Wilhelmina International, Inc.
Form 10-Q
November 15, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

or

o 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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

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

As of November 15, 2010, the registrant had 129,440,752 shares of common stock outstanding.

WILHELMINA INTERNATIONAL, INC. AND SUBSIDIARIES

Quarterly Report on Form 10-Q

For the Three Months Ended September 30, 2010

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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, 2010	December 31, 2009
Current assets:		
Cash and cash equivalents	$ 1,259	$ 2,129
Accounts receivable, net of allowance for doubtful accounts of $471 and $323	10,021	6,378
Indemnification receivable	726	-
Prepaid expenses and other current assets	277	231
Total current assets	12,283	8,738
Property and equipment, net of accumulated depreciation of $100 and $84	304	284
Trademarks and intangibles with indefinite lives	8,467	8,467
Other intangible assets with finite lives, net of accumulated amortization of $3,016 and $1,624	5,321	6,713
Goodwill	12,647	12,647
Restricted cash	180	180
Other assets	311	70
Total assets	$ 39,513	$ 37,099
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 2,599	$ 2,724
Line of credit	-	250
Due to models	9,361	7,271
Deferred revenue	1,070	689
Foreign withholding claim subject to indemnification	726	-
Esch promissory note	1,000	1,750
Current portion of note payable and capital lease obligations	-	41
Total current liabilities	14,756	12,725
Long term liabilities		
Other	14	40
Deferred revenue, net of current portion	488	669

Deferred income tax liability	1,800	1,800
Earn out-contingent liability	2,063	2,312
Total long-term liabilities	4,365	4,821
Commitments and contingencies	-	-
Shareholders' equity:		
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	1,294	1,294
Additional paid-in capital	85,072	85,072
Accumulated deficit	(65,974)	(66,813)
Total shareholders' equity	20,392	19,553
Total liabilities and shareholders' equity	$ 39,513	$ 37,099

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

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

(In thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Revenues				
Revenues	$11,821	$9,108	$34,675	$22,211
License fees and other income	359	277	1,180	538
Total revenues	12,180	9,385	35,855	22,749
Model costs	8,108	6,527	24,076	15,695
Revenues net of model costs	4,072	2,858	11,779	7,054
Operating expenses				
Salaries and service costs	2,011	1,756	5,995	4,580
Office and general expenses	767	629	2,177	1,541
Amortization and depreciation	481	490	1,447	1,225
Corporate overhead	290	276	1,014	885
Total operating expenses	3,549	3,151	10,633	8,231
Operating income (loss)	523	(293)	1,146	1,177
Other income (expense):				
Miami earn-out fair value adjustment	249	-	249	-
Settlement expense	(300)	-	(300)	-
Acquisition transaction costs	-	(13)	-	(673)
Interest income	-	-	-	4
Interest expense	(14)	(22)	(52)	(53)
Total other income (expense)	(65)	(37)	(103)	(49)
Income (loss) before provision for income taxes	458	(328)	1,043	(1,899)
Provision for income taxes				
Current	50	-	204	6
Deferred	-	-	-	-
	50	-	249	6
Net income (loss) applicable to common stockholders	$408	$(328)	$839	$(1,905)
Basic and diluted net income (loss) per common share	$0.00	$(0.00)	$0.01	$(0.02)

Weighted average common shares outstanding	129,441	129,441	129,441	119,842

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

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

(in thousands)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Cash flows from operating activities:		
Net Income (loss)	$ 839	$ (1,905)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Bad debt expense	81	90
Amortization and depreciation	1,447	1,225
Settlement expense	300	-
Miami earn-out fair value adjustment	(249)	-
Changes in operating assets and liabilities:		
Increase in accounts receivable	(3,724)	(919)
(Increase) decrease in prepaid expenses and other assets	(287)	107
Indemnification receivable	(726)	-
Increase in due to models	2,090	1,106
Increase (decrease) in accounts payable and accrued liabilities	(402)	829
Foreign withholding claim subject to indemnification	726	-
Increase in other liabilities	151	125
Net cash provided by operating activities	246	658
Cash flows from investing activities:		
Acquisition of the Wilhelmina Companies, net of cash acquired	-	(14,763)
Purchase of property and equipment	(75)	(16)
Net cash used in investing activities	(75)	(14,779)
Cash flows from financing activities		
Proceeds from issuance of common stock	-	3,000
Proceeds from line of credit	-	500
Repayment of line of credit	(250)	-
Repayment of Esch promissory note	(750)	-
Payments of debt	(41)	(165)
Net cash (used in) provided by financing activities	(1,041)	3,335
Net decrease in cash and cash equivalents	(870)	(10,786)
Cash and cash equivalents, beginning of period	2,129	11,735
Cash and cash equivalents, end of period	$ 1,259	$ 949
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 52	$ 53
Cash paid for income taxes	$ 141	$ 19

Supplemental disclosure of non-cash investing and financing activities		
Equity issuance cost	$-	$139
Common stock issued in acquisition of Wilhelmina International	$-	$7,609

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

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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, 2009, 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

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 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.

During the prior three years, until 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 8).

Note 3. Summary of Significant Accounting Policies

Principles of Consolidation and 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.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation.

New Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2010-06, “Improving Disclosures about Fair Value Measurements” (“ASU 2010-06”). ASU 2010-06 amends Accounting Standards Codification (“ASC”) 820, “Fair Value Measurements” (“ASC 820”), to require additional disclosures regarding fair value measurements. One of the areas concerned is related to the inclusion of information about purchases, sales, issuances and settlements of recurring Level 3 measurements. Such disclosure requirements will be effective for annual reporting periods beginning after December 15, 2010. The Company is currently evaluating the effect of ASC 2010-06 on its financial statements and results of operations and is not yet in a position to determine such effects.

In February 2010, the FASB issued ASU 2010-09, “Subsequent Events: Amendments to Certain Recognition and Disclosure Requirements” (“ASU 2010-09”), which amends ASC 855, “Subsequent Events” (“ASC 855”). The update provides that SEC filers, as defined in ASU 2010-09, are no longer required to disclose the date through which subsequent events have been evaluated in originally issued and revised financial statements. The update also requires SEC filers to evaluate subsequent events through the date the financial statements are issued rather than the date the financial statements are available to be issued. The Company adopted ASU 2010-09 upon issuance. This update had no material impact on the financial position, results of operations or cash flows of the Company.

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In October 2009, the FASB issued authoritative guidance on revenue recognition that will become effective in fiscal years beginning on or after June 15, 2010, with earlier adoption permitted. Under the new guidance on arrangements that include software elements, tangible products that have software components that are essential to the functionality of the tangible product will no longer be within the scope of the software revenue recognition guidance, and software-enabled products will now be subject to other relevant revenue recognition guidance. Additionally, the FASB issued authoritative guidance on revenue arrangements with multiple deliverables that are outside the scope of the software revenue recognition guidance. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. The Company believes the adoption of this new guidance will not have a material impact on its financial statements.

FASB “Accounting Standards Codification™” (the “Codification”)

The Codification is the single source of authoritative generally accepted accounting principles (“GAAP”) recognized by the FASB, to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the SEC, under authority of federal securities laws, are also sources of authoritative GAAP for SEC registrants. The Codification became effective for interim and annual periods ending after September 15, 2009 and superseded all previously existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification is non-authoritative. All of the Company’s references to GAAP now use the specific Codification Topic or Section rather than prior accounting and reporting standards. The Codification did not change existing GAAP and, therefore, did not affect the Company’s financial position or results of operations.

Revenue Recognition

In compliance with GAAP, when reporting revenue gross as a principal versus net as an agent, the Company assesses whether the Company, 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 talents where the key indicators suggest the Company acts as a principal, 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 or talent as model or talent cost. In other model and talent relationships, where the Company believes the key indicators suggest the Company acts as an agent on behalf of the model or talent, the Company records revenue, when the revenues are earned and collectability is reasonably assured, 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.

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Advances to models for the cost of initial portfolio 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.

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates that affect the amounts reported in the condensed consolidated financial statements and the accompanying notes. Accounting estimates and assumptions are those that management considers to be the most critical to an understanding of the condensed consolidated financial statements because they inherently involve significant judgments and uncertainties. All of these estimates reflect management's judgment about current economic and market conditions and their effects based on information available as of the date of these condensed consolidated financial statements. If such conditions persist longer or deteriorate further than expected, it is reasonably possible that the judgments and estimates could change, which may result in future impairments of assets among other effects.

Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

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.

Concentrations of Credit Risk

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 four different financial institutions in New York, Los Angeles and Miami. Balances are insured up to Federal Deposit Insurance Corporation limits of $250,000 per institution. At September 30, 2010, the Company had $198,000 of cash balances in financial institutions in excess of such insurance. 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.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization, based upon the estimated useful lives (ranging from 2 to 7 years) of the assets or terms of the leases, are computed by use of the straight-line method. Leasehold improvements are amortized based upon the shorter of the terms of the leases or asset lives. When property and equipment are retired or sold, the cost and accumulated depreciation and amortization are eliminated from the related accounts and gains or losses, if any, are reflected in the condensed consolidated statement of operations.

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The Company reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined that an impairment has occurred, the amount of the impairment is charged to operations.

Goodwill and Intangible Assets

Goodwill and intangible assets consist primarily of goodwill and buyer relationships resulting from the Wilhelmina Transaction and the revenue interest in Ascendant acquired in 2005 (see Note 8). 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. A significant amount of judgment is required in estimating fair value and performing goodwill impairment tests. Intangible assets with finite lives are amortized over useful lives ranging from 2 to 7 years.

The Company annually assesses whether the carrying value of its intangible assets exceeds its fair value, and records an impairment loss equal to any such excess.

Deferred Cost and Revenue

The Company has deferred model cost paid in advance in connection with talent related contracts. Deferred revenue consists of royalties, commissions and service charges received in advance of being earned, pursuant to product licensing agreements and talent related contracts (see Note 7).

Advertising

The Company expenses all advertising costs as incurred. Advertising expense for the three and nine months ended September 30, 2010 approximated $57,000 and $160,000, respectively, compared to $38,000 and $88,000 for the three and nine months ended September 30, 2009, respectively.

Financial Instruments

The estimated fair value of the Company’s financial instruments approximates their carrying value as reflected in the accompanying condensed consolidated balance sheet due to (i) the short-term nature of financial instruments included in the current assets and liabilities or (ii) for non-short term financial instruments, the recording of such financial instruments at fair value.

Business Combinations

Effective January 1, 2009, the Company adopted the new provisions of ASC 805, “Business Combinations” (“ASC 805”), which address the recognition and measurement of (i) identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree, and (ii) goodwill acquired or gain from a bargain purchase. In addition, acquisition-related costs are accounted for as expenses in the period in which the costs are incurred and the services are received. These provisions were applied to the acquisition of the Wilhelmina Companies in the first quarter of 2009, which is discussed in Note 4.

In a business combination, contingent consideration or earn outs are recorded at fair value at the acquisition date. Except in bargain purchase situations, contingent consideration typically results 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.

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At the date of the Wilhelmina Transaction, GAAP provided that acquisition transaction costs, such as certain investment banking fees, due diligence costs and attorney fees were to be recorded as a reduction of earnings in the period they are incurred. Prior to January 1, 2009, in accordance with GAAP existing at that time, the Company included acquisition transaction costs in the cost of the acquired business. On February 13, 2009, the Company closed the Wilhelmina Transaction and, therefore, recorded all previously capitalized acquisition transaction costs of approximately $849,000 as an expense for the year ended December 31, 2008. The Company incurred acquisition transaction costs of $0 for the nine months ended September 30, 2010, compared to $13,000 and $673,000 for the three and nine months ended September 30, 2009, respectively.

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.

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, 2010, 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 sheet as a result of the Company’s tax positions.

Stock-Based Compensation

The Company records compensation expense for all awards granted. After assessing alternative valuation models and amortization assumptions, the Company will continue using both the Black-Scholes valuation model and straight-line amortization of compensation expense over the requisite service period for each separately vesting portion of the grant. The Company will reconsider use of this model if additional information becomes available in the future that indicates another model would be more appropriate, or if grants issued in future periods have characteristics that cannot be reasonably estimated using this model. The Company utilizes stock-based awards as a form of compensation for employees, officers and directors.

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The Company did not award stock based compensation during the nine months ended September 30, 2010 or 2009.

Fair Value Measurements

Effective January 1, 2008, the Company adopted the provisions of ASC 820, "Fair Value Measurements" ("ASC 820"), for financial assets and financial liabilities. ASC 820 defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosure about fair value measurements. ASC 820 applies to all financial instruments that are being measured and reported on a fair value basis. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels:

- Level 1 Inputs-Unadjusted quoted prices in active markets for identical assets or liabilities.

- Level 2 Inputs-Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- Level 3 Inputs-Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

In February 2008, ASC 820 was modified to delay the effective date for applying fair value measurement disclosures for nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 18, 2008. The implementation of this provision of ASC 820 for these assets and liabilities effective January 1, 2009 did not affect the Company's financial position or results of operations but did result in additional disclosures.

In August 2009, the FASB modified ASC 820 to address the measurement of liabilities at fair value in circumstances in which a quoted price in an active market for the identical liability is not available. In such circumstances, a reporting entity is required to measure fair value using one or more of the following techniques: (i) a valuation technique that uses the quoted price of the identical liability when traded as an asset, or the quoted prices for similar liabilities or similar liabilities when traded as assets; or (ii) another valuation technique that is consistent with ASC 820. The FASB also clarified that when estimating the fair value of the liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. This modification also clarified that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. This guidance is effective for the first reporting period (including interim periods) beginning after issuance, the adoption of which in the fourth quarter of 2009 did not affect the Company's financial position or results of operations.

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Subsequent Events

In May 2009, ASC 855 was issued, which established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, guidance was provided regarding (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (iii) the disclosures that an entity should make about events or transactions that occur after the balance sheet date. The provisions of ASC 855 are to be applied prospectively and are effective for interim or annual financial periods ending after June 15, 2009. The adoption of the provisions of ASC 855 in the second quarter of 2009 did not affect the Company's financial position or results of operations but did result in additional disclosures.

The Company has evaluated subsequent events that occurred after September 30, 2010 through the filing of this Form 10-Q. Any material subsequent events that occurred during this time have been properly recognized or disclosed in the Company's financial statements.

Note 4. 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" adjustment, 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 accompanying unaudited condensed consolidated statement of operations for the three months ended September 30, 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 Seller's 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 September 30, 2010, management's estimate of the fair value of the Miami Earnout was reduced $249,000, as a result of a fair value adjustment, which was recorded in the accompanying unaudited condensed consolidated statement of operations for the three months ended September 30, 2010. Certain continuing indemnification obligations of the Control Sellers under the Acquisition Agreement are subject to offset against the Miami Earnout.

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 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 is paid from escrow to Signature Bank, the Company will promptly issue to Esch, in replacement thereof, a promissory note in the principal amount of the amount paid to Signature Bank (see Note 5).

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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 31,526,517 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 ASC 805. 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. Contractual amounts of accounts receivable, estimated uncollectible amounts and fair value totaled $6,188,000, $487,000 and $5,701,000, respectively.

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 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.

Note 5. 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.

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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 4). 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”). Interest on the outstanding principal balance of the Esch Note accrues at the “Weighted Average Loan Document Rate” (as defined below) and is payable in arrears on a monthly basis. The “Weighted Average Loan Document Rate” is calculated using a weighted average formula based on the rates applicable to the principal amounts outstanding for each of the two components of the Credit Facility - revolver ($2,000,000 principal outstanding at December 30, 2009 at a rate of prime plus 0.5%) and term loan ($26,000 principal outstanding at December 30, 2009 at a rate of 6.65%) - prior to release of the escrow. Therefore, as of September 30, 2010, the effective interest rate of the Esch Note is prime plus approximately 0.58%, or approximately 3.83%. Principal under the Esch Note shall be repaid in quarterly installments of $250,000 until the Esch Note is paid. The outstanding principal balance of the Esch Note, together with all accrued, but unpaid interest thereon, is due and payable on December 31, 2010. In the event that the Company closes a new revolving bank or debt facility, which provides the Company with committed working capital financing, the Company is required to pay down the Esch Note in the amount of the funds that the Company is initially permitted to draw under such new facility. The Esch Note is unsecured and may be pre-paid by the Company at any time without penalty or premium.

The Company is currently exploring financing alternatives.

Note 6. Restricted Cash

At September 30, 2010, the Company had $180,000 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 December 2010 (see Note 9).

Note 7. Licensing Agreements

The Company is a party to various contracts by virtue of its relationship with certain talent. The various contracts contain terms and conditions which result in the revenue and the associated talent cost being 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 totaling approximately $219,000 and $531,000 for the three and nine months ended September 30, 2010, respectively, and $89,000 and $225,000 for the three and nine months ended September 30, 2009, respectively.

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Note 8. 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 the three months ended December 31, 2009, the Company recognized an asset impairment charge of $803,000. The asset impairment charge was based on discussions with the management of Ascendant and an assessment of the future near-term expected cash flows from the revenue interest. The Company determined that the present value of expected cash flows from the Ascendant revenue interest was nominal.

Note 9. 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, 2010, 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, 2010, total compensation payable under the remaining contractual term of these agreements was approximately $1,891,000. In general, 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, 2010, invoking the non-compete provisions would require the Company to compensate the covered employees during the non-compete period in the amount of approximately $1,203,000.

During June, 2010, the Company signed a ten-year lease for its New York City office located at 300 Park Avenue South, with an effective date of January 1, 2011. The lease commits the Company to base monthly rental payments of approximately $40,000 per month during the term of the lease.

During the three months ended June 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.

Note 10. 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 and October 18, 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").

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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.

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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 amends 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. are Acquiring Persons (as defined in the Rights Agreement) under the Rights Agreement (the "Esch-Krassner Acquiring Event") shall be the close of business on April 3, 2010. The Third Rights Agreement Amendment also provides that the Company will 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 amends 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, shall 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 amends 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, shall 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 amends 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, shall 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 amends 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, shall 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 amends 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, shall 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 amends 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, shall be the close of business on October 3, 2010.

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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 amends 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, shall 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.

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.

At the Company’s 2008 Annual Meeting of Stockholders, the Company’s stockholders approved and adopted an amendment to the Company’s Certificate of Incorporation to increase the number of authorized shares of Common Stock from 75,000,000 to 250,000,000.

Note 11. Income Taxes

As of December 31, 2009, the Company had a federal income tax loss carryforward of approximately $15,000,000, which begins expiring in 2019. The Company reduced its deferred tax valuation allowance in 2009 by $24,469,000 due primarily to the expiration of the capital loss carryforward. Realization of the Company’s carryforwards is dependent on future taxable income. 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 have limited 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.

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Note 12. Related Parties

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, hold the following executive officer and board of director positions with the Company: Chairman of the Board and Chief Executive Officer, Director and Chief Financial Officer, and Director, General Counsel and Secretary, respectively. NCM is the General Partner of Newcastle, which owns 31,526,517 shares of Common Stock.

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 $24,000 for the three and nine months ended September 30, 2010, respectively, and $8,000 and $48,000 for the three and nine months ended September 30, 2009, respectively. The Company owed NCM $0 and approximately $78,000 as of September 30, 2010 and 2009, 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 4).

Note 13. Treasury Stock

In 2000, the Company's Board of Directors approved the adoption of a common stock repurchase program. Under the terms of the program, the Company may purchase an aggregate of $25,000,000 of its Common Stock in the open market or in privately negotiated transactions. The Company records repurchased Common Stock at cost. The Company made no purchases of Common Stock during the nine months ended September 30, 2010. As of September 30, 2010, the Company has purchased an aggregate of $20,100,000, or 8,300,000 shares of Common Stock under the program, which shares have been canceled and are available for issuance. The Company does not have any plans to make additional purchases of Common Stock under the program.

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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, 2010 and September 30, 2009. 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, 2009, as amended.

The following discussion of the results of operations for the three and nine months ended September 30, 2010, compared to the three and nine months ended September 30, 2009, has been separated into two sections. The first section is a discussion of the Company's Unaudited Interim Condensed Consolidated Financial Statements included in this report, which takes into account the results of operations, financial condition and cash flows of the Wilhelmina Companies for the three and nine months ended September 30, 2010 and for the comparable periods in the prior year from February 13, 2009 (the closing date of the Wilhelmina Transaction) through September 30, 2009. The second section is a discussion of pro forma unaudited financial information of the Wilhelmina Companies for the nine months ended September 30, 2010 and September 30, 2009, which does not take into account any amounts attributable to the Company's operations at the holding company level during such periods, including corporate overhead, amortization of intangibles, acquisition transaction costs and interest income.

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, the Company's success in integrating the operations of the Wilhelmina Companies in a timely manner, or at all, the Company's ability to realize the anticipated benefits of the Wilhelmina Companies to the extent, or in the timeframe, anticipated, 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.

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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 and TV advertising campaigns.

During the three months ended September 30, 2010, 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 this period, the Wilhelmina Companies experienced an increase in the rate of revenue growth compared to the three months ended September 30, 2009. 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. Similarly, new business and branding opportunities directly or indirectly relating to the fashion industry are being brought to Wilhelmina's attention with increasing frequency. 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 $180 billion in 2008 and $156 billion in 2009, 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.

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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 made an investment in 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 $52,700,000 and $35,200,000 as of September 30, 2010 and September 30, 2009, respectively.

The Company entered into the Ascendant Agreement with Ascendant to acquire an interest in the revenues generated by Ascendant. Pursuant to the Ascendant Agreement, the Company is entitled to a 50% interest, subject to certain adjustments, in the revenues of Ascendant, which interest declines if the assets under management of Ascendant reach certain levels. The Company also agreed to provide various marketing services to Ascendant. The total potential purchase price of $1,550,000 under the terms of the Ascendant Agreement was payable in four installments. On April 5, 2006, the Company elected not to make the final two installment payments. The Company believed that it was not required to make the payments because Ascendant did not satisfy all of the conditions in the Ascendant Agreement.

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Subject to the terms of the Ascendant Agreement, if the Company does not make an installment payment and Ascendant is not in breach of the Ascendant Agreement, Ascendant has the right to acquire the Company's revenue interest at a price that would yield a 10% annualized return to the Company. The Company has been notified by Ascendant that Ascendant is exercising this right as a result of the Company's election not to make the final two installment payments. The Company believes that Ascendant has not satisfied the requisite conditions to repurchase the Company's revenue interest.

The Company has not recorded any revenue or received any revenue sharing payments pursuant to the Ascendant Agreement since July 1, 2006.

During the three months ended December 31, 2009, the Company recognized an asset impairment charge of $803,000. The asset impairment charge was based on discussions with the management of Ascendant and an assessment of the future near-term expected cash flows from the revenue interest. The Company determined that the present value of expected cash flows from the Ascendant revenue interest was nominal.

RESULTS OF OPERATIONS OF THE COMPANY FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010 COMPARED TO THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009

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.

Expense Trends

Prior to the closing of the Wilhelmina Transaction, Krassner and Esch, the former principal equity holders of the Wilhelmina Companies, received salary, bonus and consulting fee payments, under certain agreements, in an amount of approximately $975,000 annually. As neither Krassner nor Esch continued to serve as officers of the Company as of the closing of the Wilhelmina Transaction, these payments to Krassner and Esch have ceased. Similarly, upon the closing of the Wilhelmina Transaction, a $6,000,000 promissory note, carrying an interest rate of 12.5% for an annual interest payment of $750,000, in favor of Krassner L.P., a Control Seller, was repaid. Taken together, following the closing of the Wilhelmina Transaction, annual operating expenses and interest expense, which have historically included the above, do not include costs of $1,725,000 due to the elimination of these agreements and the repayment of the promissory note.

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Beginning in April 2009, the Company began incurring compensation expense of approximately $450,000 annually, related to salaries paid to the chief executive officer, chief financial officer and general counsel of the Company. Also, following the closing of the Wilhelmina Transaction, the Company continued the employment of Esch to facilitate the transition of the Wilhelmina Companies' business to the executive management team. During the three months ended September 30, 2009, the Company entered into a consulting agreement with Esch that had an annual cost of $150,000. During the fourth quarter of 2009, the Company terminated the consulting agreement with Esch. The Company incurred compensation and consulting expenses relating to Esch's previous employment arrangement with the Wilhelmina Companies and his consulting agreement with the Company totaling approximately $33,000 for the three months ended September 30, 2009 and $80,000 for the year ended December 31, 2009. These costs have been classified as corporate overhead, and along with the executive compensation expenses and other corporate overhead costs, somewhat offset the $1,725,000 of eliminated costs described in the preceding paragraph.

Gross Billings

Gross billings for the three months ended September 30, 2010 increased approximately $3,789,000, or 37.8%, to approximately $13,800,000, compared to approximately $10,011,000 for the three months ended September 30, 2009. 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. During the three months ended September 30, 2010, the Wilhelmina Companies experienced an increase in gross billings across the core modeling business of approximately 30% and an increase in gross billings in the WAM business of approximately 117% compared to gross billings generated by the respective divisions during the three months ended September 30, 2009. Gross billings of the WAM division represented approximately 16% of total gross billings for the three months ended September 30, 2010, compared to approximately 10% for the three months ended September 30, 2009. During the three months ended September 30, 2010, gross billings of the various boards of the core modeling business experienced positive growth ranging from 17% to 100%, and one board experienced negative growth of 8%, compared to the three months ended September 30, 2009.

Gross billings for the nine months ended September 30, 2010 increased approximately $14,661,000, or 58.6%, to approximately $39,684,000, compared to approximately $25,023,000 for the nine months ended September 30, 2009. The Company completed the Wilhelmina Transaction on February 13, 2009 and, therefore, for the nine months ended September 30, 2009, generated gross billings of the Wilhelmina Companies for the period from February 13, 2009 through September 30, 2009.

Revenues

During the three months ended September 30, 2010, revenues increased approximately $2,713,000, or 29.8%, to approximately $11,821,000, compared to approximately $9,108,000 during the three months ended September 30, 2009. During the three months ended September 30, 2010, the Company experienced increases in revenues, as a result of increases in gross billings for the core modeling business and revenues previously deferred.

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During the nine months ended September 30, 2010, revenues increased approximately $12,464,000, or 56.1%, to approximately $34,675,000, compared to approximately $22,211,000 during the nine months ended September 30, 2009. The Company completed the Wilhelmina Transaction on February 13, 2009 and, therefore, for the nine months ended September 30, 2009, recorded revenues of the Wilhelmina Companies for the period from February 13, 2009 through September 30, 2009, in its statement of operations for the nine months ended September 30, 2009.

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, 2010, management fee income from the unconsolidated affiliate amounted to approximately $27,000 and $81,000, respectively, compared to $31,000 and $72,000 for the three and nine months ended September 30, 2009.

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, 2010, license fees totaled approximately $53,000 and $143,000, respectively, compared to $62,000 and $138,000 for the three and nine months ended September 30, 2009.

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, 2010, revenue from these licensing agreements totaled approximately $219,000 and $531,000, respectively, compared to $89,000 and $225,000 for the three and nine months ended September 30, 2009.

Other income includes the following: mother agency fees that are paid to the Company by another agency when the other agency books a model under contract with the Company for a client engagement; 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 recently completed its third season on the network channel TV Land Prime. The television series documents 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 will agree to a modeling contract with the winner of the competition, in consideration of a fee per episode produced, plus certain fees, as defined.

The Company completed the Wilhelmina Transaction on February 13, 2009 and, therefore, for the nine months ended September 30, 2009, recorded license fees and other income of the Wilhelmina Companies for the period from February 13, 2009 through September 30, 2009, in its statement of operations for the nine months ended September 30, 2009.

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, 2010, model costs increased approximately $1,581,000, or 24.2%, to approximately $8,108,000, compared to approximately $6,527,000 during the three months ended September 30, 2009. Model costs increased 24.2% compared to the prior year quarter as a result of a 29.8% increases in revenues as compared to the prior year quarter. Model costs increased somewhat less than expected, given the increase in revenues, due to a greater recovery of certain fixed model costs which results from an increased utilization of models.

During the nine months ended September 30, 2010, model costs increased approximately $8,381,000, or 53.4%, to approximately $24,076,000, compared to approximately $15,695,000 during the nine months ended September 30, 2009.

During the three and nine months ended September 30, 2010, model costs as a percentage of revenues were approximately 68.6% and 69.4%, respectively, compared to 71.7% and 70.7%, respectively, during the three and nine months ended September 30, 2009. Margins improved slightly from the prior year periods due to an increased utilization of the Company's models which results in a greater recovery of certain fixed model costs. The Company completed the Wilhelmina Transaction on February 13, 2009 and, therefore, for the nine months ended September 30, 2009, recorded model costs of the Wilhelmina Companies for the period from February 13, 2009 through September 30, 2009, in its statement of operations for the nine months ended September 30, 2009.

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, 2010, operating expenses increased approximately $398,000, or 12.6%, to approximately $3,549,000, compared to approximately $3,151,000 during the three months ended September 30, 2009. The increase in operating expenses is mainly attributable to increases in salaries and service costs and office and general expenses.

During the nine months ended September 30, 2010, operating expenses increased approximately $2,402,000, or 29.2%, to approximately $10,633,000, compared to approximately $8,231,000 during the nine months ended September 30, 2009. The Company completed the Wilhelmina Transaction on February 13, 2009 and, therefore, for the nine months ended September 30, 2009, recorded operating expenses of the Wilhelmina Companies for the period from February 13, 2009 through September 30, 2009, in its statement of operations for the nine months ended September 30, 2009. 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, 2010, salaries and service costs increased approximately $255,000, or 14.5%, to approximately $2,011,000, compared to approximately $1,756,000 during the three months ended September 30, 2009. The Company experienced increased travel costs in connection with delivering services to its customers and models due to increased gross billings and also in pursuit of generating new revenues.

During the nine months ended September 30, 2010, salaries and service costs increased approximately $1,415,000, or 30.9%, to approximately $5,995,000, compared to approximately $4,580,000 during the nine months ended September 30, 2009. The Company completed the Wilhelmina Transaction on February 13, 2009 and, therefore, for the nine months ended September 30, 2009, recorded salaries and service costs of the Wilhelmina Companies for the period from February 13, 2009 through September 30, 2009, in its statement of operations for the nine months ended September 30, 2009.

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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, 2010, office and general expenses increased approximately $138,000, or 21.9%, to approximately $767,000, compared to approximately $629,000 during the three months ended September 30, 2009. Office and general expenses increased due to costs associated with professional fees and technology.

During the nine months ended September 30, 2010, office and general expenses increased approximately $636,000, or 41.3%, to approximately $2,177,000, compared to approximately $1,541,000 during the nine months ended September 30, 2009. The Company completed the Wilhelmina Transaction on February 13, 2009 and, therefore, for the nine months ended September 30, 2009, recorded office and general expenses of the Wilhelmina Companies for the period from February 13, 2009 through September 30, 2009, in its statements of operations for the nine months ended September 30, 2009.

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, 2010, depreciation and amortization expense totaled $481,000 and $1,447,000, respectively (of which $463,000 and $1,389,000 relates to amortization of intangibles acquired in connection with the Wilhelmina Transaction, respectively), compared to $490,000 and $1,225,000 during the three and nine months ended September 30, 2009, respectively (of which $463,000 and $1,159,000 relates to amortization of intangibles acquired in connection with the Wilhelmina Transaction, respectively). Fixed asset purchases totaled approximately $75,000 and $16,000 during the nine months ended September 30, 2010 and September 30, 2009, respectively.

Corporate Overhead

Corporate overhead expenses include public company costs, director and executive officer compensation, compensation and consulting fees to Esch, directors' and officers' insurance, legal and professional fees, corporate office rent and travel. During the three and nine months ended September 30, 2010, corporate overhead approximated $290,000 and $1,014,000, respectively, compared to $276,000 and $885,000 for the three and nine months ended September 30, 2009, respectively. The increase in corporate overhead for the three months ended September 30, 2010 compared to the three months ended September 30, 2009 is primarily attributable to an increase in accounting and tax fees. The increase in corporate overhead for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009 is mainly attributable to nine months of officer compensation during the nine month period ended September 30, 2010, compared to only six months of officer compensation during the nine month period ended September 30, 2009. The Company commenced payment of compensation to executive officers who filled the roles of chief executive officer, chief financial officer and general counsel of the Company following the Wilhelmina Transaction effective April 1, 2009 (see Expense Trends discussion above).

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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. As a result, an adjustment of $249,000 was recorded in the accompanying unaudited condensed consolidated statement of operations for the three months ended September 30, 2010.

The Miami Earnout, payable in accordance with the Acquisition 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 (at the Control Seller's election). As of September 30, 2010, management's estimate of the combined fair value of the Miami Earnout was approximately $2,063,000.

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, 2010 and 2009.

Acquisition Transaction Costs

In a business combination, acquisition transaction costs, such as certain investment banking fees, due diligence costs and attorney fees, are to be recorded as a reduction of earnings in the period incurred. Prior to January 1, 2009, acquisition transaction costs were included in the cost of the acquired business. On February 13, 2009, the Company closed the Wilhelmina Transaction and, therefore, recorded all previously capitalized acquisition transaction costs of approximately $849,000 as an expense for the year ended December 31, 2008.

As of December 31, 2008, the Company had deferred approximately $139,000 of costs associated with the Wilhelmina Transaction, which the Company determined were related to the issuance of equity securities. These costs were reclassified as a reduction of capital when the equity securities were issued at the closing of the acquisition. The Company recorded acquisition transaction costs of approximately $0 and $673,000 for the nine months ended September 30, 2010 and 2009, respectively.

Interest Income

Interest income totaled approximately $0 and $4,000 for the nine months ended September 30, 2010 and 2009, respectively. The decrease in interest income is the result of a significant decrease in yields and cash balances.

Interest Expense

Interest expense totaled approximately $14,000 and $52,000 for the three and nine months ended September 30, 2010, respectively, compared to approximately $22,000 and $53,000 for the three and nine months ended September 30, 2009, respectively. Through January 2010, the Company had in place a credit facility with Signature Bank that included a term note with a fixed annual interest rate of 6.65% and a revolving credit line. Interest on the revolving credit line component of the credit facility with Signature Bank was payable monthly at an annual rate of prime plus one-half percent. In January 2010, pursuant to a demand for payment from Signature Bank, the aggregate principal amount of the note and the balance of the Company's revolving credit line, in the aggregate amount of $276,000, were repaid together with accrued interest. Effective December 31, 2009, interest expense also includes interest on the Esch Note. The decrease in interest for the three months ended September 30, 2010, compared to the three months ended September 30, 2009, is the result of declines in the balances of the Signature Facility and Esch Note due to principal payments. See Liquidity and Capital Resources below for further discussion.

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PRO FORMA RESULTS OF OPERATIONS OF THE WILHELMINA COMPANIES FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2009

The Company is providing the unaudited pro forma financial information and discussion below relating solely to the Wilhelmina Companies, before taking into account amortization and depreciation, asset impairment charges, corporate overhead (any amounts attributable to the Company's operations at the holding company level), and acquisition transaction costs, to aid you in your analysis of the financial performance of the Company's operating divisions. Such information and discussion should be read in conjunction with the Unaudited Condensed Consolidated Financial Statements of the Company and the notes thereto included in this report. The unaudited pro forma information and discussion below is not necessarily indicative of the current or future financial position or operating results of the Company.

Pro Forma Operating Income of the Wilhelmina Companies compared to the historical information for the nine months ended September 30, 2010 and 2009:

	Nine months ended September 30, (in thousands)					
	2010	% of Revenues net of model costs	% of Operating Expenses	2009	% of Revenues net of model costs	% of Operating Expenses
Total revenues	$35,855			$27,244		
Model costs	24,076			19,092		
Revenues net of model costs	11,779			8,152		
Operating expenses:						
Salaries and service costs	5,995	50.9 %	73.4 %	5,493	67.4 %	74.6 %
Office and general expenses	2,177	18.5 %	26.6 %	1,866	22.9 %	25.4 %
Total operating expenses	8,172	69.4 %	100 %	7,359	90.3 %	100 %
Pro forma operating income	$3,607			$793		

Gross Billings

Gross billings for the nine months ended September 30, 2010 increased approximately $9,982,000, or 33.6%, to approximately $39,684,000, compared to approximately $29,702,000 for the nine months ended September 30, 2009. Generally, gross billings have increased due to the Company's clients spending more on advertising and the Company having the desired talent available to its clients. During the nine months ended September 30, 2010, the Wilhelmina Companies experienced an increase in gross billings across the core modeling business of approximately 32% and an increase in gross billings in the WAM business of approximately 45% 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 16% of total gross billings for the nine months ended September 30, 2010, compared to approximately 16% for the nine months ended September 30, 2009. During the nine months ended September 30, 2010, gross billings of the various boards of the core modeling business experienced positive growth ranging from 3% to 89% compared to the nine months ended September 30, 2009.

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Revenues net of model costs

During the nine months ended September 30, 2010, revenues net of model costs of the Wilhelmina Companies increased approximately $3,627,000, or 44.5%, to approximately $11,779,000, compared to approximately $8,152,000 during the nine months ended September 30, 2009. The Wilhelmina Companies experienced increases in revenues net of model costs as a result of increases in gross billings for the core modeling business and from an increase in previously deferred revenues. The Company also experienced an increase in the revenue categorized as license fees and other income (model search contests, TV and certain licensing agreements) in its statement of operations for the nine months ended September 30, 2010, compared to the nine months ended September 30, 2009.

Operating Expenses

Operating expenses consist of costs that support the operations of the Wilhelmina Companies, including payroll, rent, insurance, travel and professional fees. During the nine months ended September 30, 2010, operating expenses increased approximately $813,000, or 11.0%, to approximately $8,172,000, compared to approximately $7,359,000 during the nine months ended September 30, 2009. The increase in operating expenses is mainly attributable to increases in travel costs, salaries and professional fees.

Salaries and Service Costs

During the nine months ended September 30, 2010, salaries and service costs increased approximately $502,000, or 9.1%, to approximately $5,995,000, compared to approximately $5,493,000 during the nine months ended September 30, 2009. The Company has hired additional quality agents that have become available due to the economic downturn and has also sought to reduce head count to offset salary costs associated with new hires. The increase in salaries and service costs is mainly attributable to an increase in travel costs. Salaries and service costs as a percentage of total operating expenses were 73.4% and 74.6% for the nine months ended September 30, 2010 and 2009, respectively.

Office and General Expenses

Office and general expenses consist of office and equipment rents, advertising and promotion, overhead expenses, insurance expenses, professional fees and technology costs. These costs are less directly linked to changes in the Wilhelmina Companies' revenues than salaries and service costs. During the nine months ended September 30, 2010, office and general expenses increased approximately $311,000, or 16.7%, to approximately $2,177,000, compared to approximately $1,866,000 during the nine months ended September 30, 2009. Office and general expenses increased due to costs associated with revenue generating projects classified as other income and as a result of increased professional fees and technology costs. Office and general expenses, as a percentage of total operating expenses, were 26.6% for the nine months ended September 30, 2010 and 25.4% for the nine months ended September 30, 2009.

Pro Forma Operating Income

During the nine months ended September 30, 2010, the pro forma operating income was approximately $3,607,000 compared to operating income of approximately $793,000 during the nine months ended September 30, 2009, representing an increase of $2,814,000, or 354.9%. The increase was primarily attributable to an increase in revenues, net of model costs, as a result of increases in gross billings for the core modeling and WAM businesses and from an increase in previously deferred revenues.

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Liquidity and Capital Resources

The Company's cash balance decreased to $1,259,000 at September 30, 2010, from $2,129,000 at December 31, 2009. The decrease is primarily attributable to the repayment of the line of credit and the term note with Signature Bank, in the aggregate amount of $276,000, plus interest for the term note with Signature Bank and quarterly principal payments under the Esch Note totaling $750,000.

Signature Bank Credit Facility

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. During the year ended December 31, 2009, the Company had the Credit Facility in place with Signature Bank, which facility provided for a revolving line of credit.

On December 30, 2009, Signature Bank delivered the Demand Letter to the Company and Wilhelmina International, the Company's principal operating subsidiary, 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. Accordingly, 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, referred to herein as the Escrow Payoff. As a result of the Escrow Payoff, as of December 30, 2009, a principal sum of $250,000 plus accrued interest of approximately $19,000 remained owing to Signature Bank under the Credit Facility. The remaining principal and accrued interest was repaid to Signature Bank in January 2010 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 Signature Bank. Accordingly, on December 31, 2009, the Company issued to Esch the Esch Note in the principal amount of $1,750,000. Interest on the outstanding principal balance of the Esch Note accrues at the "Weighted Average Loan Document Rate" and is payable in arrears on a monthly basis. The "Weighted Average Loan Document Rate" is calculated using a weighted average formula based on the rates applicable to the principal amounts outstanding for each of the two components of the Credit Facility - revolver ($2,000,000 principal outstanding at December 30, 2009 at a rate of prime plus 0.5%) and term loan ($26,000 principal outstanding at December 30, 2009 at a rate of 6.65%) - prior to release of the escrow. Therefore, as of September 30, 2010, the effective interest rate of the Esch Note is prime plus approximately 0.58%, or approximately 3.83%. Principal under the Esch Note shall be repaid in quarterly installments of $250,000 until the Esch Note is paid. The outstanding principal balance of the Esch Note, together with all accrued, but unpaid interest thereon, is due and payable on December 31, 2010. In the event that the Company closes a new revolving bank or debt facility, which provides the Company with committed working capital financing, the Company is required to pay down the Esch Note in the amount of the funds that the Company is initially permitted to draw under such new facility. The Esch Note is unsecured and is pre-payable by the Company at any time without penalty or premium.

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The Company's ability to make payments on the Esch Note, 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. In addition, the Company continues to explore financing alternatives.

Earn Out

The Miami Earnout, payable in accordance with the Acquisition Agreement (see Note 4 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 (at the Control Seller's election). As of September 30, 2010, management's estimate of the fair value of the Miami Earnout was approximately $2,063,000.

Off-Balance Sheet Arrangements

As of September 30, 2010, the Company had $180,000 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 in December 2010.

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 GAAP 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.

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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.

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.

At the date of the Wilhelmina Transaction, GAAP provided that acquisition transaction costs, such as certain investment banking fees, due diligence costs and attorney fees were to be recorded as a reduction of earnings in the period they are incurred. Prior to January 1, 2009, in accordance with GAAP existing at that time, the Company included acquisition transaction costs in the cost of the acquired business. On February 13, 2009, the Company closed the Wilhelmina Transaction, and therefore, recorded all previously capitalized acquisition transaction costs of approximately $849,000 as an expense for the year ended December 31, 2008. The Company incurred acquisition transaction costs of approximately $0 and $673,000 for the nine months ended September 30, 2010 and 2009, respectively.

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.

New Accounting Pronouncements

In January 2010, the FASB issued ASU 2010-06, which amends ASC 820 to require additional disclosures regarding fair value measurements. One of the areas concerned is related to the inclusion of information about purchases, sales, issuances and settlements of recurring Level 3 measurements. Such disclosure requirements will be effective for annual reporting periods beginning after December 15, 2010. The Company is currently evaluating the effect of ASC 2010-06 on its financial statements and results of operation and is currently not yet in a position to determine such effects.

In February 2010, the FASB issued ASU 2010-09, which amends ASC 855. The update provides that SEC filers, as defined in ASU 2010-09, are no longer required to disclose the date through which subsequent events have been evaluated in originally issued and revised financial statements. The update also requires SEC filers to evaluate subsequent events through the date the financial statements are issued rather than the date the financial statements are available to be issued. The Company adopted ASU 2010-09 upon issuance. This update had no material impact on the financial position, results of operations or cash flows of the Company.

In October 2009, the FASB issued authoritative guidance on revenue recognition that will become effective in fiscal years beginning on or after June 15, 2010, with earlier adoption permitted. Under the new guidance on arrangements that include software elements, tangible products that have software components that are essential to the functionality of the tangible product will no longer be within the scope of the software revenue recognition guidance, and software-enabled products will now be subject to other relevant revenue recognition guidance. Additionally, the FASB issued authoritative guidance on revenue arrangements with multiple deliverables that are outside the scope of the software revenue recognition guidance. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. The Company believes the adoption of this new guidance will not have a material impact on its financial statements.

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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, 2010 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.

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, 2010.

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.

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PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

In addition to the legal proceedings disclosed below, 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.

On December 23, 2009, the Company was served with a lawsuit filed by the Control Sellers in the U.S. District Court, Southern District of New York, relating to a purchase price adjustment being sought by the Company in connection with the Wilhelmina Transaction. The Company had notified the Control Sellers of a required $6,193,400 post-closing downward adjustment to the purchase price in connection with the Wilhelmina Transaction. The Company notified the Control Sellers that based on the amount of the purchase price adjustment, each of Esch and Krassner were required to pay (or cause Lorex and Krassner L.P. to pay) to the Company $2,250,000 in cash (or $4,500,000 in the aggregate) and if either Esch or Krassner failed to timely make (or cause Lorex or Krassner L.P. to timely make) the required cash payment, the Company had the right under the Acquisition Agreement to promptly repurchase for $0.0001 per share 50% of such number of Restricted Shares determined based on a specified formula (or a total of 100% of such number of shares in the event both Esch and Krassner failed to timely make the cash payments). The Company believed that, based on its purchase price adjustment calculation, it had the right to repurchase 18,811,687 Restricted Shares (all such shares held in escrow for purposes of the adjustment) in the event the Control Sellers failed to make the required cash payments. The Control Sellers responded that they did not believe the Company gave timely notice of its calculations of the purchase price adjustment in accordance with the provisions of the Acquisition Agreement and that they disagreed with certain of the Company's calculations. The Company believed its calculations of the purchase price adjustment were accurate and were timely submitted to the Control Sellers in accordance with the provisions of the Acquisition Agreement. After the parties failed to resolve their dispute regarding the calculation of the purchase price adjustment, the parties retained McGladrey in accordance with the terms of the Acquisition Agreement to make a final determination as to the purchase price adjustment based on the calculations and supporting documentation submitted by the respective parties. McGladrey determined that a price adjustment was required which would enable the Company to repurchase 18,811,687 Restricted Shares, unless the Control Sellers elected to make cash payments in accordance with the relevant provisions of the Acquisition Agreement. The Control Sellers filed the lawsuit seeking a declaration that as a result of its alleged failure to comply with the notice deadline in the Acquisition Agreement, the Company was barred from seeking any such purchase price adjustment. The lawsuit also sought to enjoin the Company from repurchasing the Restricted Shares and the escrow agent from effecting any such repurchase by the Company.

On February 12, 2010, the Company responded that its notice was timely. The Company also filed a counterclaim with the Court requesting a declaration that (a) the determination of McGladrey with respect to the purchase price adjustment was final and binding on the parties and (b) the Company was entitled to repurchase the Restricted Shares consistent with such determination and in accordance with the Acquisition Agreement. The Company also sought an order directing the escrow agent to release the Restricted Shares to the Company for repurchase.

On February 2, 2010, the Company asserted a claim against the Control Sellers in the amount of approximately $1,600,000 under the indemnification provisions of the Acquisition Agreement related to certain representations, warranties and covenants thereunder.

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On October 18, 2010, the Company, together with 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 $2,000,000 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.

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.

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.

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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.*

* Filed herewith

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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 15, 2010	By:	/s/ John P. Murray
	Name:	John P. Murray
	Title:	Chief Financial Officer (Principal Financial Officer)

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