Wilhelmina International, Inc.
Form 10-Q
August 14, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **June 30, 2015**

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	**74-2781950**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

200 Crescent Court, Suite 1400, Dallas, Texas	**75201**
(Address of principal executive offices)	(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. [x] 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). [x] 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 [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [x]

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

As of August 13, 2014 the registrant had 5,843,621 shares of common stock outstanding.

WILHELMINA INTERNATIONAL, INC. AND SUBSIDIARIES

Quarterly Report on Form 10-Q

For the Six Months Ended June 30, 2015

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

WILHELMINA INTERNATIONAL, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except share data)

ASSETS

	(Unaudited) June 30, 2015	December 31, 2014
Current assets:		
Cash and cash equivalents	$ 3,057	$ 5,869
Accounts receivable, net of allowance for doubtful accounts of $667 and $679	16,090	12,482
Deferred tax asset	1,877	1,986
Prepaid expenses and other current assets	448	252
Total current assets	21,472	20,589
Property and equipment, net of accumulated depreciation of $879 and $762, respectively	1,707	1,333
Trademarks and trade names with indefinite lives	8,467	8,467
Other intangibles with finite lives, net of accumulated amortization of $8,352 and $8,222	380	115
Goodwill	13,192	12,563
Other assets	190	136
Total assets	$ 45,408	$ 43,203
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 4,321	$ 4,310
Due to models	10,915	10,011
Total current liabilities	15,236	14,321
Long term liabilities		
Contingent consideration to seller (Note 3)	171	-

Deferred tax liability	2,685	2,332
Total long-term liabilities	2,856	2,332
Total liabilities	18,092	16,653
Shareholders' equity:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized; none outstanding	-	-
Common stock, $0.01 par value, 12,500,000 shares authorized; 5,852,322 and 5,869,220 share issued and outstanding at June 30, 2015 and December 31, 2014	65	65
Treasury stock, 619,716 and 602,818 shares, respectively, at cost	(1,740)	(1,643)
Additional paid-in capital	86,884	86,778
Accumulated deficit	(57,904)	(58,650)
Accumulated other comprehensive income	11	-
Total shareholders' equity	27,316	26,550
Total liabilities and shareholders' equity	$ 45,408	$ 43,203

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

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WILHELMINA INTERNATIONAL, INC. AND SUBSIDIARIES

Unaudited Consolidated Statements of Operations

(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Revenues				
Revenues	$21,538	$19,528	$42,489	$37,664
License fees and other income	132	100	229	200
Total revenues	21,670	19,628	42,718	37,864
Model costs	15,643	14,206	30,545	26,963
Revenues net of model costs	6,027	5,422	12,173	10,901
Operating expenses				
Salaries and service costs	3,758	3,249	7,485	6,354
Office and general expenses	1,125	1,083	2,299	2,178
Amortization and depreciation	125	110	252	370
Corporate overhead	262	374	542	653
Total operating expenses	5,270	4,816	10,578	9,555
Operating income	757	606	1,595	1,346
Other income (expense):				
Foreign exchange loss	(21)	-	(98)	-
Gain (loss) from an unconsolidated affiliate	9	5	(15)	(15)
Interest income	-	2	-	4
Interest expense	-	-	-	(8)
	(12)	7	(113)	(19)
Income before provision for income taxes	745	613	1,482	1,327
Provision for income taxes:				
Current	(145)	(54)	(351)	(191)
Deferred	(227)	(168)	(385)	(413)
	(372)	(222)	(736)	(604)

Net income	$373	$391	$746	$723
Other comprehensive income				
Foreign currency translation income	9	-	11	
Total comprehensive income	382	391	757	723
Basic net income per common share	$0.06	$0.07	$0.13	$0.12
Diluted net income per common share	$0.06	$0.07	$0.13	$0.12
Weighted average common shares outstanding-basic	5,852	5,870	5,852	5,870
Weighted average common shares outstanding-diluted	5,955	5,968	5,955	5,942

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

WILHELMINA INTERNATIONAL, INC. AND SUBSIDIARIES

Unaudited Consolidated Statements of Cash Flows

(In thousands)

	Six Months Ended June 30, 2015	2014
Cash flows from operating activities:		
Net income	$746	$723
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and depreciation	252	370
Share based payment expense	106	107
Deferred taxes	385	413
Changes in operating assets and liabilities:		
Accounts Receivable	(3,253)	(2,654)
Prepaid expenses and other current assets	(240)	(139)
Due to models	393	922
Accounts payable and accrued liabilities	(357)	1,431
Net cash provided by (used in) operating activities	(1,968)	1,173
Cash flows from investing activities:		
Cash paid for business acquisition, net of cash acquired (Note 3)	(282)	-
Purchase of property and equipment	(476)	(251)
Net cash used in investing activities	(758)	(251)
Cash flows from financing activities:		
Repayment of Amegy line of credit	-	(800)
Purchase of treasury stock	(97)	-
Net cash used in financing activities	(97)	(800)
Foreign currency effect on cash flows	11	-
Net increase (decrease) in cash and cash equivalents	(2,812)	122
Cash and cash equivalents, beginning of period	5,869	2,776
Cash and cash equivalents, end of period	$3,057	$2,898
Non-cash investing and financing activities:		
Issuance of contingent consideration to seller	$171	$-
Supplemental disclosures of cash flow information		
Cash paid for interest	$-	$8
Cash paid for income taxes	$105	$239

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

WILHELMINA INTERNATIONAL, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Note 1. Basis of Presentation

The interim 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 the consolidated 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 consolidated financial statements not misleading have been included. In the opinion of the Company’s management, the accompanying interim unaudited consolidated financial statements reflect all adjustments, of a normal recurring nature, that are necessary for a fair presentation of the Company’s consolidated financial position, results of operations and cash flows for such periods. It is recommended that these interim unaudited 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, 2014, 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 primary business of Wilhelmina 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, Wilhelmina has grown to include operations located in Los Angeles, Miami and London, as well as a growing network of licensees comprising leading modeling agencies in various local markets across the U.S. as well as in Thailand, Dubai, Vancouver and Tokyo. Wilhelmina provides traditional, full-service fashion model and talent management services, specializing in the representation and management of models, entertainers, artists, athletes and other talents to various customers and clients, including retailers, designers, advertising agencies, print and catalog companies.

Note 3. Business Acquisition

In January 2015, the Company purchased 100% of the outstanding shares of Union Models Management Ltd. in London and renamed it Wilhelmina London Limited (“London”). The strategic acquisition of London establishes a footprint for the Company and the brand in Western Europe. It will also serve as a base of operations to service the Company’s European clients, and as a new talent development office for European models and artists.

The purchase price includes the discounted value of contingent consideration assuming London achieves certain performance benchmarks during the post-closing period. These amounts are due to the former seller in the post-closing period subject to achieving these performance benchmarks.

Under the purchase method of accounting, the purchase price has been allocated to the net tangible, intangible assets acquired and liabilities assumed, based on the preliminary fair value of the assets and liabilities of London in accordance with ASC 805.

The intangible assets acquired include intangible assets with finite lives, such as customer relationships and talent relationships, and the remainder of any intangible assets not meeting the above criteria has been allocated to goodwill. The goodwill is non-amortizable. Other assets such as customer relationships and talent relationships are being amortized on a straight line basis over their estimated useful lives with range from 2 to 8 years.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of completion of the London transaction:

(in thousands)		
Fair value of operating assets acquired:		
Cash	$	868
Accounts receivable		355
Other current assets		10
Equipment		15
Total operating assets acquired		1,248
Fair value of intangible assets acquired:		
Other intangible assets with finite lives		400
Goodwill		629
Total intangible assets acquired		1,029
Total assets acquired		2,277
Fair value of liabilities assumed:		
Accounts payable and accrued liabilities		360

Due to models	511
Indemnification seller basket	8
Deferred income tax liability	77
Total liabilities assumed	956
Total net assets acquired	$1,321

The results of operations for London are included in the Company's consolidated results from the effective date of the acquisition.

Note 4. Foreign Currency Translation

The functional currency of the wholly owned subsidiary, London, is the Pound Sterling. Its assets and liabilities are translated into U.S. dollars at the exchange rates in effect at each balance sheet date, revenues and expenses are translated at average monthly exchange rates and resulting translation gains or losses are accumulated in other comprehensive income as a separate component of shareholders' equity.

Note 5. Line of Credit

On July 31, 2014, the Company executed and closed the third amendment (the “Third Credit Agreement Amendment”) to its revolving facility with Amegy Bank National Association (“Amegy”). The terms of the Third Credit Agreement Amendment are essentially the same as those set forth in the Second Credit Agreement Amendment with the exception of the ability to issue up to $300 of standby letters of credit. Outstanding letters of credit will reduce the Company’s availability under the facility.

Under the terms of the Third Credit Agreement Amendment, (1) total availability under the revolving credit facility is $5,000 (2) the borrowing base is derived from 75% of eligible accounts receivable (as defined) and (3) the Company’s minimum net worth covenant is $22,000. In addition, the maturity date of the facility is October 15, 2015. The Company’s obligation to repay advances under the amended facility is evidenced by a second amended and restated promissory note (the “Second Amended and Restated Promissory Note”). Under the terms of the Third Amended and Restated Promissory Note, the interest rate on borrowings is prime rate plus 1%.

As of August 13, 2015, the Company had no outstanding borrowings under the revolving credit facility.

Note 6. Commitments and Contingencies

On May 2, 2012, Sean Patterson, the former President of the Company’s subsidiary, Wilhelmina International, Ltd. (“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 of the Board, asserting claims for alleged breach of Mr. Patterson’s expired employment agreement (the “Employment Agreement”) with Wilhelmina International, defamation, and declaratory relief with respect to the alleged invalidity and unenforceability of the Employment Agreement’s non-competition and non-solicitation provisions. The Company and Wilhelmina International asserted counterclaims against Mr. Patterson for breach of the Employment Agreement, breach of fiduciary duty, and injunctive relief. On May 23, 2014, the court granted the defendants’ motion to dismiss Mr. Patterson’s defamation claim, and granted Mr. Patterson’s cross-motion for leave to file an amended defamation claim. Patterson filed an Amended Complaint on May 15, 2014, repeating the claims for alleged breach of contract and declaratory relief, and filing and amended defamation claim. The Company and Wilhelmina International filed an Answer to the Amended Complaint on June 17, 2014, and again asserted counterclaims for breach of contract, breach of fiduciary duty, and for injunctive relief. Patterson replied to those counterclaims on June 27, 2014. Discovery has now been completed, and the case is on the trial calendar. The parties have been ordered to engage in a second mediation. The Company believes Mr. Patterson's claims are without merit, and, in the event the case is not settled in the mediation or otherwise, intends to continue to vigorously defend itself and pursue the counterclaims.

On October 24, 2013, a purported class action lawsuit brought by former Wilhelmina model Alex Shanklin and others (the “Shanklin Litigation”), naming the Company’s subsidiaries Wilhelmina International and Wilhelmina Models, Inc. (the “Wilhelmina Subsidiary Parties”), was initiated in New York State Supreme Court (New York County) by the same lead counsel who represented plaintiffs in the prior, now-dismissed action brought by Louisa Raske (the “Raske Litigation”). The claims in the Shanklin Litigation include breach of contract and unjust enrichment and are alleged to arise out of matters relating to those matters involved in the Raske Litigation, such as the handling and reporting of funds on behalf of models and the use of model images. Other parties named as defendants in the Shanklin Litigation include other model management companies, advertising firms, and certain advertisers. The Company believes the claims are without merit and intends to vigorously defend itself and its subsidiaries. On January 6, 2014, the Wilhelmina Subsidiary Parties moved to dismiss the Amended Complaint in the Shanklin Litigation for failure to state a cause of action upon which relief can be granted and other grounds, and other defendants have also filed motions to dismiss. The court has stayed all discovery in the case pending resolution of these motions. On March 3, 2014, the judge assigned to the Shanklin Litigation wrote the Office of the New York Attorney General bringing the case to its attention, generally describing the claims asserted therein against the model management defendants, and stating that the case “may involve matters in the public interest.” The judge’s letter also enclosed a copy of his decision in the Raske Litigation, which dismissed that case. Plaintiffs have retained substitute counsel, who has filed a Second Amended Complaint. Plaintiffs’ Second Amended Complaint asserts causes of action for alleged breaches of the plaintiffs' management contracts with the defendants, conversion, breach of the duty of good faith and fair dealing, and unjust enrichment. In addition, the Second Amended Complaint alleges that the plaintiff models were at all relevant times employees, and not independent contractors, of Wilhelmina and the model management defendants, and that defendants violated the New York Labor Law in several respects, including, among other things, by allegedly failing to pay the models the minimum wages and overtime pay required thereunder, not maintaining accurate payroll records, and not providing plaintiffs with full explanations of how their wages and deductions therefrom were computed. The Second Amended Complaint seeks certification of the action as a class action, damages in an amount to be determined at trial, plus interest, costs, attorneys’ fees, and such other relief as the court deems proper. The Company intends to vigorously defend against the Second Amended Complaint.

In July 2015, an action was commenced against Wilhelmina Models, Inc. by a model previously under contract to Wilhelmina, Kimberly Forbes, claiming that Wilhelmina had authorized the re-use of certain of her photos, allegedly without her authorization, without paying her; asserting that the IRS had asserted claims against her arising out of an IRS Form 1099 issued by Wilhelmina with respect to payments she had not received; and seeking an unspecified amount in compensatory damages and $1,000 in exemplary damages. When the model informally brought the matter to its attention prior to commencing litigation, Wilhelmina acknowledged owing her compensation she had not received because of her change of address, and offered to pay her in full and reimburse her for related costs (although the exact amount has not been calculated, it is not a material amount). Despite that fact, this action was thereafter commenced. The Company intends to vigorously defend itself against the action to the extent it seeks in excess of the amount the Company offered to Ms. Forbes.

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

As of June 30, 2015, a number of the Company's employees were covered by employment agreements that vary in length from one to three years. As of June 30, 2015, total compensation payable under the remaining contractual term of these agreements was approximately $4,042. In addition, the employment agreements contain non-compete provisions ranging from six months to one year following the term of the applicable agreement. Therefore, subject to certain exceptions, as of June 30, 2015, invoking the non-compete provisions would require the Company to compensate additional amounts to the covered employees during the non-compete period in the amount of approximately $4,693. During the three six months ended June 30, 2015 and 2014, the Company paid $16 and $0 compensation cost in connection with certain non-compete and contractual arrangements of former employees, respectively.

Note 7. Share Capital

The Company has a shareholder's rights plan (the "Rights Plan"). The Rights Plan provides for a dividend distribution of one preferred share purchase right (a "Right") for each outstanding share of the Company's Common Stock, $.01 par value (the "Common Stock"). The terms of the Rights and the Rights Plan are set forth in a Rights Agreement, dated as of July 10, 2006, as amended, 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"). 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). In addition, the Company's Board of Directors has exempted Newcastle Partners, L.P. ("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. 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.

One for Twenty Reverse Stock Split

The Company's Board of Directors approved the implementation of the Reverse Stock Split and the applicable ratio of one-for-twenty on July 7, 2014. On July 11, 2014, the Company filed a certificate of amendment to the Company's restated certificate of incorporation (the “Certificate of Amendment”) which affected the Reverse Stock Split. The Company's stockholders previously approved the granting of authority to the Company’s Board of Directors to affect a reverse stock split at a ratio between one-for-ten and one-for-forty at the Company’s annual meeting of stockholders held on September 26, 2013. The Certificate of Amendment provided that, effective as of 5:00 pm (Eastern Time) on July 11, 2014, every twenty outstanding shares of Common Stock were combined automatically into one share of Common Stock. Fractional shares resulting from the Reverse Stock Split were cancelled and stockholders otherwise entitled to a fractional share received a cash payment in lieu of the fractional share based on the average of the last reported sales price of the Common Stock as quoted on the OTCBB for the five business days prior to the effectiveness of the Reverse Stock Split (which average price was $.30). The Certificate of Amendment also proportionally reduced the Company’s authorized shares of Common Stock from 250,000,000 shares to 12,500,000 shares. The rights and privileges of the holders of the Common Stock are unaffected by the Reverse Stock Split.

Trading of the Common Stock on a split-adjusted basis began at the opening of trading on July 14, 2014. In September 2014, the Company began trading on the NASDAQ under the ticker symbol WHLM.

Note 8. Income Taxes

Generally, 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. Currently, the majority of taxes being paid by the Company are state taxes, not federal taxes. The Company operates in three states which have relatively high tax rates: California, New York and Florida. The Company's combined (federal and state) effective tax rate would be even higher if it were not for federal net operating loss carryforwards available to offset current federal taxable income. As of December 31, 2014, the Company had federal income tax loss carryforwards of approximately $900 which begin expiring in 2019. A portion of the Company's federal net operating loss carryforwards were utilized to offset federal taxable income generated during the three and six months ended June 30, 2015. Realization of the Company's carryforwards is dependent on future taxable income. As defined in the Internal Revenue Code, ownership changes may limit the amount of net operating loss carryforwards that can be utilized annually to offset future taxable income.

Note 9. Treasury Stock

During the year ended December 31, 2012, the Board of Directors authorized a stock repurchase program, whereby the Company could repurchase up to 500,000 shares of its outstanding Common Stock. During August 2013, the Board of Directors renewed and extended the Company's share repurchase authority to enable it to repurchase up to an additional 500,000 shares of Common Stock.

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 and the Second Credit Agreement Amendment.

In total, the Company has repurchased 619,716 shares of Common Stock at an average price of approximately $2.81 per share, for a total of approximately $1,740 under the foregoing stock repurchase program. During the six months ended June 30, 2015, 16,898 shares were repurchased at an average price of $5.85 per share.

Note 10. Related Parties

As of June 30, 2015, Mark Schwarz, the Chairman, Chief Executive Officer and Portfolio Manager of Newcastle Capital Management, L.P.

(“NCM”) held the Chairman of the Board and Executive Chairman positions with the Company. NCM is the General Partner of Newcastle, which owns 2,430,726 shares of Common Stock. Clinton Coleman (Managing Director at NCM) and James Dvorak (Managing Director at NCM) also 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 $2.5 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 $7.5 for the quarters ended June 30, 2015 and 2014. The Company owed NCM $0 as of June 30, 2015 and 2014, under the services agreement.

The Company has an agreement with an unconsolidated affiliate to provide management and administrative services, as well as sharing of space. Management fee and rental income from the unconsolidated affiliate amounted to approximately $27.5 for the quarters ended June 30, 2015 and 2014.

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

The following is a discussion of the interim unaudited consolidated financial condition and results of operations for the Company and its subsidiaries for the three and six months ended June 30, 2015 and 2014. 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, 2014, as amended.

Forward-Looking Statements

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

OVERVIEW

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, Miami and London, as well as a growing network of licensees comprising leading modeling agencies in various local markets across the U.S., as well as in Thailand, Dubai, Vancouver and Tokyo. 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.

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.

Wilhelmina believes it has strong brand recognition which enables it to attract and retain top agents and talent to service a broad universe of clients. In order to take advantage of these opportunities and support its continued growth, the Company will need to continue to successfully allocate resources and staffing in a way that enhances its ability to respond to these new opportunities. The Company continues to focus on cutting costs, recruiting top agents when available and scouting and developing new talent.

Although Wilhelmina has a large and diverse client base, 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 the combination of Wilhelmina's main operating base in New York City, the industry's capital, with the depth and breadth of its talent pool and client roster and its diversification across various talent management segments, together with its geographical reach should make Wilhelmina's operations more resilient to industry changes and economic swings than those of many of the smaller firms operating in the industry. Similarly, in the segments where the Company competes with other leading full service agencies, Wilhelmina competed successfully during the second quarter of 2015.

With 2015 total advertising expenditures on major media (newspapers, magazines, television, cinema, outdoor and Internet) expecting to exceed approximately $189 billion, 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.

Strategy

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

- Develop Wilhelmina into a global brand;
- Expand the women's high end fashion board;
- Expand celebrity endorsements;
- Strategic acquisitions;
- License the "Wilhelmina" name to leading model management agencies;
- License the "Wilhelmina" brand in connection with consumer products, cosmetics and other beauty products; and
- Promote model search contests, and events and partnering on media projects (television, film, books, etc.).

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

In January 2015, the Company purchased 100% of the outstanding shares of Union Models Management Ltd. in London and renamed it Wilhelmina London Limited ("London"). The strategic acquisition of London establishes a footprint for the Company and the brand in Western Europe. It will also serve as a base of operations to service the Company's European clients, and as a new talent development office for European models and artists.

The key financial indicators that the Company reviews to monitor the business are 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, Select, Media, 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 separate service charges, paid by clients in addition to the booking fees, which are calculated as a percentage of the models’ booking fees and are recorded as revenues when earned and collectability is reasonably assured. See Critical Accounting Policies - Revenue Recognition is an important business metric that ultimately drive revenues, profits and cash flows.

Because Wilhelmina provides professional services, salary and service costs represent the largest part of the Company’s operating expenses. Salary and service costs are comprised of payroll and related costs and T&E (travel, meals and entertainment) to deliver the Company’s services and to enable new business development activities.

Analysis of Consolidated Statements of Operations

(in thousands)

	Three Months Ended			Six Months Ended		
	June 30 2015	June 30 2014	% Change 2015 vs 2014	June 30 2015	June 30 2014	% Change 2015 vs 2014
Revenues	21,538	19,528	10.3 %	42,489	37,664	12.8 %
License fees and other income	132	100	32.0 %	229	200	14.5 %
TOTAL REVENUES	21,670	19,628	10.4 %	42,718	37,864	12.8 %
Model costs	15,643	14,206	10.1 %	30,545	26,963	13.3 %
REVENUES NET OF MODEL COSTS	6,027	5,422	11.2 %	12,173	10,901	11.7 %
GROSS PROFIT MARGIN	27.8 %	27.6 %		28.5 %	28.8 %	
Salaries and service costs	3,758	3,249	15.7 %	7,485	6,354	17.8 %
Office and general expenses	1,125	1,083	3.9 %	2,299	2,178	5.6 %
Amortization and depreciation	125	110	13.6 %	252	370	(31.9)%
Corporate overhead	262	374	(29.9)%	542	653	(17.0)%
OPERATING INCOME	757	606	24.9 %	1,595	1,346	8.5 %
OPERATING MARGIN	3.5 %	3.1 %		3.47 %	3.6 %	
Foreign exchange loss	(21)	-		(98)	-	
Interest income	-	2		-	4	
Interest expense	-	-		-	(8)	
Equity Earnings (loss) in affiliate	9	5		(15)	(15)	
INCOME BEFORE INCOME TAXES	745	613	(21.5)%	1,482	1,327	11.7 %
Income taxes expense	(372)	(222)	67.6 %	(736)	(604)	21.9 %
Effective tax rate	49.9 %	36.2 %		49.7 %	45.5 %	
NET INCOME	373	391	(4.6)%	746	723	(3.2)%

Revenues

Generally, the Company’s revenues fluctuate in response to its clients’ willingness to spend on advertising and the Company’s ability to have the desired talent available.

The increase in revenues for the three and six months ended June 30, 2015 of 10.3% and 12.8% when compared to the three and six months ended June 30, 2014 were driven by an expanded developed talent pool and our customers’ increased interest in booking the Company's talent. The Company’s expanded talent pool continues to be driven by an emphasis on scouting and relationships with mother agencies around the world. All boards of the core modeling business experienced positive growth during the three months and six months ended June 30, 2015 when compared to the corresponding period of the prior year.

License Fees and Other Income

License fees and other income include management and administrative services from an unconsolidated affiliate and franchise revenues from independently owned model agencies that use the Wilhelmina trademark name and various services provided by the Company. License fees remained materially unchanged when compared to the corresponding period of the prior year.

Gross Profit Margin

Fluctuations in gross profit margin, between periods, are predominantly due to the following:

- The mix of revenues being derived from talent relationships, which require the reporting of revenues gross (as a principal) versus net (as an agent). Model costs consist of costs associated with relationships with models where the key indicators suggest that the Company acts as a principal.

- An increase or decrease in mother agency fees, relative to model costs.

- An increase or decrease in the rate of recovery of advances to models (for the cost of producing initial portfolios and other out-of-pocket costs). These costs are expensed as incurred and repayments of such costs are credited to model costs in the period received.

- Inclusion of the London operations.

Gross profit margin as a percentage of revenue in the three and six months ended June 30, 2015, when compared to the three and six months ended June 30, 2014, remained relatively unchanged. All of the components of gross margin increased proportionally with the increase in revenue.

Salaries and Service Costs

Salaries and service costs consist of payroll and related costs and T&E (travel, meals and entertainment) costs required to deliver the Company's services to its customers and talent.

- The Company continues to recruit agents when available and invest in scouting and development activities. The Company believes these investments are necessary to support its continued growth. Additional cost increases are due to the inclusion of London and the accounting system upgrade project

- Salaries and service costs increases include the cost of additional resources to support the increase in revenues along with increased administration salaries associated with the systems and technology upgrade

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 and six months ended June 30, 2015, office and general expenses increased by 3.9% and 5.6%, when compared to the three and six months ended June 30, 2014, due to costs associated with London partially offset by a decline in legal 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 and six months ended June 30, 2015, depreciation and amortization expense totaled $125 and $252 (of which $68 and $135 relates to amortization of intangibles acquired in connection with the Wilhelmina Acquisition), compared to $110 and $370 of depreciation and amortization expense during the three and six months ended June 30, 2014 (of which $44 and $245 relates to amortization of intangibles acquired in connection with the Wilhelmina Acquisition). Fixed asset purchases (mostly related to technology) totaled approximately $476 and $251 during the six months ended June 30, 2015 and June 30, 2014, respectively.

Corporate Overhead

Corporate overhead expenses include public company costs, director and executive officer compensation, directors' and officers' insurance, legal, audit and professional fees, corporate office rent and travel. The decline in corporate overhead of 29.9% and 17.0% for the three and six months ended June 30, 2015, when compared to the three and six months ended June 30, 2014 is primarily associated with a reduction in corporate salaries partially offset by the increase in costs associated with being listed on the NASDAQ stock exchange.

Operating Margin

Operating margins for the three and six months ended June 30, 2015 were relatively consistent when compared to the corresponding periods of the prior year. The operating income increased despite the increases in salaries and service costs in connection with the administration of the Company.

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 and six months ended June 30, 2015 and June 30, 2014.

Foreign Currency Translation

The Company realized $21 and $98 of foreign currency exchange loss during the three and six months ended June 30, 2015. Fluctuations in currencies from Latin America and the Euro caused $23 and $84 of the loss and the acquisition of London resulted in $14 of the foreign currency exchange loss.

Interest Expense

There was no interest expense for the three and six months ended June 30, 2015, compared to a small interest expense the three and six months ended June 30, 2014, both associated with a decline in the average borrowings under the Third Credit Agreement Amendment to zero.

Income Taxes

Generally, 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. Currently, the majority of taxes being paid by the Company are state taxes, not federal taxes. The Company operates in three states which have relatively high tax rates: California, New York and Florida. The Company’s combined (federal and state) effective tax rate would be even higher if it were not for federal net operating loss carryforwards available to offset current federal taxable income. As of December 31, 2014, the Company had federal income tax loss carryforwards of approximately $900 which begin expiring in 2019. A portion of the Company’s federal net operating loss carryforwards were utilized to offset federal taxable income generated during the three months ended June 30, 2015. Realization of the Company’s carryforwards is dependent on future taxable income. As defined in the Internal Revenue Service’s Code, ownership changes may limit the amount of net operating loss carryforwards that can be utilized annually to offset future taxable income.

Liquidity and Capital Resources

The Company’s cash balance decreased to $3,057 at June 30, 2015, from $5,869 at December 31, 2014. For the six months ended June 30, 2015, cash balances decreased as a result of cash flows used by operations of approximately $1,968 and $758 used by investing activities, including $282 to purchase the stock of Wilhelmina London and approximately $476 of capital expenditures. Cash flows from operating activities include the use of cash due to an increase in accounts receivables driven by increased revenues. The increase in revenues usually negatively impact cash flows as typically, the collection of customer receivables averages greater than 60 days, while the Company incurs significant operating expenses with shorter payment terms.

Amegy Credit Agreement

On October 24, 2012, the Company executed and closed the second amendment (the “Second Credit Agreement Amendment”) to its revolving 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. Under the terms of the Second Credit Agreement Amendment, (1) total availability under the revolving credit facility is $5,000, (2) the borrowing base is derived from 75% of eligible accounts receivable (as defined) and (3) the Company’s minimum net worth covenant is $22,000. In addition, the maturity date of the facility is October 15, 2015. The Company’s obligation to repay advances under the amended facility is evidenced by a second amended and restated promissory note (the “Second Amended and Restated Promissory Note”). Under the terms of the Second Amended and Restated Promissory Note, the interest rate on borrowings is prime rate plus 1%.

On July 31, 2014, the Company executed and closed the third amendment (the “Third Credit Agreement Amendment”) to its revolving facility with Amegy. The terms of the Third Credit Agreement Amendment are essentially the same as in the Second Credit Agreement Amendment with the exception of the ability to issue up to $300 of standby letters of credit. Issued letters of credit will reduce the Company’s availability under the facility. The Third Credit Agreement Amendment 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 Third Credit Agreement Amendment 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.

As of August 13, 2015, the Company had no outstanding borrowings under the revolving credit facility.

Off-Balance Sheet Arrangements

As of March 31, 2014, the Company was responsible for $222 of restricted cash that served as collateral for an irrevocable standby letter of credit. In September 2014, the Company issued a replacement letter of credit and recovered the restricted cash of $222. This replacement letter of credit is secured by available and unused borrowing capacity under the Company's existing line of credit with Amegy Bank. 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 (GAAP) when reporting revenue gross as a principal versus net as an agent, the Company assesses whether it, the model or the talent is the primary obligor. The Company evaluates the terms of its model, talent and client agreements as part of this assessment. In addition, the Company gives appropriate consideration to other key indicators such as latitude in establishing price, discretion in model or talent selection and credit risk the Company undertakes. The Company operates broadly as a modeling agency and in those relationships with models and talents where the key indicators suggest the Company acts as a principal, the Company records the gross amount billed to the client as revenue when earned and collectability is reasonably assured and the related costs incurred to the model or talent as model or talent costs. 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.

Basis of Presentation

The financial statements include the consolidated accounts of Wilhelmina International 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 June 30, 2015, and as a result of this assessment, the Company believes that its deferred tax assets are more likely than not to be realized. In addition, the Company continuously evaluates its tax contingencies.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company's principal executive officer and principal financial officer evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on their evaluation of the Company's disclosure controls and procedures, the Company's principal executive officer and principal financial officer, with the participation of management, have concluded that the Company's disclosure controls and procedures were effective as of June 30, 2015 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 June 30, 2015.

Changes in Internal Control Over Financial Reporting

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

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PART II

OTHER INFORMATION

Item 1. Legal Proceedings.

On May 2, 2012, Sean Patterson, the former President of the Company's subsidiary, Wilhelmina International, Ltd. ("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 of the Board, asserting claims for alleged breach of Mr. Patterson's expired employment agreement (the "Employment Agreement") with Wilhelmina International, defamation, and declaratory relief with respect to the alleged invalidity and unenforceability of the Employment Agreement's non-competition and non-solicitation provisions. The Company and Wilhelmina International asserted counterclaims against Mr. Patterson for breach of the Employment Agreement, breach of fiduciary duty, and injunctive relief. On May 23, 2014, the court granted the defendants' motion to dismiss Mr. Patterson's defamation claim, and granted Mr. Patterson's cross-motion for leave to file an amended defamation claim. Patterson filed an Amended Complaint on May 15, 2014, repeating the claims for alleged breach of contract and declaratory relief, and filing and amended defamation claim. The Company and Wilhelmina International filed an Answer to the Amended Complaint on June 17, 2014, and again asserted counterclaims for breach of contract, breach of fiduciary duty, and for injunctive relief. Patterson replied to those counterclaims on June 27, 2014. Discovery has now been completed, and the case is on the trial calendar. The parties have been ordered to engage in a second mediation. The Company believes Mr. Patterson's claims are without merit, and, in the event the case is not settled in the mediation or otherwise, intends to continue to vigorously defend itself and pursue the counterclaims.

On October 24, 2013, a purported class action lawsuit brought by former Wilhelmina model Alex Shanklin and others (the "Shanklin Litigation"), naming the Company's subsidiaries Wilhelmina International and Wilhelmina Models, Inc. (the "Wilhelmina Subsidiary Parties"), was initiated in New York State Supreme Court (New York County) by the same lead counsel who represented plaintiffs in the prior, now-dismissed action brought by Louisa Raske (the "Raske Litigation"). The claims in the Shanklin Litigation include breach of contract and unjust enrichment and are alleged to arise out of matters relating to those matters involved in the Raske Litigation, such as the handling and reporting of funds on behalf of models and the use of model images. Other parties named as defendants in the Shanklin Litigation include other model management companies, advertising firms, and certain advertisers. The Company believes the claims are without merit and intends to vigorously defend itself and its subsidiaries. On January 6, 2014, the Wilhelmina Subsidiary Parties moved to dismiss the Amended Complaint in the Shanklin Litigation for failure to state a cause of action upon which relief can be granted and other grounds, and other defendants have also filed motions to dismiss. The court has stayed all discovery in the case pending resolution of these motions. On March 3, 2014, the judge assigned to the Shanklin Litigation wrote the Office of the New York Attorney General bringing the case to its attention, generally describing the claims asserted therein against the model management defendants, and stating that the case "may involve matters in the public interest." The judge's letter also enclosed a copy of his decision in the Raske Litigation, which dismissed that case. Plaintiffs have retained substitute counsel, who has filed a Second Amended Complaint. Plaintiffs' Second Amended Complaint asserts causes of action for alleged breaches of the plaintiffs' management contracts with the defendants, conversion, breach of the duty of good faith and fair dealing, and unjust enrichment. In addition, the Second Amended Complaint alleges that the plaintiff models were at all relevant times employees, and not independent contractors, of Wilhelmina and the model management defendants, and that defendants violated the New York Labor Law in several respects, including, among other things, by allegedly failing to pay the models the minimum wages and overtime pay required thereunder, not maintaining accurate payroll records, and not providing plaintiffs with full explanations of how their wages and deductions therefrom were computed. The Second Amended Complaint seeks certification of the action as a class action, damages in an amount to be determined at trial, plus interest, costs, attorneys' fees, and such other relief as the court deems proper. The Company intends to vigorously defend against the Second Amended Complaint.

In July 2015, an action was commenced against Wilhelmina Models, Inc. by a model previously under contract to Wilhelmina, Kimberly Forbes, claiming that Wilhelmina had authorized the re-use of certain of her photos, allegedly without her authorization, without paying her; asserting that the IRS had asserted claims against her arising out of an IRS Form 1099 issued by Wilhelmina with respect to payments she had not received; and seeking an unspecified amount in compensatory damages and $1,000 in exemplary damages. When the model informally brought the matter to its attention prior to commencing litigation, Wilhelmina acknowledged owing her compensation she had not received because of her change of address, and offered to pay her in full and reimburse her for related costs (although the exact amount has not been calculated, it is not a material amount). Despite that fact, this action was thereafter commenced. The Company intends to vigorously defend itself against the action to the extent it seeks in excess of the amount the Company offered to Ms. Forbes.

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

Item 1.A. Risk Factors.

Not applicable.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

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Item 6. Exhibits.

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

Exhibit No.	Description
31.1	Certification of Principal Executive Officer in Accordance with Section 302 of the Sarbanes-Oxley Act.*
31.2	Certification of Principal Financial Officer in Accordance with Section 302 of the Sarbanes-Oxley Act.*
32.1	Certification of Principal Executive Officer in Accordance with Section 906 of the Sarbanes-Oxley Act.*
32.2	Certification of Principal Financial Officer in Accordance with Section 906 of the Sarbanes-Oxley Act.*
101. INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase*
101.DEF	XBRL Taxonomy Extension Definition Linkbase*
101.LAB	XBRL Taxonomy Extension Label Linkbase*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase*

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* Filed herewith

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: August 13, 2015	By:	/s/ David S. Chaiken
	Name:	David S. Chaiken
	Title:	Chief Accounting Officer (Principal Financial Officer)

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EXHIBIT INDEX

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101. INS	XBRL Instance Document*
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101.LAB	XBRL Taxonomy Extension Label Linkbase*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase*

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* Filed herewith

1.5pt 0pt;"> **Net Asset Value, End of Period** $ 19.23 $ 18.58 $ 16.17 $ 12.61 $ 20.47 **Per Share Market Value, End of Period** $ 17.40 $ 17.29 $ 13.75 $ 9.70 $ 18.93 **TOTAL INVESTMENT RETURN:** Market Value 4.31 %# 35.60 % 57.23 % (39.43)% (2.46)%# Net Asset Value(1) 7.28 %# 23.83 % 42.32 % (27.22)% 10.77 %# **RATIOS, SUPPLEMENTAL DATA: Net Assets, End of Period (Thousands)** $ 1,392,985 $ 1,345,669 $ 1,171,520 $ 923,962 $ 1,501,063 Ratio of Expenses to Average Net Assets 2.14 %*+ 2.28 %+ 2.20 %+ 2.80 %+ 3.24 %*+ Ratio of Expenses to Average Net Assets Excluding
Non Operating Expenses 1.57 %*+ 1.62 %+ 1.58 %+ 1.59 %+ 2.21 %*+ Ratio of Net Investment Income to Average Net Assets 8.37 %*+ 8.61 %+ 9.60 %+ 11.90 %+ 8.88 %*+ Ratio of Rebate from Morgan Stanley Affiliates to
Average Net Assets 0.00 %*§ 0.00 %§ 0.00 %§ 0.00 %§ 0.01 %* Portfolio Turnover Rate 29 %# 42 % 74 % 130 % 58 %#

^ Commencement of Operations.

(1) Total investment return based on net asset value per share reflects the effects of changes in net asset value on the performance of the Fund during each period, and assumes dividends and distributions, if any, were reinvested. This percentage is not an indication of the performance of a stockholder's investment in the Fund based on market value due to differences between the market price of the stock and the net asset value per share of the Fund.

† Per share amount is based on average shares outstanding.

‡ Amount is less than $0.005 per share.

Not annualized.

* Annualized.

+ The Ratios of Expenses and Net Investment Income reflect the rebate of certain Fund expenses in connection with the investments in Morgan Stanley affiliates during the period. The effect of the rebate on the ratios is disclosed in the above table as "Ratio of Rebate from Morgan Stanley Affiliates to Average Net Assets."

§ Amount is less than 0.005%.

The accompanying notes are an integral part of the financial statements.

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Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

April 30, 2011 (unaudited)

Notes to Financial Statements

The Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. (the "Fund") was incorporated in Maryland on January 25, 2007 and is registered as a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the "1940 Act"). The Fund's primary investment objective is to seek a high level of current income, with a secondary investment objective of long-term capital appreciation. The Fund seeks to achieve its investment objectives by investing, under normal circumstances, at least 80% of its managed assets in emerging markets domestic debt. To the extent the Fund invests in derivative instruments that the Adviser believes have economic characteristics similar to such securities, such investments will be counted for purposes of the Fund's policy described in the previous sentence. To the extent the Fund makes such investments, the Fund will be subject to the risk of such derivative instruments as described herein.

A. Significant Accounting Policies: The following significant accounting policies are in conformity with U.S. generally accepted accounting principles. Such policies are consistently followed by the Fund in the preparation of its financial statements. U.S. generally accepted accounting principles may require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results may differ from those estimates.

1. Security Valuation: Bonds and other fixed income securities may be valued according to the broadest and most representative market. In addition, bonds and other fixed income securities may be valued on the basis of prices provided by a pricing service. The prices provided by a pricing service take into account broker dealer market price quotations for institutional size trading in similar groups of securities, security quality, maturity, coupon and other security characteristics as well as any developments related to the specific securities. Securities listed on a foreign exchange are valued at their closing price except as noted below. Unlisted securities and listed securities not traded on the valuation date for which market quotations are readily available are valued at the mean between the current bid and ask prices. Equity securities listed on a U.S. exchange are valued at the latest quoted sales price on the valuation date. Equity securities listed or traded on NASDAQ, for which market quotations are available, are valued at the NASDAQ Official Closing Price. Short-term debt securities purchased with remaining maturities of 60 days or less are valued at amortized cost, unless the Board of Directors (the "Directors") determines such valuation does not reflect the securities' market value, in which case these securities will be valued at their fair value as determined in good faith under procedures adopted by the Directors.

All other securities and investments for which market values are not readily available, including restricted securities, and those securities for which it is inappropriate to determine prices in accordance with the aforementioned procedures, are valued at fair value as determined in good faith under procedures adopted by the Directors, although the actual calculations may be done by others. Factors considered in making this determination may include, but are not limited to, information obtained by contacting the issuer, analysts, or the appropriate stock exchange (for exchange-traded securities), analysis of the issuer's financial statements or other available documents and, if necessary, available information concerning other securities in similar circumstances.

Most foreign markets close before the New York Stock Exchange ("NYSE"). Occasionally, developments that could affect the closing prices of securities and other assets may occur between the times at which valuations of such securities are determined (that is, close of the foreign market on which the securities trade) and the close of business on the NYSE. If these developments are expected to materially affect the value of the securities, the valuations may be adjusted to reflect the estimated fair value as of the

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close of the NYSE, as determined in good faith under procedures established by the Directors.

2. Reverse Repurchase Agreements: The Fund entered into reverse repurchase agreements with institutions that the Fund's investment adviser has determined are creditworthy. Under a reverse repurchase agreement, the Fund sells securities and agrees to repurchase them at a mutually agreed upon date and price. Reverse repurchase agreements involve the risk that the market value of the securities purchased with the proceeds from the sale of securities received by the Fund may decline below the price of the securities the Fund is obligated to repurchase. Reverse repurchase agreements also involve credit risk with the counterparty to the extent that the value of securities subject to repurchase exceed the Fund's liability under the reverse repurchase agreement. Securities subject to repurchase under reverse repurchase agreements, if any, are designated as such in the Portfolio of Investments.

At April 30, 2011, the Fund had a reverse repurchase agreement outstanding with UBS as follows:

	Maturity in Less than 365 Days
Value of Securities Subject to Repurchase	$ 1,462,000
Liability Under Reverse Repurchase Agreement	$ 1,265,000
Weighted Average Days to Maturity	1.24

The weighted average weekly balance of reverse repurchase agreements outstanding during the six months ended April 30, 2011 was approximately $141,000 at a weighted average weekly interest rate of 0.50%.

3. Foreign Currency Translation: The books and records of the Fund are maintained in U.S. dollars. Foreign currency amounts are translated into U.S. dollars at the mean of the bid and ask prices of such currencies against U.S. dollars last quoted by a major bank as follows:

investments, other assets and liabilities at the prevailing rate of exchange on the valuation date;

investment transactions and investment income at the prevailing rates of exchange on the dates of such transactions.

Although the net assets of the Fund are presented at the foreign exchange rates and market values at the close of the period, the Fund does not isolate that portion of the results of operations arising as a result of changes in the foreign exchange rates from the fluctuations arising from changes in the market prices of the securities held at period end. Similarly, the Fund does not isolate the effect of changes in foreign exchange rates from the fluctuations arising from changes in the market prices of securities sold during the period. Accordingly, realized and unrealized foreign currency gains (losses) on investments in securities are included in the reported net realized and unrealized gains (losses) on investment transactions and balances.

Net realized gains (losses) on foreign currency transactions represent net foreign exchange gains (losses) from sales and maturities of foreign currency exchange contracts, disposition of foreign currencies, currency gains (losses) realized between the trade and settlement dates on securities transactions, and the difference between the amount of investment income and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent amounts actually received or paid. Net unrealized currency gains (losses) from valuing foreign currency denominated assets and liabilities at period end exchange rates are reflected as a component of unrealized appreciation (depreciation) on investments and foreign currency translations in the Statement of Assets and Liabilities. The change in unrealized currency gains (losses)

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on foreign currency translations for the period is reflected in the Statement of Operations.

A significant portion of the Fund's managed assets consist of securities of issuers located in emerging markets, which are denominated in foreign currencies. Such securities may be concentrated in a limited number of countries and regions and may vary throughout the year. Changes in currency exchange rates will affect the value of and investment income from foreign currency denominated securities. Emerging market securities are often subject to greater price volatility, limited capitalization and liquidity, and higher rates of inflation than U.S. securities. In addition, emerging market issuers may be subject to substantial governmental involvement in the economy and greater social, economic and political uncertainty.

4. Structured Investments: The Fund invested a portion of its assets in structured investments. A structured investment is a derivative security designed to offer a return linked to a particular underlying security, currency or market. Structured investments may come in various forms including notes, warrants and options to purchase securities. The Fund will typically use structured investments to gain exposure to a permitted underlying security, currency or market when direct access to a market is limited or inefficient from a tax or cost standpoint. Investments in structured investments involve risks including counterparty risk and market risk. Holders of structured investments bear risks of the underlying investment and are subject to counterparty risk because the Fund is relying on the creditworthiness of such counterparty and has no rights with respect to the underlying investment. Certain structured investments may be thinly traded or have a limited trading market and may have the effect of increasing the Fund's illiquidity to the extent that the Fund, at a particular point in time, may be unable to find qualified buyers for these securities.

5. Derivatives: The Fund used derivative instruments for a variety of purposes, including hedging, risk management, portfolio management or to earn income. Derivatives are financial instruments whose value is based on the value of another underlying asset, interest rate, index or financial instrument. A derivative instrument often has risks similar to its underlying instrument and may have additional risks, including imperfect correlation between the value of the derivative and the underlying instrument, risks of default by the other party to certain transactions, magnification of losses incurred due to changes in the market value of the securities, instruments, indices or interest rates to which they relate, and risks that the transactions may not be liquid. The use of derivatives involves risks that are different from, and possibly greater than, the risks associated with other portfolio investments. Derivatives may involve the use of highly specialized instruments that require investment techniques and risk analyses different from those associated with other portfolio investments. All of the Fund's holdings, including derivative instruments, are marked to market each day with the change in value reflected in unrealized appreciation (depreciation). Upon disposition, a realized gain or loss is recognized.

Certain derivative transactions may give rise to a form of leverage. Leverage associated with derivative transactions may cause the Fund to liquidate portfolio positions when it may not be advantageous to do so to satisfy its obligations or to meet earmarking or segregation requirements, pursuant to applicable Securities and Exchange Commission rules and regulations, or may cause the Fund to be more volatile than if the Fund had not been leveraged. Although the Investment Adviser seeks to use derivatives to further the Fund's investment objectives, there is no assurance that the use of derivatives will achieve this result.

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Following is a description of the derivative instruments and techniques that the Fund used during the period and their associated risks:

Foreign Currency Exchange Contracts: In connection with its investments in foreign securities, the Fund also entered into contracts with banks, brokers or dealers to purchase or sell foreign currencies at a future date. A foreign currency exchange contract ("currency contracts") is a negotiated agreement between the contracting parties to exchange a specified amount of currency at a specified future time at a specified rate. The rate can be higher or lower than the spot rate between the currencies that are the subject of the contract. Currency contracts are used to protect against uncertainty in the level of future foreign currency exchange rates or to gain or modify exposure to a particular currency. Hedging the Fund's currency risks involves the risk of mismatching the Fund's objectives under a currency contract with the value of securities denominated in a particular currency. Furthermore, such transactions reduce or preclude the opportunity for gain if the value of the currency should move in the direction opposite to the position taken. There is an additional risk to the effect that currency contracts create exposure to currencies in which the Fund's securities are not denominated. Unanticipated changes in currency prices may result in poorer overall performance for the Fund than if it had not entered into such contracts. A currency contract is marked-to-market daily and the change in market value is recorded by the Fund as unrealized gain or (loss). The Fund records realized gains (losses) when the contract is closed equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

Financial Accounting Standards Board ("FASB") Accounting Standards Codification™ ("ASC") 815, "Derivatives and Hedging: Overall" ("ASC 815"), is intended to improve financial reporting about derivative instruments by requiring enhanced disclosures to enable investors to better understand how and why the Fund uses derivative instruments, how these derivative instruments are accounted for and their effects on the Fund's financial position and results of operations.

The following table sets forth the fair value of the Fund's derivative contracts by primary risk exposure as of April 30, 2011.

Primary Risk Exposure	Statement of Assets and Liabilities	Foreign Currency Exchange Contracts (000)
Assets:		
Currency Risk	Receivables	$ 5,432
Liabilities:		
Currency Risk	Payables	$ (612)

The following tables set forth by primary risk exposure the Fund's realized gains (losses) and change in unrealized appreciation (depreciation) by type of derivative contract for the six months ended April 30, 2011 in accordance with ASC 815.

Realized Gain (Loss)

Primary Risk Exposure	Derivative Type	Value (000)
Currency Risk	Foreign Currency Exchange Contracts	$ 7,529

Change in Unrealized Appreciation (Depreciation)

Primary Risk Exposure	Derivative Type	Value (000)
Currency Risk	Foreign Currency Exchange Contracts	$ 6,772

For the six months ended April 30, 2011, the average monthly principal amount of foreign currency exchange contracts was $309,012,000.

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6. Fair Value Measurement: FASB ASC 820, "Fair Value Measurements and Disclosures" ("ASC 820"), defines fair value as the price that the Fund would receive to sell an investment or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market the most advantageous market for the investment or liability. ASC 820 establishes a three-tier hierarchy to distinguish between (1) inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the value of the Fund's investments. The inputs are summarized in the three broad levels listed below.

• Level 1 unadjusted quoted prices in active markets for identical investments

• Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

• Level 3 significant unobservable inputs including the Fund's own assumptions in determining the fair value of investments. Factors considered in making this determination may include, but are not limited to, information obtained by contacting the issuer, analysts, or the appropriate stock exchange (for exchange-traded securities), analysis of the issuer's financial statements or other available documents and, if necessary, available information concerning other securities in similar circumstances

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities and the determination of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to each security.

On January 21, 2010, FASB issued Accounting Standards Update ("ASU") 2010-06. The ASU amends ASC 820 to add new requirements for disclosures about significant transfers into and out of Levels 1 and 2, which was adopted for fiscal years and interim periods beginning after December 15, 2009 as disclosed in the Fair Valuation Measurements summary at the end of the Portfolios of Investments. In addition, separate disclosures for purchases, sales, issuances and settlements relating to Level 3 measurements are required for fiscal years and interim periods beginning after December 15, 2010.

7. Other: Security transactions are accounted for on the date the securities are purchased or sold. Realized gains (losses) on the sale of investment securities are determined on the specific identified cost basis. Interest income is recognized on the accrual basis. Dividend income and distributions are recorded on the ex-dividend date (except for certain dividends which may be recorded as soon as the Fund is informed of such dividends) net of applicable withholding taxes.

B. Investment Advisory Fees: Morgan Stanley Investment Management Inc. (the "Adviser" or "MS Investment Management") provides investment advisory services to the Fund under the terms of an Investment Advisory Agreement (the "Agreement"). Under the Agreement, the Adviser is paid a fee computed weekly and payable monthly at an annual rate of 1.00% of the Fund's average weekly managed assets.

C. Administration Fees: MS Investment Management also serves as Administrator to the Fund pursuant to an

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Administration Agreement. Under the Administration Agreement, the administration fee is 0.08% of the Fund's average weekly managed assets. Under a sub-administration agreement between the Administrator and State Street Bank and Trust Company ("State Street"), State Street provides certain administrative services to the Fund. For such services, the Administrator pays State Street a portion of the fee the Administrator receives from the Fund.

D. Custodian Fees: State Street (the "Custodian") and its affiliates serve as Custodian for the Fund. The Custodian holds cash, securities, and other assets of the Fund as required by the 1940 Act. Custody fees are payable monthly based on assets held in custody, investment purchases and sales activity and account maintenance fees, plus reimbursement for certain out-of-pocket expenses.

The Fund has entered into an arrangement with its Custodian whereby credits realized on uninvested cash balances were used to offset a portion of the Fund's expenses. If applicable, these custodian credits are shown as "Expense Offset" in the Statement of Operations.

E. Federal Income Taxes: It is the Fund's intention to continue to qualify as a regulated investment company and distribute all of its taxable income. Accordingly, no provision for Federal income taxes is required in the financial statements. Dividend income and distributions to stockholders are recorded on the ex-dividend date.

The Fund may be subject to taxes imposed by countries in which it invests. Such taxes are generally based on income and/or capital gains earned or repatriated. Taxes are accrued and applied to net investment income, net realized gains and net unrealized appreciation as such income and/or gains are earned.

FASB ASC 740-10 "Income Taxes Overall" sets forth a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return. Management has concluded there are no significant uncertain tax positions that would require recognition in the financial statements. If applicable, the Fund recognizes interest accrued related to unrecognized tax benefits in "Interest Expense" and penalties in "Other Expenses" on the Statement of Operations. The Fund files tax returns with the U.S. Internal Revenue Service, New York and various states. Generally, each of the tax years filed in the four year period ended October 31, 2010, remains subject to examination by taxing authorities.

The tax character of distributions paid may differ from the character of distributions shown on the Statements of Changes in Net Assets due to short-term capital gains being treated as ordinary income for tax purposes. The tax character of distributions paid during fiscal 2010 and 2009 was as follows:

2010 Distributions Paid From: (000)		2009 Distributions Paid From: (000)	
Ordinary Income	Long-Term Capital Gain	Ordinary Income	Long-Term Capital Gain
$ 86,918	$	$ 36,497	$ 54,324

The amount and character of income and capital gain distributions to be paid by the Fund are determined in accordance with Federal income tax regulations, which may differ from U.S. generally accepted accounting principles. These book/tax differences are considered either temporary or permanent in nature.

Temporary differences are attributable to differing book and tax treatments for the timing of the recognition of gains (losses) on certain investment transactions, the timing of the deductibility of certain expenses and the recognition of premium amortization.

Permanent differences, primarily due to differing treatments of gains (losses) related to foreign currency transactions and premium amortization adjustment for certain securities sold,

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resulted in the following reclassifications among the components of net assets at October 31, 2010:

Undistributed (Distributions in Excess of) Net Investment Income (Loss) (000)	Accumulated Net Realized Gain (Loss) (000)	Paid-in Capital (000)
$ (28,347)	$ 28,346	$ 1

At October 31, 2011, the components of distributable earnings for the Fund on a tax basis were as follows:

Undistributed Ordinary Income (000)	Undistributed Long-Term Capital Gain (000)
$ 7,172	$

At April 30, 2011, the U.S. Federal income tax cost basis of investments was approximately $1,574,243,000 and, accordingly, net unrealized appreciation for U.S. Federal income tax purposes was $125,341,000 of which $157,274,000 related to appreciated securities and $31,933,000 related to depreciated securities.

At October 31, 2010, the Fund had a capital loss carryforward for U.S. Federal income tax purposes of approximately $63,705,000 to offset against future capital gains of which $30,134,000 will expire on October 31, 2016, and $33,571,000 will expire on October 31, 2017. During the year ended October 31, 2010, the Fund had utilized capital loss carryforward for U.S. Federal income tax purposes of approximately $35,336,000.

F. Security Transactions and Transactions with Affiliates: The Fund invests in the Institutional Class of the Morgan Stanley Institutional Liquidity Funds Money Market Portfolio (the "Liquidity Funds"), an open-end management investment company managed by the Adviser. Investment Advisory fees paid by the Fund are reduced by an amount equal to its pro-rata share of advisory and administration fees paid by the Fund due to its investments in the Liquidity Funds. For the six months ended April 30, 2011, advisory fees paid were reduced by approximately $10,000 relating to the Fund's investment in the Liquidity Funds.

A summary of the Fund's transactions in shares of the Liquidity Funds during the six months ended April 30, 2011 is as follows:

Market Value October 31, 2010 (000)	Purchases at Cost (000)	Sales Proceeds (000)	Dividend Income (000)	Market Value April 30, 2011 (000)

$ 9,674	$ 163,697	$ 172,052	$ 15	$ 1,319

During the six months ended April 30, 2011, the Fund made purchases and sales totaling approximately $502,008,000 and $444,507,000, respectively, of investment securities other than long-term U.S. Government securities and short-term investments.

G. Credit Facility: The Fund will use the proceeds from the use of leverage to purchase additional securities consistent with the Fund's investment objectives, policies and strategies. The Fund has engaged JPMorgan Securities Inc. to arrange a syndicate of lenders to provide a revolving line of credit facility ("facility") in the amount of $400,000,000. The term of the facility is 364 days and the loans under the facility will bear interest at the rate of LIBOR for the applicable interest period plus a spread. The loans will be secured by a fully perfected first priority lien on all of the assets of the Fund capable of being pledged. The commitment fee on the unused portion of the facility is 0.375% of the daily unused portion of the facility. As of April 28, 2011, the facility has been renewed and the commitment fee was reduced to 0.20% of the daily unused portion of the facility. The average borrowings and interest rate for the six months ended April 30, 2011 were approximately $323,713,000 and 2.25%, respectively, during a period of 181 days. During the same period, the Fund incurred approximately

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$3,685,000 in interest expense associated with the outstanding loans.

H. Other: On January 10, 2008, the Fund commenced a share repurchase program for purposes of enhancing stockholder value and reducing the discount at which the Fund's shares trade from their net asset value. Since the inception of the program, the Fund has repurchased 886,200 of its shares at an average discount of 23.87% from net asset value per share. The Fund expects to continue to repurchase its outstanding shares at such time and in such amounts as it believes will further the accomplishment of the foregoing objectives, subject to review by the Directors.

I. Indemnifications The Fund enters into contracts that contain a variety of indemnifications. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

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For More Information About Portfolio Holdings

The Fund provides a complete schedule of portfolio holdings in its semi-annual and annual reports within 60 days of the end of the Fund's second and fourth fiscal quarters. The semi-annual reports and the annual reports are filed electronically with the Securities and Exchange Commission (SEC) on Form N-CSRS and Form N-CSR, respectively. Morgan Stanley also delivers the semi-annual and annual reports to Fund stockholders and makes these reports available on its public website, www.morganstanley.com/im. Each Morgan Stanley fund also files a complete schedule of portfolio holdings with the SEC for the Fund's first and third fiscal quarters on Form N-Q. Morgan Stanley does not deliver the reports for the first and third fiscal quarters to stockholders, nor are the reports posted to the Morgan Stanley public website. You may, however, obtain the Form N-Q filings (as well as the Form N-CSR and N-CSRS filings) by accessing the SEC's website, www.sec.gov. You may also review and copy them at the SEC's Public Reference Room in Washington, DC. Information on the operation of the SEC's Public Reference Room may be obtained by calling the SEC toll free at 1(800) SEC-0330. You can also request copies of these materials, upon payment of a duplicating fee, by electronic request at the SEC's e-mail address (publicinfo@sec.gov) or by writing the public reference section of the SEC, Washington, DC 20549-0102.

In addition to filing a complete schedule of portfolio holdings with the SEC each fiscal quarter, the Fund makes portfolio holdings information available by periodically providing the information on its public website, www.morganstanley.com/im.

The Fund provides a complete schedule of portfolio holdings on the public website on a calendar-quarter basis approximately 31 calendar days after the close of the calendar quarter. The Fund also provides Top 10 holdings information on the public website approximately 15 business days following the end of each month. You may obtain copies of the Fund's monthly or calendar-quarter website postings, by calling toll free 1(800) 231-2608.

Proxy Voting Policy and Procedures and Proxy Voting Record

A copy of (1) the Fund's policies and procedures with respect to the voting of proxies relating to the Fund's portfolio securities; and (2) how the Fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30, is available without charge, upon request, by calling toll free 1(800) 548-7786 or by visiting our website at www.morganstanley.com/im. This information is also available on the SEC's web site at www.sec.gov.

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Portfolio Management

The Fund is managed by members of the Emerging Markets Debt team. The team consists of portfolio managers and analysts. Current members of the team jointly and primarily responsible for the day-to-day management of the Fund's portfolio are Eric J. Baurmeister and Federico L. Kaune, each a Managing Director of the Adviser. Mr. Baurmeister has been associated with the Adviser in an investment management capacity since 1997 and began managing the Fund at its inception. Mr. Kaune has been associated with the Adviser in an investment management capacity since 2002 and began managing the Fund at its inception.

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Investment Policy

The Fund may use derivative instruments for a variety of purposes, including hedging, risk management, portfolio management or to earn income. Derivatives are financial instruments whose value is based on the value of another underlying asset, interest rate, index or financial instrument. A derivative instrument often has risks similar to its underlying instrument and may have additional risks, including imperfect correlation between the value of the derivative and the underlying instrument, risks of default by the other party to certain transactions, magnification of losses incurred due to changes in the market value of the securities, instruments, indices or interest rates to which they relate, and risks that the transactions may not be liquid. The use of derivatives involves risks that are different from, and possibly greater than, the risks associated with other portfolio investments. Derivatives may involve the use of highly specialized instruments that require investment techniques and risk analyses different from those associated with other portfolio investments. Certain derivative transactions may give rise to a form of leverage. Leverage associated with derivative transactions may cause the Fund to liquidate portfolio positions when it may not be advantageous to do so to satisfy its obligations or to meet earmarking or segregation requirements, pursuant to applicable SEC rules and regulations, or may cause the Fund to be more volatile than if the Fund had not been leveraged. Although the Investment Adviser seeks to use derivatives to further the Fund's investment objectives, there is no assurance that the use of derivatives will achieve this result.

Following is a description of the derivative instruments and techniques that the Fund may use and their associated risks:

Foreign Currency Forward Contracts. In connection with its investments in foreign securities, the Fund also may enter into contracts with banks, brokers or dealers to purchase or sell securities or foreign currencies at a future date ("forward contracts"). A foreign currency forward contract is a negotiated agreement between the contracting parties to exchange a specified amount of currency at a specified future time at a specified rate. The rate can be higher or lower than the spot rate between the currencies that are the subject of the contract. Forward foreign currency contracts may be used to protect against uncertainty in the level of future foreign currency exchange rates or to gain or modify exposure to a particular currency. In addition, the Fund may use cross currency hedging or proxy hedging with respect to currencies in which the Fund has or expects to have portfolio or currency exposure. Cross currency hedges involve the sale of one currency against the positive exposure to a different currency and may be used for hedging purposes or to establish an active exposure to the exchange rate between any two currencies. A currency exchange contract is marked-to-market daily and the change in market value is recorded by the Fund as unrealized gain or loss. The Fund records realized gains (losses) when the contract is closed equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. Hedging the Fund's currency risks involves the risk of mismatching the Fund's objectives under a currency exchange or futures contract with the value of securities denominated in a particular currency. Furthermore, such transactions reduce or preclude the opportunity for gain if the value of the currency should move in the direction opposite to the position taken. There is an additional risk to the effect that currency contracts create exposure to currencies in which the Fund's securities are not denominated. Unanticipated changes in currency prices may result in poorer overall performance for the Fund than if it had not entered into such contracts.

Futures. A futures contract is a standardized agreement between two parties to buy or sell a specific quantity of an underlying instrument at a specific price at a specific future time. The value of a futures contract tends to increase and decrease in tandem with the value of the underlying instrument. Futures contracts are bilateral agreements, with both the purchaser and the seller equally

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Investment Policy (cont'd)

obligated to complete the transaction. Depending on the terms of the particular contract, futures contracts are settled through either physical delivery of the underlying instrument on the settlement date or by payment of a cash settlement amount on the settlement date. A decision as to whether, when and how to use futures involves the exercise of skill and judgment and even a well conceived futures transaction may be unsuccessful because of market behavior or unexpected events. In addition to the derivatives risks discussed above, the prices of futures can be highly volatile, using futures can lower total return, and the potential loss from futures can exceed the Fund's initial investment in such contracts.

Options. If a Fund buys an option, it buys a legal contract giving it the right to buy or sell a specific amount of the underlying instrument or futures contract on the underlying instrument such as a security, currency or index, at an agreed upon price typically in exchange for a premium paid by the Fund. If a Fund sells an option, it sells to another person the right to buy from or sell to the Fund a specific amount of the underlying instrument or futures contract on the underlying instrument at an agreed upon price typically in exchange for a premium received by the Fund. A decision as to whether, when and how to use options involves the exercise of skill and judgment and even a well conceived option transaction may be unsuccessful because of market behavior or unexpected events. The prices of options can be highly volatile and the use of options can lower total returns.

Structured Investments. The Fund also may invest a portion of its assets in structured investments. A structured investment is a derivative security designed to offer a return linked to a particular underlying security, currency or market. Structured investments may come in various forms including notes, warrants and options to purchase securities. The Fund will typically use structured investments to gain exposure to a permitted underlying security, currency or market when direct access to a market is limited or inefficient from a tax or cost standpoint. Investments in structured investments involve risks including counterparty risk and market risk. Holders of structured investments bear risks of the underlying investment and are subject to counterparty risk because the Fund is relying on the creditworthiness of such counterparty and has no rights with respect to the underlying investment. Certain structured investments may be thinly traded or have a limited trading market and may have the effect of increasing the Fund's illiquidity to the extent that the Fund, at a particular point in time, may be unable to find qualified buyers for these securities.

Swaps. A swap contract is an agreement between two parties pursuant to which the parties exchange payments at specified dates on the basis of a specified notional amount, with the payments calculated by reference to specified securities, indexes, reference rates, currencies or other instruments. Most swap agreements provide that when the period payment dates for both parties are the same, the payments are made on a net basis (i.e., the two payment streams are netted out, with only the net amount paid by one party to the other). The Fund's obligations or rights under a swap contract entered into on a net basis will generally be equal only to the net amount to be paid or received under the agreement, based on the relative values of the positions held by each counterparty. Swap agreements are not entered into or traded on exchanges and there is no central clearing or guaranty function for swaps. Therefore, swaps are subject to credit risk or the risk of default or non-performance by the counterparty. Swaps could result in losses if interest rate or foreign currency exchange rates or credit quality changes are not correctly anticipated by the Fund or if the reference index, security or investments do not perform as expected.

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Dividend Reinvestment Plan

Pursuant to the Dividend Reinvestment Plan (the Plan), each stockholder will be deemed to have elected, unless Computershare Trust Company, N.A. (the Plan Agent) is otherwise instructed by the stockholder in writing, to have all distributions automatically reinvested in Fund shares.

Dividend and capital gain distributions (Distribution) will be reinvested on the reinvestment date in full and fractional shares. If the market price per share equals or exceeds net asset value per share on the reinvestment date, the Fund will issue shares to participants at net asset value or, if net asset value is less than 95% of the market price on the reinvestment date, shares will be issued at 95% of the market price. If net asset value exceeds the market price on the reinvestment date, participants will receive shares valued at market price. The Fund may purchase shares of its Common Stock in the open market in connection with dividend reinvestment requirements at the discretion of the Board of Directors. Should the Fund declare a Distribution payable only in cash, the Plan Agent will purchase Fund shares for participants in the open market as agent for the participants.

The Plan Agent's fees for the reinvestment of a Distribution will be paid by the Fund. However, each participant's account will be charged a pro rata share of brokerage commissions incurred on any open market purchases effected on such participant's behalf. Although stockholders in the Plan may receive no cash distributions, participation in the Plan will not relieve participants of any income tax which may be payable on such dividends or distributions.

In the case of stockholders, such as banks, brokers or nominees, that hold shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of shares certified from time to time by the stockholder as representing the total amount registered in the stockholder's name and held for the account of beneficial owners who are participating in the Plan.

Stockholders who do not wish to have Distributions automatically reinvested should notify the Plan Agent in writing. There is no penalty for non-participation or withdrawal from the Plan, and stockholders who have previously withdrawn from the Plan may rejoin at any time. Requests for additional information or any correspondence concerning the Plan should be directed to the Plan Agent at:

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.
Computershare Trust Company, N.A.
P.O. Box 43078
Providence, Rhode Island 02940-3078
1 (800) 231-2608

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

April 30, 2011 (unaudited)

U.S. Privacy Policy

An Important Notice Concerning Our U.S. Privacy Policy

We are required by federal law to provide you with a copy of our privacy policy ("Policy") annually.

This Policy applies to current and former individual clients of certain Morgan Stanley closed-end funds and related companies.

This Policy is not applicable to partnerships, corporations, trusts or other non-individual clients or account holders, nor is this Policy applicable to individuals who are either beneficiaries of a trust for which we serve as trustee or participants in an employee benefit plan administered or advised by us. This Policy is, however, applicable to individuals who select us to be a custodian of securities or assets in individual retirement accounts, 401(k) accounts, 529 Educational Savings Accounts, accounts subject to the Uniform Gifts to Minors Act, or similar accounts. We may amend this Policy at any time, and will inform you of any changes to this Policy as required by law.

We Respect Your Privacy

We appreciate that you have provided us with your personal financial information and understand your concerns about safeguarding such information. We strive to maintain the privacy of such information while we help you achieve your financial objectives. This Policy describes what nonpublic personal information we collect about you, how we collect it, when we may share it with others, and how others may use it. It discusses the steps you may take to limit our sharing of information about you with affiliated Morgan Stanley companies ("affiliated companies"). It also discloses how you may limit our affiliates' use of shared information for marketing purposes. Throughout this Policy, we refer to the nonpublic information that personally identifies you or your accounts as "personal information."

1. What Personal Information Do We Collect About You?

To better serve you and manage our business, it is important that we collect and maintain accurate information about you. We obtain this information from applications and other forms you submit to us, from your dealings with us, from consumer reporting agencies, from our websites and from third parties and other sources.

For example:

- We collect information such as your name, address, e-mail address, telephone/fax numbers, assets, income and investment objectives through application forms you submit to us.

- We may obtain information about account balances, your use of account(s) and the types of products and services you prefer to receive from us through your dealings and transactions with us and other sources.

- We may obtain information about your creditworthiness and credit history from consumer reporting agencies.

- We may collect background information from and through third-party vendors to verify representations you have made and to comply with various regulatory requirements.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

April 30, 2011 (unaudited)

U.S. Privacy Policy (cont'd)

- If you interact with us through our public and private Web sites, we may collect information that you provide directly through online communications (such as an e-mail address). We may also collect information about your Internet service provider, your domain name, your computer's operating system and Web browser, your use of our Web sites and your product and service preferences, through the use of "cookies." "Cookies" recognize your computer each time you return to one of our sites, and help to improve our sites' content and personalize your experience on our sites by, for example, suggesting offerings that may interest you. Please consult the Terms of Use of these sites for more details on our use of cookies.

2. When Do We Disclose Personal Information We Collect About You?

To provide you with the products and services you request, to better serve you, to manage our business and as otherwise required or permitted by law, we may disclose personal information we collect about you to other affiliated companies and to nonaffiliated third parties.

a. Information We Disclose to Our Affiliated Companies. In order to manage your account(s) effectively, including servicing and processing your transactions, to let you know about products and services offered by us and affiliated companies, to manage our business, and as otherwise required or permitted by law, we may disclose personal information about you to other affiliated companies. Offers for products and services from affiliated companies are developed under conditions designed to safeguard your personal information.

b. Information We Disclose to Third Parties. We do not disclose personal information that we collect about you to nonaffiliated third parties except to enable them to provide marketing services on our behalf, to perform joint marketing agreements with other financial institutions, and as otherwise required or permitted by law. For example, some instances where we may disclose information about you to third parties include: for servicing and processing transactions, to offer our own products and services, to protect against fraud, for institutional risk control, to respond to judicial process or to perform services on our behalf. When we share personal information with a nonaffiliated third party, they are required to limit their use of personal information about you to the particular purpose for which it was shared and they are not allowed to share personal information about you with others except to fulfill that limited purpose or as may be required by law.

3. How Do We Protect The Security and Confidentiality Of Personal Information We Collect About You?

We maintain physical, electronic and procedural security measures to help safeguard the personal information we collect about you. We have internal policies governing the proper handling of client information. Third parties that provide support or marketing services on our behalf may also receive personal information about you, and we require them to adhere to confidentiality standards with respect to such information.

4. How Can You Limit Our Sharing Of Certain Personal Information About You With Our Affiliated Companies For Eligibility Determination?

We respect your privacy and offer you choices as to whether we share with our affiliated companies personal information that was collected to determine your eligibility for products and services such as credit reports and other information that you have provided to

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

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U.S. Privacy Policy (cont'd)

us or that we may obtain from third parties ("eligibility information"). Please note that, even if you direct us not to share certain eligibility information with our affiliated companies, we may still share your personal information, including eligibility information, with those companies under circumstances that are permitted under applicable law, such as to process transactions or to service your account. We may also share certain other types of personal information with affiliated companies-such as your name, address, telephone number, e-mail address and account number(s), and information about your transactions and experiences with us.

5. How Can You Limit the Use of Certain Personal Information About You by our Affiliated Companies for Marketing?

You may limit our affiliated companies from using certain personal information about you that we may share with them for marketing their products or services to you. This information includes our transactions and other experiences with you such as your assets and account history. Please note that, even if you choose to limit our affiliated companies from using certain personal information about you that we may share with them for marketing their products and services to you, we may still share such personal information about you with them, including our transactions and experiences with you, for other purposes as permitted under applicable law.

6. How Can You Send Us an Opt-Out Instruction?

If you wish to limit our sharing of certain personal information about you with our affiliated companies for "eligibility purposes" and for our affiliated companies' use in marketing products and services to you as described in this notice, you may do so by:

• Calling us at (800) 231-2608
Monday Friday between 9a.m. and 6p.m. (EST)

• Writing to us at the following address:

Morgan Stanley Closed-End Privacy Department
Harborside Financial Center
201 Plaza Two, 3rd Floor
Jersey City, NJ 07311

If you choose to write to us, your written request should include: your name, address, telephone number and account number(s) to which the opt-out applies and should not be sent with any other correspondence. In order to process your request, we require that the request be provided by you directly and not through a third party. Once you have informed us about your privacy preferences, your opt-out preference will remain in effect with respect to this Policy (as it may be amended) until you notify us otherwise. If you are a joint account owner, we will accept instructions from any one of you and apply those instructions to the entire account. Please allow approximately 30 days from our receipt of your opt-out for your instructions to become effective.

Please understand that if you opt-out, you and any joint account holders may not receive certain Morgan Stanley or our affiliated companies' products and services that could help you manage your financial resources and achieve your investment objectives.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

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U.S. Privacy Policy (cont'd)

If you have more than one account with us or our affiliates, you may receive multiple privacy policies from us, and would need to follow the directions stated in each particular policy for each account you have with us.

7. What if an affiliated company becomes a nonaffiliated third party?

If, at any time in the future, an affiliated company becomes a nonaffiliated third party, further disclosures of personal information made to the former affiliated company will be limited to those described in Section 2(b) above relating to nonaffiliated third parties. If you elected under Section 6 to limit disclosures we make to affiliated companies, or use of personal information by affiliated companies, your election will not apply to use by any former affiliated company of your personal information in their possession once it becomes a nonaffiliated third party.

SPECIAL NOTICE TO RESIDENTS OF VERMONT

This section supplements our Policy with respect to our individual clients who have a Vermont address and supersedes anything to the contrary in the above Policy with respect to those clients only.

The State of Vermont requires financial institutions to obtain your consent prior to sharing personal information that they collect about you with affiliated companies and nonaffiliated third parties other than in certain limited circumstances. Except as permitted by law, we will not share personal information we collect about you with nonaffiliated third parties or other affiliated companies unless you provide us with your written consent to share such information ("opt-in").

If you wish to receive offers for investment products and services offered by or through other affiliated companies, please notify us in writing at the following address:

Morgan Stanley Closed-End Privacy Department
Harborside Financial Center
201 Plaza Two, 3rd Floor
Jersey City, NJ 07311

Your authorization should include: your name, address, telephone number and account number(s) to which the opt-in applies and should not be sent with any other correspondence. In order to process your authorization, we require that the authorization be provided by you directly and not through a third-party.

SPECIAL NOTICE TO RESIDENTS OF CALIFORNIA

The following section supplements our Policy with respect to our individual clients who have a California address and supersedes anything to the contrary in the above Policy with respect to those clients only.

In response to a California law, if your account has a California home address, your personal information will not be disclosed to nonaffiliated third parties except as permitted by applicable California law, and we will limit sharing such personal information with our affiliates to comply with California privacy laws that apply to us.

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Item 2. Code of Ethics.

Not applicable for semiannual reports.

Item 3. Audit Committee Financial Expert.

Not applicable for semiannual reports.

Item 4. Principal Accountant Fees and Services

Not applicable for semiannual reports.

Item 5. Audit Committee of Listed Registrants.

Not applicable for semiannual reports.

Item 6.

(a) Refer to Item 1.

(b) Not applicable.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

Not applicable for semiannual reports.

Item 8. Portfolio Managers of Closed-End Management Investment Companies

Applicable only to reports filed by closed-end funds.

Item 9. Closed-End Fund Repurchases

REGISTRANT PURCHASE OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
mo-da-year mo-da-year			N/A	N/A
mo-da-year mo-da-year			N/A	N/A
mo-da-year mo-da-year			N/A	N/A
mo-da-year mo-da-year			N/A	N/A
mo-da-year mo-da-year			N/A	N/A
mo-da-year mo-da-year			N/A	N/A
Total			N/A	N/A

Item 10. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 11. Controls and Procedures

(a) The Trust s/Fund s principal executive officer and principal financial officer have concluded that the Trust s/Fund s disclosure controls and procedures are sufficient to ensure that information required to be disclosed by the Trust/Fund in this Form N-CSR was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, based upon such officers evaluation of these controls and procedures as of a date within 90 days of the filing date of the report.

(b) There were no changes in the registrant s internal control over financial reporting that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting.

Item 12. Exhibits

(a) Code of Ethics Not applicable for semiannual reports.

(b) A separate certification for each principal executive officer and principal financial officer of the registrant are attached hereto as part of EX-99.CERT.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

/s/ Arthur Lev
Arthur Lev
Principal Executive Officer
June 21, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Arthur Lev
Arthur Lev
Principal Executive Officer
June 21, 2011

/s/ Francis Smith
Francis Smith
Principal Financial Officer
June 21, 2011