the exemption from registration provided by Rule 701 under the Securities Act or, if the Company is required to file reports pursuant to Section 13 or 15(d) of the Exchange Act, registration on a Form S-8 Registration Statement under the Securities Act.

- (m) "Deferred Compensation Plan" means that certain Westwood Holdings Group, Inc. Deferred Compensation Plan, effective February 1, 2002.
- (n) "Director" means a member of the Board or of the board of directors of any other Participating Company.
- (o) "Disability" means the permanent and total disability of the Participant within the meaning of Section 22(e) (3) of the Code.
- (p) "Employee" means any person treated as an employee (including an officer or a Director who is also treated as an employee) in the records of a Participating Company and, with respect to any Incentive Stock Option granted to such person, who is an employee for purposes of Section 422 of the Code; provided, however, that neither service as a Director nor payment of a director's fee shall be sufficient to constitute employment for purposes of the Plan.
- (q) "Exchange Act" means the Securities Exchange Act of 1934, as amended.



- (r) "Exercise Period" has the meaning given to it in Section 10.1.
- (s) "Fair Market Value" means, as of any date, the value of a share of Stock or other property as determined by the Board, in its discretion, or by the Company, in its discretion, if such determination is expressly allocated to the Company herein, subject to the following:
  - (i) If, on such date, the Stock is listed on a national or regional securities exchange or market system, the Fair Market Value of a share of Stock shall be the closing price of a share of Stock (or the mean of the closing bid and asked prices of a share of Stock if the Stock is so quoted instead) as quoted on the Nasdaq National Market, the Nasdaq SmallCap Market or such other national or regional securities exchange or market system constituting the primary market for the Stock, as reported in The Wall Street Journal or such other source as the Company deems reliable.  
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If the relevant date does not fall on a day on which the Stock has traded on such securities exchange or market system, the date on which the Fair Market Value shall be established shall be the last day on which the Stock was so traded prior to the relevant date, or

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such other appropriate day as shall be determined by the Board, in its discretion.

- (ii) If, on such date, the Stock is not listed on a national or regional securities exchange or market system, the Fair Market Value of a share of Stock shall be as determined by the Board in good faith without regard to any restriction other than a restriction which, by its terms, will never lapse.
- (t) "Good Reason" means (i) a resignation occurring within ninety (90) days following a Change in Control; (ii) the relocation of the principal place of business of the Participating Company for which the Participant renders Service to a location more than 100 miles from its location as of the date of the Change in Control without the Participant's consent; or (iii) a material reduction in the Participant's salary or bonus opportunity, or the Participant's responsibilities.
- (u) "Incentive Stock Option" means an Option intended to be (as set forth in the Option Agreement), and which qualifies as, an incentive stock option within the meaning of Section 422(b) of the Code.
- (v) "Insider" means an officer or a Director of the Company or any other person whose transactions in Stock are subject to Section 16 of the Exchange Act.
- (w) "Non-Employee Director" has the meaning given to it in Article 8.
- (x) "Nonstatutory Stock Option" means an Option not intended to be (as set forth in the Option Agreement), or which does not qualify as, an Incentive Stock Option.
- (y) "Option" means a right to purchase Stock (subject to adjustment as provided in Section 4.2) pursuant to the terms and conditions of the Plan. An Option may be either an Incentive Stock Option or a Nonstatutory Stock Option.
- (z) "Option Agreement" means a written agreement between the Company and a Participant setting forth the terms, conditions and restrictions of the Option granted to the Participant and any shares acquired upon the exercise thereof. An Option Agreement may consist of a form of "Notice of Grant of Stock Option" and a form of "Stock Option Agreement" incorporated therein by

reference, or such other form or forms as the Board may approve from time to time

- (aa) "Option Expiration Date" has the meaning given to it in Section 6.6(a)(i).
- (bb) "Ownership Change Event" has the meaning given to it in Section 13.1.

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- (cc) "Parent" means (i) any "parent corporation" as defined in Section 424(e) of the Code and any successor provisions; (ii) any other entity that is taxed as a corporation under Section 7701(a)(3) of the Code and is a member of the "affiliated group" as defined in Section 1504(a) of the Code of which the Company is a common subsidiary corporation, and (iii) any other entity as may be permitted from time to time by the Code or the Internal Revenue Service to be an employer of employees to whom Options may be granted; provided, however, that in each case the Company must be consolidated in the Parent's financial statements.
- (dd) "Participant" means a person who has been granted one or more awards pursuant to the terms and conditions of the Plan.
- (ee) "Participating Company" means the Company or any Parent or Subsidiary.
- (ff) "Participating Company Group" means, at any point in time, all corporations or other entities collectively which are then Participating Companies.
- (gg) "Performance Cycle" means (i) with respect to any Annual Incentive Award, the twelve (12) month period beginning on January 1, 2002 and each January 1 thereafter, and (ii) with respect to any Performance-Based Award, the period determined by the Committee over which the Company's level of attainment of a Performance Measure shall be determined.
- (hh) "Performance Goals" means, with respect to any Annual Incentive Award or Performance-Based Award, one or more targets, goals or levels of attainment required to be achieved in terms of the specified Performance Measure during a fiscal year or specified Performance Cycle, as applicable.
- (ii) "Performance Measure" means, with respect to any Annual Incentive Award or Performance-Based Award, the business criteria established by the Committee to measure the level of performance of the Company during the fiscal year or Performance Cycle, as applicable. The Committee may select as the Performance Measure any one or combination of financial measures, as interpreted by the Committee, which (to the extent applicable) can be determined either on a pro forma or GAAP basis, and either pre-tax or after-tax, such as: earnings per share, return on equity, return on invested capital, relative total shareholder return, revenue growth, Stock performance, net income, return on sales, return on assets, economic value added, cash flow and net operating income.
- (jj) "Performance-Based Award" has the meaning given to it in Section 12.1.

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- (kk) "Permitted Transferees" has the meaning given to it in Section 6.7.
- (ll) "Plan" has the meaning given to it in Section 1.1.
- (mm) "Purchase Right" means the right to purchase Stock in

accordance with the provisions of Section 10.

- (nn) "Restricted Period" has the meaning given to it in Section 9.1.
- (oo) "Restricted Stock" means an award of Stock made under Section 9, which is subject to vesting provisions.
- (pp) "Rule 16b-3" means Rule 16b-3 under the Exchange Act, as amended from time to time, or any successor rule or regulation.
- (qq) "Securities Act" means the Securities Act of 1933, as amended.
- (rr) "Service" means a Participant's employment or service with the Participating Company Group, whether in the capacity of an Employee, a Director or a Consultant. A Participant's Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders Service to the Participating Company Group or a change in the Participating Company for which the Participant renders such Service, provided that there is no interruption or termination of the Participant's Service. Furthermore, a Participant's Service with the Participating Company Group shall not be deemed to have terminated if the Participant takes any military leave, sick leave, or other bona fide leave of absence approved by the Company; provided, however, that if any such leave exceeds ninety (90) days, on the ninety-first (91st) day of such leave the Participant's Service shall be deemed to have terminated unless the Participant's right to return to Service with the Participating Company Group is guaranteed by statute or contract. Notwithstanding the foregoing, unless otherwise designated by the Company or required by law, a leave of absence shall not be treated as Service for purposes of determining vesting under any Option Agreement. The Participant's Service shall be deemed to have terminated either upon an actual termination of Service or upon the corporation for which the Participant performs Service ceasing to be a Participating Company. Subject to the foregoing, the Company, in its discretion, shall determine whether the Participant's Service has terminated and the effective date of such termination.
- (ss) "Spin-off Date" means the date on which SWS Group, Inc., a Delaware corporation, distributes all of the Stock that it then holds to its stockholders.
- (tt) "Stock" means the common stock of the Company, as adjusted from time to time in accordance with Section 4.2.

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- (uu) "Subsidiary" means (i) any "subsidiary corporation" of the Company, as defined in Section 424(f) of the Code and any successor provisions, (ii) any other entity that is taxed as a corporation under Section 7701(a)(3) of the Code and is a member of the "affiliated group" as defined in Section 1504(a) of the Code of which the Company is a common parent corporation, and (iii) any other entity as may be permitted from time to time by the Code or the Internal Revenue Service to be an employer of employees to whom Options may be granted; provided, however, that in each case the subsidiary corporation must be consolidated in the Company's financial statements.
- (vv) "Ten Percent Owner Participant" means a Participant who, at the time an Option is granted to the Participant, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of a Participating Company within the meaning of Section 422(b)(6) of the Code.
- (ww) "Termination After Change in Control" shall mean either of the following events occurring within twelve (12) months after (or

as a result of) a Change in Control:

- (i) termination by the Participating Company Group of the Participant's Service with the Participating Company Group for any reason other than for Cause; or
- (ii) the Participant's resignation for Good Reason from Service with the Participating Company Group within a reasonable period of time following the event constituting Good Reason.

Notwithstanding any provision herein to the contrary, Termination After Change in Control shall not include any termination of the Participant's Service with the Participating Company Group which (1) is for Cause; (2) is a result of the Participant's death or Disability; (3) is a result of the Participant's voluntary termination of Service other than for Good Reason; or (4) occurs prior to the effectiveness of a Change in Control (and is not directly related to a Change in Control).

2.2 Construction. Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

### 3. ADMINISTRATION.

3.1 Administration by the Board. The Plan shall be administered by the Board. All questions of interpretation of the Plan or of any Award shall be determined by the

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Board, and such determinations shall be final and binding upon all persons having an interest in the Plan.

3.2 Authority of Officers. Any officer of a Participating Company shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, determination or election which is the responsibility of or which is allocated to the Company herein, provided the officer has apparent authority with respect to such matter, right, obligation, determination or election.

3.3 Powers of the Board. In addition to any other powers set forth in the Plan and subject to the provisions of the Plan, the Board shall have the full and final power and authority, in its discretion:

- (a) to determine the persons to whom, and the time or times at which, Awards shall be granted and, if applicable, the number of shares of Stock to be subject thereto;
- (b) to designate Options as Incentive Stock Options or Nonstatutory Stock Options;
- (c) to determine the Fair Market Value of shares of Stock or other property;
- (d) to determine the terms, conditions and restrictions applicable to each Award (which need not be identical) and, if applicable, any shares acquired upon the exercise thereof, including, without limitation, (i) the exercise price of an Option or Purchase Right, (ii) the method of payment for shares purchased upon the exercise of the Option or Purchase Right, (iii) the method for satisfaction of any tax withholding obligation arising in connection with the Award or such shares of Stock issued or cash provided thereunder, including by the withholding or delivery of shares of Stock or cash, (iv) the timing, terms and conditions of the exercisability of the Award or the vesting of any shares acquired upon the exercise thereof, (v) the time of the expiration of the Award, (vi) the effect of the Participant's

termination of Service with the Participating Company Group on any of the foregoing, and (vii) all other terms, conditions and restrictions applicable to the Award not inconsistent with the terms of the Plan;

- (e) to approve one or more forms of Option Agreement or Award Certificate;
- (f) to amend, modify, extend, cancel or renew any Award, or to waive any restrictions or conditions applicable to any Award or any shares of Stock acquired upon the exercise thereof;
- (g) to accelerate, continue, extend or defer the exercisability of any Award or the vesting of any shares acquired upon the exercise thereof, including with respect to the period following a Participant's termination of Service with the Participating Company Group;

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- (h) to prescribe, amend or rescind rules, guidelines and policies relating to the Plan, or to adopt supplements to, or alternative versions of, the Plan, including, without limitation, as the Board deems necessary or desirable to comply with the laws of, or to accommodate the tax policy or custom of, foreign jurisdictions whose citizens may be granted Options; and
- (i) to correct any defect, supply any omission or reconcile any inconsistency in the Plan, any Option Agreement or any Award Certificate and to make all other determinations and take such other actions with respect to the Plan or any Option as the Board may deem advisable to the extent not inconsistent with the provisions of the Plan or applicable law.

3.4 Administration with Respect to Insiders. With respect to participation by Insiders in the Plan, at any time that any class of equity security of the Company is registered pursuant to Section 12 of the Exchange Act, the Plan shall be administered in compliance with the requirements, if any, of Rule 16b-3.

3.5 Indemnification. In addition to such other rights of indemnification as they may have as members of the Board or officers or employees of the Participating Company Group, members of the Board and any officers or employees of the Participating Company Group to whom authority to act for the Board or the Company is delegated shall be indemnified by the Company against all reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any right granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such person is liable for gross negligence, bad faith or intentional misconduct in duties; provided, however, that within sixty (60) days after the institution of such action, suit or proceeding, such person shall offer to the Company, in writing, the opportunity at its own expense to handle and defend the same.

#### 4. SHARES SUBJECT TO PLAN.

4.1 Maximum Number of Shares Issuable. Subject to adjustment as provided in Section 4.2, the maximum aggregate number of shares of Stock that may be issued under the Plan shall be 948,100 shares, and shall consist of authorized but unissued or reacquired shares of Stock or any combination thereof. If an outstanding Award for any reason expires or is terminated or canceled or if shares of Stock are acquired upon the exercise of an Award or otherwise subject to a Company repurchase option and are repurchased by the Company at the

Participant's exercise price, or if shares of Restricted Stock are forfeited unvested, the shares of Stock shall again be available for issuance under the Plan. Subject

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to adjustment as provided in Section 4.2, the maximum aggregate number of Options for shares of Stock that may be awarded in any year to any Participant may not exceed 316,033 shares.

- 4.2 Adjustments for Changes in Capital Structure. In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification or similar change in the capital structure of the Company, appropriate adjustments shall be made in the number and class of shares subject to the Plan and to any outstanding Awards (if applicable) and in the exercise price per share of any outstanding Awards (if applicable). If a majority of the shares which are of the same class as the shares that are subject to outstanding Awards are exchanged for, converted into, or otherwise become (whether or not pursuant to an Ownership Change Event, as defined in Section 13.1) shares of another corporation (the "New Shares"), the Board may unilaterally amend the outstanding Awards to provide that such Awards are exercisable for New Shares. In the event of any such amendment, the number of shares subject to, and the exercise price per share of, the outstanding Awards shall be adjusted in a fair and equitable manner as determined by the Board, in its discretion. Notwithstanding the foregoing, any fractional share resulting from an adjustment pursuant to this Section 4.2 shall be rounded down to the nearest whole number, and in no event may the exercise price of any Award be decreased to an amount less than the par value, if any, of the stock subject to the Award. The adjustments determined by the Board pursuant to this Section 4.2 shall be final, binding and conclusive.

5. ELIGIBILITY AND OPTION LIMITATIONS.

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- 5.1 Persons Eligible for Awards. Awards may be granted pursuant to this Plan only to Employees, Consultants, and Directors. For purposes of the foregoing sentence, "Employees," "Consultants" and "Directors" shall include prospective Employees, prospective Consultants and prospective Directors to whom Awards are granted in connection with written offers of an employment or other service relationship with the Participating Company Group. Eligible persons may be granted more than one (1) Award.
- 5.2 Option Grant Restrictions. Any person who is not an Employee on the effective date of the grant of an Option to such person may be granted only a Nonstatutory Stock Option. An Incentive Stock Option granted to a prospective Employee upon the condition that such person become an Employee shall be deemed granted effective on the date such person commences Service with a Participating Company, with an exercise price determined as of such date in accordance with Section 6.1.
- 5.3 Fair Market Value Limitation. To the extent that Options designated as Incentive Stock Options (granted under all stock option plans of the Participating Company Group, including the Plan) become exercisable by a Participant for the first time during any calendar year for Stock having a Fair Market Value greater than One Hundred Thousand Dollars (\$100,000), the portions of such Options

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which exceed such amount shall be treated as Nonstatutory Stock Options. For purposes of this Section 5.3, options designated as Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of Stock shall be determined as of the time the Option with respect to such Stock is granted. If the Code is amended to provide for a different limitation from that set forth in this Section 5.3, such different limitation shall be deemed incorporated herein effective as of the date and with respect to such Options as required or permitted by such amendment to the Code. If an Option

is treated as an Incentive Stock Option in part and as a Nonstatutory Stock Option in part by reason of the limitation set forth in this Section 5.3, the Participant may designate which portion of such Option the Participant is exercising. In the absence of such designation, the Participant shall be deemed to have exercised the Incentive Stock Option portion of the Option first. Separate certificates representing each such portion shall be issued upon the exercise of the Option.

6. TERMS AND CONDITIONS OF OPTIONS.  
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Options shall be evidenced by Option Agreements specifying the number of shares of Stock covered thereby, in such form as the Board shall from time to time establish. No Option or purported Option shall be a valid and binding obligation of the Company unless evidenced by a fully executed Option Agreement. Option Agreements may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

- 6.1 Exercise Price. The exercise price for each Option shall be established in the discretion of the Board; provided, however, that (a) the exercise price per share for an Option shall be not less than the Fair Market Value of a share of Stock on the effective date of grant of the Option, and (b) no Incentive Stock Option granted to a Ten Percent Owner Participant shall have an exercise price per share less than one hundred ten percent (110%) of the Fair Market Value of a share of Stock on the effective date of grant of the Option. Notwithstanding the foregoing, an Option (whether an Incentive Stock Option or a Nonstatutory Stock Option) may be granted with an exercise price lower than the minimum exercise price set forth above if such Option is granted pursuant to an assumption or substitution for another option in a manner qualifying under the provisions of Section 424(a) of the Code.
- 6.2 Exercisability and Term of Options. Options shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria and restrictions as shall be determined by the Board and set forth in the Option Agreement evidencing such Option; provided, however, that (a) no Option shall be exercisable after the expiration of ten (10) years after the effective date of grant of such Option, (b) no Incentive Stock Option granted to a Ten Percent Owner Participant shall be exercisable after the expiration of five (5) years after the effective date of grant of such Option, and (c) no Option granted to a prospective Employee, prospective Consultant or prospective Director may become exercisable prior to the date on which such person commences Service

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with a Participating Company. Subject to the foregoing, unless otherwise specified by the Board in the grant of an Option, any Option granted hereunder shall terminate ten (10) years after the effective date of grant of the Option, unless earlier terminated in accordance with its provisions.

- 6.3 Payment of Exercise Price.
- (a) Forms of Consideration Authorized. Except as otherwise provided below, payment of the exercise price for the number of shares of Stock being purchased pursuant to any Option shall be made (i) in cash, by check or cash equivalent, (ii) by tender to the Company, or attestation to the ownership, of shares of Stock owned by the Participant having a Fair Market Value (as determined by the Company without regard to any restrictions on transferability applicable to such stock by reason of federal or state securities laws or agreements with an underwriter for the Company) not less than the exercise price, (iii) by delivery of a properly executed notice together with irrevocable instructions to a broker providing for the assignment to the Company of the proceeds

of a sale or loan with respect to some or all of the shares being acquired upon the exercise of the Option (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System) (a "Cashless Exercise"), (iv) provided that the Participant is an Employee and in the Company's sole discretion at the time the Option is exercised, by delivery of the Participant's promissory note in a form approved by the Company for the aggregate exercise price, provided that, if the Company is incorporated in the State of Texas, the Participant shall pay in cash that portion of the aggregate exercise price not less than the par value of the shares being acquired, (v) by such other consideration as may be approved by the Board from time to time to the extent permitted by applicable law, or (vi) by any combination thereof. The Board may at any time or from time to time, by approval of or by amendment to the standard forms of Option Agreement described in Section 7, or by other means, grant Options which do not permit all of the foregoing forms of consideration to be used in payment of the exercise price or which otherwise restrict one or more forms of consideration.

(b) Limitations on Forms of Consideration.

- (i) Tender of Stock. Notwithstanding the foregoing, an Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock to the extent such tender or attestation would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company's stock. Unless otherwise provided by the Board, an Option may not be by tender to the Company, or attestation to the ownership, of shares of Stock unless such shares

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either have been owned by the Participant for more than six (6) months or were not acquired, directly or indirectly, from the Company.

- (ii) Cashless Exercise. The Company reserves, at any and all times, the right, in the Company's sole and absolute discretion, to establish, decline to approve or terminate any program or procedures for the exercise of Options by means of a Cashless Exercise.
- (iii) Payment by Promissory Note. No promissory note shall be permitted if the exercise of an Option using a promissory note would be a violation of any law. Any permitted promissory note shall be on such terms as the Board shall determine at the time the Option is granted. The Board shall have the authority to permit or require the Participant to secure any promissory note used to exercise an Option with the shares of Stock acquired upon the exercise of the Option or with other collateral acceptable to the Company. Unless otherwise provided by the Board, if the Company at any time is subject to the regulations promulgated by the Board of Governors of the Federal Reserve System or any other governmental entity affecting the extension of credit in connection with the Company's securities, any promissory note shall comply with such applicable regulations, and the Participant shall pay the unpaid principal and accrued interest, if any, to the extent necessary to comply with such applicable regulations.

- 6.4 Tax Withholding. The Company shall have the right, but not the obligation, to deduct from the shares of Stock issuable upon the exercise of an Option, or to accept from the Participant the tender of, a number of whole shares of Stock having a Fair Market Value, as



determined by the Company, equal to all or any part of the federal, state, local and foreign taxes, if any, required by law to be withheld by the Participating Company Group with respect to such Option or the shares acquired upon the exercise thereof. Alternatively or in addition, in its discretion, the Company shall have the right to require the Participant, through payroll withholding, cash payment or otherwise, including by means of a Cashless Exercise, to make adequate provision for any such tax withholding obligations of the Participating Company Group arising in connection with the Option or the shares acquired upon the exercise thereof the Fair Market Value of any shares of Stock withheld or tendered to satisfy any such tax withholding obligations shall not exceed the amount determined by the applicable minimum statutory withholding rates, the Company shall have no obligation to deliver shares of Stock or to release shares of Stock from an escrow established pursuant to the Option Agreement until the Participating Company Group's tax withholding obligations have been satisfied by the Participant.

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- 6.5 Repurchase Rights. Shares issued under the Plan may be subject to a right of first refusal, one or more repurchase options, or other conditions and restrictions as determined by the Board in its discretion at the time the Option is granted. The Company shall have the right to assign at any time any repurchase right it may have, whether or not such right is then exercisable, to one or more persons as may be selected by the Company. Upon request by the Company, each Participant shall execute any agreement evidencing such transfer restrictions prior to the receipt of shares of Stock hereunder and shall promptly present to the Company any and all certificates representing shares of Stock acquired hereunder for the placement on such certificates of appropriate legends evidencing any such transfer restrictions.
- 6.6 Effect of Termination of Service.
- (a) Option Exercisability. Subject to earlier termination of the Option as otherwise provided herein and unless otherwise provided by the Board in the grant of an Option and set forth in the Option Agreement, an Option shall be exercisable after a Participant's termination of Service only during the applicable time period determined in accordance with this Section 6.6 and thereafter shall terminate:
- (i) Disability. If the Participant's Service with the Participating Company Group terminates because of the Disability of the Participant, the Option, to the Disability exercisable on the date on which the Disability terminated, may be exercised by the Participant (or the Participant's guardian or legal to the expiration of one (1) year (or such other period of time as determined by the Board, in its discretion) after the date on which the Participant's Service terminated, but in any event no later than the date of expiration of the Option's term as set forth in the Option Agreement evidencing such Option (the "Option Expiration Date").
- (ii) Death. If the Participant's Service with the Participating Company Group terminates because of the death of the Participant, the Option, to the extent unexercised and exercisable on the date on which the Participant's Service terminated, may be exercised by legal representative or other person who acquired the right to exercise the Option by reason of the Participant's death at any time prior to the expiration of one (1) year (or such other period of time as determined by the Board, in its discretion) after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date. The Participant's Service shall be deemed to have terminated on account of death if the Participant dies

within three (3) months (or such other period of time as determined by the Board, in its discretion) after the Participant's termination of Service.

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- (iii) Cause. If the Participant's Service with the Participating Company Group is terminated for Cause, the Option shall terminate and cease to be exercisable immediately upon such termination of Service.
- (iv) Termination After Change in Control. Except as otherwise specified in an Option Agreement, if the Participant's Service with the Participating Company Group ceases as a result of Termination After Change in Control, then (1) the Option, to the extent unexercised and exercisable on the date on which the Participant's Service terminated, may be exercised by the Participant (or the Participant's guardian or legal representative) at any time prior to the expiration of three (3) months (or such longer period of time as determined by the Board, in its sole discretion) after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date, and (2) any unexercised or unvested portion of the Option shall become fully vested and exercisable as of the date on which the Participant's Service terminated.
- (v) Termination of Service. If the Participant's Service with the Participating Company Group terminates for any reason, except Disability, death or Cause, the Option, to the extent unexercised and exercisable by the Participant on the date on which the Participant's Service terminated, may be exercised by the Participant at any time prior to the expiration of three (3) months (or such other period of time as determined by the Board, in its discretion) after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date.
- (b) Extension if Exercise Prevented by Law. Notwithstanding the foregoing, if the exercise of an Option within the applicable time periods set forth in Section 6.6(a) is prevented by the provisions of Section 16 below, the Option shall remain exercisable until three (3) months (or such longer period of time as determined by the Board, in its discretion) after the date the Participant is notified by the Company that the Option is exercisable, but in any event no later than the Option Expiration Date.
- (c) Extension if Participant Subject to Section 16(b). Notwithstanding the foregoing, if a sale within the applicable time periods set forth in Section 6.6(a) of shares acquired upon the exercise of the Option would subject the Participant to suit under Section 16(b) of the Exchange Act, the Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such shares by the Participant would no longer be subject to such suit, (ii) the one hundred and ninetieth

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(190th/) day after the Participant's termination of Service, or (iii) the Option Expiration Date.

6.7 Transferability of Options. Incentive Stock Options granted under the Plan shall not be transferable otherwise than by will or the laws of descent and distribution, or pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee

Retirement Income Security Act of 1974, as amended, or the rules thereunder. Incentive Stock Options shall be exercisable during the lifetime of the Participant only by the Participant or by the Participant's guardian or legal representative (unless such exercise would disqualify an Option as an Incentive Stock Option). With the approval of the Board, the Option Agreement (other than an Incentive Stock Option) may provide that such Option may be transferred without consideration to one or more Permitted Transferees. Any attempted assignment, transfer, pledge, hypothecation or other disposition of an Option or other award contrary to the provisions hereof, or the levy of any execution, attachment or similar process upon an Option or other award shall be null and void and without effect. As used herein, "Permitted Transferees" means a member of a Participant's immediate family, trusts for the exclusive benefit of such Participant and/or such Participant's immediate family members, and partnerships or other entities in which the Participant and/or such immediate family members are the only partners, provided that no consideration is provided for the transfer. Immediate family members shall include a Participant's spouse, descendants (children, grandchildren and more remote descendants), spouses of descendants, and shall include step-children and relationships arising from legal adoption.

7. STANDARD FORMS OF OPTION AGREEMENT.  
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- 7.1 Option Agreement. Unless otherwise provided by the Board at the time the Option is granted, an Option shall comply with and be subject to the terms and conditions set forth in the form of Option Agreement approved by the Board concurrently with its adoption of the Plan and as amended from time to time.
- 7.2 Authority to Vary Terms. The Board shall have the authority from time to time to vary the terms of any standard form of Option Agreement described in this Section 7 either in connection with the grant or amendment of an individual Option or in connection with the authorization of a new standard form or forms; provided, however, that the terms and conditions of any such new, revised or amended standard form or forms of Option Agreement are not inconsistent with the terms of the Plan.

8. AWARD AND DELIVERY OF OPTIONS TO NON-EMPLOYEE DIRECTORS.  
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Notwithstanding any other provision of the Plan, each Director who is not an Employee (a "Non-Employee Director") shall, shortly following the Spin-off Date and upon each date of election or re-election as a Board member, be granted a Nonstatutory Stock Option for 2,500 shares of Stock. The exercise price for any Options awarded pursuant to this Article 8

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shall be equal to one hundred percent (100%) of the Fair Market Value of the shares on the date of grant. Each such Option shall fully vest at the expiration of twelve (12) months from the date of the grant. Each Non-Employee Director Option shall have a term of ten (10) years. Expiration of a Non-Employee Director's term of office shall not affect a Non-Employee Director's right to exercise its Option to the extent such Option is vested at any time prior to the expiration of the Director's term.

9. AWARD AND DELIVERY OF RESTRICTED STOCK.  
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- 9.1 Restricted Period. At the time an award of Restricted Stock is made, the Committee shall establish a period or periods of time (each a "Restricted Period") or such other restrictions on the vesting of the Restricted Stock as it shall deem appropriate or applicable to such award. Each award of Restricted Stock may have a different Restricted Period or Restricted Periods. The Committee may, in its sole discretion, at the time an award is made, provide for the incremental lapse of Restricted Periods with respect to a portion or portions of the Restricted Stock awarded, and for the lapse or termination of restrictions upon all or any portion of the Restricted Stock upon the satisfaction of other conditions in addition to or other than the

expiration of the applicable Restricted Period. The Committee may also, in its sole discretion, shorten or terminate a Restricted Period or waive any conditions for the lapse or termination of restrictions with respect to all or any portion of the Restricted Stock.

- 9.2 Rights and Privileges. At the time a grant of Restricted Stock is made to a Participant, a stock certificate representing a number of shares of the Company's common stock equal to the number of shares of such Restricted Stock shall be registered in the Participant's name but shall be held in custody by the Company for such Participant's account. The Participant shall generally have the rights and privileges of a stockholder as to such Restricted Stock, including, without limitation, the right to vote the Restricted Stock, except that, subject to the earlier lapse or termination of restrictions as herein provided, the following restrictions shall apply: (i) the Participant shall not be entitled to delivery of the stock certificate evidencing Restricted Stock until the expiration or termination of the Restricted Period applicable to such shares and the satisfaction of any other conditions prescribed by the Committee; (ii) none of the shares then subject to a Restricted Period shall be sold, transferred, assigned, pledged, or otherwise encumbered or disposed of during the Restricted Period applicable to such shares and until the satisfaction of any other conditions prescribed by the Committee; and (iii) all of the shares then subject to a Restricted Period shall be forfeited and all rights of the Participant to such Restricted Stock shall terminate without further obligation on the part of the Company if the Participant ceases to be an Employee, Consultant or Director of the Company or any of its subsidiaries before the expiration or termination of such Restricted Period and the satisfaction of any other conditions prescribed by the Committee applicable to such Restricted Stock. Dividends on Restricted Stock shall be currently paid; provided, however,
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that in lieu of paying currently a dividend of shares of Common Stock in respect of Restricted Stock, the Committee may, in its sole discretion, register in the name of a Participant a stock certificate representing such shares of Common Stock issued as a dividend on Restricted Stock, and may cause the Company to hold such certificate in custody for the Participant's account subject to the same terms and conditions as such Restricted Stock. Upon the forfeiture of any Restricted Stock, such forfeited Restricted Stock shall be transferred to the Company without further action by the Participant.

- 9.3 Expiration of Restricted Period. Upon the expiration or termination of the Restricted Period applicable to Restricted Stock and the satisfaction of any other conditions prescribed by the Committee or at such earlier time as provided for herein, the restrictions applicable to the Restricted Stock to such Restricted Period shall lapse and a certificate for a number of shares of Common Stock equal to the number of shares of Restricted Stock with respect to which the restrictions have expired or terminated shall be delivered, free of all such restrictions, except any that may be imposed by law, to the Participant. The Company shall not be required to deliver any fractional share of Common Stock but shall pay to the Participant, in lieu thereof, the product of (i) the Fair Market Value per share (determined as of the date the restrictions expire or terminate) and (ii) the fraction of a share to which such Participant would otherwise be entitled.

## 10. AWARD AND DELIVERY OF PURCHASE RIGHTS.

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- 10.1 Purchase Rights. At the time an award of Purchase Rights is made, the Committee shall establish a period or periods of time during which the Purchase Right may be exercised (each an "Exercise Period") or such other restrictions as it shall deem appropriate and applicable to such award. Each award of Purchase Rights may have a different Exercise Period or Exercise Periods. Each award shall specify the method of payment (which may include promissory notes) to purchase Stock and shall set forth any repurchase rights or calls applicable to the

purchased Stock.

11. ANNUAL INCENTIVE AWARDS.

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11.1 Annual Incentive Awards. The Committee may grant annual incentive awards of Stock or cash (each an "Annual Incentive Award") to such Participants as the Committee may from time to time recommend, in such amounts and subject to such terms and conditions as the Committee in its discretion may determine. The Committee shall establish the maximum amount of Annual Incentive Awards that may be granted for each Performance Cycle. Notwithstanding the foregoing, all Annual Incentive Awards shall be subject to the provisions of paragraphs (a) through (e) below:

(a) Annual Incentive Awards shall be granted in connection with a 12-month Performance Cycle, which shall be the fiscal year of the Company. The

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first Performance Cycle under the Plan shall commence on January 1, 2002.

(b) Subject to Section 4.1, within ninety (90) days after the commencement of a Performance Cycle, the Committee shall determine the Participants who shall be eligible to receive an Annual Incentive Award for such Performance Cycle.

(c) Within ninety (90) days after the commencement of a Performance Cycle, the Committee shall fix and establish, in writing, (A) the Performance Measure(s) that shall apply to such Performance Cycle, (B) an objective formula for computing the amount of the Annual Incentive Awards for such Performance Cycle, where the amount shall be based upon the attainment of various Performance Goals for the applicable Performance Measure(s). Notwithstanding anything to the contrary, the Committee may, on a case by case basis and in its sole discretion, reduce, but not increase, the Annual Incentive Award payable to any Participant with respect to any given Performance Cycle (unless the Participant has a vested right under applicable employment law to receive the full Annual Incentive Award), provided, however, that no such reduction shall result in an increase to any other Participant.

(d) No Annual Incentive Award shall be paid to a Participant under this Section 11 unless and until the Committee certifies in writing the level of attainment of the applicable Performance Goals for the applicable Performance Cycle and Participants shall not have any right or claim whatsoever for payment of any Annual Incentive Award until the Committee has made such certification in writing.

(e) Annual Incentive Awards shall be paid in the form of cash, Stock (including Restricted Stock) or any combination thereof; provided, however, that the Committee shall determine the form of payment of any Annual Incentive Awarded to a Participant within ninety (90) days after the commencement of the applicable Performance Cycle. A portion of any payments made in connection with an Annual Incentive Award may, at the election of the Participant, be deferred pursuant to the provisions of the Deferred Compensation Plan.

12. PERFORMANCE-BASED AWARDS.

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12.1 Performance-Based Awards. The Committee may grant to officers and other key Employees of either the Company or any Subsidiary the prospective contingent right, expressed in Units, to receive payments of Stock, cash or any combination thereof, with each Unit equivalent in value to one share of Stock, or equivalent to such other value or monetary amount as may be designated or established by the Committee ("Performance-Based Awards"). Performance-Based Awards shall be earned by Participants only if

specified Performance Goals are satisfied in the applicable Performance Cycle. The Committee shall, in its sole discretion, determine the officers and other key Employees eligible to receive Performance-Based Awards. At the time each grant of a Performance-Based Award is made, the Committee shall establish the applicable Performance Cycle, the Performance Measure and Performance Goals in respect of such Performance-Based Award. The number of shares of Stock and/or the amount of cash earned and payable in settlement of a Performance-Based Award shall be determined by the Committee at the end of the Performance Cycle.

12.2 The Committee may grant Performance-Based Awards to a Participant in such amounts as the Committee may determine, subject to the limitations set forth in Section 4.1.

12.3 A certificate (an "Award Certificate") for each Performance-Based Award shall provide that, in order for a Participant to earn all or a portion of the Units subject to such Performance-Based Award, the Company must achieve certain Performance Goals over a designated Performance Cycle having a minimum duration of one year. The Performance Goals and Performance Cycle shall be established by the Committee in its sole discretion. The Committee shall establish a Performance Measure for each Performance Cycle for determining the portion of the Performance-Based Award, which will be earned or forfeited, based on the extent to which the Performance Goals are achieved or exceeded. Performance Goals may include minimum, maximum and target levels of performance, with the size of the Performance-Based Award based on the level attained. Once established by the Committee and specified in the Award Certificate, and if and to the extent provided in or required by the Award Certificate, the Performance Goals and the Performance Measure in respect of any Performance-Based Award shall not be changed. The Committee may, in its discretion, eliminate or reduce (but not increase) the amount of any Performance-Based Award that otherwise would be payable to a Participant upon attainment of the Performance Goal(s) unless the Participant has a vested right under applicable employment law to receive the full Performance-Based Award.

12.4 Performance-Based Awards may be made on such terms and conditions not inconsistent with the Plan, and in such form or forms, as the Committee may from time to time approve. Performance-Based Awards may be made alone, in addition to in tandem with, or independent of other grants and awards under the Plan. Subject to the terms of the Plan, the Committee shall, in its discretion, determine the number of Units subject to each Performance Grant made to a Participant and the Committee may impose different terms and conditions on any particular Performance-Based Award made to any Participant. The Performance Goals, the Performance Cycle and the Performance Measure applicable to a Performance Grant shall be set forth in the relevant Award Certificate.

12.5 Each Participant shall be entitled to receive payment in an amount equal to the aggregate Fair Market Value (if the Unit is equivalent to a share of Stock), or such other value as the Committee shall specify, of the Units earned in respect of such Performance Award. Payment in settlement of a Performance-Based Award may be made in Stock, in cash, or in any combination of Stock and cash, and at such time or times, as the

Committee, in its discretion, shall determine. A portion of any payments made in connection with a Performance-Based Award may, at the election of the Participant, be deferred pursuant to the provisions of the Deferred Compensation Plan.

13. CHANGE IN CONTROL.

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13.1 Definitions.

- (a) An "Ownership Change Event" shall be deemed to have occurred if any of the following occurs with respect to the Company:

(i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of more than fifty percent (50%) of the voting stock of the Company; (ii) a merger or consolidation in which the Company is a party; (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company; or (iv) a liquidation or dissolution of the Company.

- (b) A "Change in Control" shall mean (i) a merger or consolidation of the Company with or into another corporation in which the Company shall not be the surviving corporation (other than a merger undertaken solely in order to reincorporate in another state) (for purposes hereof, the Company shall not be deemed the surviving corporation in any such transaction if, as the result thereof, it becomes a wholly-owned subsidiary of another corporation), (ii) a dissolution of the Company, (iii) a transfer of all or substantially all of the assets of the Company in one transaction or a series of related transactions to one or more other persons or entities, (iv) a transaction or series of transactions that results in any entity, "Person" or "Group" (as defined below), becoming the beneficial owner, directly or indirectly, of securities of the Company representing more than 50% of the combined voting power of the Company's then outstanding securities, or (v) during any period of two (2) consecutive years commencing on or after January 1, 2002, individuals who at the beginning of the period constituted the Company's Board of Directors cease for any reason to constitute at least a majority, unless the election of each director who was not a director at the beginning of the period has been approved in advance by directors representing at least two-thirds (2/3) of the directors then in office who were directors at the beginning of the period; provided, however, that a "Change in Control" shall not be deemed to have occurred if the ownership of 50% or more of the combined voting power of the surviving corporation, asset transferee or Company (as the case may be), after giving effect to the transaction or series of transactions, is directly or indirectly held by (A) a trustee or other fiduciary under an employee benefit plan maintained by the Company, (B) one or more of the "executive officers" of the Company that held such positions prior to the transaction or series of transactions, or any entity, Person or Group under their control. As used herein, "Person" and "Group" shall have the meanings set forth in Sections 13(d)(3) and/or 14(d)(2) of the Securities Exchange Act of 1934,

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as amended, and "executive officer" shall have the meaning set forth in Rule 3b-7 promulgated under such Act .

13.2 Effect of Change in Control on Awards. In the event of a Change in Control, the surviving, continuing, successor, or purchasing corporation or Parent thereof, as the case may be (the "Acquiring Corporation"), may either assume the Company's rights and obligations under outstanding Awards or substitute for outstanding Awards substantially equivalent awards, including awards for the Acquiring Corporation's stock, if applicable. For purposes of this Section 13.2, an Award shall be deemed assumed if, following the Change in Control, the Award confers the right to purchase in accordance with its terms and conditions, for each share of Stock subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash or other securities or property) to which a holder of a share of Stock on the effective date of the Change in Control was entitled. In the event the Acquiring Corporation elects not to assume or substitute for outstanding Awards in connection with a Change in Control, the exercisability and vesting of each outstanding Award shall be accelerated for 12 months as of the date ten (10) days prior to the date of the Change in Control, provided that the Participant's Service has not terminated prior to such date. The exercise or vesting of any Award that was permissible solely by reason of this Section

13.2 shall be conditioned upon the consummation of the Change in Control. Any Award which is neither assumed or substituted for by the Acquiring Corporation in connection with the Change in Control nor exercised as of the date of the Change in Control shall terminate and cease to be outstanding effective as of the date of the Change in Control. Notwithstanding the foregoing, shares acquired upon exercise of an Award prior to the Change in Control and any consideration received pursuant to the Change in Control with respect to such shares shall continue to be subject to all applicable provisions of the applicable Option Agreement, Award Certificate or Stock Purchase Agreement, except as otherwise provided therein. Furthermore, notwithstanding the foregoing, if the Change in Control results from an Ownership Change Event described in Section 13.1(a)(i) and the Company is the surviving or continuing corporation and immediately after such Change in Control less than fifty percent (50%) of the total combined voting power of its voting stock is held by another corporation or by other corporations that are members of an affiliated group within the meaning of Section 1504(a) of the Code without regard to the provisions of Section 1504(b) of the Code, the outstanding Awards shall not terminate unless the Board otherwise provides in its discretion.

14. PROVISION OF INFORMATION.  
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Each Participant shall be given access to information concerning the Company equivalent to that information generally made available to the Company's common stockholders.

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15. COMPLIANCE WITH SECURITIES LAW.  
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The grant of an Award and the issuance of shares of Stock upon exercise of an Award, if applicable, shall be subject to compliance with all applicable requirements of federal, state and foreign law with respect to such securities. An Award may not be exercised for shares of Stock if the issuance of such shares would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Stock may then be listed. In addition, no Award may be exercised for shares of Stock unless (a) a registration statement under the Securities Act shall at the time of exercise of the Award be in effect with respect to the shares of Stock issuable upon exercise of the Award or (b) in the opinion of legal counsel to the Company, the shares of Stock issuable upon exercise of the Award may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares of Stock hereunder shall relieve the Company of any liability in respect of the failure to issue or sell such shares of Stock as to which such requisite authority shall not have been obtained. As a condition to the exercise of any Award, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

16. TERMINATION OR AMENDMENT OF PLAN.  
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The Board may terminate or amend the Plan at any time. However, subject to changes in applicable law, regulations or rules that would permit otherwise, without the approval of the Company's stockholders, there shall be (a) no increase in the maximum aggregate number of shares of Stock that may be issued under the Plan (except by operation of the provisions of Section 4.2), (b) no change in the class of persons eligible to receive Incentive Stock Options, and (c) no other amendment of the Plan that would require approval of the Company's stockholders under any applicable law, regulation or rule. No termination or amendment of the Plan shall affect any then outstanding Award unless expressly provided by the Board. In any event, no termination or amendment of the Plan may adversely affect any then outstanding Award without the consent of the Participant, unless such termination or amendment is required to enable an



Option designated as an Incentive Stock Option to qualify as an Incentive Stock Option or is necessary to comply with any applicable law, regulation or rule.

17. STOCKHOLDER APPROVAL.  
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Both the Plan and any increase in the maximum aggregate number of shares of Stock issuable thereunder as provided in Section 4.1 (the "Authorized Shares") shall be approved by the stockholders of the Company within twelve (12) months of the date of adoption thereof by the Board. Awards granted prior to stockholder approval of the Plan or in excess of the Authorized Shares previously approved by the stockholders shall become exercisable no earlier than the date of stockholder approval of the Plan or such increase in the Authorized Shares, as the case may be.

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PLAN HISTORY  
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February 1, 2002      Board adopts Plan, with an initial reserve of 948,100 shares.

February 8, 2002      Stockholders approve Plan, with an initial reserve of 948,100 shares.

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PRELIMINARY COPY  
SUBJECT TO COMPLETION OR AMENDMENT

INFORMATION STATEMENT OF SWS GROUP, INC.

Dear SWS Group, Inc. Stockholder:

On April 8, 2002, the Board of Directors of SWS Group, Inc. ("SWS") approved plans to spin-off its Westwood asset management business to SWS stockholders. SWS will accomplish the spin-off by distributing all of the common stock of Westwood Holdings Group, Inc. ("Westwood") that it holds to SWS stockholders. As a holder of SWS common stock, you will receive one share of Westwood common stock for every four shares of SWS common stock that you own at the close of business on May , 2002, the record date for the spin-off. We are sending you this information statement to describe the spin-off of Westwood from SWS. The spin-off is intended to be tax-free to SWS stockholders, except for cash received for any fractional shares. We expect the spin-off to occur on or about May , 2002. Immediately after the spin-off is completed, SWS will not own any shares of Westwood common stock, and Westwood will be an independent public company.

A STOCKHOLDER VOTE IS NOT REQUIRED FOR THE SPIN-OFF TO OCCUR. WE ARE NOT ASKING YOU FOR A PROXY, AND WE REQUEST THAT YOU DO NOT SEND US A PROXY. In addition, you do not need to pay any cash or other consideration for the shares of Westwood common stock that you receive in the spin-off, nor will you be required to surrender or exchange shares of SWS common stock, or take any other action in order to receive Westwood common stock. The number of shares of SWS common stock that you currently own will not change as a result of the spin-off.

SWS has contributed 100% of the issued and outstanding capital stock of Westwood Management Corporation ("Westwood Management") and Westwood Trust to Westwood, a newly formed corporation controlled by SWS. Westwood is a holding company and its principal assets consist of all of the outstanding capital stock of Westwood Management and Westwood Trust. Westwood Management and Westwood Trust are continuing to operate as wholly owned subsidiaries of Westwood. Following the spin-off, SWS will continue to own brokerage and banking businesses, including SWS Securities, Inc.; SWS Financial Services, Inc.; Mydiscountbroker.com, Inc.; May Financial Corporation; Southwest Clearing Corp.; O'Connor & Company Securities, Inc.; First Savings Bank, FSB; FSBF, L.L.C.; and FSB Development, L.L.C., as well as other businesses and operations.

There has been no trading market for Westwood common stock. However, we expect that a limited market for Westwood common stock, commonly known as a "when issued" trading market, will develop on or shortly before the record date for the spin-off. The New York Stock Exchange has authorized the listing of Westwood's common stock under the ticker symbol "WHG."

This information statement contains information about the spin-off of Westwood and about its business, management and financial performance. We encourage you to read it in its entirety.

Sincerely,

SWS GROUP, INC.  
Don A. Buchholz  
Chief Executive Officer

As you review this information statement, you should carefully consider the matters described in "Risk Factors" beginning on page 6 in evaluating the benefits and risks of holding or disposing of shares of Westwood common stock that you will receive in the spin-off.

This information statement does not constitute an offer to sell or the solicitation of an offer to buy any securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this information statement is truthful or complete. Any representation to the

contrary is a criminal offense.

The date of this information statement is April , 2002, and it is being mailed to SWS stockholders on or about April , 2002.

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## SUMMARY

This summary highlights selected information from this document but does not contain all details concerning the spin-off of Westwood, including information that may be important to you. To better understand the spin-off and Westwood,

you should carefully read this entire document. References in this document to "we," "our," "us" or "Westwood" mean Westwood Holdings Group, Inc. and its subsidiaries, Westwood Management Corporation and Westwood Trust.

On May , 2002, we will effect a stock split in the form of a stock dividend in order to provide the number of shares required for the spin-off. As of April 1, 2002, SWS had 17,230,566 shares of common stock outstanding (excluding treasury shares). Assuming no change to the number of SWS shares outstanding on the record date for the spin-off, our stock split ratio would be 998.68483 shares of our common stock for every one share of our common stock held, which would result in an estimated 5,372,310 shares of our common stock outstanding immediately following the spin-off. Share numbers and some other numbers based on share numbers that are presented in this information statement reflect this assumed stock split ratio. To the extent that the number of SWS shares outstanding on the record date for the spin-off is different than the number outstanding on April 1, 2002, our actual stock split ratio and the actual number of our shares outstanding immediately following the spin-off will be somewhat different.

#### Who We Are

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 and foundations, 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. Our revenues are generally derived from fees based on a percentage of assets under management, and at December 31, 2001, Westwood Management and Westwood Trust collectively managed assets valued at approximately \$4.1 billion. We have been providing investment advisory services since 1983 and, according to recognized industry sources, including Morningstar, Inc., when measured over multi-year periods, our principal asset classes have consistently ranked above the median in performance within their peer groups.

#### The Spin-off

SWS will accomplish the spin-off by distributing all of the shares of our common stock that it holds to SWS's stockholders. SWS currently holds 80.18% of our outstanding common stock. Some members of our management currently hold 19.82% of our outstanding common stock, and such shares will not be distributed to SWS's stockholders. On April 8, 2002, the SWS Board of Directors formally approved the spin-off. Each SWS stockholder as of the close of business on May , 2002, which is the record date for the spin-off, will receive shares of our common stock. Those SWS stockholders will receive one share of our common stock for every four shares of SWS common stock held as of the record date. Our Board of Directors has approved a stock split in the form of a stock dividend to be effective as of May , 2002 in order to provide the number of shares required for the spin-off. SWS and we expect that the spin-off will take place on or about May , 2002, although completion of the spin-off is contingent upon the satisfaction of conditions described in a distribution agreement. Based on the assumed stock split ratio, SWS executive officers and directors will own 685,819 (or approximately 12.8%) of our outstanding shares, and our executive officers and directors will own 1,143,687 (or approximately 21.3%) of our outstanding shares following the spin-off. Common board members' holdings are included in the foregoing figures. See "Relationship Between SWS and Westwood After the Spin-off."

As soon as practicable on or about the spin-off date, SWS will deliver to the distribution agent, Computershare Trust Company, Inc., certificates representing the shares of our common stock that it holds. The distribution agent will then make distributions in book-entry form to each holder of SWS common stock, unless such holder requests the delivery of a certificate.

Questions and Answers About the Spin-off and Westwood

Q: Why is SWS separating its businesses?

A: SWS's Board of Directors has determined that the separation of its Westwood asset management business from its other businesses, which include brokerage and banking services, is in the best interests of its stockholders. SWS's Board of Directors believes that the Westwood asset management business has distinct financial and operating characteristics from SWS's other businesses and that separating it will:

- . provide Westwood's management the ability to focus their efforts and financial resources on its core business, thus enabling it to compete more effectively in its own markets;
- . provide Westwood a platform to enhance client service by better aligning Westwood's performance on behalf of its clients with the compensation of its employees;
- . provide Westwood the ability to better retain and recruit high quality employees by providing employee compensation and benefit programs more closely tied to its performance, including stock-based and other incentive programs that reward employees based on their contribution to its success;
- . provide Westwood the ability to operate independently without the capital resource allocation issues present within the combined SWS, which in the near term will allow Westwood to invest in additional technology, such as an enhanced website and more efficient client reporting systems;
- . provide Westwood additional operating flexibility and allow it to achieve improved cost structures and operating efficiencies;
- . enable Westwood to avoid any perception that a conflict of interest exists because it is a subsidiary of SWS, as SWS is a large securities clearing firm;
- . enable Westwood to attract business from competitors of SWS; and
- . enable the financial community and investors to better measure the performance of both SWS and Westwood against comparable companies in similar businesses and make investment decisions based on the separate operations of the companies.

Q: Why is the separation of the two companies structured as a spin-off?

A: SWS's Board of Directors believes that a tax-free distribution of its shares of Westwood offers SWS and its stockholders the greatest long-term value and is the most tax efficient way to separate the companies.

Q: Should I send in my SWS stock certificates for exchange?

A: No. Holders of SWS common stock should not send stock certificates to SWS, Westwood or the distribution agent.

Q: How will fractional shares be treated?

A: On or after the spin-off date, our distribution agent will aggregate all fractional shares, sell them on the open market at prevailing market prices and distribute the aggregate proceeds ratably to those SWS stockholders otherwise entitled to those fractional shares. As a result, each holder of SWS common stock who would otherwise be entitled to receive a fractional share will receive cash for those fractional shares less applicable taxes and a pro rata portion of the aggregate brokerage commission payable in connection with the sale of the fractional shares.

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Q: What do stockholders need to do to participate in the spin-off?

A: Nothing. On the spin-off date, SWS will provide for the distribution of the shares of our common stock that it holds by the distribution agent.

Q: Will the spin-off change the number of shares I own in SWS?

A: No. The spin-off will not change the number of SWS common shares that you

own. Immediately after the spin-off, SWS's stockholders will continue to own their respective proportionate interests in SWS and Westwood. However, stockholders will now own their interests in these businesses through their ownership of stock in each of two independent public companies.

Q: Are there risks to continuing to own Westwood common stock?

A: Yes. Our business is subject to both general and specific business risks relating to our operations. In addition, our separation from SWS presents risks relating to our being an independent public company for the first time, as well as risks relating to the nature of the spin-off transaction itself. Many of these risks are described in the "Risk Factors" section beginning on page 6. We encourage you to read that section carefully.

Q: Will Westwood common stock be publicly traded?

A: The New York Stock Exchange has authorized the listing of our common stock on the NYSE under the ticker symbol "WHG." We expect that regular trading will begin on or about the spin-off date.

Before regular trading begins, we expect that a limited market for shares of our common stock, commonly known as a "when issued" trading market, will develop on or shortly before the record date for the spin-off. The term "when-issued" means that shares can be traded prior to the time certificates are actually available or issued. Even though when-issued trading may develop, none of these trades will settle prior to the effective date of the spin-off, and if the spin-off does not occur, all when-issued trading will be null and void.

Q: Will the spin-off affect the trading price of my SWS common stock?

A: Probably. After the spin-off, SWS common stock will continue to be listed on the NYSE under the symbol "SWS," and the trading price of SWS common stock will likely be lower than the trading price immediately prior to the spin-off. Moreover, until the market has evaluated the operations of SWS without our operations, the trading price of SWS common stock may fluctuate significantly.

Q: What is likely to be the initial trading price range of Westwood common stock?

A: There can be no reliable prediction as to the prices at which Westwood common stock will trade after completion of the spin-off. You should know, however, that the SWS Board of Directors obtained a valuation report in December 2001 that concluded as of September 30, 2001, after applying a discount for lack of marketability to reflect the fact that Westwood was privately held on that date, that the aggregate fair market value of a 19.9% interest in Westwood common stock was \$4,115,000, or \$3.85 per share. In February 2002 the SWS Board of Directors concluded that the distribution ratio of one share of Westwood common stock for every four shares of SWS common stock would likely result in an initial trading price for Westwood common stock of at least \$10.00 per share. This conclusion was reached based on the many years of experience of SWS Board members in stock valuation and trading matters, and all available information regarding the valuation of asset management companies at that time. The SWS Board particularly noted that the market valuation of other publicly held asset management companies had risen in recent months and that by virtue of SWS having sold a portion of its ownership interest in Westwood to Westwood management, that the value of Westwood was likely enhanced because key members of Westwood management were incentivized to remain with Westwood and to seek to increase the value of their ownership interest in Westwood. We do not believe that investors should utilize either the September 30, 2001 valuation or the conclusion of the SWS Board of Directors in February

spin-off. Neither SWS nor Westwood can provide any assurance as to an appropriate value or initial trading range for Westwood common stock. The valuation of an equity security is very subjective, and different investors will have different opinions of value and will apply varying valuation methodologies. The market for Westwood common stock will ultimately value Westwood common stock based on the composite of valuation expectations of all market participants. Neither the valuations set forth in the valuation report nor the SWS Board of Directors' conclusion as to the likely minimum initial trading price reflects the valuation that a diverse pool of investors would collectively assign to Westwood common stock. See "Risk Factors--Risks Relating to the Spin-Off--There has been no prior market for our common stock, and it is difficult to predict the prices at which our common stock might trade" and "The Spin-Off--Background and Reasons for the Spin-Off."

Q: What if I want to sell my SWS common stock or Westwood common stock?

A: Unless you are an affiliate of SWS or Westwood, you are free to sell your shares of SWS common stock or Westwood common stock. However, you should consult with your financial and tax advisors as to the implications of any sales. Neither SWS nor Westwood are making any recommendations on the purchase, retention or sale of shares of SWS common stock or Westwood common stock. If you do decide to sell any shares, you should make sure your broker, bank or other nominee understands whether you want to sell your SWS common stock, your Westwood common stock or both.

Q: Will SWS And Westwood be related in any way after the spin-off?

A: Immediately following the spin-off, SWS's significant stockholders will be significant Westwood stockholders. However, SWS will not own any shares of our common stock after the spin-off, and we will not own any shares of SWS common stock after the spin-off. Although SWS will no longer have any ownership interest in us after the spin-off, SWS and Westwood will have two common Board members, Frederick R. Meyer and Jon L. Mosle, Jr. Based on the number of shares of SWS common stock owned by SWS executive officers and directors as of April 1, 2002, they will directly or indirectly own 685,819 (or approximately 12.8%) of our outstanding shares immediately following the spin-off. Further, as of April 1, 2002, our executive officers and directors directly or indirectly owned 418,403 (or approximately 2.4%) of the outstanding shares of SWS common stock and, based on the assumed stock split, will own 1,143, 687 (or approximately 21.3%) of our outstanding shares following the spin-off. The common Board members' holdings are included in the foregoing SWS common stock and Westwood common stock figures. Additionally, SWS and we have entered into various agreements to define our continuing business relationships. See "Relationship Between SWS and Westwood After the Spin-off."

Q: What are the conditions to the spin-off becoming effective?

A: The completion of the spin-off depends upon satisfaction of a number of conditions, including:

- . the Securities and Exchange Commission must have declared our registration statement on Form 10 effective under the Securities Exchange Act of 1934;
- . the NYSE must have approved the listing of our common stock, subject to official notice of issuance;
- . SWS's Board of Directors must be satisfied that the spin-off will be made out of surplus within the meaning of Section 170 of the General Corporation Law of the State of Delaware;
- . SWS's Board of Directors must have approved the spin-off and must not have abandoned, deferred or modified the spin-off at any time before the completion of the spin-off;
- . our Certificate of Incorporation and Bylaws, in substantially the forms filed as exhibits to the Form 10 and as described in this information statement, must be in effect;
- . we must receive approval of the change of control of Westwood Trust from the Texas Banking Commissioner or confirmation that a change of control of Westwood Trust has not occurred as a result of the spin-off; and

. SWS and we must have executed and delivered the various ancillary agreements described in this information statement.

Q: Can SWS decide not to go through with the spin-off?

A: Yes. SWS can cancel the spin-off for any reason at any time before it is completed.

Q: Will SWS, Westwood or I be taxed on the spin-off under U.S. federal tax laws?

A: Based on an opinion received from Gardere Wynne Sewell LLP, SWS expects that the spin-off will qualify as tax-free to its stockholders for federal income tax purposes, except for cash received in lieu of fractional shares. However, you should consult your tax advisor as to the particular tax consequences to you of the spin-off. You should also review the discussion of the risks relating to the tax-free qualification of the spin-off that begins on page 7 of this document and the discussion under "The Spin-Off -- Material U.S. Federal Income Tax Consequences of the Spin-off" that begins on page 18 of this document.

Even if the spin-off otherwise qualifies as a tax-free distribution to SWS's stockholders, a corporate level federal income tax would be payable by SWS if either SWS or Westwood experiences a change-in-control, as determined under Section 355(e) of the Internal Revenue Code of 1986, as amended. We have agreed to indemnify SWS for any such taxes that arise if we are responsible for triggering a change-in-control. Otherwise, there are no direct or indirect corporate tax consequences to us as a result of the spin-off.

Q: Who is acting as the distribution agent?

A: Computershare Trust Company, Inc.  
350 Indiana Street, Suite 800  
Golden, Colorado 80401  
Telephone: 303-262-0600

Q: Where can SWS stockholders get more information?

A: You may direct questions to SWS's Investor Relations Department, 1201 Elm Street, Suite 3500, Dallas, Texas 75270, telephone number: 214-859-1800; or you may contact the distribution agent for the spin-off at 303-262-0600.

#### RISK FACTORS

You should carefully consider each of the following risks, which we believe are the principal risks that we face, and all of the other information in this information statement. Some of the following risks relate to our spin-off from SWS. Other risks relate to our business, the securities markets and ownership of our common stock. Our business may also be adversely affected by risks and uncertainties not presently known to us or that we currently believe are immaterial. If any of the following risks and uncertainties develop into actual events, this could have a material adverse effect on our business, financial condition or results of operations. If this occurs, the trading price of our common stock could decline, and you may lose all or part of your investment.

#### Risks Relating to the Spin-Off

We have no operating history as an independent public company and may be unable to operate profitably as a stand-alone company.

There can be no assurance that, as an independent company, we will continue



to be profitable following the spin-off. SWS has owned our business for many years and has operated that business as a part of its overall financial services business. As part of SWS's business, we have been able to rely, to some degree, on the cash flow and other resources of SWS, including administrative services, as well as on fees related to our management of the SWS cash reserve funds, which we will continue to manage for at least one year following the spin-off. Following the spin-off, we will need to obtain from third parties those resources previously provided by SWS, although SWS has agreed to provide to us for a limited time certain equipment and human resources services. See "Relationship Between SWS and Westwood After the Spin-off" and "Business." The terms extended to us by third parties may not be as favorable as the terms provided by SWS.

Our historical financial information may not be indicative of our future performance because, in part, we expect to have higher expenses.

Our historical financial information included in this information statement may not be indicative of our future performance and does not necessarily reflect our financial position, results of operations and cash flows had we operated as an independent public company during each of the periods presented. Our expenses have been allocated from SWS on the basis of our relative number of employees, relative revenues and other allocation bases. These allocated expenses represent services provided by SWS, including human resources, accounting, internal audit, income tax, legal, insurance and information technology. Had we been an independent public company in 2001, we estimate that our total expenses would have been approximately \$800,000 higher than those reflected in the consolidated financial statements. The increase in expenses includes, without limitation, increased public company compliance costs, employee compensation, insurance costs, legal expenses, and accounting and payroll costs. The foregoing estimate of higher expenses is not necessarily an accurate measure of what our stand-alone expenses would have been in 2001 or will be in the future, and our expenses could be higher. The costs we actually incur in the future will depend on the market for these services when they are actually purchased and the size and nature of our future operations. The financial information included herein does not reflect any changes that may occur in our financial condition and operations as a result of the spin-off. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements.

There has been no prior market for our common stock, and it is difficult to predict the prices at which our common stock might trade.

There has been no established trading market for our common stock, and there can be no reliable prediction as to the prices at which it will trade after completion of the spin-off. While it is expected that a limited market for shares of our common stock, commonly known as a "when-issued" trading market, will develop near the record date, until our common stock is fully distributed and an orderly trading market develops, the prices at

which trading in our common stock occurs may fluctuate significantly. The term "when-issued" means that shares can be traded prior to the time certificates are actually available or issued. Even though when-issued trading may develop, none of these trades will settle prior to the effective date of the spin-off. Trading in our common stock on a "when-issued" basis exposes traders to a risk of loss if the spin-off does not occur. See "The Spin-off -- Listing and Trading of Westwood Common Stock." The SWS Board of Directors obtained a valuation report in December 2001 that concluded as of September 30, 2001, after applying a discount for lack of marketability to reflect the fact that Westwood was privately held on that date, that the aggregate fair market value of a 19.9% interest in Westwood common stock was \$4,115,000, or \$3.85 per share. In February 2002 the SWS Board of Directors concluded that the distribution ratio of one share of Westwood common stock for every four shares of SWS common stock would likely result in an initial trading price for Westwood common stock of at least \$10.00 per share. We do not believe that investors should utilize either the September 30, 2001 valuation or the conclusion of the SWS Board of Directors in February 2002 in making any determination as to an appropriate value or an appropriate initial trading range for Westwood common stock following completion of the spin-off. Neither SWS nor Westwood can provide any assurance as to an appropriate value or initial trading range for Westwood common stock. The valuation of an equity

security is very subjective, and different investors will have different opinions of value and will apply varying valuation methodologies. The prices at which shares of our common stock trade will be determined based on the composite of valuation expectations of all market participants and may be influenced by many factors, including, among others, our performance and prospects, the depth and liquidity of the market for our common stock, investor perception of us, our business and the industry in which we operate, our dividend policy, general financial and other market conditions, domestic and international economic conditions, and the impact of factors described in this "Risk Factors" section. See "The Spin-off -- Background and Reasons for the Spin-off" and "-- Listing and Trading of Westwood Common Stock."

If the spin-off is taxable, you could be required to pay tax on the fair market value of the shares of Westwood common stock you receive in the spin-off, and SWS could incur a corporate tax liability for which Westwood could be responsible under some circumstances.

Based on an opinion received from Gardere Wynne Sewell LLP, SWS expects that the spin-off will qualify as tax-free to SWS and its stockholders for U.S. federal income tax purposes, except for cash received in lieu of fractional shares. However, Gardere's opinion is not binding on the courts or the IRS. Whether a spin-off qualifies as tax-free depends in part upon the reasons for the spin-off and satisfaction of numerous other fact-based requirements. If the spin-off fails to qualify as a tax-free distribution for U.S. federal income tax purposes, SWS stockholders who receive shares of our common stock in the spin-off would be treated as if they had received a taxable distribution in an amount equal to the fair market value of our common stock received. The amount of the taxable distribution would be taxed as a dividend. If the spin-off fails to qualify as a tax-free distribution for U.S. federal income tax purposes to SWS stockholders, then, in general, a corporate income tax could also be payable on the difference between the fair market value of the stock and SWS's adjusted tax basis in the stock at the time of the spin-off by the combined tax group of which SWS is the common parent. Even if the spin-off qualifies as a tax-free distribution to SWS stockholders, it may be subject to corporate income tax under Section 355(e) of the Internal Revenue Code of 1986, as amended, if one or more persons acquire a 50% or greater interest in SWS or Westwood as part of a plan or series of related transactions that included the spin-off. Any acquisition that occurs during the four-year period beginning two years before the spin-off will be presumed to be part of a plan or a series of transactions relating to the spin-off. SWS or Westwood, whichever is responsible for triggering a change-in-control resulting in the application of Section 355(e) of the Code, will bear any related taxes that arise. Even if the application of Section 355(e) resulted in the imposition of corporate income tax liability, this alone would not affect the tax-free nature of the distribution to SWS stockholders. See "The Spin-off -- Material U.S. Federal Income Tax Consequences of the Spin-off" and "Relationship Between SWS and Westwood After the Spin-off -- Tax Separation Agreement."

The trading price of SWS common stock may decline after the spin-off.

After the spin-off, SWS common stock will continue to be listed for trading on the NYSE under the symbol "SWS." As a result of the spin-off, absent other action, the trading price of SWS common stock immediately

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following the spin-off is expected to be lower than the trading price of SWS common stock immediately prior to the spin-off.

We will not be able to rely on SWS to fund future capital requirements.

In the past, some of our capital needs have been satisfied or guaranteed by SWS. However, following the spin-off, SWS will no longer provide funds to finance our working capital or other cash requirements. We cannot be certain that financing, if needed, will be available on favorable terms, if at all. We believe that our capital requirements will vary greatly from quarter to quarter depending on, among other things, capital expenditures, fluctuations in our operating results and financing activities. We believe that our current cash and cash equivalents and cash flows from operations after the spin-off will be sufficient to satisfy our cash requirements for the foreseeable future.

However, if future financing is necessary, we may or may not be able to obtain financing with interest rates as favorable as those historically enjoyed by SWS, if at all. Further, any future equity financings could dilute the relative percentage ownership of the then existing holders of our common stock, and any future debt financings could involve restrictive covenants that limit our ability to take certain actions.

Substantial sales of our common stock following the spin-off, or the perception that such sales might occur, could depress the market price of our common stock.

All of the shares of our common stock distributed in the spin-off will be eligible for immediate resale in the public market, except for shares held by our affiliates. Any sales of substantial amounts of our common stock in the public market, or the perception that such sales might occur, whether as a result of the spin-off or otherwise, could depress the market price of our common stock. We are unable to predict whether substantial amounts of our common stock will be sold in the open market following the spin-off. See "The Spin-off -- Listing and Trading of Westwood Common Stock."

The distribution agreement and the tax separation agreement contain indemnification obligations for SWS and us that neither party may be able to satisfy, which could result in increased expenses and liabilities for us.

The distribution agreement and the tax separation agreement allocate responsibility between SWS and us for various liabilities and obligations. However, the availability of such indemnities will depend upon the future financial strength of SWS and ourselves. SWS or we may not be in a financial position to fund such indemnities if they should arise, which could result in increased expenses and liabilities for us. The distribution agreement provides that each party will indemnify the other against claims arising out of the distribution agreement and claims arising out of their respective businesses before and after the spin-off. Additionally, the distribution agreement provides that SWS will indemnify us for any liabilities or expenses in excess of \$500,000 that relate to our representation as the corporate trustee for the Richard A. Boykin, Jr. Family Trust. The tax separation agreement provides that each party will indemnify the other with respect to some taxes attributable to their respective businesses arising before or after the spin-off. The tax separation agreement also allocates responsibility between SWS and us with respect to any corporate income taxes for which SWS becomes liable by reason of a change-in-control of SWS or us resulting in the application of Section 355(e) of the Code. If this occurs as a result of our actions, we would be liable to pay SWS the amount of taxes for which SWS becomes liable solely by reason of application of Section 355(e) of the Code and without consideration of any other tax attribute of SWS. See "Relationship Between SWS and Westwood After the Spin-off."

Some provisions may discourage a third party from acquiring control of Westwood.

It could be difficult for a potential bidder to acquire us because our Certificate of Incorporation and Bylaws contain provisions that may discourage takeover attempts. In particular, our Certificate of Incorporation and Bylaws permit our Board of Directors to issue, without stockholder approval, preferred stock with such terms as the Board may determine. Additionally, our directors may only be removed for cause by a vote of the holders of at least two-thirds of the shares of stock entitled to vote, and stockholders cannot act by written consent. We have

also elected to not exclude ourselves from the restrictions of Section 203 of the Delaware General Corporation Law, which makes it more difficult for a person who is an "interested stockholder" to effect various business combinations with a corporation for a three-year period. Also, the tax separation agreement provides that if, as a result of our actions, a change-in-control of SWS or us triggers application of Section 355(e) of the Code, we would be liable to pay SWS the amount of any corporate income taxes for which SWS becomes liable solely by reason of application of Section 355(e) of the Code and without consideration of any other tax attribute of SWS. These provisions may increase the cost or difficulty for a third party to acquire control of us or may discourage acquisition bids altogether. See "Description of Capital Stock -- Provisions That May Have an Anti-Takeover Effect."

## Risks Related to our Business

Some members of our management are critical to our success, and our inability to attract and retain key employees could compromise our future success.

We believe that our future success will depend to a significant extent upon the services of our executive officers, particularly Susan M. Byrne, our Chairman of the Board and Chief Executive Officer, and Brian O. Casey, our President and Chief Operating Officer. We do not have employment agreements with any of our key employees, including Ms. Byrne or Mr. Casey. The loss of the services of one or more of our key employees or our failure to attract, retain and motivate qualified personnel could negatively impact our business, financial condition, results of operations and future prospects. As with other asset management businesses, our future performance depends to a significant degree upon the continued contributions of certain officers, portfolio managers and other key marketing, client service and management personnel. There is substantial competition for these types of skilled personnel.

Some executive officers have substantial influence over our investment policies.

Susan M. Byrne, our chief investment officer, establishes and implements policy with respect to our investment advisory activity. Ms. Byrne and Mr. Casey decide on any changes in management philosophy, style or approach with respect to our investment advisory policies.

Negative performance of the securities markets could reduce our revenues.

Our results of operations are affected by many economic factors, including the performance of the securities markets. Negative performance in the securities markets or certain segments of those markets or short-term volatility in the securities markets or segments thereof could result in investors withdrawing assets from the markets or decreasing their rate of investment, either of which could reduce our revenues. Because most of our revenues are based on the value of assets under management, a decline in the value of those assets would also adversely affect our revenues and results of operations. Favorable performance by the securities markets prior to 2001 attracted a substantial increase in investments in these markets. Partly as a result of this financial environment, the assets under our management increased significantly and levels of profitability grew. The growth rate of our assets under management has varied from year to year, and our growth rate could decline significantly. In addition, in periods of slowing growth or declining revenues, profits and profit margins are adversely affected because certain expenses remain relatively fixed.

For example, more than two-thirds of our assets under management are invested in equity securities of companies with a large market capitalization. As a consequence, we are particularly susceptible to the volatility associated with changes in the market for large capitalization stocks. Due to this concentration, any change or reduction in such markets, including a shift of Westwood Management clients' and potential clients' preference from investments in equity securities of large capitalization stocks to other equity or fixed income securities could have a significant negative impact on our revenues and results of operations. This negative impact could occur due to the depreciation in value of our assets under management and/or the election by clients to select other firms to manage their assets, either of which events would result in decreased assets under management and therefore reduced revenues and a decline in results of operations.

Poor investment performance of the assets managed by us could adversely affect our results of operations.

Because we compete with many other asset management firms on the basis of asset classes offered and the investment performance of those asset classes, our success is dependent to a significant extent on the investment performance of the assets that we manage. During 2001 the asset classes comprising the bulk of assets under our management performed below the median within their peer groups. This relative underperformance could adversely affect our results of operations, especially if it continues. Good performance stimulates new client accounts, which results in higher revenues for us. Conversely, poor performance

tends to result in the loss or reduction of client accounts, with corresponding decreases in revenues.

Our business is dependent on investment advisory, subadvisory and trust agreements that are subject to termination or non-renewal; therefore, we could lose any of our clients on very short notice.

Substantially all of our revenues are derived pursuant to investment advisory, subadvisory and trust agreements with our clients. Any termination or failure to renew these agreements could have a material adverse impact on us. In general, either party may terminate these agreements upon 30-days notice. Investment advisory and subadvisory agreements are terminated in the event of an "assignment" (as defined in the Investment Company Act of 1940, as amended). Generally, any change of control would constitute an "assignment" under the 1940 Act. The spin-off is not expected to result in a change of control and therefore under the applicable rules of the SEC would not constitute such an assignment.

A small number of clients account for a substantial portion of our business. As such, the reduction or loss of business with any of these clients could have an adverse impact on our business, financial condition and results of operations.

Our largest four clients accounted for 22.2% of total revenues for the twelve months ended December 31, 2001, and we are therefore dependent to a significant degree on our ability to maintain our existing relationships with these clients. There can be no assurance that we will be successful in maintaining our existing client relationships or in securing additional clients. Any failure by us to retain one or more of our large clients or establish profitable relationships with additional clients could have a material adverse effect on our business, financial condition and results of operations.

Any event that negatively affects the asset management industry could have a material adverse effect on us.

Any event affecting the asset management industry that results in a general decrease in assets under management or a significant general decline in the number of advisory clients or accounts could negatively impact our revenues. Our future growth and success depends in part upon the continued growth of the asset management industry, which experienced significant growth prior to 2001.

Due to the substantial cost and time required to introduce new asset classes in our industry, we may not be able to successfully introduce new asset classes in a timely manner, or at all.

The development and marketing of new asset classes in our industry is extremely costly and requires a substantial amount of time. Our ability to successfully market and sell a new asset class depends on our financial resources, the asset class's performance results, the timing of the offering and our marketing strategies. Once an asset class is developed, whether through acquisition or development internally, we need to be able to effectively market the asset class to our existing and prospective clients. This entails incurring significant financial expenses related to research on the target assets and the demand for such asset class in the market, as well as costs related to doing road shows, sponsoring conferences and attending trade shows. In addition, our ability to sell new asset classes to our existing and potential clients depends on our ability to meet or exceed the performance of our competitors who offer the same or similar asset classes. We may not be able to profitably manage the assets within a given asset class. Moreover, it may take years before we are able to produce the level of results that will enable us to attract clients. If we are unable to capitalize on the costs and expenses incurred in developing new asset classes, we may experience losses as a result of our management of these asset classes, and our ability to introduce further new asset classes and compete in our industry may be hampered.

If we are unable to successfully and timely expand our asset classes, we may not be able to maintain our competitive position in the asset management industry.

Our ability to remain competitive will depend, in part, on our ability to

expand our asset classes under management. We are continually looking for opportunities to expand our asset classes, both in terms of growing our existing asset classes and developing new asset classes focusing on investment areas that we do not currently cover. We intend to grow our asset classes either internally or by acquiring asset classes from third parties. It may be costly and time consuming for us to develop these new assets internally. Moreover, we may not be able to find asset classes that are consistent with our growth strategies or acquire asset classes from third parties on terms acceptable to us, if at all. If we are unable to expand our asset classes or be able to do so in a timely manner, we may lose clients to other asset management firms, which would have an adverse affect on our business, financial condition and results of operations.

Our business is subject to pervasive regulation with attendant costs of compliance and serious consequences for violations.

Virtually all aspects of our business are subject to various laws and regulations. Violations of such laws or regulations could subject us and/or our employees to disciplinary proceedings or civil or criminal liability, including revocation of licenses, censures, fines or temporary suspension, permanent bar from the conduct of business, conservatorship or closure. Any such proceeding or liability could have a material adverse effect upon our business, financial condition, results of operations and business prospects. These laws and regulations generally grant regulatory agencies and bodies broad administrative powers, including, in some cases, the power to limit or restrict us from operating our business and, in other cases, the powers to place us under conservatorship or closure, in the event we fail to comply with such laws and regulations. Due to the extensive regulations and laws to which we are subject, our management is required to devote substantial time and effort to legal and regulatory compliance issues. In addition, the regulatory environment in which we operate is subject to change. We may be adversely affected as a result of new or revised legislation or regulations or by changes in the interpretation or enforcement of existing laws and regulations. See "Business -- Regulation."

Potential misuse of assets and information in the possession of our portfolio managers and employees could result in costly litigation and liability for us and our clients.

Our portfolio managers handle a significant amount of assets, financial and personal information for our clients. Although we have implemented a system of controls to minimize the risk of fraudulent taking or misuse of assets and information, there can be no assurance that our controls will be adequate to prevent taking or misuse by our portfolio managers or employees. If our controls are ineffective in preventing the fraudulent taking or misuse of assets and information, we could be subject to costly litigation, which could consume a substantial amount of our resources and distract our management from the operation of Westwood and could also result in regulatory sanctions. Additionally, any such fraudulent actions could adversely affect some of our clients in other ways, and these clients could seek redress against us.

Acquisitions, which are part of our long-term business strategy, involve inherent risks that could compromise the success of the combined business and dilute the holdings of current stockholders.

As part of our long-term business strategy, we intend to consider acquisitions of similar or complementary businesses. See "Business -- Growth Strategy." If we are not correct when we assess the value, strengths, weaknesses, liabilities and potential profitability of acquisition candidates or if we are not successful in integrating the operations of the acquired businesses, the success of the combined business could be compromised. Any future acquisitions will be accompanied by the risks commonly associated with acquisitions. These risks include, among others, potential exposure to unknown liabilities of acquired companies and to acquisition costs and expenses, the difficulty and expense of integrating the operations and personnel of the acquired companies, the potential disruption to the business of the combined company and potential diversion of

management's time and attention, the impairment of relationships with and the possible loss of key employees and clients as a result of the changes in management, the occurrence of amortization expenses in connection with acquisitions and dilution to the stockholders of the combined company if the

acquisition is made for stock of the combined company. In addition, asset classes, technologies or businesses of acquired companies may not be effectively assimilated into our business or have a positive effect on the combined company's revenues or earnings. The combined company may also incur significant expense to complete acquisitions and to support the acquired asset classes and businesses. Further, any such acquisitions may be funded with cash, debt or equity, which could have the effect of diluting the holdings or limiting the rights of stockholders. Finally, we may not be successful in identifying attractive acquisition candidates or completing acquisitions on favorable terms.

Various factors may hinder the declaration and payment of dividends following the spin-off.

Our payment of dividends is subject to the discretion of our Board of Directors, and various factors may prevent us from paying dividends. Such factors include our financial position, capital requirements and liquidity, the existence of a stock repurchase program, any loan agreement restrictions, state corporate and banking law restrictions, results of operations and such other factors as our Board of Directors may consider relevant. In addition, as a holding company, our ability to pay dividends is dependent on the dividends and income we receive from our subsidiaries. At the present time our primary source of cash is dividends that may be received from Westwood Management or Westwood Trust. The payment of dividends by Westwood Management or Westwood Trust is subject to the discretion of their Boards of Directors and compliance with applicable laws, including, in particular, the provisions of the Texas Finance Code applicable to Westwood Trust. See "Dividend Policy" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Our business is vulnerable to systems failures that could have a material adverse effect on our business, financial condition and results of operations.

Any delays or inaccuracies in securities pricing information or information processing could give rise to claims against us, which could have a material adverse effect on our business, financial condition and results of operations. We are highly dependent on communications and information systems and on third party vendors for securities pricing information and updates from certain software. We may suffer a systems failure or interruption, whether caused by an earthquake, fire, other natural disaster, power or telecommunications failure, unauthorized access, act of God, act of war or otherwise, and our back-up procedures and capabilities may not be adequate or sufficient to eliminate the risk of extended interruptions in operations.

Members of our Board of Directors and executive management may have conflicts of interest after the spin-off due to their relationships with SWS.

Two members of our Board of Directors, Frederick R. Meyer and Jon L. Mosle, Jr., also serve on the SWS Board of Directors. In addition, all of the members of our Board of Directors and executive management will own shares of both SWS and Westwood common stock after the spin-off. These circumstances could create, or appear to create, potential conflicts of interest when our directors and management are faced with decisions that could have different implications for SWS and Westwood. Examples of these types of decisions might include the resolution of disputes arising out of the agreements governing the relationship between SWS and Westwood following the spin-off and SWS's continued use of Westwood to act as manager of its cash reserve funds. Also, the appearance of conflicts, even if such conflicts do not materialize, might adversely affect the public's perception of us following the spin-off. See "Relationship Between SWS and Westwood After the Spin-Off."

#### SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

We have made forward-looking statements in this information statement including, without limitation, in the sections entitled "Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," that are based on our management's beliefs and assumptions and on information currently available to our management. Forward-looking statements include the information concerning our possible or assumed future results of operations, business strategies, need for financing, competitive position, potential growth opportunities, potential

operating performance improvements, ability to retain and recruit personnel, benefits resulting from our spin-off from SWS, the effects of competition and the effects of future legislation or regulations. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words "believe," "expect," "plan," "intend," "anticipate," "estimate," "predict," "potential," "continue," "may," "will," "should" or the negative of these terms or similar expressions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. You should not put undue reliance on any forward-looking statements. Except as required under the federal securities laws and the rules and regulations of the SEC, we do not have any intention or obligation to update publicly any forward-looking statements after we distribute this information statement.

The risk factors discussed in "Risk Factors" could cause our results to differ materially from those expressed in forward-looking statements. There may also be other risks and uncertainties that we are unable to predict at this time or which we do not now expect to have a material adverse impact on our business.

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#### THE SPIN-OFF

##### Background and Reasons for the Spin-Off

In May 2001, SWS management informed the SWS Board of Directors that asset management companies similar to Westwood were being sold and purchased for attractive values. At that time, the SWS Board authorized SWS management to investigate a potential sale or spin-off of Westwood. After considering these types of transactions and having discussions with Westwood management, SWS management reported to the SWS Board that, primarily for federal income tax reasons, a spin-off appeared to be more favorable to SWS and its stockholders than a sale of Westwood.

At its August 2001 meeting, the SWS Board considered the spin-off and sale alternatives. During the 90 days preceding that meeting, the average ratio of the SWS trading price to the SWS book value per share was 1.15. Based on industry sources available at that time, the SWS Board noted that the ratios for asset management companies were approximately double the ratios for broker/dealers. Therefore, the Board considered that \$1.00 of book value transferred out of SWS to the SWS stockholders in the form of Westwood stock would, in theory, increase in value from \$1.15 to \$2.30, or theoretically increase the total value of Westwood from \$18.1 million to \$36.1 million based on Westwood's unaudited and non-adjusted book value as of June 30, 2001. The SWS Board did not make this analysis in an effort to value Westwood, but rather as support for the proposition that spinning off Westwood would generate enhanced value for SWS stockholders.

The Board also considered that if Westwood were sold, SWS would have a tax liability on the gain from the sale. In addition, SWS stockholders would have a tax liability on any cash dividend paid from the proceeds of a sale. Based on these considerations, the SWS Board determined that a spin-off would increase stockholder value and should avoid tax liability for SWS and its stockholders. Additionally, the Board determined that a spin-off was in the best interest of SWS and its stockholders because the spin-off would create two independent public companies that would be better positioned to adopt strategies and pursue objectives appropriate to their respective needs. SWS's brokerage and banking businesses and the Westwood business each have different operating objectives and growth opportunities. By separating the operations, SWS and Westwood could focus their attention and financial resources on their own core businesses and on exploring and implementing the most appropriate business opportunities.



Thereafter, SWS engaged Gardere Wynne Sewell LLP to provide advice regarding tax issues, structure and other issues related to the spin-off.

While SWS would continue to focus on the brokerage and banking businesses, we would focus on providing our customers with quality, innovative asset management and related services. The expected benefits of the spin-off include:

- . provide our management the ability to focus their efforts and financial resources on our core business, thus enabling us to compete more effectively in our own markets;
- . provide us a platform to enhance client service by better aligning our performance on behalf of our clients with the compensation of our employees;
- . provide us the ability to better retain and recruit high quality employees by providing employee compensation and benefit programs more closely tied to our performance, including stock-based and other incentive programs that reward employees based on their contribution to our success;
- . provide us the ability to operate independently without the capital resource allocation issues present within the combined SWS, which in the near term will allow us to invest in additional technology, such as an enhanced website and more efficient client reporting systems;
- . provide us additional operating flexibility and allow us to achieve improved cost structures and operating efficiencies;
- . enable us to avoid any perception that a conflict of interest exists because we are a subsidiary of SWS, as SWS is a large securities clearing firm;
- . enable us to attract business from competitors of SWS; and

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- . enable the financial community and investors to better measure the performance of both SWS and Westwood against comparable companies in similar businesses and make investment decisions based on the separate operations of the companies.

During September and October 2001, SWS management and members of the SWS Board of Directors engaged in extensive discussions with Westwood management regarding the implementation of the proposed spin-off. In November 2001, the SWS Board of Directors authorized the formation of Westwood Holdings Group, Inc. and approved the contribution of the capital stock of Westwood Management and Westwood Trust to Westwood Holdings Group, Inc. In December 2001, the SWS Board of Directors preliminarily approved the terms of the proposed spin-off and directed SWS management to prepare the necessary regulatory filings.

In addition, during September and October 2001, SWS management and members of the SWS Board of Directors engaged in discussions with Westwood management regarding the terms upon which SWS might agree to sell approximately 19.9% of Westwood common stock to Westwood management. An understanding was reached in October 2001 that SWS would sell an approximately 19.9% interest in Westwood common stock to Westwood management based upon the value of that interest at September 30, 2001, as determined on the basis of an independent valuation. SWS retained the services of an independent financial advisor to provide such a valuation. On December 13, 2001 the requested valuation report was delivered, which concluded that based on and subject to the facts, limiting conditions and assumptions presented in the valuation report and the exhibits attached thereto, \$4,115,000 reasonably represented the aggregate fair market value as of September 30, 2001 of a 19.9% interest in Westwood. In determining the aggregate fair market value of the indicated interest, the valuation report identified several salient valuation factors that were considered, as follows:

- . Westwood's assets under management are primarily for ERISA clients rather than high net worth individuals, the former of which it was noted tended to be more performance-oriented and volatile, although ERISA clients tend

to have long investment horizons and thus are less subject to market fads than are individual investors.

- . Ms. Byrne and Mr. Casey have key roles with Westwood, but have no ownership interest in Westwood and have no employment or non-compete agreements with Westwood. The valuation report further noted that if Ms. Byrne or Mr. Casey were to obtain an ownership interest in Westwood that this might be a mitigating factor that would reduce the risk to Westwood of either of their departures.
  
- . Peer group asset managers have stock ownership, in contrast to the absence of any direct stock ownership by Westwood management.
  
- . Ms. Byrne's high media profile benefits Westwood and, correspondingly, her departure could negatively impact Westwood.
  
- . While on a long term basis Westwood has performed toward the upper quartile in its peer groups, Westwood performed toward the lowest quartile when considering the results of 2001 alone.
  
- . Westwood has a relatively high customer concentration.
  
- . Westwood has experienced consistent growth in both assets under management and investment advisory fees, and has been consistently profitable in recent years.

The valuation report noted that there are three general ways of determining value, but focused on the income and market approaches because an asset-based approach would not account for Westwood's intangible assets. It was noted that the market approach could include several different possible methods, and the report focused on the guideline company method, the external transaction method and the internal transaction method. In applying the income approach, a capitalization of benefits method was selected. The results of the several valuation techniques applied to arrive at a marketable, minority value for the Westwood common stock are as follows:

Market Approach--Guideline Company Method.....	\$38,200,000
Market Approach--External Transaction Method.....	\$25,000,000
Market Approach--Internal Transaction Method.....	\$28,000,000
Income Approach--Capitalization of Benefits Method	\$36,000,000

Each of the above approaches was given equal weight in determining the fair market value of Westwood's common stock on a minority, marketable basis, which was estimated to be \$31,800,000. After applying a 35% discount for lack of marketability due to the illiquid nature of an investment in Westwood at that time, an aggregate fair market value of \$20,670,000 was derived, which equated to a value of \$4,115,000 for a 19.9% interest in Westwood common stock. Based on this valuation report, on December 14, 2001 SWS sold a 19.82% interest in Westwood common stock to Westwood's management for an aggregate price of \$4,093,000, or \$3.85 per share.

In February 2002, the SWS Board of Directors held a special meeting to establish a preliminary spin-off distribution ratio, and preliminarily authorized a distribution of one share of Westwood common stock for every four shares of SWS common stock held on the record date. In order to determine the appropriate distribution ratio, the SWS Board of Directors considered both the number of round lot holders that would be necessary in order for Westwood common stock to comply with the listing standards of the NYSE, as well as a desirable trading range for Westwood common stock. Based on the number of 400-share round lot holders of SWS common stock in February 2002, the SWS board concluded that a one-for-four distribution ratio would satisfy the NYSE's minimum round lot holder requirement. The SWS Board concluded that this distribution ratio would likely result in an initial trading price for Westwood common stock of at least \$10.00 per share. This conclusion was reached based on the many years of experience of SWS Board members in stock valuation and trading matters, and all available information regarding the valuation of asset management companies at that time. The SWS Board particularly noted that the market valuation of other publicly held asset management companies had risen in recent months and that by virtue of SWS having sold a portion of its ownership interest in Westwood to Westwood management, that the value of Westwood was likely enhanced because key members of Westwood management were incentivized to remain with Westwood and to seek to increase the value of their ownership interest in Westwood.

We do not believe that investors should utilize either the September 30, 2001 valuation or the conclusion of the SWS Board of Directors in February 2002 in making any determination as to an appropriate value or an appropriate initial trading range for Westwood common stock following completion of the spin-off. Neither SWS nor Westwood can provide any assurance as to an appropriate value or initial trading range for Westwood common stock. The valuation of an equity security is very subjective, and different investors will have different opinions of value and will apply varying valuation methodologies. The market for Westwood common stock will ultimately value Westwood common stock based on the composite of valuation expectations of all market participants. Neither the valuations set forth in the valuation report nor the SWS Board of Directors' conclusion as to the likely minimum initial trading price reflects the valuation that a diverse pool of investors would collectively assign to Westwood common stock. See "Risk Factors--Risks Relating to the Spin-Off--There has been no prior market for our common stock, and it is difficult to predict the prices at which our common stock might trade."

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#### Description of the Spin-off

SWS will accomplish the spin-off by distributing all of the shares of our common stock that it holds to SWS's stockholders. SWS currently holds 80.18% of our outstanding common stock. The following diagram illustrates the current structure of Westwood and the distribution from SWS to its stockholders:

[GRAPHIC]

Westwood Graph

On April 8, 2002, the SWS Board of Directors formally approved the spin-off. Each SWS stockholder as of the close of business on May , 2002, which is the record date for the spin-off, will receive shares of our common stock. Those SWS stockholders will receive one share of our common stock for every four shares of SWS common stock held as of the record date. Our Board of Directors has approved a stock split in the form of a stock dividend to be effective as of May , 2002 in order to provide the number of shares required for the spin-off. SWS and Westwood expect that the spin-off will take place on or about May , 2002, although completion of the spin-off is contingent upon the

satisfaction of conditions described in the distribution agreement. See "Relationship Between SWS and Westwood After the Spin-off."

As soon as practicable on or about the spin-off date, SWS will deliver to the distribution agent, Computershare Trust Company, Inc., certificates representing the shares of Westwood common stock that it holds. The distribution agent will make distributions in book-entry form to each holder of SWS common stock. Upon written request by a stockholder, the distribution agent will deliver a certificate. SWS's shares of our common stock are duly authorized, validly issued, fully paid and nonassessable, and the holders of these shares will not be entitled to preemptive rights. See "Description of Capital Stock."

We will not issue any fractional shares as part of the spin-off. Instead, each holder of SWS common stock who would otherwise be entitled to receive a fractional share will receive cash for those fractional shares less

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applicable taxes and a pro rata portion of the aggregate brokerage commission payable in connection with the sale of the fractional shares. On or after the spin-off date, the distribution agent will aggregate all fractional shares, sell them on the open market at prevailing market prices and distribute the aggregate proceeds ratably to those SWS stockholders otherwise entitled to those fractional shares. See "--Material U.S. Federal Income Tax Consequences of the Spin-off" for a discussion of the United States federal income tax treatment of proceeds from fractional share interests. The distribution agent will act in its sole discretion, without influence from SWS or Westwood, in effecting these sales. The distribution agent will independently determine all aspects of the sales. Neither the distribution agent nor the broker-dealers it uses are affiliates of SWS or Westwood. None of SWS, Westwood or the distribution agent can guarantee any minimum sale price for the fractional shares of our common stock. Neither SWS or Westwood will pay any interest on the proceeds from the sale of aggregated fractional shares.

No vote of SWS stockholders is required or sought in connection with the spin-off, and SWS stockholders will have no appraisal rights in connection with the spin-off.

Options granted to Westwood employees under the SWS Securities, Inc. Stock Option Plan and the SWS Securities, Inc. 1997 Stock Plan will become fully vested as of the date of the spin-off, and Westwood will be substituted for SWS as the employer of these employees. In addition, to the extent that SWS makes any adjustments to its outstanding options as a result of the spin-off, similar adjustments will be made to the SWS options held by Westwood employees.

No SWS stockholder will be required to pay cash or other consideration for any shares of our common stock received in the spin-off, or to surrender or exchange shares of SWS common stock to receive our common stock.

#### Results of the Spin-off

After the spin-off, we will be a separate public company, independent from SWS. Except with respect to shares currently held by some members of our management, which represent 19.82% of our outstanding common stock prior to the spin-off, the number and identity of our stockholders immediately after the spin-off generally will be the same as the number and identity of stockholders of SWS immediately prior to the spin-off. As a result of the spin-off, we expect to have approximately 150 holders of record and an estimated 5,372,310 shares of our common stock outstanding, based on the number of SWS record stockholders, the distribution ratio, the assumed stock split ratio for our common stock, and the number of outstanding shares of SWS common stock as of the close of business on April 1, 2002. The actual number of shares of our common stock to be distributed will be determined as of the record date. The spin-off will not affect the number of outstanding shares of SWS common stock or the rights of SWS stockholders.

## General

The following is a summary description of the material federal income tax consequences of the spin-off. This summary is not intended as a complete description of all of the tax consequences of the spin-off and does not discuss tax consequences under the laws of state, local or foreign governments or any other jurisdiction. Moreover, the following discussion may not apply to particular categories of holders subject to special tax treatment under the federal income tax laws, including, without limitation, insurance companies, financial institutions, broker-dealers, estates, trusts, tax-exempt organizations, real estate investment trusts, regulated investment companies, non-United States holders, or persons that will hold their shares of our common stock as a position in a straddle, as part of a synthetic security or hedge, or as part of a conversion transaction or other integrated investment, other than a capital asset. This summary does not address the tax consequences to current stockholders of Westwood. Further, it does not include a description of any alternative minimum tax consequences that may be applicable to the receipt of our shares pursuant to the spin-off. This summary assumes that you hold your shares of our common stock as a capital asset within the meaning of section 1221 of the Internal Revenue Code of 1986, as amended, or the "Code." In this regard, special rules not discussed in this summary may apply to some of SWS's stockholders.

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The following discussion is based on currently existing provisions of the Code, existing, proposed and temporary Treasury Department regulations promulgated under the Code and current administrative rulings and court decisions. All of the foregoing are subject to change, which may or may not be retroactive, and any of these changes could affect the validity of the following discussion.

We urge you to consult your tax advisor as to the particular tax consequences to you of the spin-off described herein, including the applicability and effect of any state, local or foreign tax laws, and the possible effects of changes in applicable tax laws.

### Consequences if the Spin-off is Tax-free

SWS has received an opinion from Gardere Wynne Sewell LLP to the effect that, among other things, the spin-off will qualify as a tax-free distribution under Section 355 of the Code. The opinion of Gardere Wynne Sewell LLP will rely on representations made by SWS and us and factual assumptions. If any of the factual assumptions or representations relied upon in the opinion are inaccurate, the opinion may not accurately describe the tax treatment to you as a result of the receipt of our common stock pursuant to the spin-off. In addition, a tax opinion is not binding on the Internal Revenue Service, and we do not intend to request a ruling from the Internal Revenue Service with respect to these matters. Furthermore, there is no assurance that the Internal Revenue Service would agree with the conclusions set forth in the opinion or this discussion.

Assuming that the spin-off qualifies as a tax-free distribution:

- . except in connection with cash received in lieu of fractional shares, as described below, no stockholder of SWS will recognize any income, gain or loss as a result of the receipt of shares of our common stock;
- . each stockholder of SWS have an aggregate tax basis in the shares of our common stock received in the spin-off and the shares of SWS common stock held immediately following the spin-off equal to the tax basis in the shares SWS common stock held immediately prior to the spin-off. This aggregate tax basis will be allocated between the shares of our common stock and SWS common stock in proportion to each of their fair market values on the date of the spin-off. Each stockholder will assign tax basis to each share of our common stock on a pro-rata basis. If a stockholder has multiple blocks of SWS common stock, the stockholder will then allocate the SWS tax basis (as determined above) back to a specific block of SWS common stock in the amount of the total basis attributable to SWS common stock multiplied by a fraction, the numerator of which is the

pre-spin-off tax basis attributable to that block of SWS common stock and the denominator of which is the pre-spin-off tax basis of all of the stockholder's SWS common stock. After the total tax basis for each block has been determined, the stockholder will assign tax basis to the shares within each block on a pro-rata basis;

- . the holding period for each stockholder of SWS for shares of our common stock received in the spin-off will include the holding period for the shares of SWS common stock held at the time of the spin-off (assuming the stockholder held the SWS common stock as a capital asset on the date of the spin-off). If a stockholder has multiple blocks of SWS common stock, the stockholder will take multiple holding periods for each share of our common stock, allocated on the basis of the fair market value of the SWS common stock in each block (assuming the stockholder held the SWS common stock as a capital asset on the date of the spin-off);
- . each stockholder who receives cash as a result of the sale of fractional shares of our stock by the distribution agent will be treated as if such fractional share had been received by the stockholder as part of the distribution and then sold by the stockholder. Accordingly, the stockholder will recognize gain or loss equal to the difference between the cash so received and the portion of the tax basis in our stock that is allocable to the fractional share. This gain or loss will be capital gain or loss, provided that the fractional share was held by the stockholder as a capital asset at the time of the distribution; and
- . SWS will not recognize any gain or loss on its distribution of our common stock to SWS stockholders pursuant to the spin-off.

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Current Treasury Department regulations require each stockholder of SWS who receives a distribution of our common stock in the spin-off to attach to his, her or its federal income tax return for the year in which the distribution occurs a statement setting forth information as may be appropriate in order to show the applicability of Section 355 of the Code to the spin-off. Such statement shall include a description of the stock received and the names and addresses of all the corporations involved in the transaction. SWS has agreed it will provide each SWS stockholder as of the record date the information necessary to comply with this requirement.

#### Consequences if the Spin-off is Taxable

If the spin-off fails to qualify as a tax-free distribution under Section 355 of the Code, then each stockholder of SWS receiving shares of our common stock in the spin-off generally would be treated as if the stockholder received a taxable distribution in an amount equal to the fair market value of our common stock received, which would result in:

- (a) a dividend taxable at ordinary income rates to the extent paid out of SWS's current and accumulated earnings and profits; then
- (b) a reduction in the stockholder's adjusted tax basis in his, her or its SWS common stock to the extent the amount received exceeds the amount referenced in clause (a) and does not exceed the stockholder's adjusted tax basis in the stock; and then
- (c) gain from the sale or exchange of the stockholder's SWS common stock to the extent the amount received exceeds the sum of the amounts referenced in clauses (a) and (b).

Each stockholder's initial tax basis in the Westwood common stock received by the stockholder would be equal to the fair market value of such stock at the time of the spin-off.

If the spin-off fails to qualify as a tax-free distribution under Section 355 of the Code, then the consolidated group of which SWS is the common parent would be required to recognize taxable gain or loss equal to the difference between the fair market value of the our common stock at the time of the distribution and SWS's adjusted tax basis in such stock.

#### Consequences of Certain Ownership Changes after the Spin-off

Even if the spin-off otherwise qualifies as a tax-free distribution under Section 355 of the Code, a corporate level federal income tax would be payable by SWS if either SWS or Westwood experiences a prohibited change-in-control as determined under Section 355(e) of the Code.

Section 355(e) of the Code generally provides that a corporation that distributes shares of a subsidiary in a spin-off that is otherwise tax-free will incur federal income tax liability if 50% or more, by vote or value, of the capital stock of either the corporation making the distribution or the spun-off subsidiary is acquired by one or more persons pursuant to a plan or series of related transactions that includes the spin-off. This provision can be triggered by certain reorganizations involving the acquisition of the assets or stock of the corporation making the distribution or of the spun-off subsidiary, or by issuances or redemptions of the stock of the distributing corporation or of the spun-off subsidiary. There is a presumption that any acquisition or issuance that occurs within two years before or after the spin-off is part of a plan relating to the spin-off and one or more of such stock acquisitions or issuances could produce a prohibited 50% acquisition. However, the presumption may be rebutted by establishing that the spin-off and the acquisitions are not part of a plan or series of related transactions.

In April 2002, temporary Treasury Department regulations were issued that clarify when a spin-off is part of a plan, or series of related transactions, where one or more persons acquire stock of the distributing or spun-off

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subsidiary resulting in a 50% acquisition. The regulations rely on a variety of factors to determine the existence of such a plan or series of related transactions, including the following:

- . the business purpose or purposes for the distribution;
- . the intentions of the parties;
- . the existence of discussions, agreements, understandings, arrangements or substantial negotiations relating to acquisitions;
- . the timing of transactions or acquisitions;
- . the causal connection or relationship between the spin-off and the acquisitions; and
- . the occurrence of unexpected changes in market or business conditions.

These temporary Treasury Department regulations apply to this spin-off. The Treasury Department has stated that it will continue to devote significant resources towards developing additional guidance regarding what facts and arrangements result in a prohibited 50% acquisition and that it will publish more guidance on this issue in the near future. It is not known whether future rules and regulations would apply to the spin-off.

If the spin-off is taxable solely under Section 355(e) of the Code, SWS will recognize gain equal to the difference between the fair market value of our common stock at the time of the distribution and SWS's adjusted tax basis in the stock. However, holders of SWS common stock who receive our common stock in the spin-off would not recognize any income, gain or loss as a result of the receipt of shares of our common stock if the spin-off is taxable solely by reason of Section 355(e) of the Code.

The tax separation agreement between SWS and us allocates responsibility for the possible corporate tax burden resulting from the spin-off, as well as other tax items. For example, if the spin-off is taxable under Section 355(e) of the

Code as a result of a 50% acquisition of either SWS or Westwood, then the resulting tax burden imposed on SWS will be borne by the party responsible for triggering the change-in-control. See "Relationship Between SWS and Westwood After the Spin-off -- Tax Separation Agreement."

#### Back-up Withholding Requirements

SWS is required to withhold federal income tax at a rate of 30% with respect to payments such as dividends, interest or proceeds from the sale of stock made to (a) persons who do not have a social security number or taxpayer identification number, (b) persons that the IRS has determined have a history of evading federal income tax or (c) persons who have refused to furnish SWS with information sufficient to enable it to comply with its applicable federal income tax information reporting obligations. Such withholding is known as backup withholding. Backup withholding is not an additional tax and may be refunded (or credited against the stockholder's U.S. federal income tax liability, if any), provided that required information is furnished to SWS. United States information reporting requirements and backup withholding may apply to our stockholders with respect to dividends paid on, and proceeds from the taxable sale, exchange or other disposition of, our common stock unless the stockholder:

- . is a corporation or comes within certain other exempt categories, and, when required, demonstrates these facts; or
- . provides a correct taxpayer identification number, certifies that there has been no loss of exemption from backup withholding and otherwise complies with applicable requirements of the backup withholding rules.

You may be subject to penalties imposed by the IRS if you do not supply SWS with your correct taxpayer identification number. You should consult your tax advisor as to your qualification for exemption from backup withholding and the procedure for obtaining such an exemption. If information-reporting requirements apply to you, the amount of dividends paid with respect to your shares will be reported annually to the IRS and to you.

#### Listing and Trading of Westwood Common Stock

There has been no public market for our common stock. An active trading market may not develop or be sustained in the future. However, we expect that a limited market for shares of our common stock, commonly known as a "when issued" trading market, will develop on or shortly before the record date for the spin-off. The term "when-issued" means that shares can be traded prior to the time certificates are actually available or issued. Even though when-issued trading may develop, none of these trades would settle prior to the effective date of the spin-off, and if the spin-off does not occur, all when-issued trading will be null and void. The NYSE has authorized the listing of our common stock on the NYSE under the ticker symbol "WHG." Beginning on the first NYSE trading day after the spin-off, we expect that our common stock will trade on a "regular" basis. The term "regular" refers to trading after a security has been issued and typically involves a transaction that settles on the third full business day following the date of a transaction.

We cannot predict the prices at which our common stock may trade before the spin-off on a "when issued" basis or after the spin-off on a "regular" basis. These prices will be determined by the marketplace and may be significantly below the book value per share of our common stock. Until our common stock is fully distributed, an orderly trading market develops, and the market has fully analyzed our operations, prices at which trading in shares of our common stock occurs may fluctuate significantly. These prices may be influenced by many factors, including quarter to quarter variations in our actual or anticipated financial results or those of other companies in the industries or the markets that we serve, investor perception of our company and the asset management industry, and general economic and market conditions. In addition, the stock market in general has experienced extreme price and volume fluctuations that have affected the market price of many stocks and that have often been unrelated or disproportionate to the operating performance of these companies. These are just some factors that may adversely affect the market price of our common stock. See "Risk Factors--There has been no prior market for our common



stock, and it is difficult to predict the prices at which our common stock might trade."

Substantially all of the shares of our common stock that will be distributed in the spin-off will be eligible for immediate resale. In transactions similar to the spin-off, it is not unusual for a significant redistribution of shares to occur during the first few weeks or even months following completion of the transaction because of the differing objectives and strategies of investors who acquire shares of our common stock in the transaction. We are not able to predict whether substantial amounts of our common stock will be sold in the open market following the spin-off or what effect these sales may have on prices at which our common stock may trade. Sales of substantial amounts of our common stock in the public market during this period, the perception that any redistribution has not been completed or the prospect of our having to undertake a public offering of our common stock following the spin-off could materially affect the market price of our common stock.

Shares of our common stock received in the spin-off by "affiliates" (as defined under Rule 144 under the Securities Act of 1933, as amended) will not be freely transferable. Persons who can be considered our affiliates after the spin-off generally include individuals or entities that directly, or indirectly through one or more intermediaries, control, are controlled by, or are under common control with, us, and include some of our officers and directors. Our affiliates may only sell common stock received in the spin-off:

- . under a registration statement that the SEC has declared effective under the Securities Act; or
- . under an exemption from registration under the Securities Act, such as the exemption afforded by Rule 144, which limit sales by affiliates based on the average four-week trading volume or 1% of the outstanding common stock.

Similarly, the shares of our common stock purchased by our executive officers from SWS in December 2001 cannot be resold unless the resale is registered with the SEC or an exemption from registration is available, such as the exemption pursuant to Rule 144. In the event these executive officers were to seek to sell the shares that they purchased from SWS pursuant to Rule 144, the one-year holding period requirement would apply.

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It is expected that shortly following the completion of the spin-off that the compensation committee of our Board of Directors will award options covering approximately 200,000 to 250,000 shares of our common stock at an exercise price equal to the closing price per share as reported by the NYSE on the grant date. These options will vest over four years with the initial portion of such options vesting one year after the date of grant. These options will be granted under the Westwood Holdings Group, Inc. Stock Incentive Plan. See "Management--Compensation of Executive Officers--Compensatory Plans and Arrangements--Westwood Stock Incentive Plan." Shares of our common stock issued upon exercise of these options will be registered on Form S-8 under the Securities Act and will, therefore, be freely transferable under the securities laws, except by affiliates as described above.

SWS expects that its common stock will meet the continued listing standards of the NYSE and that its common stock will continue to trade on a regular basis under the symbol "SWS" following the spin-off. SWS common stock may also trade on a when-issued basis, reflecting an assumed post-spin-off value for SWS common stock. When-issued trading in SWS common stock, if available, could last from on or about the record date through the effective date of the spin-off. If when-issued trading in SWS common stock is available, SWS stockholders may trade their existing SWS common stock prior to the effective date of the spin-off in either the when-issued market or in the regular market for SWS common stock. If a stockholder trades in the when-issued market, he will have no obligation to transfer to a purchaser of SWS common stock the Westwood common stock such stockholder receives in the spin-off. If a stockholder trades in the regular market, the shares of SWS common stock traded will be accompanied by due bills representing the Westwood common stock to be distributed in the spin-off. If when-issued trading in SWS common stock is not available, neither the SWS common stock nor the due bills may be purchased or sold separately during the period from the record date through the effective

date of the spin-off.

If a when-issued market for SWS common stock develops, an additional listing for SWS common stock will appear on the NYSE. Differences may exist between the combined value of when-issued Westwood common stock plus when-issued SWS common stock and the price of SWS common stock during this period. Until the market has fully analyzed the operations of SWS without the operations of Westwood, the prices at which SWS common stock trades may fluctuate significantly.

You should consider consulting your financial and tax advisors prior to making any decisions with respect to the purchase, retention or sale of shares of SWS common stock or Westwood common stock. Neither SWS nor Westwood makes recommendations on the purchase, retention or sale of your shares of SWS common stock or Westwood common stock.

#### RELATIONSHIP BETWEEN SWS AND WESTWOOD AFTER THE SPIN-OFF

This section of the information statement summarizes material agreements, including certain transition services, indemnification, tax and other matters, relating to the spin-off between SWS and us that will govern the ongoing relationships between the two companies after the spin-off and will provide for an orderly transition to our status as a separate, independent company. Additional or modified agreements, arrangements and transactions, which will be negotiated at arm's length, may be entered into between SWS and us after the spin-off. Our business consists of the businesses previously conducted by the Westwood asset management business of SWS. On an overall basis, our business will constitute substantially the same business as that previously conducted by the Westwood asset management business of SWS. You should also read the agreements, forms of which have been filed as exhibits to the registration statement on Form 10 of which this information statement forms a part.

#### Distribution Agreement

The distribution agreement provides for:

- . the principal corporate transactions and procedures required to effect the spin-off; and

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- . certain other agreements relating to the continuing relationship between SWS and us after the spin-off, as described below.

#### Conditions to the Spin-Off

The distribution agreement provides that the following conditions must be satisfied or waived before or as of the date of the spin-off for the spin-off to occur:

- . the SEC must have declared our registration statement on Form 10 effective under the Securities Exchange Act;
- . the NYSE must have approved the listing of our common stock, subject to official notice of issuance;
- . SWS's Board of Directors must be satisfied that the spin-off will be made out of surplus within the meaning of Section 170 of the General Corporation Law of the State of Delaware;
- . SWS's Board of Directors must have approved the spin-off and must not have abandoned, deferred or modified the spin-off at any time before the completion of the spin-off;
- . our Certificate of Incorporation and Bylaws, in substantially the forms filed as exhibits to the Form 10 and as described in this information statement, must be in effect;
- . we must receive approval of the change of control of Westwood Trust from the Texas Banking Commissioner or confirmation that a change of control of Westwood Trust has not occurred as a result of the spin-off; and

- . SWS and we must have executed and delivered the various ancillary agreements described in this section.

#### Cross-Indemnification

We and SWS have agreed to indemnify each other against certain liabilities with respect to which a claim is made within two years of the spin-off date. We have agreed to indemnify SWS and parties related to SWS from and against:

- . any and all damage, loss, liability and expense arising out of, or due to, our failure to discharge any of our obligations under the distribution agreement;
- . any and all damage, loss, liability and expense expressly assumed by us in the distribution agreement;
- . any and all damage, loss, liability and expense, whether arising before, on or after the spin-off, relating to us or arising from or in connection with the conduct of our business or the ownership or use of our assets in connection with our business;
- . any and all past and future liabilities or expenses up to \$500,000 arising from or in connection with the Richard A. Boykin, Jr. Family Trust, for which we currently serve as trustee (such expenses to include unpaid trustee fees owed to us at the time of the spin-off but not thereafter); and
- . any and all damage, loss, liability and expense caused by any untrue statement or alleged untrue statement contained in this information statement or the registration statement of which it is a part or caused by any omission or alleged omission to state a material fact necessary to make the statements therein not misleading, if, and only to the extent that, such untrue statement or omission arises out of information provided by us for inclusion in this information statement or registration statement.

SWS has agreed to indemnify us and parties related to us from and against:

- . any and all damage, loss, liability and expense arising out of, or due to, SWS's failure to discharge any of its obligations under the distribution agreement;
- . any and all damage, loss, liability and expense, whether arising before, on or after the spin-off, relating to SWS or arising from or in connection with the conduct of its business or the ownership or use of its assets in connection with its business (other than the business of Westwood);

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- . any and all damage, loss, liability and expense arising out of, or due to, SWS's failure to discharge any of its obligations under the distribution agreement and the transition services agreement;
- . any and all past and future liabilities or expenses in excess of \$500,000 arising from or in connection with the Richard A. Boykin, Jr. Family Trust, for which we currently serve as trustee (such expenses to include unpaid trustee fees owed to us at the time of the spin-off but not thereafter); and
- . any and all damage, loss, liability and expense caused by any untrue statement or alleged untrue statement contained in this information statement or the registration statement of which it is a part or caused by any omission or alleged omission to state a material fact necessary to make the statements therein not misleading, if, and only to the extent that, such untrue statement or omission arises out of information provided by SWS for inclusion in this information statement or registration statement.

We have acted as corporate trustee for the Boykin Trust for several years. As corporate trustee, we recently filed a voluntary petition for bankruptcy on behalf of the Boykin Trust because it is subject to various pending legal actions, outstanding judgments and owes money to numerous creditors, including trustee fees and other amounts advanced by us that are owed to us in connection

with our representation. The petition seeks the liquidation of the Boykin Trust's assets and seeks to maximize the distribution to the Boykin Trust's creditors on an equitable basis. The Boykin Trust's only asset with value is a large block of land that has been listed with a real estate broker. If we are successful in selling the land, it is uncertain whether such sale will provide enough proceeds to pay off the creditors of the Boykin Trust. If we acted with gross negligence or in bad faith while serving as the corporate trustee of the Boykin Trust, those creditors or other persons could assert actions against us.

None of these indemnities applies to indemnification for income tax liabilities, which are addressed in the tax separation agreement described below under "Tax Separation Agreement." The distribution agreement also includes procedures for notice and payment of indemnification claims and generally provides that the indemnifying party may assume the defense of a claim or suit brought by a third party. Any indemnification amount paid under the indemnities will be paid net of the amount of any insurance or other amounts that would be payable by any third party to the indemnified party in the absence of the indemnity. In addition, the distribution agreement provides that if indemnification is unavailable or insufficient to hold the indemnified party harmless, the indemnifying party will contribute to the amount paid or payable in a manner appropriate to reflect all relevant equitable considerations.

#### Employee Benefits

The distribution agreement includes the following provisions relating to employee matters:

Treatment of Employees and Plans in General. At the time of completion of the spin-off, SWS will retain responsibility for all its current employees (other than Westwood employees), whom we refer to as SWS employees, and we will retain responsibility for all of our employees (including persons absent from active service by reason of disability or otherwise), whom we collectively refer to as our employees or Westwood employees. At the time of completion of the spin-off, our employees will no longer be deemed employees of SWS. In connection with the spin-off, we will adopt employee benefit plans that will be substantially similar to certain plans provided to our employees by SWS, such as the SWS 401(k), medical, dental, disability and life insurance plans. Since the SWS plans provided to our employees will terminate as to those employees as of the spin-off, we expect our plans to be effective as of the date of the spin-off.

Our active employees who participate in the SWS 401(k) Profit Sharing Plan (the "SWS 401(k) Plan") will cease active participation in that plan and will be given the opportunity to participate in the new Westwood 401(k) Profit Sharing Plan (the "Westwood 401(k) Plan"). At the time of the spin-off, Westwood employees will become 100% vested in their accounts in the SWS 401(k) Plan, and as soon as practicable following the spin-off, trustees for the SWS 401(k) Plan will transfer account balances under the SWS 401(k) Plan to the Westwood 401(k) Plan without forfeiture of any portion of the Westwood employees' account balances.

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Additionally, our active employees who participated in the SWS Deferred Compensation Plan ceased active participation in that plan and are being given the opportunity to participate in the new Westwood Deferred Compensation Plan. As soon as practicable following the spin-off, the trustee of the SWS Deferred Compensation Plan will transfer the accounts of the Westwood employees to the trustee of the Westwood Deferred Compensation Plan. Contemporaneously with the transfers of the assets to the Westwood Deferred Compensation Plan, SWS will transfer the related liability and unrealized holding gain accounts.

Equity-Based Compensation. In connection with the spin-off and effective as of the completion of the spin-off, options granted to Westwood employees under the SWS Securities, Inc. Stock Option Plan and the SWS Securities, Inc. 1997 Stock Option Plan will become fully vested as of the date of the spin-off, and Westwood will be substituted for SWS as the employer of these employees. In addition, to the extent that SWS makes any adjustments to its outstanding

options as a result of the spin-off, similar adjustments will be made to the SWS options held by Westwood employees.

#### Restriction on Solicitation or Employment of Employees

For a period of one year after the spin-off, we and SWS will agree not to, and to cause our subsidiaries not to, directly or indirectly:

- . solicit or otherwise attempt to induce or influence any employee of the other party or a subsidiary to leave employment with his or her then-current employer; or
- . employ any employee of the other party or a subsidiary of the other party, in each case without the consent of the other party.

However, if an employee of SWS or Westwood is terminated or terminates employment within such one year period, the terminated employee shall be eligible to be hired by SWS or Westwood, as the case may be, at any time after 90 days following such employee's termination; provided that such solicitation or hiring is for a bona fide reason not intended to circumvent the non-solicitation provisions noted above.

#### Access to Information; Provision of Witnesses; Confidentiality

Under the distribution agreement, we and SWS will allow the other party and their specified representatives reasonable access to all records in our or its possession relating to the business and affairs of the other party as reasonably required. Access will be allowed for such purposes as audit, accounting, litigation, disclosure reporting and regulatory compliance. Each party will also use reasonable efforts to make available to the other party and its accountants, counsel and other designated representatives, upon written request, its directors, officers, employees and representatives as witnesses and will otherwise cooperate with the other party in connection with any proceeding arising out of its or the other party's business and operations before the spin-off. Subject to limited exceptions, we, SWS and our respective directors, officers, employees, agents, consultants and advisors will hold in strict confidence all information in our, its or their possession concerning the other party.

#### Transaction Expenses

The distribution agreement provides for each of SWS and us to pay our own expenses in connection with the spin-off.

#### Transition Services Agreement

The transition services agreement provides for the continued provision of certain services by SWS to us, on a transitional basis, consistent with the historical provision of these services and the other terms of the transition services agreement. These services consist of human resources services and information technology and equipment services, such as Internet access and email; data lines; SOHO/VPN connections; desktop, server and

application support; ILX or other equity quote services; equipment rental; website hosting and maintenance; and disaster recovery. SWS will provide the human resources services for \$95/hour for the first 15 hours in any calendar week and \$125/hour for any hours in excess of 15 in any calendar week. SWS will provide the information services at prices consistent with those charged to other SWS customers and the equipment services based on SWS's current lease payment for such equipment. In each case, SWS will provide such services effective as of the spin-off date to the extent that they are identified or described in the transition services agreement. SWS has agreed to provide human resources services for six months following the spin-off, information technology services for one year following the spin-off, and equipment services until the expiration of the lease relating to such equipment. We may terminate SWS's provision of any or all services under the transition services agreement upon 30 days' prior written notice to SWS. Upon the termination or expiration of that agreement, we will need to determine whether we will seek to continue the arrangement set forth in the agreement (subject to SWS's consent), internally develop the provision of services provided thereunder or seek to obtain such services from a third party. At this time we have not yet

determined which of these options we will pursue.

The transition services agreement also provides that SWS will retain us for a term of not less than one year to provide investment management and custodial services with respect to the SWS cash reserve funds. Following such one-year period, SWS may, at its option, upon no less than 30 days' prior written notice to Westwood, terminate such services.

#### Tax Separation Agreement

We will be included in SWS's U.S. federal consolidated income tax group and any other consolidated, combined or unitary foreign, state and local tax group of SWS for all tax periods preceding the spin-off. Pursuant to a tax separation agreement with SWS, we are required to pay to SWS the portion of any taxes reported on the consolidated, combined or unitary tax returns filed by SWS for the 2002 tax year that are attributable to our business. For this purpose, the tax attributable to our business will be determined using SWS's historical method of computations as if we were not, and never were, a part of any consolidated group of SWS. We shall also be responsible for any increase (and will receive the benefit of any decrease) in any tax reported on these consolidated, combined or unitary tax returns that results from an audit by a tax authority (or other tax adjustment) of a tax attribute of us.

SWS will be responsible for the preparation and filing of all non-consolidated tax returns relating to us, and the payment of any taxes relating to these returns, for all tax periods ending on or before the spin-off. With respect to any non-consolidated tax returns relating to us for tax periods that begin on or before, but end after, the spin-off ("straddle periods"), elections will be made to close the tax periods on the date of the spin-off if permissible under applicable law. With respect to any straddle period for which an election cannot be made, we shall be responsible for the preparation and filing of all non-consolidated returns relating to us, and the remittance of any taxes relating to these returns. SWS will indemnify us for the portion of any of these non-consolidated taxes that relate to the portion of the straddle period prior to the spin-off.

We will be responsible for the preparation and filing of all tax returns (both consolidated and non-consolidated) relating to us, and the payment of any taxes relating to these returns, for all tax periods beginning after the spin-off.

The tax separation agreement allocates responsibility between SWS and us with respect to any corporate income taxes for which SWS becomes liable by reason of a change-in-control of SWS or us resulting in the application of Section 355(e) of the Code. The party responsible for triggering a change-in-control will bear any taxes that arise from the application of Section 355(e) of the Code in connection with the spin-off.

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#### DIVIDEND POLICY

The declaration and payment of dividends is subject to the discretion of our Board of Directors. Any determination as to the payment of dividends, as well as the type and amount of such dividends, will depend on, among other things, general economic and business conditions, our strategic plans, our financial results and condition, and contractual, legal and regulatory restrictions on the payment of dividends by us. We are a holding company and, as such, our ability to pay dividends is subject to the ability of our subsidiaries to provide us with cash. We cannot provide any assurance that dividends will be declared and paid in the future.

Westwood Trust is limited under applicable Texas law in the payment of dividends to undivided profits: that part of equity capital equal to the balance of net profits, income, gains, and losses since its formation date minus subsequent distributions to stockholders and transfers to surplus or capital under share dividends or appropriate Board resolutions. At December 31, 2001, Westwood Trust had undivided profits of approximately \$385,000.

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SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth the selected consolidated financial data of Westwood, which with respect to each of the three years in the period ended December 31, 2001, and as of December 31, 2001 and 2000, is derived from the audited consolidated financial statements of Westwood and should be read in conjunction with those statements, which are included in this information statement. The selected consolidated financial data for each of the two years in the period ended December 31, 1998, and as of December 1999, 1998 and 1997, is derived from the unaudited consolidated financial statements of Westwood. The data reflects Westwood's results as it has historically been operated as a part of SWS, and these results may not be indicative of Westwood's future performance as an independent company following the spin-off. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this information statement.

Years ended December 31,  
(in thousands, except per share amounts)

-----  
2001(1)    2000    1999    1998    1997  
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Statements of Income Data:

Total revenues.....	\$19,587	\$16,136	\$11,336	\$10,085	\$ 6,585
Total expenses.....	15,229	9,524	7,933	7,000	5,582
Income before income taxes.....	4,358	6,612	3,403	3,085	1,003
Provision for income tax expense..	3,097	2,628	1,469	1,294	452
Net income.....	\$ 1,261	\$ 3,984	\$ 1,934	\$ 1,791	\$ 551
Earnings per share (2).....	\$234.68	\$741.45	\$359.90	\$333.34	\$102.51

As of December 31,  
(in thousands, except per share amounts)

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2001    2000    1999    1998    1997  
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Balance Sheet Data:

Cash and money market accounts.....	\$12,097	\$ 9,572	\$ 2,148	\$ 3,264	\$ 864
Total assets.....	21,053	18,100	11,711	10,227	7,133
Stockholders' equity.....	14,032	12,802	8,590	6,681	4,889
Tangible book value per share (3)..	\$ 2,183	\$ 1,940	\$ 1,143	\$ 774	\$ 427
Assets Under Management (in millions):	\$ 4,120	\$ 3,601	\$ 2,373	\$ 2,083	\$1,688

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- (1) Total expenses include a \$4.0 million equity based compensation charge, reflecting (i) the difference in value of \$3.4 million between the amount paid by our executive officers to SWS for shares of our common stock purchased by them and the value for financial reporting purposes of the shares on December 14, 2001 and (ii) the below market interest rate associated with the loans made by Westwood to the executive officers to enable them to purchase such shares. Total expenses would have been approximately \$11,253,000 and net income would have been approximately \$5,027,000 without the compensation charge.
- (2) Reflects earnings per share based on the actual number of shares of our common stock outstanding on December 31, 2001. Our Board of Directors has approved a stock split in the form of a stock dividend to be effective as of May , 2002 based on a formula that will cause our common stock held by SWS to equal one-fourth the number of shares of SWS common stock outstanding on May , 2002. Were the stock split effective as of April 1, 2002, based on the number of shares of SWS common stock outstanding at that date, earnings per share would have been the following pro forma amounts:

	2001	2000	1999	1998	1997
Earnings per share--					
As reported -- basic..	\$234.68	\$741.45	\$359.90	\$333.34	\$102.51
As reported -- diluted	234.68	741.45	359.90	333.34	102.51
Pro forma -- basic....	0.23	0.74	0.36	0.33	0.10
Pro forma -- diluted..	0.23	0.74	0.36	0.33	0.10

However, excluding the \$4.0 million equity based compensation charge discussed in note (1) above and including an additional \$800,000 of expenses we have estimated we would have incurred in 2001 had we

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been a stand-alone public company, pro forma earnings per share for 2001 would have been \$0.84 on both a basic and diluted basis. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources" for a more detailed discussion of the additional estimated public company-related expenses.

(3) Calculated by dividing, at period end, stockholders' equity less goodwill by the number of common shares outstanding.

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed in the forward looking statements as a result of various factors, including those set forth under "Risk Factors," elsewhere in this information statement. You should read the following discussion and analysis in conjunction with our consolidated financial statements and related notes thereto appearing elsewhere in this document.

##### 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 and foundations, 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. Our revenues are generally derived from fees based on a percentage of assets under management, and at December 31, 2001, Westwood Management and Westwood Trust collectively managed assets valued at approximately \$4.1 billion. We have been providing investment advisory services since 1983 and, according to recognized industry sources, including Morningstar, Inc., when measured over multi-year periods, our principal asset classes have consistently ranked above the median in performance within their peer groups.

##### Revenues



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

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

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

#### Assets Under Management

Assets under management increased \$511 million, or 14.4%, to \$4.1 billion at December 31, 2001, compared with \$3.6 billion at December 31, 2000. The growth in assets under management was principally attributable to assets from new clients. Assets under management increased \$1.2 billion, or 51.8%, to \$3.6 billion at December 31, 2000, compared with \$2.4 billion at December 31, 1999. The growth in assets under management was principally attributable to additional assets from new and existing clients, as well as market appreciation of assets under management.

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	As of December 31, (1) (in millions)			% Change	
	2001	2000	1999	2001 vs. 2000	2000 vs. 1999
<b>Westwood Management Corporation</b>					
Separate Accounts.....	\$2,185	\$1,776	\$1,295	23.0%	37.2%
Subadvisory.....	678	825	316	(17.8)	161.6
Gabelli Westwood Funds.....	501	429	377	16.7	13.8
Managed Accounts.....	119	91	--	31.9	N/A
<b>Total.....</b>	<b>3,483</b>	<b>3,121</b>	<b>1,988</b>	<b>11.6</b>	<b>57.0</b>
<b>Westwood Trust</b>					
Commingled Funds.....	477	353	261	35.1	35.2
Private Accounts.....	77	59	58	30.5	1.7
Agency/Custody Accounts.....	83	68	66	22.1	3.0
<b>Total.....</b>	<b>637</b>	<b>480</b>	<b>385</b>	<b>32.7</b>	<b>24.7</b>
<b>Total Assets Under Management.....</b>	<b>\$4,120</b>	<b>\$3,601</b>	<b>\$2,373</b>	<b>14.4%</b>	<b>51.8%</b>

(1) The above table excludes the SWS cash reserve funds for which Westwood Management serves as investment advisor and Westwood Trust serves as custodian. The SWS cash reserve funds were \$500 million, \$263 million and \$187 million as of December 31, 2001, 2000 and 1999, respectively. This account is noted separately due to its unique nature in our business and because it can experience significant fluctuations on a weekly basis.

Westwood Management. In the above 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. "Gabelli 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 above table, "Commingled Funds" are 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 for a fee, but does not act in an advisory capacity.

Matters Involving SWS Group, Inc.

We were incorporated under the laws of the State of Delaware on December 12, 2001, as a subsidiary of SWS. Our principal assets consist of the capital stock of Westwood Management and Westwood Trust. After the spin-off, we will be an independent public company, with SWS having no continuing ownership interest in us. We have entered into various agreements with SWS that address the allocation of certain rights and obligations and that define our relationship with SWS after the spin-off, including a distribution agreement, a tax separation agreement and a transition services agreement. See "Relationship Between SWS and Westwood After the Spin-off."

On December 14, 2001, SWS sold 1,064,668 shares of Westwood common stock, constituting 19.82% of Westwood's outstanding common stock, to five Westwood executive officers for an aggregate of \$4.1 million, or \$3.85 per share. Westwood's 2001 results of operations include a non-cash compensation expense of \$4.0 million, reflecting (i) the difference in value of \$3.4 million between the amount paid by the executive officers to

SWS for the shares of Westwood common stock and the value for financial reporting purposes of the shares on December 14, 2001 and (ii) the below market interest rate associated with the loans made by Westwood to the executive officers to enable them to purchase such shares. The purchase price for the shares sold by SWS to these executives was premised upon an understanding reached in October 2001 that SWS would sell the shares of Westwood common stock based on their value at September 30, 2001, and was based on a valuation as of September 30, 2001, covering the shares sold, which valuation was delivered to the SWS Board in December 2001 and took into account the fact that the shares represented a minority interest in closely held, non-marketable securities.

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, and reflect our historical financial position, results of operations and cash flows as a part of SWS. The financial information included in this information statement is not necessarily indicative of what our financial position, results of operations or cash flows would have been had we operated as an independent public company during the periods presented, nor is it necessarily indicative of our future performance as an independent public company. Our expenses have been allocated from SWS on the basis of our relative number of employees, relative revenues and other allocation bases. These allocated expenses represent services provided by SWS, including human resources, accounting, internal audit, income tax, legal, insurance and information technology.

#### Results of Operations

The following table and discussion of our results of operations for the fiscal years ended December 31, 2001, 2000 and 1999 is based upon data derived

from the consolidated statements of income contained in the audited consolidated financial statements and should be read in conjunction with these statements, which are included elsewhere in this information statement.

	Years ended December 31, (in thousands)			% Change	
	2001	2000	1999	2001 vs. 2000	2000 vs. 1999
<b>Revenues</b>					
Advisory fees.....	\$14,918	\$12,038	\$ 8,650	23.9%	39.2%
Trust fees.....	3,755	3,079	2,282	22.0	34.9
Other revenues.....	914	1,019	404	(10.3)	152.2
Total revenues.....	19,587	16,136	11,336	21.4	42.3
<b>Expenses</b>					
Employee compensation and benefits..	8,042	6,890	5,345	16.7	28.9
Equity based compensation charge....	3,976	--	--	N/A	N/A
Sales and marketing.....	485	452	425	7.3	6.4
Information technology.....	818	730	748	12.1	(2.4)
Professional services.....	702	281	239	149.8	17.6
General and administrative.....	1,206	1,171	1,176	3.0	(0.4)
Total expenses.....	15,229	9,524	7,933	59.9	20.1
Income before income taxes.....	4,358	6,612	3,403	(34.1)	94.3
Provision for income tax expense.....	3,097	2,628	1,469	17.8	78.9
Net income.....	\$ 1,261	\$ 3,984	\$ 1,934	(68.3)%	106.0%

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

**Total Revenues.** Our total revenues increased by 21.4% to \$19.6 million in 2001 from \$16.1 million in 2000. Advisory fees increased by 23.9% to \$14.9 million in 2001 from \$12.0 million in 2000 primarily as a result of increased assets under management derived from new clients. Trust fees increased by 22% to \$3.8 million in 2001 from \$3.1 million in 2000 primarily due to increased trust assets under management. Other revenues, which generally consists of interest and investment income and consulting fees, decreased by 10.3% to \$914,000 in 2001 from \$1.0 million in 2000. Other revenues decreased primarily as a result of mark-to-market losses on investments.

**Employee Compensation and Benefits.** Employee compensation and benefits costs generally consist of salaries, benefits and incentive compensation. Employee compensation and benefits increased by 16.7% to \$8.0 million in 2001 from \$6.9 million in 2000. This increase resulted primarily from increased incentive compensation, which increase was largely based on growth in income before income taxes (excluding the equity based compensation charge) and also an increase in the number of investment professionals and other personnel.

**Equity Based Compensation Charge.** The \$4.0 million equity based compensation charge in 2001 relates to the sale of a minority interest in Westwood to our executive officers by SWS and reflects (i) the difference in value of \$3.4 million between the amount paid by our executive officers to SWS for shares of our common stock purchased by them and the value for financial reporting purposes of the shares on December 14, 2001 and (ii) the below market interest rate associated with the loans made by Westwood to the executive officers to enable them to purchase such shares.

**Sales and Marketing.** Sales and marketing costs generally consist of costs associated with our marketing efforts, including travel and advertising costs. Sales and marketing costs increased by 7.3% to \$485,000 in 2001 from \$452,000 in 2000. The increase in these expenses is the primarily the result of expanded business development activities.

**Information Technology.** Information technology expenses generally consist

of costs associated with computing hardware and software licenses, maintenance and support, telecommunications, proprietary investment research tools and other related costs. Information technology costs increased by 12.1% to \$818,000 in 2001 from \$730,000 in 2000. The increase in these expenses is primarily due to additional expenditures for new proprietary investment research tools, as well as a dedicated effort to enhance the automation and efficiency of our back office operations.

Professional Services. Professional services expenses generally consist of costs associated with legal, audit and other professional services. Professional services expenses increased by 149.8% to \$702,000 in 2001 from \$281,000 in 2000. The increase in these expenses is primarily the result of legal and accounting costs associated with the spin-off from SWS, as well as legal expenses associated with the Boykin Trust litigation and bankruptcy proceedings. See "Relationship Between SWS and Westwood After the Spin-off -- Distribution Agreement." We expect that our professional services expenses for 2002 will be somewhat higher than our expenses for 2001 largely due to expenses associated with the spin-off, the Boykin Trust matters and other compliance matters related to our being an independent, public company. We anticipate that our professional services expenses for 2003 will approximate or perhaps be somewhat lower than our 2001 professional services expenses.

General and Administrative. General and administrative expenses generally consist of costs associated with the lease of our office space, depreciation and amortization, insurance, office supplies and other miscellaneous expenses. General and administrative expenses increased by 3.0% to \$1.2 million in 2001. The increase in these expenses is primarily the result of increased usage of office supplies and higher custody fees related to our international fund.

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Provision for Income Tax Expense. Provision for income tax expense increased by 17.8% to \$3.1 million in 2001 from \$2.6 million in 2000, reflecting an effective tax rate of 71.1% and 39.7% for 2001 and 2000, respectively. The increase in the effective tax rate resulted from the non-deductibility of most of the equity based compensation charge incurred in 2001.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

Total Revenues. Our total revenues increased by 42.3% to \$16.1 million in 2000 from \$11.3 million in 1999. Advisory fees increased by 39.2% to \$12.0 million in 2000 from \$8.7 million in 1999 primarily as a result of increased assets under management, which in turn was attributable to new assets from new and existing clients as well as market appreciation in assets under management. Trust fees increased by 34.9% to \$3.1 million in 2000 from \$2.3 million in 1999 as a result of increased trust assets under management. Other revenues increased by 152.2% to \$1.0 million in 2000 from \$404,000 in 1999. Other revenues increased primarily as a result of higher interest income and mark-to-market gains on investments.

Employee Compensation and Benefits. Employee compensation and benefits costs increased by 28.9% to \$6.9 million in 2000 from \$5.3 million in 1999. This increase resulted primarily from increased incentive compensation, which increase was largely based on growth in income before income taxes as well as an increase in the number of personnel.

Sales and Marketing. Sales and marketing costs increased by 6.4% to \$452,000 in 2000 from \$425,000 in 1999. The increase in these expenses is the result of expanded business development activities.

Information Technology. Information technology expenses decreased by 2.4% to \$730,000 in 2000 from \$748,000 in 1999. These expenses remained relatively constant year to year.

Professional Services. Professional services expenses increased by 17.6% to \$281,000 in 2000 from \$239,000 in 1999. The increase in these expenses is primarily a function of a higher need for professional services commensurate with the growth in our assets under management and new accounts.

General and Administrative. General and administrative expenses decreased by 0.4% to \$1.2 million in 2000. These expenses remained relatively constant from year to year.

Provision for Income Tax Expense. Provision for income tax expense increased by 78.9% to \$2.6 million in 2000 from \$1.5 million in 1999, reflecting an effective tax rate of 39.7% and 43.2% for 2000 and 1999, respectively. A decrease in the effective tax rate is due to the fact that we were no longer subject to New York state and city income taxes in 2000.

#### Liquidity and Capital Resources

In general, we have not historically relied on SWS to provide us with capital to fund the operations of our business. We have funded our operations and cash requirements with cash generated from operating activities. As a result, we do not believe that the additional expenses associated with the spin-off and our being an independent public company will have a material effect on our liquidity and capital resources in the near term. However, had we been an independent public company in 2001, we estimate that our total expenses would have been approximately \$800,000 higher than those reflected in the consolidated financial statements. The increase in expenses includes, without limitation, increased public company compliance costs, employee compensation, insurance costs, legal expenses, and accounting and payroll costs. The foregoing estimate of higher expenses is not necessarily an accurate measure of what our stand-alone expenses would have been in 2001 or will be in the future, and our expenses could be higher. The costs we actually incur in the future will depend on the market for these services when they are actually purchased and the size and nature of our future operations.

As of December 31, 2001, 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

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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 2001, we generated cash flow from operating activities, principally our investment advisory business, of \$7.3 million. During 2000, we generated \$5.5 million of cash flow from operating activities. At December 31, 2001 and 2000, we had working capital of \$11.2 million and \$10.1 million, respectively.

Cash used in investing activities during 2001 was \$7.4 million, and was primarily related to the investment of excess cash balances. Cash used in investing activities during 2000 was \$1.8 million, and was primarily related to the investment of excess cash balances.

Cash used in financing activities during 2001 was \$4.1 million and was related to the funding of loans used to enable our executive officers to purchase shares of our common stock from SWS. The loans bear interest at the rate of 3.93% per annum, payable annually, with the principal payable at maturity on the ninth anniversary of the date of the loans. There were no financing activities during 2000.

We had cash and money market funds of \$12.1 million at December 31, 2001, as compared to \$9.6 million at December 31, 2000. The increase in our liquidity was principally due to an increase in money market funds of \$6.7 million, offset by a decrease in cash of \$4.1 million. The decrease in cash was primarily due to our funding of loans of \$4.1 million in 2001 to our executive officers to enable them to purchase shares of our common stock from SWS. We had no liabilities for borrowed money at either December 31, 2001 or December 31, 2000, and our accounts payable were paid in the ordinary course of business in both years.

Our future liquidity and capital requirements will depend upon numerous factors. We believe that current cash and short-term investment balances and cash generated from operations will be sufficient to meet the operating and capital requirements of our ordinary business operations through at least the next twelve months. However, there can be no assurance that we will not require additional financing within this time frame. Our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and

uncertainties, and actual results could vary. The failure to raise needed capital on attractive terms, if at all, could have a material adverse effect on our business, financial condition and results of operations.

#### Quantitative and Qualitative Disclosures About Market Risk

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

##### Interest Rate

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 trading purposes. We do not expect our interest income to be significantly affected by a sudden change in market interest rates. However, the value of assets under management is affected by changes in interest rates. 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.

##### Inflation

Most of our revenues are based on the value of assets under management. There is no predictable relationship between the rate of inflation and the value of assets under management, except that inflation may affect interest rates. We do not believe inflation will significantly affect our compensation costs as they are substantially variable in nature. However, inflation may affect our expenses, such as information technology and occupancy costs. To the extent inflation results in rising interest rates and has other effects upon the securities markets, it may adversely affect our results of operations by reducing our assets under management.

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## BUSINESS

### General

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 and foundations, 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. Our revenues are generally derived from fees based on a percentage of assets under management, and at December 31, 2001, Westwood Management and Westwood Trust collectively managed assets valued at approximately \$4.1 billion. We have been providing investment advisory services since 1983 and, according to recognized industry sources, including Morningstar, Inc., when measured over multi-year periods, our principal asset classes have consistently ranked above the median in performance within their peer groups.

The core of our business is dependent on our client relationships. We believe that in addition to investment performance, client service is paramount in the asset management business. As such, a major focus of our business strategy is to continue building strong relationships with clients to better enable us to anticipate their needs and to satisfy their investment objectives. Our team approach ensures efficient, responsive service for our clients. Our future success will depend to a significant degree on both investment performance and our ability to provide responsive client service.

The NYSE has authorized the listing of our common stock on the NYSE under the ticker symbol "WHG." We maintain a website at [www.westwoodgroup.com](http://www.westwoodgroup.com). Information found on our website is not a part of this information statement.

Westwood Management Corporation

### General

Westwood Management provides investment advisory services to large institutions, including corporate pension funds, public retirement plans, endowments, foundations and mutual funds, having at least \$25 million in assets.

Our overall investment philosophy is determined by Susan M. Byrne and, with respect to the bulk of assets under management, is focused on achieving a superior, risk-adjusted return by investing in companies that are positioned for growth but are not fully recognized in the marketplace. This investment approach is designed to preserve capital in unfavorable periods and to provide superior real returns over the long term. Ms. Byrne has worked in the investment arena for more than 30 years. Westwood Management's investment advisory team also includes 15 additional portfolio managers, trading and research professionals, all of whom have substantial investment management experience. The continuity of the team and its years of experience are critical elements in successfully managing investments.

#### Managed Asset Classes

**Asset Management.** We provide clients with a broad range of investment asset classes designed to meet varying investment objectives. This affords our clients the opportunity to meet their investment objective through the use of one management advisor. More than half of our assets under management are invested in our Large Cap Equity asset class, although the portion of assets under management in other asset classes has been growing. The following sets forth the various asset classes currently managed by Westwood Management:

**LargeCap Equity:** Investments in equity securities of approximately 40 well-seasoned companies with market capitalizations generally over \$10 billion. Our strategy for this portfolio is to focus on investing in companies that provide earnings through operational improvements and can be purchased inexpensively.

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**SMidCap Equity:** Investments in equity securities of approximately 35-45 companies with market capitalizations of \$250 million to \$7.5 billion. Similar to the LargeCap Equity asset class, we seek to discover the same kinds of operational improvements but within mid-size companies, which offer attractive risk/return profiles.

**SmallCap Equity:** Investments in approximately 65 growth companies with market capitalizations between \$100 million and \$1.5 billion at the time of purchase. Our approach to growth investing is more conservative than many managers of growth portfolios. We focus on small companies whose earnings are accelerating and are positioned for sustainable future growth.

**Balanced:** Investments in a combination of equity and fixed income securities, which are designed to provide both growth opportunities and income, while also placing emphasis upon asset preservation in "down" markets. Westwood Management applies its expertise in dynamic asset allocation and security selection in carrying out this balanced strategy approach.

**Real Estate Investment Trusts (or REITs):** Investments in the publicly traded equity securities of approximately 50 real estate investment trusts. Our investment process incorporates a quantitative ranking system where each real estate sector and related stocks are evaluated. Westwood Management then makes investment selection based on qualitative research of the top-ranked REITS within our proprietary ranking system.

**Fourth Wave:** Investments in equity securities of approximately 30-50 companies with varying market capitalizations. The fund focuses on identifying innovative companies with the highest potential for revenue and earnings growth. The fund invests in the higher growth segments of the economy, including the technology, healthcare and capital equipment sectors.

**Fixed Income Core/Intermediate Bonds:** Investments in high-grade, intermediate term, corporate and government bonds. We seek to add value to client portfolios through yield curve positioning and investment in improving credit quality.

Each asset class is a portfolio of equity and/or fixed income securities

determined by Westwood Management's portfolio managers to best provide the long term returns consistent with Westwood Management's investment philosophy. Our portfolio managers make decisions for all of Westwood Management's asset classes in accordance with the investment objectives and policies of such classes, including determining when and which securities to purchase and sell.

We employ various strategies, including a value-oriented approach as well as others that are more closely correlated to growth investing, in managing our asset classes. The common thread that permeates through our investment strategies is our focus on a disciplined approach to controlling risk and preserving the core value of the assets under management whenever possible. The LargeCap Equity asset class has a greater emphasis on identifying companies where earnings result from actual operational improvements and not manufactured improvements occurring through financial statement adjustments. Our desire to prevent the loss of the core value of the assets under management is the overriding objective of this strategy, even if the cost is the loss of opportunity for potentially higher earnings. The growth strategy seeks to primarily invest in companies that are leaders in their industry or sector and are worthy of paying a slight premium relative to their growth rate. However, the growth strategy incorporates an element of risk control through investments in steady and stable growth companies, thus controlling downside losses in the total portfolio. Whether through investments in leaders of industry or in companies that provide steady and stable growth, Westwood Management seeks to consistently demonstrate superior performance relative to industry peers and the broad market.

More than two-thirds of our assets under management are invested in equity securities of companies with a large market capitalization. As a consequence, we are particularly susceptible to the volatility associated with changes in the market for large capitalization stocks. Due to this concentration, any change or reduction in such markets, including a shift of Westwood Management clients' and potential clients' preference from investments in equity securities of large capitalization stocks to other equity or fixed income securities could have a significant negative impact on our business.

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When measured over multi-year periods, Westwood Management's principal asset classes have consistently ranked above the median within their peer groups in performance according to recognized industry sources, including Morningstar, Inc. For the ten-year period ending on December 31, 2001, our LargeCap Equity, Balanced and Fixed Income asset classes have ranked in the top quartile in their peer groups. However, it should be noted that when considering the results of 2001 alone, the asset classes comprising the bulk of assets under management performed below the median within their peer groups.

Our assets under management have grown 73.3% from December 31, 1999 through December 31, 2001. Our ability to obtain such growth is a result of our competitive long-term performance record and our strong relationship with consulting firms throughout the nation. We are continually looking for opportunities to expand our asset classes in terms of growing our existing asset classes and developing new portfolios focusing on investment areas that are not currently part of our asset classes under management. We intend to grow our asset classes either internally or by acquiring new asset classes from third parties, as discussed under "--Growth Strategies" below. Our growth strategy not only provides our clients more investment opportunities, but also diversifies our assets under management, thereby reducing our risk in any one area of investment and increasing our competitive ability to attract new clients.

Cash Management. Westwood Management also provides cash management and custodial services for the SWS cash reserve funds. The SWS cash reserve funds totaled \$500 million at December 31, 2001. Westwood Management charges a fee based on the total amount of cash assets under management. Following the spin-off, Westwood Management will continue to provide cash management and custodial services with respect to the SWS cash reserve funds for a term of not less than one year for a fee mutually agreed to by the parties. See "Relationship Between SWS and Westwood After the Spin-off -- Transition Services Agreement."

#### Advisory and Subadvisory Service Agreements

Westwood Management manages accounts of its clients under investment



advisory and subadvisory agreements. These agreements are usually terminable upon short notice and provide for compensation based on the market value of the client's assets under management. Our fees are generally payable in advance on a calendar quarterly basis. Pursuant to these agreements, Westwood Management provides overall investment management services, including providing advice and recommendations concerning investments and reinvestments in conformity with the investment objectives and restrictions posed by the clients. Unless otherwise directed in writing by our client, Westwood Management has the authority to vote all proxies with respect to client's assets.

Westwood Management is also a party to subadvisory agreements with other investment companies under which it performs substantially the same services as it does under its advisory agreements. However, the investment strategy adopted for a particular client is subject to supervision and review by the client. Our fees are computed daily based upon the daily net assets of the client and are payable on a monthly basis. As with our advisory agreements, these agreements are terminable upon short notice.

Under our subadvisory agreement with Gabelli Advisers, Inc., Westwood Management provides investment advisory services to the Gabelli Westwood family of funds. The Gabelli Westwood Equity Fund is a large cap fund with assets consisting of securities valued at approximately \$291 million as of December 31, 2001. As of that date, Morningstar, Inc. awarded the Gabelli Westwood Equity Fund a four star rating. Westwood Management owns shares of Class A Common Stock representing an 18.8% economic interest in Gabelli Advisers, Inc.

Our four largest clients accounted for approximately 22.2% of total revenues for the twelve months ended December 31, 2001, and we are therefore dependent to a significant degree on our ability to maintain our existing relationships with these clients. There can be no assurance that we will be successful in maintaining our existing client relationships or in securing additional clients.

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## Westwood Trust

### General

Westwood Trust provides to institutions and high net worth individuals having at least \$1 million in assets under management trust and custodial services and participation in common trust funds that it sponsors. Westwood Trust seeks to define and improve the risk/return profile of the client's investment portfolio by complementing or enhancing existing investment strategies. Westwood Trust also provides back office services to its clients, including tax reporting, distribution of income to beneficiaries, preparation of trust and account statements and attending to the special needs of particular trusts. Westwood Trust serves as trustee for tax and estate-planning purposes, as well as for special needs trusts. Westwood Trust is chartered and regulated by the Texas Banking Commissioner.

Westwood Trust primarily provides services for employee benefit trusts and personal trusts. Employee benefit trusts include retirement plans of businesses to benefit their employees, such as defined contribution plans, pensions and 401(k) plans. Westwood Trust may be appointed trustee and provide administrative support for these plans, as well as investment advisory and custodial services. Personal trusts are developed to achieve a number of different objectives, and Westwood Trust acts as trustee to these trusts and assists in developing tax advantaged trust portfolios for them. The fees charged by Westwood Trust are separately negotiated with each client and are based on the complexity of the operations of the trust and the amount of assets under management.

### Services

Westwood Trust undertakes a fiduciary responsibility toward the management of each client's financial affairs and utilizes a consultative asset allocation approach. This approach involves Westwood Trust examining the client's financial affairs, including the client's portfolio of investments, and advising the client on ways in which it can enhance its investment returns and financial position. Westwood Trust also provides custodial services, which includes advising clients on the investment and reinvestment of their assets, and providing safekeeping and accounting services.

## Common Trust Funds

Westwood Trust sponsors a number of common trust funds in which we commingle clients' assets to achieve economies of scale. Our common trust funds fall within two basic categories: personal trust and employee benefit trust. We sponsor common trust funds for most of the asset classes managed by Westwood Management. We also engage third party subadvisors to supplement the management services provided by Westwood Management for some of our common trust funds, such as our International Equity and High Yield Bond common trust funds.

## Growth Strategy

We believe that we have established a strong platform to support future growth, deriving our strength in large part from the experience and capabilities of our management team and skilled investment professionals. We believe that assembling this focused, stable team has contributed in large part to our solid investment performance results, quality customer service and a growing array of asset classes under management. Opportunities for our future growth are expected to come from existing and new clients, strategic acquisitions and alliances and the continued strengthening of our brand name.

Generate growth from new and existing clients. As our primary business objective, we intend to maintain and enhance existing client relationships by continuing to provide solid investment performance results and a high level of quality service to existing clients. Additionally, we will pursue growth from new clients through targeted sales and marketing efforts that emphasize our performance results and client services.

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Attract and retain key employees. In order to achieve our client relationship objectives, we must be able to retain and attract talented investment professionals. We believe that we have created a workplace environment in which intense, client-oriented individuals thrive. Following the completion of the spin-off, we will be able to offer to our key employees a compensation program that includes strong equity incentives so that the success of our clients will be closely tied to the success of our key employees. We believe this is a critical ingredient to continuing to build a stable, client-focused environment.

Pursue strategic acquisitions and alliances. While we will not initially seek new alliances, we will evaluate strategic acquisition, joint venture and alliance opportunities over time. We may, in time, have an interest in pursuing asset management firms or trust companies that have assets with respect to which we have expertise or those that appear appropriate as a means of expanding the range of our asset classes. By acquiring investment firms that successfully manage asset classes in which we do not specialize, we could attract new clients and provide our existing clients with a more diversified range of asset classes.

Continue strengthening our brand name. We believe that the strength of our brand name has been a key ingredient to our long-term tenure in the investment industry and will be instrumental to our future success. We have developed our strong brand name largely through high profile coverage in various investment publications and electronic media. In particular, Ms. Byrne enjoys a highly visible presence in print and electronic media, which also enhances our brand name. We will continue to find creative ways to strengthen our brand name, as well as continue our successful marketing practices.

## Competition

We are subject to substantial and growing competition in all aspects of our business. Barriers to entry to the asset management business are relatively low, and our management anticipates that we will face a growing number of competitors. Although no one company dominates the asset management industry, many companies are larger, better known and have greater resources than us.

Further, we compete with other asset management firms on the basis of asset classes offered, the investment performance of those asset classes in absolute terms and relative to peer group performance, quality of service, fees charged, the level and type of compensation offered to key employees, and the manner in which asset classes are marketed. Many of our competitors have more asset classes and services and may also have substantially greater assets under

management.

We compete against an ever-increasing number of investment dealers, banks, insurance companies and others that sell equity funds, taxable income funds, tax-free investments and other investment products. Also, the allocation by many clients of assets away from active equity investment to index funds, fixed income or similar asset classes has enhanced the ability of firms offering non-equity asset classes and passive equity management to effectively compete with us. In short, the competitive landscape in which we operate is both intense and dynamic, and there can be no assurance that we will be able to compete effectively in the future as an independent company.

Additionally, most prospective clients perform a thorough review of an investment manager's background, investment policies and performance before committing assets to that manager. In many cases, prospective clients invite a number of competing firms to make presentations. The process of obtaining a new client typically takes twelve to eighteen months from the time of the initial contact. While we have achieved a degree of success in competing successfully for new clients, it is a process to which we must dedicate significant resources over an extended period, with no certainty of success.

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## Regulation

### Westwood Management

Virtually all aspects of our business are subject to various federal and state laws and regulations. These laws and regulations are primarily intended to protect investment advisory clients and stockholders of registered investment companies. Under such laws and regulations, agencies that regulate investment advisers, such as ourselves, have broad administrative powers, including the power to limit, restrict or prohibit such an adviser from carrying on its business in the event that it fails to comply with such laws and regulations. In such event, the possible sanctions that may be imposed include the suspension of individual employees, limitations on engaging in certain lines of business for specified periods of time, revocation of investment adviser and other registrations, censures and fines. We believe that we are in substantial compliance with all material laws and regulations.

Our business is subject to regulation at both the federal and state level by the SEC and other regulatory bodies. Westwood Management is registered with the Commission under the Investment Advisers Act of 1940 and under the laws of various states. As a registered investment adviser, Westwood Management is regulated and subject to examination by the SEC. The Investment Advisers Act imposes numerous obligations on registered investment advisers, including fiduciary duties, record keeping requirements, operational requirements, marketing requirements and disclosure obligations. Under the rules and regulations of the SEC promulgated pursuant to the federal securities laws, we are subject to periodic examination by the SEC and the National Association of Securities Dealers, Inc. The SEC is authorized to institute proceedings and impose sanctions for violations of the Investment Advisers Act, ranging from censure to termination of an investment adviser's registration. In addition, the NASD, as a self-regulatory organization, is authorized to institute proceedings and impose sanctions against members for violations of its rules and guidelines, which may include censure, suspension, expulsion, limitation of activities, functions and operations, or any other appropriate sanction. The failure of Westwood Management to comply with the requirements of the SEC or the NASD could have a material adverse effect on Westwood. We believe that we are in substantial compliance with the requirements of the regulations under the Investment Advisers Act and with the rules and guidelines established by the NASD.

We derive a substantial amount of our revenues from investment advisory services through our investment management agreements. Under the Investment Advisers Act, our investment management agreements terminate automatically if assigned without the client's consent. Under the Investment Company Act, advisory agreements with registered investment companies, such as the mutual funds for which we act as subadvisor, terminate automatically upon assignment. The term "assignment" is broadly defined and includes direct assignments as well as assignments that may be deemed to occur, under certain circumstances, upon the transfer, directly or indirectly, of a controlling interest in us or Westwood Management. We do not believe that the spin-off will constitute an

assignment under any such investment management or advisory agreements.

Various regulations also cover certain investment strategies that may be used by Westwood Management for hedging purposes. To the extent that Westwood Management purchases futures contracts, Westwood Management may be subject to the commodities and futures regulations of the Commodity Futures Trading Commission.

#### Westwood Trust

Westwood Trust also operates in a highly regulated environment and is subject to extensive supervision and examination. As a Texas chartered trust company, Westwood Trust is subject to the Texas Finance Code, the rules and regulations promulgated under that act and supervision by the Texas Banking Commissioner. These laws are intended primarily for the protection of Westwood Trust's clients and creditors, rather than for the benefit of investors. The Finance Code provides for and regulates a variety of matters, such as:

- . minimum capital maintenance requirements;
- . restrictions on dividends;

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- . restrictions on investments of restricted capital;
- . lending and borrowing limitations;
- . prohibitions against engaging in certain activities;
- . periodic examinations by the office of the Commissioner;
- . furnishing periodic financial statements to the Commissioner;
- . fiduciary record-keeping requirements;
- . bonding requirements for the protection of clients; and
- . prior regulatory approval for certain corporate events (for example, mergers, sale/purchase of all or substantially all of the assets and transactions transferring control of a trust company).

The Finance Code also gives the Commissioner broad regulatory powers (including penalties and civil and administrative actions) if the trust company violates certain provisions of the Finance Code or conservatorship or closure if Westwood Trust is determined to be in a "hazardous condition" (as the law defines that term).

As required by the Finance Code, Westwood Trust maintains minimum restricted capital of \$1 million; however, the Finance Code permits the Commissioner to require trust companies on a case-by case basis to maintain additional capital. In addition, under Texas law, Westwood Trust generally cannot have liabilities, which exceed five times its restricted capital. At December 31, 2001, Westwood Trust had total liabilities of approximately \$552,000.

Westwood Trust is limited by the Finance Code in the payment of dividends to undivided profits: that part of equity capital equal to the balance of net profits, income, gains, and losses since its formation date minus subsequent distributions to stockholders and transfers to surplus or capital under share dividends or appropriate Board resolutions. At December 31, 2001, Westwood Trust had undivided profits of approximately \$385,000.

We are subject to the Employee Retirement Income Security Act of 1974, as amended, and to the related regulations, insofar we are a "fiduciary" under ERISA with respect to some of our clients. ERISA and applicable provisions of the Code impose certain duties on persons who are fiduciaries under ERISA or who provide services to ERISA plan clients and prohibit certain transactions involving ERISA plan clients. Our failure to comply with these requirements could have a material adverse effect on us.

#### Employees

At December 31, 2001, we had 42 full-time employees, 16 of whom are

portfolio managers, trading and research professionals, 13 of whom are marketing and client service professionals and 13 of whom are administrative and reporting personnel. None of our employees are represented by a labor union, and we consider our employee relations to be good.

Properties

We conduct our principal operations through a leased property with approximately 13,500 square feet located in Dallas, Texas. The lease agreement expires in July 2004. We believe that our facilities are adequate to serve our currently anticipated business needs.

Legal Proceedings

We are subject from time to time to certain claims and legal proceedings arising in the ordinary course of our business.

MANAGEMENT

The following table sets forth information regarding our current executive officers and directors. We currently have five directors. Each of the directors below has been elected to serve until the next annual meeting of stockholders and his or her successor has been elected and has been qualified, or until the director's earlier death, resignation or removal.

Name ----	Age ---	Principal Position -----
Susan M. Byrne.....	55	Chairman of the Board of Directors, Chief Executive Officer, Treasurer and Director
Brian O. Casey.....	39	President, Chief Operating Officer, Secretary and Director
Patricia R. Frazee.....	58	Executive Vice President and Director of Westwood Management and Director of Westwood Trust
Lynda J. Calkin.....	50	Senior Vice President and Director of Westwood Management
Joyce A. Schaer.....	36	Senior Vice President and Director of Westwood Management
Frederick R. Meyer (1) (2).....	74	Director
Jon L. Mosle, Jr. (1) (2).....	72	Director
Raymond E. Wooldridge (1).....	63	Director

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 (1) Audit committee member.  
 (2) Compensation committee member; it is expected that Mr. Wooldridge will become a member of the compensation committee after the spin-off.

Susan M. Byrne has served as Chairman of the Board of Directors, Chief Executive Officer and director of Westwood since its inception in December 2001. Ms. Byrne is the founder of Westwood Management and has served as its Chairman of the Board, President and Chief Investment Officer since 1983. She served as a director of Westwood Trust from 1996 to 1999. Ms. Byrne serves as a member of the Board of the University of Texas Investment Management Company. She also serves as the Vice-chair of the Board of Trustees for the City of Dallas Employees Retirement Fund and Chair of the Investment Committee for The First Presbyterian Church of Dallas Foundation.

Brian O. Casey has served as President, Chief Operating Officer and director of Westwood since its inception in December 2001. Mr. Casey has served as

Executive Vice President and Chief Operating Officer of Westwood Management since 2000 and as the President and as a director of Westwood Trust since 1996. Prior to his appointment to those positions, Mr. Casey served as the Vice President of Marketing and Client Services of Westwood Management from 1992 to 1996.

Patricia R. Frazee has served as Executive Vice President of Westwood Management since 1995 and as Director, Client Services, since 2000. Ms. Frazee serves as a director of Westwood Management and Westwood Trust. Ms. Frazee joined Westwood in 1990 as Vice President and fixed income analyst and subsequently served as Portfolio Manager for fixed income and balanced portfolios. Prior to joining Westwood, Ms. Frazee was Vice President, Portfolio Strategies and Fixed Income Research at Drexel Burnham Lambert and also spent twenty-two years in mathematics education at both the secondary and graduate level.

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Lynda J. Calkin, CFA, has served as Senior Vice President and Portfolio Manager for Westwood Management since 1993. Ms. Calkin serves as a director of Westwood Management. Prior to joining Westwood, Ms. Calkin was a Vice President and Portfolio Manager at Hourglass Capital Management from 1989 to 1993. Ms. Calkin also served as an equity analyst at MSecurities from 1984 to 1989.

Joyce A. Schaer has served as Director of Marketing for Westwood Management since 1997 and was promoted to Senior Vice President in 2000. Ms. Schaer serves as a director of Westwood Management. Ms. Schaer has held other marketing positions at Westwood including Vice President-Marketing for the Eastern Region of the United States from 1994 to 1996. Ms. Schaer joined the firm in 1989 and has held various positions in the trading, portfolio management and client services areas.

Frederick R. Meyer has served as a director of Westwood since its inception in December 2001. He has served as a director of SWS since 1991. Since 1985, he has served as the Chairman of the Board of Aladdin Industries, LLC, a diversified company. He served as Aladdin Industries, LLC's President between 1987 and 1994 and as its Chief Executive Officer from 1995 to January 1999 and again from November 2000 to present. He also served as President and Chief Operating Officer of Tyler Corporation, a diversified manufacturing corporation, from 1983 to 1986 and acted as a consultant to Tyler Corporation from 1986 to 1989. He currently serves as a director of Aladdin Industries, LLC and Palm Harbor Homes, Inc., a marketer of manufactured homes.

Jon L. Mosle, Jr. has served as a director of Westwood since its inception in December 2001. He has served as director of SWS since 1991. He served as Director of Private Capital Management for Ameritrust Texas Corporation from 1984 to 1992. From 1954 to 1984, he was affiliated with Rotan Mosle, Inc., a regional NYSE member firm, which was acquired by PaineWebber Incorporated in 1983. His roles at Rotan Mosle, Inc. included supervisory responsibility for both over-the-counter trading and municipal departments, as well as participating in corporate finance activities. He served as branch manager, regional manager, Vice Chairman of the Board and member of Rotan Mosle, Inc.'s operating committee.

Raymond E. Wooldridge has served as a director of Westwood since its inception in December 2001. He is a director of CEC Entertainment, Inc., a Dallas-based NYSE company that operates a chain of pizza and children's entertainment restaurants, D. A. Davidson & Company, Inc., an investment firm located in the Pacific Northwest, and its subsidiary Davidson Trust Company, and Security Bank, a Texas-based regional bank. From 1986 to 1999, he was a director of SWS; from 1996 to 1999, he served as the Vice Chairman and Chairman of the Executive Committee of SWS; from 1993 to 1996, he served as Chief Executive Officer of SWS; and from 1986 to 1993, he served as President and Chief Operating Officer of SWS. He is a past Chairman of the National Securities Clearing Corporation, a national clearing agency registered with the SEC and past Vice Chairman of the Board of Governors of the National Association of Securities Dealers.

#### Board Committees

We have established two committees of the Board of Directors--an audit committee and a compensation committee. The Board of Directors may also establish such other committees as it deems appropriate, in accordance with

applicable Delaware law and our Bylaws.

Audit Committee. The audit committee operates pursuant to a charter approved by our Board of Directors, which the audit committee reviews annually to determine if revisions are necessary or appropriate. The audit committee oversees the preparation of our financial statements and our independent auditors. The audit committee considers and recommends the employment of an independent accounting firm to conduct the annual audit, determines the independence of our independent accountants and recommends actions to our Board of Directors to ensure their independence. The audit committee is responsible for reviewing reports from our management and internal auditors relating to our financial condition and other matters that may have a material impact on our financial statements and compliance policies. The audit committee is also responsible for inquiring of our management and independent auditors regarding the appropriateness of the accounting principles we

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follow, changes in accounting principles and their impact on our financial statements and reviewing the internal audit program in terms of scope of audits conducted or scheduled to be conducted. The audit committee is responsible for preparing a report stating among other things whether our audited financial statements be included in our Annual Report.

Compensation Committee. The compensation committee authorizes and determines all salaries for our officers and supervisory employees, administers our incentive compensation plans in accordance with the powers and authority granted in such plans, determines any incentive allowances to be made to our officers and staff, administers all of our stock option plans and other equity ownership, compensation, retirement and benefit plans, approves the performance-based compensation of individuals pursuant to Code Section 162(m) and administers other matters relating to compensation or benefits.

#### Director Compensation

Each non-employee member of our Board of Directors shall receive \$1,500 for each meeting of the Board of Directors attended by the member, up to a maximum of \$6,000 per year. Each non-employee member of our Board of Directors shall receive an additional \$2,500 per year if the member serves on one or more committees of our Board of Directors. Additionally, shortly following the spin-off and upon each date of election or reelection as a member of our Board of Directors, each non-employee director shall be awarded non-statutory stock options for 2,500 shares of our common stock, which shall vest at the expiration of twelve months from the date of grant and shall have a term of ten years. See "Compensation of Executive Officers--Westwood Stock Incentive Plan--Options to Non-Employee Directors." We will review our compensation arrangement for directors from time to time.

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#### Compensation of Executive Officers

The following compensation table sets forth the compensation paid by SWS to our Chief Executive Officer and our four mostly highly compensated executive officers during the year ending December 31, 2001. References to "restricted stock" and "stock options" mean restricted shares of SWS common stock and options to purchase SWS common stock.

The compensation described below does not reflect the compensation such executive officers will receive following the spin-off. Our compensation committee determines the annual base salaries of, and annual and long-term incentive opportunities for, our executive officers.

#### Summary Compensation Table

Name and Principal Position	Annual Compensation		Long-Term Compensation		
	Year	Salary (\$)	Bonus (\$)(1)	Awards	
				Securities Underlying Options (#)	All Other Compensation (\$)(2)
Susan M. Byrne..... Chief Executive Officer and Treasurer	2001	496,000	1,500,000	8,000	22,100
Brian O. Casey..... President, Chief Operating Officer and Secretary	2001	236,500	550,000	7,000	22,100
Patricia R. Frazee..... Executive Vice President of Westwood Management and Director of Westwood Trust	2001	192,500	275,000	2,000	22,100
Lynda J. Calkin..... Senior Vice President of Westwood Management	2001	215,000	300,000	1,500	22,100
Joyce A. Schaer..... Senior Vice President of Westwood Management	2001	180,000	315,000	3,000	17,000

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- (1) The bonuses reflect amounts accrued in 2001, but actually paid to each executive officer in 2002.
- (2) Includes SWS's annual profit sharing contributions and 401(k) matching contributions to the SWS 401(k) Plan.

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#### Stock Options

Options Granted in Last Year. The following table sets forth information regarding options to acquire SWS common stock that SWS granted to the executive officers for the year ended December 31, 2001.

Name	Number of Securities Underlying Options/ SARs Granted (#)	% of Total Options/ SARs Granted to Employees in Year	Exercise Price (\$/Share)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(1)	
					5%	10%
Susan M. Byrne.....	8,000	2.0%	\$18.99	9/10/11	\$95,542	\$242,121
Brian O. Casey.....	7,000	1.8%	\$18.99	9/10/11	\$83,599	\$211,856
Patricia R. Frazee...	2,000	*	\$18.99	9/10/11	\$23,885	\$ 60,530
Lynda J. Calkin.....	1,500	*	\$18.99	9/10/11	\$17,914	\$ 45,398
Joyce A. Schaer.....	3,000	*	\$18.99	9/10/11	\$35,828	\$ 90,796

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\* Less than 1%

- (1) Pursuant to the rules promulgated by the SEC, the amounts under these columns reflect calculations at assumed 5% and 10% appreciation rates and, therefore, are not intended to forecast further appreciation, if any, of the respective underlying common stock. The potential realizable value to the optionees was computed as the difference between the appreciated value at the expiration date of the stock options of the applicable underlying common stock obtainable upon exercise of such stock options over the aggregate exercise price of such stock options.

Aggregated Option Exercises in Last Year and Year End Option Values. The following table sets forth information concerning the exercise of SWS stock options during the year ended December 31, 2001 by the executive officers and the number and aggregate value of unexercised in-the-money options for SWS's stock options at December 31, 2001. The actual amount, if any, realized on



exercise of stock options will depend on the amount by which the market price of our common stock on the date of exercise exceeds the exercise price, as adjusted. The actual value realized on the exercise of unexercised in-the-money stock options (whether exercisable or unexercisable) may be higher or lower than the values reflected in this table. In connection with the spin-off, these options will become fully vested at the time of the spin-off, and Westwood will be substituted for SWS as the employer. In addition, to the extent that SWS makes any adjustments to its outstanding options as a result of the spin-off, similar adjustments will be made to the SWS options held by Westwood employees. See "Relationship Between SWS and Westwood After the Spin-off--Distribution Agreement--Employee Benefits."

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options/ SARs at Year End		Value of Unexercised In-The-Money Options/SARs at Year-End (\$) (1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Susan M. Byrne...	--	--	11,601	14,582	\$77,832	\$63,545
Brian O. Casey...	--	--	8,391	12,701	\$52,886	\$55,399
Patricia R. Frazee	--	--	4,981	4,850	\$33,155	\$18,004
Lynda J. Calkin..	--	--	6,689	5,438	\$44,227	\$16,471
Joyce A. Schaer..	--	--	5,989	6,938	\$38,245	\$16,471

(1) Values are stated based upon the closing price of \$25.45 per share of SWS common stock on the NYSE on December 31, 2001, the last trading day of 2001.

#### Compensatory Plans and Arrangements

Prior to and in connection with the spin-off, we will enter into a distribution agreement with SWS, which will include provisions relating to employee matters as summarized above in "Relationship between SWS and Westwood After the Spin-off--Distribution Agreement--Employee Benefits." Summarized below are certain benefit arrangements, other than arrangements applicable to all employees generally, that have been established for the benefit of our directors, executive officers and employees following the spin-off.

**Westwood Stock Incentive Plan.** We recently adopted the Westwood Holdings Group, Inc. Stock Incentive Plan. We believe that the stock incentive plan will encourage eligible participants, through their individual efforts, to improve our overall performance and to promote profitability by providing them an opportunity to participate in the increased value they help create. There will be approximately 948,100 shares of our common stock reserved for issuance under the stock incentive plan. Our officers, directors, employees and consultants are eligible to receive awards under the stock incentive plan, which is administered by the compensation committee of our Board of Directors. Our Board of Directors may terminate or amend the stock incentive plan at any time without stockholder approval, provided that no termination or amendment of the stock incentive plan shall adversely affect any then outstanding option, purchase right or other award without the consent of the holder, unless such termination or amendment is required to enable an option designated as an incentive stock option to qualify as an incentive stock option or is necessary to comply with any applicable law, regulation or rule. The stock incentive plan will terminate in 2012 unless terminated earlier by our Board of Directors.

**Options.** Options granted under the stock incentive plan may be in the form of incentive stock options (as defined under Section 422 of the Code) or non-statutory stock options. Only our employees are eligible to receive incentive stock options. In general, all options granted under the stock incentive plan will lapse no more than ten years from the date of grant (five years in the case of an incentive stock option granted to a 10% stockholder of us or one of our subsidiaries). The exercise price of any option will be determined by the compensation committee at the time the option is granted and will not be less than 100% of the fair market value per share of our common stock on the date the option is granted (110% in the case of an incentive stock

option granted to a 10% stockholder of us or one of our subsidiaries). The aggregate fair market value on the date of grant of the common stock for which incentive stock options are exercisable by an optionee during any calendar year may not exceed \$100,000. Any options granted pursuant to the terms of the stock incentive plan shall be evidenced by an option agreement specifying the number of shares of our stock covered thereby and other terms and conditions as are determined by the compensation committee.

Shortly following the completion of the spin-off, the compensation committee of our Board of Directors expects to award options covering approximately 200,000 to 250,000 shares of our common stock at an exercise price equal to the closing price per share as reported by the NYSE on the date of grant. These options will vest over four years with the initial portion of such options vesting one year after the date of grant.

Options to Non-Employee Directors. Pursuant to the stock incentive plan, each of our non-employee directors shall, shortly after the date of the spin-off and on the date of election or re-election as a member of our Board of Directors, be granted a non-statutory stock option for 2,500 shares of our common stock at an exercise price equal to the closing price per share as reported by the NYSE on the date of grant, in the case of the initial directors, and on the date of election or reelection, in the case of any new or reelected director subsequent to the spin-off. Each non-statutory stock option granted to our non-employee directors shall vest at the expiration of twelve months from the date of the grant and shall have a term of ten years. Expiration of a non-employee director's term of office shall not affect a non-employee director's right to exercise its option to the extent such option is vested at any time prior to the expiration of the director's term.

Restricted Stock Awards. The compensation committee of our Board of Directors may also make awards of restricted shares of our stock. The vesting and number of restricted shares of our stock may be conditioned upon the lapse of time or the satisfaction of other factors determined by the compensation

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committee. The recipient of restricted shares will generally have the rights and privileges of a stockholder with respect to the right to receive dividends and the right to vote the shares. None of the restricted shares may be sold, transferred or pledged during the restricted period, and all restricted shares shall be forfeited, and all rights to the shares will terminate, if the recipient ceases to be an employee, consultant or director of us or any of our subsidiaries before the expiration or termination of the restricted period and satisfaction of any other conditions prescribed by us with respect to the shares.

Purchase Rights. The compensation committee of our Board of Directors may also make awards of stock purchase rights, which entitle the holder to purchase a specified number of shares of our common stock during the period of time, and subject to the terms and conditions, as the compensation committee determines. Each award of purchase rights may have a different exercise period or periods, shall specify the method of payment (which may include promissory notes) to purchase our stock and shall set forth any repurchase rights or calls applicable to the purchased stock.

Annual Incentive Awards. The compensation committee of our Board of Directors may also grant annual incentive awards of stock, cash or any combination of stock and cash, to our employees, in such amounts and subject to such terms and conditions as the compensation committee may determine. The compensation committee shall establish the maximum level of annual incentive awards that may be granted for each year. Within 90 days after the commencement of each year, the compensation committee shall determine which employees shall be eligible to receive an annual incentive award for such year and determine an objective formula for computing the annual incentive award for such year based upon the attainment of various performance goals. The committee may, in its sole discretion, reduce, but not increase, the annual incentive award payable to any participating employee during a year.

Performance-Based Awards. The compensation committee of our Board of

Directors may also grant performance-based awards of the right, expressed in units, to receive stock, cash or any combination of stock and cash, to eligible officers or other key employees as determined by the compensation committee in its sole discretion. At the time of each grant of a performance-based award, the compensation committee shall establish an objective formula for computing the award based upon the attainment of various performance goals over a performance cycle of at least one year. Performance goals may include minimum, maximum and target levels of performance, with the size of the award based on the level of performance attained. The number of shares of stock and/or the amount of cash payable in settlement of a performance-based award shall be determined by the committee at the end of the performance cycle. The compensation committee may, in its discretion, eliminate or reduce the amount of any performance-based award that otherwise would be payable to a participating officer or other employee unless the participant has a vested right under applicable employment law to receive the full performance-based award. Performance-based awards may be made alone, or in addition to, other grants and awards under the stock incentive plan.

Westwood Deferred Compensation Plan. Recently, we adopted the Westwood Holdings Group, Inc. Deferred Compensation Plan. We believe that the deferred compensation plan will increase retention of our executive officers and senior management as well as increase stock ownership among participants in the deferred compensation plan. Under its terms, the deferred compensation plan allows eligible employees to defer a certain portion of each bonus and to invest such amounts in various investment alternatives including our stock. We match a portion of the deferrals in cash, which will equal 25% of the eligible employee's annual deferral amount, but will not exceed \$10,000. Our compensation committee believes that programs such as the deferred compensation plan will further align the executive officers' long-term financial and strategic interests with those of our stockholders. Our employees who participated in the SWS Deferred Compensation Plan will have their account balances under the SWS Deferred Compensation Plan transferred to the Westwood Deferred Compensation Plan without forfeiting any portion of their existing account balance.

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#### Compensation Committee Interlocks and Insider Participation

No member of our compensation committee is a current or former officer or employee of Westwood or its subsidiaries or has had a relationship requiring disclosure by Westwood under applicable federal securities regulations. No executive officer of Westwood served as a director or member of the compensation committee of any entity that has one or more executive officers serving as a member of our Board of Directors or compensation committee.

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#### PRINCIPAL STOCKHOLDERS

On December 14, 2001, we issued to SWS 5,372,310 shares of our common stock, and on that same date SWS sold 1,064,668 shares of our common stock to our executive officers. To the extent our executive officers or directors own shares of SWS common stock at the time of the spin-off, they will share in the spin-off on the same terms as other holders of SWS common stock.

The following table sets forth the number of shares of SWS common stock and Westwood common stock that is beneficially owned as of April 1, 2002 and the approximate number and percentage of shares of Westwood common stock that will be beneficially owned immediately following the spin-off date, based on the number of outstanding shares of SWS common stock as of April 1, 2002, the assumed stock split ratio of our common stock and a distribution of one share of our common stock for every four shares of SWS common stock as of the record date, by each of our executive officers and directors, individually and as a group. As a result of the application of the foregoing assumptions, we would expect to have an estimated 5,372,310 shares of our common stock outstanding

immediately after completion of the spin-off, although the actual number of shares that will be outstanding will not be determinable until the record date. Except as otherwise noted, each person and entity named in the tables below has sole voting and investment power with respect to all shares of our common stock beneficially owned.

Name	Number of Shares of SWS Common Stock Owned on April 1, 2002(1)	Number of Shares of Westwood Common Stock Owned on April 1, 2002	Number of Shares of Westwood Common Stock Owned After the Spin-off(1)	Percentage of Westwood Common Stock Owned After the Spin-off
SWS Group, Inc.....	--	4,307,642	--	--
Susan M. Byrne.....	166,922(2)	719,774	754,958	14.1%
Brian O. Casey.....	22,542(3)	239,925	240,287	4.5%
Patricia R. Frazee....	24,332(4)	24,993	28,618	*
Lynda J. Calkin.....	14,725(5)	39,988	40,637	*
Joyce A. Schaer.....	13,229(6)	39,988	40,063	*
Frederick R. Meyer....	78,999(7)	--	17,230	*
Jon L. Mosle, Jr.....	28,038(8)	--	4,490	*
Raymond E. Wooldridge.	69,616	--	17,404	*
Executive officers and directors as a group (8 persons).....	418,403(9)	1,064,668	1,143,687	21.3%

\* less than 1%

- (1) Includes shares subject to options that may be acquired within 60 days after completion of the spin-off. Such shares are deemed to be outstanding and to be beneficially owned by the person or group holding the options for the purpose of computing the percentage ownership of such person or group, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person or group.
- (2) Includes 26,183 shares of SWS common stock issuable upon exercise of stock options.
- (3) Includes 21,092 shares of SWS common stock issuable upon exercise of stock options.
- (4) Includes 9,831 shares of SWS common stock issuable upon exercise of stock options.
- (5) Includes 12,127 shares of SWS common stock issuable upon exercise of stock options.
- (6) Includes 12,927 shares of SWS common stock issuable upon exercise of stock options.
- (7) Includes 10,077 shares of SWS common stock issuable upon exercise of stock options.
- (8) Includes 10,077 shares of SWS common stock issuable upon exercise of stock options.
- (9) Includes 102,314 shares of SWS common stock issuable upon exercise of stock options.

The following table sets forth, to our knowledge, based on their current reported ownership of SWS common stock, the number and percentage of shares of Westwood common stock that will be owned immediately following the spin-off date by each person (other than executive officers and directors) who will

beneficially own 5% or more of Westwood common stock.

Number of Shares of SWS Common Stock Owned on	Number of Shares of Westwood Common Stock Owned After	Percentage of Westwood Common Stock Owned After
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Name	December 31, 2001	the Spin-off	the Spin-off
Don A. Buchholz..... 1201 Elm Street, Suite 3500 Dallas, Texas 75270	1,655,957(1)	413,989	7.7%
Martin J. Whitman..... 767 Third Avenue New York, NY 10017-2023	1,346,654(2)	336,663	6.3%
EQSF Advisers, Inc..... 767 Third Avenue New York, NY 10017-2023	1,235,050(2)	308,762	5.7%

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- (1) Includes 999,247 shares held by Buchholz Arlington Bانشares, Ltd. and 550,000 shares owned by Buchholz Family Holdings, Ltd. Excludes 64,409 shares held by Buchholz Investments, which is a general partnership, the partners of which are Don A. Buchholz, his wife, adult son and adult daughter. Pursuant to the terms of the partnership agreement governing Buchholz Investments, Mr. Buchholz's adult son has voting power and investment power with regard to the shares owned by the partnership. The partnership agreement also provides that any partner may withdraw from the partnership upon 30 days' notice and, unless the partnership is liquidated, that partner shall receive the value of his or her capital account. Don A. Buchholz and his wife own one-third of Buchholz Investments.
- (2) This information is based on a Schedule 13G filing made with the SEC on January 17, 2002. Includes 1,235,050 shares owned by EQSF Advisers, Inc. and 111,604 shares owned by M. J. Whitman Advisers, Inc., both of which are controlled by Martin J. Whitman. Mr. Whitman is the Chief Executive Officer of EQSF Advisers, Inc. and the Chief Investment Officer of M. J. Whitman Advisers, Inc. Mr. Whitman disclaims beneficial ownership of all shares.

#### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On December 14, 2001, we issued to SWS 5,372,310 shares of our common stock, and on that same date, SWS sold 1,064,668 shares of the Westwood common stock to our executive officers for an aggregate of \$4.1 million, or \$3.85 per share, pursuant to a stock purchase agreement. The purchase price for the shares sold by SWS to our executive officers was premised upon an understanding reached in October 2001 that SWS would sell the shares of Westwood common stock based on their value at September 30, 2001, and was based on a valuation as of September 30, 2001, covering the shares sold, which valuation was delivered to the SWS Board in December 2001 and took into account the fact that the shares represented a minority interest in closely held, non-marketable securities. The issuance of shares to SWS and the resale of those shares to the executive officers were effected in reliance on private placement exemptions from the registration requirements of the Securities Act.

Each executive officer received a loan from us pursuant to a promissory note to pay for their shares of our common stock purchased from SWS. The loans totalled \$4.1 million and are full recourse loans, secured by a pledge of the shares purchased by each executive officer. The loans can be fully or partially prepaid, and in the event of a partial prepayment, the number of shares subject to the related pledge would be released on a pro rata basis. The loans bear interest at the rate of 3.93% per annum, payable annually, with the principal payable at maturity on the ninth anniversary of the date of the loans. If an executive officer's employment is terminated for cause, or an executive officer terminates his or her employment without good reason, his or her loan will accelerate and become payable in full within 90 days following termination of employment.

The table below identifies each executive officer who purchased shares of Westwood common stock from SWS, the number of shares each executive officer purchased and the amount of the promissory note executed by each executive officer.

Name of Executive Officer No. of Shares Purchased from SWS Amount of Promissory Note

Susan M. Byrne	719,774	\$2,766,960
Brian O. Casey	239,925	\$ 922,320
Patricia R. Frazee	24,993	\$ 96,075
Lynda J. Calkin	39,988	\$ 153,720
Joyce A. Schaer	39,988	\$ 153,720

We have managed the SWS cash reserve funds since 1993 and have served as trustee of the SWS Deferred Compensation Plan since 1999. We charge SWS a fee based on assets under management. In the years ended December 31, 2001, 2000 and 1999, SWS has paid to us advisory and trustee fees in the amount of approximately \$675,000, \$496,000 and \$378,000, respectively. Following the spin-off, we will continue to manage the cash reserve funds for SWS for a period of at least one year. In addition, SWS will provide us with certain transitional services on a limited basis pursuant to various agreements. See "Relationship Between SWS and Westwood After the Spin-off."

All future material transactions involving affiliated parties will be subject to approval by a majority of Westwood's disinterested directors.

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#### DESCRIPTION OF CAPITAL STOCK

##### Introduction

We have amended and restated our Certificate of Incorporation and Bylaws, and the following descriptions of our common stock assume that such Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation") and Amended and Restated Bylaws (the "Bylaws") are fully in effect.

Our authorized capital stock consists of 10,000,000 million shares of common stock, \$0.01 par value per share, and 1,000,000 million shares of preferred stock, \$0.01 par value per share. On May , 2002, we will effect a stock split in the form of a stock dividend of our common stock in order to provide a sufficient number of shares for the spin-off. The stock split ratio will be based on the distribution ratio and the number of SWS shares outstanding on the record date. Based on the assumed stock split ratio, on the spin-off date and following the distribution of our common stock held by SWS to its stockholders, we will have an estimated 5,372,310 shares of our common stock outstanding and approximately 150 holders of record. No shares of our preferred stock are currently outstanding.

The following description of our capital stock is intended as a summary and is qualified in its entirety by reference to our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws filed as exhibits to the registration statement on Form 10, of which this information statement forms a part, and to Delaware corporate law.

##### Common Stock

##### Voting Rights

The holders of our common stock are entitled to one vote per share on all matters to be voted on by stockholders. Holders of our common stock are not entitled to cumulate their votes in the election of directors. Generally, all matters on which stockholders vote must be approved by a majority of the votes entitled to be cast by all shares of common stock present in person or represented by proxy, subject to any voting rights granted to holders of any

preferred stock. Except as otherwise provided by law, and subject to any voting rights granted to holders of any outstanding preferred stock, amendments to our Certificate of Incorporation must be approved by holders of a majority of all outstanding shares of common stock.

#### Dividends

Holders of common stock will share ratably in any dividend declared by our Board of Directors, subject to any preferential rights of any outstanding preferred stock.

#### Other Rights

In the event of any merger or consolidation of Westwood with or into another company in connection with which shares of common stock are converted into or exchangeable for shares of stock, other securities or property (including cash), all holders of common stock will be entitled to receive the same kind and amount of shares of stock and other securities and property (including cash).

If we are liquidated, dissolved or wound up, we will pay the full amounts required to be paid to holders of shares of any outstanding preferred stock before we make any payments to holders of shares of our common stock. All holders of shares of our common stock are entitled to share ratably in any assets available for distribution to these holders, after all of our other creditors have been satisfied.

No shares of our common stock may be redeemed. Holders of shares of our common stock do not have any preemptive rights to purchase additional shares of our common stock.

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#### Preferred Stock

We may issue up to 1,000,000 shares of preferred stock in one or more classes or series and with the terms of each class or series stated in our Board of Director's resolutions providing for the designation and issue of that class or series. Our Certificate of Incorporation authorizes our Board of Directors to determine the dividend, voting, conversion, redemption and liquidation preferences, rights, privileges and limitations pertaining to each class or series of preferred stock that we issue.

We believe that the ability of our Board of Directors to issue one or more series of our preferred stock will provide us with flexibility in structuring possible future financings and acquisitions, and in meeting other corporate needs which might arise. The authorized shares of our preferred stock, as well as authorized shares of our common stock, will be available for issuance without further action by our stockholders, unless such action is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. The NYSE currently requires stockholder approval in several instances, including where the present or potential issuance of shares could result in an increase in the number of shares of common stock, or in the amount of voting securities, outstanding of at least 20%. If the approval of our stockholders is not required for the issuance of shares of our preferred stock or our common stock, our Board of Directors may determine not to seek stockholder approval.

#### Provisions That May Have an Anti-Takeover Effect

Some provisions of our Certificate of Incorporation, Bylaws and the tax separation agreement summarized below may be deemed to have an anti-takeover effect and may delay, deter or prevent a tender offer or takeover attempt that some, or a majority, of our stockholders might believe to be in their best interests or in which stockholders might receive a premium for their stock over the then-current market price of such stock.

Board of Directors. Our Bylaws provide that, subject to any rights of holders of preferred stock to elect additional directors under specified circumstances, the number of directors of Westwood shall be fixed from time to time by resolution adopted by the affirmative vote of a majority of the Board

of Directors or pursuant to the action of the stockholders and shall not be less than three nor more than eleven. In addition, our Certificate of Incorporation and Bylaws provide that newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, disqualification or removal may be filled only by a majority vote of the directors then in office. Our Certificate of Incorporation provides that directors may be removed only for cause upon the vote of at least two-thirds of the securities entitled to vote in the election of directors.

No Stockholder Action by Written Consent; Limitations on Calling Special Meetings. Our Certificate of Incorporation and Bylaws also provide that all actions taken by stockholders must be taken at an annual or special meeting of stockholders and that stockholders may not take actions by written consent. Special meetings of stockholders may be called only by specified officers of Westwood or by the Board of Directors.

Amendments to the Certificate of Incorporation and Bylaws. Our Certificate of Incorporation generally provides that the Bylaws and certain provisions of our Certificate of Incorporation may be altered, amended or repealed by the affirmative vote of the holders of at least two-thirds of our securities entitled to vote in the election of directors. However, our Bylaws may be altered, amended or repealed by a majority vote of our Board of Directors.

Preferred Stock. Our Board of Directors could issue a series of preferred stock that could, depending on the terms of such series, delay, defer or prevent a change in control of Westwood. Our Board of Directors will make any determination to issue such shares based on its judgment as to the best interests of Westwood and its stockholders. Our Board of Directors, in so acting, could issue preferred stock having terms that could discourage an acquisition attempt through which an acquiror may be able to change the composition of our Board of

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Directors, including a tender offer or other transaction that some, or a majority, of our stockholders might believe to be in their best interests or in which stockholders might receive a premium for their stock over the then-current market price of such stock.

Delaware Business Combination Statute. Section 203 of the Delaware General Corporation Law applies to us. Section 203 provides that, except for transactions specified in Section 203, a corporation will not engage in any "business combination" with any "interested stockholder" for a three-year period after the date that the stockholder became an interested stockholder unless:

- . before the date that the stockholder became an interested stockholder, the Board approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- . upon completion of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding, shares owned by:
  - persons who are both directors and officers; or
  - employee stock plans in some circumstances; or
- . on or after the date that the stockholder became an interested stockholder, the business combination is approved by the Board of the corporation and authorized at an annual or special meeting of stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

A "business combination" includes a merger, consolidation, asset sale or other transaction resulting in a financial benefit to an interested stockholder. An "interested stockholder" is a person who, together with affiliates and associates, owns (or within three years, did own) 15% or more of a corporation's outstanding voting stock.



Section 203 makes it more difficult under some circumstances for an interested stockholder to effect a business combination with us for a three-year period, although our stockholders may elect to exclude us from the restrictions imposed under Section 203.

The restrictions imposed by Section 203 will not apply to a corporation in some circumstances, including if:

- . the corporation's original certificate of incorporation contains a provision expressly electing not to be governed by Section 203; or
- . twelve months have passed after the corporation, by action of its stockholders holding a majority of the shares entitled to vote, amends its certificate of incorporation expressly electing not to be governed by Section 203.

We have not elected to opt out of Section 203. Thus, the restrictions imposed by Section 203 will apply to us.

**Tax Indemnification Exposure.** The tax separation agreement between SWS and us provides that if, as a result of our actions, a change-in-control of us triggers application of Section 355(e) of the Code, we would be liable to pay SWS the amount of any corporate income taxes for which SWS becomes liable solely by reason of application of Section 355(e) of the Code and without consideration of any other tax attribute of SWS. This provision may have an anti-takeover effect. See "Relationship Between SWS and Westwood After the Spin-off -- Tax Separation Agreement."

#### Liability and Indemnification of Directors and Officers

Delaware General Corporation Law, our Certificate of Incorporation and our Bylaws contain provisions relating to the limitation of liability and indemnification of our directors and officers.

Our Certificate of Incorporation provides that our directors are not personally liable to us or our stockholders for monetary damages for breach of their fiduciary duties as directors to the fullest extent permitted

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by Delaware law. Existing Delaware law permits the elimination or limitation of directors' personal liability to us or our stockholders for monetary damages for breach of their fiduciary duties as directors, except liability for:

- . any breach of a director's duty of loyalty to us or our stockholders;
- . acts or omissions not in good faith or involving intentional misconduct or a knowing violation of law;
- . any transaction from which a director derived improper personal benefit;
- . the unlawful payment of dividends; and
- . unlawful stock repurchases or redemptions.

Because of these exculpation provisions, stockholders may be unable to recover monetary damages against directors for actions taken by them that constitute negligence or that otherwise violate their fiduciary duties as directors, although it may be possible to obtain injunctive or other equitable relief with respect to such actions. If equitable remedies are not available to stockholders, stockholders may not have an effective remedy against a director in connection with the director's conduct.

Our Certificate of Incorporation also provides that we will indemnify and hold harmless any person who was or is a party or is threatened to be made a party to, or is involved in, any threatened, pending or completed civil, criminal, administrative or investigative action, suit or proceeding to the fullest extent permitted by Delaware law by reason of the fact that the person is or was (i) one of our directors or officers or (ii) serving at our request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise. We may also pay the expenses incurred in connection with any such proceeding in advance of its final disposition to

the fullest extent authorized by Delaware law.

Additionally, we will seek to obtain directors and officers liability insurance prior to the spin-off.

#### Transfer Agent

The transfer agent and registrar for our common stock is Computershare Trust Company, Inc. The contact information for the transfer agent and registrar is:

350 Indiana Street, Suite 800  
Golden, Colorado 80401  
Telephone: 303-262-0600

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#### WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a Form 10 with respect to the shares of our common stock that SWS's stockholders will receive in the spin-off. This information statement does not contain all of the information contained in the Form 10 and the exhibits and schedules to the Form 10. Some items are omitted in accordance with the rules and regulations of the SEC. For additional information relating to us and the spin-off, reference is made to the Form 10 and the exhibits to the Form 10, which are on file at the offices of the SEC. Statements contained in this information statement as to the contents of any contract or other document referred to are not necessarily complete and in each instance, if the contract or document is filed as an exhibit, reference is made to the copy of the contract or other documents filed as an exhibit to the Form 10. Each statement is qualified in all respects by the relevant reference.

You may inspect and copy the Form 10 and the exhibits to the Form 10 that we have filed with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. In addition, the SEC maintains an Internet site at <http://www.sec.gov>, from which you can electronically access the Form 10, including the exhibits and schedules to the Form 10.

After the spin-off, we will be required to comply with the reporting requirements of the Exchange Act and to file with the SEC reports, proxy statements and other information as required by the Exchange Act. Additionally, we will be required to provide annual reports containing audited financial statements to our stockholders in connection with our annual meetings of stockholders. After the spin-off, these reports, proxy statements and other information will be available to be inspected and copied at the public reference facilities of the SEC or obtained by mail or over the Internet from the SEC, as described above. We expect to receive approval, subject to official notice of issuance, to have our common stock listed on the NYSE under the symbol "WHG." When our common stock commences trading on the NYSE, such reports, proxy statements and other information will be available for inspection at the offices of the NYSE, 11 Wall Street, New York, New York 10005.

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Report of Independent Public Accountants

The Board of Directors and Stockholders  
Westwood Holdings Group, Inc.:

We have audited the accompanying consolidated balance sheets of Westwood Holdings Group, Inc. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Westwood Holdings Group, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP  
Dallas, Texas,

February 1, 2002, except with respect to the

matter discussed in Note 15, as to which

the date is April 8, 2002

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 31, 2001 and 2000

(in thousands, except par values and share amounts)

	2001	2000
	-----	-----
ASSETS		
-----		
Current Assets:		
Cash and cash equivalents.....	\$ 149	\$ 4,283
Accounts receivable.....	2,397	2,760
Investments, at market value.....	15,571	8,236
	-----	-----
Total current assets.....	18,117	15,279
	-----	-----

Goodwill, net of accumulated amortization of \$640 in 2001 and \$567 in 2000.....	2,302	2,375
Other Assets, net.....	634	446
	-----	-----
Total assets.....	\$21,053	\$18,100
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Accounts payable and accrued liabilities.....	\$ 876	\$ 532
Compensation and benefits payable.....	3,986	3,162
Income taxes payable.....	2,028	1,479
	-----	-----
Total current liabilities.....	6,890	5,173
Other Liabilities.....	131	125
	-----	-----
Total liabilities.....	7,021	5,298
Stockholders' Equity:		
Common stock of Westwood Holdings Group, Inc. \$0.01 par value, authorized 20,000 shares, issued and outstanding 5,374 shares at December 31, 2001.....	--	--
Common stock of Westwood Management Corporation, \$0.10 par value, authorized 100,000 shares, issued and outstanding 6,862 shares at December 31, 2000.....	--	1
Common stock of Westwood Trust, \$0.10 par value, authorized 1,700,000 shares, issued and outstanding 1,655,500 shares at December 31, 2000.....	--	165
Additional paid-in capital.....	9,469	5,798
Notes receivable from stockholders.....	(3,536)	--
Retained earnings.....	8,099	6,838
	-----	-----
Total stockholders' equity.....	14,032	12,802
	-----	-----
	\$21,053	\$18,100
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

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WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME  
For the Years Ended December 31, 2001, 2000, and 1999  
(in thousands, except per share amounts)

	2001	2000	1999
	-----	-----	-----
Advisory fees.....	\$14,918	\$12,038	\$ 8,650
Trust fees.....	3,755	3,079	2,282
Other revenues.....	914	1,019	404
	-----	-----	-----
Total revenues.....	19,587	16,136	11,336
	-----	-----	-----
Employee compensation and benefits.....	8,042	6,890	5,345
Equity based compensation charge.....	3,976	--	--
Sales and marketing.....	485	452	425
Information technology.....	818	730	748
Professional services.....	702	281	239
General and administrative.....	1,206	1,171	1,176
	-----	-----	-----
Total expenses.....	15,229	9,524	7,933
	-----	-----	-----
Income before income taxes.....	4,358	6,612	3,403
Provision for income tax expense.....	3,097	2,628	1,469
	-----	-----	-----
Net income.....	\$ 1,261	\$ 3,984	\$ 1,934
	=====	=====	=====

Earnings per share:

Earnings per share--basic*.....	\$234.68	\$741.45	\$359.90
	=====	=====	=====
Earnings per share--diluted*.....	\$234.68	\$741.45	\$359.90
	=====	=====	=====

-----

\* Earnings per share have not been adjusted for a stock split with a record date of May , 2002. See Note 15 for disclosure of what EPS would have been had the stock split been effective as of April 1, 2002.

The accompanying notes are an integral part of these consolidated financial statements.

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WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
For the Years Ended December 31, 2001, 2000, and 1999  
(in thousands)

	Westwood Holdings Group, Inc. Common Stock, PAR	Westwood Management Corporation Common Stock, PAR	Westwood Trust Common Stock, PAR	Additional Paid-In Capital	Notes Receivable from Shareholders	Retained Earnings	Stockholders' Equity
BALANCE, December 31, 1998.....	\$ --	\$ 1	\$ 165	\$5,386	\$ --	\$ 920	\$ 6,472
Net income.....	--	--	--	--	--	1,934	1,934
Noncash contributions.....	--	--	--	184	--	--	184
	----	----	----	-----	-----	-----	-----
BALANCE, December 31, 1999.....	--	1	165	5,570	--	2,854	8,590
Net income.....	--	--	--	--	--	3,984	3,984
Noncash contributions.....	--	--	--	228	--	--	228
	----	----	----	-----	-----	-----	-----
BALANCE, December 31, 2000.....	--	1	165	5,798	--	6,838	12,802
Formation of Westwood Holdings Group, Inc..	--	(1)	(165)	166	--	--	--
Net income.....	--	--	--	--	--	1,261	1,261
Notes issued to shareholders (Note 12).....	--	--	--	--	(3,536)	--	(3,536)
Noncash contributions (Note 12).....	--	--	--	3,505	--	--	3,505
	----	----	----	-----	-----	-----	-----
BALANCE, December 31, 2001.....	\$ --	\$ --	\$ --	\$9,469	\$ (3,536)	\$8,099	\$14,032
	=====	=====	=====	=====	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

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WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2001, 2000, and 1999  
(in thousands)

	2001	2000	1999
	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income.....	\$ 1,261	\$ 3,984	\$ 1,934
Adjustments to reconcile net income to net cash provided by operating			

activities:			
Depreciation and amortization.....	157	167	175
SWS expense allocations not reimbursed by the Company.....	85	228	184
Equity based compensation charge.....	3,976	--	--
Purchases of investments.....	(1,493)	(3,955)	(17,059)
Sales of investments.....	817	5,826	14,367
Change in operating assets and liabilities--			
Increase in accounts receivable.....	(37)	(1,088)	(245)
Decrease in other assets.....	181	68	247
Increase (decrease) in accounts payable and accrued liabilities...	344	223	(316)
Increase in compensation and benefits payable.....	824	1,120	136
Increase (decrease) in income taxes payable.....	549	876	(430)
Increase (decrease) in other liabilities.....	6	(41)	(71)
	-----	-----	-----
Net cash provided by operating activities.....	6,670	7,408	(1,078)
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of money market funds.....	(19,159)	(16,643)	(3,942)
Sales of money market funds.....	12,500	12,942	3,959
Purchase of fixed assets.....	(52)	(6)	(67)
	-----	-----	-----
Net cash used in investing activities.....	(6,711)	(3,707)	(50)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Note receivable.....	(4,093)	--	--
	-----	-----	-----
Net cash used in financing activities.....	(4,093)	--	--
	-----	-----	-----
NET INCREASE (DECREASE) IN CASH	(4,134)	3,701	(1,128)
Cash, beginning of year.....	4,283	582	1,710
	-----	-----	-----
Cash, end of year.....	\$ 149	\$ 4,283	\$ 582
	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

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WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE BUSINESS:

Formation of Westwood Holdings Group, Inc. (the "Company")

On December 12, 2001, the Company was formed by SWS Group, Inc. ("SWS") to be a holding company for two of the businesses that substantially comprised the asset management segment of SWS. Prior to December 14, 2001, the Company had no assets or operations. On December 14, 2001, SWS contributed all of the issued and outstanding common stock of two wholly owned subsidiaries, Westwood Management Corporation ("Management") and Westwood Trust ("Trust") to the Company and announced its intention to spin the Company off to SWS's shareholders. For financial statement purposes, the Company accounted for the contribution of Management and Trust to the Company as a reorganization of entities under common control at historical cost.

Accordingly, the accompanying financial statements of the Company include the financial statements of Management and Trust on a combined basis for periods prior to their contribution to the Company and on a consolidated basis for the period on and after their contribution to the Company.

On December 14, 2001, five of the Company's executive officers acquired from SWS 19.82% of the Company's issued and outstanding common stock (Note 12).

Nature of Operations

The Company manages investment assets and provides services for its clients through two subsidiaries, Management and Trust. Management provides investment advisory services to corporate pension funds, public retirement plans, endowments and foundations, mutual funds and clients of Trust. Trust provides to institutions and high net worth individuals trust and custodial services and participation in common trust funds that it sponsors. Revenue is largely dependent on the total value and composition of assets under management

("AUM"). Accordingly, fluctuations in financial markets and in the composition of AUM impact revenue and results of operations.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

### Basis of Presentation

The accompanying consolidated financial statements are presented using the accrual basis of accounting. All significant intercompany balances and transactions have been eliminated.

Since the Company was operated as a part of SWS during the periods presented, the accompanying financial information may not necessarily reflect what the results of operations, financial position, or cash flows of the Company would have been if the Company had been a separate, independent company during those periods. Within these consolidated financial statements and accompanying notes historical transactions and events involving Management and Trust are discussed as if the Company were the entity involved in the transaction or event unless the context indicates otherwise.

### Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported

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## WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

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 the Company's subsidiaries and their clients and are generally based on a percentage of AUM.

### Cash and Cash Equivalents

Cash and cash equivalents consist of short-term, highly liquid investments with maturities of three months or less at acquisition and are recorded at cost, which approximates market value.

### Investments

Marketable securities are classified as "trading" and carried at quoted market value. Net unrealized holding gains or losses on these investments are reflected as a component of other revenues.

### Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation, and have been included in Other Assets in the accompanying consolidated balance sheets. Depreciation of furniture and equipment is provided over the estimated useful lives of the assets (from 3 to 7 years), and depreciation on leasehold improvements is provided over the lease term, which ends in 2004, using the straight-line method.

### Goodwill

Goodwill, which represents the excess of purchase price over fair value of net assets acquired when SWS purchased Management and Trust in 1993, is amortized on a straight-line basis over forty years. In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142 "Goodwill and

Other Intangible Assets." SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives will no longer be amortized, but will be tested for impairment at least annually. The statement also provides specific guidance for impairment testing. Provisions of this statement are required to be applied starting with fiscal years beginning after December 15, 2001. SFAS No. 142 is required to be applied at the beginning of an entity's fiscal year to all goodwill and other intangible assets recognized in the financial statements at that date. Therefore, the Company will apply the provisions of SFAS No. 142 in the first quarter of fiscal 2002. Under the new standard, the Company will cease amortizing its goodwill, and will review the remaining goodwill for impairment in accordance with guidelines set forth in the standard. Amortization expense was approximately \$73,000 in each of 2001, 2000 and 1999.

The Company estimates that the adoption of SFAS No 142 will not have a material impact on the consolidated financial statements.

#### Federal Income Taxes

Prior to the Spin-off, the Company was and will join with SWS and its other subsidiaries in filing a consolidated Federal income tax return. SWS's consolidated Federal income tax expense was allocated to the Company as if the Company filed a separate consolidated Federal income tax return, assuming the utilization of

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### WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

tax-planning strategies consistent with those utilized by SWS. Upon completion of the Spin-off, the Company will cease to be a member of the SWS consolidated affiliated group and, as a result, will discontinue filing a consolidated Federal income tax return with SWS.

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 that will be in effect when these differences reverse, and are included in Other Assets in the accompanying consolidated balance sheets. Deferred income tax expense is generally the result of changes in the deferred tax assets and liabilities.

#### Stock-Based Compensation

Prior to the Spin-off, employees of the Company were granted options to acquire SWS common stock by SWS. At Spin-off, these options will become fully vested. The Company accounts for employee stock-based compensation using the intrinsic value method of accounting prescribed by Accounting Principles Bulletin ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees". In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation," the Company provides pro forma disclosures of net income and earnings per share for stock option grants as if the fair value based method had been applied (Note 7).

#### Fair Value of Financial Instruments

The estimated fair values of the Company's financial instruments have been determined by the Company using available information. The fair value amounts discussed in Note 4 are not necessarily indicative of either the amounts the Company would realize upon disposition of these instruments or the Company's intent or ability to dispose of these assets. The estimated fair value of cash and cash equivalents, as well as accounts receivable and payable, approximates their carrying value due to their short-term maturities. The carrying amount of investments designated as "trading" equals their fair value which is equal to prices quoted in active markets.

#### 3. ACCOUNTS RECEIVABLE:

The Company's trade accounts receivable balances do not include any allowance for doubtful accounts nor has any bad debt expense attributable to trade receivables been recorded for the years ended December 31, 1999 through 2001. The majority of the balances are advisory and trust fees receivable from customers.



## WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

## 4. INVESTMENTS:

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

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Gross Market Value
	-----	-----	-----	-----
December 31, 2001:				
U.S. Government and Government agency obligations.	\$ 1,550	\$26	\$ --	\$ 1,576
Funds:				
Money market.....	11,948	--	--	11,948
Equity.....	901	--	106	795
Bond.....	1,210	42	--	1,252
	-----	---	---	-----
Marketable securities.....	\$15,609	\$68	\$106	\$15,571
	=====	===	====	=====
December 31, 2000:				
U.S. Government and Government agency obligations.	\$ 1,151	\$ 8	\$ --	\$ 1,159
Funds:				
Money market.....	5,289	--	--	5,289
Equity.....	400	--	--	400
Bond.....	1,153	14	--	1,167
Real estate investment trusts ("REIT").....	200	21	--	221
	-----	---	---	-----
Marketable securities.....	\$ 8,193	\$43	\$ --	\$ 8,236
	=====	===	====	=====

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

## WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

## 5. INCOME TAXES:

Income tax expense for the years ended December 31, 2001, 2000 and 1999 (effective rate of 71.1% in 2001, 39.7% in 2000 and 43.2% in 1999) differs from the amount that would otherwise have been calculated by applying the Federal corporate tax rate (34% in 2001, 2000 and 1999) to income before income taxes. The Company's tax expense was calculated based on SWS's federal corporate tax rate of 35% in 2001, 2000 and 1999. The difference between the Federal corporate tax rate of 34% and the effective tax rate is comprised of the following (in thousands):

	2001	2000	1999
	-----	-----	-----
Income tax expense at the statutory rate....	\$1,482	\$2,248	\$1,157
State franchise and income taxes.....	336	274	237
Nondeductible equity-based compensation.....	1,197	--	--
Other, net.....	82	106	75
	-----	-----	-----
	\$3,097	\$2,628	\$1,469
	=====	=====	=====

Income taxes as set forth in the consolidated statements of income consisted of the following components (in thousands):

	2001	2000	1999
	-----	-----	-----
State - current.....	\$ 490	\$ 425	\$ 363
State - deferred.....	27	(4)	1
Federal - current.....	2,369	2,235	1,097
Federal - deferred.....	211	(28)	8
	-----	-----	-----
Provision for income tax expense.....	\$3,097	\$2,628	\$1,469
	=====	=====	=====

The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities as of December 31, 2001 and 2000 are presented below (in thousands):

	2001	2000
	----	----
Difference between tax basis and value of note receivable from stockholders	\$214	\$ --
Depreciation at rates different for tax than for financial reporting.....	34	19
Other.....	10	1
	----	----
Total deferred tax assets - included in other assets on the consolidated balance sheets.....	\$258	\$ 20
	====	====

As a result of the Company's history of taxable income and the nature of the items from which deferred tax assets are derived, management believes that it is more likely than not that the Company will realize the benefit of the deferred tax assets.

Cash paid for income taxes was approximately \$2,270,000, \$1,643,000, and \$1,964,000 in 2001, 2000, and 1999, respectively.

6. REGULATORY CAPITAL REQUIREMENTS:

Trust is subject to the capital requirements of the Texas Banking Commissioner, and has a minimum capital requirement of \$1 million. Trust had total stockholders' equity of approximately \$3.7 million, which is \$2.7 million in excess of its minimum capital requirement at December 31, 2001.

Trust is limited under applicable Texas law in the payment of dividends to undivided profits: that part of equity capital equal to the balance of net profits, income, gains, and losses since its formation date minus subsequent distributions to stockholders and transfers to surplus or capital under share dividends or appropriate Board resolutions. At December 31, 2001, Trust had undivided profits of approximately \$385,000.

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

7. EMPLOYEE BENEFITS:

Stock Option Plan

At December 31, 2001, 2000 and 1999, the Company's employees participated in the SWS Stock Option Plan (the "1996 Plan"). The 1996 Plan reserves shares of the SWS common stock for issuance to eligible employees of SWS or its subsidiaries. Shares reserved under this option plan reflect all stock dividends issued by SWS. Options granted under the 1996 Plan have a maximum

ten-year term, and the vesting period is determined on an individual basis by the Stock Option Committee of SWS's Board of Directors.

A summary of the status of SWS's outstanding stock options issued to employees of the Company as of December 31, 2001, 2000 and 1999 is presented below:

	2001		2000		1999	
	Underlying Shares	Weighted Average Exercise Price	Underlying Shares	Weighted Average Exercise Price	Underlying Shares	Weighted Average Exercise Price
Outstanding, beginning of period.....	83,033	\$24.41	56,854	\$24.49	33,200	\$19.35
Granted.....	31,000	18.99	30,950	28.75	22,350	32.02
Exercised.....	(1,103)	15.26	(2,065)	15.99	(1,842)	18.46
Forfeited.....	(3,472)	29.40	(8,149)	26.89	--	--
Adjustment for stock dividends.....	8,132	--	5,443	--	3,146	--
Outstanding, end of period.....	117,590	\$22.92	83,033	\$24.41	56,854	\$24.49
Exercisable, end of period.....	49,283		25,717		12,199	
Weighted-average fair value of options granted during fiscal year.....	\$ 10.52		\$ 23.08		\$ 26.31	

The following table summarizes information for the stock options outstanding at December 31, 2001:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$15.26 - 18.99	66,677	7.8 years	\$17.38	30,516	\$16.11
28.75 - 32.02	50,913	8.2	30.17	18,767	30.72
\$15.26 - 32.02	117,590	8.0	\$22.92	49,283	\$21.67

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WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The Company applies APB 25 and related interpretations in accounting for its option plans. Accordingly, no compensation cost has been recognized for its stock options. Had compensation cost been determined valuing the options using the Black-Scholes option pricing model as provided in SFAS No. 123, the Company's net income and earnings per share would have been the pro forma amounts indicated below for the years ended December 31, 2001, 2000 and 1999 (See Note 15):

	2001	2000	1999
--	------	------	------

Net income (in thousands)-			
As reported.....	\$ 1,261	\$ 3,984	\$ 1,934
Pro forma.....	852	3,712	1,819
Earnings per share-			
As reported - basic.....	234.68	741.45	359.90
As reported - diluted.....	234.68	741.45	359.90
Pro forma - basic.....	158.53	690.68	338.44
Pro forma - diluted.....	158.53	690.68	338.44

The fair value of each option was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions for 2001, 2000 and 1999:

	2001	2000	1999
	-----	-----	-----
Expected volatility.....	56%	81%	100%
Risk-free interest rate.....	4.85%	5.72%	5.82%
Expected dividend yield.....	1.77%	0.89%	0.68%
Expected life.....	5 to 10 years	5 to 10 years	5 to 10 years

As of December 31, 2001, there have been no options granted to acquire the common stock of the Company or either of its subsidiaries.

Profit Sharing/401(k) Plan

SWS has a defined contribution profit sharing/401(k) plan that covers substantially all of the Company's employees. SWS provided profit sharing plan benefits become fully vested after six years of service by the participant. Profit sharing contributions were accrued and funded at SWS's discretion. Profit sharing expense related to the Company's employees for 2001, 2000 and 1999 was approximately \$38,000, \$251,000 and \$353,000, respectively. The 401(k) portion of the plan began in January 2000, and SWS provides a match of up to 4% of eligible compensation. SWS's matching contributions vest immediately and the expense totaled approximately \$127,000 in 2001 and \$117,000 in 2000.

8. EARNINGS PER SHARE:

A reconciliation between the weighted average shares outstanding used in the basic and diluted EPS computations is as follows (in thousands, except share and per share amounts) (See Note 15):

	2001	2000	1999
	-----	-----	-----
Net income.....	\$ 1,261	\$ 3,984	\$ 1,934
Weighted average shares outstanding - basic			
and diluted.....	5,374	5,374	5,374
Earnings per share - basic.....	234.68	741.45	359.90
Earnings per share - diluted.....	234.68	741.45	359.90

The Company has no outstanding options, warrants, convertible securities, or other potential common shares that were antidilutive or excluded from the diluted EPS calculations.

9. COMMITMENTS AND CONTINGENCIES:

The Company leases its offices under noncancelable operating lease agreements. Rental expense for facilities and equipment leases for fiscal years 2001, 2000 and 1999 aggregated approximately \$591,000, \$601,000 and \$645,000, respectively, and is included in General and Administrative expenses in the accompanying consolidated statements of income.

At December 31, 2001, the future rental payments for the noncancelable operating leases for each of the following three years and thereafter follow (in thousands):

Year ending:	
2002.....	\$ 498
2003.....	477
2004.....	264
Thereafter.....	--
	-----
Total payments due.....	\$1,239
	=====

In the normal course of business, the Company has been named as a defendant in a lawsuit. Management believes that resolution of this claim will not result in any material adverse effect on the Company's consolidated financial position or results of operations.

10. AFFILIATE TRANSACTIONS:

SWS, through its principal subsidiary, SWS Securities, Inc., provided accounting, technology and administrative services for the Company in 2001, 2000 and 1999. Management serves as investment advisor for the SWS cash reserve funds, and Trust serves as custodian for the SWS cash reserve funds and as trustee for the assets of the SWS Deferred Compensation Plan.

The accompanying financial statements include the following revenues (in thousands) from transactions with SWS and its subsidiaries other than Management and Trust:

	2001	2000	1999
	----	----	----
Advisory fees.....	\$441	\$329	\$263
Trust fees.....	234	167	115
	====	====	====

The accompanying financial statements include the following expenses (in thousands) for charges from SWS and its subsidiaries other than Management and Trust.

	2001	2000	1999
	----	----	----
Employee benefits.....	\$190	\$169	\$169
Information technology.....	269	232	228
Professional services.....	34	35	34
General and administrative.....	62	55	52
	----	----	----
	\$555	\$491	\$483
	====	====	====

These expenses have been allocated from SWS on the basis of the Company's relative number of employees, relative revenues, or other allocation bases. These allocated expenses represent services provided by SWS including human resources, accounting, internal audit, income tax, legal, insurance, and information technology. Including the allocation of SWS expenses, the expenses

in these consolidated financial statements include all of the costs attributable to the Company's operations. However, because the Company operated as a subsidiary of SWS and because the expenses included in these consolidated financial statements include allocations of SWS's expenses, the expenses included in these consolidated statements do not purport to be the expenses that the Company would have incurred had it been an independent company.

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WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Had the Company been an independent public company in 2001, management estimates that total expenses would have been approximately \$800,000 higher than those reflected in these consolidated financial statements. The principal reasons for the increase in expenses are increased public company compliance costs, employee compensation, insurance costs, legal expenses, and accounting and payroll costs.

The foregoing estimate of higher expenses is not necessarily an accurate measure of what the Company's stand-alone expenses would have been in 2001 or will be in the future, and the Company's expenses could be higher. The costs incurred by the Company in the future will depend on the market for these services when they are actually purchased and the size and nature of the Company's future operations. Following a transition period, the Company expects to stop acquiring services from SWS and to independently purchase all services currently being provided by SWS.

If one or more persons acquire a 50% or greater interest in SWS or the Company as part of a plan or series of related transactions that included the spin-off, SWS would be taxed on the spin-off as if the spin-off had been a sale. Any acquisition that occurs during the four-year period beginning two years before the spin-off will be presumed to be a part of a plan or a series of transactions that included the spin-off. SWS or the Company, whichever is responsible for triggering a change-in-control, will bear any related taxes that arise.

11. SEGMENT REPORTING:

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

Management

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

Trust

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

Corporate

Westwood Holdings Group, Inc. has no operations.

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WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

All 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.

	Management Trust	Corporate	Eliminations	Consolidated	
	(in thousands)				
December 31, 2001					
Net revenues from external sources.	\$15,663	\$3,917	\$ 7	\$ --	\$19,587
Net intersegment revenues.....	1,187	--	4,994	(6,181)	--
Net interest revenue.....	432	184	7	--	623
Depreciation and amortization.....	127	30	--	--	157
Income (loss) before income taxes..	7,776	550	1,026	(4,994)	4,358
Segment assets.....	17,306	4,208	13,797	(14,258)	21,053
Expenditures for long-lived assets.	48	4	--	--	52
December 31, 2000					
Net revenues from external sources.	\$12,832	\$3,304	\$ --	\$ --	\$16,136
Net intersegment revenues.....	921	--	--	(921)	--
Net interest revenue.....	341	149	--	--	490
Depreciation and amortization.....	137	30	--	--	167
Income (loss) before income taxes..	6,073	539	--	--	6,612
Segment assets.....	14,934	3,692	--	(526)	18,100
Expenditures for long-lived assets.	4	2	--	--	6
December 31, 1999					
Net revenues from external sources.	\$ 9,030	\$2,306	\$ --	\$ --	\$11,336
Net intersegment revenues.....	578	--	--	(578)	--
Net interest revenue.....	103	120	--	--	223
Depreciation and amortization.....	145	30	--	--	175
Income (loss) before income taxes..	3,229	174	--	--	3,403
Segment assets.....	9,041	3,153	--	(483)	11,711
Expenditures for long-lived assets.	67	--	--	--	67

## 12. EQUITY-BASED COMPENSATION:

On December 14, 2001, SWS sold 1,065 shares of the Company's common stock (without giving effect to the stock split discussed in Note 15), constituting 19.82% of the Company's outstanding common stock, to five of the Company's executive officers for cash consideration of \$4,093,000, a price premised upon an understanding reached in October 2001 that SWS would sell the shares of the Company's common stock based on their value at September 30, 2001, after applying appropriate valuation discounts. The Company loaned the executive officers \$4,093,000 on a full-recourse basis, evidenced by notes secured by the stock, payable in nine years and bearing interest at 3.93%.

Because the notes are receivable in connection with the sale of the Company's common stock, they were recorded at their fair value of \$3,536,000 as an offset to stockholders' equity. The difference between the face amount of the notes and their fair value is due to the difference between the stated interest rate and an estimated market interest rate of 6.0%.

The difference between the fair value for financial reporting purposes of the stock on December 14, 2001, \$7,512,000, and the fair value of the note, \$3,536,000, was recorded as an equity-based compensation charge of \$3,976,000. The difference between the value of the stock, \$7,512,000, and the cash consideration paid to SWS of \$4,093,000, is an expense incurred by SWS for the Company and is reflected as an equity-based compensation

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## WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

expense with the offset as a contribution to the Company's additional paid-in capital. The remainder of the equity-based compensation expense is the difference between the face and fair value of the notes, \$557,000.

The difference between the \$4,093,000 paid for the stock and the fair value

of the stock for financial reporting purposes on December 14, 2001, is attributable to an increase in assets under management and the common stock prices of comparable public companies between September 30, 2001 and December 14, 2001. The amount of assets under management, which is a factor in determining the Company's revenues, and the common stock prices of comparable public companies are significant considerations in estimating the value of the Company. In addition, the \$4,093,000 valuation included a 35% discount for lack of marketability. For financial accounting purposes, no discount for lack of marketability was recorded, which accounts for \$2,204,000 of the difference between \$7,512,000 and \$4,093,000.

13. CONCENTRATION:

During the year ended December 31, 1999, one customer accounted for approximately 10% of the Company's revenues.

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

At December 31, 2001 and 2000, Accounts Payable and Accrued Liabilities included accrued franchise taxes of approximately \$492,000 and \$371,000, respectively.

15. STOCK SPLIT - SUBSEQUENT EVENT

The Board of Directors has approved a stock dividend that will be accounted for as a stock split to be effective as of May , 2002 based on a formula that will cause the Company's common stock held by SWS to equal one-fourth the number of shares of SWS common stock outstanding on May , 2002. The Board of Directors also approved and recommended to the Company's stockholders amendments to the Company's certificate of incorporation that would increase the number of authorized common shares to 10,000,000 and also authorize 1,000,000 preferred shares.

Were the stock dividend effective as of April 1, 2002, based on the number of shares of SWS common stock outstanding at that date, earnings per share would have been the following pro forma amounts:

	2001	2000	1999
	-----	-----	-----
Earnings per share-			
As reported -- basic..	\$234.68	\$741.45	\$359.90
As reported -- diluted	\$234.68	\$741.45	\$359.90
Pro forma -- basic....	\$ 0.23	\$ 0.74	\$ 0.36
Pro forma -- diluted..	\$ 0.23	\$ 0.74	\$ 0.36