

WINMARK CORP
Form 10-Q
July 24, 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 June 30, 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 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 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	(Do not check if a smaller reporting company)
	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, 3,868,526 shares outstanding as of July 13, 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)

	June 30, 2018	December 30, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,232,900	\$ 1,073,200
Restricted cash	105,000	90,000
Receivables, less allowance for doubtful accounts of \$400 and \$400	1,502,000	1,796,000
Net investment in leases - current	17,046,100	15,332,300
Income tax receivable	—	2,161,800
Inventories	150,100	97,100
Prepaid expenses	765,800	901,600
Total current assets	20,801,900	21,452,000
Net investment in leases - long-term	26,380,400	25,945,300
Property and equipment, net	630,400	486,800
Goodwill	607,500	607,500
Other assets	396,800	350,400
	\$ 48,817,000	\$ 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	1,502,900	2,073,000
Income tax payable	237,200	—
Accrued liabilities	3,214,400	1,837,300
Discounted lease rentals	1,637,100	570,800
Deferred revenue	3,047,200	3,012,700
Total current liabilities	12,874,900	10,729,900
Long-Term Liabilities:		
Line of credit	18,400,000	35,400,000
Notes payable, net of unamortized debt issuance costs of \$89,500 and \$96,500	27,223,000	28,841,000
Discounted lease rentals	2,260,900	1,121,600
Deferred revenue	7,294,500	7,297,500

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Other liabilities	1,161,300	845,000
Deferred income taxes	360,200	320,500
Total long-term liabilities	56,699,900	73,825,600
Shareholders' Equity (Deficit):		
Common stock, no par value, 10,000,000 shares authorized, 3,868,526 and 3,843,078 shares issued and outstanding	3,329,600	1,476,200
Retained earnings (accumulated deficit)	(24,087,400)	(37,189,700)
Total shareholders' equity (deficit)	(20,757,800)	(35,713,500)
	\$ 48,817,000	\$ 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		Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Revenue:				
Royalties	\$ 11,821,000	\$ 11,094,400	\$ 22,870,000	\$ 21,548,400
Leasing income	4,857,100	3,946,600	10,385,900	9,806,200
Merchandise sales	704,900	537,100	1,481,800	1,285,400
Franchise fees	378,100	468,800	779,000	837,400
Other	398,700	382,800	804,100	763,200
Total revenue	18,159,800	16,429,700	36,320,800	34,240,600
Cost of merchandise sold	681,000	499,100	1,423,500	1,214,100
Leasing expense	495,800	660,600	1,050,700	1,932,000
Provision for credit losses	109,000	(11,500)	204,000	(12,900)
Selling, general and administrative expenses	6,799,300	6,468,400	13,493,700	12,980,900
Income from operations	10,074,700	8,813,100	20,148,900	18,126,500
Interest expense	(657,900)	(446,300)	(1,401,700)	(945,400)
Interest and other income (expense)	(11,300)			