

WINMARK CORP
Form 10-Q
November 09, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 29, 2007

**o 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 000-22012

Winmark Corporation

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(Exact Name of Registrant as Specified in Its Charter)

Minnesota
(State or Other Jurisdiction of
Incorporation or Organization)

41-1622691
(I.R.S. Employer
Identification Number)

4200 Dahlberg Drive, Suite 100

Golden Valley, MN 55422-4837

(Address of Principal Executive Offices, Zip Code)

(Registrant's Telephone Number, Including Area Code **763-520-8500**)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes: No:

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer:

Accelerated filer:

Non-Accelerated filer:

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes: No:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

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Common stock, no par value, 5,419,136 shares outstanding as of November 5, 2007.

WINMARK CORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1: Financial Statements

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WINMARK CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

	September 29, 2007	December 30, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 812,900	\$ 1,037,800
Receivables, less allowance for doubtful accounts of \$45,800 and \$66,900	2,108,000	2,203,500
Net investment in leases - current	9,639,300	5,777,400
Income tax receivable	783,100	812,700
Inventories	67,000	68,700
Prepaid expenses	1,017,800	1,435,100
Deferred income taxes	191,500	191,500
Total current assets	14,619,600	11,526,700
Net investment in leases - long-term	23,549,900	12,474,000
Long-term investments	9,500,000	11,500,000
Long-term receivables, net	96,700	73,800
Property and equipment, net	677,900	573,500
Other assets	625,800	625,800
Deferred income taxes	594,500	832,300
	\$ 49,664,400	\$ 37,606,100
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current line of credit	\$ 6,990,200	\$ 600,000
Current renewable subordinated notes	2,528,000	3,239,600
Accounts payable	823,900	1,608,100
Accrued liabilities	2,104,200	2,029,700
Current discounted lease rentals	81,400	157,300
Rents received in advance	1,119,700	479,300
Current deferred revenue	1,035,400	1,116,100
Total current liabilities	14,682,800	9,230,100
Long-term line of credit	6,515,800	
Long-term renewable subordinated notes	14,621,600	12,138,600
Long-term discounted lease rentals		41,000
Long-term deferred revenue	537,000	441,400
Shareholders' Equity:		
Common stock, no par, 10,000,000 shares authorized, 5,401,640 and 5,657,042 shares issued and outstanding		550,000
Retained earnings	13,307,200	15,205,000
Total shareholders' equity	13,307,200	15,755,000
	\$ 49,664,400	\$ 37,606,100

The accompanying notes are an integral part of these financial statements

WINMARK CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
REVENUE:				
Royalties	\$ 5,208,700	\$ 4,800,000	\$ 15,208,100	\$ 14,320,500
Merchandise sales	797,600	1,452,600	3,250,300	3,533,300
Leasing income	1,173,200	523,100	2,944,700	1,209,800
Franchise fees	584,100	305,000	1,301,500	980,700
Other	188,200	158,900	436,700	441,900
Total revenue	7,951,800	7,239,600	23,141,300	20,486,200
COST OF MERCHANDISE SOLD	764,300	1,381,900	3,119,500	3,378,600
LEASING EXPENSE	268,700	84,500	601,900	131,200
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	4,729,600	4,206,300	14,812,200	12,934,600
Income from operations	2,189,200	1,566,900	4,607,700	4,041,800
INTEREST EXPENSE	(381,300)	(307,900)	(1,101,900)	(429,300)
INTEREST AND OTHER INCOME	122,500	145,300	423,300	746,600
Income before income taxes	1,930,400	1,404,300	3,929,100	4,359,100
PROVISION FOR INCOME TAXES	(744,200)	(566,100)	(1,533,500)	(1,757,200)
NET INCOME	\$ 1,186,200	\$ 838,200	\$ 2,395,600	\$ 2,601,900
EARNINGS PER SHARE BASIC	\$.22	\$.15	\$.44	\$.45
EARNINGS PER SHARE DILUTED	\$.21	\$.14	\$.43	\$.43
WEIGHTED AVERAGE SHARES OUTSTANDING BASIC	5,437,805	5,632,042	5,490,077	5,841,047
WEIGHTED AVERAGE SHARES OUTSTANDING DILUTED	5,555,770	5,853,968	5,610,951	6,056,690

The accompanying notes are an integral part of these financial statements

WINMARK CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended	
	September 29, 2007	September 30, 2006
OPERATING ACTIVITIES:		
Net income	\$ 2,395,600	\$ 2,601,900
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	222,300	141,200
Allowance for doubtful accounts	(19,000)	(143,300)
Provision for credit losses	351,300	228,900
Gain on sale of investment	(60,000)	(360,000)
Compensation expense related to stock options	488,100	588,900
Deferred initial direct costs, net of amortization	(625,600)	(181,800)
Loss from disposal of property and equipment		1,400
Change in operating assets and liabilities:		
Receivables	91,600	(334,500)
Income tax receivable	29,600	527,000
Inventories	1,700	(17,700)
Prepaid expenses	417,300	(671,400)
Deferred income taxes	237,800	
Accounts payable	(784,200)	(288,100)
Accrued liabilities	74,500	433,400
Additions to advance and security deposits	1,101,000	597,900
Deferred revenue	14,900	220,800
Net cash provided by operating activities	3,936,900	3,344,600
INVESTING ACTIVITIES:		
Proceeds from sale of investment	2,060,000	360,000
Purchase of investments		(500,000)
Purchases of property and equipment	(326,700)	(240,400)
Purchase of equipment for lease contracts	(21,396,400)	(11,622,300)
Principal collections on lease receivables	6,155,400	2,627,500
Net cash used for investing activities	(13,507,700)	(9,375,200)
FINANCING ACTIVITIES:		
Proceeds from line of credit	15,300,000	
Payments on line of credit	(2,394,000)	
Proceeds from issuance of subordinated notes	4,419,000	15,340,800
Payments on subordinated notes	(2,647,600)	
Repurchase of common stock	(5,536,800)	(12,177,200)
Proceeds from exercises of options and warrants	104,600	613,800
Tax benefit on exercised options	100,700	607,300
Net cash provided by financing activities	9,345,900	4,384,700
DECREASE IN CASH AND CASH EQUIVALENTS	(224,900)	(1,645,900)
Cash and cash equivalents, beginning of period	1,037,800	2,947,700
Cash and cash equivalents, end of period	\$ 812,900	\$ 1,301,800
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	\$ 1,446,400	\$