

Wilhelmina International, Inc.
Form 10-Q
May 11, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **March 31, 2018**

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 **001-36589**

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. Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of May 11, 2018 the registrant had 5,376,040 shares of common stock outstanding.

WILHELMINA INTERNATIONAL, INC. AND SUBSIDIARIES

Quarterly Report on Form 10-Q

For the Three Months Ended March 31, 2018

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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)**

| | (Unaudited) | |
|---|-------------------|-------------------------|
| | March 31, 2018 | December 31, 2017 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 3,564 | \$4,256 |
| Accounts receivable, net of allowance for doubtful accounts of \$2,209 and \$2,171, respectively | 15,141 | 13,627 |
| Prepaid expenses and other current assets | 243 | 180 |
| Total current assets | 18,948 | 18,063 |
| Property and equipment, net of accumulated depreciation of \$2,566 and \$2,349, respectively | 2,984 | 3,039 |
| Trademarks and trade names with indefinite lives | 8,467 | 8,467 |
| Other intangibles with finite lives, net of accumulated amortization of \$8,628 and \$8,609, respectively | 109 | 128 |
| Goodwill | 13,192 | 13,192 |
| Other assets | 132 | 137 |
| TOTAL ASSETS | \$ 43,832 | \$43,026 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 4,146 | \$3,985 |
| Due to models | 10,612 | 10,190 |
| Term loan - current | 530 | 524 |
| Total current liabilities | 15,288 | 14,699 |
| Long term liabilities: | | |
| Deferred income tax liability | 532 | 521 |

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| | | |
|--|-----------|----------|
| Term loan - non-current | 1,488 | 1,623 |
| Total long-term liabilities | 2,020 | 2,144 |
| | | |
| Total liabilities | 17,308 | 16,843 |
| | | |
| Shareholders' equity: | | |
| Common stock, \$0.01 par value, 9,000,000 shares authorized; 6,472,038 shares issued at March 31, 2018 and December 31, 2017 | 65 | 65 |
| Treasury stock, 1,095,998 and 1,090,370 at March 31, 2018 and December 31, 2017, at cost | (4,929) | (4,893) |
| Additional paid-in capital | 88,001 | 87,892 |
| Accumulated deficit | (56,660) | (56,885) |
| Accumulated other comprehensive loss | 47 | 4 |
| Total shareholders' equity | 26,524 | 26,183 |
| | | |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 43,832 | \$43,026 |

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

WILHELMINA INTERNATIONAL, INC. AND SUBSIDIARIES**STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME****For the Three Months Ended March 31, 2018 and 2017****(In thousands, except per share data)****(Unaudited)**

| | Three Months Ended March 31, | |
|--|------------------------------------|----------|
| | 2018 | 2017 |
| Revenues: | | |
| Service revenues | \$19,702 | \$19,123 |
| License fees and other income | 14 | 28 |
| Total revenues | 19,716 | 19,151 |
| Model costs | 13,842 | 13,699 |
| Revenues net of model costs | 5,874 | 5,452 |
| Operating expenses: | | |
| Salaries and service costs | 3,559 | 3,636 |
| Office and general expenses | 1,378 | 1,152 |
| Amortization and depreciation | 236 | 217 |
| Corporate overhead | 337 | 346 |
| Total operating expenses | 5,510 | 5,351 |
| Operating income | 364 | 101 |
| Other expense: | | |
| Foreign exchange loss | (20) | (22) |
| Interest expense | (25) | (29) |
| Loss from unconsolidated affiliate | - | (29) |
| Total other expense | (45) | (80) |
| Income before provision for income taxes | 319 | 21 |
| Provision for income taxes: (expense) benefit: | | |
| Current | (84) | (60) |
| Deferred | (10) | 48 |
| Income tax expense | (94) | (12) |
| Net income | \$225 | \$9 |
| Other comprehensive income: | | |
| Foreign currency translation income | 43 | 45 |

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| | | |
|--|--------|--------|
| Total comprehensive income | \$268 | \$54 |
| Basic income per common share | \$0.04 | \$0.00 |
| Diluted income per common share | \$0.04 | \$0.00 |
| Weighted average common shares outstanding-basic | 5,381 | 5,382 |
| Weighted average common shares outstanding-diluted | 5,402 | 5,399 |

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

WILHELMINA INTERNATIONAL, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CASH FLOW****For the Three Months Ended March 31, 2018 and 2017****(In thousands)****(Unaudited)**

| | Three Months Ended March 31, | |
|---|------------------------------------|---------|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net income: | \$225 | \$9 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Amortization and depreciation | 236 | 217 |
| Share based payment expense | 109 | 124 |
| Deferred income taxes | 11 | (46) |
| Bad debt expense | 45 | 38 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,559) | (1,576) |
| Prepaid expenses and other current assets | (63) | 500 |
| Other assets | 5 | 39 |
| Due to models | 422 | 413 |
| Accounts payable and accrued liabilities | 161 | (1,079) |
| Contingent liability to seller | - | (97) |
| Net cash used by operating activities | (408) | (1,458) |
| | | |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (162) | (254) |
| Net cash used in investing activities | (162) | (254) |
| | | |
| Cash flows from financing activities: | | |
| Purchases of treasury stock | (36) | - |
| Repayment of term loan | (129) | (124) |
| Net cash used in financing activities | (165) | (124) |
| | | |
| Foreign currency effect on cash flows: | 43 | 45 |
| | | |
| Net change in cash and cash equivalents: | (692) | (1,791) |
| Cash and cash equivalents, beginning of period | 4,256 | 5,688 |
| Cash and cash equivalents, end of period | \$3,564 | \$3,897 |

Supplemental disclosures of cash flow information:

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| | | |
|-----------------------------|------|------|
| Cash paid for interest | \$24 | \$29 |
| Cash refund of income taxes | \$10 | \$69 |

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

WILHELMINA INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

The interim consolidated financial statements included herein have been prepared by Wilhelmina International, Inc. (together with its subsidiaries "Wilhelmina" or the "Company") 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 the periods presented. These interim unaudited consolidated financial statements should be read in conjunction with the audited 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, 2017. 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

The primary business of Wilhelmina is fashion model management. These business operations are headquartered in New York City. The Company's predecessor was founded in 1967 by Wilhelmina Cooper, a renowned fashion model, and became 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, Chicago and London, as well as a network of licensees in various local markets in the U.S. and internationally. Wilhelmina provides traditional, full-service fashion model and talent management services, specializing in the representation and management of models, entertainers, artists, athletes and other talent, to various clients, including retailers, designers, advertising agencies, print and electronic media and catalog companies.

Note 3. New Accounting Standards

Accounting Standard Update ("ASU") 2014-09, Revenue from Contracts with Customers. On January 1, 2018, Wilhelmina adopted the new accounting standard which requires that a contract's transaction price, which is the

amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, is to be allocated to each performance obligation in the contract based on relative standalone selling prices and recognized as revenue when, or as, the performance obligation is satisfied.

Note 4. Foreign Currency Translation

The functional currency of London is the British Pound. 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

The Company has a credit agreement with Amegy Bank which provides a \$4.0 million revolving line of credit and previously provided up to a \$3.0 million term loan which could be drawn through October 24, 2016. The revolving line of credit is subject to a borrowing base derived from 80% of eligible accounts receivable (as defined) and the Company's minimum net worth covenant of \$20.0 million. The revolving line of credit bears interest at prime plus 0.50% payable monthly. As of March 31, 2018, the Company had a \$0.2 million irrevocable standby letter of credit outstanding under the revolving line of credit and had additional borrowing capacity of \$1.1 million. The revolving line of credit presently expires on October 24, 2018.

On August 16, 2016, the Company drew \$2.7 million of the term loan and used the proceeds to fund the purchase of shares of its common stock from Lorex Investments AG. The term loan bears interest at 4.5% per annum and is payable in monthly payments of interest only until November, 2016, followed by 47 equal monthly payments of principal and interest computed on a 60-month amortization schedule and a final payment of principal and interest due on October 24, 2020.

Note 6. Commitments and Contingencies

On October 24, 2013, a putative class action lawsuit was brought against the Company by former Wilhelmina model Alex Shanklin and others (the “Shanklin Litigation”), in New York State Supreme Court (New York County) by the same lead counsel who represented plaintiffs in a prior, now-dismissed action brought by Louisa Raske (the “Raske Litigation”). The claims in the Shanklin Litigation initially included breach of contract and unjust enrichment allegations arising out of matters similar to 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. On January 6, 2014, the Company moved to dismiss the Amended Complaint in the Shanklin Litigation for failure to state a claim upon which relief can be granted and other grounds, and other defendants also filed motions to dismiss. On August 11, 2014, the court denied the motion to dismiss as to Wilhelmina and other of the model management defendants. Further, 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 retained substitute counsel, who filed a Second and then Third Amended Complaint. Plaintiffs’ Third 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. The Third Amended Complaint also alleges that the plaintiff models were at all relevant times employees, and not independent contractors, of 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 Third 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. On October 6, 2015, Wilhelmina filed a motion to dismiss as to most of the plaintiffs’ claims, and oral argument on the motion was heard by the Court in June 2016. The Court entered a decision granting in part and denying in part Wilhelmina’s motion to dismiss on May 26, 2017. The Court (i) dismissed three of the five New York Labor Law causes of action, along with the conversion, breach of the duty of good faith and fair dealing and unjust enrichment causes of action, in their entirety, and (ii) permitted only the breach of contract causes of action, and some plaintiffs’ remaining two New York Labor Law causes of action to continue, within a limited time frame. The plaintiffs and Wilhelmina have appealed the decision and the appeal was argued on April 10, 2018. On August 16, 2017, Wilhelmina filed its Answer to the Third Amended Complaint, and discovery in this action is continuing. The Company believes the claims asserted in the Third Amended Complaint are without merit, and intends to continue to vigorously defend the action.

On June 6, 2016, another putative class action lawsuit was brought against the Company by former Wilhelmina model Shawn Pressley and others (the “Pressley Litigation”), in New York State Supreme Court (New York County) by the same counsel representing the plaintiffs in the Shanklin Litigation, and asserting identical, although more recent, claims as those in the Shanklin Litigation. The Amended Complaint, asserting essentially the same types of claims as in the Shanklin action, was filed on August 16, 2017. Wilhelmina filed a motion to dismiss the Amended Complaint on September 29, 2017, which was argued on April 20, 2018. Discovery is proceeding in this case, and Ms. Pressley has asked to withdraw from the case, leaving Roberta Little as the sole named plaintiff in the Pressley Litigation. The Company believes the claims asserted in the Pressley Litigation are without merit, and intends to vigorously defend the action.

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 likely, in the Company's opinion, to have a material adverse effect on its consolidated financial position or its results of operations.

Note 7. 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, stock based compensation, and corporate overhead not being deductible and income being attributable to certain states in which it operates. In recent years, the majority of taxes being paid by the Company were state taxes, not federal taxes. The Company operates in four states which have relatively high tax rates: California, New York, Illinois, and Florida. As of March 31, 2018, the Company had federal income tax loss carryforwards of \$1.8 million.

The U.S. Tax Cuts and Jobs Act was enacted on December 22, 2017 and introduces significant changes to U.S. income tax law. Effective in 2018, the Tax Act reduces the U.S. statutory tax rate from 35% to 21% and creates new taxes on certain foreign-sourced earnings and certain related-party payments, which are referred to as the global intangible low-taxed income tax and base erosion tax, respectively.

Note 8. Common Stock

On July 7, 2017, the Company filed with the Delaware Secretary of State a Certificate of Amendment of its Restated Certificate of Incorporation. As approved by shareholders at the Annual Meeting held June 13, 2017, the Certificate of Amendment eliminated any class of preferred stock from the shares of capital stock the Company is authorized to issue and decreased the number of shares of common stock the Company is authorized to issue from 12,500,000 shares to 9,000,000 shares.

Note 9. Treasury Shares

During 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 2013, the Board of Directors renewed and extended the Company's share repurchase authority to enable it to repurchase up to an aggregate of 1,000,000 shares of common stock.

On August 12, 2016, the Board of Directors increased by an additional 500,000 shares the number of shares of the Company's common stock which may be repurchased under its stock repurchase program to an aggregate of 1,500,000 shares. 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 may be modified or suspended at any time at the Company's discretion.

From 2012 through March 31, 2018, the Company has repurchased 1,095,998 shares of Common Stock at an average price of approximately \$4.50 per share, for a total of approximately \$4.9 million in repurchases under the stock repurchase program. During the first three months of 2018, 5,628 shares were repurchased under the stock repurchase program.

Note 10. Related Parties

The Executive Chairman of the Company, Mark E. Schwarz, is also the chairman, chief executive officer and portfolio manager of Newcastle Capital Management, L.P. ("NCM"). NCM is the general partner of Newcastle Partners L.P. ("Newcastle"), which is the largest shareholder of the Company. James Dvorak (Managing Director at NCM) also serves as a director 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 thousand 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 thousand for the three months ended March 31, 2018 and 2017. The Company did not owe NCM any amounts under the services agreement as of March 31, 2018 or 2017.

The Company previously owned an unconsolidated 50% interest in Wilhelmina Kids & Creative Management LLC ("Kids"), a New York City-based modeling agency that specialized in representing child models/talents, from newborns to children 14 years of age. On December 9, 2016, the owners of Kids agreed to dissolve Kids and ceased related business operations of Kids. On March 1, 2017, the Company paid \$0.1 million to another owner of Kids in accordance with the December 9, 2016 agreement to liquidate the enterprise. As a result, Wilhelmina no longer maintains a child models division.

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 months ended March 31, 2018 and 2017. 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, 2017, 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, such forward looking statement relating to the Company and its subsidiaries 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 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. 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 and complementary business activities. 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 television 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 new opportunities. The Company continues to focus on tightly managing 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. The Company closely monitors economic conditions, client spending, and other industry factors and continually evaluates opportunities to increase its market share and further expand its geographic reach. 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 first three months of 2018.

With total annual advertising expenditures on major media (newspapers, magazines, television, cinema, outdoor and Internet) exceeding approximately \$190 billion in recent years, 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.

In recent quarters, traditional retail clients in the fashion and beauty industry have had increased competition from digital, social, and new media, reducing their budgets for advertising and model talent. Wilhelmina reviews the mix of talent and resources available to best operate in the changing environment.

Strategy

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

- increase Wilhelmina's brand awareness and consideration among advertisers and potential talent;
- expand the Wilhelmina network through strategic geographic market development;
 - expand the women's high end fashion board;
- expand the Aperture division's representation in commercials, film, and television;
 - expand celebrity representation; and
- promote model search contests, and events and partner on media projects (television, film, books, etc.).

Due to the 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 clients. At the same time, the Internet presents challenges for the Company, including (i) the cannibalization of traditional print media businesses, and (ii) pricing pressures with respect to digital media photo shoots and client engagements.

Key Financial Indicators

In addition to net income, the key financial indicators that the Company reviews to monitor its 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, by geographic locations and from significant clients. Wilhelmina's primary sources of revenue include: (i) revenues from principal relationships where the gross amount billed to the client is recorded as revenue when earned and collectability is reasonably assured; and (ii) 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."

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

Analysis of Consolidated Statements of Operations and Gross Billings

(in thousands)

| | Three Months Ended | | |
|-------------------------------------|----------------------|----------------------|--------------------------------------|
| | March 31, 2018 | March 31, 2017 | Percent Change 2018 vs 2017 |
| Service revenues | 19,702 | 19,123 | 3.0% |
| License fees and other income | 14 | 28 | (50.0%) |
| TOTAL REVENUES | 19,716 | 19,151 | 3.0% |
| Model costs | 13,842 | 13,699 | 1.0% |
| REVENUES NET OF MODEL COSTS | 5,874 | 5,452 | 7.7% |
| GROSS PROFIT MARGIN | 29.8% | 28.5% | |
| Salaries and service costs | 3,559 | 3,636 | (2.1%) |
| Office and general expenses | 1,378 | 1,152 | 19.6% |
| Amortization and depreciation | 236 | 217 | 8.8% |
| Corporate overhead | 337 | 346 | (2.6%) |
| OPERATING INCOME | 364 | 101 | 260.4% |
| OPERATING MARGIN | 1.8% | 0.5% | |
| Foreign exchange loss | (20) | (22) | (9.1%) |
| Interest expense | (25) | (29) | (13.8%) |
| Loss from unconsolidated subsidiary | - | (29) | * |
| INCOME BEFORE INCOME TAXES | 319 | 21 | * |
| Income taxes expense | (94) | (12) | * |
| Effective tax rate | 29.5% | 57.1% | |
| NET INCOME | 225 | 9 | * |

* Not Meaningful

Service Revenues

The Company's service revenues fluctuate in response to its clients' willingness to spend on advertising and the Company's ability to have the desired talent available. The 3.0% increase in service revenues for the three months ended March 31, 2018 when compared to the three months ended March 31, 2017 was primarily due to an increase in core model bookings during the first three months of 2018.

License Fees and Other Income

License fees and other income include franchise revenues from independently owned model agencies that use the Wilhelmina trademark and various services provided by the Company. License fees decreased by 50.0% for the three months ended March 31, 2018, when compared to three months ended in March 31, 2017, primarily due to a reduction in the number of licensed affiliates.

Gross Profit Margin

Gross profit margin increased by 1.3 basis points in the three months ended March 31, 2018, when compared to the three months ended March 31, 2017 primarily due to a change in board revenue mix and a decrease in client reimbursable expenses in 2018.

Salaries and Service Costs

Salaries and service costs consist of payroll related costs and T&E required to deliver the Company's services to its clients and talents. The 2.1% decrease in salaries and service costs for the three months ended March 31, 2018 when compared to the three months ended March 31, 2017 was primarily due to changes in personnel to better align the number of employees at each Wilhelmina office with the needs of each geographic region, a reduction in share based payment expense, and more effective management of T&E.

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. The 19.6% increase in office and general costs for the three months ended March 31, 2018 when compared to three months ended March 31, 2017 was primarily due to increased legal expenses in 2018.

Amortization and Depreciation

Depreciation and amortization expense is incurred with respect to certain assets, including computer hardware, software, office equipment, furniture, and other intangibles. During the three months ended March 31, 2018, compared to the same period of the prior year, depreciation and amortization expense increased by 8.8% primarily due to new equipment being placed in service in recent months, which will be depreciated going forward. Fixed asset purchases (mostly related to technology) totaled approximately \$162 thousand and \$254 thousand during the three months ended March 31, 2018 and March 31, 2017, respectively.

Corporate Overhead

Corporate overhead expenses include director compensation, SEC compliance costs, audit and professional fees, and other public company costs. Corporate overhead decreased by 2.6% for the three months ended March 31, 2018, when compared to the three months ended March 31, 2017. The decrease was primarily due to lower corporate travel costs.

Operating Margin

Operating margin for the three months ended March 31, 2018 increased by 1.3 basis points when compared to the three months ended March 31, 2017 due to increases in revenues outpacing increases in operating expenses.

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 quarters ended March 31, 2018 and March 31, 2017.

Foreign Currency Translation

The Company realized a \$20 thousand foreign currency exchange loss during the three months ended March 31, 2018 as compared to a \$22 thousand foreign currency exchange loss in the same period of the prior year due to fluctuations

in currencies from Latin America, Great Britain and Europe.

Interest Expense

Interest expense for the three months ended March 31, 2018 and 2017 was primarily attributable to accrued interest on a term loan drawn during the third quarter of 2016. See, "Liquidity and Capital Resources."

Unconsolidated Subsidiary

The loss from an unconsolidated subsidiary for the three months ended March 31, 2017 was the result of the dissolution of the unconsolidated subsidiary and discontinuation of its operations.

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 and income 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 four states which have relatively high tax rates: California, New York, Illinois, and Florida. The decrease in the Company's effective tax rate was primarily due to the reduction in the U.S. statutory tax rate, resulting from the U.S. Tax Cuts and Jobs Act.

Net Income

Net income for the three months ended March 31, 2018 increased to \$225 thousand compared to \$9 thousand for the same period of the prior year. The increase in net income was primarily the result of the combined effect of improved operating income, the absence of any loss from unconsolidated subsidiary and a decreased effective tax rate.

Liquidity and Capital Resources

The Company's cash balance decreased to \$3.6 million at March 31, 2018 from \$4.3 million at December 31, 2017. The cash balances decreased as a result of \$0.4 million net cash used by operating activities, \$0.2 million cash used in investing activities, and \$0.2 million cash used in financing activities.

The \$0.2 million cash used in investing activities was attributable to purchases of property and equipment, including software, office furniture, and computer equipment. The \$0.2 million of cash used in financing activities was attributable to principal payments on the Company's term loan and purchases of treasury stock.

The Company's primary liquidity needs are for working capital associated with performing services under its client contracts and servicing its term loan. Generally, the Company incurs significant operating expenses with payment terms shorter than its average collections on billings. Based on 2018 budgeted and year-to-date cash flow information, management believes that the Company has sufficient liquidity to meet its projected operational expenses and capital expenditure requirements for the next twelve months.

Amegy Bank Credit Agreement

The Company has a credit agreement with Amegy Bank which provides a \$4.0 million revolving line of credit and previously provided up to a \$3.0 million term loan which could be drawn through October 24, 2016. The revolving line of credit is subject to a borrowing base derived from 80% of eligible accounts receivable (as defined) and the Company's minimum net worth covenant of \$20.0 million. The revolving line of credit bears interest at prime plus 0.50% payable monthly. As of March 31, 2018, the Company had a \$0.2 million irrevocable standby letter of credit outstanding under the revolving line of credit. The revolving line of credit presently expires on October 24, 2018.

On August 16, 2016, the Company drew \$2.7 million of the term loan and used the proceeds to fund the purchase of shares of its common stock from Lorex Investments AG. The term loan bears interest at 4.5% per annum and is payable in monthly payments of interest only until November, 2016, followed by 47 equal monthly payments of principal and interest computed on a 60-month amortization schedule and a final payment of principal and interest due on October 24, 2020.

Off-Balance Sheet Arrangements

As of March 31, 2018, the Company had outstanding a \$0.2 million irrevocable standby letter of credit under the revolving credit facility with Amegy Bank. The letter of credit serves as security under the lease relating to the Company's office space in New York City that expires February 2021.

Effect of Inflation

Inflation has not historically 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

Basis of Presentation

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

Revenue Recognition

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

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

Advances to models for the cost of initial portfolios and other out-of-pocket costs, which are reimbursable only from collections from the Company's clients as a result of future work, 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 consists primarily of customer and talent relationships arising from past business acquisitions. Intangible assets with finite lives are amortized over useful lives ranging from two to seven years. Goodwill and intangible assets with indefinite lives are no longer subject to amortization, but rather to an annual assessment of impairment by applying a fair-value based test. A significant amount of judgment is required in estimating fair value and performing goodwill impairment tests.

The Company annually assesses whether the carrying value of its intangible assets exceeds their fair value and, if necessary, records an impairment loss equal to any such excess. Each interim reporting period, the Company assesses whether events or circumstances have occurred which indicate that the carrying amount of an intangible asset exceeds its fair value. If the carrying amount of the intangible asset exceeds its fair value, an asset impairment charge will be recognized in an amount equal to that excess. No asset impairment charges were incurred during the three months ended March 31, 2018 and March 31, 2017.

Accounts Receivable and Allowance for Doubtful Accounts

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

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company continually assesses the need for a tax valuation allowance based on all available information. As of March 31, 2018, 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 required for smaller reporting company

Item 4. Controls and Procedures.

The Company maintains disclosure controls and procedures designed to ensure that information it is required to disclose in the reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. The Company's disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

The Company's management, including the Company's principal executive officer and principal financial officer, or persons performing similar functions, have evaluated the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on such evaluation, the Company's principal executive officer and principal financial officer, or persons performing similar functions, have concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. During the most recent fiscal quarter, there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1.

Legal Proceedings.

On October 24, 2013, a putative class action lawsuit was brought against the Company by former Wilhelmina model Alex Shanklin and others (the "Shanklin Litigation"), in New York State Supreme Court (New York County) by the same lead counsel who represented plaintiffs in a prior, now-dismissed action brought by Louisa Raske (the "Raske Litigation"). The claims in the Shanklin Litigation initially included breach of contract and unjust enrichment allegations arising out of matters similar to 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. On January 6, 2014, the Company moved to dismiss the Amended Complaint in the Shanklin Litigation for failure to state a claim upon which relief can be granted and other grounds, and other defendants also filed motions to dismiss. On August 11, 2014, the court denied the motion to dismiss as to Wilhelmina and other of the model management defendants. Further, 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 retained substitute counsel, who filed a Second and then Third Amended Complaint. Plaintiffs' Third 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. The Third Amended Complaint also alleges that the plaintiff models were at all relevant times employees, and not independent contractors, of 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 Third 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. On October 6, 2015, Wilhelmina filed a motion to dismiss as to most of the plaintiffs' claims, and oral argument on the motion was heard by the Court in June 2016. The Court entered a decision granting in part and denying in part Wilhelmina's motion to dismiss on May 26, 2017. The Court (i) dismissed three of the five New York Labor Law causes of action, along with the conversion, breach of the duty of good faith and fair dealing and unjust enrichment causes of action, in their entirety, and (ii) permitted only the breach of contract causes of action, and some plaintiffs' remaining two New York Labor Law

causes of action to continue, within a limited time frame. The plaintiffs and Wilhelmina have appealed the decision and the appeal was argued on April 10, 2018. On August 16, 2017, Wilhelmina filed its Answer to the Third Amended Complaint, and discovery in this action is continuing. The Company believes the claims asserted in the Third Amended Complaint are without merit, and intends to continue to vigorously defend the action.

On June 6, 2016, another putative class action lawsuit was brought against the Company by former Wilhelmina model Shawn Pressley and others (the "Pressley Litigation"), in New York State Supreme Court (New York County) by the same counsel representing the plaintiffs in the Shanklin Litigation, and asserting identical, although more recent, claims as those in the Shanklin Litigation. The Amended Complaint, asserting essentially the same types of claims as in the Shanklin action, was filed on August 16, 2017. Wilhelmina filed a motion to dismiss the Amended Complaint on September 29, 2017, which was argued on April 20, 2018. Discovery is proceeding in this case, and Ms. Pressley has asked to withdraw from the case, leaving Roberta Little as the sole named plaintiff in the Pressley Litigation. The Company believes the claims asserted in the Pressley Litigation are without merit, and intends to vigorously defend the action.

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 likely, 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 required for smaller reporting company.

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

During 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 2013, the Board of Directors renewed and extended the Company's share repurchase authority to enable it to repurchase up to an aggregate of 1,000,000 shares of common stock.

On August 12, 2016, the Board of Directors increased by an additional 500,000 shares the number of shares of the Company's common stock which may be repurchased under its stock repurchase program to an aggregate of 1,500,000 shares. 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 may be modified or suspended at any time at the Company's discretion.

The following table furnishes information for purchases made pursuant to the stock repurchase program during the first quarter ended March 31, 2018:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of the Publicly Announced Plans | Maximum Number of Shares that May Yet Be Purchased Under the Plans |
|---------------------|---|--|---|---|
| January 1-31, 2018 | - | \$ - | 1,090,370 | 409,630 |
| February 1-28, 2018 | - | \$ - | 1,090,370 | 409,630 |
| March 1-31, 2018 | 5,628 | \$ 6.37 | 1,095,998 | 404,012 |
| Total | 5,628 | \$ 6.37 | | |

Item 3.**Defaults Upon Senior Securities.**

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6.

Exhibits.

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

| Exhibit No. | Description |
|-------------|---|
| <u>3.1</u> | <u>Restated Certificate of Incorporation of Wilhelmina International, Inc. (incorporated by reference from Exhibit 3.1 to Form S-1/A, filed January 30, 2012).</u> |
| <u>3.2</u> | <u>Certificate of Amendment of the Restated Certificate of Incorporation of Wilhelmina International, Inc. (incorporated by reference from Exhibit 3.1 to the Form 8-K, filed July 15, 2014).</u> |
| <u>3.3</u> | <u>Certificate of Amendment of the Restated Certificate of Incorporation of Wilhelmina International, Inc. (incorporated by reference from Exhibit 3.1 to Form 8-K filed July 12, 2017).</u> |
| <u>3.4</u> | <u>Amended and Restated Bylaws of Wilhelmina International, Inc. (incorporated by reference from Exhibit 3.2 to Form 8-K, filed May 24, 2011).</u> |
| <u>4.1</u> | <u>Form of Stock Certificate of Common Stock of Billing Concepts Corp. (incorporated by reference from Exhibit 4.1 to Form 10-Q, filed May 15, 1998).</u> |
| <u>31.1</u> | <u>Certification of Principal Executive Officer in Accordance with Section 302 of the Sarbanes-Oxley Act. *</u> |
| <u>31.2</u> | <u>Certification of Principal Financial Officer in Accordance with Section 302 of the Sarbanes-Oxley Act. *</u> |
| <u>32.1</u> | <u>Certification of Principal Executive Officer in Accordance with Section 906 of the Sarbanes-Oxley Act. *</u> |
| <u>32.2</u> | <u>Certification of Principal Financial Officer in Accordance with Section 906 of the Sarbanes-Oxley Act. *</u> |
| 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 * |

* 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: May 11, 2018 By: /s/ James A. McCarthy
Name: James A. McCarthy
Chief Financial Officer
Title:
(Principal Financial Officer)