WESTWOOD HOLDINGS GROUP INC
Form 10-Q
October 26, 2016

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

FORM 10-Q

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x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2016
OR
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to .
Commission file number 1-31234

WESTWOOD HOLDINGS GROUP, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	75-2969997
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
200 CRESCENT COURT, SUITE 1200 DALLAS, TEXAS	75201
(Address of principal executive office)	(Zip Code)
(214) 756-6900	
(Registrant’s telephone number, including area code)	

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes 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 14, 2016: 8,799,797.

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WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value and share amounts)
(Unaudited)

	September 30, 2016	December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$30,692	$22,740
Accounts receivable	22,810	19,618
Investments, at fair value	49,849	72,320
Other current assets	2,355	2,926
Total current assets	105,706	117,604
Goodwill	27,144	27,144
Deferred income taxes	10,950	11,042
Intangible assets, net	21,884	23,354
Property and equipment, net of accumulated depreciation of $4,365 and $3,687	4,014	2,192
Total assets	$169,698	$181,336
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$3,498	$3,549
Dividends payable	6,146	5,749
Compensation and benefits payable	13,357	20,264
Contingent consideration	—	9,023
Income taxes payable	2,482	6,268
Total current liabilities	25,483	44,853
Accrued dividends	1,536	1,699
Deferred rent	1,827	817
Total liabilities	28,846	47,369
Commitments and contingencies (Note 12)		
Stockholders' Equity:		
Common stock, $0.01 par value, authorized 25,000,000 shares, issued 9,830,612 and outstanding 8,830,021 shares at September 30, 2016; issued 9,425,309 and outstanding 8,630,687 shares at December 31, 2015	99	94
Additional paid-in capital	159,615	143,797
Treasury stock, at cost - 1,000,591 shares at September 30, 2016; 794,622 shares at December 31, 2015	(44,863)	(34,910)
Accumulated other comprehensive loss	(3,681)	(4,688)
Retained earnings	29,682	29,674
Total stockholders' equity	140,852	133,967
Total liabilities and stockholders' equity	$169,698	$181,336

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 and share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
REVENUES:				
Advisory fees:				
Asset-based	$23,447	$24,940	$67,928	$76,327
Performance-based	226	—	635	2,206
Trust fees	7,690	7,973	22,798	21,044
Other, net	414	(462)	568	(207)
Total revenues	31,777	32,451	91,929	99,370
EXPENSES:				
Employee compensation and benefits	15,637	15,686	47,239	47,507
Sales and marketing	408	419	1,423	1,310
Westwood mutual funds	755	865	2,282	2,593
Information technology	1,874	1,626	6,039	4,085
Professional services	1,903	1,178	4,707	4,281
General and administrative	2,147	2,175	7,028	5,962
Total expenses	22,724	21,949	68,718	65,738
Income before income taxes	9,053	10,502	23,211	33,632
Provision for income taxes	3,166	3,489	8,141	11,214
Net income	$5,887	$7,013	$15,070	$22,418
Other comprehensive income (loss):				
Foreign currency translation adjustments	(453)	(1,386)	1,007	(2,541)
Total comprehensive income	$5,434	$5,627	$16,077	$19,877
Earnings per share:				
Basic	$0.74	$0.90	$1.89	$2.90
Diluted	$0.72	$0.87	$1.84	$2.78
Weighted average shares outstanding:				
Basic	7,995,680	7,808,239	7,952,938	7,737,608
Diluted	8,179,956	8,037,080	8,212,468	8,076,055
Cash dividends declared per share	$0.57	$0.50	$1.71	$1.50

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, 2016
(In thousands, except share amounts)
(Unaudited)

	Common Stock, Par Shares	Common Stock, Par Amount	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
BALANCE, January 1, 2016	8,630,687	$ 94	$143,797	$(34,910)	$ (4,688)	$29,674	$133,967
Net income	—	—	—	—	—	15,070	15,070
Other comprehensive income	—	—	—	—	1,007	—	1,007
Issuance of common stock for acquisition	80,253	1	3,733	—	—	—	3,734
Issuance of restricted stock, net of forfeitures	325,050	4	(4)	—	—	—	—
Dividends declared	—	—	—	—	—	(15,062)	(15,062)
Stock based compensation expense	—	—	12,164	—	—	—	12,164
Reclassification of compensation liability to be paid in shares	—	—	167	—	—	—	167
Tax deficiencies related to stock based compensation	—	—	(242)	—	—	—	(242)
Purchases of treasury stock	(117,452)	—	—	(5,629)	—	—	(5,629)
Issuance of treasury stock under employee stock plans	(10,474)	—	—	(614)	—	—	(614)
Restricted stock returned for payment of taxes	(78,043)	—	—	(3,710)	—	—	(3,710)
BALANCE, September 30, 2016	8,830,021	$ 99	$159,615	$(44,863)	$ (3,681)	$29,682	$140,852

See notes to condensed consolidated financial statements.

WESTWOOD HOLDINGS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$15,070	$22,418
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	732	606
Amortization of intangible assets	1,470	951
Unrealized gains on trading investments	(676)	484
Stock based compensation expense	12,164	12,560
Deferred income taxes	114	(1,923)
Excess tax benefits from stock based compensation	(165)	(1,432)
Net sales of investments - trading securities	23,147	22,679
Other	275	(3)
Change in operating assets and liabilities:		
Accounts receivable	(2,711)	(5,332)
Other current assets	900	236
Accounts payable and accrued liabilities	(82)	537
Compensation and benefits payable	(6,758)	(2,052)
Income taxes payable	(4,637)	1,899
Other liabilities	154	(28)
Net cash provided by operating activities	38,997	51,600
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,680)	(704)
Acquisition of Woodway, net of cash acquired	—	(24,133)
Net cash used in investing activities	(1,680)	(24,837)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchases of treasury stock	(5,629)	—
Purchase of treasury stock under employee stock plans	(614)	(1,327)
Restricted stock returned for payment of taxes	(3,710)	(5,621)
Excess tax benefits from stock based compensation	165	1,432
Payment of contingent consideration in acquisition	(5,562)	—
Cash dividends	(14,827)	(13,065)
Net cash used in financing activities	(30,177)	(18,581)
Effect of currency rate changes on cash	812	(2,430)
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,952	5,752
Cash and cash equivalents, beginning of period	22,740	18,131
Cash and cash equivalents, end of period	$30,692	$23,883
Supplemental cash flow information:		
Cash paid during the period for income taxes	$12,632	$11,664
Common stock issued for acquisition	$3,734	$5,292
Non-cash accrued contingent consideration	$—	$9,102
Accrued dividends	$7,682	$6,452
Tenant allowance included in Property and equipment	$1,128	$—

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”, the “Company”, “we”, “us” or “our”) was incorporated under the laws of the State of Delaware on December 12, 2001. Westwood provides investment management services to institutional investors, private wealth clients and financial intermediaries through its subsidiaries, Westwood Management Corp. and Westwood Advisors, LLC (together “Westwood Management”), Westwood Trust (“Westwood Trust”), and Westwood International Advisors Inc. (“Westwood International”). Revenue is largely dependent on the total value and composition of assets under management (“AUM”). Accordingly, fluctuations in financial markets and in the composition of AUM impact revenues and results of operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed consolidated financial statements are unaudited and are presented in accordance with the requirements for quarterly reports on Form 10-Q and consequently do not include all of the information and footnote disclosures required by accounting principles generally accepted in the United States of America (“GAAP”). The Company’s condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) necessary in the opinion of management 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 in accordance with GAAP and the rules and regulations of the Securities and Exchange Commission (“SEC”).

The accompanying unaudited 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, 2015. 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 include the accounts of Westwood and its subsidiaries. All intercompany accounts and transactions have been eliminated upon consolidation.

Recent Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. The main objective of this update is to enhance the reporting model for financial instruments to provide users of financial statements with more useful information for making decisions. The amendment addresses various aspects of recognition, measurement, presentation and disclosure of financial instruments. The amendment is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are currently evaluating the impact that the application of ASU 2016-01 will have on our consolidated financial statements and disclosures and expect to adopt the new standard in the required time frame.

In February 2016, the FASB issued ASU 2016-02, Leases. ASU 2016-02 requires lessees to recognize a lease liability and a right-of-use asset for all leases at the commencement date, excluding short-term leases. The amendment is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. We are currently evaluating the impact that the application of ASU 2016-02 will have on our consolidated financial statements and disclosures and expect to adopt the standard within the required time frame.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations in ASU 2014-09. The amendment is effective for fiscal years beginning after December 14, 2017, including interim reporting periods within that reporting year. We do not expect the adoption of ASU 2016-08 to have a material impact on our consolidated financial statements and disclosures and expect to adopt the standard within the required time frame.

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

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting. The purpose of the amendment is to simplify the accounting for share-based payment transactions, and includes changes to the accounting for the classification of awards as either equity or liabilities, classification of certain share-based payment items on the statement of cash flows, the accounting for forfeitures and certain income tax consequences. The amendment is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. Amendments related to the presentation of employee taxes paid on the statement of cash flows should be applied retrospectively. Amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement and the practical expedient for estimating expected term should be applied prospectively. An entity may elect to apply the amendments related to the presentation of tax benefits on the statement of cash flows using either a prospective or retrospective transition method. We are currently evaluating the impact that the application of ASU 2016-09 will have on our consolidated financial statements and disclosures and expect to adopt the new standard within the required time frame.

In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing, which clarifies the guidance related to identifying performance obligations and the licensing guidance in ASU 2014-09. The amendment is effective for fiscal years beginning after December 14, 2017, including interim reporting periods within that reporting year. We do not expect the adoption of ASU 2016-10 to have a material impact on our consolidated financial statements and disclosures and expect to adopt the standard within the required time frame.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. The amendment addresses eight classification issues related to the statement of cash flows, including debt prepayment or debt extinguishment costs, settlement of zero-coupon bonds, contingent consideration payments made after a business combination, proceeds from settlements of insurance claims, proceeds from settlements of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and classification of separately identifiable cash flows. Adoption should be applied using the retrospective transition method. Early adoption is permitted. The amendment is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. We do not expect the adoption of ASU 2016-08 to have a material impact on our consolidated financial statements and disclosures and expect to adopt the standard within the required time frame.

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 applicable period. Diluted earnings per share is computed based on the weighted average number of shares outstanding plus the effect of any dilutive shares of restricted stock granted to employees and non-employee directors. There were approximately 2,453 and 306 anti-dilutive restricted shares for the three months ended September 30, 2016 and 2015, respectively, and 2,301 and 4,750 anti-dilutive restricted shares for the nine months ended September 30, 2016 and 2015, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	$5,887	$ 7,013	$15,070	$ 22,418
Weighted average shares outstanding - basic	7,995,680	7,808,239	7,952,938	7,737,608
Dilutive potential shares from unvested restricted shares	184,276	185,139	259,530	316,253
Dilutive potential shares from contingent consideration	—	43,702	—	22,194
Weighted average shares outstanding - diluted	8,179,956	8,037,080	8,212,468	8,076,055

Earnings per share:				
Basic	$0.74	$ 0.90	$1.89	$ 2.90
Diluted	$0.72	$ 0.87	$1.84	$ 2.78

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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 are accounted for as trading securities.

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
September 30, 2016:				
U.S. Government and Government agency obligations	$25,209	$ 38	$ —	$ 25,247
Money market funds	12,421	—	—	12,421
Equity funds	12,027	233	(79)	12,181
Marketable securities	$49,657	$ 271	$ (79)	$ 49,849
December 31, 2015:				
U.S. Government and Government agency obligations	$50,972	$ 15	$ (15)	$ 50,972
Money market funds	9,179	—	—	9,179
Equity funds	12,653	—	(484)	12,169
Marketable securities	$72,804	$ 15	$ (499)	$ 72,320

As of September 30, 2016 and December 31, 2015, $11.1 million and $10.7 million in corporate funds, respectively, were invested in Westwood Funds®, Westwood Common Trust Funds and the UCITS Fund. See Note 8 "Variable Interest Entities."

5. FAIR VALUE MEASUREMENTS

We determine estimated fair values for our financial instruments using available information. The fair value amounts discussed in our condensed consolidated financial statements are not necessarily indicative of either 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, other current assets, accounts payable and accrued liabilities, dividends payable, compensation and benefits payable and income taxes payable approximates their carrying value due to their short-term maturities. The carrying amount of investments designated as "trading" securities, primarily U.S. Government and Government agency obligations, money market funds, Westwood Funds® mutual funds, the UCITS Fund and Westwood Trust common trust fund shares, equals their fair value based on prices quoted in active markets and, with respect to common trust funds, the net asset value of the shares held as reported by each fund. Market values of our money market holdings generally do not fluctuate. The fair value of contingent consideration related to the Woodway acquisition was categorized as a level 3 liability, as the measurement of the Earn-Out Amount was based primarily on significant inputs not observable in the market. For more information about the Woodway acquisition, see Note 6 "Acquisitions, Goodwill and Other Intangibles".

ASC 820, Fair Value Measurements and Disclosures, 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
- level 3 – significant 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 and liabilities as of the dates indicated within the fair value hierarchy (in thousands).

	Level 1	Level 2	Level 3	Total
As of September 30, 2016:				
Investments in trading securities	$46,697	$3,152	$—	$49,849
Total financial instruments	$46,697	$3,152	$—	$49,849
As of December 31, 2015:				
Investments in trading securities	$69,260	$3,060	$—	$72,320
Contingent consideration	—	—	(9,023)	(9,023)
Total financial instruments	$69,260	$3,060	$(9,023)	$63,297

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 calculated using indirectly observed inputs, as the unit price is based on the market value of the underlying investments traded on an active market. We can make withdrawals from the common trust funds on a daily basis as needed for liquidity and there are no restrictions on redemption as of September 30, 2016.

Contingent consideration categorized as a level 3 liability is related to the acquisition of Woodway. As of the acquisition date, the Company estimated that the Earn-Out Amount would be $9.1 million, based on then existing facts and circumstances.

For the period subsequent to the initial measurement of the contingent consideration, changes in the fair value of the contingent consideration are recorded in "Other, net" on the condensed consolidated statements of comprehensive income. During the first quarter of 2016, the Company revised its estimate of the Earn-Out Amount to $9.3 million based on the actual revenues from the post-closing business of Woodway for the twelve month period ended March 31, 2016 and recorded a charge of $286,000 in "Other, net" on the condensed consolidated statements of comprehensive income. During the second quarter of 2016, the Company finalized the Earn-Out Amount and recorded income of $13,000 in "Other, net" on the condensed consolidated statements of comprehensive income.

The following table provides a reconciliation of the beginning and ending balances of items measured at fair value on a recurring basis that used significant unobservable inputs (in thousands):

	Contingent Consideration
Beginning balance, December 31, 2015	$ 9,023
Change in carrying value	273
Payment of contingent consideration	(9,296)
Ending balance, September 30, 2016	$ —

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

6. ACQUISITIONS, GOODWILL AND OTHER INTANGIBLE ASSETS

Acquisition of Woodway Financial Advisors

Westwood completed the acquisition of Woodway Financial Advisors, a Trust Company ("Woodway"), on April 1, 2015 (the "Merger"). The total Merger consideration consisted of (i) $30.6 million in cash and stock, as described below, and (ii) contingent consideration equal to the annualized revenue from the post-closing business of Woodway for the twelve-month period ending March 31, 2016 (the “Earn-Out Period”), adjusted for certain clients or accounts that have terminated, and capped at $15 million (the “Earn-Out Amount”). The final Earn-Out Amount of $9.3 million (discounted from $10.1 million due to certain required holding periods on the Westwood shares) was paid 54.84% in cash and 45.16% in shares of Westwood’s common stock, valued using the average closing price during the last 30 calendar days of the Earn-Out Period. In relation to the Merger, Westwood entered into employment agreements with certain Woodway employees, which, among other things, provided for specified compensation and benefits for the related employees.

The Merger consideration of $39.7 million consisted of (i) closing date consideration of $25.3 million paid in cash and issuance of 109,712 shares of Westwood common stock, valued at $5.3 million (discounted from $6.7 million due to certain required holding periods), and (ii) contingent consideration of $9.1 million, based on estimates and assumptions on the closing date of the acquisition, to be paid no later than 75 calendar days after the last day of the Earn-Out Period. The estimated fair value of the Earn-Out Amount was determined by using overall revenue growth projections combined with existing customer base lost revenue projections, both discounted and probability-weighted. The fair value measurement of the Earn-Out Amount was based primarily on significant inputs not observable in the market and thus represents a level 3 measurement as defined in ASC 820. See further discussion in Note 5 “Fair Value Measurements.”

The acquisition of Woodway was accounted for using the acquisition method of accounting. Accordingly, the purchase price was allocated to the tangible and intangible assets acquired and the liabilities assumed based on their estimated fair values as of the acquisition date. As of September 30, 2016, consideration of $39.7 million has been allocated using Woodway’s historical balance sheet at March 31, 2015 based on valuations of acquired assets and assumed liabilities in connection with the acquisition.

The allocation of the purchase price is as follows (in thousands):

Cash and cash equivalents	$1,205
Accounts receivable	936
Other current assets	253
Goodwill(i)	15,889
Identifiable intangibles(ii)	21,334
Property and equipment	197
Accounts payable and accrued liabilities	(61)
Income tax payable	(20)
Purchase price	$39,733

(i) The excess of the purchase price over the fair value amounts assigned to assets acquired and liabilities assumed represents the goodwill amount resulting from the acquisition.

(ii) The fair value of the acquired identifiable intangibles consists of (in thousands, except useful lives):

Intangible Asset	Fair Value	Estimated Useful Lives
Client relationships	$20,391	15 years
Non-compete agreements	257	3 years
Trade name	686	5 years

At the time of the acquisition, the Company believed that its enhanced market position and future growth potential were the primary factors that contributed to a total purchase price that resulted in the recognition of goodwill. As of

September 30, 2016, $15.9 million of the goodwill arising from the acquisition is expected to be deductible for tax purposes.

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

We incurred transaction costs of $1.1 million related to the Woodway acquisition. Approximately $732,000 of those costs are included in “Professional services” on our condensed consolidated statements of comprehensive income for the nine months ended September 30, 2015.

Our consolidated results for the three months ended September 30, 2016 included "Total revenues" and "Net income" attributable to Woodway of $2.5 million and $700,000, respectively. Our consolidated results for the nine months ended September 30, 2016 included "Total revenues" and "Net income" attributable to Woodway of $7.1 million and $1.7 million, respectively.

Pro Forma Financial Information

The following unaudited pro forma results of operations for the three and nine months ended September 30, 2016 and 2015 assume that the Woodway acquisition had occurred on January 1, 2015, after giving effect to acquisition accounting adjustments relating to amortization of the valued intangible assets and to record additional compensation costs related to employment contracts entered into as a result of the acquisition. These unaudited pro forma results exclude one-time, non-recurring costs related to the acquisition, including transaction costs. This unaudited pro forma information should not be relied upon as being necessarily indicative of the historical results that would have been obtained if the Merger had actually occurred on those dates, nor of the results that may be obtained in the future.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Total revenues	$31,777	$32,451	$91,929	$102,063
Net income	$5,887	$7,013	$15,070	$23,328

Goodwill

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 for impairment at least annually. We completed our annual goodwill impairment assessment during the third quarter of 2016 and determined that no impairment loss was required. No impairments were recorded during the three or nine months ended September 30, 2016 or 2015.

Other Intangible Assets

Our intangible assets represent the acquisition date fair value of acquired client relationships, trade names and non-compete agreements and internally developed software 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. There have been no impairments on intangible assets recorded during the three or nine months ended September 30, 2016 or 2015.

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

7. BALANCE SHEET COMPONENTS

Property and Equipment

The following table reflects information about our property and equipment as of September 30, 2016 and December 31, 2015 (in thousands):

	As of September 30, 2016	As of December 31, 2015
Leasehold improvements	$ 3,647	$ 1,728
Furniture and fixtures	2,216	1,804
Computer hardware and office equipment	2,283	2,116
Construction in progress	233	231
Accumulated depreciation	(4,365)	(3,687)
Net property and equipment	$ 4,014	$ 2,192

Stockholders' Equity

Accumulated Other Comprehensive Loss

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

	As of September 30, 2016	As of December 31, 2015
Foreign currency translation adjustment	$ (3,681)	$ (4,688)
Accumulated other comprehensive loss	$ (3,681)	$ (4,688)

Share Repurchase Program

On July 20, 2012, our Board of Directors authorized the repurchase of up to $10 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. In July 2016, Westwood's Board of Directors authorized an additional $5.0 million of repurchases under the share repurchase program. As of September 30, 2016, approximately $9.4 million remained available under the share repurchase program.

Between July 1, 2016 and September 30, 2016, under our share repurchase program the Company repurchased 24,199 shares of our common stock at an average price of $49.92, including commissions, at an aggregate purchase price of $1.2 million. Between January 1, 2016 and September 30, 2016, under our share repurchase program the Company repurchased 117,452 shares of our common stock at an average price of $47.93, including commissions, at an aggregate purchase price of $5.6 million.

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 International and Westwood Management provide investment advisory services to Westwood Investment Funds PLC (the “UCITS Fund”), which was authorized on June 18, 2013 by the Central Bank of Ireland pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011 (“UCITS”), and which is an umbrella-type, open-ended self-managed investment company domiciled in Ireland. Westwood Management provides investment advisory services to the Westwood Funds®, a family of mutual funds, and one collective investment trust (“CITs”). Some clients of Westwood Management hold their investments in one or more of ten limited liability companies (“LLCs”). The CTFs, UCITS, Westwood Funds®, CITs and LLCs (“Westwood VIEs”) are considered variable interest entities (“VIEs”) because our clients, who hold the equity at risk, do not have a direct or indirect ability through voting or similar rights to make decisions about the funds that would have a significant effect on their success. We receive fees at market rates for managing assets in these entities.

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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 Westwood VIEs are not included in our condensed consolidated financial statements.

In May 2015, the Company provided seed investments of $5.4 million for two new Westwood mutual funds. In both December 2015 and January 2014, the Company provided seed investments of $2.0 million to two common trust funds. In October 2014, the Company provided a seed investment of €1.6 million, or $2.0 million at the prevailing exchange rate, to the UCITS Fund. These seed investments were provided for the sole purpose of showing the economic substance needed to establish the funds or sub-funds. The corporate capital invested in these funds is included in "Investments, at fair value" on our condensed consolidated balance sheet at September 30, 2016.

We have not otherwise provided any financial support 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 these VIEs. Our investments in the Westwood Funds®, the CTFs and the UCITS Fund are accounted for as investments in accordance with our other investments described in Note 4 "Investments." We recognized fee revenue from the Westwood VIEs of $13.5 million and $14.0 million for the three months ended September 30, 2016 and 2015, respectively. We recognized fee revenue from the Westwood VIEs of $39.5 million and $43.3 million for the nine months ended September 30, 2016 and 2015, respectively.

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

	As of September 30, 2016		
	Assets Under Management	Corporate Investment	Amount at Risk
VIEs:			
Westwood Funds®	$3,753	$ 6	$ 6
Common Trust Funds	2,546	3	3
Collective Investment Trusts	48	—	—
LLCs	125	—	—
UCITS Fund	612	2	2
VIE totals	7,084	11	11
All other assets:			
Private Wealth	2,656		
Institutional	11,532		
Total Assets Under Management	$21,272		

9. LONG-TERM INCENTIVE COMPENSATION

Restricted Stock Awards

We have issued restricted shares to our employees and non-employee directors. The Third Amended and Restated Westwood Holdings Group, Inc. Stock Incentive Plan, as amended (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. The total number of shares issuable under the Plan (including predecessor plans to the Plan) may not exceed 4,398,100 shares. At September 30, 2016, approximately 346,000 shares remain available for issuance under the Plan.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Service condition stock based compensation expense	$2,679	$2,550	$7,978	$6,953
Performance condition stock based compensation expense	1,234	2,118	3,705	5,072
Stock based compensation expense under the Plan	3,913	4,668	11,683	12,025
Canadian EB Plan stock based compensation expense	169	197	481	535
Total stock based compensation expense	$4,082	$4,865	$12,164	$12,560

Restricted Stock

Under the Plan, we have granted to employees and non-employee directors restricted stock subject to service conditions, and to certain key employees restricted stock subject to both service and performance conditions.

As of September 30, 2016, there was approximately $27.3 million of unrecognized compensation cost for restricted stock grants under the Plan, which we expect to recognize over a weighted-average period of 2.4 years. Our two types of restricted stock grants under the Plan are discussed below.

Restricted Stock Subject Only to a Service Condition

We calculate compensation cost for restricted stock grants by using the fair market value of our common stock at the date of grant, the number of shares issued, an adjustment for restrictions on dividends and an estimate of shares that will not vest due to forfeitures. This compensation cost is amortized on a straight-line basis over the applicable vesting period.

The following table details the status and changes in our restricted stock grants subject only to a service condition for the nine months ended September 30, 2016:

Restricted shares subject only to a service condition:	Shares	Weighted Average Grant Date Fair Value
Non-vested, January 1, 2016	580,469	$ 56.76
Granted	259,293	47.97
Vested	(174,310)	51.42
Forfeited	(17,896)	56.60
Non-vested, September 30, 2016	647,556	$ 54.68

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Restricted Stock Subject to Service and Performance Conditions

Under the Plan, certain key employees are provided agreements for grants of restricted shares that vest over multiple years provided that the annual performance goals established by the Compensation Committee of Westwood's Board of Directors are met. Each year the Compensation Committee establishes a specific goal for that year's vesting of the restricted shares, which historically has been based upon Westwood's adjusted pre-tax income, as defined below. The date that the Compensation Committee establishes the annual goal is considered to be the grant date and the fair value measurement date to determine expense on the shares that are likely to vest. In most cases, the vesting period ends when the Compensation Committee formally approves the performance-based restricted stock vesting based on the final calculation of adjusted pre-tax income as derived from the Company's audited consolidated financial statements. Certain performance grants include a scaled vesting based on actual adjusted pre-tax income. If a portion of the performance-based restricted shares does not vest, no compensation expense is recognized for that portion and any previously recognized compensation expense related to shares that do not vest is reversed. In March 2016, the Compensation Committee established the 2016 goal for adjusted pre-tax income, which is equal to income before income taxes increased by expenses incurred for the year for (i) incentive compensation for all officers and employees, (ii) performance-based restricted stock awards, and (iii) mutual fund share incentive awards, and excludes start up, non-recurring and similar expense items, at the Compensation Committee's discretion. Beginning in the first quarter of 2016, we concluded that it was probable that we would meet the performance goals required to vest the applicable performance based restricted shares this year and began recording expense related to those shares.

Restricted shares subject to service and performance conditions:	Shares	Weighted Average Grant Date Fair Value
Non-vested, January 1, 2016	101,313	$ 61.29
Granted	151,334	55.90
Vested	(101,313)	61.29
Forfeited	—	—
Non-vested, September 30, 2016	151,334	$ 55.90

The above amounts as of September 30, 2016 do not include 51,258 non-vested restricted shares that potentially vest over performance years subsequent to 2016 inasmuch as the Compensation Committee has not set annual performance goals for later years and therefore no grant date has been established.

Canadian Plan

The Share Award Plan of Westwood Holdings Group, Inc. for Service Provided in Canada to its Subsidiaries (the "Canadian Plan") provides compensation in the form of common stock for services performed by employees of Westwood International. Under the Canadian Plan, no more than $10 million CDN ($7.6 million in U.S. Dollars using the exchange rate on September 30, 2016) may be funded to the plan trustee for purchases of common stock with respect to awards granted under the Canadian Plan. At September 30, 2016, approximately $6.0 million CDN ($4.5 million in U.S. Dollars using the exchange rate on September 30, 2016) remains available for issuance under the Canadian Plan, or approximately 85,494 shares based on the closing share price of our stock of $53.11 as of September 30, 2016. During the first nine months of 2016, the trust formed pursuant to the Canadian Plan purchased in the open market 10,474 Westwood common shares for approximately $614,000. As of September 30, 2016, the trust holds 43,648 shares of Westwood common stock. As of September 30, 2016, unrecognized compensation cost related to restricted stock grants under the Canadian Plan totaled $813,000, which we expect to recognize over a weighted-average period of 1.6 years.

Mutual Fund Share Incentive Awards

We grant annually to certain employees mutual fund incentive awards, which are bonus awards based on our mutual funds achieving specific performance goals. Awards granted are notionally credited to a participant account maintained by us that contains 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 in which the participant earns the award. We begin accruing a liability for mutual fund incentive awards when we believe 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 elapsed. 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 three months ended September 30, 2016 and 2015, we recorded expense of $313,000 and $149,000, respectively, related to mutual fund share incentive awards. For the nine months ended September 30, 2016 and 2015, we recorded expense of $933,000 and $879,000, respectively, related to mutual fund share incentive awards. As of September 30, 2016 and December 31, 2015, we had an accrued liability of $1.4 million and $2.0 million, respectively, related to mutual fund share incentive awards.

10. INCOME TAXES

Our effective income tax rate was 35.0% for the third quarter of 2016, compared with 33.2% for the third quarter of 2015. The increase is primarily related to an adjustment related to the filing of our 2015 tax return. Our effective income tax rate was 35.1% for the first nine months of 2016, compared with 33.3% for the first nine months of 2015. The increase is primarily related to a $341,000 tax charge for uncertain tax positions related to current and prior years (net of federal benefit) recorded in the first nine months of 2016, as well as the adjustment related to the filing of our 2015 tax return in the third quarter of 2016.

As of September 30, 2016 and December 31, 2015, the Company's gross liability related to uncertain tax positions was $2.2 million and $1.6 million, respectively. A number of years may elapse before an uncertain tax position is finally resolved. To the extent that the Company has favorable tax settlements, or determines that accrued amounts are no longer needed due to a lapse in the applicable statute of limitations or other changes in circumstances, such liabilities, as well as any related interest and penalties, would be reversed as a reduction of income tax expense, net of federal tax effects, in the period such determination is made. A reconciliation of the change in recorded uncertain tax positions during the nine months ended September 30, 2016 is as follows (in thousands):

Balance at January 1, 2016	$1,629
Additions for tax positions related to the current year	206
Additions for tax positions related to prior years	475
Reductions for tax positions related to prior years	(156)
Balance at September 30, 2016	$2,154

Within the next twelve months, it is reasonably possible that the liability for uncertain tax positions could decrease by as much as $2.2 million as a result of settlements with certain taxing authorities, which, if recognized, would decrease our provision for income taxes by $1.4 million.

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11. RELATED PARTY TRANSACTIONS

Some of our directors, executive officers and their affiliates invest their personal funds directly in trust accounts that we manage. For the three months ended September 30, 2016 and 2015, we recorded trust fees from these accounts of $108,000 and $112,000, respectively. For the nine months ended September 30, 2016 and 2015, we recorded trust fees from these accounts of $305,000 and $334,000, respectively. There was $106,000 due from these accounts as of September 30, 2016 and no amounts due from these accounts as of December 31, 2015.

The Company engages in transactions with its affiliates in the ordinary course of business. Westwood International and Westwood Management provide investment advisory services to the UCITS Fund, which began operations in August 2013. Certain members of our management and Board of Directors serve on the Board of Directors of the UCITS Fund. Under the terms of the investment advisory agreements, the Company earns quarterly fees paid by clients of the UCITS Fund and, in certain cases, by the UCITS Fund itself. The fees are based on negotiated fee schedules applied to assets under management. These fees are commensurate with market rates and are negotiated and contracted for at arm's length. For the three months ended September 30, 2016 and 2015, the Company earned approximately $370,000 and $298,000, respectively, in fees from the UCITS Fund. For the nine months ended September 30, 2016 and 2015, the Company earned approximately $1,021,000 and $994,000, respectively, in fees from the UCITS Fund. These fees do not include fees paid directly to Westwood International by certain clients invested in the UCITS Fund that have an investment management agreement with Westwood International. As of September 30, 2016 and December 31, 2015, $143,000 and $96,000, respectively, of these fees were unpaid and included in "Accounts receivable" on our condensed consolidated balance sheets.

12. COMMITMENTS AND CONTINGENCIES

On August 3, 2012, AGF Management Limited and AGF Investments Inc. (collectively, "AGF") filed a lawsuit in the Ontario Superior Court of Justice against Westwood, certain Westwood employees and the executive recruiting firm of Warren International, LLC. ("Warren"). The action relates to the hiring of certain members of Westwood's global and emerging markets investment team 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 CDN in the lawsuit. On November 5, 2012, Westwood responded to AGF's lawsuit with a counterclaim against AGF for defamation. Westwood is seeking $1 million CDN in general damages, $10 million CDN in special damages, $1 million CDN 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 CDN in general damages, $1 million CDN per defendant in punitive damages, unspecified special damages, interest and costs. The pleadings phase was completed in 2013, and we are currently in the discovery phase.

While we intend to vigorously defend both actions and pursue our 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, as well as 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 and cash flows.

Our policy is to not accrue 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, excluding Westwood's counterclaim against AGF, are covered by insurance. We expense legal fees and directly related costs as incurred. We have received insurance proceeds of approximately $928,000 as of September 30, 2016 and recorded a receivable of $249,000 and $240,000 as of September 30, 2016 and December 31, 2015, respectively, which represents our current minimum estimate of expenses that we expect to recover under our insurance policy. This receivable is part of "Other current assets" on our condensed consolidated balance sheets.

13. 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. The Company’s segment information is prepared on the same basis that management reviews the financial information for operational decision-making purposes. The Company’s chief operating decision maker, our Chief Executive Officer, evaluates the performance of our segments based primarily on fee revenues and Economic Earnings. Westwood Holdings Group, Inc., the parent company of Advisory and Trust, does not have revenues and is the entity in which we record typical holding company expenses including employee compensation and benefits for holding company employees, directors’ fees and investor relations costs. All segment accounting policies are the same as those described in the summary of significant accounting policies. Intersegment balances that eliminate in consolidation have been applied to the appropriate segment.

Advisory

Our Advisory segment provides investment advisory services to corporate retirement plans, public retirement plans, endowments, foundations, individuals, the Westwood Funds®, and the UCITS Fund, 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 along with Westwood Advisors, LLC.

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.

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	Advisory	Trust	Westwood Holdings	Eliminations	Consolidated
	(in thousands)				
Three Months Ended September 30, 2016					
Net fee revenues from external sources	$23,673	$7,690	$—	$—	$ 31,363
Net intersegment revenues	5,275	41	—	(5,316)	—
Net interest and dividend revenue	128	5	—	—	133
Other, net	279	2	—	—	281
Total revenues	$29,355	$7,738	$—	$ (5,316)	$ 31,777
Economic Earnings	$10,270	$1,690	$ (1,345)	$—	$ 10,615
Less: Restricted stock expense					4,082
Intangible amortization					490
Deferred taxes on goodwill					156
Net income					$ 5,887
Segment assets	$163,826	$65,986	$ 13,046	$ (73,160)	$ 169,698
Segment goodwill	$5,219	$21,925	$—	$—	$ 27,144
Three Months Ended September 30, 2015					
Net fee revenues from external sources	$24,941	$7,972	$—	$—	$ 32,913
Net intersegment revenues	5,087	—	—	(5,087)	—
Net interest and dividend revenue	110	—	—	—	110
Other, net	(577)	5	—	—	(572)
Total revenues	$29,561	$7,977	$—	$ (5,087)	$ 32,451
Economic Earnings	$11,961	$1,592	$ (1,119)	$—	$ 12,434
Less: Restricted stock expense					4,865
Intangible amortization					400
Deferred taxes on goodwill					156
Net income					$ 7,013
Segment assets	$172,034	$57,967	$ 7,753	$ (71,537)	$ 166,217
Segment goodwill	$5,219	$19,872	$—	$—	$ 25,091

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	Advisory	Trust	Westwood Holdings	Eliminations	Consolidated
	(in thousands)				
Nine Months Ended September 30, 2016					
Net fee revenues from external sources					