

WINMARK CORP
Form S-1/A
June 13, 2006

As filed with the Securities and Exchange Commission on June 13, 2006

Registration No. 333-133393

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 3 to

FORM S-1

Registration Statement Under The Securities Act of 1933

WINMARK CORPORATION

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction of incorporation or organization)

5900

(Primary Standard Industrial Classification Code Number)

41-1622691

(I.R.S. Employer Identification No.)

4200 Dahlberg Drive, Suite 100

Minneapolis, Minnesota 55422-4837

(763) 520-8500

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

John L. Morgan, Chairman and Chief Executive Officer

Brett D. Heffes, Chief Financial Officer and Treasurer

Winmark Corporation

4200 Dahlberg Drive, Suite 100

Minneapolis, Minnesota 55422-4837

(763) 520-8500

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(Name, address, including zip code, and telephone number including area code, of agent for service)

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Approximate date of commencement of proposed sale to public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Renewable Unsecured Subordinated Notes	\$ 50,000,000	(1)	\$ 50,000,000	\$ 5,350 (2)

(1) The Renewable Unsecured Subordinated Notes will be issued in denominations selected by the Purchasers in any amount equal to or exceeding \$1,000.

(2) Previously paid.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment that specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Subject To Completion, Dated June 13, 2006

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS

WINMARK CORPORATION

\$3,500,000 Three Month Renewable Unsecured Subordinated Notes
\$3,500,000 Six Month Renewable Unsecured Subordinated Notes
\$11,000,000 One Year Renewable Unsecured Subordinated Notes
\$10,000,000 Two Year Renewable Unsecured Subordinated Notes
\$13,000,000 Three Year Renewable Unsecured Subordinated Notes
\$2,000,000 Four Year Renewable Unsecured Subordinated Notes
\$6,000,000 Five Year Renewable Unsecured Subordinated Notes
\$1,000,000 Ten Year Renewable Unsecured Subordinated Notes

We are offering an aggregate principal amount of up to \$50 million of our renewable unsecured subordinated notes. Notes with certain terms may not always be available. We intend to commence the offering promptly. The offering will be made on a continuous basis, and is expected to continue for a period in excess of 30 days. We will establish interest rates on the securities offered in this prospectus in prospectus supplements. Once you purchase a note, changes in interest rates will not affect the interest rate you receive up to maturity. The notes are unsecured obligations and your right to payment is subordinated in right of payment to all of our existing or future senior, secured, unsecured and subordinate indebtedness and other of our financial obligations. Upon maturity, the notes will be automatically renewed for the same term as your maturing note at an interest rate that we are offering at that time to other investors with similar aggregate note portfolios for notes of the same term, unless we or you elect not to have them renewed. If notes of the same term are not then being offered, the interest rate upon renewal will be the rate specified by us on or before maturity, or the rate of the existing note if no such rate is specified. The interest rate on your renewed note may be different than the interest rate on your original note.

After giving you thirty days advance notice, we may redeem all or a portion of the notes for their original principal amount plus accrued but unpaid interest. You or your representative also may request us to repurchase your notes prior to maturity; however, unless the request is due to your death or total permanent disability, we may, in our sole discretion, decline to repurchase your notes, and will, if we do elect to repurchase your notes, charge you a penalty of up to three months of interest on notes with three month maturities and up to six months of interest on all other notes. Our obligation to repurchase notes prior to maturity for any reason in a single calendar quarter is limited to the greater of \$1 million or 2% of the aggregate principal amount of all notes outstanding at the end of the previous quarter.

The notes will be marketed and sold through Sumner Harrington Ltd., which is acting as our selling agent for the notes. The notes will not be listed on any securities exchange or quoted on Nasdaq or any over-the-counter market. Sumner Harrington Ltd. does not intend to make a market in the notes and we do not anticipate that a market in the notes will develop. There will be significant restrictions on your ability to transfer or resell the notes. Sumner Harrington Ltd. also will act as our servicing agent in connection with our ongoing administrative responsibilities for the notes. We have not requested a rating for the notes; however, third parties may independently rate them.

The notes are not certificates of deposit or similar obligations of, and are not guaranteed or insured by, any depository institution, the Federal Deposit Insurance Corporation, the Securities Investor Protection Corporation or any other governmental or private fund or entity.

This prospectus may be used to offer and sell securities only if accompanied by the prospectus supplement that describes the interest rate and maturity for those securities.

An investment in the securities described in this prospectus involves risks. Please see **Risk Factors** on page 7.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus is dated .

	Per Note	Total
Public Offering Price	100 %	100 %
Selling Agent Commissions	3 %	3 %
Proceeds to Winmark, before expenses	97 %	97 %

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The selling agent will not receive the entire 3% gross commission on notes with terms of less than two years unless the notes are successively renewed for a total term of two years or more. The selling agent will also be paid an annual portfolio management fee equal to 0.25% of the weighted average daily principal balance of the outstanding notes and will be reimbursed for the selling agent's legal fees and other document fulfillment costs. However, in no event will the aggregate portfolio management fees paid to the selling agent total more than 2.25% of the aggregate amount of the notes sold, nor will the costs of all other items of compensation paid to the selling agent exceed 0.75% of the aggregate amount of the notes sold. See Plan of Distribution for a further description of additional compensation payable to the selling agent and its affiliates in connection with services rendered in offering and selling the notes, serving as servicing agents and providing and managing the advertising and marketing functions related to the sale of the notes. There will be no underwriting discount.

Sumner Harrington Ltd. is not required to sell any specific number or dollar amount of notes but will use its best efforts to sell the notes offered.

We will issue the notes in book-entry or uncertificated form. Subject to certain limited exceptions, you will not receive a certificated security or a negotiable instrument that evidences your notes. Sumner Harrington Ltd. will deliver written confirmations to purchasers of the notes. Wells Fargo Bank, National Association will act as trustee for the notes.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission using a shelf registration process. Under this shelf process, we may sell an aggregate of up to \$50,000,000 of our renewable unsecured subordinated notes. This prospectus provides you with a general description of those securities. We will also provide you with a prospectus supplement that will contain specific information about the interest rates of the notes we are offering. The prospectus supplement may also add, update or change information contained in this prospectus. You should read this prospectus and the prospectus supplement together with the additional information described under the heading **Where You Can Find More Information**.

The registration statement that contains this prospectus (including the exhibits to the registration statement) contains additional information about our company and the securities offered under this prospectus. That registration statement can be read at the SEC web site or at the SEC offices mentioned under the heading **Where You Can Find More Information**.

PROSPECTUS SUMMARY

This section is a summary of certain information selected from this prospectus, including information incorporated by reference. This summary is an overview and does not contain all of the information you should consider. Therefore, you should also read the more detailed information set out in the prospectus supplement, this prospectus, and our financial statements and other information incorporated by reference into this prospectus and prospectus supplement. Except when we are discussing repayment obligations under the notes, which are solely obligations of Winmark Corporation, the terms we, our, and us refer to Winmark Corporation and our consolidated subsidiaries.

WINMARK CORPORATION

Business of Winmark Corporation. We develop and franchise value-oriented retail concepts for stores that buy, sell, trade and consign quality used and new merchandise. Each franchise emphasizes consumer value by offering high quality used merchandise at substantial savings and by purchasing or accepting as trade customers used goods that have been outgrown or are no longer used. We offer new merchandise to supplement used goods. We are also engaged in the business of providing non-cancelable leases for high-technology and business-essential equipment to both larger organizations and smaller companies. We started our equipment leasing operations in April of 2004, and we are currently in the early stages of building this portion of our business.

We have over 800 franchised stores across North America. Franchisees are required to operate their businesses according to the systems, specifications, standards, and formats we develop for each brand. We train our franchisees on how to operate the business and provide continuing support and service to the brand. We have four retail brands:

- ***Play It Again Sports*** buys, sells and trades quality used and new sporting goods and equipment;
- ***Once Upon a Child*** buys and sells used and new children's clothing, toys, furniture and other accessories;
- ***Music Go Round*** buys, sells and trades quality used musical instruments and equipment;
- ***Plato's Closet*** buys and sells gently used, brand-name clothing and accessories for teens and young adults.

As of April 1, 2006, we had 395 Play It Again Sports franchises, 206 Once Upon a Child franchises, 41 Music Go Round franchises and 164 Plato's Closet franchises. Our franchisees are required to sign ten year franchise agreements. We believe that the franchise agreement renewals are one indicator, among others, to assist us in evaluating our business and preserving future royalties. During the fiscal year ended December 31, 2005, we renewed 43 franchise agreements of the 46 franchise agreements that were available for renewal. We do not have any company-owned stores operating under these brands.

We operate a middle-market equipment leasing business through our wholly-owned subsidiary Winmark Capital Corporation, and a small-ticket financing business through our wholly-owned subsidiary Wirth Business Credit, Inc. (formerly known as Winmark Business Solutions, Inc.). Our middle-market leasing business serves large and medium-sized businesses and focuses on assets which generally have a cost of more than \$250,000. 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 equipment leases primarily through business alliances, equipment vendors and directly from customers. We also will begin offering our small-ticket financing products through a network of franchisees who will operate under the name Wirth Business Credit.

Recent Developments

On May 16, 2006, under a preexisting share repurchase program, we repurchased 420,000 shares of common stock from Rush River Group, LLC for aggregate consideration of \$9.891 million, or \$23.55 per share, pursuant to a stock purchase agreement. The purchase price was based upon a 5% discount to the 30-day average closing price of our common stock as reported on Nasdaq, set on May 11, 2006. The 420,000 shares represent 100% of the shares of company stock held by Rush River, an entity owned and controlled by our chairman and chief executive officer John L. Morgan, our vice-chairman Kirk A. MacKenzie, and Jack A. Norqual. Our audit committee and our independent directors approved the transaction. We also received approval from our senior lender, LaSalle Bank, and borrowed approximately \$9.9 million under our existing credit facility with LaSalle in connection with the purchase. As a result of the transaction, our shareholders' equity has decreased by approximately \$9.9 million. We intend to use some of the proceeds from the sale of the notes to pay down our credit facility with LaSalle Bank. On June 6, 2006 we repurchased 44,000 shares of common stock in a private transaction for aggregate consideration of approximately \$1 million.

THE OFFERING

Issuer

Winmark Corporation

Trustee

Wells Fargo Bank, National Association

Selling and Servicing Agent

Sumner Harrington Ltd.

Securities Offered

Renewable Unsecured Subordinated Notes in the following amounts:

- \$3,500,000 worth of three month notes;
- \$3,500,000 worth of six month notes;
- \$11,000,000 worth of one year notes;
- \$10,000,000 worth of two year notes;
- \$13,000,000 worth of three year notes;
- \$2,000,000 worth of four year notes;
- \$6,000,000 worth of five year notes;
- \$1,000,000 worth of ten year notes.

The notes represent our unsecured promise to repay principal at maturity and to pay interest during the term or at maturity. By purchasing a note, you are lending money to us.

Method of Purchase

Prior to your purchase of notes, you will be required to complete a subscription agreement that will set forth the principal amount of your purchase, the term of the notes and certain other information regarding your ownership of the notes. The form of subscription agreement is filed as an exhibit to the registration statement of which this prospectus is a part. As our servicing agent, Sumner Harrington Ltd. will mail you written confirmation that your subscription has been accepted.

Denomination

You can choose the denomination of the notes you purchase in any principal amount of \$1,000 or more, including odd amounts.

Offering Price

100% of the principal amount per note.

Rescission Right

You can rescind your investment within five business days of the postmark date of your purchase confirmation without incurring an early redemption penalty. In addition, if your subscription agreement is accepted by our servicing agent at a time when we have determined that a post-effective amendment to the registration statement of which this prospectus is a part must be filed with the Securities and Exchange Commission, but such post-effective amendment has not yet been declared effective, you will be able to rescind your investment subject to the conditions set forth in this prospectus. See *Description of the Notes Rescission Right* for additional information.

Maturity

You can generally choose maturities for your notes of 3 or 6 months or 1, 2, 3, 4, 5 or 10 years; however, depending on our capital needs, we may not sell notes of all maturities at all times.

Interest Rate

The interest rate paid on the notes will be established at the time you purchase them, or at the time of renewal, based upon the rates we are offering in our latest interest rate supplement to this prospectus, and will remain fixed throughout each term. We may offer higher rates of interest to investors with larger aggregate note portfolios, as set forth in the then current interest rate supplement.

Interest Payment Dates

You can choose to receive interest payments monthly, quarterly, semiannually, annually or at maturity. If you choose to receive interest payments monthly, you can choose the day on which you will be paid. You may change the interest payment schedule or interest payment date once during the term of your note.

Principal Payment

We will not pay principal over the term of the notes. We are obligated to pay the entire principal balance of the outstanding notes upon maturity.

Payment Method

Principal and interest payments will be made by direct deposit to the account you designate in your subscription documents.

Renewal or Redemption on Maturity

Upon maturity, the notes will be automatically renewed for the same term at the interest rate we are offering at that time to other investors with similar aggregate note portfolios for notes of the same maturity, unless we notify you prior to the maturity date that we intend to repay the notes. You may also notify us within 15 days after the maturity date that you want your notes repaid. This 15-day period will be automatically extended if you would otherwise be required to make the repayment election at a time when we have determined that a post-effective amendment to the registration statement of which this prospectus is a part must be filed with the Securities and Exchange Commission, but such post-effective amendment has not yet been declared effective.

If similar notes are not being offered at the time of renewal, the interest rate upon renewal will be the rate specified by us on or before the maturity date, or the rate of your existing notes if no such rate is specified. The interest rate being offered upon renewal may, however, be different than the interest rate on your original note. See *Description of the Notes Renewal or Redemption on Maturity*.

Optional Redemption or Repurchase

After giving you 30 days prior notice, we may redeem the notes at a price equal to their original principal amount plus accrued but unpaid interest.

You or your representative may request us to repurchase your notes prior to maturity; however, unless the request is due to your death or total permanent disability, we may, in our sole discretion, decline to repurchase your notes, and will, if we elect to repurchase your notes, charge you a penalty of up to three months of interest for notes with a three-month maturity and up to six months of interest for all other notes. The total principal amount of notes that we will be required to repurchase prior to maturity, for any reason in any calendar quarter, will be limited to the greater of \$1 million or 2% of the total principal amount of all notes outstanding at the end of the previous quarter.

Consolidation, Merger or Sale

See Description of Notes Redemption or Repurchase Prior To Stated Maturity. Upon any consolidation, merger or sale of our company, we will either redeem all of the notes or our successor will be required to assume our obligation to pay principal and interest on the notes pursuant to the indenture. For a description of these provisions see Description of the Notes Consolidation, Merger or Sale. The notes:

Ranking; No Security

- are unsecured;
- rank junior to our existing and future senior debt, including debt we may incur under our existing and future credit facilities;
- rank junior to our existing and future secured debt;
- rank junior to our existing and future subordinated debt, except for offerings of additional renewable unsecured subordinated notes which will rank equally with the notes; and
- rank junior to other of our financial obligations, including obligations we may incur in connection with our investments, acquisitions, and obligations in connection with discounted lease rentals.

As of May 16, 2006, we had outstanding debt senior to the notes of \$12.3 million under our credit facility with LaSalle Bank. This facility permits us to draw up to \$15 million from time to time for certain purposes, and up to \$25 million with LaSalle's consent. This credit facility is secured by substantially all of our assets. Our obligation to repay LaSalle is senior to our obligation to repay the notes.

Restrictive Covenants

The indenture governing the notes contains limited restrictive covenants. These covenants:

- require us to maintain a positive net worth; and
- prohibit us from paying dividends on our capital stock if there is an event of default with respect to the notes or a payment of the dividend would result in an event of default.

The covenants set forth in the indenture are more fully described under Description of the Notes Restrictive Covenants. These covenants have significant exceptions.

Use of Proceeds

If all the notes are sold, with original or aggregate maturities of two years or more, we would expect to receive approximately \$47 million of net proceeds from this offering after deducting the selling agent's commissions and estimated initial offering expenses payable by us. The exact amount of net proceeds may vary considerably depending on how long the notes are offered and other factors. We intend to use the net proceeds to pay down our credit facility with LaSalle Bank, to provide capital to grow and expand our leasing portfolio, to acquire businesses or assets, to repurchase our common stock from time to time as we may deem prudent and for other general corporate purposes. Until the capital is deployed, we will invest the proceeds in short term investment grade financial instruments. See Use of Proceeds.

Absence of Public Market and Transfer Restrictions

There is no existing market for the notes.

Sumner Harrington Ltd. has advised us that it does not intend to make a market in the notes after the completion of this offering and we do not anticipate that a secondary market for the notes will develop. We do not intend to apply for listing of the notes on any securities exchange or for quotation of the notes in any automated dealer quotation system.

Book Entry

You will be able to transfer or pledge the notes only with our prior written consent. See Description of the Notes Transfers. The notes will be issued in book entry or uncertificated form only. Except under limited circumstances, the notes will not be evidenced by certificated securities or negotiable instruments. See Description of the Notes Book Entry Registration and Transfer.

RISK FACTORS

You should carefully consider the risks involved in deciding whether to invest in the notes we are offering, including the risk factors and those risks described in our Form 10-K for the year ended December 31, 2005. You should also consider the other information in this prospectus and any prospectus supplement as well as other documents incorporated by reference.

The risks described below set forth the material risks associated with the purchase of notes and our company, as well as factors that may influence the outcome of any forward looking statement. Before you invest in the notes, you should carefully consider these risk factors, as well as the other information contained in this prospectus and in the documents incorporated by reference into this prospectus.

RISK FACTORS RELATING TO THE NOTES

The notes may not be a suitable investment for all investors.

The notes may not be a suitable investment for you, and we advise you to consult your investment, tax and other professional financial advisors prior to purchasing notes. The characteristics of the notes, including maturity, interest rate and lack of liquidity, may not satisfy your investment objectives. The notes may not be a suitable investment for you based on your ability to withstand a loss of interest or principal or other aspects of your financial situation, including your income, net worth, financial needs, investment risk profile, return objectives, investment experience and other factors. Prior to purchasing any notes, you should consider your investment allocation with respect to the amount of your contemplated investment in the notes in relation to your other investment holdings and the diversity of those holdings.

You lack priority in payment on the notes, which rank junior to substantially all of our existing and future debt and other financial obligations.

Your right to receive payments on the notes is junior to the extent we incur indebtedness now or in the future. Your notes will be subordinated to the prior payment in full of all of our other debt and financial obligations, including our obligations to make capital contributions in connection with our investments in other private companies. As of May 16, 2006, we had outstanding indebtedness of \$12.3 million senior to the notes under our credit facility with LaSalle Bank. This facility permits us to draw up to \$15 million from time to time, and up to \$25 million with LaSalle's consent. Our obligations under this facility (including any additional amounts we may draw) rank senior to your notes. We also may obtain additional indebtedness at any time that will rank senior to the notes you purchase. Further, we have in the past, and expect in the future, to enter into funding commitments in connection with acquisitions and investments. Our obligations under these types of arrangements may continue for several years following an acquisition or investment, and will rank senior to your notes. In addition, we have in the past and will continue to enter into non-recourse discounting of lease rentals with financial institutions at fixed interest rates. These obligations are also senior to your notes. As of April 1, 2006, our aggregate deferred or contingent cash payment obligations in connection with existing investments totaled approximately \$0.5 million, and our discounted lease rentals totaled approximately \$0.33 million. Because of the subordination provisions of the notes, in the event of our bankruptcy, liquidation or dissolution, our assets would be available to make payments to you under the notes only after all payments had been made on all of our secured and unsecured indebtedness and other obligations that are senior to the notes. Sufficient assets may not remain after all such senior payments have been made to make any payments to you under the notes, including payments of interest when due or principal upon maturity.

There will be no trading market for the notes, which may make it difficult to transfer your notes.

Your ability to liquidate your investment is limited because of transfer restrictions, the lack of a trading market and the limitation on repurchase requests prior to maturity. Your notes may not be

transferred without our prior written consent. In addition, there will be no trading market for the notes. Due to the restrictions on transfer of the notes and the lack of a market for the sale of the notes, even if we permitted a transfer, you might be unable to sell, pledge or otherwise liquidate your investment. Except in the case of death or total permanent disability, repurchases of the notes prior to maturity are subject to our approval and to repurchase penalties of up to three months interest on notes with three-month maturities and up to six months interest on notes with maturities of six months or longer. The total principal amount of notes that we would be required to repurchase in any calendar quarter, for any reason, will be limited to the greater of \$1 million or 2% of the aggregate principal amount of all notes outstanding at the end of the previous quarter. See Description of the Notes.

The notes will have no sinking fund, security, insurance or guarantee.

There is no sinking fund, security, insurance or guarantee of our obligation to make payments on the notes. The notes are not secured by any of our assets. We will not contribute funds to a separate account, commonly known as a sinking fund, to make interest or principal payments on the notes. The notes are not certificates of deposit or similar obligations of, and are not guaranteed or insured by, any depository institution, the Federal Deposit Insurance Corporation, the Securities Investor Protection Corporation, or any other governmental or private fund or entity. Therefore, if you invest in the notes, you will have to rely only on our cash flow from operations and other sources of funds for repayment of principal at maturity or redemption and for payment of interest when due. If our cash flow from operations and other sources of funds are not sufficient to pay the notes, then you may lose all or part of your investment. The notes are not expected to be rated by any rating agency such as Fitch's, Moody's or Standard & Poor's.

The notes will automatically renew unless you request repayment.

Upon maturity, the notes will be automatically renewed for the same term as your maturing note and at an interest rate that we are offering at that time to other investors with similar aggregate note portfolios for notes of the same term, unless we notify you prior to the maturity date that we intend to repay the notes or you notify us within 15 days after the maturity date that you want your notes repaid. This 15-day period will be automatically extended if you would otherwise be required to make the repayment election at a time when we have determined that a post-effective amendment to the registration statement of which this prospectus is a part must be filed with the Securities and Exchange Commission, but such post-effective amendment has not yet been declared effective. If notes with the same term are not then being offered, the interest rate upon renewal will be the rate specified by us on or before the maturity date, or the rate of the existing note if no such rate is specified. The interest rate on your renewed note may be lower than the interest rate of your original note. If your note pays interest only at maturity, you can receive the accrued interest that you have earned during the note term just ended while allowing the principal amount of your note to roll over and renew for the same term at the interest rate then in effect. To exercise this option, you will need to call, fax or send a written request to our servicing agent. Any requests for repurchases after your notes are renewed will be subject to our approval and to repurchase penalties and the limitations on the amount of notes we would be willing to repurchase in any calendar quarter.

We have incurred substantial indebtedness that is senior to the notes and have the right to incur additional senior indebtedness which may affect our ability to repay the notes.

We have incurred and continue to have the right to incur a substantial amount of indebtedness senior to the notes. We recently drew on our credit facility to repurchase 420,000 shares of common stock from an entity controlled by our chairman and chief executive officer and our vice-chairman. We borrowed approximately \$9.9 million to buy the shares, bringing our total indebtedness under our senior facility to \$12.3 million as of May 16, 2006. This indebtedness and any additional indebtedness we may incur could

adversely affect our financial condition and prevent us from fulfilling our obligations under the notes by, among other things:

- increasing our vulnerability to general adverse economic and industry conditions;
- requiring us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, including paying debt senior to the notes thereby reducing amounts available for working capital, capital expenditures and other general corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- placing us at a competitive disadvantage compared to our competitors that have less debt; and
- limiting our ability to borrow additional funds.

Although we believe we will generate sufficient free cash flow to service our existing debt, any additional debt we incur and our obligations under the notes, there is no assurance that we will be able to do so. If we do not generate sufficient operating profits, our ability to make required payments on our senior debt, as well as on the debt represented by the notes described in this prospectus, may be impaired.

Our management has broad discretion over the use of proceeds from the offering.

Although we expect to use the proceeds from the offering to pay down our indebtedness to LaSalle Bank, to grow our leasing portfolio, acquire businesses or assets, and repurchase our common stock, the indenture does not require us to do so. The proceeds of the offering will also be used for other general corporate purposes, which may include the payment of general and administrative expenses. Because no specific allocation of the proceeds will be required in the indenture, our management will have broad discretion in determining how the proceeds of the offering will be used and may choose not to use the funds to pay down debt that is senior to the notes. See Use of Proceeds.

We are subject to many restrictions in our credit facility with LaSalle Bank.

The terms of our credit facility impose significant operating and financial restrictions on us and our subsidiaries and require us to meet certain financial tests including having a tangible net worth of at least \$6 million. In addition, as of the end of each month our tangible net worth cannot be less than the sum of the tangible net worth of the previous month plus 50% of our net income for the month, if positive. We also must maintain a ratio of earnings before income taxes, depreciation and amortization less capital expenditures and taxes divided by interest expense of at least 2.0 to 1.0. As of the end of each quarter our maximum senior leverage ratio cannot exceed 3.0 to 1.0. This means that the ratio of the amount of debt at any time under the LaSalle facility compared to our tangible net worth must be no higher than 3.0 to 1.0. The LaSalle Bank credit facility's terms and restrictions may also be amended or supplemented from time to time without requiring any notice to or consent of the holders of the notes or the trustee. In connection with our recent repurchase of 420,000 shares of common stock, LaSalle Bank agreed to amend the definition of tangible net worth to include until December 31, 2006, the \$9.891 million in indebtedness that we incurred under the credit facility to permit the repurchase. These restrictions may have an adverse impact on our business activities, results of operations and financial condition. These restrictions may also significantly limit or prohibit us from engaging in certain transactions, including the following:

- using the credit facility for certain acquisitions or investments or to support our leasing business unless approved by LaSalle Bank;
- incurring or guaranteeing additional indebtedness;
- restricting the amount of rental payments we make under operating leases in any year to \$1 million;

- paying dividends or other distributions to our stockholders or redeeming, repurchasing or retiring our capital stock or subordinated obligations;
- creating or permitting liens on our assets or the assets of our subsidiaries except for capital leases on leased property and liens incurred in connection with purchase money security interests;
- issuing or selling capital stock of our subsidiaries;
- transferring or selling our assets;
- engaging in mergers or consolidations unless certain conditions are satisfied, including the consent of LaSalle Bank, the business we want to acquire is in our industry, the absence of any defaults, pro forma compliance with all ratios and at least \$3 million of loan availability;
- permitting a change of control of our company;
- liquidating, winding up or dissolving our company;
- changing our name or the nature of our business, or the names or nature of the business of our subsidiaries; and
- engaging in transactions with our affiliates outside the normal course of business.

These restrictions may limit our ability to obtain additional sources of capital, which may limit our ability to repay the notes. In addition, the failure to comply with any of the covenants of our credit facility or the indenture or to maintain certain indebtedness ratios would cause a default under our credit facility and may cause a default under the indenture or our other debt agreements that may be outstanding from time to time. A default, if not waived, could result in acceleration of the related indebtedness, in which case such debt would become immediately due and payable. A continuing default or acceleration of our credit facility, the indenture or any other debt agreement, will likely cause a default under the indenture and other debt agreements that otherwise would not be in default, in which case all such related indebtedness could be accelerated. If this occurs, we may not be able to repay our debt or borrow sufficient funds to refinance our indebtedness. Even if any new financing is available, it may not be on terms that are acceptable to us or it may not be sufficient to refinance all of our indebtedness as it becomes due. Complying with these covenants may cause us to take actions that are not favorable to holders of the notes. See Description of the Notes Restrictive Covenants.

You will have only limited protection under the indenture.

In comparison to the restrictive covenants that are imposed on us by our credit facility with LaSalle Bank and other borrowing arrangements, the indenture governing the notes contains relatively minimal restrictions on our activities. In addition, the indenture contains only limited events of default other than our failure to pay principal and interest on time. Because there are only very limited restrictions and limited events of default under the indenture, we will not be restricted from issuing additional debt senior to your notes or be required to maintain any ratios of assets to debt in order to increase the likelihood of timely payments to you under the notes. Further, if we default in the payment of the notes or otherwise under the indenture, you will likely have to rely on the trustee to exercise your remedies on your behalf. You may not be able to seek remedies against us directly. See Description of the Notes Events of Default.

Our right to redeem the notes prior to maturity may result in reinvestment risk for you.

We have the right to redeem any note at any time prior to its stated maturity upon 30 days written notice to you. The notes will be redeemed at 100% of the principal amount plus accrued but unpaid interest up to but not including the redemption date. Any such redemption may have the effect of reducing

the income or return on investment that any investor may receive on an investment in the notes by reducing the term of the investment. If this occurs, you may not be able to reinvest the proceeds at an interest rate comparable to the rate paid on the notes. See Description of the Notes Redemption or Repurchase Prior To Stated Maturity.

Sumner Harrington Ltd. may not remain the selling agent