

Wilhelmina International, Inc.
Form 424B3
May 16, 2012

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-178611

PROSPECTUS SUPPLEMENT NO. 1
(to Prospectus dated May 3, 2012)

WILHELMINA INTERNATIONAL, INC.

This is a prospectus supplement to our prospectus dated May 3, 2012 (the “Prospectus”) relating to the resale from time to time by selling stockholders of up to 94,852,098 shares of our common stock, including the associated rights to purchase shares of Series A Junior Participating Preferred Stock. On May 15, 2012, we filed with the Securities and Exchange Commission a Quarterly Report on Form 10-Q. The text of the Quarterly Report on Form 10-Q is attached to and is a part of this supplement.

This prospectus supplement should be read in conjunction with and is incorporated by reference into the Prospectus and may not be delivered or utilized without the Prospectus, including any amendments or supplements thereto. This prospectus supplement is qualified by reference to the Prospectus, except to the extent that the information provided by this prospectus supplement supersedes the information contained in the Prospectus.

INVESTING IN OUR COMMON STOCK INVOLVES SIGNIFICANT RISKS. YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 3 OF THE PROSPECTUS BEFORE MAKING A DECISION TO INVEST IN OUR COMMON STOCK.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is May 16, 2012.

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 March 31, 2012

OR

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

For the transition period from _____ to _____

Commission File Number 0-28536

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

Delaware
(State or other jurisdiction of incorporation or organization)

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

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

75201
(Zip Code)

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

n/a

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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 May 15, 2012, the registrant had 129,440,752 shares of common stock outstanding.

WILHELMINA INTERNATIONAL, INC. AND SUBSIDIARIES

Quarterly Report on Form 10-Q

For the Three Months Ended March 31, 2012

<u>PART I</u>	<u>FINANCIAL INFORMATION</u>	1
<u>Item 1.</u>	<u>Financial Statements</u>	1
	<u>Condensed Consolidated Balance Sheets - March 31, 2012 (unaudited) and December 31, 2011</u>	1
	<u>Unaudited Condensed Consolidated Statements of Operations - for the Three Months Ended March 31, 2012 and 2011</u>	2
	<u>Unaudited Condensed Consolidated Statements of Cash Flows - for the Three Months Ended March 31, 2012 and 2011</u>	3
	<u>Notes to Unaudited Interim Condensed Consolidated Financial Statements</u>	4
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	25
<u>Item 4.</u>	<u>Controls and Procedures</u>	25
<u>PART II</u>	<u>OTHER INFORMATION</u>	26
<u>Item 1.</u>	<u>Legal Proceedings</u>	26
<u>Item 1.A.</u>	<u>Risk Factors</u>	26
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	26
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	26
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	26
<u>Item 5.</u>	<u>Other Information</u>	26
<u>Item 6.</u>	<u>Exhibits</u>	26

SIGNATURES

IndexPART I
FINANCIAL INFORMATIONItem 1. Financial Statements
WILHELMINA INTERNATIONAL, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

(In thousands, except share data)

ASSETS	(Unaudited) March 31, 2012	December 31, 2011
Current assets:		
Cash and cash equivalents	\$ 3,660	\$ 3,128
Accounts receivable, net of allowance for doubtful accounts of \$760 and \$760	9,077	11,460
Indemnification receivable	428	428
Prepaid expenses and other current assets	225	251
Total current assets	13,390	15,267
Property and equipment, net of accumulated depreciation of \$257 and \$226	612	579
Trademarks and trade names with indefinite lives	8,467	8,467
Other intangibles with finite lives, net of accumulated amortization of \$5,387 and \$5,019	2,950	3,318
Goodwill	12,563	12,563
Restricted cash	222	222
Other assets	330	310
Total assets	\$ 38,534	\$ 40,726
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,038	\$ 3,528
Due to models	7,476	9,564
Deferred revenue	408	295
Foreign withholding claim subject to indemnification	428	428
Amegy credit facility	500	500
Earn out liability	2,244	2,244
Total current liabilities	14,094	16,559
Long term liabilities		
Deferred revenue, net of current portion	308	245
Deferred income tax liability	1,800	1,800
Total long-term liabilities	2,108	2,045
Commitments and contingencies	-	-

Shareholders' equity:

Common stock, \$0.01 par value, 250,000,000 shares authorized; 129,440,752 shares issued and outstanding in 2012 and 2011	1,294	1,294
Additional paid-in capital	85,133	85,133
Accumulated deficit	(64,095)	(64,305)
Total shareholders' equity	22,332	22,122
Total liabilities and shareholders' equity	\$ 38,534	\$ 40,726

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

Index

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

(In thousands, except per share data)

	Three months ended March 31,	
	2012	2011
Revenues		
Revenues	\$ 13,092	\$ 13,440
License fees and other income	386	398
Total revenues	13,478	13,838
Model costs	9,158	9,397
Revenues net of model costs	4,320	4,441
Operating expenses		
Salaries and service costs	2,392	2,166
Office and general expenses	791	802
Amortization and depreciation	396	447
Corporate overhead	408	272
Total operating expenses	3,987	3,687
Operating income	333	754
Other income (expense):		
Equity in Earnings Wilhelmina Kids & Creative Mgmt LLC	4	(6)
Interest income	2	1
Interest expense	(7)	(14)
Total other expense	(1)	(19)
Income before provision for income taxes	332	735
Provision for income taxes		
Current	122	98
Deferred	-	-
	122	98
Net income applicable to common stockholders	\$ 210	\$ 637
Basic and diluted income per common share	\$ 0.00	\$ 0.01
Weighted average common shares outstanding	129,441	129,441

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

Index

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

(in thousands)

	Three months ended	
	March 31,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 210	\$ 637
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and depreciation	396	447
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	2,383	(1,521)
Increase (decrease) in prepaid expenses and other assets	6	(73)
(Decrease) increase in due to models	(2,088)	981
(Decrease) increase in accounts payable and accrued liabilities	(487)	159
Increase (decrease) in other liabilities	176	(225)
Net cash provided by operating activities	596	405
Cash flows from investing activities:		
Purchase of property and equipment	(64)	(22)
Net cash used in investing activities	(64)	(22)
Cash flows from financing activities:		
Repayment of Esch promissory note	-	(400)
Net cash used in financing activities	-	(400)
Net increase (decrease) in cash and cash equivalents	532	(17)
Cash and cash equivalents, beginning of period	3,128	1,732
Cash and cash equivalents, end of period	\$ 3,660	\$ 1,715
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ 7	\$ 14
Cash paid for income taxes	\$ 222	\$ 100

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

Index

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

Note 1. Basis of Presentation

The interim condensed consolidated financial statements included herein have been prepared by Wilhelmina International, Inc. (“Wilhelmina” or the “Company”) and subsidiaries without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Although certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to those rules and regulations, all adjustments considered necessary in order to make the financial statements not misleading have been included. In the opinion of the Company’s management, the accompanying interim condensed consolidated financial statements reflect all adjustments, of a normal recurring nature, that are necessary for a fair presentation of the Company’s financial position, results of operations and cash flows for such periods. It is recommended that these interim condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2011, as amended. Results of operations for the interim periods are not necessarily indicative of results that may be expected for any other interim periods or the full fiscal year.

Note 2. Business Activity

Overview

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

Wilhelmina Transaction

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

Company and (ii) the Company's purchase of the outstanding equity interests of the other Wilhelmina Companies for cash.

Index

Pre-Wilhelmina

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

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

Note 3. Wilhelmina Acquisition

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

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

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

Index

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

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

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

The Miami Earnout, payable in accordance with the Acquisition Agreement and Settlement Agreement, was to be calculated based on the three year average of audited Wilhelmina Miami EBITDA beginning January 1, 2009 and ending December 31, 2011, multiplied by 7.5, and payable in cash or stock. At December 31, 2011, management computed the actual amount to be paid on the Miami Earnout based on the financial results of the Wilhelmina Miami division for the three years ended December 31, 2011 to be \$2,174,000. During the three months ended March 31, 2012, management determined that such amount required an upward adjustment of approximately \$70,000, which resulted in the final Miami Earnout value of \$2,244,000 as of March 31, 2012.

The Company evaluated the accounting treatment of the \$70,000 adjustment to the Miami Earnout in accordance with the application of SEC issued Staff Accounting Bulletin No. 108 (“SAB 108”), which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 requires the use of both the “iron curtain” and “rollover” approach in quantifying the materiality of misstatements. As of March 31, 2012, as a result of this dual methodology approach of SAB 108, the Company corrected the error in its accounting for the Miami Earnout liability at December 31, 2011, by increasing the Miami Earnout liability by approximately \$70,000 with a corresponding increase to deferred tax asset of approximately \$25,000 and a reduction of retained earnings of approximately \$45,000.

Index

As of May 15, 2012, the Company has paid approximately \$1,736,000 of the Miami Earnout liability, with remaining amounts, net of indemnity claims for which the Control Sellers retain responsibility, expected to be paid upon receipt of certain documentation from the former Miami shareholders.

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

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

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

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

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

Index

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

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

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

During the three months ended September 30, 2011, the Company drew \$500,000 under the Credit Agreement. Generally, amounts outstanding under the Credit Agreement shall bear interest at the greater of (a) 5% per annum or (b) the prime rate (which means, for any day, the rate of interest quoted in The Wall Street Journal as the "Prime Rate") plus 2% per annum.

The Credit Agreement contains certain representations and warranties and affirmative and negative covenants. Amounts outstanding under the Credit Agreement may be accelerated and become immediately due and payable upon the occurrence of an event of default. All indebtedness and other obligations of the Company under the Credit Agreement are secured by all of the assets of the Company and its subsidiaries, provided, however, that the collateral does not include the intellectual property of the Company or the stock or equity interests in the Company's subsidiaries.

Index

On January 12, 2012, the Company executed and closed an amendment (the "Credit Agreement Amendment") to its revolving Credit Agreement with Amegy.

Under the terms of the Credit Agreement Amendment, which is effective as of January 1, 2012, (1) total availability under the revolving credit facility was increased to \$1,500,000 (from \$500,000), (2) the borrowing base was modified to 65% (from 80%) of eligible accounts receivable (as defined in the Credit Agreement) and (3) the Company's minimum net worth covenant was increased to \$21,250,000 (from \$20,000,000). In addition, the maturity date of the facility was extended to December 31, 2012. The parties also executed an amendment to their pledge and security agreement ("Security Agreement Amendment") to reflect the execution of the Credit Agreement Amendment. The Company's obligation to repay advances under the amended facility will be evidenced by an amended and restated promissory note.

Note 5. Restricted Cash

At March 31, 2012 and 2011, the Company had approximately \$222,000 of restricted cash that serves as collateral for the full amount of an irrevocable standby letter of credit. The letter of credit serves as additional security under the lease extension relating to the Company's office space in New York that expires in February 2021.

Note 6. Licensing Agreements and Deferred Revenue

The Company is a party to various contracts by virtue of its relationship with certain talent. The various contracts contain terms and conditions which require the revenue and the associated talent cost to be recognized on a straight-line basis over the contract period. The Company has also entered into product licensing agreements with talent it represents. Under the product licensing agreements, the Company will either earn a commission based on a certain percentage of the royalties earned by the talent or earn royalties from the licensee that is based on a certain percentage of net sales, as defined. The Company recognized revenue from product licensing agreements of approximately \$240,000 and \$268,000 for the three months ended March 31, 2012 and 2011, respectively.

Note 7. Commitments and Contingencies

On May 2, 2012, Sean Patterson, the former President of Wilhelmina International, filed a lawsuit in the Supreme Court of the State of New York, County of New York, against the Company, Wilhelmina International and Mark Schwarz, the Company's Chairman and Chief Executive Officer, alleging, among other things, breach of Mr. Patterson's expired employment agreement with Wilhelmina International, the invalidity and unenforceability of the non-competition and non-solicitation provisions contained in the employment agreement and defamation. Mr. Patterson is also seeking a declaration that the employment agreement, including the non-competition and non-solicitation provisions contained therein, are terminated and unenforceable against him. The Company believes these claims are without merit and intends to vigorously defend itself.

In addition to the legal proceedings otherwise disclosed herein, the Company is engaged in various legal proceedings that are routine in nature and incidental to its business.

As of March 31, 2012, a number of the Company's employees were covered by employment agreements that vary in length from one to three years. As of March 31, 2012, total compensation payable under the remaining contractual term of these agreements was approximately \$3,120,000. In general, the employment agreements contain non-compete provisions ranging from six months to one year following the term of the applicable agreement. Subject to certain exceptions, as of March 31, 2012, invoking the non-compete provisions would require the Company to compensate the covered employees during the non-compete period in the amount of approximately \$2,272,000.

During the three months ended June 30, 2010, the Company received IRS notices totaling approximately \$726,000 related to foreign withholding claims for tax years 2006 and 2008. As part of settlement negotiations with the IRS, the Company determined that approximately \$197,000 of the foreign withholding claim for 2008 related to tax liabilities which the Company assumed upon the Wilhelmina Transaction. To satisfy this liability, the Company paid the IRS, including penalties and interest of \$26,000, a total of \$223,000 during the year ended December 31, 2011. Since this amount was previously accrued as a liability at the Wilhelmina Acquisition date, no adjustment was required.

Index

Also during the year ended December 31, 2011, the Company filed a net operating loss carryback claim for the 2008 tax year which resulted in a refund of approximately \$163,000. The IRS has not released these funds, which are pending resolution of the foreign withholding claims for 2006 and 2008.

As of March 31, 2012, the Company's estimate of the foreign withholding claims for tax years 2006 and 2008 is approximately \$428,000, which includes approximately \$88,000 of additional interest and penalties incurred since June 2010 when the IRS notices were received.

The Company is indemnified by the Control Sellers under the Acquisition Agreement for losses incurred as a result of such deficiency notice, and the Control Sellers have confirmed such responsibility to the Company. Such indemnification is required to be satisfied in cash and/or, at the election of the Company, by offset to future earn-out payments. As of May 15, 2012, the Company has paid approximately \$1,736,000 of the Miami Earnout liability, with remaining amounts, net of indemnity claims for which the Control Sellers retain responsibility, expected to be paid upon receipt of certain documentation from the former Wilhelmina Miami shareholders.

Note 8. Share Capital

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

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

Index

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

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

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

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

Index

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

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

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

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

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

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

On October 18, 2010, the Company entered into an eleventh amendment to the Rights Agreement (the “Eleventh Rights Agreement Amendment”). The Eleventh Rights Agreement Amendment, entered into in connection with the Settlement Agreement, amends the definition of Distribution Date to provide that the Distribution Date shall not occur with respect to the Share Acquisition Date that occurred on February 2, 2010, as a result of the Company’s public announcement on such date of the Esch-Krassner Acquiring Event. The Eleventh Rights Agreement Amendment also provides that the rights under the Rights Agreement shall not be affected by (i) those certain prior coordination activities among the Control Sellers which preceded the Company’s declaration of the Esch-Krassner Acquiring Event and which did not involve any acquisition of record or beneficial ownership of the Company’s securities other than any deemed acquisition of beneficial ownership by one Control Seller of Company securities owned of record by another Control Seller (including, without limitation, the specific activities described in the Schedules 13D (a) filed by Lorex, Esch and Peter Marty on November 20, 2009 and March 17, 2010 and (b) filed by Krassner L.P., Krassner and Krassner Investments, Inc. on November 20, 2009 and March 16, 2010) and (ii) similar past or future coordination activities between or among any Control Sellers which do not involve any acquisition of record or beneficial

ownership of the Company's securities other than any deemed acquisition of beneficial ownership by one Control Seller of Company securities owned of record by another Control Seller, whether or not reported on any Schedule 13D, including but not limited to (a) holding or expressing similar opinions regarding any matter affecting the Company or (b) coordinating activities as directors or stockholders of the Company (the foregoing clauses (i) and (ii), the "Wilhelmina Control Seller Coordination Activities"). Specifically, the Eleventh Rights Agreement Amendment (i) amends the definition of Acquiring Person to provide that the Control Sellers shall not be deemed to be Acquiring Persons solely by virtue of any Wilhelmina Control Seller Coordination Activities, (ii) provides that a Distribution Date shall not be deemed to have occurred solely by virtue of any Wilhelmina Control Seller Coordination Activities, (iii) provides that Control Seller Coordination Activities shall not be deemed to be events that cause the Rights to become exercisable and (iv) amends the definition of Triggering Event to provide that no Triggering Event shall result solely by virtue of any Wilhelmina Control Seller Coordination Activities.

Index

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

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

At the Company’s annual meeting of stockholders held on February 7, 2012, the stockholders of the Company approved a proposal to grant authority to the Company’s Board of Directors to effect at any time prior to December 31, 2012 a reverse stock split of the Company’s common stock at a ratio within the range from one-for-ten to one-for-forty, with the exact ratio to be set at a whole number within this range to be determined by the Board of Directors in its discretion.

During the year ended December 31, 2011, the Company adopted the 2011 Incentive Plan under which directors, officers, consultants, advisors and employees of the Company are eligible to receive stock option grants. The Company has reserved 6,000,000 shares of its Common Stock for issuance pursuant to the 2011 Incentive Plan. Under the 2011 Incentive Plan, options vest and expire pursuant to individual award agreements; however, the expiration date of unexercised options may not exceed ten years from the date of grant. During the three months ended June 30, 2011, the Company issued to a former employee an option grant for 2,000,000 shares of its Common Stock with an exercise price of \$0.21, a five year vesting schedule (vesting in equal increments in years three, four and five) and a ten year term. In connection with this option grant, the Company recognized compensation expense of approximately \$61,000 during the year ended December 31, 2011. Subsequent to December 31, 2011, this option grant was terminated, as provided for in the option agreement, as a result of the termination of employment of the option holder.

Note 9. Income Taxes

During the three months ended March 31, 2012, the Company’s combined federal and state effective tax rate was approximately 36%. The Company’s combined effective tax rate is high relative to reported net income as a result of certain amounts of amortization expense and corporate overhead not being deductible or attributable to states in which it operates. The Company operates in three states which have relatively high tax rates, California, New York and Florida. The Company’s effective tax rate would be higher if it were not for valuation allowances on the Company’s deferred tax assets. As of March 31, 2012, the Company had federal income tax loss carryforwards of approximately \$6,500,000, which begin expiring in 2019. Realization of the Company’s carryforwards is dependent on future taxable income. A portion of the Company’s net operating loss carryforwards were utilized to offset taxable income generated during the three months ended March 31, 2012. A valuation allowance has been recorded to reflect the tax effect of the net loss carryforwards not used to offset a portion of the deferred tax liability resulting from the Wilhelmina Transaction. Ownership changes, as defined in the Internal Revenue Code, may have limited the amount of net operating loss carryforwards that can be utilized annually to offset future taxable income. Subsequent ownership changes could further affect the limitation in future years.

Index

Note 10. Related Parties

As of March 31, 2012, Mark Schwarz, the Chairman, Chief Executive Officer and Portfolio Manager of Newcastle Capital Management, L.P. ("NCM"), John Murray, Chief Financial Officer of NCM, and Evan Stone, the former Vice President and General Counsel of NCM, held the following executive officer and board of director positions with the Company: Chairman of the Board and Chief Executive Officer, Chief Financial Officer, General Counsel and Secretary, respectively. NCM is the General Partner of Newcastle, which owns 34,064,466 shares of Common Stock. At the annual meeting of stockholders of the Company held on January 20, 2011, the stockholders of the Company elected Clinton Coleman (Vice President at NCM) and James Dvorak (Vice President at NCM) to serve as directors of the Company.

The Company's corporate headquarters are located at 200 Crescent Court, Suite 1400, Dallas, Texas 75201, which are also the offices of NCM. The Company occupies a portion of NCM space on a month-to-month basis at \$2,500 per month, pursuant to a services agreement entered into between the parties. Pursuant to the services agreement, the Company receives the use of NCM's facilities and equipment and accounting, legal and administrative services from employees of NCM. The Company incurred expenses pursuant to the services agreement totaling approximately \$7,000 for each of the three months ended March 31, 2012 and March 31, 2011. The Company owed NCM \$0 as of March 31, 2012 and 2011, under the services agreement.

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

The Company has an agreement with an unconsolidated affiliate to provide management and administrative services, as well as sharing of space. For each of the three months ended March 31, 2012 and March 31, 2011, management fee and rental income from the unconsolidated affiliate amounted to approximately \$27,000.

Note 11. Treasury Stock

In December 2010, the Company's Board of Directors authorized a stock repurchase program whereby the Company may repurchase up to 500,000 shares of its outstanding Common Stock. The Company made no purchases of Common Stock during the three months ended March 31, 2012 and 2011.

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

Note 12. Subsequent Event

During April 2012, the Company reached an agreement with a former talent with respect to the modification of payment direction terms under existing endorsement agreements negotiated by the Company between such talent, certain customers and, in some cases, the Company. In connection with such modifications (which did not change amounts to which the Company is entitled in respect of such agreements), the Company and former talent also executed mutual releases relating to the parties' former representation arrangements. In connection with the foregoing endorsement contracts, the Company was carrying deferred revenues as of March 31, 2012 of approximately \$716,000, all of which will be recognized in the quarter ended June 30, 2012 as a result of the April 2012 agreement.

Index

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 months ended March 31, 2012 and March 31, 2011. It should be read in conjunction with the financial statements of the Company, the notes thereto and other financial information included elsewhere in this report, and the Company's Annual Report on Form 10-K for the year ended December 31, 2011, as amended.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain "forward-looking" statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Private Securities Litigation Reform Act of 1995 and information relating to the Company and its subsidiaries that are based on the beliefs of the Company's management as well as information currently available to the Company's management. When used in this report, the words "anticipate," "believe," "estimate," "expect" and "intend" and words or phrases of similar import, as they relate to the Company or its subsidiaries or Company management, are intended to identify forward-looking statements. Such forward-looking statements include, in particular, projections about the Company's future results, statements about its plans, strategies, business prospects, changes and trends in its business and the markets in which it operates. Additionally, statements concerning future matters such as gross billing levels, revenue levels, expense levels, and other statements regarding matters that are not historical are forward-looking statements. Management cautions that these forward-looking statements relate to future events or the Company's future financial performance and are subject to business, economic, and other risks and uncertainties, both known and unknown, that may cause actual results, levels of activity, performance, or achievements of its business or its industry to be materially different from those expressed or implied by any forward-looking statements. Based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended. The Company does not undertake any obligation to publicly update these forward-looking statements. As a result, you should not place undue reliance on these forward-looking statements.

Overview

The Company's primary business is fashion model management, which is headquartered in New York City. The Company's predecessor was founded in 1967 by Wilhelmina Cooper, a renowned fashion model, and is one of the oldest, best known and largest fashion model management companies in the world. Since its founding, it 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 and Thailand. The Company provides traditional, full-service fashion model and talent management services, specializing in the representation and management of models, entertainers, artists, athletes and other talent to various customers and clients, including retailers, designers, advertising agencies and catalog companies.

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

The business of talent management firms, such as Wilhelmina, depends heavily on the state of the advertising industry, as demand for talent is driven by Internet, print and TV advertising campaigns for consumer goods and retail clients. Beginning in November 2011, revenues from the core modeling business have been down slightly on a year over year basis. To drive new revenue growth, the Company continues to focus on recruiting top agents when available and scouting and developing new talent. Based on current trends in the business, combined with the termination of Sean Patterson, the former President of Wilhelmina International, in February 2012 and the resulting

transition required, the Company expects revenues from the core modeling business to remain flat to down slightly for the foreseeable future.

Index

Although Wilhelmina has a large and diverse client base, as discussed below, it is not immune to global economic conditions. Wilhelmina closely monitors economic conditions, client spending and other factors and continually looks for ways to reduce costs, manage working capital and conserve cash. There can be no assurance as to the effects on Wilhelmina of future economic circumstances, client spending patterns, client credit worthiness and other developments and whether, or to what extent, Wilhelmina's efforts to respond to them will be effective.

Trends and Opportunities

The Company expects that its geographical reach, along with the depth and breadth of its talent pool, and client roster should make Wilhelmina's operations more resilient to industry changes and economic swings than many of its competitors. Accordingly, the Company believes that its market position as a strong industry leader should create new growth opportunities.

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

With total advertising expenditures on major media (newspapers, magazines, television, cinema, outdoor and Internet) amounting to approximately \$161 billion in 2010 and \$165 billion in 2011, North America is by far the world's largest advertising market. For the fashion talent management industry, including Wilhelmina, advertising expenditures on magazines, television, Internet and outdoor are of particular relevance.

Due to the increasing ubiquity of the Internet as a standard business tool, the Wilhelmina Companies have increasingly sought to harness the opportunities of the Internet and other digital media to improve their communications with clients and to facilitate the effective exchange of fashion model and talent information. The Company continues to make significant investments in technology in pursuit of gains in efficiency and better communications with customers. At the same time, the Internet presents challenges for the Wilhelmina Companies, including (i) the cannibalization of traditional print advertising business and (ii) pricing pressures with respect to photo shoots and client engagements.

Strategy

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

- expanding the women's high end fashion board;
- continuing to invest in the WAM business;

Index

- licensing the “Wilhelmina” name to leading, local model management agencies;
- exploring the use of the “Wilhelmina” brand in connection with consumer products, cosmetics and other beauty products;
- partnering on television shows and promoting model search contests.

Wilhelmina Acquisition

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

Ascendant

On October 5, 2005, the Company acquired an interest in the revenues generated by ACP Investments, L.P. (d/b/a Ascendant Capital Partners) (“Ascendant”), a Berwyn, Pennsylvania based alternative asset management company whose funds have investments in long/short equity funds and which distributes its registered funds primarily through various financial intermediaries and related channels. Ascendant had assets under management of approximately \$79,105,000 and \$64,500,000 as of March 31, 2012 and March 31, 2011, respectively.

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

RESULTS OF OPERATIONS OF THE COMPANY FOR THE THREE MONTHS ENDED MARCH 31, 2012
COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2011

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

The Company analyzes revenue by reviewing the mix of revenues generated by the different “boards” (each a specific division of the fashion model management operations which specializes by the type of model it represents (Women, Men, Sophisticated, Runway, Curve, Lifestyle, Kids, etc.)) of the business, revenues by geographic locations and revenues from significant clients. Wilhelmina has three primary sources of revenue: revenues from principal relationships whereby the gross amount billed to the client is recorded as revenue, when the revenues are earned and collectability is reasonably assured; revenues from agent relationships whereby the commissions paid by models as a percentage of their gross earnings are recorded as revenue when earned and collectability is reasonably assured; and a separate service charge, paid by clients in addition to the booking fees, which is calculated as a percentage of the models’ booking fees and is recorded as revenues when earned and collectability is reasonably assured. See Critical Accounting Policies - Revenue Recognition, below. Gross billings are an important business metric that ultimately drives revenues, profits and cash flows. Not all gross billings recorded by the Company are collected and therefore remitted to the talent. Some contracts are structured whereby payments are paid directly to the Company, and therefore, the Company remits the appropriate amount to the talent. Other contracts are structured whereby amounts are paid by the customer directly to the talent and Wilhelmina for the respective proceeds of the contract.

Index

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

Gross Billings

Gross billings for the three months ended March 31, 2012 increased approximately \$1,081,000, or 7.6%, to approximately \$15,320,000, compared to approximately \$14,239,000 for the three months ended March 31, 2011. Generally, gross billings increased due to the Company's clients spending more on advertising and the Company having the desired talent available to its clients. During the three months ended March 31, 2012, the Wilhelmina Companies experienced a decrease in gross billings across the core modeling business of approximately 1% and an increase in gross billings in the WAM business of approximately 130% compared to gross billings generated by the respective divisions during the three months ended March 31, 2011. Gross billings of the WAM division represented approximately 15% of total gross billings for the three months ended March 31, 2012, compared to approximately 7% for the three months ended March 31, 2011. During the three months ended March 31, 2012, gross billings of the various boards of the core modeling business experienced positive growth ranging from 3% to 79%, and certain boards experienced negative growth ranging from -9% to -37%, compared to the three months ended March 31, 2011.

Revenues

During the three months ended March 31, 2012, revenues decreased approximately \$348,000, or 2.6%, to approximately \$13,092,000, compared to approximately \$13,440,000 during the three months ended March 31, 2011. During the three months ended March 31, 2012, the Company experienced a decrease in revenues as a result of a slight decrease in gross billings for the core modeling business.

License Fees and Other Income

The Company has an agreement with an unconsolidated affiliate to provide management and administrative services, as well as sharing of space. For each of the three months ended March 31, 2012 and March 31, 2011, management fee income from the unconsolidated affiliate amounted to approximately \$27,000.

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 months ended March 31, 2012 and March 31, 2011, license fees totaled approximately \$66,000 and \$38,000, respectively.

The Company has entered into product licensing agreements with clients. Under these agreements, the Company earns commissions and service charges and participates in sharing of royalties with talent it represents. During the three months ended March 31, 2012 and March 31, 2011, revenue from these licensing agreements totaled approximately \$240,000 and \$268,000, respectively.

Index

Other income includes fees derived from participants in the Company's model search contests and sponsors of such contests, 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, in 2010, completed its third season on the network channel TV Land Prime. The television series documented the lives of women competing in a modeling competition. The Wilhelmina Companies provided the television series with the talent and the "Wilhelmina" brand image, and agreed to a modeling contract with the winner of the competition, in consideration of a fee per episode produced, plus certain fees, as defined.

Model Costs

Model costs consist of costs associated with relationships with models where the key indicators suggest that the Company acts as a principal. Therefore, the Company records the gross amount billed to the client as revenue when the revenues are earned and collectability is reasonably assured, and the related costs incurred to the model as model cost. During the three months ended March 31, 2012, model costs decreased approximately \$239,000, or 2.54%, to approximately \$9,158,000, compared to approximately \$9,397,000 during the three months ended March 31, 2011. Model costs decreased slightly compared to the prior year quarter as a result of a slight decrease in revenues.

During the three months ended March 31, 2012, model costs as a percentage of revenues were approximately 70.0% compared to 69.9% during the three months ended March 31, 2011. Margins were relatively unchanged from the prior year period.

Operating Expenses

Operating expenses consist of costs that support the operations of the Company, including payroll, rent, overhead, insurance, travel, professional fees, amortization and depreciation, asset impairment charges and corporate overhead. During the three months ended March 31, 2012, operating expenses increased approximately \$300,000, or 8.1%, to approximately \$3,987,000, compared to approximately \$3,687,000 during the three months ended March 31, 2011. The increase in operating expenses is generally attributable to increases in salaries and service costs and office and corporate overhead.

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

Salaries and Service Costs

Salaries and service costs consist of payroll and related costs and travel costs required to deliver the Company's services to the customers and models. During the three months ended March 31, 2012, salaries and service costs increased approximately \$226,000, or 10.4%, to approximately \$2,392,000, compared to approximately \$2,166,000 during the three months ended March 31, 2011. The Company experienced increased salary costs in connection with the hiring of employees and also incurred compensation costs in connection with employment contracts for certain former employees.

Index

Office and General Expenses

Office and general expenses consist of office and equipment rents, advertising and promotion, insurance expenses, administration and technology cost. These costs are less directly linked to changes in the Company's revenues than are salaries and service costs. During the three months ended March 31, 2012, office and general expenses decreased approximately \$11,000, or 1.4%, to approximately \$791,000, compared to approximately \$802,000 during the three months ended March 31, 2011. Office and general expenses decreased due to costs associated with professional fees.

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 months ended March 31, 2012, depreciation and amortization expense totaled \$396,000 (of which \$368,000 relates to amortization of intangibles acquired in connection with the Wilhelmina Transaction) compared to \$447,000 during the three months ended March 31, 2011 (of which \$418,000 relates to amortization of intangibles acquired in connection with the Wilhelmina Transaction). Fixed asset purchases totaled approximately \$64,000 and \$22,000 during the three months ended March 31, 2012 and March 31, 2011, respectively.

Corporate Overhead

Corporate overhead expenses include public company costs, director and executive officer compensation, directors' and officers' insurance, legal and professional fees, corporate office rent and travel. During the three months ended March 31, 2012, corporate overhead approximated \$408,000 compared to \$272,000 for the three months ended March 31, 2011. The increase in corporate overhead for the three months ended March 31, 2012 compared to the three months ended March 31, 2011 is primarily attributable to increased director's fees, stock exchange fees, professional fees and legal fees in connection with the filing of a resale registration statement on Form S-1.

Miami Earn-Out Adjustment

In connection with the Settlement Agreement reached October 18, 2011, (A) approximately 39% (representing the amount that would otherwise be paid to Krassner L.P.) of the first \$2 million of the Miami Earnout was cancelled and (B) approximately 69% (representing the amounts that would otherwise be paid in the aggregate to Krassner L.P. and Lorex) of any such Miami Earnout obligation over \$2 million was cancelled.

The Miami Earnout, payable in accordance with the Acquisition Agreement and Settlement Agreement, was to be calculated based on the three year average of audited Wilhelmina Miami EBITDA beginning January 1, 2009 and ending December 31, 2011, multiplied by 7.5, and payable in cash or stock. At December 31, 2011, management computed the actual amount to be paid on the Miami Earnout based on the financial results of the Wilhelmina Miami division for the three years ended December 31, 2011 to be \$2,174,000. During the three months ended March 31, 2012, management determined that such amount required an upward adjustment of approximately \$70,000, which resulted in the final Miami Earnout value of \$2,244,000 as of March 31, 2012.

Index

Asset Impairment Charge

Each reporting period, the Company assesses whether events or circumstances have occurred which indicate that the carrying amount of an intangible asset exceeds its fair value. If the carrying amount of the intangible asset exceeds its fair value, an asset impairment charge will be recognized in an amount equal to that excess. No asset impairment charges were incurred during the three months ended March 31, 2012 and 2011.

Interest Income

Interest income totaled approximately \$2,000 and \$1,000 for the three months ended March 31, 2012 and March 31, 2011, respectively. The increase in interest income is the result of an increase in cash balances which earn yields.

Interest Expense

Interest expense totaled approximately \$7,000 and \$14,000 for the three months ended March 31, 2012 and March 31, 2011, respectively. The decrease in interest expense for the three months ended March 31, 2012, compared to the three months ended March 31, 2011, is the result of declines in the balances of debt due to principal payments and a decrease in the interest rates for outstanding debts. See Liquidity and Capital Resources below for further discussion.

Liquidity and Capital Resources

The Company's cash balance increased to \$3,660,000 at March 31, 2012, from \$3,128,000 at December 31, 2011. The increase is primarily attributable to cash flow from operations.

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

Currently, the Company's primary liquidity need is to fund the remaining Miami Earnout payments. See discussion below.

Amegy Credit Agreement

On April 29, 2011, the Company closed the Amegy Credit Agreement for a new \$500,000 revolving credit facility with Amegy with a maturity date of February 28, 2012. Borrowings under the facility are to be used for working capital and other general business purposes of the Company. During the three months ended September 30, 2011, the Company drew \$500,000 under the Amegy Credit Agreement.

On January 12, 2012, the Company executed and closed the Credit Agreement Amendment to its revolving Amegy Credit Agreement.

Under the terms of the Credit Agreement Amendment, which is effective as of January 1, 2012, total availability under the revolving credit facility was increased to \$1,500,000. In addition, the maturity date of the facility was extended to December 31, 2012.

Generally, amounts outstanding under the Amegy Credit Agreement shall bear interest at the greater of (a) 5% per annum or (b) the prime rate (which means, for any day, the rate of interest quoted in The Wall Street Journal as the "Prime Rate") plus 2% per annum. Credit is available under the facility through December 31, 2012 and is limited to a borrowing base equal to 65% of the aggregate value of eligible accounts receivable (as defined in the Amegy Credit

Agreement) of the Company.

21

Index

Earn Out

The Miami Earnout, payable in accordance with the Acquisition Agreement and Settlement Agreement, was to be calculated based on the three year average of audited Wilhelmina Miami EBITDA beginning January 1, 2009 and ending December 31, 2011, multiplied by 7.5, and payable in cash or stock. At December 31, 2011, management computed the actual amount to be paid on the Miami Earnout based on the financial results of the Wilhelmina Miami division for the three years ended December 31, 2011 to be \$2,174,000. During the three months ended March 31, 2012, management determined that such amount required an upward adjustment of approximately \$70,000, which resulted in the final Miami Earnout value of \$2,244,000 as of March 31, 2012.

As of May 15, 2012, the Company has paid approximately \$1,736,000 of the Miami Earnout liability, with remaining amounts, net of indemnity claims for which the Control Sellers retain responsibility, expected to be paid upon receipt of certain documentation from the former Wilhelmina Miami shareholders. The Company's ability to fund the remaining earn-out obligations will be dependent on cash flow from operations and borrowings under the Amegy Credit Agreement.

Employee Termination

On February 24, 2012, the employment of Sean Patterson as President of Wilhelmina International was terminated for cause. Over the course of several weeks following the departure of Sean Patterson, five agents resigned from the Company to pursue other interests. During the three months ended March 31, 2012, the Company hired four new agents to replace all of these positions.

Beginning in November 2011, revenues from the core modeling business have been down slightly on a year over year basis. To drive new revenue growth, the Company continues to focus on cutting costs, recruiting top agents when available and scouting and developing new talent. Based on current trends in the business, combined with the termination of Sean Patterson, the former President of Wilhelmina International, in February 2012 and the resulting transition required, the Company expects revenues from the core modeling business to remain flat to down slightly for the foreseeable future.

Mr. Patterson has made certain claims in connection with his termination of employment. The Company believes these claims are without merit and intends to vigorously defend itself. See "Part II, Item 1 - Legal Proceedings" for more information.

The Company is engaged in search activities for a new president/chief operating officer for Wilhelmina International. In the interim, the roles and responsibilities of Sean Patterson have been assumed by four senior agents along with the chief financial officer, general counsel and chief executive officer of the Company.

Subsequent to December 31, 2011, an option grant for 2,000,000 shares previously awarded to Sean Patterson terminated, as provided for in the option agreement, as a result of the termination of employment of Mr. Patterson.

Index

Off-Balance Sheet Arrangements

As of March 31, 2012, the Company had \$222,000 of restricted cash that serves as collateral for an irrevocable standby letter of credit. The letter of credit serves as additional security under the lease extension relating to the Company's office space in New York City that expires February 2021.

Effect of Inflation

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

Critical Accounting Policies

Revenue Recognition

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

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

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

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

Goodwill and Intangible Assets

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

Management's assessments of the recoverability and impairment tests of goodwill and intangible assets involve critical accounting estimates. These estimates require significant management judgment, include inherent uncertainties and are often interdependent; therefore, they do not change in isolation. Factors that management must estimate include, among others, the economic life of the asset, sales volume, prices, inflation, cost of capital, marketing spending, tax rates and capital spending. These factors are even more difficult to predict when global financial markets are highly volatile. When performing impairment tests, the Company estimates the fair values of the assets using management's

best assumptions, which it believes would be consistent with what a hypothetical marketplace participant would use. Estimates and assumptions used in these tests are evaluated and updated as appropriate. The variability of these factors depends on a number of conditions, including uncertainty about future events, and thus the accounting estimates may change from period to period. If other assumptions and estimates had been used when these tests were performed, impairment charges could have resulted.

Index

Business Combinations

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

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

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

Basis of Presentation

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

Accounts Receivable and Allowance for Doubtful Accounts

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

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company continually assesses the need for a tax valuation allowance based on all available information. As of March 31, 2012, 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.

Index

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company's principal executive officer and principal financial officer evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on their evaluation of the Company's disclosure controls and procedures, the Company's principal executive officer and principal financial officer, with the participation of management, have concluded that the Company's disclosure controls and procedures were effective as of March 31, 2012 to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is (a) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (b) accumulated and communicated to management, including the Company's principal executive officer and principal financial officer, as appropriate to allow for timely decisions regarding required disclosure.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Given these and other inherent limitations of control systems, there is only reasonable assurance that the Company's controls will succeed in achieving their stated goals under all potential future conditions. The Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level as of March 31, 2012.

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.

Index

PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

On May 2, 2012, Sean Patterson, the former President of Wilhelmina International, filed a lawsuit in the Supreme Court of the State of New York, County of New York, against the Company, Wilhelmina International and Mark Schwarz, the Company's Chairman and Chief Executive Officer, alleging, among other things, breach of Mr. Patterson's expired employment agreement with Wilhelmina International, the invalidity and unenforceability of the non-competition and non-solicitation provisions contained in the employment agreement and defamation. Mr. Patterson is also seeking a declaration that the employment agreement, including the non-competition and non-solicitation provisions contained therein, are terminated and unenforceable against him. The Company believes these claims are without merit and intends to vigorously defend itself.

In addition to the legal proceedings otherwise disclosed in this report, the Company is engaged in various legal proceedings that are routine in nature and incidental to its business.

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. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

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

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

Certification of Principal Financial Officer in Accordance with Section
906 of the Sarbanes-Oxley Act.*

* Filed herewith

Index

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: May 15, 2012

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

27

Index

EXHIBIT INDEX

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