

Wilhelmina International, Inc.
Form 10-K
March 27, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K
(Mark One)

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

For the Fiscal Year ended December 31, 2014

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

For the Transition Period from _____ to _____

Commission File Number 0-28536

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

Delaware
(State or other jurisdiction of
incorporation or organization)

74-2781950
(IRS Employer
Identification Number)

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

75201
(Zip Code)

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

Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Act:
Common Stock, Par Value \$0.01 Per Share
Series A Junior Participating Preferred Stock Purchase Rights
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
 Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

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 []

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

The aggregate market value of the registrant's outstanding Common Stock held by non-affiliates of the registrant computed by reference to the price at which the Common Stock was last sold as of the last business day of the registrant's most recently completed second fiscal quarter was \$11,092,209.

As of March 27, 2015, the registrant had 5,869,002 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K incorporate by reference portions of an amendment to this Form 10-K or portions of a definitive proxy statement of the registrant for its Annual Meeting of Shareholders, which in either case will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year ended December 31, 2014.

WILHELMINA INTERNATIONAL, INC. AND SUBSIDIARIES

Annual Report on Form 10-K

For the Year Ended December 31, 2014

PAGE

PART I

<u>ITEM 1.</u>	<u>BUSINESS</u>	4
<u>ITEM 1A.</u>	<u>RISK FACTORS</u>	7
<u>ITEM 1B.</u>	<u>UNRESOLVED STAFF COMMENTS</u>	7
<u>ITEM 2.</u>	<u>PROPERTIES</u>	8
<u>ITEM 3.</u>	<u>LEGAL PROCEEDINGS</u>	8
<u>ITEM 4.</u>	<u>MINE SAFETY DISCLOSURES</u>	9

PART II

<u>ITEM 5.</u>	<u>MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	10
<u>ITEM 6.</u>	<u>SELECTED FINANCIAL DATA</u>	11
<u>ITEM 7.</u>	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	11
<u>ITEM 7A.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	17
<u>ITEM 8.</u>	<u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	18
<u>ITEM 9.</u>	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	36
<u>ITEM 9A.</u>	<u>CONTROLS AND PROCEDURES</u>	36
<u>ITEM 9B.</u>	<u>OTHER INFORMATION</u>	36

PART III

<u>ITEM 10.</u>	<u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	37
<u>ITEM 11.</u>	<u>EXECUTIVE COMPENSATION</u>	37
<u>ITEM 12.</u>		37

	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	
<u>ITEM 13.</u>	<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	<u>37</u>
<u>ITEM 14.</u>	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	<u>37</u>
<u>PART IV</u>		
<u>ITEM 15.</u>	<u>EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u>	<u>38</u>
<u>SIGNATURES</u>		<u>44</u>

PART I

ITEM 1. BUSINESS

FORWARD LOOKING STATEMENTS

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

DESCRIPTION OF THE WILHELMINA BUSINESS

Overview

The Company’s primary business is fashion model management, which is headquartered in New York City. The Company’s predecessor was founded in 1967 by Wilhelmina Cooper, a renowned fashion model, and is one of the oldest and largest fashion model management companies in the world. Since its founding, it has grown to include operations located in Los Angeles, Miami, London and the Republic of Chile, as well as a growing network of licensees comprising leading modeling agencies in various local markets across the U.S. as well as in Panama, Thailand, Dubai, Vancouver and Tokyo. The Company provides traditional, full-service fashion model and talent management services, specializing in the representation and management of models, entertainers, artists, athletes and other talent to various customers and clients, including retailers, designers, advertising agencies and catalog companies. The Company was incorporated in the State of Delaware in 1996.

Organization and Operating Divisions

The Company is comprised of operating companies and divisions focused on the fashion model and talent management business, as well as business areas complimentary to the fashion model and talent management business such as licensing, branding, contests, events and television. Our business is primarily focused around the following key areas:

- Fashion model management,
 - Hair & makeup,
 - Talent management, and

- Licensing & branding (including contests, consumer products, events and television)

Fashion Model Management

Wilhelmina is focused on providing fashion modeling and talent product-endorsement services to clients such as ad agencies, branded consumer goods companies, fashion designers, magazines, retailers, department stores, product catalogs and Internet sites.

The fashion model management industry can be divided into many subcategories, including advertising campaigns as well as catalog, runway, showroom and editorial work. Advertising work involves modeling for advertisements featuring consumer products such as cosmetics, clothing and other items, to be placed in magazines and newspapers, on billboards and with other types of media. Catalog work involves modeling for promotional catalogs that are produced throughout the year. Runway work involves modeling at fashion shows, which primarily take place in Paris, Milan, London and New York City. Showroom work involves on-site modeling of products at client showrooms and other events and production “fit” work whereby a model serves as the sizing model for apparel items. Editorial work involves modeling for the cover and editorial sections of magazines.

Clients pay talent for their appearance in photo shoots for magazine features, print advertising, direct mail marketing, product catalogs and Internet sites, as well as for their appearance in runway shows to present new designer collections, fit modeling, and on-location presentations and event appearances. In addition, talent may also appear in film and TV commercials.

Wilhelmina develops and diversifies its talent portfolio through a combination of ongoing local, regional or international scouting and talent-search efforts to source new talent, and cooperates with other agencies that represent talent.

Within its fashion model management business, Wilhelmina has two primary sources of revenue: commissions paid by models as a percentage of their gross earnings and a separate service charge, paid by clients in addition to the booking fees, calculated as a percentage of the models' booking fees. Wilhelmina believes that its commission rates and service charge are comparable to those of its principal competitors.

Wilhelmina's fashion model management operations are organized into divisions called "boards," each of which specializes by the type of models it represents. Wilhelmina's boards are generally described in the table below.

Board Name	Location	Target Market
Women	NYC, LA, Miami, London, Chile	High-end female fashion models
Men	NYC, LA, Miami	High-end male fashion models
Direct Men	NYC, LA, Miami	Established/commercial male fashion models
Direct Women	NYC, LA, Miami	Established/commercial female fashion models
Curve	NYC	Full-figured female fashion models
Runway	NYC	Catwalk and designer client services
Fitness	NYC	Fit or athletic models
Kids*	NYC	Child models

* Through partial ownership of Wilhelmina Kids & Creative Management LLC.

Each major board is headed by a director who is in charge of the agents assigned to such board. The agents of each board act both as bookers (includes promoting models, negotiating fees and contracting work) and as talent scouts/managers (includes providing models with career and development guidance and helping them better market themselves). Although agents individually develop professional relationships with models, models are represented by a board collectively, and not by a specific agent. Wilhelmina's organization into boards thereby enables Wilhelmina to provide clients with services tailored to their particular needs, to allow models to benefit from agents' specialized experience in their particular markets, and to limit Wilhelmina's dependency on any specialty market or agent.

Most senior agents are employed pursuant to employment agreements that include noncompetition provisions such as a prohibition from working with Wilhelmina's models and clients for a certain period of time after the end of the agent's employment with Wilhelmina.

Wilhelmina typically signs its models to three-year exclusive contracts, which it actively enforces.

The LW1 division, based in Los Angeles, offers models the opportunity to be showcased on TV and film through its membership in the Screen Actors Guild.

Wilhelmina also owns a non-consolidated 50% interest in Wilhelmina Kids & Creative Management LLC, a New York City-based modeling agency that specializes in representing child models, from newborns to children 14 years of age.

Wilhelmina Chile SPA (“Chile”), a wholly owned subsidiary of Wilhelmina International, Inc., was organized in 2013 in order to better serve the Company’s clients in Latin America. During 2014, the Company actively served new clients in South America and Central America directly from the Chile office and out of Wilhelmina Miami.

Wilhelmina London Limited (“London”), a wholly owned subsidiary of Wilhelmina International, Inc. acquired in January 2015, establishes a footprint for the Company and the brand in Western Europe. It will also serve as a base of operations to service the Company’s European clients, and as a new talent development office for European models and artists.

Hair & Makeup

The Company has created a division to represent talent in the photography, styling and hair & makeup arenas. These artists work on projects across the globe for well-known companies in the retail, pharmaceutical and music industries. In addition, their work appears in top editorial magazines and on the runways of major fashion houses.

Wilhelmina Artist Management

Wilhelmina Artist Management, LLC (“WAM”) is a talent management company that seeks to secure endorsement and spokesperson work for various celebrities from the worlds of sports, music and entertainment. WAM has two primary sources of revenue: commissions paid by talent as a percentage of their gross earnings and royalties or a service charge paid by clients.

Licensing & Branding

Wilhelmina Licensing collects third-party licensing fees in connection with the licensing of the “Wilhelmina” name. Third-party licensees include several leading fashion model agencies in local markets across the U.S. as well as in Panama, Thailand, Dubai, Vancouver and Tokyo. A consumer products license for fragrance and cosmetics is also in effect. The film and television business consists of television syndication royalties and production series contracts. Also from time to time, the Company conducts model search contests and other events in an effort to expand the Wilhelmina brand and recruit talent.

Competition

The fashion model management business is highly competitive. New York City, Los Angeles and Miami, as well as Paris, Milan, Sao Paulo and London, are considered the most important markets for the fashion talent management industry. Most of the leading international firms are headquartered in New York City, which is considered to be the “capital” of the global fashion industry. Wilhelmina’s principal competitors include other large fashion model management businesses in the U.S., including Marilyn Model Agency, IMG Models, Elite Model Management, Ford Models, Inc., DNA Model Management, and NEXT Model Management. Wilhelmina is the only publicly-listed fashion talent management firm.

Competition also includes foreign agencies and smaller U.S. agencies in local markets that recruit local talent and cater to local market needs. Several of the larger fashion talent firms operate offices in multiple cities and countries, or alternatively have chosen to partner with local or foreign agencies to attempt to harness synergies without increasing overhead.

The Company believes that its sources of revenue (mainly generated from commissions and service charges) are comparable to those of its principal competitors. Therefore, for the Company to obtain a competitive advantage, it must develop and maintain a deep pool of talent and deliver high quality service to its clients. The Company believes that through its scouting efforts, search contests, licensing network, advertising and TV shows, it is able to recruit a deeper pool of talent relative to its competitors. These recruitment tools coupled with the broad range of fashion boards available to the Company’s talent, enables the Company to develop talent and generate a broader range of revenues relative to its principal competitors. While a broad range of talent and boards provides a certain level of stability to the business, certain talent may be more inclined to work with a boutique agency which may appear to tailor more specifically to their needs.

Also, over its 48 years of existence, Wilhelmina has created long standing client relationships and a number of business activities related to the fashion model management business that provide exposure to diverse markets and demographics. The Company has also developed a professional workforce with years of talent management

experience.

6

Clients and Customers

As of December 31, 2014, Wilhelmina had approximately 2,000 active models. Wilhelmina's active models include Coco Rocha, RJ King, Marlon Teixeira, Ava Smith, Alexandra Richards, Armando Cabral, Soo Joo, Cindy Bruna, Clarke Bockelman, Bastian Van Gaalen, Keilani Asmus, Rayla Guimaraes Jacunda, Elisabeth Erm, Janis Ancens, Kirsten Shiells, Nathan Owens, and Claudio Moreira.

Wilhelmina serves approximately 2,600 external clients. Wilhelmina's customer base is highly diversified, with no one customer accounting for more than 5% of overall gross revenues. The top 100 customers of Wilhelmina together accounted for approximately 55% of overall gross revenues during 2014.

Governmental Regulations

Certain jurisdictions, in which Wilhelmina operates, such as California and Florida, require that companies maintain a Talent Agency License in order to engage in the "talent agency" business. The talent agency business is generally considered the business of procuring engagements or any employment or placement of a talent, where the talent performs in his or her artistic capacity. Where required, the Wilhelmina subsidiaries operating in these jurisdictions maintain Talent Agency Licenses issued by those jurisdictions. In addition, certain Wilhelmina subsidiaries also maintain required SAG licenses issued by the Screen Actors' Guild.

EMPLOYEES

As of December 31, 2014, the Company had 96 employees, 67 of whom were located in New York City, 14 of whom were located at Wilhelmina's Miami, Florida office, 14 of whom were located at Wilhelmina's Los Angeles, California office and 1 of whom was located at the corporate headquarters in Dallas, Texas. In addition, as of January 5, 2015, the London acquisition added 10 employees to our overall headcount.

TRADEMARKS AND LICENSING

The "Wilhelmina" brand is essential to the success and competitive position of the Company. Wilhelmina's trademark is vital to the licensing business because licensees pay for the right to use the trademark. The Company has invested significant resources in the "Wilhelmina" brands in order to obtain the public recognition that these brands currently have. Wilhelmina relies upon domestic and international trademark laws, license agreements and nondisclosure agreements to protect the "Wilhelmina" brand name used in its business. Trademarks registered in the U.S. have a duration of ten years and are generally subject to an indefinite number of renewals for a like period on appropriate application.

ITEM 1A.

RISK FACTORS

Not Applicable.

ITEM 1B.

UNRESOLVED STAFF COMMENTS

Not Applicable.

ITEM 2.

PROPERTIES

The Company's corporate headquarters are currently located at 200 Crescent Court, Suite 1400, Dallas, Texas 75201, which are also the offices of Newcastle Capital Management, L.P. ("NCM"). NCM is the general partner of Newcastle Partners L.P. ("Newcastle"), the Company's largest shareholder. The Company occupies a portion of NCM's space on a month-to-month basis at \$2,500 per month, pursuant to a services agreement entered into between the parties on October 1, 2006.

The following table summarizes information with respect to the material facilities of the Company for leased office space and model apartments:

Description of Property	Area (sq. feet)	Lease Expiration
Office for New York-based operations – New York, NY	12,671	February 28, 2021
Office for California-based operations – Los Angeles, CA	3,605	June 30, 2016
Office for Florida based operations – Miami, FL	2,100	October 1, 2016
Office for London-based operations – London, UK	995	September 6, 2017
Three model apartments – New York, NY	6,000	2015-2016
Three model apartments – Los Angeles, CA	6,000	2015-2016
Five model apartments – Miami, FL	4,000	2015-2016

The Company believes there is sufficient office space available at favorable leasing terms both to replace existing office space and to satisfy any additional needs the Company may have as a result of future expansion.

ITEM 3.

LEGAL PROCEEDINGS

On May 2, 2012, Sean Patterson, the former President of the Company's subsidiary, Wilhelmina International, Ltd. ("Wilhelmina International"), filed a lawsuit in the Supreme Court of the State of New York, County of New York, against the Company, Wilhelmina International and Mark Schwarz, the Company's Chairman of the Board, asserting claims for alleged breach of Mr. Patterson's expired employment agreement (the "Employment Agreement") with Wilhelmina International, defamation, and declaratory relief with respect to the alleged invalidity and unenforceability of the Employment Agreement's non-competition and non-solicitation provisions. The Company and Wilhelmina International denied its material allegations and asserted counterclaims against Mr. Patterson for breach of the Employment Agreement, breach of fiduciary duty, and injunctive relief. On May 23, 2014, the court granted the defendants' motion to dismiss Mr. Patterson's defamation claim, and granted Mr. Patterson's cross-motion for leave to file an amended defamation claim. Mr. Patterson filed an Amended Complaint on May 15, 2014, repeating the claims for alleged breach of contract and declaratory relief, and filing an amended defamation claim. The Company and Wilhelmina International filed an Answer to the Amended Complaint, denying its material allegations, on June 17, 2014, and again asserted counterclaims for breach of contract, breach of fiduciary duty, and for injunctive relief. Mr. Patterson replied to those counterclaims on June 27, 2014. The parties continue to be engaged in discovery. The Company believes Mr. Patterson's claims are without merit and intends to vigorously defend itself and pursue the counterclaims.

On October 24, 2013, a purported class action lawsuit brought by former Wilhelmina model Alex Shanklin and others (the "Shanklin Litigation"), naming as defendants the Company's subsidiaries Wilhelmina International and Wilhelmina Models, Inc. (the "Wilhelmina Subsidiary Parties"), was initiated in New York State Supreme Court (New York County) by the same lead counsel who represented plaintiffs in a prior, now-dismissed action brought by Louisa Raske (the "Raske Litigation"). The claims in the Shanklin Litigation include breach of contract and unjust enrichment and are alleged to arise out of matters relating to those matters involved in the Raske Litigation, such as the handling

and reporting of funds on behalf of models and the use of model images. Other parties named as defendants in the Shanklin Litigation include other model management companies, advertising firms, and certain advertisers. As previously noted, 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. The Company believes the claims asserted in the Shanklin Litigation are without merit and intends to vigorously defend itself and its subsidiaries. On January 6, 2014, the Wilhelmina Subsidiary Parties moved to dismiss the Amended Complaint in the Shanklin Litigation for failure to state a cause of action upon which relief can be granted and other grounds, and other defendants also filed motions to dismiss. By Decision and Order dated August 11, 2014, the court denied the Wilhelmina Subsidiary Parties’ motion to dismiss. The parties were directed to engage in court-ordered mediation, but during that process, in October 2014, plaintiffs lost their principal attorney and new lead counsel for plaintiffs has not yet been identified. On March 10, 2015, the court granted the motion by plaintiffs’ local New York counsel for leave to withdraw, gave the plaintiffs 90 days to find substitute counsel, and stayed the action in the interim. The Company intends to vigorously defend the Wilhelmina Subsidiary Parties in the event plaintiffs move forward with substitute counsel.

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

ITEM 4.

MINE SAFETY DISCLOSURES

Not Applicable

PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5. ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

On July 11, 2014, the Company effected a one for twenty reverse stock split of its outstanding Common Stock. The Company has retroactively adjusted all the share information to reflect this reverse stock split in this report and the accompanying consolidated financial statements and notes.

The Company's shares of Common Stock are currently listed on the NASDAQ Capital Market ("NASDAQ") under the symbol "WHLM". Until September 10, 2014, the Common Stock was quoted on the OTC Bulletin Board ("OTCBB") under the symbol "WHLM.OB". The table below sets forth, for each of the fiscal quarters during the period from January 1, 2013 through December 31, 2014, the high and low bid prices of the Common Stock on the OTCBB and the high and low sales prices of the Common Stock on NASDAQ, as applicable. The price quotations for the period during which the Common Stock was quoted on the OTCBB reflect inter-dealer prices, without retail mark-up, mark-down or commission, may not necessarily represent actual transactions, and are based on information from published financial sources:

	High	Low
Year Ended December 31, 2013:		
1st Quarter	\$ 3.40	\$ 2.20
2nd Quarter	\$ 3.20	\$ 2.80
3rd Quarter	\$ 7.00	\$ 3.00
4th Quarter	\$ 6.80	\$ 3.20
Year Ended December 31, 2014:		
1st Quarter	\$ 6.60	\$ 4.80
2nd Quarter	\$ 6.00	\$ 4.60
3rd Quarter	\$ 7.00	\$ 5.26
4th Quarter	\$ 6.40	\$ 4.53

The following table provides information regarding purchases of the Company's Common Stock made by the Company during the fourth quarter of 2014:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(1)
October 1 – October 31, 2014	-	-	-	398,295
November 1 – November 30, 2014	-	-	-	398,295
December 1 – December 31, 2014	1,113	\$ 5.34	1,113	397,182

Total	1,113	\$ 5.34	1,113	397,182
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(1) During the year ended December 31, 2012, the Board of Directors authorized a stock repurchase program, whereby the Company could repurchase up to 500,000 shares of its outstanding Common Stock. The shares may be repurchased from time-to-time in the open market or through privately negotiated transactions at prices the Company deems appropriate. The program does not obligate the Company to acquire any particular amount of Common Stock and the program may be modified or suspended at any time at the Company's discretion. The stock repurchase plan will be funded through the Company's cash on hand and the Company's credit facility (the "Credit Agreement") with Amegy Bank National Association ("Amegy Bank"). During August 2013, the Board of Directors renewed and extended the Company's share repurchase authority to enable it to repurchase up to an additional 500,000 shares of Common Stock.

During the year ended December 31, 2013, the Company repurchased 113,156 shares of Common Stock at an average price of approximately \$3.64 per share, for a total of approximately \$410,000. During the year ended December 31, 2014, the Company repurchased 1,113 shares of Common Stock at an average price of approximately \$5.34 per share, for a total of approximately \$5,900.

In total, the Company has repurchased 602,818 shares of Common Stock at an average price of approximately \$2.58 per share, for a total of approximately \$1,643,000.

Shareholders

As of March 27, 2015, there were 5,869,002 shares of Common Stock outstanding, held by 452 holders of record. The last reported sales price of the Common Stock was \$5.39 per share on March 27, 2015.

Dividend Policy

The Company has not declared or paid any cash dividends on its Common Stock during the past two completed fiscal years. The Company's Credit Agreement with Amegy Bank contains a covenant which could limit its ability to pay dividends on the Common Stock.

ITEM 6.

SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of the Company's financial condition and results of operations comparing the calendar years ended December 31, 2014 and 2013. You should read this section in conjunction with the Company's Consolidated Financial Statements and the Notes thereto that are incorporated herein by reference and the other financial information included herein and the notes thereto.

OVERVIEW

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

The business of talent management firms, such as Wilhelmina, depends heavily on the state of the advertising industry, as demand for talent is driven by Internet, print and TV advertising campaigns for consumer goods and retail clients.

Wilhelmina believes it has strong brand recognition which enables it to attract and retain top agents and talent to service a broad universe of clients. In order to take advantage of these opportunities and support its continued growth, the Company will need to continue to successfully allocate resources and staffing in a way that enhances its ability to

respond to these new opportunities. The Company continues to focus on cutting costs, recruiting top agents when available and scouting and developing new talent.

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

Trends and Opportunities

The Company expects that the combination of Wilhelmina's main operating base in New York City, the industry's capital, with the depth and breadth of its talent pool and client roster and its diversification across various talent management segments, together with its geographical reach should make Wilhelmina's operations more resilient to industry changes and economic swings than those of many of the smaller firms operating in the industry. Similarly, in the segments where Wilhelmina competes with other leading full service agencies, Wilhelmina competed successfully in 2014.

With total advertising expenditures on major media (newspapers, magazines, television, cinema, outdoor and Internet) exceeding approximately \$165 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:

- develop Wilhelmina into a global brand;
- expand the women's high end fashion board;
- expand celebrity endorsements;
- strategic acquisitions;
- licensing the "Wilhelmina" name to leading model management agencies;
- licensing the "Wilhelmina" brand in connection with consumer products, cosmetics and other beauty products; and
- promoting 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 their communications with clients and to facilitate the effective exchange of fashion model and talent information. The Company continues to make significant investments in technology (including developing in-house art and social media departments) in pursuit of gains in efficiency and better communications with customers. At the same time, the Internet presents challenges for the Company, including (i) the cannibalization of traditional print advertising business and (ii) pricing pressures with respect to photo shoots and client engagements.

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

RESULTS OF OPERATIONS OF THE COMPANY FOR THE YEAR ENDED DECEMBER 31, 2014 COMPARED TO YEAR ENDED DECEMBER 31, 2013

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

The Company analyzes revenue by reviewing the mix of revenues generated by the different "boards" (each a specific division of the fashion model management operations which specializes by the type of model it represents (Women, Men, Direct, Direct 2, Runway, Curve, Lifestyle, Kids, etc.)) of the business, revenues by geographic locations and revenues from significant clients. Wilhelmina has three primary sources of revenue: revenues from principal

relationships whereby the gross amount billed to the client is recorded as revenue, when the revenues are earned and collectability is reasonably assured; revenues from agent relationships whereby the commissions paid by models as a percentage of their gross earnings are recorded as revenue when earned and collectability is reasonably assured; and separate service charges, paid by clients in addition to the booking fees, which are calculated as a percentage of the models' booking fees and are recorded as revenues when earned and collectability is reasonably assured. See Critical Accounting Policies - Revenue Recognition. Gross billings are an important business metric that ultimately drive revenues, profits and cash flows.

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

Analysis of Consolidated Statements of Operations and Gross Billings

(in thousands)	Year Ended December 31, 2014	Year Ended December 31, 2013	Percent Change 2014 vs 2013	
GROSS BILLINGS	78,472	68,546	14.5	%
Revenues	76,414	65,360	16.9	%
License fees and other income	396	584	-32.2	%
TOTAL REVENUES	76,810	65,944	16.5	%
Model costs	54,780	46,242	18.5	%
REVENUES NET OF MODEL COSTS	22,030	19,702	11.8	%
GROSS PROFIT MARGIN	28.70	29.90		%
Salaries and service costs	13,035	11,460	13.7	%
Office and general expenses	4,645	3,658	27.0	%
Amortization and depreciation	603	1,572	-61.6	%
Corporate overhead	1,212	1,198	1.2	%
OPERATING INCOME	2,535	1,814	39.70	%
OPERATING MARGIN	3.30	2.80		%
Foreign exchange loss	(42)	-	-100.0	%
Interest income	6	8	-25.0	%
Interest expense	(8)	(61)	-86.9	%
Equity Earnings in affiliate	(42)	(7)	500.0	%
INCOME BEFORE INCOME TAXES	2,449	1,754	39.6	%
Current income tax (expense)	(530)	(532)	-12	%
Deferred tax benefit	(718)	2,170	-134.6	%
Effective tax rate	52.8	-93.4		%
NET INCOME	1,201	3,392	-63.7	%

Gross Billings

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

The Company experienced a 14.5% increase in gross billings, which reflects a 17.1% increase in core gross billings partially offset by a 33.1% decline in WAM gross billings during the year ended December 31, 2014, when compared to the gross billings across the core modeling and WAM businesses for the year ended December 31, 2013. Gross billings of the core business increased across the boards with the growth of the advertising market and increased market penetration. Gross billings of the WAM business decreased due to expiration of the contracts associated with the product licensing and related royalty agreements. Management does not expect to generate material gross billings and operating results from the WAM business in 2015.

Revenues

The increase in revenues for the year ended December 31, 2014, is attributable to the increases in gross billings of the core modeling business, partially offset by a decline in revenues from the WAM business. Revenues of the core business increased