

Wilhelmina International, Inc.
Form 10-Q
November 17, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

or

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

For the transition period from _____ to _____

Commission File Number: 0-28536

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

Delaware
(State or other jurisdiction of incorporation or organization)

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

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

75201
(Zip Code)

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

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

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

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

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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

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

As of November 13, 2009, the registrant had 129,440,752 shares of common stock outstanding.

WILHELMINA INTERNATIONAL, INC. AND SUBSIDIARIES

Quarterly Report on Form 10-Q

For the Quarter Ended September 30, 2009

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SIGNATURES

INDEXPART 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, 2009 | December 31, 2008 |
| Current assets: | | |
| Cash and cash equivalents | \$ 949 | \$ 11,735 |
| Accounts receivable, net of allowance for doubtful accounts of \$54 | 6,353 | - |
| Restricted cash-Esch escrow | 1,750 | - |
| Prepaid expenses and other current assets | 360 | 176 |
| Total current assets | 9,412 | 11,911 |
| Property and equipment, net of accumulated depreciation of \$66 and \$2 | 300 | - |
| Trademarks and intangibles with indefinite lives | 9,270 | 803 |
| Other intangible assets with finite lives, net of accumulated amortization of \$1,159 | 7,178 | - |
| Goodwill | 12,647 | - |
| Restricted cash | 175 | - |
| Other assets | 130 | - |
| Total assets | \$ 39,112 | \$ 12,714 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 2,122 | \$ 293 |
| Line of credit | 2,000 | - |
| Due to models | 7,141 | - |
| Deferred revenue | 420 | - |
| Esch escrow liability | 1,756 | - |
| Current portion of note payable and capital lease obligations | 119 | - |
| Total current liabilities | 13,558 | 293 |
| Long term liabilities | | |
| Other | 50 | - |
| Deferred revenue, net of current portion | 406 | - |
| Deferred income tax liability | 1,800 | - |
| Earn out-contingent liability | 2,312 | - |
| Total long-term liabilities | 4,568 | - |

| | | |
|--|-----------|-----------|
| 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 | 539 |
| Additional paid-in capital | 85,072 | 75,357 |
| Accumulated deficit | (65,380) | (63,475) |
| Total shareholders' equity | 20,986 | 12,421 |
| Total liabilities and shareholders' equity | \$39,112 | \$12,714 |

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, 2009 | September 30, 2008 | September 30, 2009 | September 30, 2008 |
| Revenues | | | | |
| Revenues | \$ 9,108 | \$ - | \$ 22,211 | \$ - |
| License fees and other income | 277 | - | 538 | - |
| Total revenues | 9,385 | - | 22,749 | - |
| Model costs | 6,527 | - | 15,695 | - |
| Revenues net of model costs | 2,858 | - | 7,054 | - |
| Operating expenses | | | | |
| Salaries and service costs | 1,756 | - | 4,580 | - |
| Office and general expenses | 629 | - | 1,541 | - |
| Amortization and depreciation | 490 | - | 1,225 | - |
| Corporate overhead | 276 | 81 | 885 | 271 |
| Acquisition transaction costs | 13 | - | 673 | - |
| Total operating expenses | 3,164 | 81 | 8,904 | 271 |
| Operating loss | (306) | (81) | (1,850) | (271) |
| Other income (expense): | | | | |
| Interest income | - | 60 | 4 | 223 |
| Interest expense | (22) | - | (53) | - |
| Total other income (expense) | (22) | 60 | (49) | 223 |
| Loss before provision for income taxes | (328) | (21) | (1,899) | (48) |
| Provision for income taxes | | | | |
| Current | - | - | (6) | - |
| Deferred | - | - | - | - |
| | | | (6) | |
| Net loss applicable to common stockholders | \$ (328) | \$ (21) | \$ (1,905) | \$ (48) |
| Basic and diluted net income (loss) per common share | \$ (0.00) | \$ (0.00) | \$ (0.02) | \$ (0.00) |
| Weighted average common shares outstanding | 129,441 | 53,884 | 119,842 | 53,884 |

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, | |
|---|------------------------------------|----------|
| | 2009 | 2008 |
| Cash flows from operating activities: | | |
| Net loss | \$(1,905) | \$(48) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Bad debt expense | 90 | - |
| Amortization and depreciation | 1,225 | - |
| Changes in operating assets and liabilities: | | |
| (Increase) in accounts receivable | (919) | - |
| (Increase) decrease in prepaid expenses and other current assets | 107 | (778) |
| Increase in due to models | 1,106 | - |
| Increase in accounts payable and accrued liabilities | 829 | 106 |
| Increase in other liabilities | 125 | 129 |
| Net cash provided by (used in) operating activities | 658 | (591) |
| Cash flows from investing activities: | | |
| Acquisition of the Wilhelmina Companies, net of cash acquired | (14,763) | - |
| Purchase of property and equipment | (16) | - |
| Net cash used in investing activities | (14,779) | - |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock | 3,000 | - |
| Proceeds from line of credit | 500 | - |
| Note payable and capital lease obligations payments | (165) | - |
| Net cash provided by financing activities | 3,335 | - |
| Net decrease in cash and cash equivalents | (10,786) | (591) |
| Cash and cash equivalents, beginning of period | 11,735 | 12,679 |
| Cash and cash equivalents, end of period | \$949 | \$12,088 |
| Supplemental disclosure of cash flow information | | |
| Cash paid for interest | \$53 | \$- |
| Cash paid for income taxes | \$19 | \$- |
| Supplemental disclosure of non-cash investing and financing activities | | |
| Equity issuance cost | \$139 | \$- |
| Common stock issued in acquisition of the Wilhelmina Companies | \$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 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, 2008, 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

Wilhelmina Acquisition

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, L.P. (“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”), and 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 purchased the outstanding equity interests of the other Wilhelmina Companies for cash.

At the Company’s 2008 Annual Meeting of Stockholders held on February 5, 2009 (the “2008 Annual Meeting”), the Company’s stockholders approved and adopted an amendment to the Company’s Amended and Restated Certificate of Incorporation (the “Certificate of Incorporation”) to change the Company’s name from “New Century Equity Holdings Corp.” to “Wilhelmina International, Inc.”

Wilhelmina is a fashion modeling agency, placing models with clients located principally throughout the United States. Wilhelmina, which was founded by model Wilhelmina Cooper, is a broadly diversified full service agency with offices in New York, Los Angeles and Miami. In addition to its traditional fashion model management activities, the Company has also expanded into music and sports talent endorsement, television show production and licensing

opportunities for the Wilhelmina brand name.

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Note 3. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and subsidiaries in which the Company is deemed to have control for accounting purposes. All significant inter-company accounts and transactions have been eliminated in consolidation.

New Accounting Pronouncement

In June 2009, the FASB issued FASB ASC 105, Generally Accepted Accounting Principles, which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles ("GAAP"). The codification did not change GAAP but reorganizes the literature. Pursuant to the provisions of FASB ASC 105, the Company has updated references to GAAP in its financial statements issued for the period ended September 30, 2009. The adoption of FASB ASC 105 did not impact 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 artist is the primary obligor. The Company evaluates the terms of its model, artist 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 artist selection and credit risk the Company undertakes. The Company operates broadly as a modeling agency and in those relationships with models and artists 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 as model cost. In other model and artist relationships where the Company believes the key indicators suggest the Company acts as an agent on behalf of the model or artist the Company records revenue, when the revenues are earned and collectability is reasonably assured, net of pass-through model or artist 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.

Wilhelmina and its subsidiaries also record fees from licensees when the revenues are earned and collectability is reasonably assured.

Use of Estimates

The preparation of the 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 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 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 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.

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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

Certain 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 FDIC limits of \$250,000 per institution. At September 30, 2009, the Company had cash balances in financial institutions of approximately \$536,000 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 2-7 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 consolidated statement of operations.

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.

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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 (defined below) acquired in 2005. 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, that are in connection with product licensing agreements and talent related contracts (see Note 8).

Advertising

The Company expenses all advertising costs as incurred. Advertising costs approximated \$38,000 and \$88,000 for the three and nine months ended September 30, 2009, respectively.

Financial Instruments

The Company is required to disclose the fair value of information about financial instruments, whether or not recognized on the balance sheet, for those financial instruments which it is practicable to estimate the value. Accordingly, the aggregate fair market value amounts are not intended to represent the underlying value of the Company. The carrying amounts of cash and cash equivalents, current receivables and current liabilities approximate fair value because of the nature of these instruments.

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Business Combinations

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.

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 a reduction of earnings for the year ended December 31, 2008. The Company incurred acquisition transaction costs of approximately \$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 December 31, 2008, 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.

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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 statement of financial condition as a result of the Company's tax positions.

Net Income (loss) Per Common Share

For the three and nine months ended September 30, 2009 and 2008, diluted EPS equals basic EPS, as potentially dilutive common stock equivalents were anti-dilutive.

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.

The fair value of the stock option grants included in the Company's statement of operations totaled \$0 for the three and nine months ended September 30, 2009 and 2008.

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 \$8,822,000 of the remaining cash was paid to acquire the equity interests of the remaining Wilhelmina Companies.

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The purchase price is subject to certain post-closing adjustments, which may 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 are being held in escrow pursuant to the Acquisition Agreement. The approximately \$22,432,000 paid at closing, less the Restricted Shares held in escrow in respect of the purchase price adjustment pursuant to the terms of the Acquisition Agreement, provides for a floor purchase price of approximately \$20,125,000 (which amount may be further reduced in connection with certain indemnification matters). The Restricted Shares held in escrow may be repurchased by the Company for a nominal amount, subject to certain earnouts and offsets.

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 shares of Common Stock held in escrow support earnout offsets and indemnification obligations of the Sellers. The Control Sellers are 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, can be offset against any positive earnout 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 may also reduce positive earn out amounts. The earn outs, which are payable in 2012, are calculated as follows: (i) the WAM earn out is based on the three year average of audited WAM EBITDA beginning January 1, 2009 multiplied by 5, payable in cash or stock (at the Control Seller's election), provided that the total payment will not exceed \$10,000,000; and (ii) the Miami earn out is 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 February 13, 2009, management's estimate of the combined fair value of the WAM and Miami earn outs approximated \$2,312,000.

The Company has notified the Control Sellers of a required \$6,193,400 post-closing downward adjustment to the purchase price in connection with the Wilhelmina Transaction based on "core business" EBITDA calculations made by the Company in accordance with the applicable provisions of the Acquisition Agreement. The Company notified the Control Sellers that based on the amount of the purchase price adjustment, each of Esch and Krassner are 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 fails to timely make (or cause Lorex or Krassner L.P. to timely make) the required cash payment, the Company has the right under the Acquisition Agreement to promptly repurchase for \$.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 fail to timely make the cash payments). The Company believes that, based on its purchase price adjustment calculation, it will have the right to repurchase all 19,229,746 Restricted Shares in the event the Control Sellers fail 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 disagree with certain of the Company's calculations. The Company believes its calculations of the purchase price adjustment are 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 RSM McGladrey, Inc. ("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. The Company anticipates that McGladrey will make its final determination during the fourth quarter of fiscal 2009.

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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 Partners, L.P., a Texas limited partnership (“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. In addition, under the Equity Financing Agreement, Newcastle committed to purchase, at the Company’s election at any time or times prior to nine months following the closing, up to an additional \$2,000,000 (8,097,166 shares) of Common Stock on the same terms. The Company’s election right expired on August 13, 2009. 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 issuable 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.

Under the purchase method of accounting, the purchase price has been allocated to the net tangible and intangible assets acquired and liabilities assumed, based on the fair value of the assets and liabilities of the Wilhelmina Companies in accordance with GAAP.

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 3-7 years. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of September 30, 2009:

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| (in thousands) | As adjusted September 30, 2009 |
|--|--------------------------------------|
| Current assets | \$6,034 |
| Property, plant and equipment | 364 |
| Trademarks and intangibles with indefinite lives | 8,467 |
| Other intangible assets with finite lives | 8,337 |
| Goodwill | 12,647 |
| Other assets | 289 |
| Total assets acquired | 36,138 |
| Earn out-contingent liability | (2,312) |
| Deferred income tax liability | (1,800) |
| Other liabilities assumed | (9,594) |
| Total liabilities assumed | (13,706) |
| Net assets acquired | \$22,432 |

These estimates are subject to change until the finalization of the valuation of certain assets and liabilities and may be adjusted in accordance with GAAP. Approximately \$8,971,000 of the purchase price results in tax deductible goodwill which will be amortized straight-line over 15 years for income tax purposes.

The results of operations for the Wilhelmina Companies are included in the Company's consolidated results from the effective date of the acquisition. The following table sets forth certain unaudited pro forma consolidated statement of operations data for the nine months ended September 30, 2009 and 2008, as if the acquisition had occurred at January 1, 2009 and 2008 and was consummated on the same terms. Amounts are in thousands, except earnings per share.

| | September 30, | |
|-----------------------|---------------|-----------|
| | 2009 | 2008 |
| Total revenues | \$27,244 | \$30,267 |
| Net loss | \$(2,124) | \$(982) |
| Loss per common share | \$(0.02) | \$(0.01) |

Note 5. Line of Credit, Note Payable and Esch Escrow

In January 2008, Wilhelmina International renewed a revolving line of credit with a 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 is payable monthly at an annual rate of prime plus one-half percent which equaled to 3.75% at September 30, 2009. The revolving line of credit expired on January 31, 2009. On March 31, 2009, the Company entered into a modification and extension agreement with the bank that extended the maturity date to April 30, 2009. On June 10, 2009, the Company entered into a modification and extension agreement with the 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. The line of credit has expired and the Company is currently negotiating with the bank to further extend the maturity date. The bank has not requested repayment of the line and the Company has continued to finance its operations using this revolving line of credit.

On February 13, 2009, in order to facilitate the acquisition of the Wilhelmina Companies, the Company entered into a certain letter agreement with Esch (the "Letter Agreement"), pursuant to which Esch agreed that \$1,756,000 of the cash proceeds to be paid to him at the closing of the Acquisition Agreement would instead be held in escrow. All or a portion of such amount held in escrow will be used to satisfy the Company's indebtedness in connection with its credit facility upon the occurrence of specified events including, but not limited to, written notification to the Company of

the termination or acceleration of the credit facility. Any amount remaining will be released to Esch upon the renewal, replacement or extension of the Company's credit facility, subject to certain requirements set forth in the Letter Agreement. In the event any portion of the amount held in escrow is used to pay off the credit facility, the Company will promptly issue to Esch, in replacement thereof, a promissory note in the principal amount of the amount paid.

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The Company's credit facility includes a term note (in the aggregate principal amount of approximately \$96,000 at September 30, 2009) which is payable in monthly installments of \$23,784 including principal and interest calculated at a fixed rate of 6.65% per annum and matures in December 2009. The line of credit and the term note are collateralized by all of the assets of the Wilhelmina Companies, cross collateralized by the combined and consolidated Wilhelmina Companies and is guaranteed by a stockholder of the Company.

Note 6. Restricted Cash

At September 30, 2009, the Company had \$175,000 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.

Note 7. Operating Leases

The Company is obligated under non-cancelable lease agreements for the rental of office space and various other lease agreements for the leasing of office equipment. These operating leases expire at various dates through 2011. In addition to the minimum base rent, the office space lease agreements provide that the Company shall pay its pro-rata share of real estate taxes and operating costs as defined in the lease agreement.

The Company also leases pursuant to a services agreement (see Note 13) certain corporate office space.

Rent expense totaled approximately \$217,000 and \$548,000 for the three and nine months ended September 30, 2009, respectively, compared to approximately \$8,000 and \$24,000 for the three and nine months ended September 30, 2008, respectively.

Note 8. Licensing Agreements and Deferred Revenue

The Company is a party to various contracts by virtue of its relationship with certain talent. The various contracts contain terms and conditions which require the revenue and the associated talent cost to be recognized straight-line over the contract period. The Company also has 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. For the three and nine months ended September 30, 2009, the Company recognized approximately \$89,000 and \$225,000, respectively, of revenue from product licensing agreements.

Note 9. Revenue Interest

On October 5, 2005, the Company made 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.

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The Company entered into an agreement (the “Ascendant Agreement”) with Ascendant to acquire an interest in the revenues generated by Ascendant. Ascendant had assets under management of approximately \$36,800,000 and \$35,600,000 as of September 30, 2009 and December 31, 2008, respectively. The Company has not recorded any revenue or received any revenue sharing payments for the period from July 1, 2006 through September 30, 2009. According to the Ascendant Agreement, if Ascendant acquires the revenue interest from the Company, Ascendant must pay the Company a return on the capital that it invested.

Note 10. 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, 2009, a number of the Company’s employees were covered by employment agreements that vary in length from one to three years. Total compensation remaining payable under these agreements approximated \$3,003,000. 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, invoking the non-compete provisions would require the Company to compensate the covered employees during the non-compete period. As of September 30, 2009, total compensation payable under the non-compete provisions approximated \$1,766,000.

The Company, which was formerly known as Billing Concepts Corp. (“BCC”), was incorporated in the state of Delaware in 1996. BCC was previously a wholly owned subsidiary of U.S. Long Distance Corp. (“USLD”) and principally provided third-party billing clearinghouse and information management services to the telecommunications industry (the “Transaction Processing and Software Business”). Upon its spin-off from USLD, BCC became an independent, publicly held company. In October 2000, the Company completed the sale of several wholly owned subsidiaries that comprised the Transaction Processing and Software Business to Platinum Holdings (“Platinum”) for consideration of \$49,700,000 (the “Platinum Transaction”).

Under the terms of the Platinum Transaction, all leases and corresponding obligations associated with the Transaction Processing and Software Business were assumed by Platinum. Prior to the Platinum Transaction, the Company guaranteed two operating leases for office space of the divested companies. The first lease was related to office space located in San Antonio, Texas, and expired in 2006. The second lease is related to office space located in Austin, Texas, and expires in 2010. Under the original terms of the second lease, the remaining minimum undiscounted rent payments total approximately \$354,000 at September 30, 2009. In conjunction with the Platinum Transaction, the purchaser agreed to indemnify the Company should the underlying operating companies not perform under the terms of the office leases. The Company can provide no assurance as to the purchaser’s ability, or willingness, to perform its obligations under the indemnification. The Company does not believe it is probable that it will be required to perform under the remaining lease guarantee and, therefore, no liability has been accrued in the Company’s financial statements.

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Note 11. Share Capital

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

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

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

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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.

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

Also, at the 2008 Annual Meeting, the Company’s stockholders approved a proposal granting authority to the Company’s Board of Directors to effect at any time prior to December 31, 2009 a reverse stock split of the Common Stock at a ratio within the range from one-for-ten to one-for-thirty, with the exact ratio to be set at a whole number within this range to be determined by the Company’s Board of Directors in its discretion.

Below is a table showing changes in Common Stock and paid-in capital during the nine months ended September 30, 2009 (in thousands, except share data):

| | Additional Paid-in Capital | Common Stock Shares | Common Stock Amount |
|---|----------------------------------|---------------------------|---------------------------|
| Balance December 31, 2008 | \$75,357 | 53,883,872 | \$539 |
| Common Stock issued in the Wilhelmina Transaction to Patterson, Control Sellers and their advisors | 6,975 | 63,411,131 | 634 |
| Newcastle equity issuance cost | (139) | - | - |
| Common Stock issued to Newcastle under Equity Financing Agreement | 2,879 | 12,145,749 | 121 |
| Balance September 30, 2009 | \$85,072 | 129,440,752 | \$1,294 |

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Note 12. Income Taxes

As of December 31, 2008, the Company had a federal income tax loss carryforward of approximately \$13,400,000, which begins expiring in 2019. In addition, the Company had a federal capital loss carryforward of approximately \$68,500,000 which expires in 2009. Realization of the Company's carryforwards is dependent on future taxable income and capital gains. A valuation allowance has been recorded to reflect the tax effect of the net loss carryforwards not used to offset a portion of the deferred tax liability resulting from the Wilhelmina acquisition. 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.

Note 13. Related Parties

Mark Schwarz, Chief Executive Officer and Chairman of Newcastle Capital Management, L.P. ("NCM"), John Murray, Chief Financial Officer of NCM, and Evan Stone, the former General Counsel of NCM, hold executive officer and board of director positions with the Company as follows: Chairman of the Board and Chief Executive Officer, Director and Chief Financial Officer, and Director and General Counsel and Secretary, respectively, of the Company. 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 \$48,000 for the three and nine months ended September 30, 2009, respectively, and \$8,000 and \$24,000 for the three and nine months ended September 30, 2008, respectively.

The Company owed NCM approximately \$78,000 and \$69,000 as of September 30, 2009 and 2008, respectively.

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 14. 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 quarter ended September 30, 2009. As of September 30, 2009, 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 placed in treasury. 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, 2009 and September 30, 2008. It should be read in conjunction with the Unaudited Interim Condensed Consolidated 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, 2008, as amended.

The following discussion of the results of operations for the three and nine months ended September 30, 2009, compared to the three and nine months ended September 30, 2008, 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 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 three and nine months ended September 30, 2009 and September 30, 2008, 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 fees and interest income.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain "forward-looking" statements as such term is defined in 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 assumptions made by and 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 intend to update these forward-looking statements.

Overview

Wilhelmina's primary business is fashion model management, which activity is headquartered in New York City. Wilhelmina 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, 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. The Company believes its position in the fashion model management industry provides a platform for organic growth, business line extension, and branded consumer goods and licensing opportunities, as well as acquisitive growth.

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, TV and other forms of media advertising campaigns for consumer goods and retail clients.

Contractions in the availability of business and consumer credit, a decrease in consumer spending, a significant rise in unemployment and other factors have all led to increasingly volatile capital markets over the course of 2008 and 2009. During recent months, the financial services, automotive and other sectors of the global economy have come under increased pressure, resulting in, among other consequences, extraordinarily difficult conditions in the capital and credit markets and a global economic recession that has negatively impacted Wilhelmina’s clients’ spending on the services that the Company provides.

During the nine months ended September 30, 2009, the Wilhelmina Companies experienced a decline in the rate of revenue growth compared to the comparable period of the previous year. Additionally, due to the rapidly changing economic conditions, the Company cannot accurately forecast its clients’ spending plans in the near term. The Company intends to continue to closely monitor economic conditions, client spending and other factors, and in response, will take actions to reduce costs, manage working capital and conserve cash. 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.

Recent Events

On February 13, 2009, the Company closed the Wilhelmina Transaction and acquired the Wilhelmina Companies as discussed in further detail elsewhere in this Form 10-Q. As of the closing of the Wilhelmina Transaction, the business of Wilhelmina represents the Company’s primary operating business. Prior to closing of the Wilhelmina Transaction, the Company’s interest in Ascendant, which it acquired on October 5, 2005, represented the Company’s sole operating business. 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.

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Ascendant

The Company entered into an agreement (the “Ascendant Agreement”) with Ascendant to acquire an interest in the revenues generated by Ascendant. Ascendant had assets under management of approximately \$36,800,000 and \$35,600,000 as of September 30, 2009 and December 31, 2008, respectively. The Company has not recorded any revenue or received any revenue sharing payments for the period from July 1, 2006 through September 30, 2009. According to the Ascendant Agreement, if Ascendant acquires the revenue interest from the Company, Ascendant must pay the Company a return on the capital that it invested.

Results of Operations of the Company for the Three and Nine Months Ended September 30, 2009 Compared to the Three and Nine Months Ended September 30, 2008

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, 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 and a separate service charge, paid by clients in addition to the booking fees, is calculated as a percentage of the models’ booking fees. 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 or directors 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.

Beginning April 2009, the Company began incurring compensation expense of approximately \$450,000 annually, related to the positions of chief executive officer, chief financial officer and general counsel. Also, post 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 which has an annual cost of \$150,000. The Company incurred compensation and consulting expenses with Esch totaling approximately \$33,000 and \$80,000 for the three and nine months ended September 30, 2009, respectively. These costs have been classified as corporate overhead, and along with the executive compensation expenses, would somewhat offset the \$1,725,000 from the elimination of the above

mentioned agreements.

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Gross Billings

During the three and nine months ended September 30, 2009, gross billings of the Company were approximately \$10,011,000 and \$25,023,000, respectively, compared to \$0 during the three and nine months ended September 30, 2008. The Company completed the Wilhelmina Transaction on February 13, 2009.

Revenues

During the three and nine months ended September 30, 2009, revenues of the Company were approximately \$9,108,000 and \$22,211,000, respectively, compared to \$0 during the three and nine months ended September 30, 2008. The Company completed the Wilhelmina Transaction on February 13, 2009 and, therefore, recorded revenues of the Wilhelmina Companies for the period from February 13, 2009 through September 30, 2009, in its statements of operations for the three and nine months ended September 30, 2009.

License Fees and Other Income

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

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, 2009, management fee income from the unconsolidated affiliate amounted to approximately \$31,000 and \$72,000, respectively, and \$0 for the three and nine months ended 2008.

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, 2009, license fees totaled approximately \$62,000 and \$138,000, respectively, and \$0 for the three and nine months ended September 30, 2008.

The Company has entered into two product licensing agreements with two clients (each a "Licensee") and a related talent (the "Talent") they represent. Under the first agreement, the Company earns service charges from the Licensee and commissions from the Talent for services performed in connection with the licensing agreement. This licensing agreement has a nine-year term, which ends March 31, 2014. During the first three years of the agreement, the Talent and the Company are required to render services to the Licensee in exchange for a guaranteed minimum payment. The next three years of the agreement is the sell-off period, as defined. During the sell-off period, the Talent and the Company are not required to render services. The Talent will earn royalties based on a certain percentage of net sales, as defined, and the Company will earn a commission based on a certain percentage of the royalties earned by the Talent. For the three and nine months ended September 30, 2009, the Company recognized approximately \$52,000 and \$101,000, respectively, of revenue from this licensing agreement.

Under the second licensing agreement, the Company earns commissions from the Talent it represents and royalties from the client that are based on a certain percentage of net sales, as defined. The initial term of this second agreement expires on December 31, 2012. The second agreement is renewable for another two years if certain conditions are met. For the three and nine months ended September 30, 2009, the Company recognized approximately \$37,000 and \$124,000, respectively, of revenues from this agreement.

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Other income includes 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. Other income also consists of fees derived from participants in the Company's model search contests. Other income also consists of 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 is now in its second season (which began airing in June 2009 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 15% of Modified Gross Adjusted Receipts by the television network for the series, as defined.

Model Costs

Model costs consist of costs associated with relationships with models where the key indicators suggest that the Company acts as a principal. Therefore, the Company records the gross amount billed to the client as revenue when the revenues are earned and collectability is reasonably assured, and the related costs incurred to the model as model cost. During the three and nine months ended September 30, 2009, model costs were approximately \$6,527,000 and \$15,695,000, respectively, compared to \$0 during the three and nine months ended September 30, 2008. The Company completed the Wilhelmina Transaction on February 13, 2009 and, therefore, recorded model costs of the Wilhelmina Companies for the period from February 13, 2009 through September 30, 2009, in its statements of operations for the three and nine months ended September 30, 2009.

Operating Expenses

The Company completed the Wilhelmina Transaction on February 13, 2009 and, therefore, recorded operating expenses of the Wilhelmina Companies for the period from February 13, 2009 through September 30, 2009, in its statements of operations for the three and nine months ended September 30, 2009.

Operating expenses consist of costs that support the operations of the Company, including payroll, rent, overhead, insurance, travel, professional fees, amortization and depreciation, acquisition transaction costs and corporate overhead. During the three and nine months ended September 30, 2009, operating expenses increased approximately \$3,083,000 and \$8,633,000, to approximately \$3,164,000 and \$8,904,000, respectively, compared to approximately \$81,000 and \$271,000 during the three and nine months ended September 30, 2008, respectively. 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 are comprised of payroll and related costs and travel costs required to deliver the Company's services to the customers and models. During the three and nine months ended September 30, 2009, salaries and service costs were approximately \$1,756,000 and \$4,580,000, respectively, compared to \$0 during the three and nine months ended September 30, 2008. The Company completed the Wilhelmina Transaction on February 13, 2009 and, therefore, recorded salaries and service costs of the Wilhelmina Companies for the period from February 13, 2009 through September 30, 2009, in its statements of operations for the three and nine months ended September 30, 2009.

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Office and General Expenses

Office and general expenses are comprised of office and equipment rents, advertising and promotion, insurance expenses, administration and technology cost. These costs are less directly linked to changes in the Wilhelmina Companies' revenues than are salaries and service costs. During the three and nine months ended September 30, 2009, office and general expenses were approximately \$629,000 and \$1,541,000, respectively, compared to \$0 during the three and nine months ended September 30, 2008. The Company completed the Wilhelmina Transaction on February 13, 2009 and, therefore, 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 three and 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, 2009, depreciation and amortization expense totaled \$490,000 (of which \$463,000 relates to amortization of intangibles acquired in connection with the Wilhelmina Transaction) and \$1,225,000 (of which \$1,159,000 relates to amortization of intangibles acquired in connection with the Wilhelmina Transaction), respectively, compared to \$0 during the three and nine months ended September 30, 2008. The Company made approximately \$16,000 and \$0 of fixed asset purchases during the nine months ended September 30, 2009 and 2008, 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, 2009, corporate overhead approximated \$276,000 and \$885,000, respectively, compared to \$81,000 and \$271,000 for the three and nine months ended September 30, 2008, respectively. The increase in corporate overhead is the result of compensation and consulting fees to Esch, officer compensation (see Expense Trends discussion above) for executive officers who filled the roles of chief executive officer, chief financial officer and general counsel for the Company following the Wilhelmina Transaction and additional legal and professional fees incurred to meet public company reporting requirements.

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 they are 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 a reduction of earnings for the year ended December 31, 2008.

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As of December 31, 2008, the Company had deferred approximately \$139,000 of costs associated with the Wilhelmina Transaction, which the Company has determined relate 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. For the three and nine months ended September 30, 2009, the Company recorded acquisition transaction costs of approximately \$13,000 and \$673,000, respectively.

Interest Income

Interest income totaled approximately \$0 and \$4,000 during the three and nine months ended September 30, 2009, respectively, compared to approximately \$60,000 and \$223,000 during the three and nine months ended September 30, 2008, respectively. The decrease in interest income is the result of a significant decrease in yields on cash balances and the full utilization of the Company's cash balances to fund the closing of the Wilhelmina Transaction on February 13, 2009.

Interest Expense

Interest expense totaled approximately \$22,000 and \$53,000 during the three and nine months ended September 30, 2009, respectively, compared to \$0 during the three and nine months ended September 30, 2008. The term note (in the aggregate principal amount of approximately \$96,000 at September 30, 2009) has a fixed annual interest rate of 6.65% and matures December 2009. Interest on the revolving credit line is payable monthly at an annual rate of prime plus one-half percent which equaled to 3.75% at September 30, 2009. The balance of the Company's revolving credit line was \$2,000,000 as of September 30, 2009.

Pro Forma Results of Operations of the Wilhelmina Companies for the Quarter Ended September 30, 2009 Compared to the Quarter Ended September 30, 2008

The Company is providing the unaudited pro forma financial information and discussion below relating solely to the Wilhelmina Companies, without taking into account amortization and depreciation, corporate overhead (any amounts attributable to the Company's operations at the holding company level), and acquisition transaction cost, to aid you in your analysis of the Company's financial performance. Certain adjustments have been made to the historical information for the quarter and nine months ended September 30, 2008, to adjust for expenses incurred by the Wilhelmina Companies in connection with the Wilhelmina Transaction. Such information and discussion should be read in conjunction with the Unaudited Interim 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.

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Pro Forma Operating Income of the Wilhelmina Companies compared to the historical information for the quarter ended September 30, 2008 for the Wilhelmina Companies acquired on February 13, 2009:

Quarter ended September 30,
(in thousands)

| | | 2009 | | | 2008 | | |
|-----------------------------|---------|----------|-----------|----------|-----------|----------|---|
| | | % of | | % of | | | |
| | | Revenues | | Revenues | | | |
| | | net of | % of | net of | % of | | |
| | | model | Operating | model | Operating | | |
| | | costs | Expenses | costs | Expenses | | |
| | \$ | | | | | \$ | |
| Total revenues | \$9,385 | | | | | \$10,119 | |
| Model costs | 6,527 | | | | | 7,152 | |
| Revenues net of model costs | 2,858 | | | | | 2,967 | |
| Operating expenses: | | | | | | | |
| Salaries and service costs | 1,756 | 61.2 | % 73.7 | % 1,970 | 66.4 | % 78.5 | % |
| Office and general expenses | 629 | 21.8 | % 26.3 | % 541 | 18.2 | % 21.5 | % |
| Total operating expenses | 2,385 | 83.0 | % 100.0 | % 2,511 | 84.6 | % 100.0 | % |
| Pro forma operating income | \$473 | | | | | \$456 | |

Gross Billings

During the quarter ended September 30, 2009, gross billings of the Wilhelmina Companies decreased approximately \$1,882,000, or 15.8%, to approximately \$10,011,000, compared to approximately \$11,893,000 during the quarter ended September 30, 2008. The Wilhelmina Companies experienced decreases in gross billings across all lines of the business as a result of a decrease in spending by its clients due to the global economic recession.

Revenues net of model costs

During the quarter ended September 30, 2009, revenues net of model costs of the Wilhelmina Companies decreased approximately \$109,000, or 3.6%, to approximately \$2,858,000, compared to approximately \$2,967,000 during the quarter ended September 30, 2008. The year-over-year decline in gross billings for the quarter ended September 30, 2009, as compared to the quarter ended September 30, 2008, did not have a significant impact on revenues net of model costs for the quarter ended September 30, 2009, since \$1,200,000 of gross billings for the quarter ended September 30, 2008 resulted in deferred revenue.

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 quarter ended September 30, 2009, operating expenses decreased approximately \$126,000, or 5.0%, to approximately \$2,385,000, compared to approximately \$2,511,000 during the quarter ended September 30, 2008. The decrease in operating expense was primarily attributable to a decline in salaries and service costs as described below.

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Salaries and Service Costs

During the quarter ended September 30, 2009, salaries and service costs decreased approximately \$214,000, or 10.9%, to approximately \$1,756,000, compared to approximately \$1,970,000 during the quarter ended September 30, 2008. The decrease in salaries and service costs was mostly attributable to a decrease in travel costs incurred by employees when delivering the Company's services to customers and models. Salaries and service costs as a percentage of total operating expenses were 73.7% and 78.5% for the quarters ended September 30, 2009 and 2008, respectively.

Office and General Expenses

Office and general expenses are comprised of office and equipment rents, advertising and promotion, overhead expenses, insurance expenses, professional fees and technology cost. These costs are less directly linked to changes in the Wilhelmina Companies' revenues than salaries and service costs. During the quarter ended September 30, 2009, office and general expenses increased approximately \$88,000, or 16.2%, to approximately \$629,000, compared to approximately \$541,000 during the quarter ended September 30, 2008. Office and general expenses, as a percentage of total operating expenses, were 26.3% for the quarter ended September 30, 2009 and 21.5% for the quarter ended September 30, 2008.

Pro Forma Operating Income

During the quarter ended September 30, 2009, pro forma operating income was approximately \$473,000 compared to operating income of approximately \$456,000 during the quarter ended September 30, 2008, an increase of \$17,000, or 3.7%. The increase in pro forma operating income was mostly attributable to the recognition of certain revenues deferred in prior periods and a decrease in travel related cost incurred by employees during the quarter ended September 30, 2009 as compared to the quarter ended September 30, 2008.

Pro Forma Results of Operations of the Wilhelmina Companies for the Nine Months Ended September 30, 2009
Compared to the Nine Months Ended September 30, 2008

The Company is providing the unaudited pro forma financial information and discussion below relating solely to the Wilhelmina Companies, without taking into account amortization and depreciation, corporate overhead (any amounts attributable to the Company's operations on the holding company level), and acquisition transaction costs, to aid you in your analysis of the Company's financial performance. Such information and discussion should be read in conjunction with the Unaudited Interim 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.

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Pro Forma Operating Income of the Wilhelmina Companies compared to the historical information for the nine months ended September 30, 2008 for the Wilhelmina Companies acquired on February 13, 2009:

Nine months ended September 30,
(in thousands)

| | | 2009 | | | 2008 | | |
|-----------------------------|----------|----------|-----------|----------|-----------|----------|---------|
| | | % of | | % of | | | |
| | | Revenues | | Revenues | | | |
| | | net of | % of | net of | % of | | |
| | | model | Operating | model | Operating | | |
| | | costs | Expenses | costs | Expenses | | |
| | \$ | | | | | \$ | |
| Total revenues | \$27,244 | | | | | \$30,267 | |
| Model costs | 19,092 | | | | | 20,945 | |
| Revenues net of model costs | 8,152 | | | | | 9,322 | |
| Operating expenses: | | | | | | | |
| Salaries and service costs | 5,493 | 67.4 | % 74.7 | % | 5,502 | 59.0 | % 74.4 |
| Office and general expenses | 1,866 | 22.8 | % 25.3 | % | 1,885 | 20.2 | % 25.6 |
| Total operating expenses | 7,359 | 90.2 | % 100.0 | % | 7,387 | 79.2 | % 100.0 |
| Pro forma operating income | \$793 | | | | | \$1,935 | |

Gross Billings

During the nine months ended September 30, 2009, gross billings of the Wilhelmina Companies decreased approximately \$4,272,000, or 12.6%, to approximately \$29,702,000, compared to approximately \$33,974,000 during the nine months ended September 30, 2008. The Wilhelmina Companies experienced decreases in gross billings across the core modeling business as a result of a decrease in spending by its clients due to the global economic recession.

Revenues net of model costs

During the nine months ended September 30, 2009, revenues net of model costs of the Wilhelmina Companies decreased approximately \$1,170,000, or 12.5%, to approximately \$8,152,000, compared to approximately \$9,322,000 during the nine months ended September 30, 2008. The Wilhelmina Companies experienced decreases in revenues, net of model costs, across the core modeling business as a result of a decrease in spending by its clients due to the global economic recession.

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, 2009, operating expenses decreased approximately \$28,000, or 0.4%, to approximately \$7,359,000, compared to approximately \$7,387,000 during the nine months ended September 30, 2008. Operating expenses have remained relatively unchanged as management has focused on managing operating costs and maintaining profitable operating results.

Salaries and Service Costs

During the nine months ended September 30, 2009, salaries and service costs decreased approximately \$9,000, or 0.2%, to approximately \$5,493,000, compared to approximately \$5,502,000 during the nine months ended September 30, 2008. The Wilhelmina Companies continue to invest in professional personnel and pursue new business but have been able to reduce travel costs to more than offset the increases in salaries cost. Salaries and service costs as a percentage of total operating expenses were 74.7% and 74.4% for the nine months ended September 30, 2009 and 2008, respectively.

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Office and General Expenses

Office and general expenses are comprised of office and equipment rents, advertising and promotion, overhead expenses, insurance expenses, professional fees and technology cost. 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, 2009, office and general expenses decreased approximately \$19,000, or 1.0%, to approximately \$1,866,000, compared to approximately \$1,885,000 during the nine months ended September 30, 2008. Office and general expenses, as a percentage of total operating expenses, were 25.3% for the nine months ended September 30, 2009 and 25.6% for the nine months ended September 30, 2008.

Pro Forma Operating Income

During the nine months ended September 30, 2009, the pro forma operating income was approximately \$793,000 compared to operating income of approximately \$1,935,000 during the nine months ended September 30, 2008, representing a decline of \$1,142,000, or 59.0%. The decline in pro forma operating income was caused by a decline in revenues in the core modeling business which was attributable to decreased spending by the clients of the Wilhelmina Companies due to the worldwide economic recession.

Liquidity and Capital Resources

The Company's cash balance decreased to \$949,000 at September 30, 2009, from \$11,735,000 at December 31, 2008. The decrease is attributable to the funding of the acquisition of the Wilhelmina Companies and the associated acquisition transaction costs.

On February 13, 2009, the Company closed the Wilhelmina Transaction and funded approximately \$13,066,000 to the various parties involved in accordance with the Acquisition Agreement and \$1,756,000 associated with the escrow facility discussed below. Cash on hand and the \$3,000,000 in proceeds from Newcastle under the Equity Financing Agreement were used to fund the closing amounts.

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. The Company has in place a credit facility with Signature Bank (the "Credit Facility"), which includes a term loan with a balance of approximately \$96,000 as of September 30, 2009, and a revolving line of credit with a balance of \$2,000,000 as of September 30, 2009, that allows the Company to manage its cash flows. The revolving line under the Credit Facility expired on January 31, 2009, was subsequently extended, and expired on 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. The Company is currently negotiating with the bank to further extend the line of credit. Signature Bank has not requested repayment of the line, which as of November 14, 2009 had an unpaid balance of \$2,000,000. The term note is payable in monthly installments of \$23,784 including interest at a fixed rate of 6.65% per annum and matures in December 2009. Interest on the revolving credit note was payable monthly at an annual rate of prime plus 0.5% (3.75% at September 30, 2009). Availability under the revolving line of credit is subject to a borrowing base computation. The line of credit and term note are collateralized by all of the assets of the Wilhelmina Companies, cross collateralized by the combined and consolidated Wilhelmina Companies and are guaranteed by a stockholder of the Company.

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The Company's ability to make payments on the Credit Facility, 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.

As the revolving line under the Credit Facility expired, and in order to facilitate the closing of the Wilhelmina Transaction on February 13, 2009, the Company entered into an agreement with Esch (the "Letter Agreement"), pursuant to which Esch agreed that \$1,756,000 of the cash proceeds to be paid to him at the closing of the Wilhelmina Transaction would instead be held in escrow. All or a portion of such amount held in escrow will be used to satisfy the Company's indebtedness in connection with the Credit Facility upon the occurrence of specified events including, but not limited to, written notification to the Company of the termination of the Credit Facility. Any amount remaining in escrow under the Letter Agreement will be released to Esch upon the renewal, extension or replacement of the Credit Facility, subject to certain requirements set forth in the Letter Agreement. In the event any portion of the proceeds is paid from escrow to pay off the Credit Facility, the Company will promptly issue to Esch, in replacement thereof, a promissory note in the principal amount of the amount paid.

Newcastle Financing Arrangement

Concurrently with the execution of the Acquisition Agreement, the Company entered into the Equity Financing Agreement with Newcastle whereby Newcastle committed to purchase, at the Company's election at any time or times prior to nine months following the closing, up to an additional \$2,000,000 (8,097,166 shares at \$0.247 per share) of Common Stock. The Company's election right expired on August 13, 2009.

Purchase Price Adjustment under Acquisition Agreement

The aggregate purchase price under the Acquisition Agreement is subject to certain purchase price adjustments related to "core business" EBITDA calculations. Depending on the outcome of these purchase price adjustments, the Control Sellers may have the option to pay to the Company in cash, such amount of the adjustments, not to exceed \$4,500,000.

The Company has notified the Control Sellers of a required \$6,193,400 post-closing downward adjustment to the purchase price in connection with the Wilhelmina Transaction based on "core business" EBITDA calculations made by the Company in accordance with the applicable provisions of the Acquisition Agreement. The Company notified the Control Sellers that based on the amount of the purchase price adjustment, each of Esch and Krassner are 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 fails to timely make (or cause Lorex or Krassner L.P. to timely make) the required cash payment, the Company has the right under the Acquisition Agreement to promptly repurchase for \$.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 fail to timely make the cash payments). The Company believes that, based on its purchase price adjustment calculation, it will have the right to repurchase all 19,229,746 Restricted Shares in the event the Control Sellers fail 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 disagree with certain of the Company's calculations. The Company believes its calculations of the purchase price adjustment are 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 RSM McGladrey, Inc. ("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. The Company anticipates that McGladrey will make its final determination during the fourth quarter of fiscal

2009.

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Lease Guarantees

Under the terms of the Platinum Transaction, all leases and corresponding obligations associated with the Transaction Processing and Software Business were assumed by Platinum. Prior to the Platinum Transaction, the Company guaranteed two operating leases for office space of the divested companies. The first lease was related to office space located in San Antonio, Texas, and expired in 2006. The second lease is related to office space located in Austin, Texas, and expires in 2010. Under the original terms of the second lease, the remaining minimum undiscounted rent payments total approximately \$354,000 at September 30, 2009. In conjunction with the Platinum Transaction, Platinum agreed to indemnify the Company should the underlying operating companies not perform under the terms of the office leases. The Company can provide no assurance as to Platinum's ability, or willingness, to perform its obligations under the indemnification. The Company does not believe it is probable that it will be required to perform under the remaining lease guarantee and, therefore, no liability has been accrued in the Company's financial statements.

Off-Balance Sheet Arrangements

The Company guaranteed two operating leases for office space for certain of its wholly owned subsidiaries prior to the Platinum Transaction (see Liquidity and Capital Resources – Lease Guarantees above). One such lease expired in 2006.

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 artist is the primary obligor. The Company evaluates the terms of its model, artist 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 artist selection and credit risk the Company undertakes. The Company operates broadly as a modeling agency and in those relationships with models and artists where the key indicators suggest the Company acts as a principal, the Company records the gross amount billed to the client as revenue and the related costs incurred to the model as model cost. In other model and artist relationships where the Company believes the key indicators suggest it acts as an agent on behalf of the model or artist the Company records revenue net of pass-through model or artist cost.

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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.

Wilhelmina and its subsidiaries also record fees from licensees when the revenues are earned and collectability is reasonably assured.

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. A significant amount of judgment is required in estimating fair value and performing goodwill impairment tests.

The Company has determined that its revenue interest meets the indefinite life criteria outlined in SFAS 142, and, therefore, annually assesses whether the carrying value of the asset exceeds its fair value, and records an impairment loss equal to any such excess.

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 considerations 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 a reduction of earnings for the year ended December 31, 2008. The Company incurred acquisition transaction costs of approximately \$673,000 for the nine months ended September 30, 2009.

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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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4T. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Disclosure controls are procedures that are designed with the objective of ensuring that information required to be disclosed in the Company's reports under the Exchange Act, such as this Form 10-Q, is reported in accordance with the rules of the SEC. Disclosure controls are also designed with the objective of ensuring that such information is accumulated appropriately and communicated to management, including the chief executive officer and chief financial officer, as appropriate, to allow for timely decisions regarding required disclosures.

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's chief executive officer and chief financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon that evaluation, the chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2009 to ensure that information required to be disclosed by the Company (including its consolidated subsidiaries) in the reports that the Company 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 (b) accumulated and communicated to management, including the chief executive officer and chief financial officer, as appropriate to allow for timely decisions regarding required disclosure.

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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Limitations on the Effectiveness of Internal Control

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1.A. Risk Factors.

Not applicable.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

| 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 16, 2009

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

