

Wilhelmina International, Inc.  
Form 10-Q  
November 14, 2011

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2011

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 0-28536

WILHELMINA INTERNATIONAL, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

74-2781950  
(I.R.S. Employer Identification No.)

200 Crescent Court, Suite 1400, Dallas, Texas  
(Address of principal executive offices)

75201  
(Zip Code)

(214) 661-7488  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant 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  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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ]

Non-accelerated filer [ ]

(Do not check if a smaller reporting company)

Accelerated filer [ ]

Smaller reporting company [x]

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). [  ] Yes [x] No

As of November 14, 2011, the registrant had 129,440,752 shares of common stock outstanding.

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WILHELMINA INTERNATIONAL, INC. AND SUBSIDIARIES

Quarterly Report on Form 10-Q

For the Three and Nine Months Ended September 30, 2011

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PART I  
FINANCIAL INFORMATION

Item 1. Financial Statements  
WILHELMINA INTERNATIONAL, INC. AND SUBSIDIARIES  
Condensed Consolidated Balance Sheets  
(In thousands, except share data)

ASSETS	(Unaudited) September 30, 2011	December 31, 2010
Current assets:		
Cash and cash equivalents	\$ 3,737	\$ 1,732
Accounts receivable, net of allowance for doubtful accounts of \$597 and \$623	10,473	8,525
Indemnification receivable	726	726
Prepaid expenses and other current assets	170	211
Total current assets	15,106	11,194
Property and equipment, net of accumulated depreciation of \$196 and \$124	534	326
Trademarks and trade names with indefinite lives	8,467	8,467
Other intangibles with finite lives, net of accumulated amortization of \$4,645 and \$3,479	3,692	4,858
Goodwill	12,563	12,647
Restricted cash	222	222
Other assets	302	239
Total assets	\$ 40,886	\$ 37,953
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,160	\$ 3,810
Due to models	8,990	7,374
Deferred revenue	313	778
Foreign withholding claim subject to indemnification	726	726
Amegy credit facility	500	-
Esch promissory note	-	600
Earn out-contingent liability	2,138	-
Total current liabilities	16,827	13,288
Long term liabilities		
Deferred revenue, net of current portion	263	265
Deferred income tax liability	1,800	1,800
Earn out-contingent liability	-	2,063
Total long-term liabilities	2,063	4,128
Commitments and contingencies	-	-
Shareholders' equity:		

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Preferred stock, \$0.01 par value, 10,000,000 shares authorized; none outstanding	-	-
Common stock, \$0.01 par value, 250,000,000 shares authorized; 129,440,752 shares issued and outstanding in 2011 and 2010	1,294	1,294
Additional paid-in capital	85,110	85,072
Accumulated deficit	(64,408 )	(65,829 )
Total shareholders' equity	21,996	20,537
Total liabilities and shareholders' equity	\$ 40,886	\$ 37,953

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

WILHELMINA INTERNATIONAL, INC. AND SUBSIDIARIES  
Unaudited Condensed Consolidated Statements of Operations

(In thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September	September	September	September
	30, 2011	30, 2010	30, 2011	30, 2010
Revenues				
Revenues	\$13,258	\$ 11,821	\$41,038	\$ 34,675
License fees and other income	211	347	938	1,122
Total revenues	13,469	12,168	41,976	35,797
Model costs	9,278	8,108	28,632	24,076
Revenues net of model costs	4,191	4,060	13,344	11,721
Operating expenses				
Salaries and service costs	2,502	2,011	7,067	5,995
Office and general expenses	623	767	2,181	2,177
Amortization and depreciation	401	481	1,238	1,447
Corporate overhead	327	290	907	1,014
Total operating expenses	3,853	3,549	11,393	10,633
Operating income	338	511	1,951	1,088
Other income (expense):				
Miami earn-out fair value adjustment	(75 )	249	(75 )	249
Equity Earnings in Wilhelmina Kids & Creative Mgmt, LLC	43	12	33	58
Settlement expense	-	(300 )	-	(300 )
Interest income	2	-	4	-
Interest expense	(2 )	(14 )	(21 )	(52 )
	(32 )	(53 )	(59 )	(45 )
Income before provision for income taxes	306	458	1,892	1,043
Provision for income taxes				
Current	(243 )	(50 )	(471 )	(204 )
Deferred	-	-	-	-
	(243 )	(50 )	(471 )	(204 )
Net income applicable to common stockholders	\$63	\$ 408	\$1,421	\$ 839
Basic and diluted net income per common share	\$0.00	\$ 0.00	\$0.01	\$ 0.01
Weighted average common shares outstanding	129,441	129,441	129,441	129,441

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





WILHELMINA INTERNATIONAL, INC. AND SUBSIDIARIES  
Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

	Nine months ended September 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$1,421	\$839
Adjustments to reconcile net income to net cash provided by operating activities:		
Bad debt expense	-	81
Amortization and depreciation	1,238	1,447
Settlement expenses	-	300
Miami earn-out fair value adjustment	75	(249 )
Correction of prior period error-foreign withholding liability	84	-
Share based payment expense	38	-
Changes in operating assets and liabilities:		
Increase in accounts receivable	(1,948 )	(3,724 )
Increase in prepaid expenses and other assets	(23 )	(287 )
Indemnification receivable	-	(726 )
Increase in due to models	1,616	2,090
Increase (decrease) in accounts payable and accrued liabilities	350	(402 )
Foreign withholding claim subject to indemnification	-	726
(Decrease) increase in other liabilities	(467 )	151
Net cash provided by operating activities	2,384	246
Cash flows from investing activities:		
Purchase of property and equipment	(279 )	(75 )
Net cash used in investing activities	(279 )	(75 )
Cash flows from financing activities:		
Proceeds from Amegy Bank credit facility	500	-
Repayment of Signature Bank line of credit	-	(250 )
Repayment of Esch promissory note	(600 )	(750 )
Payments of other debt	-	(41 )
Net cash used in financing activities	(100 )	(1,041 )
Net increase (decrease) in cash and cash equivalents	2,005	(870 )
Cash and cash equivalents, beginning of period	1,732	2,129
Cash and cash equivalents, end of period	\$3,737	\$1,259
Supplemental disclosures of cash flow information		
Cash paid for interest	\$21	\$52
Cash paid for income taxes	\$428	\$141

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



WILHELMINA INTERNATIONAL, INC. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Financial Statements

Note 1. Basis of Presentation

The interim condensed consolidated financial statements included herein have been prepared by Wilhelmina International, Inc. (“Wilhelmina” or the “Company”) and subsidiaries without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Although certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to those rules and regulations, all adjustments considered necessary in order to make the financial statements not misleading have been included. In the opinion of the Company’s management, the accompanying interim condensed consolidated financial statements reflect all adjustments, of a normal recurring nature, that are necessary for a fair presentation of the Company’s financial position, results of operations and cash flows for such periods. It is recommended that these interim condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2010, as amended. Results of operations for the interim periods are not necessarily indicative of results that may be expected for any other interim periods or the full fiscal year.

Note 2. Business Activity

Overview

The Company’s primary business is fashion model management, which is headquartered in New York City. The Company’s predecessor was founded in 1967 by Wilhelmina Cooper, a renowned fashion model, and is one of the oldest and largest fashion model management companies in the world. Since its founding, Wilhelmina has grown to include operations located in Los Angeles and Miami, as well as a growing network of licensees comprising leading modeling agencies in various local markets across the U.S. as well as in Panama. Wilhelmina provides traditional, full-service fashion model and talent management services, specializing in the representation and management of models, entertainers, artists, athletes and other talent to various customers and clients, including retailers, designers, advertising agencies and catalog companies.

Wilhelmina Transaction

On August 25, 2008, the Company and Wilhelmina Acquisition Corp., a New York corporation and wholly owned subsidiary of the Company (“Wilhelmina Acquisition”), entered into an agreement (the “Acquisition Agreement”) with Dieter Esch (“Esch”), Lorex Investments AG, a Swiss corporation (“Lorex”), Brad Krassner (“Krassner”), Krassner Family Investments Limited Partnership, a Nevada limited partnership (“Krassner L.P.” and together with Esch, Lorex and Krassner, the “Control Sellers”), Wilhelmina International, Ltd., a New York corporation (“Wilhelmina International”), Wilhelmina – Miami, Inc., a Florida corporation (“Wilhelmina Miami”), Wilhelmina Artist Management LLC, a New York limited liability company (“WAM”), Wilhelmina Licensing LLC, a Delaware limited liability company (“Wilhelmina Licensing”), Wilhelmina Film & TV Productions LLC, a New York limited liability company (“Wilhelmina TV” and together with Wilhelmina International, Wilhelmina Miami, WAM and Wilhelmina Licensing, the “Wilhelmina Companies”), Sean Patterson, an executive with the Wilhelmina Companies (“Patterson”), and the shareholders of Wilhelmina Miami (the “Miami Holders” and together with the Control Sellers and Patterson, the “Sellers”). Pursuant to the Acquisition Agreement, which closed February 13, 2009, the Company acquired the Wilhelmina Companies subject to the terms and conditions thereof (the “Wilhelmina Transaction”). The Acquisition Agreement provided for (i) the merger of Wilhelmina Acquisition with and into Wilhelmina International in a stock-for-stock transaction, as a result of which Wilhelmina International became a wholly owned subsidiary of the Company and (ii) the Company’s purchase of the outstanding equity interests of the other Wilhelmina Companies for

cash.

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## Pre-Wilhelmina

Wilhelmina, formerly known as New Century Equity Holdings Corp. (“NCEH”) and Billing Concepts Corp., was incorporated in the state of Delaware in 1996.

Prior to the closing of the Wilhelmina Transaction in February 2009, the Company was in a transition period during which it sought to redeploy its assets to enhance shareholder value by evaluating potential acquisition and merger candidates. During this transition period, the Company’s sole operating business was represented by an investment in ACP Investments, L.P. (d/b/a Ascendant Capital Partners) (“Ascendant”). Ascendant is a Berwyn, Pennsylvania based alternative asset management company whose funds have investments in long/short equity funds and which distributes its registered funds primarily through various financial intermediaries and related channels (see Note 7).

## Note 3. Wilhelmina Acquisition

On August 25, 2008, in conjunction with the Company’s strategy to redeploy its assets to enhance stockholder value, the Company entered into the Acquisition Agreement to acquire the Wilhelmina Companies. At the closing of the Wilhelmina Transaction on February 13, 2009, the Company paid an aggregate purchase price of approximately \$22,432,000 in connection therewith, of which approximately \$16,432,000 was paid for the outstanding equity interests of the Wilhelmina Companies and \$6,000,000 in cash repaid the outstanding balance of a note held by a Control Seller. The purchase price included approximately \$7,609,000 (63,411,131 shares) of the Company’s common stock, par value \$0.01 per share (“Common Stock”), valued at \$0.12 per share (representing the closing price of the Common Stock on February 13, 2009) that was issued in connection with the merger of Wilhelmina Acquisition with and into Wilhelmina International. Approximately \$8,823,000 was paid to acquire the equity interests of the remaining Wilhelmina Companies. Upon the closing of the Wilhelmina Transaction, the Control Sellers and Patterson obtained certain demand and piggyback registration rights pursuant to a registration rights agreement with respect to the Common Stock issued to them under the Acquisition Agreement. The registration rights agreement contains certain indemnification provisions for the benefit of the Company and the registration rights holders, as well as certain other customary provisions.

The purchase price was subject to certain post-closing adjustments, which were to be effected against a total of 19,229,746 shares of Common Stock (valued at approximately \$2,307,000 on February 13, 2009) (the “Restricted Shares”) that were held in escrow pursuant to the Acquisition Agreement. The Restricted Shares held in escrow were intended to support earn-out offsets and indemnification obligations of the Sellers. The Control Sellers were required to leave in escrow, through 2011, any stock “earned” following resolution of “core” adjustments, up to a total value of \$1,000,000. Losses at WAM and Wilhelmina Miami, respectively, could be offset against any positive earn-out with respect to the other company. Losses in excess of earn-out amounts could also result in the repurchase of the remaining shares of Common Stock held in escrow for a nominal amount. Working capital deficiencies could also reduce positive earn-out amounts.

After the closing, the parties became engaged in a dispute relating to a purchase price adjustment being sought by the Company in connection with the Wilhelmina Transaction and other related matters.

On October 18, 2010, the Company, together with Newcastle Partners, L.P. (“Newcastle”) and the Control Sellers entered into a Global Settlement Agreement (the “Settlement Agreement”). Under the Settlement Agreement, (i) a total of 18,811,686 Restricted Shares were released to the Control Sellers, (ii) all the Company’s future earn-out obligations relating to the operating results of WAM under the Acquisition Agreement were cancelled and (iii) (A) approximately 39% (representing the amount that would otherwise be paid to Krassner L.P.) of the first \$2 million of the Company’s earn-out obligations relating to the operating results of Wilhelmina Miami under the Acquisition Agreement (the “Miami Earnout”) was cancelled and (B) approximately 69% (representing the amounts that would otherwise be paid in the aggregate to Krassner L.P. and Lorex) of any such Miami Earnout obligation over \$2 million was cancelled. With respect to any portion of the Miami Earnout that may become payable, the Company further agreed not to assert any setoff thereto in respect of (1) any negative closing net asset adjustment determined under the Acquisition Agreement or (2) any divisional loss in respect of WAM. The Company also reimbursed certain documented legal fees of the Control Sellers in the amount of \$300,000, which amount was recorded as settlement expense in the consolidated statement of operations for the year ended December 31, 2010.

Pursuant to the Settlement Agreement, the parties agreed to dismiss the litigation then pending in the U.S. District Court, Southern District of New York concerning the Restricted Shares. The parties also agreed to customary mutual releases and further agreed to withdraw their respective indemnification claims under the Acquisition Agreement, except that the Company preserved indemnification rights with respect to certain specified matters.

With respect to corporate governance matters, the Settlement Agreement required that (i) Newcastle and the Control Sellers concurrently enter into an amendment to that certain Mutual Support Agreement dated August 25, 2008, which amendment provides for the addition of two (2) independent directors to the Company’s Board of Directors, subject to a pre-determined selection process, and (ii) within six months following the execution of the Settlement Agreement, the Board must evaluate and consider updates and/or clarifications to the Company’s Bylaws, which updates shall address (a) the advance notice procedures for nominations and stockholder proposals, (b) the Company’s fiscal year and (c) such other matters as the Board determines. The Company also agreed to enter into an amendment to its Rights Agreement to, among other things, rescind the designation of the Control Sellers as Acquiring Persons thereunder.

The Miami Earnout, payable in 2012, is calculated based on the three year average of audited Wilhelmina Miami EBITDA beginning January 1, 2009, multiplied by 7.5, payable in cash or stock (at the Control Sellers’ election). The fair value of the Miami Earnout was determined using the Company’s estimate (Level 3 inputs) that Wilhelmina Miami has a 75% probability of achieving the average EBITDA.

As of December 31, 2010 and September 30, 2011, management’s estimate of the fair value of the Miami Earnout was \$2,063,000 and \$2,138,000, respectively. During the three months ended September 30, 2011, management determined (based on a number of factors, including the most recent financial results of the Miami division) that the estimate of the fair value of the Miami Earnout required an increase of \$75,000.

Certain continuing indemnification obligations of the Control Sellers under the Acquisition Agreement are subject to offset against the Miami Earnout.

The Miami Earnout is payable (subject to the provisions of the Acquisition Agreement) near the end of the first quarter of 2012. The Company’s ability to fund the earn-out obligations will be dependent on cash flow from operations and borrowings (if available) under the Company’s credit facility with Amegy Bank National Association (“Amegy”).

On February 13, 2009, in order to facilitate the closing of the Acquisition Agreement, the Company entered into that certain letter agreement with Esch (the “Esch Letter Agreement”), pursuant to which Esch agreed that \$1,750,000 of the cash proceeds to be paid to him at the closing of the Acquisition Agreement would instead be held in escrow. Under the terms of the Esch Letter Agreement, all or a portion of such amount held in escrow was required to be used to satisfy Wilhelmina International’s indebtedness to Signature Bank, in connection with its then existing credit facility with Signature Bank, upon the occurrence of specified events including, but not limited to, written notification by Signature Bank to Wilhelmina International of the termination or acceleration of the credit facility. Any amount remaining was required to be released to Esch upon the replacement or extension of Wilhelmina International’s credit facility with Signature Bank, subject to certain requirements set forth in the Esch Letter Agreement. The Esch Letter Agreement also provided that in the event any portion of the proceeds was paid from escrow to Signature Bank, the Company would promptly issue to Esch, in replacement thereof, a promissory note in the principal amount of the amount paid to Signature Bank (see Note 4).

Concurrently with the execution of the Acquisition Agreement, the Company entered into a purchase agreement (the “Equity Financing Agreement”) with Newcastle, which at that time owned 19,380,768 shares, or approximately 36% of the outstanding Common Stock, for the purpose of obtaining financing to complete the transactions contemplated by the Acquisition Agreement. Pursuant to the Equity Financing Agreement, upon the closing of the Wilhelmina Transaction, the Company sold to Newcastle \$3,000,000 (12,145,749 shares) of Common Stock at \$0.247 per share, or approximately (but slightly higher than) the per share price applicable to the Common Stock issuable under the Acquisition Agreement. As a result, Newcastle now owns 34,064,466 shares of Common Stock, or approximately 24% of the Company’s outstanding Common Stock. Upon the closing of the Equity Financing Agreement, Newcastle obtained certain demand and piggyback registration rights with respect to the Common Stock it holds, including the Common Stock issued under the Equity Financing Agreement. The registration rights agreement contains certain indemnification provisions for the benefit of the Company and Newcastle, as well as certain other customary provisions.

The Wilhelmina Transaction was accounted for using the acquisition method required by Accounting Standards Codification 805, “Business Combinations.” The fair value methods used for identifiable intangible assets were based on Level 3 inputs making use of discounted cash flows using a weighted average cost of capital. The fair values of current assets and other assumed liabilities were based on the present value of contractual amounts.

Goodwill has been measured as the excess of the total consideration over the fair values of identifiable assets acquired and liabilities assumed.

The intangible assets acquired include intangible assets with indefinite lives, such as the Wilhelmina brand/trademarks and intangible assets with finite lives, such as customer relationships, model contracts, talent contracts, noncompetition agreements and license agreements, and the remainder of any intangible assets not meeting the above criteria has been allocated to goodwill. Some of these assets, such as goodwill and the Wilhelmina brand/trademarks, are non-amortizable. Other intangible assets, such as customer relationships, model contracts, talent contracts, noncompetition agreements and license agreements, are being amortized on a straight line basis over their estimated useful lives which range from 2 to 7 years.



In September 2006, the SEC issued Staff Accounting Bulletin No. 108 ("SAB 108"), which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 requires the use of both the "iron curtain" and "rollover" approach in quantifying the materiality of misstatements. SAB 108 provides transitional guidance for the correction of errors in prior periods.

In accordance with the application of SAB 108, the Company evaluated the uncorrected financial statement misstatements that were previously considered immaterial under the "rollover" method using the dual methodology required by SAB 108. As a result of this dual methodology approach of SAB 108, the Company corrected the cumulative error in its accounting for liabilities related to foreign withholding of taxes for the quarter ended June 30, 2011, by relieving a liability of approximately \$84,000 with a corresponding reduction of goodwill.

#### Note 4. Line of Credit, Note Payable and Esch Escrow

In January 2008, Wilhelmina International renewed a revolving line of credit (the "Credit Facility") with Signature Bank with an increase in borrowing capacity to \$2,000,000, with availability subject to a borrowing base computation. Interest on the revolving credit note was payable monthly at an annual rate of prime plus one-half percent. The revolving line of credit expired on January 31, 2009. On March 31, 2009, the Company entered into a modification and extension agreement with Signature Bank that extended the maturity date to April 30, 2009. On June 10, 2009, the Company entered into a modification and extension agreement with Signature Bank that extended the maturity date to July 15, 2009. On August 21, 2009, the Company entered into a modification and extension agreement with the bank that extended the maturity date to October 5, 2009.

On December 30, 2009, Signature Bank delivered a demand letter (the "Demand Letter") to the Company and Wilhelmina International requesting the immediate payment of all outstanding principal and accrued interest in the aggregate amount of approximately \$2,019,000 under the Credit Facility.

The delivery of the Demand Letter requesting mandatory repayment of principal under the Credit Facility triggered a "Bank Payoff Event" under the Esch Letter Agreement (see Note 3). As a result, in accordance with the terms of the Esch Letter Agreement, the aggregate amount of \$1,750,000 that was held in escrow was released and paid to Signature Bank (the "Escrow Payoff"). As a result of the Escrow Payoff, as of December 30, 2009, a principal sum of \$250,000 plus accrued interest totaling approximately \$19,000 remained owing to the bank under the Credit Facility. During January 2010, the remaining principal and accrued interest of approximately \$269,000 was repaid to the bank pursuant to the Demand Letter.

The Esch Letter Agreement provided that in the event of the payment of funds from escrow to Signature Bank, the Company was required to promptly issue to Esch, in replacement of the funds held in escrow, a promissory note in the principal amount of the amount paid to the bank. Accordingly, on December 31, 2009, the Company issued to Esch a promissory note in the principal amount of \$1,750,000 (the "Esch Note"). The effective interest rate of the Esch Note was prime plus approximately 0.58%, or approximately 3.83%. Principal under the Esch Note was repaid in quarterly installments of \$250,000 until December 31, 2010 when the unpaid principal and interest thereon were to have become due and payable. On December 7, 2010, the Company and Esch entered into an amendment (the "Esch Amendment") to the Esch Note. Under the Esch Amendment, (1) the maturity date of the Esch Note was extended to June 30, 2011 (from December 31, 2010) and (2) commencing January 1, 2011, the interest rate on outstanding principal under the Esch Note increased to 9.0% per annum. In addition, \$400,000 was paid on December 31, 2010 and March 31, 2011 and \$200,000 was paid on June 30, 2011, pursuant to the Esch Amendment. The Esch Note has been paid in full.



On April 29, 2011, the Company closed a credit agreement (the "Credit Agreement") for a new \$500,000 revolving credit facility with Amegy. Borrowings under the facility are to be used for working capital and other general business purposes of the Company.

During the three months ended September 30, 2011, the Company drew \$500,000 under the Credit Agreement. Generally, amounts outstanding under the Credit Agreement shall bear interest at the greater of (a) 5% per annum or (b) the prime rate (which means, for any day, the rate of interest quoted in The Wall Street Journal as the "Prime Rate") plus 2% per annum. Credit is available under the facility through February 28, 2012 and is limited to a borrowing base equal to 80% of the aggregate value of eligible accounts receivable (as defined in the Credit Agreement) of the Company. The maturity date of the facility is February 28, 2012.

The Credit Agreement contains certain representations and warranties and affirmative and negative covenants. Amounts outstanding under the Credit Agreement may be accelerated and become immediately due and payable upon the occurrence of an event of default. Among other requirements, the Credit Agreement requires the Company and its subsidiaries to maintain a minimum net worth of \$20,000,000 and a fixed charge coverage ratio (as defined) of not less than 1.5 to 1.0.

All indebtedness and other obligations of the Company under the Credit Agreement are secured by all of the assets of the Company and its subsidiaries, provided, however, that the collateral does not include the intellectual property of the Company or the stock or equity interests in the Company's subsidiaries.

#### Note 5. Restricted Cash

At September 30, 2011 and December 31, 2010, the Company had approximately \$222,000 of restricted cash that serves as collateral for an irrevocable standby letter of credit. The letter of credit serves as additional security under the lease extension relating to the Company's office space in New York that expires in February 2021.

#### Note 6. Licensing Agreements and Deferred Revenue

The Company is a party to various contracts by virtue of its relationship with certain talent. The various contracts contain terms and conditions which require the revenue and the associated talent cost to be recognized on a straight-line basis over the contract period. The Company has also entered into product licensing agreements with talent it represents. Under the product licensing agreements, the Company will either earn a commission based on a certain percentage of the royalties earned by the talent or earn royalties from the licensee that is based on a certain percentage of net sales, as defined. The Company recognized revenue from product licensing agreements of approximately \$137,000 and \$562,000 for the three and nine months ended September 30, 2011, respectively, and approximately \$219,000 and \$531,000 for the three and nine months ended September 30, 2010, respectively.

#### Note 7. Revenue Interest

On October 5, 2005, the Company entered into an agreement with Ascendant (the "Ascendant Agreement") to acquire an interest in the revenues generated by Ascendant. The Company has not recorded any revenue or received any revenue sharing payments pursuant to the Ascendant Agreement since July 1, 2006.

During 2009, the Company determined that the present value of expected cash flows from the Ascendant revenue interest was nominal and, therefore, the revenue interest is carried at \$0 in the accompanying consolidated balance sheets.

#### Note 8. Commitments and Contingencies

The Company is engaged in various legal proceedings that are routine in nature and incidental to its business. None of these proceedings, either individually or in the aggregate, is believed, in the Company's opinion, to have a material adverse effect on either its consolidated financial position or its consolidated results of operations.

As of September 30, 2011, a number of the Company's employees were covered by employment agreements that vary in length from one to three years. As of September 30, 2011, total compensation payable under the remaining contractual term of these agreements was approximately \$3,656,000. In addition to the contract term, the employment agreements contain non-compete provisions ranging from six months to one year following the term of the applicable agreement. Subject to certain exceptions, as of September 30, 2011, invoking the non-compete provisions would require the Company to compensate the covered employees during the non-compete period additional amounts of approximately \$2,018,000.

During the nine months ended September 30, 2011, the Company entered into a lease agreement for office space located in Los Angeles, CA. The lease provides for average monthly rental payments of approximately \$15,000 for a period of 5 years commencing July 1, 2011.

During the three months ended September 30, 2010, the Company received IRS notices totaling approximately \$726,000 related to foreign withholding claims for tax years 2006 and 2008. The Company is indemnified by the Control Sellers under the Acquisition Agreement for losses incurred as a result of such deficiency notice, and the Control Sellers have confirmed such responsibility to the Company. Such indemnification is required to be satisfied in cash and/or, at the election of the Company, by offset to future earn-out payments.

The balance sheet items that potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents and accounts receivable. The Company maintains its cash balances in several different financial institutions in New York, Los Angeles, Dallas, and Miami. Balances in accounts other than "noninterest-bearing transaction accounts" are insured up to Federal Deposit Insurance Corporation ("FDIC") limits of \$250,000 per institution. Noninterest-bearing transaction accounts have unlimited FDIC insurance coverage through December 31, 2012. At September 30, 2011, the Company did not have any cash balances in excess of FDIC insurance coverage. Concentrations of credit risk with accounts receivable are mitigated by the Company's large number of clients and their dispersion across different industries and geographical areas. The Company performs ongoing credit evaluations of its clients and maintains an allowance for doubtful accounts based upon the expected collectability of all accounts receivable.

#### Note 9. Share Capital

On July 10, 2006, as amended on August 25, 2008, July 20, 2009, February 9, 2010, March 26, 2010, April 29, 2010, June 2, 2010, July 2, 2010, August 2, 2010, September 2, 2010, October 1, 2010, October 18, 2010 and December 8, 2010, the Company entered into a shareholder's rights plan (the "Rights Plan") that replaced the Company's shareholder's rights plan dated July 10, 1996 (the "Old Rights Plan") that expired according to its terms on July 10, 2006. The Rights Plan provides for a dividend distribution of one preferred share purchase right (a "Right") for each outstanding share of Common Stock. The terms of the Rights and the Rights Plan are set forth in a Rights Agreement, dated as of July 10, 2006, by and between the Company and The Bank of New York Trust Company, N.A., now known as The Bank of New York Mellon Trust Company, N.A., as Rights Agent (the "Rights Agreement").



The Company's Board of Directors adopted the Rights Plan to protect shareholder value by protecting the Company's ability to realize the benefits of its net operating loss carryforwards ("NOLs") and capital loss carryforwards. In general terms, the Rights Plan imposes a significant penalty upon any person or group that acquires 5% or more of the outstanding Common Stock without the prior approval of the Company's Board of Directors. Shareholders that own 5% or more of the outstanding Common Stock as of the close of business on the Record Date (as defined in the Rights Agreement) may acquire up to an additional 1% of the outstanding Common Stock without penalty so long as they maintain their ownership above the 5% level (such increase subject to downward adjustment by the Company's Board of Directors if it determines that such increase will endanger the availability of the Company's NOLs and/or its capital loss carryforwards). In addition, the Company's Board of Directors has exempted Newcastle, the Company's largest shareholder, and may exempt any person or group that owns 5% or more if the Board of Directors determines that the person's or group's ownership will not endanger the availability of the Company's NOLs and/or its capital loss carryforwards. A person or group that acquires a percentage of Common Stock in excess of the applicable threshold is called an "Acquiring Person". Any Rights held by an Acquiring Person are void and may not be exercised. The Company's Board of Directors authorized the issuance of one Right per each share of Common Stock outstanding on the Record Date. If the Rights become exercisable, each Right would allow its holder to purchase from the Company one one-hundredth of a share of the Company's Series A Junior Participating Preferred Stock, par value \$0.01 (the "Preferred Stock"), for a purchase price of \$10.00. Each fractional share of Preferred Stock would give the shareholder approximately the same dividend, voting and liquidation rights as does one share of Common Stock. Prior to exercise, however, a Right does not give its holder any dividend, voting or liquidation rights.

On August 25, 2008, in connection with the Wilhelmina Transaction, the Company entered into an amendment to the Rights Agreement (the "Rights Agreement Amendment"). The Rights Agreement Amendment, among other things, (i) provides that the execution of the Acquisition Agreement, the acquisition of shares of Common Stock pursuant to the Acquisition Agreement, the consummation of the other transactions contemplated by the Acquisition Agreement and the issuance of stock options to the Sellers or the exercise thereof, will not be deemed to be events that cause the Rights to become exercisable, (ii) amends the definition of Acquiring Person to provide that the Sellers and their existing or future Affiliates and Associates (each as defined in the Rights Agreement) will not be deemed to be an Acquiring Person solely by virtue of the execution of the Acquisition Agreement, the acquisition of Common Stock pursuant to the Acquisition Agreement, the consummation of the other transactions contemplated by the Acquisition Agreement or the issuance of stock options to the Sellers or the exercise thereof and (iii) amends the Rights Agreement to provide that a Distribution Date (as defined below) shall not be deemed to have occurred solely by virtue of the execution of the Acquisition Agreement, the acquisition of Common Stock pursuant to the Acquisition Agreement, the consummation of the other transactions contemplated by the Acquisition Agreement or the issuance of stock options to the Sellers or the exercise thereof. The Rights Agreement Amendment also provides for certain other conforming amendments to the terms and provisions of the Rights Agreement. The date that the Rights become exercisable is known as the "Distribution Date."

On July 20, 2009, the Company entered into a second amendment to the Rights Agreement (the "Second Rights Agreement Amendment"). The Second Rights Agreement Amendment, among other things, (i) provides that those certain purchases of shares of Common Stock by Krassner L.P. reported on Statements of Change in Beneficial Ownership on Form 4 filed with the SEC on June 3, 2009, June 12, 2009 and June 26, 2009 (the "Krassner Purchases") will not be deemed to be events that cause the Rights to become exercisable, (ii) amends the definition of Acquiring Person to provide that neither Krassner L.P. nor any of its existing or future Affiliates or Associates (as defined in the Rights Agreement) will be deemed to be an Acquiring Person solely by virtue of the Krassner Purchases and (iii) amends the Rights Agreement to provide that the Distribution Date will not be deemed to have occurred solely by virtue of the Krassner Purchases. The Second Rights Agreement Amendment also provides for certain other conforming amendments to the terms and provisions of the Rights Agreement.



On February 9, 2010, the Company entered into a third amendment to the Rights Agreement (the “Third Rights Agreement Amendment”). The Third Rights Agreement Amendment amended the definition of Distribution Date to provide that the Distribution Date corresponding to the Share Acquisition Date (as defined in the Rights Agreement) that occurred on February 2, 2010 as a result of the Company’s public announcement on such date that Esch, Lorex, Krassner and Krassner L.P. were Acquiring Persons (as defined in the Rights Agreement) under the Rights Agreement (the “Esch-Krassner Acquiring Event”) would be the close of business on April 3, 2010. The Third Rights Agreement Amendment also provided that the Company would be required to give written notice to the Rights Agent and stockholders of the Company of the occurrence of the Esch-Krassner Acquiring Event under the Rights Agreement as soon as practicable after any corresponding Distribution Date.

On March 26, 2010, the Company entered into a fourth amendment to the Rights Agreement (the “Fourth Rights Agreement Amendment”). The Fourth Rights Agreement Amendment further amended the definition of Distribution Date to provide that the Distribution Date corresponding to the Share Acquisition Date that occurred on February 2, 2010, as a result of the Company’s public announcement on such date of the Esch-Krassner Acquiring Event, would be the close of business on May 3, 2010.

On April 29, 2010, the Company entered into a fifth amendment to the Rights Agreement (the “Fifth Rights Agreement Amendment”). The Fifth Rights Agreement Amendment further amended the definition of Distribution Date to provide that the Distribution Date corresponding to the Share Acquisition Date that occurred on February 2, 2010, as a result of the Company’s public announcement on such date of the Esch-Krassner Acquiring Event, would be the close of business on June 3, 2010.

On June 2, 2010, the Company entered into a sixth amendment to the Rights Agreement (the “Sixth Rights Agreement Amendment”). The Sixth Rights Agreement Amendment further amended the definition of Distribution Date to provide that the Distribution Date corresponding to the Share Acquisition Date that occurred on February 2, 2010, as a result of the Company’s public announcement on such date of the Esch-Krassner Acquiring Event, would be the close of business on July 3, 2010.

On July 2, 2010, the Company entered into a seventh amendment to the Rights Agreement (the “Seventh Rights Agreement Amendment”). The Seventh Rights Agreement Amendment further amended the definition of Distribution Date to provide that the Distribution Date corresponding to the Share Acquisition Date that occurred on February 2, 2010, as a result of the Company’s public announcement on such date of the Esch-Krassner Acquiring Event, would be the close of business on August 3, 2010.

On August 2, 2010, the Company entered into an eighth amendment to the Rights Agreement (the “Eighth Rights Agreement Amendment”). The Eighth Rights Agreement Amendment further amended the definition of Distribution Date to provide that the Distribution Date corresponding to the Share Acquisition Date that occurred on February 2, 2010, as a result of the Company’s public announcement on such date of the Esch-Krassner Acquiring Event, would be the close of business on September 3, 2010.



On September 2, 2010, the Company entered into a ninth amendment to the Rights Agreement (the “Ninth Rights Agreement Amendment”). The Ninth Rights Agreement Amendment further amended the definition of Distribution Date to provide that the Distribution Date corresponding to the Share Acquisition Date that occurred on February 2, 2010, as a result of the Company’s public announcement on such date of the Esch-Krassner Acquiring Event, would be the close of business on October 3, 2010.

On October 1, 2010, the Company entered into a tenth amendment to the Rights Agreement (the “Tenth Rights Agreement Amendment”). The Tenth Rights Agreement Amendment further amended the definition of Distribution Date to provide that the Distribution Date corresponding to the Share Acquisition Date that occurred on February 2, 2010, as a result of the Company’s public announcement on such date of the Esch-Krassner Acquiring Event, would be the close of business on November 3, 2010.

On October 18, 2010, the Company entered into an eleventh amendment to the Rights Agreement (the “Eleventh Rights Agreement Amendment”). The Eleventh Rights Agreement Amendment, entered into in connection with the Settlement Agreement, amends the definition of Distribution Date to provide that the Distribution Date shall not occur with respect to the Share Acquisition Date that occurred on February 2, 2010, as a result of the Company’s public announcement on such date of the Esch-Krassner Acquiring Event. The Eleventh Rights Agreement Amendment also provides that the rights under the Rights Agreement shall not be affected by (i) those certain prior coordination activities among the Control Sellers which preceded the Company’s declaration of the Esch-Krassner Acquiring Event and which did not involve any acquisition of record or beneficial ownership of the Company’s securities other than any deemed acquisition of beneficial ownership by one Control Seller of Company securities owned of record by another Control Seller (including, without limitation, the specific activities described in the Schedules 13D (a) filed by Lorex, Esch and Peter Marty on November 20, 2009 and March 17, 2010 and (b) filed by Krassner L.P., Krassner and Krassner Investments, Inc. on November 20, 2009 and March 16, 2010) and (ii) similar past or future coordination activities between or among any Control Sellers which do not involve any acquisition of record or beneficial ownership of the Company’s securities other than any deemed acquisition of beneficial ownership by one Control Seller of Company securities owned of record by another Control Seller, whether or not reported on any Schedule 13D, including but not limited to (a) holding or expressing similar opinions regarding any matter affecting the Company or (b) coordinating activities as directors or stockholders of the Company (the foregoing clauses (i) and (ii), the “Wilhelmina Control Seller Coordination Activities”). Specifically, the Eleventh Rights Agreement Amendment (i) amends the definition of Acquiring Person to provide that the Control Sellers shall not be deemed to be Acquiring Persons solely by virtue of any Wilhelmina Control Seller Coordination Activities, (ii) provides that a Distribution Date shall not be deemed to have occurred solely by virtue of any Wilhelmina Control Seller Coordination Activities, (iii) provides that Control Seller Coordination Activities shall not be deemed to be events that cause the Rights to become exercisable and (iv) amends the definition of Triggering Event to provide that no Triggering Event shall result solely by virtue of any Wilhelmina Control Seller Coordination Activities.

On December 8, 2010, the Company entered into a twelfth amendment to the Rights Agreement (the “Twelfth Rights Agreement Amendment”). The Twelfth Rights Agreement Amendment, among other things, (i) amends the definition of Acquiring Person to provide that none of Esch, Lorex, Krassner or Krassner L.P. shall be deemed to be an Acquiring Person solely by virtue of purchases by each of Lorex and Krassner L.P. of up to 500,000 shares of Common Stock in the aggregate, in each case, during the period commencing on December 8, 2010 and ending on November 30, 2011 (“Permitted Purchases”), (ii) amends the definition of Triggering Event to provide that no Triggering Event shall result solely by virtue of any Permitted Purchases, (iii) provides that a Distribution Date shall not be deemed to have occurred solely by virtue of any Permitted Purchases and (iv) provides that, effective as of the date of the Twelfth Rights Agreement Amendment, no Permitted Purchases shall be deemed to be events that cause the Rights to become exercisable. The Twelfth Rights Agreement Amendment also provides for certain other conforming and technical amendments to the terms and provisions of the Rights Agreement.



In connection with the Wilhelmina Transaction, the Company issued 12,145,749 shares of Common Stock to Newcastle and 63,411,131 shares to Patterson, the Control Sellers and their advisor.

During the three months ended June 30, 2011, the Company adopted the 2011 Incentive Plan under which directors, officers, consultants, advisors and employees of the Company are eligible to receive stock option grants. The Company has reserved 6,000,000 shares of its Common Stock for issuance pursuant to the 2011 Incentive Plan. Under the 2011 Incentive Plan, options vest and expire pursuant to individual award agreements; however, the expiration date of unexercised options may not exceed ten years from the date of grant. During the three months ended June 30, 2011, the Company issued an option grant of 2,000,000 shares of its Common Stock with an exercise price of \$.21, a five year vesting schedule (vesting in equal increments in years three, four and five) and a ten year term. In connection with this grant of options, the Company recognized compensation expense of approximately \$23,000 and \$38,000 during the three and nine months ended September 30, 2011, respectively.

#### Note 10. Income Taxes

As of December 31, 2010, the Company had a federal income tax loss carryforward of approximately \$11,000,000, which begins expiring in 2019. Realization of the Company's carryforwards is dependent on future taxable income and capital gains. A portion of the Company's net operating loss carryforwards were utilized to offset taxable income generated in the nine months ended September 30, 2011 and September 30, 2010. A valuation allowance has been recorded to reflect the tax effect of the net loss carryforwards not used to offset a portion of the deferred tax liability resulting from the Wilhelmina Transaction. Ownership changes, as defined in the Internal Revenue Code, may limit the amount of net operating loss carryforwards that can be utilized annually to offset future taxable income. Subsequent ownership changes could further affect the limitation in future years.

#### Note 11. Related Parties

As of September 30, 2011, Mark Schwarz, the Chairman, Chief Executive Officer and Portfolio Manager of Newcastle Capital Management, L.P. ("NCM"), John Murray, Chief Financial Officer of NCM, and Evan Stone, the former Vice President and General Counsel of NCM, held the following executive officer and board of director positions with the Company: Chairman of the Board and Chief Executive Officer, Chief Financial Officer, General Counsel and Secretary, respectively. NCM is the General Partner of Newcastle, which owns 34,064,466 shares of Common Stock. At the annual meeting of stockholders of the Company held on January 20, 2011, the stockholders of the Company elected Clinton Coleman (Vice President at NCM) and James Dvorak (Vice President at NCM) to serve as directors of the Company.

The Company's corporate headquarters are located at 200 Crescent Court, Suite 1400, Dallas, Texas 75201, which are also the offices of NCM. The Company occupies a portion of NCM space on a month-to-month basis at \$2,500 per month, pursuant to a services agreement entered into between the parties. Pursuant to the services agreement, the Company receives the use of NCM's facilities and equipment and accounting, legal and administrative services from employees of NCM. The Company incurred expenses pursuant to the services agreement totaling approximately \$8,000 and \$22,000 for the three and nine months ended September 30, 2011 and September 30, 2010. The Company owed NCM \$0 as of September 30, 2011 and 2010, respectively, under the services agreement.

On August 25, 2008, concurrently with the execution of the Acquisition Agreement, the Company entered into the Equity Financing Agreement with Newcastle for the purpose of obtaining financing to complete the transactions contemplated by the Acquisition Agreement (see Note 3).

The Company has an agreement with an unconsolidated affiliate to provide management and administrative services, as well as sharing of space. For the three and nine months ended September 30, 2011 and September 30, 2010, management fee and rental income from the unconsolidated affiliate amounted to approximately \$27,000 and \$78,000.

#### Note 12. Treasury Stock

In December 2010, the Company's Board of Directors authorized a stock repurchase program whereby the Company may repurchase up to 500,000 shares of its outstanding Common Stock. The Company made no purchases of Common Stock during the nine months ended September 30, 2011 or the year ended December 31, 2010.

The shares may be repurchased from time-to-time in the open market or through privately negotiated transactions at prices the Company deems appropriate. The program does not obligate the Company to acquire any particular amount of Common Stock and the program may be modified or suspended at any time at the Company's discretion. The stock repurchase plan will be funded through the Company's cash on hand.

#### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following is a discussion of the interim unaudited condensed consolidated financial condition and results of operations for the Company and its subsidiaries for the three and nine months ended September 30, 2011 and September 30, 2010. It should be read in conjunction with the financial statements of the Company, the notes thereto and other financial information included elsewhere in this report, and the Company's Annual Report on Form 10-K for the year ended December 31, 2010, as amended.

#### Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain "forward-looking" statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Private Securities Litigation Reform Act of 1995 and information relating to the Company and its subsidiaries that are based on the beliefs of the Company's management as well as information currently available to the Company's management. When used in this report, the words "anticipate," "believe," "estimate," "expect" and "intend" and words or phrases of similar import, as they relate to the Company or its subsidiaries or Company management, are intended to identify forward-looking statements. Such statements reflect the current risks, uncertainties and assumptions related to certain factors including, without limitation, competitive factors, general economic conditions, the interest rate environment, governmental regulation and supervision, seasonality, changes in industry practices, one-time events and other factors described herein and in other filings made by the Company with the SEC. Based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended. The Company does not undertake any obligation to publicly update these forward-looking statements. As a result, you should not place undue reliance on these forward-looking statements.

## Overview

Wilhelmina's primary business is fashion model management, which is headquartered in New York City. The Company's predecessor was founded in 1967 by Wilhelmina Cooper, a renowned fashion model, and is one of the oldest and largest fashion model management companies in the world. Since its founding, Wilhelmina has grown to include operations located in Los Angeles and Miami, as well as a growing network of licensees comprising leading modeling agencies in various local markets across the U.S. as well as in Panama. Wilhelmina provides traditional, full-service fashion model and talent management services, specializing in the representation and management of models, entertainers, artists, athletes and other talent to various customers and clients, including retailers, designers, advertising agencies and catalog companies.

Wilhelmina has strong brand recognition that enables it to attract and retain top talent to service a broad universe of quality media and retail clients.

## Industry and Outlook

The fashion model management industry is highly fragmented, with smaller, local talent management firms frequently competing with a small group of internationally operating talent management firms for client assignments. New York City, Los Angeles and Miami, as well as Paris, Milan and London, are considered the most important markets for the fashion talent management industry. Most of the leading international firms are headquartered in New York City, which is considered to be the "capital" of the global fashion industry. Apart from Wilhelmina and Paris-based and publicly-listed Elite SA, all other fashion talent management firms are privately-held. The business of talent management firms, such as Wilhelmina, is related to the state of the advertising industry, as demand for talent is driven by print, Internet and TV advertising campaigns.

During the three and nine months ended September 30, 2011, Wilhelmina has continued to see improvement in its clients' willingness to spend on the services it provides as evidenced by an increase in demand for models. During these periods, the Wilhelmina Companies continued to experience revenue growth in its core modeling business. In the current economic environment, there can be no assurance as to the effects on the Company of future economic circumstances, client spending patterns, client credit worthiness and other developments and whether, or to what extent, the Company's efforts to respond to them will be effective.

## Trends and Opportunities

The Company expects that the combination of the location of Wilhelmina's main operating base in New York City, the industry's capital, the depth and breadth of its talent pool and client roster, its diversification across various talent management segments, and its geographical reach should make Wilhelmina's operations more resilient to industry changes and economic swings than those of many of the smaller firms operating in the industry. Similarly, in the segments where Wilhelmina competes with other leading full service agencies, Wilhelmina continues to compete successfully. Accordingly, the Company believes that the current economic climate will create new growth opportunities for strong industry leaders such as Wilhelmina.

Since 2007, Wilhelmina has seen an increasingly strong influx of talent, at both the new and seasoned talent levels, and it believes it is increasingly attractive as an employer for successful agents across the industry as evidenced by the quality of agents expressing an interest in joining Wilhelmina. The Company continues to seek new business and branding opportunities directly or indirectly relating to the fashion industry. In order to take advantage of these opportunities and support its continued growth, Wilhelmina will need to continue to successfully allocate resources and staffing in a way that enhances its ability to respond to these new opportunities.



With total advertising expenditures on major media (newspapers, magazines, television, cinema, outdoor and Internet) amounting to approximately \$156 billion in 2010, North America is by far the world's largest advertising market. For the fashion talent management industry, including Wilhelmina, advertising expenditures on magazines, television and outdoor are of particular relevance, with Internet advertising becoming increasingly important.

Due to the increasing ubiquity of the Internet as a standard business tool, the Wilhelmina Companies have increasingly sought to harness the opportunities of the Internet and other digital media to improve their communications with clients and to facilitate the effective exchange of fashion model and talent information. The Wilhelmina Companies have also continued their efforts to expand the geographical reach of the Wilhelmina Companies through this medium in order to both support revenue growth and to reduce operating expenses. At the same time, the Internet presents challenges for the Wilhelmina Companies, including (i) the cannibalization of traditional print advertising business and (ii) pricing pressures with respect to photo shoots and client engagements.

### Strategy

Management's strategy is to increase value to shareholders through the following initiatives:

- expanding the women's high end fashion board;
- continuing to invest in the WAM business;
  - strategic acquisitions;
- licensing the "Wilhelmina" name to leading, local model management agencies;
- exploring the use of the "Wilhelmina" brand in connection with consumer products, cosmetics and other beauty products; and
  - partnering on television shows and promoting model search contests.

### Wilhelmina Acquisition

On February 13, 2009, the Company closed the Wilhelmina Transaction and acquired the Wilhelmina Companies. As of the closing of the Wilhelmina Transaction, the business of the Wilhelmina Companies represents the Company's primary operating business. Prior to closing of the Wilhelmina Transaction, the Company's interest in Ascendant, acquired on October 5, 2005, represented the Company's sole operating business.

### Ascendant

On October 5, 2005, the Company acquired an interest in the revenues generated by ACP Investments, L.P. (d/b/a Ascendant Capital Partners) ("Ascendant"), a Berwyn, Pennsylvania based alternative asset management company whose funds have investments in long/short equity funds and which distributes its registered funds primarily through various financial intermediaries and related channels. Ascendant had assets under management of approximately \$73,400,000 and \$52,700,000 as of September 30, 2011 and September 30, 2010, respectively.

During 2009, the Company determined that the present value of expected cash flows from the Ascendant revenue interest was nominal and therefore the revenue interest is carried at \$0 in the accompanying balance sheet.

#### RESULTS OF OPERATIONS OF THE COMPANY FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011 COMPARED TO THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010

The key financial indicators that the Company reviews to monitor the business are gross billings, revenues, model costs, operating expenses and cash flows.

The Company analyzes revenue by reviewing the mix of revenues generated by the different “boards” (each a specific division of the fashion model management operations which specializes by the type of model it represents (Women, Men, Sophisticated, Runway, Curve, Lifestyle, Kids, etc.)) of the business, revenues by geographic locations and revenues from significant clients. Wilhelmina has three primary sources of revenue: revenues from principal relationships whereby the gross amount billed to the client is recorded as revenue, when the revenues are earned and collectability is reasonably assured; revenues from agent relationships whereby the commissions paid by models as a percentage of their gross earnings are recorded as revenue when earned and collectability is reasonably assured; and a separate service charge, paid by clients in addition to the booking fees, which is calculated as a percentage of the models’ booking fees and is recorded as revenues when earned and collectability is reasonably assured. See Critical Accounting Policies - Revenue Recognition, below. Gross billings are an important business metric that ultimately drives revenues, profits and cash flows.

Because Wilhelmina provides professional services, salary and service costs represent the largest part of the Company’s operating expenses. Salary and service costs are comprised of payroll and related costs and travel costs required to deliver the Company’s services and to enable new business development activities.

#### Gross Billings

Gross billings for the three months ended September 30, 2011 increased approximately \$505,000, or 3.7%, to approximately \$14,305,000, compared to approximately \$13,800,000 for the three months ended September 30, 2010. During the three months ended September 30, 2011, the Wilhelmina Companies experienced an increase in gross billings across the core modeling business of approximately 13%, which was somewhat offset by a decrease in gross billings in the WAM business of approximately 45% compared to gross billings generated by the respective divisions during the three months ended September 30, 2010. Gross billings of the WAM division represented approximately 9% of total gross billings for the three months ended September 30, 2011, compared to approximately 17% for the three months ended September 30, 2010. During the three months ended September 30, 2011, gross billings of the various boards of the core modeling business experienced positive growth ranging from 1% to 48%, and two boards experienced negative growth of 15%, compared to the three months ended September 30, 2010.

Gross billings for the nine months ended September 30, 2011 increased approximately \$4,162,000, or 10.5%, to approximately \$43,846,000, compared to approximately \$39,684,000 for the nine months ended September 30, 2010. Generally, gross billings increased due to the Company’s clients spending more on advertising and the Company having the desired talent available to its clients in the core modeling business. During the nine months ended September 30, 2011, the Wilhelmina Companies experienced an increase in gross billings across the core modeling business of approximately 19% and a decrease in gross billings in the WAM business of approximately 39% compared to gross billings generated by the respective divisions during the nine months ended September 30, 2010. Gross billings of the WAM division represented approximately 8% of total gross billings for the nine months ended September 30, 2011, compared to approximately 15% for the nine months ended September 30, 2010. During the nine months ended September 30, 2011, gross billings of the various boards of the core modeling business experienced positive growth ranging from 2% to 65% and one board experienced negative growth of 12%, compared to the nine months ended September 30, 2010.





Historically, gross billings in the WAM division have been erratic based on the specific artist agreements with customers. For this reason, gross billings in the WAM division may vary significantly during individual reporting periods.

#### Revenues

During the three months ended September 30, 2011, revenues increased approximately \$1,437,000, or 12.2%, to approximately \$13,258,000 compared to approximately \$11,821,000 during the three months ended September 30, 2010. During the three months ended September 30, 2011, the Company experienced increases in revenues as a result of increases in gross billings for the core modeling business. In addition, revenues increased at a rate greater than the rate of increase in gross billings over the three months ended September 30, 2010 as a result of a larger percentage of total revenues being derived from relationships which required the reporting of revenues gross (as a principal) versus net (as an agent).

Typically, relationships in the core modeling business are determined to be principal relationships and therefore require the reporting of revenues on a gross basis. Relationships in the WAM business are usually determined to be agent relationships, which require the reporting of revenues on a net basis.

During the nine months ended September 30, 2011, revenues increased approximately \$6,363,000, or 18.4%, to approximately \$41,038,000, compared to approximately \$34,675,000 during the nine months ended September 30, 2010. During the nine months ended September 30, 2011, the Company experienced increases in revenues as a result of increases in gross billings for the core modeling business. In addition, revenues increased at a rate greater than the rate of increase in gross billings over the nine months ended September 30, 2010 as a result of a larger percentage of total revenues being derived from relationships, which required the reporting of revenues gross (as a principal) versus net (as an agent).

#### License Fees and Other Income

The Company has an agreement with an unconsolidated affiliate to provide management and administrative services, as well as sharing of space. For the three and nine months ended September 30, 2011, management fee income from the unconsolidated affiliate amounted to approximately \$27,000 and \$78,000, respectively, compared to approximately \$27,000 and \$78,000, for the three and nine months ended September 30, 2010, respectively.

License fees consist primarily of franchise revenues from independently owned model agencies that use the Wilhelmina trademark name and various services provided to them by the Wilhelmina Companies. During the three and nine months ended September 30, 2011, license fees totaled approximately \$62,000 and \$126,000, respectively, compared to \$53,000 and \$148,000 for the three and nine months ended September 30, 2010, respectively.

The Company has entered into product licensing agreements with clients. Under these agreements, the Company earns commissions and service charges and participates in sharing of royalties with talent it represents. During the three and nine months ended September 30, 2011, revenue from these licensing agreements totaled approximately \$137,000 and \$562,000, respectively, compared to \$219,000 and \$531,000 for the three and nine months ended September 30, 2010, respectively.

Other income includes fees derived from participants in the Company's model search contests; and television syndication royalties and a production series contract. In 2005, the Wilhelmina Companies produced the television show "The Agency" and in 2007 the Wilhelmina Companies entered into an agreement with a television network to develop a television series titled "She's Got the Look", which completed its third season on the network channel TV Land Prime during the nine months ended September 30, 2010. The television series documented the lives of women competing in a modeling competition. The Wilhelmina Companies provided the television series with the talent and the "Wilhelmina" brand image, and agreed to a modeling contract with the winner of the competition, in consideration of a fee per episode produced, plus certain fees, as defined.

#### Model Costs

Model costs consist of costs associated with relationships with models where the key indicators suggest that the Company acts as a principal. Therefore, the Company records the gross amount billed to the client as revenue when the revenues are earned and collectability is reasonably assured, and the related costs incurred to the model as model cost.

During the three months ended September 30, 2011, model costs increased approximately \$1,170,000, or 14.4%, to approximately \$9,278,000, compared to approximately \$8,108,000 during the three months ended September 30, 2010. Model costs increased 14.4% compared to the prior year quarter as a result of a 12.2% increase in revenues as compared to the prior year quarter. Model costs increased slightly more than expected, given the increase in revenues, due to an increase in certain model related costs.

During the nine months ended September 30, 2011, model costs increased approximately \$4,556,000, or 18.9%, to approximately \$28,632,000, compared to approximately \$24,076,000 during the nine months ended September 30, 2010. During the nine months ended September 30, 2011, model costs as a percentage of revenues were approximately 69.8% compared to 69.4% during the nine months ended September 30, 2010. Margins declined slightly from the prior year period due to increases in certain fixed model costs.

#### Operating Expenses

Operating expenses consist of costs that support the operations of the Company, including payroll, rent, overhead, insurance, travel, professional fees, amortization and depreciation, asset impairment charges and corporate overhead.

During the three months ended September 30, 2011, operating expenses increased approximately \$304,000, or 8.6%, to approximately \$3,853,000, compared to approximately \$3,549,000 during the three months ended September 30, 2010. The increase in operating expenses is primarily attributable to increases in salaries and service costs offset by decreases in amortization and depreciation and office and general expenses.

During the nine months ended September 30, 2011, operating expenses increased approximately \$760,000, or 7.1%, to approximately \$11,393,000 compared to approximately \$10,633,000 during the nine months ended September 30, 2010. The increase in operating expenses is primarily attributable to increases in salaries and service costs somewhat offset by decreases in amortization and depreciation and corporate overhead. Office and general expenses were relatively flat when comparing the nine months ended September 30, 2011 to the nine months ended September 30, 2010.

All operating costs except corporate overhead expenses are attributable to the Wilhelmina Companies and are discussed below.

#### Salaries and Service Costs

Salaries and service costs consist of payroll and related costs and travel costs required to deliver the Company's services to the customers and models. During the three months ended September 30, 2011, salaries and service costs increased approximately \$491,000, or 24.4%, to approximately \$2,502,000, compared to approximately \$2,011,000 during the three months ended September 30, 2010.

During the nine months ended September 30, 2011, salaries and service costs increased approximately \$1,072,000, or 17.9%, to approximately \$7,067,000, compared to approximately \$5,995,000 during the nine months ended September 30, 2010. During the nine months ended September 30, 2011 and September 30, 2010, salaries and service costs as a percentage of revenues remained relatively flat at approximately 17.3%. The Company continues to leverage its employees to meet the increased demands from customers for Wilhelmina talent.

The increase in salaries and service costs when compared to the prior year periods are attributable to increased salary costs in connection with the hiring of employees and increased incentive compensation as a result of employees achieving performance targets. The Company also incurred additional travel related costs in connection with the delivery of its services and in connection with new business development.

#### Office and General Expenses

Office and general expenses consist of office and equipment rents, advertising and promotion, insurance expenses, administration and technology cost. These costs are less directly linked to changes in the Company's revenues than are salaries and service costs. During the three months ended September 30, 2011, office and general expenses decreased approximately \$144,000, or 18.8%, to approximately \$623,000, compared to approximately \$767,000 during the three months ended September 30, 2010. Office and general expenses decreased due to lower costs associated with advertising and promotion, professional fees and facilities related costs.

During the nine months ended September 30, 2011, office and general expenses increased approximately \$4,000, or 0.2%, to approximately \$2,181,000, compared to approximately \$2,177,000 during the nine months ended September 30, 2010. During the nine months ended September 30, 2011, office and general expenses as a percentage of revenues were approximately 5.3%, compared to approximately 6.3% during the nine months ended September 30, 2010. The Company continues to leverage its resources and reduce costs relative to revenues generated when available.

#### Amortization and Depreciation

Depreciation and amortization expense is incurred with respect to certain assets, including computer hardware, software, office equipment, furniture, and other intangibles. During the three and nine months ended September 30, 2011, depreciation and amortization expense totaled \$401,000 and \$1,238,000 (of which \$374,000 and \$1,166,000 relates to amortization of intangibles acquired in connection with the Wilhelmina Transaction), respectively, compared to \$481,000 and \$1,447,000 (of which \$463,000 and \$1,389,000 relates to amortization of intangibles acquired in connection with the Wilhelmina Transaction) during the three and nine months ended September 30, 2010, respectively. Fixed asset purchases totaled approximately \$279,000 and \$75,000 during the nine months ended September 30, 2011 and September 30, 2010, respectively. The majority of the fixed asset purchases incurred during the nine months ended September 30, 2011 relate to leasehold improvements, furniture and equipment for the Company's new office space in Los Angeles. In connection with the new office space in Los Angeles the Company entered into a 5 year lease effective July 1, 2011.



### Corporate Overhead

Corporate overhead expenses include public company costs, stock exchange fees, director and executive officer compensation, directors' and officers' insurance, legal and professional fees, corporate office rent and travel. During the three and nine months ended September 30, 2011, corporate overhead approximated \$327,000 and \$907,000, respectively, compared to \$290,000 and \$1,014,000 for the three and nine months ended September 30, 2010, respectively. The decrease in corporate overhead for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010 is primarily attributable to a decrease in accounting, tax and legal fees somewhat offset by an increase in directors fees and stock exchange fees.

### Miami Earn-Out Adjustment

In connection with the Settlement Agreement reached October 18, 2010, (A) approximately 39% (representing the amount that would otherwise be paid to Krassner L.P.) of the first \$2 million of the Miami Earnout was cancelled and (B) approximately 69% (representing the amounts that would otherwise be paid in the aggregate to Krassner L.P. and Lorex) of any such Miami Earnout obligation over \$2 million was cancelled.

The Miami Earnout, payable in accordance with the Acquisition Agreement and Settlement Agreement, is calculated based on the three year average of audited Wilhelmina Miami EBITDA beginning January 1, 2009, multiplied by 7.5, payable in cash or stock. As of December 31, 2010 and September 30, 2011, management's estimate of the combined fair value of the Miami Earnout was approximately \$2,063,000 and \$2,138,000, respectively. During the three months ended September 30, 2011, management determined (based on a number of factors, including the most recent financial results of the Miami division) that the estimate of the fair value of the Miami Earnout required an increase of \$75,000.

### Asset Impairment Charge

Each reporting period, the Company assesses whether events or circumstances have occurred which indicate that the carrying amount of an intangible asset exceeds its fair value. If the carrying amount of the intangible asset exceeds its fair value, an asset impairment charge will be recognized in an amount equal to that excess. No asset impairment charges were incurred during the nine months ended September 30, 2011 and 2010.

### Interest Income

Interest income totaled approximately \$4,000 and \$0 for the nine months ended September 30, 2011 and September 30, 2010, respectively. The increase in interest income is the result of an increase in cash balances which earn yields.

### Interest Expense

Interest expense totaled approximately \$2,000 and \$21,000 for the three and nine months ended September 30, 2011, respectively, compared to \$14,000 and \$52,000 for the three and nine months ended September 30, 2010, respectively. The decrease in interest expense for the three and nine months ended September 30, 2011, compared to the three and nine months ended September 30, 2010, is attributable to declines in the balances of the Credit Facility with Signature Bank and the Esch Note due to principal payments somewhat offset by the borrowing under the Amegy Credit Facility during the three months ended September 30, 2011. See Liquidity and Capital Resources below for further discussion.

### Income Tax Expense

During the nine months ended September 30, 2011, the Company's combined federal and state effective tax rate was approximately 11%. The Company's effective tax rate would be substantially higher if it were not for federal net operating loss carryforwards.

As of December 31, 2010, the Company had a federal income tax loss carryforward of approximately \$11,000,000, which begins expiring in 2019. Realization of the Company's carryforwards is dependent on future taxable income and capital gains. A valuation allowance has been recorded to reflect the tax effect of the net loss carryforwards not used to offset a portion of the deferred tax liability resulting from the Wilhelmina Transaction. Ownership changes, as defined in the Internal Revenue Code, may limit the amount of net operating loss carryforwards that can be utilized annually to offset future taxable income. Subsequent ownership changes could further affect the limitation in future years.

### Liquidity and Capital Resources

The Company's cash balance increased to \$3,737,000 at September 30, 2011, from \$1,732,000 at December 31, 2010. The increase is primarily attributable to cash flow from operations and borrowings under the Amegy Credit Facility somewhat offset by principal payments under the Esch Note totaling \$600,000 and leasehold improvements costs associated with the new lease for office space located in Los Angeles, CA effective July 1, 2011.

The Company's primary liquidity needs are for financing working capital associated with the expenses it incurs in performing services under its client contracts. Generally, the Company incurs significant operating expenses with payment terms shorter than its average collections on billings.

The Company's ability to replace its indebtedness, and to fund working capital and planned capital expenditures will depend on its ability to generate cash in the future, which, to a certain extent, is subject to general economic, financial, competitive and other factors that are beyond its control. The Company has historically secured its working capital facility through accounts receivable balances and, therefore, the Company's ability to continue servicing debt is dependent upon the timely collection of those receivables. The Company believes its operations will provide working capital necessary to meet its needs.

### Amegy Credit Facility

On April 29, 2011, the Company closed the Credit Agreement for a new \$500,000 revolving credit facility with Amegy. Borrowings under the facility are to be used for working capital and other general business purposes of the Company.





During the three months ended September 30, 2011, the Company drew \$500,000 under the Credit Agreement. Generally, amounts outstanding under the Credit Agreement shall bear interest at the greater of (a) 5% per annum or (b) the prime rate (which means, for any day, the rate of interest quoted in The Wall Street Journal as the "Prime Rate") plus 2% per annum. Credit is available under the facility through February 28, 2012 and is limited to a borrowing base equal to 80% of the aggregate value of eligible accounts receivable (as defined in the Credit Agreement) of the Company. The maturity date of the facility is February 28, 2012.

#### Earn Out

The Miami Earnout, payable in accordance with the Acquisition Agreement and Settlement Agreement (see Note 3 to the accompanying financial statements) is calculated based on the three year average of audited Wilhelmina Miami EBITDA beginning January 1, 2009, multiplied by 7.5, payable in cash or stock. As of December 31, 2010 and September 30, 2011, management's estimate of the fair value of the Miami Earnout was approximately \$2,063,000 and \$2,138,000, respectively. During the three months ended September 30, 2011, management determined (based on a number of factors, including the most recent financial results of the Miami division) that the estimate of the fair value of the Miami Earnout required an increase of \$75,000.

The Miami Earnout is payable (subject to the provisions of the Acquisition Agreement) near the first quarter of 2012. The Company's ability to fund the earn-out obligations will be dependent on cash flow from operations and borrowings under the Credit Agreement.

#### Off-Balance Sheet Arrangements

As of September 30, 2011, the Company had \$222,000 of restricted cash that serves as collateral for an irrevocable standby letter of credit. The letter of credit serves as additional security under the lease extension relating to the Company's office space in New York City that expires February 2021.

#### Effect of Inflation

Inflation has not been a material factor affecting the Company's business. General operating expenses, such as salaries, employee benefits, insurance and occupancy costs, are subject to normal inflationary pressures.

#### Critical Accounting Policies

##### Revenue Recognition

In compliance with generally accepted accounting principles when reporting revenue gross as a principal versus net as an agent, the Company assesses whether it, the model or the talent is the primary obligor. The Company evaluates the terms of its model, talent and client agreements as part of this assessment. In addition, the Company gives appropriate consideration to other key indicators such as latitude in establishing price, discretion in model or talent selection and credit risk the Company undertakes. The Company operates broadly as a modeling agency and in those relationships with models and talent where the key indicators suggest the Company acts as a principal, the Company records the gross amount billed to the client as revenue when earned and collectability is reasonably assured and the related costs incurred to the model or talent as model or talent cost. In other model and talent relationships, where the Company believes the key indicators suggest it acts as an agent on behalf of the model or talent, the Company records revenue net of pass-through model or talent cost.



The Company also recognizes management fees as revenues for providing services to other modeling agencies as well as consulting income in connection with services provided to a television production network according to the terms of the contract. The Company recognizes royalty income when earned based on terms of the contractual agreement. Revenues received in advance are deferred and amortized using the straight-line method over periods pursuant to the related contract.

The Company also records fees from licensees when the revenues are earned and collectability is reasonably assured.

Advances to models for the cost of producing initial portfolios and other out-of-pocket costs are expensed to model costs as incurred. Any repayments of such costs are credited to model costs in the period received.

#### Goodwill and Intangible Assets

Goodwill and intangible assets consist primarily of goodwill and buyer relationships resulting from a business acquisition. Goodwill and intangible assets with indefinite lives are no longer subject to amortization, but rather to an annual assessment of impairment by applying a fair-value based test.

Management's assessments of the recoverability and impairment tests of goodwill and intangible assets involve critical accounting estimates. These estimates require significant management judgment, include inherent uncertainties and are often interdependent; therefore, they do not change in isolation. Factors that management must estimate include, among others, the economic life of the asset, sales volume, prices, inflation, cost of capital, marketing spending, tax rates and capital spending. These factors are even more difficult to predict when global financial markets are highly volatile. When performing impairment tests, the Company estimates the fair values of the assets using management's best assumptions, which it believes would be consistent with what a hypothetical marketplace participant would use. Estimates and assumptions used in these tests are evaluated and updated as appropriate. The variability of these factors depends on a number of conditions, including uncertainty about future events, and thus the accounting estimates may change from period to period. If other assumptions and estimates had been used when these tests were performed, impairment charges could have resulted.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 ("SAB 108"), which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 requires the use of both the "iron curtain" and "rollover" approach in quantifying the materiality of misstatements. SAB 108 provides transitional guidance for the correction of errors in prior periods.

In accordance with the application of SAB 108, the Company evaluated the uncorrected financial statement misstatements that were previously considered immaterial under the "rollover" method using the dual methodology required by SAB 108. As a result of this dual methodology approach of SAB 108, the Company corrected the cumulative error in its accounting for liabilities related to foreign withholding of taxes for the quarter ended June 30, 2011, by relieving a liability of approximately \$84,000 with a corresponding reduction of goodwill.

#### Business Combinations

In a business combination, contingent consideration or earn outs will be recorded at their fair value at the acquisition date. Except in bargain purchase situations, contingent consideration typically will result in additional goodwill being recognized. Contingent consideration classified as an asset or liability will be adjusted to fair value at each reporting date through earnings until the contingency is resolved.

These estimates are subject to change upon the finalization of the valuation of certain assets and liabilities and may be adjusted.

Management is required to address the initial recognition, measurement and subsequent accounting for assets and liabilities arising from contingencies in a business combination, and requires that such assets acquired or liabilities assumed be initially recognized at fair value at the acquisition date if fair value can be determined during the measurement period. If the acquisition date fair value cannot be determined, the asset acquired or liability assumed arising from a contingency is recognized only if certain criteria are met. A systematic and rational basis for subsequently measuring and accounting for the assets or liabilities is required to be developed depending on their nature.

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## Basis of Presentation

The financial statements include the consolidated accounts of Wilhelmina and its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

## Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are accounted for at fair value, do not bear interest and are short-term in nature. The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability to collect on accounts receivable. Based on management's assessment, the Company provides for estimated uncollectible amounts through a charge to earnings and a credit to the valuation allowance. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The Company generally does not require collateral.

## Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company continually assesses the need for a tax valuation allowance based on all available information. As of September 30, 2011, and as a result of this assessment, the Company does not believe that its deferred tax assets are more likely than not to be realized. In addition, the Company continuously evaluates its tax contingencies.

Accounting for uncertainty in income taxes recognized in an enterprise's financial statements requires a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Also, consideration should be given to de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. There was no change to the net amount of assets and liabilities recognized in the consolidated balance sheets as a result of the Company's tax positions.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

## Item 4. Controls and Procedures.

### Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company's principal executive officer and principal financial officer evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on their evaluation of the Company's disclosure controls and procedures, the Company's principal executive officer and principal financial officer, with the participation of management, have concluded that the Company's disclosure controls and procedures were effective as of September 30, 2011, to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is (a) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (b) accumulated and communicated to management, including the Company's principal executive officer and principal financial officer, as appropriate to allow for timely decisions regarding required

disclosure.

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It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Given these and other inherent limitations of control systems, there is only reasonable assurance that the Company's controls will succeed in achieving their stated goals under all potential future conditions. The Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2011.

#### Changes in Internal Control Over Financial Reporting

As of the end of the period covered by this report, there were no changes in the Company's internal controls over financial reporting, or in other factors that could significantly affect these controls, that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II  
OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is engaged in various legal proceedings that are routine in nature and incidental to its business. None of these proceedings, either individually or in the aggregate, are believed, in the Company's opinion, to have a material adverse effect on its consolidated financial position or its results of operations.

Item 1.A. Risk Factors.

Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. (Removed and Reserved).

Item 5. Other Information.

None.

Item 6. Exhibits.

The following is a list of exhibits filed as part of this Form 10-Q:

Exhibit No.	Description
31.1	Certification of Principal Executive Officer in Accordance with Section 302 of the Sarbanes-Oxley Act.*
31.2	Certification of Principal Financial Officer in Accordance with Section 302 of the Sarbanes-Oxley Act.*
32.1	Certification of Principal Executive Officer in Accordance with Section 906 of the Sarbanes-Oxley Act.*
32.2	Certification of Principal Financial Officer in Accordance with Section 906 of the Sarbanes-Oxley Act.*
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**

\* Filed herewith

# Pursuant to Rule 406T of Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.





SIGNATURES

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

WILHELMINA INTERNATIONAL, INC.  
(Registrant)

Date: November 14, 2011

By: /s/ John P. Murray  
Name: John P. Murray  
Title: Chief Financial Officer  
(Principal Financial Officer)

EXHIBIT INDEX

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