

WINMARK CORP
Form 10-K
March 11, 2010
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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 26, 2009, 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, Minnesota
(Address of Principal Executive Offices)

55441
(Zip Code)

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

Securities registered pursuant to Section 12 (b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, no par value per share	Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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 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): (Do not check if a smaller reporting company)

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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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 voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the price at which the common equity was last sold, of the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter was \$30,326,345.

Shares of no par value Common Stock outstanding as of March 8, 2010: 5,122,233 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the Registrant's Annual Meeting of Shareholders to be held on April 28, 2010 have been incorporated by reference into **Items 10, 11, 12, 13 and 14** of Part III of this report.

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WINMARK CORPORATION AND SUBSIDIARIES

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PART I

ITEM 1: BUSINESS

Background

We are a franchisor of four value-oriented retail store concepts that buy, sell, trade and consign merchandise. Each of our retail store brands emphasizes consumer value by offering high-quality used merchandise at substantial savings from the price of new merchandise and by purchasing customers' used goods that have been outgrown or are no longer used. The retail brands also offer new merchandise to customers.

We operate a middle-market equipment leasing business through our wholly owned subsidiary, Winmark Capital Corporation. Our middle-market leasing business serves large and medium-sized businesses and focuses on technology-based assets which typically cost more than \$250,000. The businesses we target generally have annual revenue of \$50 million or more. We generate middle-market equipment leases primarily through business alliances, equipment vendors and directly from customers.

We also operate a small-ticket financing business through our wholly owned subsidiary, Wirth Business Credit, Inc. (formerly known as Winmark Business Solutions, Inc.). Our small-ticket financing business serves small businesses and focuses on assets which generally have a cost of \$5,000 to \$250,000. We generate financing business directly from customers, and also through our Wirth Business Credit franchisees.

Our significant assets are located within the United States, and we generate all revenues from United States operations other than franchising revenues from Canadian operations of approximately \$1.8 million, \$2.0 million and \$2.0 million for 2009, 2008 and 2007, respectively. For additional financial information, please see Item 6 Selected Financial Data and Item 8 Financial Statements and Supplementary Data. We were incorporated in Minnesota in 1988.

Franchise Operations

Our four retail brands with their fiscal year 2009 system-wide sales, defined as estimated revenues generated by all franchise owned locations, are summarized as follows:

Play It Again Sports® - \$222 million.

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We began franchising the Play It Again Sports brand in 1988. Play It Again Sports franchises sell, buy, trade and consign used and new sporting goods, equipment and accessories for a variety of athletic activities including hockey, wheeled sports (in-line skating, skateboards, etc.), fitness, ski/snowboard, golf and baseball/softball. The franchises offer a flexible mix of merchandise that is adjusted to adapt to seasonal and regional differences. Play It Again Sports is known for providing high value to the customer by offering a mix of new and used sporting goods. For the years ended 2009, 2008 and 2007, Play It Again Sports contributed royalties and franchise fees of \$9.1 million, \$9.8 million and \$10.4 million, respectively. As a percentage of consolidated revenues for 2009, 2008 and 2007, these amounts equaled 24.3%, 27.6% and 33.3%, respectively.

Plato's Closet® - \$206 million.

We began franchising the Plato's Closet brand in 1999. Plato's Closet franchises sell and buy used clothing and accessories geared toward the teenage and young adult market. Customers have the opportunity to sell their used items to a Plato's Closet franchise when gently-used or outgrown and to purchase quality used clothing and accessories at prices lower than new merchandise. For the years ended 2009, 2008 and 2007, Plato's Closet contributed royalties and franchise fees of \$8.5 million, \$6.9 million and \$5.4 million, respectively. As a percentage of consolidated revenues for 2009, 2008 and 2007, these amounts equaled 22.8%, 19.5% and 17.2%, respectively.

Table of Contents***Once Upon A Child® - \$154 million.***

We began franchising the Once Upon A Child brand in 1993. Once Upon A Child franchises sell and buy used and new children's clothing, toys, furniture, equipment and accessories. This brand primarily targets cost-conscious parents of children ages infant to 10 years with emphasis on children ages seven years old and under. These customers have the opportunity to sell their used children's items to a Once Upon A Child franchise when outgrown and to purchase quality used children's clothing, toys, furniture and equipment at prices lower than new merchandise. New merchandise is offered to supplement the used merchandise. For the years ended 2009, 2008 and 2007, Once Upon A Child contributed royalties and franchise fees of \$6.4 million, \$5.7 million, and \$5.4 million, respectively. As a percentage of consolidated revenues for 2009, 2008 and 2007, these amounts equaled 17.1%, 16.0% and 17.3%, respectively.

Music Go Round® - \$25 million.

We began franchising the Music Go Round brand in 1994. Music Go Round franchises sell, buy, trade and consign used and new musical instruments, speakers, amplifiers, music-related electronics and related accessories for parents of children who play musical instruments, as well as professional and amateur musicians. For the years ended 2009, 2008 and 2007, Music Go Round contributed royalties and franchise fees of \$0.8 million each year. As a percentage of consolidated revenues for 2009, 2008 and 2007, these amounts equaled 2.0%, 2.2% and 2.4%, respectively.

Wirth Business Credit®

We began franchising the Wirth Business Credit business in 2006. The Wirth Business Credit brand franchises leasing and financing services businesses that provide franchisees an array of small-ticket equipment leasing and financing options funded through Winmark or its affiliates to offer to customers for business essential equipment and assets. Wirth Business Credit franchisees are paid a transaction fee for each leasing or financing transaction funded through Winmark or its affiliates, and as such Winmark Corporation does not receive royalties from Wirth Business Credit franchisees.

The following table presents a summary of our franchising activity for the fiscal year ended December 26, 2009:

	TOTAL 12/27/08	OPENED	CLOSED	TOTAL 12/26/09	AVAILABLE FOR RENEWAL	COMPLETED RENEWALS	% RENEWED
<u>Play It Again Sports</u>							
Franchises - US and Canada	364	6	(29)	341	15	15	100%
<u>Plato's Closet</u>							
Franchises - US and Canada	241	30	(4)	267	11	11	100%
<u>Once Upon A Child</u>							
Franchises - US and Canada	229	13	(7)	235	22	20	91%

Music Go Round

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