

WINMARK CORP  
Form 424B3  
November 15, 2006

**Filed Pursuant to Rule 424(b)(3)**  
File Number 333-133393

**PROSPECTUS SUPPLEMENT NO. 5**  
**to Prospectus declared**  
**effective on June 14, 2006**  
**(Registration No. 333-133393)**  
**WINMARK CORPORATION**

This Prospectus Supplement No. 5 supplements our Prospectus declared effective June 14, 2006 (as previously supplemented by the prospectus supplements dated July 13, 2006, August 11, 2006, August 18, 2006 and October 11, 2006, collectively, the Prospectus ).

You should read this Prospectus Supplement No. 5 together with the Prospectus.

On November 13, 2006, we filed with the U.S. Securities and Exchange Commission the attached Quarterly Report for the period ended September 30, 2006 on Form 10-Q.

The information contained herein, including the information attached hereto, supplements and supersedes, in part, the information contained in the Prospectus. This Prospectus Supplement No. 5 should be read in conjunction with the Prospectus, and is qualified by reference to the Prospectus except to the extent that the information in this Prospectus Supplement No. 5 supersedes the information contained in the Prospectus.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS SUPPLEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus Supplement No. 5 is November 15, 2006.

---

**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 30, 2006**

**Commission File Number 000-22012**

**Winmark Corporation**

(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. See definition of accelerated filer and large 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: ☒

Edgar Filing: WINMARK CORP - Form 424B3

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

Common stock, no par value, 5,644,542 shares outstanding as of November 2, 2006.

---

WINMARK CORPORATION AND SUBSIDIARIES

INDEX

	PAGE
<b>PART I. FINANCIAL INFORMATION</b>	
<b>Item 1. Financial Statements (Unaudited)</b>	
<u>CONSOLIDATED CONDENSED BALANCE SHEETS:</u> <u>September 30, 2006 and December 31, 2005</u>	3
<u>CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS:</u>  <u>Three Months Ended</u> <u>September 30, 2006 and September 24, 2005</u> <u>Nine Months Ended</u> <u>September 30, 2006 and September 24, 2005</u>	4
<u>CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS:</u>  <u>Nine Months Ended</u> <u>September 30, 2006 and September 24, 2005</u>	5
<u>NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS</u>	6 15
<b>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</b>	16 27
<b>Item 3. Quantitative and Qualitative Disclosures About Market Risk</b>	27
<b>Item 4. Controls and Procedures</b>	28
<b>PART II. OTHER INFORMATION</b>	28
<b>Item 1. Item 1 has been omitted since the item is inapplicable or the answer is negative.</b>	28
<b>Item 1A. Risk Factors</b>	28
<b>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</b>	29
<b>Item 3. &amp; 4. Item 3 and Item 4 have been omitted since the item is inapplicable or the answer is negative.</b>	
<b>Item 5. Other Information</b>	29
<b>Item 6. Exhibits</b>	30

**PART I. FINANCIAL INFORMATION****ITEM 1: Financial Statements****WINMARK CORPORATION AND SUBSIDIARIES****CONSOLIDATED CONDENSED BALANCE SHEETS**

(unaudited)

	September 30, 2006	December 31, 2005
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 1,301,800	\$ 2,947,700
Receivables, less allowance for doubtful accounts of \$46,500 and \$188,700	2,331,800	1,836,300
Investment in direct finance leases	4,548,400	1,478,200
Income tax receivable	93,500	620,500
Inventories	84,700	67,000
Prepaid expenses and other	1,475,400	804,000
Deferred income taxes	776,800	776,800
Total current assets	10,612,400	8,530,500
Long-term investment in leasing operations	10,881,000	5,492,400
Long-term investments	11,500,000	11,000,000
Long-term receivables, net	76,600	94,300
Property and equipment, net	546,400	448,600
Goodwill	607,500	607,500
Deferred income taxes	375,400	375,400
	\$ 34,599,300	\$ 26,548,700
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Current renewable subordinated notes	\$ 3,294,300	\$
Accounts payable	868,300	1,156,400
Accrued liabilities	1,869,300	1,435,900
Discounted lease rentals	154,500	147,600
Rents received in advance	373,900	167,600
Deferred revenue	976,600	829,100
Total current liabilities	7,536,900	3,736,600
Long-term renewable subordinated notes	12,046,500	
Long-term discounted lease rentals	81,400	185,600
Long-term deferred revenue	412,900	339,600
Shareholders' Equity:		
Common stock, no par, 10,000,000 shares authorized, 5,632,042 and 6,049,037 shares issued and outstanding	136,000	3,840,500
Retained earnings	14,385,600	18,446,400
Total shareholders' equity	14,521,600	22,286,900
	\$ 34,599,300	\$ 26,548,700

The accompanying notes are an integral part of these financial statements



## WINMARK CORPORATION AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30, 2006	September 24, 2005	Nine Months Ended September 30, 2006	September 24, 2005
REVENUE:				
Royalties	\$ 4,800,000	\$ 4,230,300	\$ 14,320,500	\$ 12,953,400
Merchandise sales	1,452,600	1,446,100	3,533,300	5,393,700
Franchise fees	305,000	330,000	980,700	745,000
Leasing income	523,100	119,500	1,209,800	273,800
Other	158,900	163,800	441,900	432,300
Total revenue	7,239,600	6,289,700	20,486,200	19,798,200
COST OF MERCHANDISE SOLD	1,381,900	1,144,900	3,378,600	4,465,200
LEASING EXPENSE	84,500	600	131,200	600
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	4,206,300	3,645,700	12,934,600	11,678,100
Income from operations	1,566,900	1,498,500	4,041,800	3,654,300
LOSS FROM EQUITY INVESTMENTS		(5,500 )		(188,800 )
GAIN ON SALE OF INVESTMENTS				17,400
INTEREST EXPENSE	(307,900 )		(429,300 )	
INTEREST AND OTHER INCOME	145,300	90,100	746,600	224,100
Income before income taxes	1,404,300	1,583,100	4,359,100	3,707,000
PROVISION FOR INCOME TAXES	(566,100 )	(657,000 )	(1,757,200 )	(1,538,400 )
NET INCOME	\$ 838,200	\$ 926,100	\$ 2,601,900	\$ 2,168,600
EARNINGS PER SHARE BASIC	\$ .15	\$ .15	\$ .45	\$ .36
EARNINGS PER SHARE DILUTED	\$ .14	\$ .14	\$ .43	\$ .34
WEIGHTED AVERAGE SHARES OUTSTANDING BASIC	5,632,042	6,012,463	5,841,047	6,024,700
WEIGHTED AVERAGE SHARES OUTSTANDING DILUTED	5,853,968	6,424,990	6,056,690	6,452,359

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 30, 2006	September 24, 2005
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 2,601,900	\$ 2,168,600
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	141,200	135,500
Allowance for doubtful accounts	(143,300 )	
Provision for credit losses	228,900	62,900
Gain on sale of investment	(360,000 )	
Compensation expense related to stock options	588,900	467,700
Gain on sale of marketable securities		(17,400 )
Deferred initial direct costs, net of amortization	(181,800 )	(48,400 )
Loss from disposal of property and equipment	1,400	
Loss from equity investments		188,800
Tax benefit on exercised options		306,300
Change in operating assets and liabilities:		
Receivables	(334,500 )	(3,200 )
Income tax receivable	527,000	368,100
Inventories	(17,700 )	223,000
Prepaid expenses and other	(671,400 )	(230,400 )
Accounts payable	(288,100 )	(63,800 )
Income tax payable		108,300
Accrued liabilities	433,400	73,600
Additions to advance and security deposits	597,900	105,000
Deferred revenue	220,800	333,900
Net cash provided by operating activities	3,344,600	4,178,500
<b>INVESTING ACTIVITIES:</b>		
Proceeds from sale of marketable securities		1,475,000
Purchase of marketable securities		(196,200 )
Proceeds from sale of long-term investment	360,000	
Purchase of long-term investments	(500,000 )	(1,500,000 )
Purchases of property and equipment	(240,400 )	(265,900 )
Additions to other assets		(25,300 )
Proceeds from discounted lease rentals		381,800
Proceeds from sale of property and equipment		23,300
Purchase of equipment for lease contracts	(11,622,300 )	(2,641,900 )
Principal collections on lease receivables	2,627,500	381,300
Net cash used for investing activities	(9,375,200 )	(2,367,900 )
<b>FINANCING ACTIVITIES:</b>		
Proceeds from issuance of unsecured notes	15,340,800	
Repurchase of common stock	(12,177,200 )	(3,541,400 )
Proceeds from exercises of options and warrants	613,800	828,200
Tax benefit on exercised options	607,300	
Net cash provided by (used for) financing activities	4,384,700	(2,713,200 )
DECREASE IN CASH AND CASH EQUIVALENTS	(1,645,900 )	(902,600 )
Cash and cash equivalents, beginning of period	2,947,700	5,983,500
Cash and cash equivalents, end of period	\$ 1,301,800	\$ 5,080,900
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Cash paid for interest	\$ 499,300	\$



Edgar Filing: WINMARK CORP - Form 424B3

Cash paid for income taxes	\$	533,600	\$	712,100
----------------------------	----	---------	----	---------

The accompanying notes are an integral part of these financial statements

5

---

**WINMARK CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**1. Management's Interim Financial Statement Representation:**

The accompanying condensed financial statements have been prepared by Winmark Corporation and subsidiaries (the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. The Company has a 52/53 week year which ends on the last Saturday in December. The information in the condensed financial statements includes normal recurring adjustments and reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of such financial statements. This report should be read in conjunction with the audited financial statements and the notes thereto included in the Company's latest Annual Report on Form 10-K.

Revenues and operating results for the nine months ended September 30, 2006 are not necessarily indicative of the results to be expected for the full year.

**2. Organization and Business:**

The Company offers licenses to operate franchises using the service marks Play it Again Sports®, Once Upon A Child®, Music Go Round®, Plato's Closet® and Wirth Business Credit®. In addition, the Company sells inventory to its Play It Again Sports® franchisees through its buying group. The Company also operates both small-ticket and middle-market equipment leasing businesses.

**3. Long-Term Investments:**

The Company has an investment in Tomsten, Inc. ("Tomsten"), the parent company of Archiver's retail chain. Archiver's is a retail concept created to help people preserve and enjoy their photographs. The Company has invested a total of \$7.5 million in the purchase of common stock of Tomsten. The Company's investment currently represents 18.29% of the outstanding common stock of Tomsten and is accounted for by the cost method. The Company has entered into a voting agreement with Tomsten appointing officers of Tomsten as the Company's proxy with the right to vote the Tomsten shares held by the Company consistent with the two largest shareholders of Tomsten (or in case of their disagreement, consistent with a majority of the remaining shareholders) as long as the Company owned such shares. No officers or directors of the Company serve as officers or directors of Tomsten.

On October 8, 2004, the Company agreed to make a \$2.0 million preferred stock investment in Commercial Credit Group, Inc. ("CCG"), a newly formed equipment leasing company specializing in construction, transportation and waste management equipment. At closing, the Company paid \$1.5 million for approximately 21.5% of the outstanding equity of CCG. The Company made the remaining \$500,000 investment on May 20, 2005. In August 2005, CCG raised an additional \$3.0 million of preferred stock. Subsequent to that financing, the Company owned approximately 17.7% of the outstanding equity of CCG. This investment was accounted for by the cost method.

On February 15, 2006, the Company entered into two separate transactions with CCG whereby CCG (i) redeemed its 20,000 shares of Series A-1 preferred stock at face value of \$100 per share and, (ii) issued \$2,000,000 of five-year senior subordinated notes that carry an interest rate of 14.75%, which is compounded quarterly. In connection with the redemption, a \$360,000 transaction fee was received by the Company. The Company recorded the \$360,000 fee as additional consideration for the redemption for its preferred stock which, when combined with the \$2,000,000 redemption proceeds, resulted in a gain of \$360,000 on the transaction. The gain is included in interest and other income for the nine month period ended September 30, 2006.

On October 13, 2004, the Company made a commitment to lend \$2.0 million to BridgeFunds Limited at an annual rate of 12% pursuant to several senior subordinated promissory notes. BridgeFunds Limited advances funds to claimants involved in civil litigation to cover litigation expenses. The proceeds of the loans are used to fund these advances. On October 13, 2004, February 9, 2005, May 24, 2005 and May 15, 2006, Winmark Corporation funded \$500,000, \$500,000, \$500,000 and \$500,000, respectively, of such \$2.0 million commitment. In addition, Winmark Corporation has received a warrant to purchase approximately 257,000 shares of BridgeFunds which currently represents 14.7% of the equity of BridgeFunds on a fully diluted basis. BridgeFunds is currently in the process of raising capital which, if successful, will reduce Winmark's fully diluted ownership.

#### 4. Investment in Leasing Operations:

Investment in leasing operations consists of the following:

	September 30, 2006	December 31, 2005
Minimum lease payments receivable	\$ 15,844,200	\$ 5,742,000
Estimated residual value of equipment	587,300	69,900
Unearned lease income net of initial direct costs deferred	(2,723,200)	(967,000)
Security deposits	(536,900)	(145,000)
Allowance for credit losses	(332,100)	(103,200)
Total investment in leasing operations	12,839,300	4,596,700
Less: current investment in direct finance leases	(4,548,400)	(1,478,200)
Long-term investment in direct financing leases	8,290,900	3,118,500
Equipment installed on leases not yet commenced	2,590,100	2,373,900
Total long-term investment in leasing operations	\$ 10,881,000	\$ 5,492,400

During the third quarter and nine months ended September 30, 2006, the Company had \$7,800 in write-offs, compared with \$0 for the third quarter and nine months ended September 24, 2005.

Minimum lease payments receivable under lease contracts and the amortization of unearned lease income, net of initial direct costs and fees is as follows for the remainder of fiscal 2006 and the full fiscal years thereafter as of September 30, 2006:

Fiscal Year	Minimum Lease Payments Receivable	Income Amortization
2006	\$ 1,494,500	\$ 433,500
2007	6,140,400	1,330,400
2008	4,989,000	674,700
2009	2,307,900	216,200
2010	729,700	63,500
Thereafter	182,700	4,900
	\$ 15,844,200	\$ 2,723,200

**5. Other Comprehensive Income (Loss):**

The Company reports other comprehensive income (loss) in accordance with Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income (SFAS No. 130). SFAS No. 130 establishes standards for reporting in the financial statements all changes in equity during a period. For the Company, other comprehensive income (loss) consists of unrealized holding gains and losses, net of tax, from investments classified as available-for-sale. In the three and nine months ended September 24, 2005, the Company recognized tax benefits directly to shareholders' equity of \$1,400 and \$11,500, respectively, relating to mark-to-market adjustment on our investments. There were no recognized tax benefits directly to shareholders' equity in the first nine months of 2006.

Comprehensive income and the components of other comprehensive income (loss) were as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>	<b>September 24,</b>	<b>September 30,</b>	<b>September 24,</b>
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Net income	\$ 838,200	\$ 926,100	\$ 2,601,900	\$ 2,168,600
Other comprehensive income (loss)		2,300		(18,400 )
Total comprehensive income	\$ 838,200	\$ 928,400	\$ 2,601,900	\$ 2,150,200

**6. Accounting for Stock-Based Compensation:**

In 2002, the Company adopted the fair value method recognition provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (Statement No. 123) using the prospective method as provided by Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. Historically, the Company had applied the intrinsic value method permitted under Statement 123, as defined in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and related interpretations, in accounting for our stock-based compensation plans. Accordingly, no compensation cost has been recognized for stock options issued prior to 2002. Compensation expense of \$136,100 and \$143,500 and \$588,900 and \$467,700 relating to the vested portion of the fair value of stock options granted subsequent to adoption of the fair value method has been included in Selling, General and Administration Expenses in the third quarter and nine months of 2006 and 2005, respectively.

Financial Accounting Standards Board (FASB) Statement No. 123, *Share-Based Payment* (revised 2004) requires the cost of all share-based payments to employees, including grants of employee stock options, to be recognized in the consolidated financial statements based on the grant date fair value of those awards. In accordance with Statement No. 123R, this cost is recognized over the period for which an employee is required to provide service in exchange for the award. For awards outstanding as of January 1, 2006, Statement No. 123R requires the Company to recognize compensation expense for the unvested portion of outstanding share-based payments based on the fair value of the award on the grant date. It also requires that the benefits associated with tax deductions in excess of recognized compensation expense be reported as a financing cash flow rather than as an operating cash flow. The Company adopted Statement No. 123R, effective January 1, 2006, utilizing the modified prospective method, and, therefore, did not restate the prior-period results. The Company uses the straight-line method of expensing graded vesting awards.

The impact of adopting Statement No. 123R did not increase compensation expense over the amount the Company would have recorded under Statement No. 123 during the three and nine months ended September 30, 2006 given that we adopted Statement No. 123 in November 2002.

In accordance with SFAS 123, the fair value of each option granted was estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

Year Granted	Option Fair Value	Risk Free Interest Rate	Expected Life (Years)	Expected Volatility	Dividend Yield
2006					
2005	\$6.81/\$10.66	4.44%/4.47%	5/7	28.1%/43.5%	none

The Company did not modify any outstanding options to minimize the impact of 123R. The Company is using the same valuation model and assumptions under 123R that it used before and the adoption of 123R will not affect our option granting practices.

## 7. Recent Accounting Pronouncements:

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109*. FIN 48 prescribes a comprehensive financial statement model of how a company should recognize, measure, present, and disclose uncertain tax positions that the Company has taken or expects to take in its income tax returns. FIN 48 requires that only income tax benefits that meet the more likely than not recognition threshold be recognized or continue to be recognized on the effective date. Initial derecognition amounts would be reported as a cumulative effect of a change in accounting principle. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is assessing the impact of the new guidance on all of our open tax positions.

In September 2006, the SEC issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB No. 108 is effective for fiscal years ending after November 15, 2006. The Company is currently assessing the impact, if any, the adoption of SAB No. 108 will have on its financial statements. The cumulative effect, if any, of applying the provisions of SAB No. 108 will be reported as an adjustment to beginning-of-year retained earnings.

## 8. Reclassifications:

Certain amounts in the prior period financial statements have been reclassified to conform with the current year presentation. These reclassifications have no effect on net income or shareholders' equity as previously reported.

## 9. Earnings Per Share:

The Company calculates earnings per share in accordance with SFAS No. 128 by dividing net income by the weighted average number of shares of common stock outstanding to arrive at the Earnings Per Share - Basic. The Company calculates Earnings Per Share - Dilutive by dividing net income by the weighted average number of shares of common stock and dilutive stock equivalents from the exercise of stock options and warrants using the treasury stock method. The weighted average diluted outstanding shares is computed by adding the weighted average basic shares outstanding with the dilutive effect of 221,926 and 412,527 stock options and warrants for the three months ended and 215,643 and 427,659 for the nine months ended September 30, 2006 and September 24, 2005, respectively.

Options totaling 53,305 and 23,746 and 64,324 and 17,810 shares for the three and nine months ended September 30, 2006 and September 24, 2005, respectively, were outstanding but were not included in the calculation of Earnings Per Share - Diluted because their exercise prices were greater than the average market price of the common shares and, therefore, including the options in the denominator would be anti-dilutive, or decrease the number of weighted average shares.

## 10. Shareholders' Equity:

### *Repurchase of Common Stock*

Under the Board of Directors' authorization, the Company has the ability to repurchase up to 4,000,000 shares of its common stock, of which all but 500,458 shares have been repurchased. Repurchases may be made from time to time at prevailing prices, subject to certain restrictions on volume, pricing and timing. Since November 1995 through September 30, 2006, the Company has repurchased 3,499,542 of its stock at an average price of \$13.73 per share. In the first nine months of 2006, the Company repurchased 519,000 shares for an aggregate purchase price of \$12,177,200 or \$23.46 per share.

### *Dilutive Securities*

As of September 30, 2006, the Company had options and warrants outstanding to purchase a total of 678,000 shares of its common stock with an average exercise price of \$13.33 per share. Of these, 437,400 were exercisable as of September 30, 2006.

### *Stock Option Plans*

The Company had authorized up to 1,530,000 shares of common stock to be reserved for granting either nonqualified or incentive stock options to officers and key employees under the Company's 1992 Stock Option Plan (the 1992 Plan). The 1992 Plan expired on April 21, 2002.

The Company's shareholders had approved the Company's 2001 Stock Option Plan (the 2001 Plan) under which 500,000 shares had been reserved for granting either nonqualified or incentive stock options to officers and key employees. At the regularly scheduled Annual Meeting of Shareholders held on May 3, 2006, the Company's shareholders approved a resolution to amend the 2001 Plan to increase the number of approved and reserved shares of common stock under the 2001 Plan from 500,000 to 750,000.

Grants under the 2001 Plan are made by the Board of Directors or a Board-designated committee at a price of not less than 100% of the fair market value on the date of grant. If an incentive stock option is granted to an individual who owns more than 10% of the voting rights of the Company's common stock, the option exercise price may not be less than 110% of the fair market value on the date of grant. The term of the options may not exceed 10 years, except in the case of nonqualified stock options, whereby the terms are established by the Board of Directors or a Board-designated committee. Options may be exercisable in whole or in installments, as determined by the Board of Directors or a Board-designated committee.

The Company also sponsors a Stock Option Plan for Nonemployee Directors (the Nonemployee Directors Plan) and has reserved a total of 200,000 shares for issuance to directors of the Company who are not employees. Each option granted under the Nonemployee Directors Plan vests and becomes exercisable in five equal increments, beginning one year after the date of grant.

Stock options granted and exercised under the 1992 Plan, 2001 Plan and Nonemployee Directors Plan as of September 30, 2006 were as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Remaining Intrinsic Value
Outstanding at December 31, 2005	582,000	\$ 14.56		
Granted				
Exercised	(104,000)	6.35		
Forfeited				
Outstanding at September 30, 2006	478,000	16.40	7.02	\$ 3,479,600