

WINMARK CORP
Form 10-Q
October 23, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 29, 2018

or

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

For the transition period from to

Commission File Number: 000-22012

WINMARK CORPORATION

(Exact name of registrant as specified in its charter)

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Minnesota
(State or other jurisdiction of incorporation or organization)

41-1622691
(I.R.S. Employer Identification No.)

605 Highway 169 North, Suite 400, Minneapolis, MN 55441

(Address of principal executive offices) (Zip Code)

(763) 520-8500

(Registrant's telephone number, including area code)

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

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes No

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

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

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

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

Yes No

Common stock, no par value, 3,901,202 shares outstanding as of October 12, 2018.

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WINMARK CORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1: Financial Statements

WINMARK CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

	September 29, 2018	December 30, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,187,200	\$ 1,073,200
Restricted cash	55,000	90,000
Receivables, less allowance for doubtful accounts of \$900 and \$400	1,756,900	1,796,000
Net investment in leases - current	17,568,700	15,332,300
Income tax receivable	—	2,161,800
Inventories	128,200	97,100
Prepaid expenses	1,075,400	901,600
Total current assets	21,771,400	21,452,000
Net investment in leases - long-term	26,949,600	25,945,300
Property and equipment, net	725,500	486,800
Goodwill	607,500	607,500
Other assets	440,500	350,400
	\$ 50,494,500	\$ 48,842,000
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Notes payable, net of unamortized debt issuance costs of \$13,900 and \$13,900	\$ 3,236,100	\$ 3,236,100
Accounts payable	1,445,000	2,073,000
Income tax payable	902,800	—
Accrued liabilities	3,273,000	1,837,300
Discounted lease rentals	2,555,600	570,800
Deferred revenue	1,713,100	1,714,900
Total current liabilities	13,125,600	9,432,100
Long-Term Liabilities:		
Line of credit	10,100,000	35,400,000
Notes payable, net of unamortized debt issuance costs of \$86,000 and \$96,500	26,413,900	28,841,000
Discounted lease rentals	2,364,600	1,121,600
Deferred revenue	8,561,400	8,595,300

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Other liabilities	1,211,900	845,000
Deferred income taxes	425,800	320,500
Total long-term liabilities	49,077,600	75,123,400
Shareholders' Equity (Deficit):		
Common stock, no par value, 10,000,000 shares authorized, 3,901,202 and 3,843,078 shares issued and outstanding	4,597,400	1,476,200
Retained earnings (accumulated deficit)	(16,306,100)	(37,189,700)
Total shareholders' equity (deficit)	(11,708,700)	(35,713,500)
	\$ 50,494,500	\$ 48,842,000

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

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WINMARK CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Revenue:				
Royalties	\$ 12,865,900	\$ 12,316,700	\$ 35,735,900	\$ 33,865,100
Leasing income	4,608,600	3,915,800	14,994,500	13,722,000
Merchandise sales	858,400	773,100	2,340,200	2,058,500
Franchise fees	383,300	342,900	1,162,300	1,180,300
Other	402,300	382,400	1,206,400	1,145,600
Total revenue	19,118,500	17,730,900	55,439,300	51,971,500
Cost of merchandise sold	811,500	728,300	2,235,000	1,942,400
Leasing expense	718,500	792,000	1,769,200	2,724,000
Provision for credit losses	(55,600)	(13,300)	148,400	(26,200)
Selling, general and administrative expenses	6,208,800	6,184,400	19,702,500	19,165,300
Income from operations	11,435,300	10,039,500	31,584,200	28,166,000
Interest expense	(576,900)	(613,900)	(1,978,600)	(1,559,300)
Interest and other income (expense)	(1,000)	28,000		