WESTWOOD HOLDINGS GROUP INC
Form 10-Q
October 17, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2013.

OR

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to .

Commission file number 1-31234

WESTWOOD HOLDINGS GROUP, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	75-2969997
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
200 CRESCENT COURT, SUITE 1200	75201

DALLAS, TEXAS
(Address of principal executive office) (Zip Code)
(214) 756-6900

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No ¨

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

Shares of common stock, par value $0.01 per share, outstanding as of October 11, 2013: 8,187,529.

WESTWOOD HOLDINGS GROUP, INC.

INDEX

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except par value and share amounts)

	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 12,009	$ 3,817
Accounts receivable	12,097	8,920
Investments, at fair value	55,268	59,906
Deferred income taxes	2,917	3,362
Prepaid income taxes	1,213	
Other assets	1,906	1,365
Total current assets	85,410	77,370
Goodwill	11,255	11,255
Deferred income taxes	2,010	1,696
Intangible assets, net	3,879	4,149
Property and equipment, net of accumulated depreciation of $2,034 and $1,747	2,372	2,145
Total assets	$ 104,926	$ 96,615
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 2,004	$ 1,650
Dividends payable	3,559	1,201
Compensation and benefits payable	13,638	14,537
Income taxes payable		1,438
Total current liabilities	19,201	18,826
Accrued dividends	1,053	
Deferred rent	1,194	1,238
Total long-term liabilities	2,247	1,238
Total liabilities	21,448	20,064
Commitments and contingencies (Note 11)		
Stockholders Equity:		
Common stock, $0.01 par value, authorized 25,000,000 shares, issued 8,789,725 and outstanding 8,187,529 shares at September 30, 2013; issued 8,526,598 and outstanding 8,031,045 shares at December 31, 2012	88	85
Additional paid-in capital	97,928	88,483
Treasury stock, at cost 602,196 shares at September 30, 2013; 495,553 shares at December 31, 2012	(23,169)	(18,502)

Accumulated other comprehensive income (loss)	(101)	30
Retained earnings	8,732	6,455
Total stockholders equity	83,478	76,551
Total liabilities and stockholders equity	$ 104,926	$ 96,615

See notes to condensed consolidated financial statements.

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share data)

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
REVENUES:				
Advisory fees				
Asset based	$ 17,956	$ 14,485	$ 49,989	$ 42,677
Performance based	26	69	2,561	1,251
Trust fees	4,672	3,715	13,463	10,943
Other, net	344	672	560	2,000
Total revenues	22,998	18,941	66,573	56,871
EXPENSES:				
Employee compensation and benefits	12,480	11,397	36,230	32,196
Sales and marketing	326	350	947	823
Westwood mutual funds	599	292	1,465	776
Information technology	690	649	2,024	1,874
Professional services	887	739	2,966	3,681
General and administrative	1,250	1,183	3,723	3,354
Total expenses	16,232	14,610	47,355	42,704
Income before income taxes	6,766	4,331	19,218	14,167
Provision for income taxes	2,447	1,827	7,187	5,680
Net income	$ 4,319	$ 2,504	$ 12,031	$ 8,487
Other comprehensive income:				
Available-for-sale investments:				
Change in unrealized gain on investment securities				(401)
Less: reclassification adjustment for net gains included in earnings				(908)
Net change (net of income taxes of $0, $0, $0 and $(714), respectively)				(1,309)
Foreign currency translation adjustments	104	78	(131)	60
Total comprehensive income	$ 4,423	$ 2,582	$ 11,900	$ 7,238
Earnings per share:				
Basic	$ 0.59	$ 0.35	$ 1.64	$ 1.19
Diluted	$ 0.57	$ 0.34	$ 1.59	$ 1.16

Weighted average shares outstanding:				
Basic	7,374,600	7,166,020	7,347,376	7,138,878
Diluted	7,558,136	7,323,245	7,586,488	7,301,014

See notes to condensed consolidated financial statements.

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

For the Nine Months Ended September 30, 2013

(in thousands, except share amounts)

(unaudited)

	Common Stock, Par Shares	Amount	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
BALANCE, January 1, 2013	8,031,045	$ 85	$ 88,483	$ (18,502)	$ 30	$ 6,455	$ 76,551
Net income						12,031	12,031
Other comprehensive loss					(131)		(131)
Issuance of restricted stock, net	263,127	3	(3)				
Dividends declared ($1.20 per share)						(9,754)	(9,754)
Restricted stock amortization			8,579				8,579
Reclassification of compensation liability to be paid in shares			124				124
Tax benefit related to equity compensation			745				745
Purchase of treasury stock	(106,643)			(4,667)			(4,667)
BALANCE, September 30, 2013	8,187,529	$ 88	$ 97,928	$ (23,169)	$ (101)	$ 8,732	$ 83,478

See notes to condensed consolidated financial statements.

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	For the nine months ended September 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 12,031	$ 8,487
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	288	257
Amortization of intangible assets	270	366
Fair value adjustment of liabilities		(96)
(Gain) on sale of available for sale investment		(803)
Unrealized (gains) losses on trading investments	430	(164)
Restricted stock amortization	8,579	7,635
Loss on disposal of property		1
Deferred income taxes	51	931
Excess tax benefits from stock based compensation	(694)	(676)
Net sales of investments trading securities	4,202	96
Change in operating assets and liabilities:		
Accounts receivable	(3,241)	(495)
Other current assets	(480)	(684)
Accounts payable and accrued liabilities	369	(2,691)
Compensation and benefits payable	(668)	(1,996)
Income taxes payable and prepaid income taxes	(1,922)	(961)
Other liabilities	20	(69)
Net cash provided by operating activities	19,235	9,138
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of available for sale investment		950
Purchase of property and equipment	(651)	(238)
Net cash (used in) provided by investing activities	(651)	712
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of treasury stock	(4,667)	(3,796)
Excess tax benefits from stock based compensation	694	676
Cash dividends	(6,346)	(5,475)
Proceeds from exercise of stock options		210
Net cash used in financing activities	(10,319)	(8,385)
Effect of currency rate changes on cash	(73)	48
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,192	1,513

Cash and cash equivalents, beginning of period	3,817	5,264
Cash and cash equivalents, end of period	$ 12,009	$ 6,777
Supplemental cash flow information:		
Cash paid during the period for income taxes	$ 9,093	$ 5,708

See notes to condensed consolidated financial statements.

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. DESCRIPTION OF THE BUSINESS

Westwood Holdings Group, Inc. (Westwood , we , us or our) was incorporated under the laws of the State of Delaware on December 12, 2001. Westwood manages investment assets and provides services for its clients through its subsidiaries, Westwood Management Corp. (Westwood Management), Westwood Trust (Westwood Trust) and Westwood International Advisors Inc. (Westwood International). Westwood Management provides investment advisory services to corporate retirement plans, public retirement plans, endowments and foundations, mutual funds, individuals and clients of Westwood Trust. Westwood Trust provides institutions and high net worth individuals with trust and custodial services and participation in its sponsored common trust funds. Westwood International provides investment advisory services to institutional investors and to Westwood Investment Funds PLC, an Ireland-based umbrella fund organized pursuant to the European Union s Undertaking for Collective Investment in Transferable Securities (UCITS).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared without an audit and reflect all adjustments (consisting only of normal recurring adjustments) that, in the opinion of management, are necessary to present fairly our interim financial position and results of operations and cash flows for the periods presented. The accompanying condensed consolidated financial statements are presented using the accrual basis of accounting and have been prepared in accordance with the instructions for the presentation of interim financial information as prescribed by the Securities and Exchange Commission (SEC).

The accompanying condensed consolidated financial statements should be read in conjunction with our consolidated financial statements, and notes thereto, included in our Annual Report on Form 10-K for the year ended December 31, 2012. Operating results for the periods in these condensed consolidated financial statements are not necessarily indicative of the results for any future period. The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and include the accounts of Westwood and its subsidiaries. All intercompany accounts and transactions have been eliminated upon consolidation.

Use of Estimates

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

Revenue Recognition

Investment advisory and trust fees are recognized as services are provided and are largely dependent on the total value and composition of assets under management (AUM). Accordingly, fluctuations in financial markets and in the composition of AUM impact revenues and results of operations. These fees are determined in accordance with contracts between our subsidiaries and their clients and are generally based on a percentage of AUM. A limited number of our clients have contractual performance-based fee arrangements, which pay us an additional fee when we outperform a specified index over a specific period of time. We record revenue for performance-based fees at the end of the measurement periods. Most advisory and trust fees are payable in advance or in arrears on a calendar quarterly basis. Advance payments are deferred and recognized over the periods services are performed. Since billing periods for most of our advance paying clients coincide with the calendar quarter to which payment relates, revenue is fully recognized within the quarter. Consequently there is not a significant amount of deferred revenue contained in our financial statements. Deferred revenue is included on the balance sheet under the heading of Accounts payable and accrued liabilities .

Other revenues generally consist of interest and investment income and losses. These revenues are recognized as earned or as the services are performed.

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Consolidation

We assess each legal entity that we manage to determine whether consolidation is appropriate at the onset of the relationship. We first determine whether the entity is a voting interest entity (VOE), or a variable interest entity (VIE), under GAAP and then whether we have a controlling financial interest in the entity. Assessing whether an entity is a VOE or VIE and if it requires consolidation involves judgment and analysis. Factors considered in this assessment include, but are not limited to, the legal organization of the entity, our equity ownership and contractual involvement with the entity and any related party or de facto agent implications of our involvement with the entity. We reconsider whether entities are a VOE or VIE whenever contractual arrangements change, the entity receives additional equity or returns equity to its investors or changes in facts and circumstances occur that change the investors ability to direct the activities of the entity.

A VIE is an entity in which (i) the total equity investment at risk is not sufficient to enable the entity to finance its activities without subordinated financial support or (ii) the at-risk equity holders do not have the normal characteristics of a controlling financial interest. That is, the at-risk equity holders do not have the obligation to absorb losses, the right to receive residual returns and/or the right to direct the activities of the entity that most significantly impact the entity s economic performance. An enterprise must consolidate all VIEs of which it is the primary beneficiary. We determine if a sponsored investment meets the definition of a VIE by considering whether the fund s equity investment at risk is sufficient to finance its activities without additional subordinated financial support and whether the fund s at-risk equity holders absorb any losses, have the right to receive residual returns and have the right to direct the activities of the entity most responsible for the entity s economic performance. For VIEs that are investment companies, the primary beneficiary of the VIE is the party that absorbs a majority of the expected losses of the VIE, receives a majority of the expected residual returns of the VIE, or both. For VIEs that are not investment companies, the primary beneficiary of a VIE is defined as the party who, considering the involvement of related parties and de facto agents, has (i) the power to direct the activities of the VIE that most significantly affect its economic performance and (ii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. This evaluation is updated continuously.

A VOE is an entity that is not within the scope of the guidance for VIEs. Consolidation of a VOE is required when a reporting entity owns a controlling financial interest in a VOE. Ownership of a majority of the voting interests is the usual condition for a controlling financial interest. At September 30, 2013, none of our sponsored investment entities were VOEs subject to this assessment by the Company.

The Westwood Investment Funds PLC (the UCITS Fund), which was authorized by the Central Bank of Ireland on June 18, 2013 pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011, is an Ireland domiciled umbrella-type open-ended self-managed investment company. The UCITS Fund is established as an umbrella fund with segregated assets and liabilities between sub-funds. Notwithstanding the segregation of assets and liabilities within each sub-fund, the UCITS Fund is a single legal entity and no sub-fund constitutes a legal entity separate from the UCITS Fund itself. The Company s first UCITS sub-fund is focused on Westwood s Emerging Markets strategy. Shares of the sub-fund are listed on the Irish Stock Exchange, all of which are owned by the third-party investors. The base currency of the UCITS Fund is Great Britain pound sterling. We determined that the UCITS Fund was a VIE as its at-risk equity holders do not have the ability to direct the activities of the UCITS Fund that most significantly impact the entity s economic performance. Although the

Company does not have an equity investment in the UCITS Fund, through its representatives having a majority control of the UCITS Fund s Board of Directors its representatives can influence the UCITS Fund s management and affairs. The UCITS s Fund Board of Directors maintains this control through its duties which are stated in the UCITS Funds Memorandum and Articles of Association which has no expiration date. We concluded that the Company was not the primary beneficiary of the UCITS Fund because even though it has the power to direct the activities of the UCITS Fund (that most significantly impact the fund s economic performance), it does not absorb a majority of the UCITS Fund s expected losses and does not receive a majority of the UCITS Fund s expected residual returns. As a result, the results of the UCITS Fund are not included in the Company s consolidated financial results.

We have also evaluated all of our other advisory relationships and our relationship as sponsor of the common trust funds to determine whether or not we qualify as the primary beneficiary based on whether there is an obligation to absorb the majority of expected losses or a right to receive the majority of residual returns. Since all losses and returns are distributed to the shareholders of the Westwood VIEs, we are not the primary beneficiary and consequently the Westwood VIEs are not included in our condensed consolidated financial statements. We have included the disclosures related to VIEs in Note 8.

Cash and Cash Equivalents

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

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Accounts Receivable

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

Investments

All marketable securities are classified as trading securities and are carried at quoted market value on the accompanying consolidated balance sheet. Net unrealized holding gains or losses on investments classified as trading securities are reflected as a component of other revenues. We measure realized gains and losses on investments using the specific identification method. Investments include shares of Westwood mutual funds awarded to employees pursuant to mutual fund share incentive awards described in Note 9.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the cost of acquired assets over the fair value of the underlying identifiable assets at the date of acquisition. Goodwill is not amortized but is tested at least annually for impairment. We test more frequently if indicators are present or changes in circumstances suggest that impairment may exist. These indicators include, among others, declines in sales, earnings or cash flows, or the development of a material adverse change in the business climate. We assess goodwill for impairment at the reporting unit level, which is defined as an operating segment or one level below an operating segment, referred to as a component. We have identified two reporting units, which are consistent with our reporting segments: Advisory and Trust. The Company is not required to calculate the fair value of a reporting unit unless the Company determines that it is more likely than not that its fair value is less than the carrying amount. The Company assesses goodwill for impairment using a qualitative assessment which includes consideration of the current trends in the industry in which the Company operates, macroeconomic conditions, recent financial performance of the Company s reporting units and a market multiple approach valuation.

In performing the annual impairment test, which is performed during the third quarter or more frequently when impairment indicators exist and after assessing the qualitative factors, we may be required to utilize the two-step approach prescribed. The first step requires a comparison of each reporting unit s carrying value to the fair value of the respective unit. If the carrying value exceeds the fair value, a second step is performed to measure the amount of impairment loss, if any. The fair value of each reporting unit is estimated, entirely or predominantly, using a market multiple approach. During the third quarter of 2013, we completed our annual goodwill impairment assessment and determined that no impairment loss was required. No impairments were recorded during any of the periods presented.

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

Income Taxes

We file a United States (U.S.) federal income tax return as a consolidated group for Westwood and its subsidiaries based in the U.S. We separately file a Canadian income tax return for Westwood International. Deferred income tax assets and liabilities are determined based on temporary differences between the financial statement and income tax bases of assets and liabilities as measured at enacted income tax rates. Deferred income tax expense is generally the result of changes in deferred tax assets and liabilities. Deferred taxes relate primarily to stock-based compensation expense and net operating losses at Westwood International.

We would record a valuation allowance, when necessary, to reduce deferred tax assets to an amount that more likely than not would be realized. No valuation allowance has been recorded in our financial statements.

Currency Translation

Assets and liabilities of Westwood International, our non-U.S. dollar functional currency subsidiary, are translated at exchange rates as of the applicable reporting dates. Revenues and expenses are translated at average exchange rates during the periods indicated.

The gains and losses resulting from translating non-U.S. dollar functional currency into U.S. dollars are recorded through other comprehensive income.

Long-term Compensation Agreements

We entered into employment agreements with certain employees of Westwood International that provide for specified payments over four years. In certain circumstances, these payments would be forfeited to us if the employment of these individuals is terminated before completion of the contractual earning period. Payments made in advance under these agreements are included in Other current assets on our Condensed Consolidated Balance Sheet, net of amounts already amortized.

Stock Based Compensation

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

We have issued restricted stock and granted stock options in accordance with our Third Amended and Restated Westwood Holdings Group, Inc. Stock Incentive Plan, as amended (the Plan). We apply judgment in developing an expectation of awards of restricted stock and stock options that may be forfeited. If actual experience differs significantly from these estimates, our stock-based compensation expense and results of operations could be materially affected.

We have compensation arrangements with certain employees of Westwood International pursuant to which these employees are able to earn cash awards based on the performance of certain investment products. A portion of such awards may be paid in shares of our stock that vest over a multi-year period. We accrue a liability for these awards over both the annual period in which we determine it is probable that the award will be earned and, for the portion to be settled in shares, over the following three-year vesting period. For the nine months ended September 30, 2013 and 2012, the expense recorded for these awards was $337,000 and $79,000, respectively. Cash awards expected to be settled in shares are funded into a trust pursuant to an established Canadian employee benefit plan. Generally, the Canadian trust subsequently acquires Westwood common shares in market transactions and holds such shares until the shares are vested and distributed, or forfeited. Shares held in the trust are shown on our balance sheet as treasury shares. During the second quarter of 2013, the trust purchased 20,251 Westwood common shares in the open market for approximately $878,000. Until shares are acquired by the trust, we measure the liability as a cash based award, which is included in the Compensation and benefits payable on our Condensed Consolidated Balance Sheets. When the number of shares related to an award is determinable, the award becomes an equity award accounted for similar to restricted stock, which is described in Note 9.

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The ASU requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. The ASU also requires presentation, either on the face of the statement where net income is presented or in the notes to the financial statements, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. However, such disclosure is only required if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required to be reclassified in their entirety to net income, an entity should cross-reference to other disclosures that provide additional detail about those amounts. For public entities, the ASU is effective prospectively for reporting periods beginning after December 15, 2012. The adoption of ASU 2013-02 did not have an impact on our financial statements.

In March 2013, the FASB issued ASU 2013-05, Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. The ASU clarifies the interaction between ASC 810-10, Consolidation Overall, and ASC 830-30, Foreign Currency Matters Translation of Financial Statement, when releasing the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. The ASU is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. We do not currently expect the adoption of this ASU to have an impact on our financial statements.

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In June 2013, the FASB issued ASU 2013-08, Financial Services Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements. The ASU changes the approach to the investment company assessment in Topic 946, clarifying the characteristics of an investment company and provides comprehensive guidance for assessing whether an entity is an investment company. This update would also require an investment company to measure noncontrolling ownership interests in other investment companies at fair value rather than using the equity method of accounting and to include additional disclosures. The ASU is effective for reporting periods beginning after December 15, 2013. Although this update is relevant to our VIE analysis, we do not currently expect the adoption of this ASU to have a significant impact on our financial statements.

3. EARNINGS PER SHARE

Basic earnings per common share is computed by dividing net income available to common stockholders by the weighted average number of shares outstanding for the periods ended September 30, 2013 and 2012, respectively. Diluted earnings per share for these periods is computed based on the weighted average number of shares outstanding plus the effect of any dilutive shares of restricted stock and stock options granted to employees and non-employee directors. There were no anti-dilutive restricted shares or options as of September 30, 2013 or 2012.

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Net income	$ 4,319	$ 2,504	$ 12,031	$ 8,487
Weighted average shares outstanding basic	7,374,600	7,166,020	7,347,376	7,138,878
Dilutive potential shares from unvested restricted shares	183,536	157,225	239,112	157,966
Dilutive potential shares from stock options				4,170
Weighted average shares outstanding diluted	7,558,136	7,323,245	7,586,488	7,301,014
Earnings per share:				
Basic	$ 0.59	$ 0.35	$ 1.64	$ 1.19
Diluted	$ 0.57	$ 0.34	$ 1.59	$ 1.16

9

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

4. INVESTMENTS

Investment balances are presented in the table below (in thousands). All investments are carried at fair value, and all investments are accounted for as trading securities.

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
September 30, 2013:				
U.S. Government obligations	$ 28,995	$ 16	$	$ 29,011
Money market funds	13,180			13,180
Equity funds	400		(46)	354
Mutual funds	1,679	160		1,839
Fixed income funds	10,850	34		10,884
Marketable securities	$ 55,104	$ 210	$ (46)	$ 55,268
December 31, 2012:				
U.S. Government obligations	$ 42,588	$ 1	$	$ 42,589
Money market funds	1,856			1,856
Equity funds	4,401	519		4,920
Fixed income funds	10,468	73		10,541
Marketable securities	$ 59,313	$ 593	$	$ 59,906

5. FAIR VALUE MEASUREMENTS

We determine estimated fair values of our financial instruments using available information. The fair value amounts discussed in the condensed consolidated financial statements are not necessarily indicative of either the amounts realizable upon disposition of these instruments or our intent or ability to dispose of these assets. The estimated fair value of cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable, dividends payable, income taxes payable and accrued liabilities, approximates their carrying value due to their short-term maturities and are classified as level 1 fair value measurements. The carrying amount of investments designated as trading securities, primarily U.S. Government and Government agency obligations, money market funds, Westwood Funds™ mutual funds and Westwood Trust common trust fund shares, equals their fair value, which is equal to prices quoted in active markets and, with respect to funds, the net asset value of the shares held as reported by the fund. Market values of our money market holdings generally do not fluctuate.

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

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

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	Level 1	Level 2	Level 3	Total
As of September 30, 2013:				
Investments in securities:				
Trading	$ 55,268	$	$	$ 55,268
Total financial instruments	$ 55,268	$	$	$ 55,268
As of December 31, 2012:				
Investments in securities:				
Trading	$ 55,389	$ 4,517	$	$ 59,906
Total financial instruments	$ 55,389	$ 4,517	$	$ 59,906

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

6. INTANGIBLE ASSETS

The following is a summary of our intangible assets at September 30, 2013 and December 31, 2012 (in thousands):

	Weighted Average Amortization Period (years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
September 30, 2013:				
Client relationships	14.2	$ 5,005	$ (1,126)	$ 3,879
Non-compete agreements	2.3	26	(26)	

Total		$ 5,031	$ (1,152)	$ 3,879
December 31, 2012:				
Client relationships	14.2	$ 5,005	$ (857)	$ 4,148
Non-compete agreements	2.3	26	(25)	1
Total		$ 5,031	$ (882)	$ 4,149

Amortization expense was $270,000 and $366,000 for the nine months ended September 30, 2013 and 2012, respectively.

Estimated amortization expense for intangible assets for the next five years follows (in thousands):

For the Year ending December 31,	Estimated Amortization Expense
2013	$ 359
2014	359
2015	359
2016	359
2017	359

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

7. BALANCE SHEET COMPONENTS

Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) were as follows (in thousands):

	As of September 30, 2013	As of December 31, 2012
Foreign currency translation adjustment	$ (101)	$ 30
Accumulated other comprehensive income (loss)	$ (101)	$ 30

Accrued Dividends

Accrued dividends of $1,053,000 at September 30, 2013 are dividends accrued on unvested restricted shares that are expected to vest after one year. When those unvested restricted shares vest, the dividends accrued on those shares will be paid.

8. VARIABLE INTEREST ENTITIES

Westwood Trust sponsors common trust funds (CTFs) for its clients. These funds allow clients to commingle assets to achieve economies of scale. Westwood Management provides investment advisory services to the Westwood Funds , a family of mutual funds, and to two collective investment trusts (CITs). Some clients of Westwood Management hold their investments in ten limited liability companies (LLCs) that were formed and sponsored by McCarthy Group Advisors, L.L.C. The CTFs, Westwood Funds , CITs and LLCs are considered VIEs because our clients, who hold the equity at risk, do not have direct or indirect ability through voting or similar rights to make decisions about the funds that have a significant effect on their success. We receive fees for managing assets in these entities commensurate with market rates.

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

In June 2013, the Company provided 300,000 (or approximately $405,750) to the UCITS Fund for the sole purpose of meeting the minimum capital requirements (and showing economic substance) needed to complete the application process to establish the fund. In August 2013, the UCITS Fund refunded this amount in full. Otherwise, we have not provided any financial support that we were not previously contractually obligated to provide and there are no arrangements that would require us to provide additional financial support to any of the Company s VIEs. Our investments in the Westwood Funds and the CTFs are accounted for as investments in accordance with our other investments described in Note 4.

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table displays assets under management, corporate money invested and risk of loss in each vehicle (in millions).

	As of September 30, 2013		
	Assets Under Management	Corporate Investment	Risk of Loss
Westwood Funds	$ 2,372	$ 13.1	$ 13.1
Common Trust Funds	2,516		
Collective Investment Trusts	449		
LLCs	148		
UCITS Fund	381		

	As of December 31, 2012		
	Assets Under Management	Corporate Investment	Risk of Loss
Westwood Funds	$ 1,603	$ 10.9	$ 10.9
Common Trust Funds	2,091	4.5	4.5
Collective Investment Trusts	366		
LLCs	255		

9. EMPLOYEE BENEFITS

Stock Based Compensation

The Plan reserves shares of Westwood common stock for issuance to eligible employees, directors and consultants of Westwood or its subsidiaries in the form of restricted stock and stock options. As of September 30, 2013, the total number of shares that may be issued under the Plan (including predecessor plans) may not exceed 3,898,100 shares and approximately 705,000 shares remained available for issuance under the Plan.

The Share Award Plan of Westwood Holdings Group, Inc. for Service provided in Canada to its Subsidiaries (the Canada EB Plan) provides compensation in the form of common stock for services performed by persons to

Westwood International. As described in Note 2, the trust formed pursuant to the Canada EB Plan holds 20,251 shares of Westwood common stock.

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

	Nine months ended September 30,	
	2013	2012
Service condition restricted stock expense	$ 5,859	$ 5,656
Performance-based restricted stock expense	2,720	1,979
Total stock based compensation expense	$ 8,579	$ 7,635

Restricted Stock

Under the Plan, we have granted to employees and non-employee directors restricted stock that is subject to a service condition, and to certain key employees restricted stock that is subject to both a service condition and a performance condition. As of September 30, 2013, approximately $25.0 million of remaining unrecognized compensation cost is expected to be recognized over a remaining weighted-average period of 2.75 years. Our two types of restricted stock grants are discussed below.

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Employee and non-employee director restricted share grants

Restricted shares granted to employees vest over four years and non-employee directors shares vest over one year.

The following table details the status and changes in our restricted stock grants that are subject only to a service condition for the nine months ended September 30, 2013:

Restricted shares subject only to a service condition:	Shares	Weighted Average Grant Date Fair Value
Non-vested, January 1, 2013	560,025	$ 37.52
Granted	205,624	43.68
Vested	(210,980)	35.87
Forfeited	(32,497)	39.60
Non-vested, September 30, 2013	522,172	40.49

Performance-based restricted share grants

Under the Plan, we granted to certain key employees restricted shares that vest over five years, provided that annual performance goals established by Westwood s Compensation Committee are met. In February 2013, the Compensation Committee established the 2013 goal as adjusted pre-tax income of at least $27.0 million, representing a five-year compound annual growth rate in excess of 10% over annual adjusted pre-tax income recorded in 2008 (excluding a 2008 non-recurring performance fee of $8.7 million). Our adjusted pre-tax income is determined based on our audited financial statements and is equal to income before income taxes increased by expenses incurred for the year for (i) incentive compensation for all officers and employees and (ii) performance-based restricted stock awards, and excluding start up, non-recurring, and similar expense items. In the first quarter of 2013, we concluded that it was probable that we would meet the performance goals required to vest the applicable percentage of the performance-based restricted shares this year and began recording expense related to those shares.

The following table details the status and changes in our restricted stock grants that are subject to service and performance conditions for the nine months ended September 30, 2013:

Restricted shares subject to service and performance conditions:	Shares	Weighted Average Grant Date Fair Value
Non-vested, January 1, 2013	230,000	$ 39.49
Granted	90,000	43.85
Vested		
Forfeited		
Non-vested, September 30, 2013	320,000	40.72

Deferred Share Units

We established a deferred share unit (DSU) plan for employees and directors of Westwood International. A DSU is an award linked to the value of Westwood s common stock, and represented by a notional credit to a participant account. The value of a DSU is initially equal to the value of a share of our common stock. DSUs vest 20%, 40%, 60%, and 80% after two, three, four and five years of service, respectively. DSUs become fully vested after six years of service by the participant and the liability for these units is settled in cash upon termination of the participant s service. We record expense for DSUs based on the number of units vested on a straight line basis, which may increase or decrease based on changes in the price of our common shares, and will increase for additional units received from dividends declared on our shares. In the nine months ended September 30, 2013, we issued and have outstanding 2,710 deferred share units at a weighted average grant date fair value of $40.83 per unit.

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Mutual Fund Share Incentive Awards

We annually grant mutual fund incentive awards to certain employees which are annual performance bonus awards based on our mutual funds achieving certain performance goals. Awards granted are notionally credited to a participant account maintained by the Company representing a number of mutual fund shares equal to the award amount divided by the net closing value of a fund share on the date the amount is credited to the account.

These awards vest after approximately one year of service following the year the award is earned by the participant. We begin accruing a liability for mutual fund incentive awards when we determine it is probable that the award will be earned and record expense for these awards over the service period of the award, which is approximately two years. During the year in which the amount of the award is determined, we record expense based on the expected value of the award. After the award is earned, we record expense based on the value of the shares awarded and the percentage of the vesting period that has transpired. Our liability under these awards may increase or decrease based on changes in the value of the mutual fund shares awarded, including reinvested income from the mutual funds during the vesting period. Upon vesting, participants receive the value of the mutual fund share awards adjusted for earnings or losses attributable to the underlying mutual funds. For the nine months ended September 30, 2013, we recorded expense of $1.8 million related to mutual fund share incentive awards. As of September 30, 2013, we had an accrued liability of $1.9 million related to mutual fund incentive awards.

10. RELATED PARTY TRANSACTIONS

The Company engages in transactions with its affiliates in the ordinary course of business. Westwood International provides investment advisory services to the UCITS Fund. Certain members of the Company s management and board of directors serve on the board of directors of the UCITS Fund, which began operations in August 2013. Under the terms of the investment advisory agreements, the Company earns quarterly fees that are paid by clients of the UCITS Fund. The fees are based on negotiated fee schedules applied to AUM. These fees are commensurate with market rates and are negotiated and contracted at arm s length. As of September 30, 2013, the Company did not receive any fees from the UCITS Fund.

11. COMMITMENTS AND CONTINGENCIES

On August 3, 2012, AGF Management Limited and AGF Investments Inc. (AGF) filed a lawsuit in the Ontario Superior Court of Justice against Westwood, certain Westwood employees and executive recruiting firm Warren International, LLC. The action relates to the hiring of certain members of Westwood s global and emerging markets investment team who were previously employed by AGF. AGF is alleging that the former employees breached certain obligations when they resigned from AGF, and that Westwood and Warren induced such breaches. AGF is seeking an unspecified amount of damages and punitive damages of $10 million (CAD) in the lawsuit. On November 5, 2012, Westwood issued a response to AGF s lawsuit with a counterclaim against AGF for defamation. Westwood is seeking $1 million (CAD) in general damages, $10 million (CAD) in special damages, $1 million (CAD) in punitive damages and costs. On November 6, 2012, AGF filed a second lawsuit against Westwood, Westwood Management and an employee of a Westwood subsidiary, alleging that the employee made defamatory statements about AGF. In this second lawsuit, AGF is seeking $5 million (CAD) in general damages, $1 million (CAD) per defendant in punitive damages, unspecified special damages, interest and costs. The pleadings phase for both claims and the counterclaim was closed in late January and we are currently in the discovery phase. During this phase, the parties will exchange documents and depositions will be taken. It is currently anticipated that discovery will be completed in the first quarter of 2014. No assurances can be given that delays will not occur.

While we intend to vigorously defend both actions and pursue the counterclaims, we are currently unable to estimate the ultimate aggregate amount of monetary gain, loss or financial impact of these actions and counterclaims. Defending these actions and pursuing these counterclaims may be expensive for us and time consuming for our personnel. While we do not currently believe these proceedings will have a material impact, adverse resolution of these actions and counterclaims could have a material adverse effect on our business, financial condition or results of operations.

Our policy is to not accrue estimated legal fees and directly related costs as part of potential loss contingencies. We have agreed with our directors & officers insurance provider that 50% of the defense costs related to both AGF claims, but not including Westwood s counterclaim against AGF, will be covered by insurance. We expense legal fees and directly-related costs as they are incurred. We have recorded a receivable of $356,000 as of September 30, 2013 which is our current estimate of the expenses incurred related to this lawsuit that we expect to recover under our insurance policies. This receivable is part of Other current assets on our condensed consolidated balance sheet.

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. SEGMENT REPORTING

We operate two segments: Advisory and Trust. These segments are managed separately based on the types of products and services offered and their related client bases. We evaluate the performance of our segments based primarily on income before income taxes. Westwood Holdings Group, Inc. (Westwood Holdings), the parent company of our Advisory and Trust segments, does not have revenues or employees and is the entity in which we record stock-based compensation expense.

Advisory

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

Trust

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

There are no separate segment accounting policies. Intersegment balances that eliminate in consolidation have been applied to the appropriate segment.

	Advisory	Trust	Westwood Holdings	Eliminations	Consolidated
			(in thousands)		
Three months ended September 30, 2013					
Net revenues from external sources	$ 18,325	$ 4,673	$	$	$ 22,998
Net intersegment revenues	2,937			(2,937)	
Income before income taxes	8,701	771	(2,706)		6,766
Segment assets	103,526	13,849	(12,449)		104,926
Segment goodwill	5,219	6,036			11,255
Three months ended September 30, 2012					

Net revenues from external sources	$ 15,226	$ 3,715	$	$	$ 18,941
Net intersegment revenues	1,564	3		(1,567)	
Income before income taxes	6,666	551	(2,886)		4,331
Segment assets	83,744	13,932	(5,733)		91,943
Segment goodwill	5,219	6,036			11,255
Nine months ended September 30, 2013					
Net revenues from external sources	$ 53,108	$ 13,465	$	$	$ 66,573
Net intersegment revenues	7,194	9		(7,203)	
Income before income taxes	25,203	2,072	(8,057)		19,218
Nine months ended September 30, 2012					
Net revenues from external sources	$ 45,927	$ 10,944	$	$	$ 56,871
Net intersegment revenues	4,020	12		(4,032)	
Income before income taxes	20,091	1,712	(7,636)		14,167

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

Forward-Looking Statements

Statements in this report that are not purely historical facts, including, without limitation, statements about our expected future financial position, results of operations or cash flows, as well as other statements including, without limitation, words such as anticipate, believe, plan, estimate, expect, intend, should, could, goal, ma on track, comfortable with, optimistic and other similar expressions, constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results and the timing of some events could differ materially from those projected in or contemplated by the forward-looking statements due to a number of factors, including, without limitation, the risks described under Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC, and those set forth below:

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

You should not unduly rely on these forward-looking statements, which speak only as of the date of this report. We are not obligated and do not undertake an obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events or otherwise.

Overview

We manage investment assets and provide services for our clients through our subsidiaries, Westwood Management, Westwood Trust and Westwood International. Westwood Management provides investment advisory services to corporate and public retirement plans, endowments and foundations, the Westwood Funds , other mutual funds, individuals and common trust funds sponsored by Westwood Trust. Westwood Trust provides trust and custodial services and participation in common trust funds that it sponsors to institutions and high net worth individuals. Westwood International was established in the second quarter of 2012 and provides global equity and emerging markets investment advisory services to institutional clients, the Westwood Funds , other mutual funds, common trust funds sponsored by Westwood Trust and to Westwood Investment Funds PLC, an Ireland-based umbrella fund organized pursuant to the European Union s Undertakings for Collective Investment in Transferable Securities, also referred to as UCITS. Our revenues are generally derived from fees based on a percentage of assets under management. We believe we have established a track record of delivering competitive risk-adjusted returns for our clients. On an asset-weighted basis, 90 percent of our investment strategies have delivered above-benchmark performance and more than 90 percent have experienced below-benchmark volatility over the past 10 years. Percentages stated in this section are rounded to the nearest whole percent.

Revenues

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

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

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

Assets Under Management

Assets under management increased $3 billion to $17.1 billion at September 30, 2013 compared with $14.1 billion at September 30, 2012. The average of beginning and ending assets under management for the third quarter of 2013 was $16.5 billion compared to $13.6 billion for the third quarter of 2012, an increase of 21%.

The following table displays assets under management as of September 30, 2013 and 2012:

	As of September 30, (in millions)		% Change
	2013	2012	September 30, 2013 vs. 2012
Institutional	$ 10,929	$ 9,208	18.7%
Private Wealth	3,821	3,270	16.9
Mutual Funds	2,372	1,594	48.8
Total Assets Under Management	$ 17,122	$ 14,072	21.7%

- Institutional includes separate accounts of corporate pension and profit sharing plans, public employee retirement funds, Taft Hartley plans, endowments, foundations and individuals; the UCITS Fund; subadvisory relationships where Westwood provides investment management services for funds offered by other financial institutions; and managed account relationships with brokerage firms and other registered investment advisors which offer Westwood products to their customers.

- Private Wealth includes assets for which Westwood Trust provides trust and custodial services and participation in common trust funds that it sponsors to institutions and high net worth individuals pursuant to trust or agency agreements. Investment subadvisory services are provided for the common trust funds by Westwood Management, Westwood International and external, unaffiliated subadvisors. For certain assets in this category, Westwood Trust currently provides limited custody services for a minimal or no fee, but views these assets as potentially converting to fee-generating managed assets in the future. As an example, some assets in this category consist of low-basis stock currently being held in custody for clients, but we believe there is potential for these assets to convert to fee-generating managed assets during an inter-generational transfer of wealth at some future date. Also included are assets acquired in the McCarthy Group Advisors, L.L.C. transaction, described in Note 6 of the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012.

- Mutual Funds include the Westwood Funds , a family of U.S.-registered mutual funds for which Westwood Management serves as advisor.

Roll-Forward of Assets Under Management

($ millions)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine months Ended September 30, 2013	Nine months Ended September 30, 2012
Institutional				
Beginning of period assets	$ 10,084	$ 8,511	$ 9,225	$ 8,735
Inflows	756	495	1,650	1,055
Outflows	(437)	(321)	(1,480)	(1,619)
Net flows	319	174	170	(564)
Market appreciation/(depreciation)	526	523	1,534	1,037
Net change	845	697	1,704	473
End of period assets	10,929	9,208	10,929	9,208
Private Wealth				
Beginning of period assets	3,640	3,166	3,339	3,051
Inflows	87	62	387	290
Outflows	(46)	(91)	(278)	(347)
Net flows	41	(29)	109	(57)
Market appreciation/(depreciation)	140	133	373	276
Net change	181	104	482	219
End of period assets	3,821	3,270	3,821	3,270
Mutual Funds				
Beginning of period assets	2,121	1,476	1,603	1,293
Inflows	257	100	676	352
Outflows	(63)	(55)	(135)	(190)
Net flows	194	45	541	162
Market appreciation/(depreciation)	57	73	228	139
Net change	251	118	769	301
End of period assets	2,372	1,594	2,372	1,594
Total				
Beginning of period assets	15,845	13,153	14,167	13,079
Inflows	1,100	657	2,713	1,697
Outflows	(546)	(467)	(1,893)	(2,156)
Net flows	554	190	820	(459)
Market appreciation/(depreciation)	723	729	2,135	1,452
Net change	1,277	919	2,955	993
End of period assets	$ 17,122	$ 14,072	$ 17,122	$ 14,072

Three months ended September 30, 2013 and 2012

The $1.3 billion increase in assets under management for the three months ended September 30, 2013 was due to market appreciation of $723 million and inflows of $1.1 billion, partially offset by outflows of $546 million. Inflows were primarily driven by inflows into institutional accounts in our Emerging Markets strategies managed by

Westwood International; inflows into the Westwood Income Opportunity mutual fund and inflows from certain clients from our Master Limited Partnership (MLP) strategy. Outflows were primarily related to withdrawals and rebalancing by certain clients in our LargeCap Value strategy.

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

Nine months ended September 30, 2013 and 2012

The $3.0 billion increase in assets under management for the nine months ended September 30, 2013 was due to market appreciation of $2.1 billion and inflows of $2.7 billion, partially offset by outflows of $1.9 billion. Inflows were primarily driven by inflows into institutional accounts in our Emerging Markets strategies managed by Westwood International; inflows into the Westwood Income Opportunity mutual fund, and inflows from certain clients from our MLP strategy. Outflows were primarily related to withdrawals and rebalancing by certain clients in our LargeCap Value strategy.

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

Results of Operations

In the second quarter of 2012, as part of our strategy to expand our research capabilities and product offerings, we established Westwood International, based in Toronto, Canada, to manage global and emerging markets equity strategies. Westwood International began providing investment management services during the third quarter of 2012. At September 30, 2013, Westwood International had assets under management in excess of $2.0 billion. As Westwood International has only recently commenced operations, our condensed consolidated statement of comprehensive income for the nine months ended September 30, 2013 includes $7.0 million in costs related to Westwood International s operations and revenues of $5.8 million.

The following table (dollars in thousands) and discussion of our results of operations for the three and nine months ended September 30, 2013 is based upon data derived from the condensed consolidated statements of comprehensive income contained in our condensed consolidated financial statements and should be read in conjunction with those statements, included elsewhere in this report.

	Three months ended September 30,		Nine months ended September 30,		% Change	
					Three months ended September 30, 2013 vs. September 30, 2012	Nine months ended September 30, 2013 vs. September 30, 2012
	2013	2012	2013	2012		
Revenues						
Advisory fees						
Asset-based	$ 17,956	$ 14,485	$ 49,989	$ 42,677	24%	17%
Performance-based	26	69	2,561	1,251	(62)	105
Trust fees	4,672	3,715	13,463	10,943	26	23
Other, net	344	672	560	2,000	(49)	(72)

Total revenues	22,998	18,941	66,573	56,871	21	17
Expenses						
Employee compensation and benefits	12,480	11,397	36,230	32,196	10	13
Sales and marketing	326	350	947	823	(7)	15
Westwood mutual funds	599	292	1,465	776	105	89
Information technology	690	649	2,024	1,874	6	8
Professional services	887	739	2,966	3,681	20	(19)
General and administrative	1,250	1,183	3,723	3,354	6	11
Total expenses	16,232	14,610	47,355	42,704	11	11
Income before income taxes	6,766	4,331	19,218	14,167	56	36
Provision for income taxes	2,447	1,827	7,187	5,680	34	27
Net income	$ 4,319	$ 2,504	$ 12,031	$ 8,487	72%	42%

Three months ended September 30, 2013 compared to three months ended September 30, 2012

Total Revenues. Our total revenues increased by 21% to $23.0 million for the three months ended September 30, 2013 compared with $18.9 million for the three months ended September 30, 2012. Asset-based advisory fees increased by 24% to $18.0 million for the three months ended September 30, 2013 compared with $14.5 million for the three months ended September 30, 2012 as a result of increased average assets under management due to market appreciation and asset inflows from new and existing clients, partially offset by the withdrawal of assets by certain clients. Performance-based advisory fees were $26,000 and $69,000 in the third quarters of 2013 and 2012, respectively related to adjustments to the performance fees we earned in the second quarter of each year. Trust fees increased by 26% to $4.7 million for the three months ended September 30, 2013 compared with $3.7 million for the three months ended September 30, 2012 as a result of increased assets under management at Westwood Trust primarily due to market appreciation.

Other revenues, which generally consist of interest and investment income, decreased by $328,000 for the three months ended September 30, 2013 compared with the three months ended September 30, 2012 primarily due to a decrease in net realized and unrealized gains on investments.

Employee Compensation and Benefits. Employee compensation and benefits costs generally consist of salaries, incentive compensation, equity-based compensation expense and benefits. Employee compensation and benefits costs were $12.5 million and $11.4 million for the three months ended September 30, 2013 and 2012, respectively. Increases of $636,000 in mutual fund incentive award expense and $846,000 in cash-based incentive compensation expense were partially offset by a decrease in amortization expense for signing bonuses of $291,000. We had 103 full-time employees as of September 30, 2013 compared to 97 full-time employees as of September 30, 2012.

Sales and Marketing. Sales and marketing costs relate to our marketing efforts, including travel and entertainment, direct marketing and advertising costs. Sales and marketing costs decreased by 7% to $326,000 for the three months ended September 30, 2013 compared with $350,000 for the three months ended September 30, 2012 primarily as the result of decreased direct marketing expenses.

Westwood Mutual Funds. Westwood mutual funds expenses relate to our marketing, distribution, administration and acquisition efforts related to the Westwood Funds . Westwood mutual funds expenses increased 105% to $599,000 for the three months ended September 30, 2013 compared with $292,000 for the three months ended September 30, 2012. In the fourth quarter of 2012, we launched three new mutual funds, which increased our fund reimbursement and shareholder servicing costs.

Information Technology. Information technology expenses are generally costs associated with proprietary investment research tools, maintenance and support, computing hardware, software licenses, telecommunications and other related costs. Information technology costs increased by 6% to $690,000 for the three months ended September 30, 2013 compared with $649,000 for the three months ended September 30, 2012 primarily due to increased maintenance and support.

Professional Services. Professional services expenses generally consist of costs associated with subadvisory fees, audit, legal and other professional services. Professional services expenses increased by 20% to $887,000 for the three months ended September 30, 2013 compared with $739,000 for the three months ended September 30, 2012 and were 3.9% of total revenues in both periods.

General and Administrative. General and administrative expenses generally consist of costs associated with the lease of our office space, investor relations, licenses and fees, depreciation, insurance, office supplies and other miscellaneous expenses. General and administrative expenses increased by 6% to $1.25 million for the three months ended September 30, 2013 compared with $1.2 million for the three months ended September 30, 2012 primarily due to rent expense for our new Toronto office, partially offset by a decrease in acquisition related amortization expense.

Provision for Income Tax Expense. Provision for income tax expenses increased by 34% to $2.4 million for the three months ended September 30, 2013 compared with $1.8 million for the three months ended September 30, 2012. The effective tax rate decreased to 36.2% for the three months ended September 30, 2013 from 42.2% for the three months ended September 30, 2012. The 2013 period had lower operating losses from Westwood International versus the 2012 period. The Company receives a tax benefit for these losses at the Canadian tax rate which is lower than the U.S. tax rate and this results in the lower combined effective tax rate in the 2013 period.

Nine months ended September 30, 2013 compared to nine months ended September 30, 2012

Total Revenues. Our total revenues increased by 17% to $66.6 million for the nine months ended September 30, 2013 compared with $56.9 million for the nine months ended September 30, 2012. Asset-based advisory fees increased by 17% to $50.0 million for the nine months ended September 30, 2013 compared with $42.7 million for the nine months ended September 30, 2012 as a result of increased average assets under management due to market appreciation and asset inflows from new and existing clients, partially offset by the withdrawal of assets by certain clients. Performance based advisory fees increased 105% to $2.6 million for the nine months ended September 30, 2013 compared with $1.3 million for the nine months ended September 30, 2012. Trust fees increased by 23% to $13.5 million for the nine months ended September 30, 2013 compared with $10.9 million for the nine months ended September 30, 2012 as a result of increased assets under management at Westwood Trust primarily due to market appreciation. Other revenues, which generally consist of interest and investment income decreased to $560,000 for the nine months ended September 30, 2013 compared with $2.0 million for the nine months ended September 30, 2012. Other revenues decreased by $1.4 million primarily due to the gain of $803,000 from the sale of 100,000 Teton shares in the 2012 period for which there was no realized gain in the 2013 period and $430,000 in net unrealized losses on investments in the 2013 period versus $260,000 of net unrealized gains on investments in the 2012 period.

Employee Compensation and Benefits. Employee compensation and benefits costs increased by 13% to $36.2 million for the nine months ended September 30, 2013 compared with $32.2 million for the nine months ended September 30, 2012. The increase was primarily due to increases of $944,000 in restricted stock expense, $1.8 million in mutual fund incentive award expense, and $1.3 million in salary expense due primarily to increased average headcount and salary increases. We had 103 full-time employees as of September 30, 2013 compared to 97 full-time employees as of September 30, 2012.

Sales and Marketing. Sales and marketing costs increased by 15% to $947,000 for the nine months ended September 30, 2013 compared with $823,000 for the nine months ended September 30, 2012 primarily due to increased direct marketing expenses.

Westwood Mutual Funds. Westwood mutual funds expenses increased 89% to $1.5 million for the nine months ended September 30, 2013 compared with $776,000 for the nine months ended September 30, 2012. In the fourth quarter of 2012, we launched three new mutual funds, which increased our fund reimbursement costs and shareholder servicing.

Information Technology. Information technology costs increased by 8% to $2.0 million for the nine months ended September 30, 2013 compared with $1.9 million for the nine months ended September 30, 2012 primarily due to increased research expenses and increased telecommunications expenses.

Professional Services. Professional services expenses decreased by 19% to $3.0 million for the nine months ended September 30, 2013 compared with $3.7 million for the nine months ended September 30, 2012 primarily due to one-time recruiting and legal fees related to the hiring of Westwood International employees in the 2012 period.

General and Administrative. General and administrative expenses increased by 11% to $3.7 million for the nine months ended September 30, 2013 compared with $3.4 million for the nine months ended September 30, 2012 primarily due to rent expense for our new Toronto office and increased subscriptions, custody and non-income tax expense, partially offset by a decrease in acquisition related amortization expense.

Provision for Income Tax Expense. Provision for income tax expenses increased by 27% to $7.2 million for the nine months ended September 30, 2013 compared with $5.7 million for the nine months ended September 30, 2012. The effective tax rate decreased to 37.4% for the nine months ended September 30, 2013 from 40.0% for the nine months ended September 30, 2012. The 2013 period had lower operating losses from Westwood International versus the 2012 period. The Company receives a tax benefit for these losses at the Canadian tax rate which is lower than the U.S. tax rate and this results in the lower combined effective tax rate in the 2013 period.

Supplemental Financial Information

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

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

Our Economic Earnings increased by 32% to $7.3 million for the three months ended September 30, 2013 compared with $5.6 million for the three months ended September 30, 2012. For the nine months ended September 30, 2013, Economic Earnings increased by 26% to $21.0 million compared with $16.6 million for the nine months ended September 30, 2012.

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

	Three Months Ended September 30		%
	2013	2012	Change
Net Income	$ 4,319	$ 2,504	72%
Add: Restricted stock expense	2,887	2,886	
Add: Intangible amortization	90	122	(26)
Add: Deferred taxes on goodwill	38	47	(19)
Economic Earnings	$ 7,334	$ 5,559	32%

	Nine Months Ended September 30		%
	2013	2012	Change
Net Income	$ 12,031	$ 8,487	42%
Add: Restricted stock expense	8,579	7,635	12
Add: Intangible amortization	270	366	(26)
Add: Deferred taxes on goodwill	114	142	(20)
Economic Earnings	$ 20,994	$ 16,630	26%

Liquidity and Capital Resources

We fund our operations and cash requirements with cash generated from operating activities. As of September 30, 2013, we had no long-term debt. The changes in net cash provided by operating activities generally reflect the changes in earnings plus the effects of non-cash items and changes in working capital. Changes in working capital, especially accounts receivable and accounts payable, are generally the result of timing differences between collection of fees billed and payment of operating expenses.

During the nine months ended September 30, 2013, cash flow provided by operating activities, principally our investment advisory business, was $19.2 million. At September 30, 2013, we had working capital of $66.2 million. Cash flow used in investing activities during the nine months ended September 30, 2013 of $651,000 was related to the purchases of fixed assets. Cash flow used in financing activities during the nine months ended September 30, 2013 of $10.3 million was due to the payment of dividends and the purchase of treasury shares partially offset by tax benefits from equity-based compensation.

We had cash and investments of $67.3 million as of September 30, 2013 and $63.7 million as of December 31, 2012. Dividends payable and accrued dividends were $4.6 million and $1.2 million as of September 30, 2013 and December 31, 2012, respectively. We had no liabilities for borrowed money at September 30, 2013.

Our future liquidity and capital requirements will depend upon numerous factors, including our results of operations, the timing and magnitude of capital expenditures or strategic initiatives, our dividend policy and other business and risk factors described under Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC. We believe that current cash and short-term investment balances and cash generated from operations will be sufficient to meet the operating and capital requirements of our ordinary business operations through at least the next twelve months. However, there can be no assurance that we will not require additional financing within this time frame. The failure to raise needed capital on attractive terms, if at all, could have a material adverse effect on our business, financial condition and results of operations.

Contractual Obligations

There have been no significant changes in our contractual obligations since December 31, 2012.

Critical and Significant Accounting Policies and Estimates

We have updated our critical or significant accounting policies and estimates to include the following addition.

Consolidation

The primary beneficiary of variable interest entities (VIEs) consolidate the VIEs. A VIE is an entity in which (i) the total equity investment at risk is not sufficient to enable the entity to finance its activities without subordinated financial support or (ii) the at-risk equity holders do not have the normal characteristics of a controlling financial interest. That is, the at-risk equity holders do not have the obligation to absorb losses, the right to receive residual returns and/or the right to direct the activities of the entity that most significantly impact the entity s economic performance. Westwood Trust sponsors common trust funds (CTFs) for its clients. These funds allow clients to commingle assets to achieve economies of scale. Westwood Management provides investment advisory services to the Westwood Funds , a family of mutual funds, and to two collective investment trusts (CITs). Some clients of Westwood Management hold their investments in ten limited liability companies (LLCs) that were formed and sponsored by McCarthy Group Advisors, L.L.C. Westwood International provides investment advisory services to the UCITS Fund. The CTFs, Westwood Funds , CITs LLCs and the UCITS Fund (the Westwood VIEs) are considered VIEs because our clients, who hold the equity at risk, do not have direct or indirect ability through voting or similar rights to make decisions about the funds that have a significant effect on their success. We receive fees for managing assets in these entities commensurate with market rates.

We evaluate all of our advisory relationships and CTFs to determine whether or not we qualify as the primary beneficiary based on whether there is an obligation to absorb the majority of expected losses or a right to receive the majority of residual returns. Since all losses and returns are distributed to the shareholders of the Westwood VIEs, we are not the primary beneficiary and consequently the Westwood VIEs are not included in our condensed consolidated financial statements. We have not provided any financial support that we were not previously contractually obligated to provide and there are no arrangements that would require us to provide additional financial support to any of the Westwood VIEs.

Assessing if an entity is a VIE involves judgment and analysis. Factors included in this assessment include the legal organization of the entity, the Company s contractual involvement with the entity and any related party or de facto agent implications of the Company s involvement with the entity. Determining if the Company is the primary beneficiary of a VIE also requires significant judgment. There is judgment involved to assess if the Company has the power to direct the activities that most significantly impact the entity s economic results and to assess if the Company has an obligation to absorb the majority of expected losses or a right to receive the majority of residual returns.

Accounting Developments

In February 2013, the Financial Accounting Standards Board (FASB) issued new guidance on reporting amounts reclassified out of accumulated other comprehensive income. The new guidance does not change the requirements for reporting net income or other comprehensive income in the financial statements, but requires new footnote disclosures regarding the reclassification of accumulated other comprehensive income by component into net income. We do not expect this guidance to have a material effect on our financial statements.

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no significant changes in our Quantitative and Qualitative Disclosures about Market Risk from those previously reported in our Annual Report on Form 10-K for the year ended December 31, 2012.

ITEM 4. CONTROLS AND PROCEDURES

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

For the quarter ended September 30, 2013, there were no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

On August 3, 2012, AGF Management Limited and AGF Investments Inc. (AGF) filed a lawsuit in the Ontario Superior Court of Justice against Westwood, certain Westwood employees and executive recruiting firm Warren International, LLC. The action relates to the hiring of certain members of Westwood s global and emerging markets investment team who were previously employed by AGF. AGF is alleging that the former employees breached certain obligations when they resigned from AGF, and that Westwood and Warren induced such breaches. AGF is seeking an unspecified amount of damages and punitive damages of $10 million (CAD) in the lawsuit. On November 5, 2012, Westwood issued a response to AGF s lawsuit with a counterclaim against AGF for defamation. Westwood is seeking $1 million (CAD) in general damages, $10 million (CAD) in special damages, $1 million (CAD) in punitive damages and costs. On November 6, 2012, AGF filed a second lawsuit against Westwood, Westwood Management and an employee of a Westwood subsidiary, alleging that the employee made defamatory statements about AGF. In this second lawsuit, AGF is seeking $5 million (CAD) in general damages, $1 million (CAD) per defendant in punitive damages, unspecified special damages, interest and costs. The pleadings phase for both claims and the counterclaim was closed in late January and we are currently in the discovery phase. During this phase, the parties will exchange documents and depositions will be taken. It is anticipated that discovery will be completed in the first quarter of 2014. No assurances can be given that delays will not occur.

While we intend to vigorously defend both actions and pursue the counterclaims, we are currently unable to estimate the ultimate aggregate amount of monetary gain, loss or financial impact of these actions and counterclaims. We have agreed with our directors & officers insurance provider that 50% of the defense costs related to both AGF claims, but not including Westwood s counterclaim against AGF, will be covered by insurance. Defending these actions and pursuing these counterclaims may be expensive for us and time consuming for our personnel. While we do not currently believe these proceedings will have a material impact, adverse resolution of these actions and counterclaims could have a material adverse effect on our business, financial condition or results of operations.

ITEM 1A. RISK FACTORS

We face a number of significant risks and uncertainties in our business, which are detailed under Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012 and summarized in this report under Management s Discussion and Analysis of Financial Condition and Results of Operations. These risks and uncertainties may affect our current position and future prospects and should be considered carefully in evaluating us and an investment in our common stock.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
The following table displays information with respect to the treasury shares we purchased during the three months ended September 30, 2013.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs (1)
July 1 through September 30, 2013				
Repurchase program (1)				$ 10,000,000
Employee transactions (2)	629	$ 47.75		

(1) On July 20, 2012, our board of directors authorized management to repurchase up to $10.0 million of our outstanding common stock on the open market or in privately negotiated transactions. The share repurchase program has no expiration date and may be discontinued at any time by the board of directors.

(2) Consists of shares of common stock purchased from a Westwood employee at the market close price on the date of purchase in order to satisfy the employee s tax withholding obligations from vested restricted shares. We anticipate purchasing additional shares in subsequent periods for the same purpose.

ITEM 5. OTHER INFORMATION
The below disclosure is being made pursuant to the instruction contained in Item 5(a) of Form 10-Q , which pertains to information required to be disclosed in a report on Form 8-K during the period covered by this Form 10-Q, but not previously reported. The item number below refers to the applicable Current Report on Form 8-K item number.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On October 17, 2013, the Board of Directors of the Company designated Peter F. Pastorelle, who has served as the Company s Vice President, Accounting since August 22, 2013, as the Company s principal accounting officer. Prior to joining the Company, Mr. Pastorelle, age 54, served as the Corporate Controller for Orthofix International N.V., a publicly-traded global medical device manufacturer from September 2010 to May 2013. From May 2009 to April

2010, Mr. Pastorelle was the Controller for Chi-X Global Inc., an early stage financial services start-up. From September 2007 to December 2008, Mr. Pastorelle served as Vice President Controller for Accoona Corp., an early stage internet technology start-up. Prior to that, Mr. Pastorelle s public company experience included serving as Chief Accounting Officer at Arbinet-thexchange, Inc., a leading bandwidth exchange, and as the Corporate Controller of Xpedite Systems Inc., a provider of outsourced document automation. Since beginning his career at KPMG, LLP (formerly Peat Marwick Mitchell), Mr. Pastorelle has amassed over 30 years of financial experience in a variety of industries, including telecommunications, consumer products, entertainment, financial services and health care. Mr. Pastorelle holds a bachelor s degree from Syracuse University and is a certified public accountant.

The Company will pay Mr. Pastorelle an annual base salary of $150,000 to serve as Vice President, Accounting. Mr. Pastorelle also received a $21,000 bonus on the effective date of his employment. Mr. Pastorelle is eligible to receive equity-based compensation, including restricted stock awards, and may participate in benefit plans generally available to employees of the Company.

ITEM 6. EXHIBITS

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

*Pursuant to Item 601(b)(32) of SEC Regulation S-K, these exhibits are furnished rather than filed with this report.
**These exhibits are furnished herewith. In accordance with Rule 406T of Regulation S-T, these exhibits are not deemed to be filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are not deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.

SIGNATURES

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

Dated: October 17, 2013 WESTWOOD HOLDINGS GROUP, INC.

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

By: /s/ Mark A. Wallace
Mark A. Wallace
Chief Financial Officer