Wilhelmina International, Inc.
Form 10-Q
November 14, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2016**

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. [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 November 14, 2016 the registrant had 5,381,668 shares of common stock outstanding.

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WILHELMINA INTERNATIONAL, INC. AND SUBSIDIARIES

Quarterly Report on Form 10-Q

For the Nine Months Ended September 30, 2016

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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)

	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,678	$ 4,556
Accounts receivable, net of allowance for doubtful accounts $1,201 and $1,041, respectively	17,977	13,184
Deferred tax asset	1,522	1,358
Prepaid expenses and other current assets	390	191
Total current assets	23,567	19,289
Property and equipment, net of accumulated depreciation of $1,249 and $1,026, respectively	3,006	2,111
Trademarks and trade names with indefinite lives	8,467	8,467
Other intangibles with finite lives, net of accumulated amortization of $8,503 and $8,431 respectively	233	306
Goodwill	13,192	13,192
Other assets	297	405
TOTAL ASSETS	$ 48,762	$ 43,770
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 4,789	$ 3,772
Due to models	12,330	9,745
Contingent consideration to seller	97	-
Term loan - current	500	-
Total current liabilities	17,716	13,517

Long term liabilities:		
Contingent consideration to seller	-	67
Deferred income tax liability	2,929	2,407
Term loan – long term	2,230	-
Total long-term liabilities	5,159	2,474
Total liabilities	22,875	15,991
Shareholders' equity:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized; none issued	-	-
Common stock, $0.01 par value, 12,500,000 shares authorized; 6,472,038 shares issued at September 30, 2016 and December 31, 2015	65	65
Treasury stock, 1,090,370 and 683,654 shares, respectively, at cost	(4,893)	(2,118)
Additional paid-in capital	87,240	86,987
Accumulated deficit	(56,463)	(57,143)
Accumulated other comprehensive income	(62)	(12)
Total shareholders' equity	25,887	27,779
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 48,762	$ 43,770

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

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WILHELMINA INTERNATIONAL, INC. AND SUBSIDIARIES

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	Sept 30, 2016	**Sept 30, 2015**	**Sept 30, 2016**	**Sept 30, 2015**
Revenues				
Revenues	$20,880	$21,616	$64,512	$64,105
License fees and other income	28	216	82	445
Total revenues	20,908	21,832	64,594	64,550
Model costs	14,888	15,402	45,952	45,947
Revenues net of model costs	6,020	6,430	18,642	18,603
Operating expenses				
Salaries and service costs	3,708	3,691	11,594	11,176
Office and general expenses	1,381	1,181	4,267	3,480
Amortization and depreciation	89	113	295	365
Corporate overhead	192	167	768	709
Total operating expenses	5,370	5,152	16,924	15,730
Operating income	650	1,278	1,718	2,873
Other income (expense):				
Foreign exchange gain (loss)	1	(21)	8	(119)
Gain (loss) from an unconsolidated affiliate	5	(3)	11	(18)
Interest expense	(21)	-	(21)	-
Revaluation of contingent liability	(30)	-	(30)	-
Total other income (expense)	(45)	(24)	(32)	(137)
Income before provision for income taxes	605	1,254	1,686	2,736
Provision for income taxes:				
Current	(281)	(135)	(648)	(486)
Deferred	(97)	(452)	(358)	(837)
Income tax (expense)	(378)	(587)	(1,006)	(1,323)
Net income	$227	$667	$680	$1,413
Other comprehensive income				

Foreign currency translation (expense)	(12)	(15)	(50)	(4)
Total comprehensive income	215	652	630	1,409
Basic net income per common share	$0.04	$0.11	$0.12	$0.24
Diluted net income per common share	$0.04	$0.11	$0.12	$0.24
Weighted average common shares outstanding-basic	5,586	5,843	5,716	5,856
Weighted average common shares outstanding-diluted	5,637	5,946	5,768	5,958

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

WILHELMINA INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATE STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income:	$680	1,413
Adjustments to reconcile net income to net cash used in operating activities:		
Amortization and depreciation	295	364
Share based payment expense	253	176
Revaluation of contingent liability to seller	30	-
Deferred income taxes	358	838
Bad debt expenses	40	-
Changes in operating assets and liabilities:		
Accounts receivable	(4,832)	(4,565)
Prepaid expenses and other current assets	(199)	(89)
Other assets	108	(226)
Due to models	2,585	676
Accounts payable and accrued liabilities	1,017	(925)
Net cash provided by (used in) operating activities	335	(2,338)
Cash flows from investing activities:		
Cash paid for business acquisition, net of cash acquired (Note 3)	-	(282)
Purchase of property and equipment	(1,118)	(696)
Net cash used in investing activities	(1,118)	(978)
Cash flows from financing activities:		
Purchase of treasury stock	(2,775)	(447)
Proceeds from term loan	2,730	-
Net cash used in financing activities	(45)	(447)
Foreign currency effect on cash flows:	(50)	(4)
Net change in cash and cash equivalents:	(878)	(3,767)
Cash and cash equivalents, beginning of period	4,556	5,869
Cash and cash equivalents, end of period	3,678	2,102
Non-cash investing and financing activities:		
Issuance of contingent consideration to seller	$-	$171

Supplemental disclosures of cash flow information:		
Cash paid for interest	$21	$-
Cash paid for income taxes	$320	$235

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

WILHELMINA INTERNATIONAL, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In thousands, except share data)

(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. Except as otherwise noted, all dollar amounts other than per share data are presented in thousands. 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, 2015, 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

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, London and Chile, as well as a network of licensees in various local markets in the U.S. and several international markets. 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. Business Acquisition

On January 5, 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 in Western Europe. It also serves 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 of $1,321 included $171 of discounted value of contingent consideration assuming London achieves certain performance benchmarks, due to the seller post-closing. The purchase price net of cash acquired was $453 of which $282 was paid at the time of the closing. The Company reduced the contingent consideration to $67 because London did not achieve the initial benchmark at December 31, 2015. As of September 30, 2016, the Company increased the contingent consideration by $30 based on London's expectation of meeting its benchmark for 2016. The remaining $97 of contingent consideration is due on February 4, 2017.

Under the purchase method of accounting, the purchase price was allocated to the net tangible and intangible assets acquired and liabilities assumed, based on the fair value of the assets and liabilities of London in accordance with ASC 805. The intangible assets acquired included intangible assets with finite lives, such as customer relationships and talent relationships, which are being amortized on a straight line basis over their estimated useful lives ranging from two to eight years. The remaining acquired intangible assets were allocated to non-amortizable goodwill. 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 London is the British Pound Sterling, and business is conducted in Chile using the Chilean Peso. 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

As of September 30, 2016, the Company had a credit agreement with Amegy Bank ("Amegy") which, as then amended, provided a $7,000 facility comprised of a $4,000 revolving line of credit and up to a $3,000 term loan which could be drawn at any time on or before October 24, 2016. Borrowing under this facility was subject to a borrowing base derived from 80% of eligible accounts receivable (as defined) and the Company's minimum net worth covenant of $20,000. The revolving line of credit bore interest at prime plus 0.50% payable monthly.

On August 16, 2016, the Company drew $2,730 of the term loan and used the proceeds to fund the purchase of shares of its common stock from Lorex Investment AG ("Lorex"). 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.

The revolving line of credit with Amegy expired by its terms on October 24, 2016. However, on November 9, 2016, the Company and Amegy entered into a Sixth Amendment to Credit Agreement and First Amendment to Line of Credit Note which extended the $4,000 revolving line of credit on the same terms for one year until October 24, 2017. The term loan with Amegy was unaffected by this amendment.

Note 6. Commitments and Contingencies

On October 24, 2013, a purported 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 have retained substitute counsel, who has filed a Second and now 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 judge reserved decision and it is not known when the decision will be issued. 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 purported 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. On June 14, 2016, the Court stayed all proceedings in the Pressley Litigation until a decision is issued on the motion to dismiss in the Shanklin Litigation. The Company believes the claims asserted in the Pressley Litigation are without merit, and intends to vigorously defend the action.

On August 20, 2015, a lawsuit was brought against the Company and the Company's former Chief Accounting Officer by a former employee, Angel Betancourt. The lawsuit alleges that the plaintiff was discriminated against during his time of employment and upon his termination. The lawsuit further alleges that the plaintiff was not compensated due to misclassification by the Company under the federal Fair Labor Standards Act. The proceeding is in the preliminary stages and, by agreement with the plaintiff, further action in the lawsuit has been abated pending ongoing settlement discussions. The Company expects that the lawsuit will be resolved within the limits of the Company¹s insurance coverage.

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 and corporate overhead not being deductible and income being attributable to certain 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, 2015, the Company had federal income tax loss carryforwards of approximately $1,200, which were fully utilized upon filing the Company's 2015 income tax return during 2016. The Company also operates and pays taxes in international jurisdictions.

Note 8. Treasury Stock

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.

On August 16, 2016, the Company repurchased 400,000 shares of its common stock in a privately negotiated transaction with Lorex. Lorex is an affiliate of Horst-Dieter Esch, a director of the Company. Mr. Esch recused himself from all deliberations of the Board of Directors with respect to the stock repurchase from Lorex. From 2012 through September 30, 2016, the Company has repurchased 1,090,370 shares of common stock at an average price of approximately $4.49 per share, for a total of approximately $4,893 under the stock repurchase program. As a result, the repurchase of an additional 409,630 shares are presently authorized under the stock repurchase program.

Note 9. 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. Clinton J. Coleman (Managing Director at NCM) and James A. 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 and $22.5 for the three and nine months ended September 30, 2016 and 2015. The Company did not owe NCM any amounts under the services agreement as of September 30, 2016.

The Company has an agreement with the unconsolidated Wilhelmina Kids affiliate to provide management and administrative services, as well as sharing of office space. Management fees and rental income from the unconsolidated affiliate amounted to approximately $27.5 and $82.5 for the three and nine months ended September 30, 2016 and 2015.

On August 16, 2016, the Company entered into a Stock Purchase Agreement with Lorex, pursuant to which the Company purchased from Lorex 400,000 shares of the Company’s common stock at a price of $6.83 per share, resulting in an aggregate purchase price of $2,730. Lorex is an affiliate of Horst-Dieter Esch, a director of the Company.

Note 10. Subsequent Events

On November 9, 2016, the Company and Amegy entered into a Sixth Amendment to Credit Agreement and First Amendment to Line of Credit Note which extended the $4,000 revolving line of credit on the same terms for one year until October 24, 2017. The term loan with Amegy was unaffected by this amendment.

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 Wilhelmina International, Inc. and its subsidiaries (collectively, "Wilhelmina" or the "Company") for the three and nine months ended September 30, 2016 and 2015. 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, as well as the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as amended. Except as otherwise noted, all dollar amounts other than per share data are presented in thousands.

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 are subject to 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 Securities and Exchange Commission (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 through the third quarter of 2016.

With total annual advertising expenditures on major media (newspapers, magazines, television, cinema, outdoor and Internet) exceeding approximately $175 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.

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 celebrity representation; 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 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.

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. London also serves as a base of operations to service the Company's European clients, and as a new talent development office for European models and artists.

Key Financial Indicators

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

The Company analyzes revenue by reviewing the mix of revenues generated by the different "boards" (each a specific division of the fashion model management operations which specializes by the type of model it represents (Women, Men, Select, Media, Runway, Curve, Lifestyle, Kids, etc.)) by geographic locations and from significant clients. Wilhelmina has three primary sources of revenue: (i) revenues from principal relationships where the gross amount billed to the client is recorded as revenue when earned and collectability is reasonably assured; (ii) revenues from agent relationships where commissions paid by models as a percentage of their gross earnings are recorded as revenue when earned and collectability is reasonably assured; and (iii) 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." Gross billings are an important business metric that ultimately drive revenues, profits and cash flows.

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			Nine Months Ended		
	Sept 30	Sept 30	% Change	Sept 30	Sept 30	% Change
	2016	2015	2016 vs 2015	2016	2015	2016 vs 2015
Service revenues	20,880	21,616	(3.4 %)	64,512	64,105	0.6 %
License fees and other income	28	216	(87.0%)	82	445	(81.6%)
TOTAL REVENUES	20,908	21,832	(4.2 %)	64,594	64,550	0.1 %
Model costs	14,888	15,402	(3.3 %)	45,952	45,947	0.0 %
REVENUES NET OF MODEL COSTS	6,020	6,430	(6.4 %)	18,642	18,603	0.2 %
GROSS PROFIT MARGIN	28.8 %	29.5 %		28.9 %	28.8 %	
Salaries and service costs	3,708	3,691	0.5 %	11,594	11,176	3.7 %
Office and general expenses	1,381	1,181	16.9 %	4,267	3,480	22.6 %
Amortization and depreciation	89	113	(21.2%)	295	365	(19.2%)
Corporate overhead	192	167	15.0 %	768	709	8.3 %
OPERATING INCOME	650	1,278	(49.1%)	1,718	2,873	(40.2%)
OPERATING MARGIN	3.1 %	5.9 %	*	2.7 %	4.5 %	*
Foreign exchange gain (loss)	1	(21)	*	8	(119)	*
Gain (loss) from unconsolidated subsidiary	5	(3)	*	11	(18)	*
Interest Expense	(21)	-	*	(21)	-	*
Revaluation of contingent liability	(30)	-	*	(30)	-	*
INCOME BEFORE INCOME TAXES	605	1,254	(51.8%)	1,686	2,736	(38.4%)
Income taxes expense	(378)	(587)	(35.6%)	(1,006)	(1,323)	(24.0%)
Effective tax rate	62.5 %	46.8 %		59.7 %	48.4 %	
NET INCOME	227	667	(66.0%)	680	1,413	(51.9%)

* Not Meaningful

Service Revenues

Generally, 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 decrease of 3.4% in total service revenues for the three months ended September 30, 2016 when compared to the three months ended September 30, 2015 was primarily due to a decrease in core model bookings in the United States partially offset by increased core model bookings in London.

When comparing total service revenue for the nine months ended September 30, 2016, to the nine months ended in September 30, 2015, the total service revenue increased by 0.6%, essentially flat compared to 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 and various services provided by the Company. License fees decreased by 87.0% and 81.6% for the three and nine months ended September 30, 2016, when compared to the three and nine months ended September 30, 2015, primarily due to a reduction in the number of licensed affiliates.

Gross Profit Margin

Gross profit margins decreased by 0.7% for the three months ended September 30, 2016, when compared to the three months ended September 30, 2015, primarily due to the reduction in higher margin license fees and other income.

When comparing the nine months ended in September 30, 2016 to the nine months ended in September 30, 2015, the gross profit margin increased by 0.1%, essentially flat compared to the prior year.

Salaries and Service Costs

Salaries and service costs consist of payroll and related costs and T&E required to deliver the Company's services to its clients and talent. The salaries and service costs for the three months ended in September 30, 2016, when comparing to the three months ended September 30, 2015, was relatively unchanged.

When comparing salaries and service costs for the nine months ended September 30, 2016, to the nine months ended September 30, 2015, there was an increase of 3.7%, which was primarily due to severance payments to former employees of $329 which were incurred during the first nine months of 2016.

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. For the three and nine months ended September 30, 2016, the office and general expenses increased by 16.9% and 22.6% when compared to the three and nine months ended September 30, 2015, primarily due to an increase in legal costs, recruiting fees related to the hiring of the Company's new Chief Executive Officer in January 2016 and new Chief Financial Officer in April 2016, and a $159 accrual for non-income tax expenses.

Amortization and Depreciation

Depreciation and amortization expenses are incurred with respect to certain assets, including computer hardware, software, office equipment, furniture, and certain intangibles. During the three and nine months ended September 30, 2016, depreciation and amortization expenses decreased by 21.2% and 19.2% respectively; primarily due to several intangible assets becoming fully amortized.

Fixed asset purchases (primarily related to technology) totaled $367 and $1,118 during the three and nine months ended September 30, 2016 compared to $220 and $696 for the three and nine months ended September 30, 2015. Depreciation expense is expected to increase beginning with the fourth quarter of 2016 due to the Company's new accounting and reporting software being placed into service, which has an expected useful life of five years.

Corporate Overhead

Corporate overhead expenses include director and executive chairman compensation, insurance, legal, audit and professional fees, corporate office rent and travel. Corporate overhead increased by 15.0% and 8.3% for the three and nine months ended in September 30, 2016 when compared to the three and nine months ended in September 30, 2015 primarily due to services cost.

Operating Margin

Operating margin decreased to 3.1% and 2.7% for the three and nine months ended September 30, 2016 compared to 5.9% and 4.5% for the three and nine months ended September 30, 2015. The decrease was primarily as a result of increases in legal costs, and severance payments and recruiting fees during the first nine months of 2016.

Foreign Currency Translation

The Company realized nominal foreign currency exchange gain during the three and nine months ended September 30, 2016 as compared to a loss in the same period of the prior year primarily due to fluctuations in currencies from Latin America, Great Britain and Europe in the prior year.

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 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 three states which have relatively high tax rates: California, New York and Florida. The Company's combined (federal and state) effective tax rate would have been even higher in prior years if it were not for federal net operating loss carryforwards available to offset current federal taxable income. As of December 31, 2015, the Company had federal income tax loss carryforwards of approximately $1,200, which were subsequently fully utilized.

Liquidity and Capital Resources

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

The Company's cash balance decreased to $3,678 at September 30, 2016, from $4,556 at December 31, 2015. For the nine months ended in September 30, 2016, cash balances decreased primarily as a result of capital expenditures of approximately $1,118, of which $893 related to the upgrade of the Company's accounting and reporting software.

The Company has a credit agreement with Amegy Bank ("Amegy") which, as of September 30 2016, provided a $7,000 facility comprised of a $4,000 revolving line of credit and up to a $3,000 term loan which could be drawn at any time on or before October 24, 2016. Borrowing under this facility was subject to a borrowing base derived from 80% of eligible accounts receivable (as defined) and the Company's minimum net worth covenant of $20,000. The revolving line of credit bore interest at prime plus 0.50% payable monthly.

On August 16, 2016, the Company drew $2,730 of the term loan and used the proceeds to fund the purchase of shares of its common stock from Lorex. 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.

The revolving line of credit with Amegy expired by its terms on October 24, 2016. However, on November 9, 2016, the Company and Amegy entered into a Sixth Amendment to Credit Agreement and First Amendment to Line of Credit Note (the "Sixth Amendment") which extended the $4,000 revolving line of credit on the same terms for one year until October 24, 2017. The term loan with Amegy was unaffected by this amendment.

Management believes that cash on hand, generated from operations and available under the Amegy revolving line of credit, will be sufficient to fund operations for the next 12 months.

Off-Balance Sheet Arrangements

As of September 30, 2016, the Company had outstanding a $0.2 million irrevocable standby letter of credit under the Company's revolving credit facility with Amegy. 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 not 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 quarters ended September 30, 2016 and September 30, 2015.

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.

Property and Equipment

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

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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 purported 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 have retained substitute counsel, who has filed a Second and now 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 judge reserved decision and it is not known when the decision will be issued. 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 purported 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. On June 14, 2016, the Court stayed all proceedings in the Pressley Litigation until a decision is issued on the motion to dismiss in the Shanklin Litigation. The Company believes the claims asserted in the Pressley Litigation are without merit, and intends to vigorously defend the action.

On August 20, 2015, a lawsuit was brought against the Company and the Company’s former Chief Accounting Officer by a former employee, Angel Betancourt. The lawsuit alleges that the plaintiff was discriminated against during his time of employment and upon his termination. The lawsuit further alleges that the plaintiff was not compensated due to misclassification by the Company under the federal Fair Labor Standards Act. The proceeding is in the preliminary stages, and by agreement with the Plaintiff further action in the lawsuit has been abated pending ongoing settlement discussions. The Company expects that the lawsuit will be resolved within the limits of the Company¹s insurance coverage.

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.

On August 16, 2016, the Company repurchased 400,000 shares of its common stock in a privately negotiated transaction with Lorex. Lorex is an affiliate of Horst-Dieter Esch, a director of the Company. Mr. Esch recused himself from all deliberations of the Board of Directors with respect to the stock repurchase from Lorex. From 2012 through September 30, 2016, the Company has repurchased 1,090,370 shares of common stock at an average price of approximately $4.49 per share, for a total of approximately $4,893 under the stock repurchase program. As a result, the repurchase of an additional 409,630 shares are presently authorized under the stock repurchase program.

The following table furnishes information for purchases made pursuant to the stock repurchase program during the third quarter ended September 30, 2016:

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
July 1-31, 2016	-	$ -	690,370	309,630
August 1-31, 2016	400,000	$ 6.83	1,090,370	409,630
September 1-30, 2016	-	$ -	1,090,370	409,630
Total	400,000	$ 6.83		

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

On November 9, 2016, the Company and Amegy entered into the Sixth Amendment which extended the $4,000 revolving line of credit with Amegy on the same terms for one year until October 24, 2017. The term loan with Amegy was unaffected by this amendment.

The foregoing description of the Sixth Amendment is qualified in its entirety by reference to the definitive agreement filed as an exhibit to this Quarterly Report on Form 10-Q and incorporated herein by this reference.

Item 6. Exhibits.

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

Exhibit No.	Description
3.1	Restated Certificate of Incorporation of Wilhelmina International, Inc. (incorporated by reference from Exhibit 3.1 to Form S-1/A, dated January 30, 2012).
3.2	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, dated July 10, 2014).
3.3	Amended and Restated Bylaws of Wilhelmina International, Inc. (incorporated by reference from Exhibit 3.2 to Form 8-K, dated May 18, 2011).
4.1	Form of Stock Certificate of Common Stock of Billing Concepts Corp. (incorporated by reference from Exhibit 4.1 to Form 10-Q, dated March 31, 1998).
4.2	Registration Rights Agreement, dated August 25, 2008, by and among New Century Equity Holdings Corp., Dieter Esch, Lorex Investments AG, Brad Krassner, Krassner Family Investments, L.P. and Sean Patterson (incorporated by reference from Exhibit 10.2 to Form 8-K, dated August 26, 2008).
4.3	Registration Rights Agreement, dated February 13, 2009, by and between New Century Equity Holdings Corp. and Newcastle Partners, L.P. (incorporated by reference from Exhibit 10.3 to Form 8-K, dated February 18, 2009).
10.1	Stock Purchase Agreement dated August 16, 2016, between Wilhelmina International, Inc. and Lorex Investment AG (incorporated by reference from Exhibit 10.1 to Form 8-K filed August 17, 2016).
10.2	Sixth Amendment to Credit Agreement and First Amendment to Line of Credit Note dated November 9, 2016, between Wilhelmina International, Inc. and Amegy Bank.*
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:	November 14, 2016	By:	/s/ James A. McCarthy
		Name:	James A. McCarthy
		Title:	Chief Financial Officer (Principal Financial Officer)

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