

Wilhelmina International, Inc.
Form 10-K
April 01, 2013

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, 2012

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 required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes 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 \$8,670,892.

As of April 1, 2013, the registrant had 119,669,761 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, 2012.

WILHELMINA INTERNATIONAL, INC. AND SUBSIDIARIES

Annual Report on Form 10-K

For the Year Ended December 31, 2012

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

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,
- Talent management, and
- Licensing & branding (including contests, events and television),

Fashion Model Management Business

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.

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The fashion model management industry can be divided into many subcategories, including advertising campaigns as well as catalog, runway 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. 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	High-end female fashion models
Men	NYC, LA, Miami	High-end male fashion models
Select Men	NYC	Established male fashion models
Select Women	NYC	Established female fashion models
Curve	NYC	Full-figured female fashion models
Runway and Media	NYC, LA, Miami	Catwalk and designer client services
Lifestyle	NYC, LA, Miami	Commercial print bookings
Fitness	NYC	Fit or athletic models
Kids*	NYC	Child models

* Through partial ownership of Wilhelmina Kids & Creative Management LLC

Each 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 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.

Talent Management Business

Wilhelmina Artist Management, LLC (“WAM”) is a talent management company that seeks to secure endorsement and spokesperson work for various high-profile talents 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. Over the years WAM’s roster of talent has included superstars such as Fergie, Jessica Simpson, Beyonce, Gloria Estefan, Nicole Scherzinger, Natasha Bedingfield, Olivia Palermo, Estelle, Chris Brown, Nervo and many others for whom Wilhelmina secured fashion campaigns, endorsements and marketing opportunities. WAM has secured commercial endorsements, fashion campaigns and sponsorships for its talent with clients such as Calvin Klein, Avon, Brown Shoe, Coca-Cola, SAP, General Motors, Cover Girl, Dessert Beauty, Donna Karan, Hershey’s, Hugo Boss, L’Oreal, Mattel, Nautica, Nestle, Nike, Proctor & Gamble Company and Pizza Hut.

Although Wilhelmina’s fashion model management business remains its primary business, WAM plays an increasingly important role at Wilhelmina. The visibility of WAM’s talent and clients help enhance the profile and penetration of the “Wilhelmina” brand with prospective models, other talent and clients, in turn providing Wilhelmina’s fashion model management business and other complimentary businesses with significant new opportunities.

The Wilhelmina Creative division represents top creative talent in the photography, styling and hair & makeup arenas. Our 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.

Licensing & Branding Business

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 and Dubai.

The film and television business consists of television syndication royalties and production series contracts. In 2005, Wilhelmina produced the television show “The Agency” for the VH1 television network. In 2007, Wilhelmina entered into an agreement with the TV Land television network to develop a television series entitled “She’s Got the Look”, which concluded its third season in 2010.

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 the larger fashion model management businesses in the U.S., including DNA Model Management, Elite Model Management, Ford Models, Inc., IMG Models, Marilyn Model Agency, NEXT Model Management and Women Model Management. Apart from Wilhelmina and Paris-based and publicly-listed Elite SA, all other fashion talent management firms are privately-held.

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 47 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.

Clients and Customers

As of December 31, 2012, Wilhelmina had approximately 1,700 active models. Wilhelmina's active models include Alexandra Richards, Coco Rocha, Ava Smith, Kendall Jenner, Sung Hee, Soo Joo, Patti Hansen, Ben Hill, Noah Mills, Garrett Neff, Marlon Teixeira, RJ King, Mathias Berg and Adam Senn.

Wilhelmina serves approximately 2,000 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 50% of overall gross revenues during 2012.

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, 2012, the Company had 89 employees, 63 of whom were located in New York City, 9 of whom were located at Wilhelmina's Miami Florida office, 14 of whom were located at Wilhelmina's Los Angeles, California office and 3 of whom were located at the corporate headquarters in Dallas, Texas.

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 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.

PRE-WILHELMINA

The Company was incorporated in the State of Delaware in 1996.

Prior to the Company's acquisition in February 2009 of the operating companies and divisions that conduct the fashion model management business (the "Wilhelmina Acquisition"), the Company was in a transition period during which it sought to redeploy its assets to enhance shareholder value by evaluating potential acquisition and merger candidates. During this transition period, the Company's sole operating business represented an investment in ACP Investments, L.P. (d/b/a Ascendant Capital Partners) ("Ascendant"). Ascendant is a Berwyn, Pennsylvania based alternative asset management company whose funds have investments in long/short equity funds and which distributes its registered funds primarily through various financial intermediaries and related channels. The Company has not recorded any revenues in connection with its investment in Ascendant since July 2006.

ITEM 1A. RISK FACTORS

Not Applicable.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not Applicable.

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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, 2014
Three model apartments – New York, NY	6,000	2014
Three model apartments – Los Angeles, CA	6,000	2013
Four model apartments – Miami, FL	2000	2014

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 ("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, alleging, among other things, breach of Patterson's expired employment agreement with Wilhelmina International, the invalidity and unenforceability of the non-competition and non-solicitation provisions contained in the employment agreement and defamation. Patterson is also seeking a declaration that the employment agreement, including the non-competition and non-solicitation provisions contained therein, are terminated and unenforceable against him. The Company believes these claims are without merit and intends to vigorously defend itself.

In October 2012, two subsidiaries of the Company received a Summons with Notice in connection with a purported class action lawsuit. According to the Notice accompanying the Summons, the purported claims arise out of, among other things, the handling and reporting of funds on behalf of models and the use of model images. Two of the Company's subsidiaries, along with a number of other model management companies, advertising firms and others, are named as defendants. The Company believes these claims are without merit and intends to vigorously defend itself.

In addition to the legal proceedings otherwise disclosed in this report, the Company is 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 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS
AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

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The Company's Common Stock is currently quoted on the OTC Bulletin Board under the symbol "WHLM.OB." The table below sets forth the high and low market prices for the Common Stock from January 1, 2011 through December 31, 2012. These price quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions, and are based on information from published financial sources:

	High	Low
Year Ended December 31, 2011:		
1st Quarter	\$ 0.23	\$ 0.14
2nd Quarter	\$ 0.27	\$ 0.20
3rd Quarter	\$ 0.24	\$ 0.20
4th Quarter	\$ 0.22	\$ 0.14

Year Ended December 31, 2012: