

WINMARK CORP  
Form DEF 14A  
March 19, 2008

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**SCHEDULE 14A**

Edgar Filing: WINMARK CORP - Form DEF 14A

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**Winmark Corporation**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
  - Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
    - (1) Title of each class of securities to which transaction applies:
    - (2) Aggregate number of securities to which transaction applies:
    - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
    - (4) Proposed maximum aggregate value of transaction:
    - (5) Total fee paid:
  - Fee paid previously with preliminary materials.
  - Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
    - (1) Amount Previously Paid:
    - (2) Form, Schedule or Registration Statement No.:
    - (3) Filing Party:
    - (4) Date Filed:
-

---

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**April 30, 2008**

---

TO THE SHAREHOLDERS OF WINMARK CORPORATION

Notice is hereby given to the holders of the shares of Common Stock of Winmark Corporation that our Annual Meeting of Shareholders will be held at our corporate offices, 4200 Dahlberg Drive, Suite 100, Minneapolis, Minnesota on Wednesday, April 30, 2008 at 4:00 p.m. Central Daylight Time, to consider and act upon the following matters:

1. To set the number of members of the Board of Directors at seven.
2. To elect seven directors to serve for a term of one year.
3. To approve an amendment to the Stock Option Plan for Nonemployee Directors to modify the vesting schedule and extend the term of future options granted under the plan.
4. To ratify the appointment of Grant Thornton LLP as our independent registered public accounting firm for the 2008 fiscal year.
5. To transact such other business as may properly come before the meeting or any adjournments thereof.

Shareholders of record at the close of business on March 12, 2008 will be entitled to vote at the meeting and adjournments of the meeting.

**You are cordially invited to attend the meeting. Even if you do not plan to attend the meeting, we urge you to sign, date and return the proxy at once in the enclosed envelope.**

By the Order of the Board of Directors

John L. Morgan

Chairman and Chief Executive Officer

Dated March 25, 2008

---

**Winmark Corporation**

**4200 Dahlberg Drive, Suite 100**

**Minneapolis, Minnesota 55422-4837**

**Annual Meeting of Shareholders**

**April 30, 2008**

**PROXY STATEMENT**

**GENERAL**

The Annual Meeting of Shareholders of Winmark Corporation will be held on Wednesday, April 30, 2008, at 4:00 p.m., Central Daylight Time, at our corporate offices, 4200 Dahlberg Drive, Suite 100, Minneapolis, Minnesota, for the purposes set forth in the Notice of Annual Meeting of Shareholders.

The enclosed proxy is solicited by our Board of Directors. Such solicitation is being made by mail and may also be made by directors, officers and regular employees of Winmark personally or by telephone. Any proxy given pursuant to such solicitation may be revoked by the shareholder at any time prior to the voting thereof by so notifying us in writing at the above address, attention: General Counsel, or by appearing in person at the meeting. Shares represented by proxies will be voted as specified in such proxies, and if no choice is specified, will be voted in favor of the proposals set forth in the Notice of Meeting and in favor of the number and slate of directors proposed by the Board of Directors and listed herein.

Shares voted as abstentions on any matter (or a withhold authority vote as to directors) will be counted as present and entitled to vote for purposes of determining a quorum and for purposes of calculating the vote with respect to such matter, but will not be deemed to have been voted in favor of such matter. If a broker submits a non-vote proxy, indicating that the broker does not have discretionary authority to vote certain shares on a particular matter, those shares will be counted as present for purposes of determining a quorum, but will not be considered present and entitled to vote for purposes of calculating the vote with respect to such matter.

All of the expenses involved in preparing, assembling and mailing this proxy statement and the material enclosed herewith will be paid by Winmark. Winmark may reimburse banks, brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy material to beneficial owners of stock. This proxy statement and accompanying form of proxy are first being mailed to shareholders on or about March 25, 2008.

**OUTSTANDING SHARES AND VOTING RIGHTS**

## Edgar Filing: WINMARK CORP - Form DEF 14A

The Board of Directors has fixed March 12, 2008, as the record date for determining shareholders entitled to vote at the Annual Meeting. Persons who were not shareholders on such date will not be allowed to vote at the Annual Meeting. At the close of business on March 12, 2008, 5,543,823 shares of our Common Stock were issued and outstanding. Common Stock is the only outstanding class of capital stock entitled to vote at the meeting. Each share of Common Stock is entitled to one vote on each matter to be voted on at the meeting. Holders of Common Stock are not entitled to cumulative voting rights.

Under applicable Minnesota law, approval of each of the proposals to be voted on at the meeting except the election of the nominees requires the affirmative vote of the holders of the greater of (i) a majority of the voting power of the shares represented in person or by proxy at the Annual Meeting with authority to vote on such matter or (ii) a majority of the voting power of the minimum number of shares that would constitute a quorum for the transaction of business at the Annual Meeting. The election of the nominees requires the affirmative vote by a plurality of the voting power of the shares present and entitled to vote on the election of directors at a meeting at which a quorum is present.

**ELECTION OF DIRECTORS**

**(Proposals #1 and #2)**

At the meeting, the Board of Directors is to be elected to hold office until the 2009 Annual Meeting or until successors are elected and have qualified. Our Bylaws provide that the number of directors on our Board shall be fixed by the shareholders, subject to increase by the Board of Directors in an interim period between shareholder votes. The Nominating Committee recommended to the Board of Directors that the shareholders set the number of directors at seven. The Nominating Committee also recommended to the Board of Directors that the shareholders elect the nominees named below.

Shares represented by executed proxies will be voted, if authority to do so is not withheld, for the election of the nominees named below, unless one or more of such nominees should become unavailable for election, in which event such shares shall be voted for the election of such substitute nominees as the Board of Directors may propose. Each person nominated has agreed to serve if elected, and we know of no reason why any of the listed nominees would be unavailable to serve.

***Information Concerning Nominees:***

<b>Name and Age</b>	<b>Principal Occupation and Business Experience for Past Five Years</b>
John L. Morgan Age: 66	Mr. Morgan was elected Chairman of the Board and Chief Executive Officer of Winmark in March 2000. He was an independent investor/business consultant from April 1999 to February 2000. He was the founder of Winthrop Resources Corporation, a business equipment leasing company, and served as its President from March 1982 through March 1999. In addition, Mr. Morgan is currently a private investor and serves as a member of Rush River Group, LLC.
William D. Dunlap Age: 69	Mr. Dunlap was elected a director of Winmark in May 2000. He has served as the Chairman of Petters Media and Marketing Group since January 2007. He served as Chairman of Campbell Mithun, LLC from May 1995 to June 2003, and served as its Chairman and Chief Executive Officer from 1982 through 1995.
Jenele C. Grassle Age: 48	Ms. Grassle was elected a director of Winmark in January 2001. She has served as the Vice President/General Merchandise Manager at Value Vision Media, Inc. since July 2007. From July 2006 to July 2007, Ms. Grassle served as Vice President, Jewelry for ValueVision Media, Inc. From March 2005 to July 2006, Ms. Grassle served as Divisional Merchandise Manager, Ready-to-Wear, Accessories and Cosmetics for ValueVision Media, Inc. From July 2000 to June 2004, Ms. Grassle served as the Vice President/General Merchandise Manager of Merchandising at Wilsons Leather, a leading specialty retailer of men's and women's leather apparel and accessories. From September 1988 to March 2000, Ms. Grassle served as Divisional Merchandise Manager for the Target Corporation.



Kirk A. MacKenzie

Age: 69

Mr. MacKenzie was elected Vice Chairman and a director of Winmark in May 2000. In addition, he is currently a private investor and serves as a member of Rush River Group, LLC. From January 1982 to March 1999, Mr. MacKenzie was Executive Vice President of Winthrop Resources Corporation, a business equipment leasing company.

Dean B. Phillips

Age: 39

Mr. Phillips was elected a director of Winmark in 2007. He currently serves as President and Chief Executive Officer of Phillips Distilling Company, a position he has held since 2000. From 1993 to 2000, Mr. Phillips held a variety of sales and marketing positions in both the US and Canada at Phillips Distilling Company and Millennium Import, LLC the marketer of Belvedere and Chopin luxury vodkas. Mr. Phillips is Vice-Chairman of the Board of Directors of Allina Health System, serving as Chair of its Investment and Philanthropy Committees, a member of the Advisory Board of the Center for the Study of Politics and Governance at the University of Minnesota's Humphrey Institute and a Trustee of The Jay & Rose Phillips Family Foundation.

Paul C. Reyelts

Age: 61

Mr. Reyelts was elected a director of Winmark in May 2000. He served as the Executive Vice President of Finance and Chief Financial Officer of the Valspar Corporation, a global leader in the coatings industry, from April 1982 until February 2008. In February 2008, Mr. Reyelts stepped down as Chief Financial Officer of Valspar and announced his intention to retire as an officer of Valspar at the end of 2009. Mr. Reyelts remains a member of Valspar's executive committee. In addition, Mr. Reyelts serves on the Board of Trustees of Minnesota Public Radio.

Mark L. Wilson

Age: 59

Mr. Wilson was elected a director of Winmark in May 2000. He currently serves as Of Counsel at the law firm of Henson & Efron, P.A. In 2006, Mr. Wilson served as President of Kettle River Company, LLC, a business consulting firm. From 1999 to 2006, he served as President of Weisman Enterprises, Inc. and its affiliates, a vending and small transaction management company. From November 1974 to December 1998, he was a corporate law, business planning and mergers and acquisitions attorney. In addition, Mr. Wilson currently serves on the Board of Directors of the Minnesota Community Foundation and The St. Paul Foundation and as the chairman of the Board of Directors of the Minnesota Center for Photography.

#### **Board Recommendation**

The Board of Directors recommends that the shareholders vote FOR proposal #1 to set the number of members of the Board of Directors at seven. The Board of Directors recommends that the shareholders vote FOR each of the seven nominees set forth in proposal #2 to serve for a one year term.

## CORPORATE GOVERNANCE

### **Code of Ethics and Business Conduct**

We have adopted the Winmark Corporation Code of Ethics and Business Conduct (the Code of Conduct ), that applies to our directors, officers and employees. The Code of Conduct is publicly available on our web site at [www.winmarkcorporation.com](http://www.winmarkcorporation.com). If we make any substantive amendments to the Code of Conduct or grant any waiver, including any implicit waiver from a provision of the Code of Conduct to our directors or executive officers, we will disclose the nature of such amendments or waiver on our web site or in a report on Form 8-K.

### **Majority of Independent Directors; Committees of Independent Directors**

The Board of Directors has determined that Messrs. Dunlap, Phillips, Reyelts, and Wilson, and Ms. Grassle, constituting a majority of the Board of Directors, are independent directors in accordance with rules of the Nasdaq since none of them are believed to have any relationships that, in the opinion of the Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Messrs. Morgan and MacKenzie are precluded from being considered independent by Nasdaq rules since they either currently serve as executive officers of Winmark and/or have had a relationship with Winmark that preclude them from being deemed independent under Nasdaq rules.

Each member of the Audit Committee, Compensation Committee and Nominating Committee has been determined, in the opinion of the Board of Directors, to be independent in accordance with Nasdaq rules.

### **Standing Committees**

The Board of Directors has three standing committees, the Audit Committee, the Compensation Committee and the Nominating Committee.

#### *Audit Committee*

The Audit Committee provides oversight by reviewing financial reports and other financial information of Winmark, reviewing our systems of internal control regarding finance, accounting, legal compliance

and ethics, and reviewing our auditing, accounting and financial reporting process. The Audit Committee serves as an independent and objective party to monitor our financial reporting process and internal control system. The Audit Committee coordinates, reviews and appraises the audit efforts of our independent registered public accounting firm. Further, the Audit Committee communicates directly with the independent accountants, financial and senior management and Board of Directors regarding the matters related to the Committee's responsibilities and duties. The Board has determined that Paul C. Reyelts and Mark L. Wilson, independent directors, are the Audit Committee financial experts. The current Audit Committee members are Paul C. Reyelts (Chairman), Dean B. Phillips, and Mark L. Wilson. Prior to Mr. Phillips's election to the Board of Directors, Mr. Dunlap served as the third member of the Audit Committee in 2007. The Audit Committee held four (4) meetings and took action in writing eight (8) times during fiscal 2007.

*Compensation Committee*

The Compensation Committee's purpose is to assist the Board of Directors in the discharge of its responsibilities relating to (a) fair, reasonable, and competitive compensation practices for our executive officers and other key employees which are consistent with our objectives; (b) oversight of broad-based employee compensation policies and programs; and (c) fair, reasonable and competitive compensation and benefit programs for our nonemployee directors. The Compensation Committee, which consists of Mark L. Wilson, William D. Dunlap, Jenele C. Grassle, Dean B. Phillips and Paul C. Reyelts, held two (2) meetings and took action in writing one (1) time during fiscal 2007. Mark L. Wilson has been appointed the Chairman of the Compensation Committee.

The Compensation Committee's responsibilities, which are discussed in detail in its charter, include, among other duties, the responsibility to:

- Review and approve annually appropriate incentive compensation goals and objectives for the CEO and other executive officers.
- Consider and approve the base salary, incentive and equity-based compensation awards and other compensation actions for the CEO based upon an evaluation of the CEO's performance, effectiveness and other relevant considerations.
- Review and approve base salaries, incentive and equity-based compensation awards and other compensation actions for all other executive officers, based upon an evaluation of such officer's performance, effectiveness, the recommendations of the CEO and other relevant considerations.

Compensation decisions for our executive officers and nonemployee members of the Board of Directors are made by the Compensation Committee. The Compensation Committee also makes decisions regarding the equity compensation of any other Winmark employees. The Compensation Committee has not elected to utilize the services of a compensation consultant in determining executive compensation, though they have the discretion to utilize the services of a consultant as outlined in the Compensation Committee's Charter. To the extent the Committee determines to expend in excess of \$5,000 during any fiscal year on consultants, it must seek pre-approval from the Board of such excess expenditures.

Our Chief Executive Officer, with the input of other officers at his discretion, provides the Compensation Committee with recommendations for the compensation of all executive officers and nonemployee directors.

*Nominating Committee*

The purpose of the Nominating Committee is to advise the Board of Directors and provide oversight on matters related to (a) the selection and nomination of Board Members; and (b) the appointment of Board Committee Members. The Nominating Committee, which consists of Jenele C. Grassle, William D. Dunlap, Dean B. Phillips, Paul C. Reyelts, and Mark L. Wilson, held two (2) meetings during fiscal 2007. Jenele C. Grassle has been appointed Chairperson of the Nominating Committee.

Winmark does not have a formal policy with regard to the consideration of director candidates recommended by shareholders since it is our practice to consider director recommendations from any source. The Board is comprised of a majority of independent directors, which ensures consideration of director candidates from any source based on the criteria set forth below. Each Nominating Committee member is independent. The Board will consider director candidates recommended by shareholders according to the following membership criteria.

*Board Membership Criteria*

In selecting the new directors, the Committee shall consider any requirements of applicable law or listing standards, a candidate's strength of character, judgment, business experience and specific area of expertise, factors relating to composition of the Board, principles of diversity and such other factors as the Committee shall deem important.

The Nominating Committee will consider the attributes of the candidates and the needs of the Board and will review all candidates in the same manner, regardless of the source of the recommendation.

*Shareholder Nomination of Directors*

A shareholder who wishes to recommend one or more directors must provide a written recommendation to our corporate Secretary at the address below. Notice of a recommendation must include:

with respect to the shareholder:

- name, address, the class and number of shares such shareholder owns;

with respect to the nominee:

- name, age, business address, residence address,
- current principal occupation,
- five year employment history with employer names and a description of the employer's business,
- the number of shares beneficially owned by the nominee,

## Edgar Filing: WINMARK CORP - Form DEF 14A

- whether such nominee can read and understand basic financial statements, and
- Board membership, if any.

The recommendation must be accompanied by a written consent of the nominee to stand for election if nominated by the Board of Directors and to serve if elected by the shareholders. We may require any nominee to furnish additional information that may be needed to determine the eligibility of the nominee.

### *Charter Availability*

The Audit Committee, Compensation Committee, and Nominating Committee charters are available on our website at [www.winmarkcorporation.com](http://www.winmarkcorporation.com) under the Investor Relations heading.

**Meeting Attendance**

During fiscal 2007, the Board of Directors held four (4) meetings. All directors attended at least 75% of the meetings of the Board of Directors and committees of the Board of Directors on which they served.

We have not adopted a formal policy with regard to board members' attendance at annual meetings of shareholders, however, all directors are encouraged to attend such meetings. All of the directors attended the Annual Meeting last year.

**Shareholders Communications**

Shareholders may communicate directly with the Board of Directors. All communications should be directed to our Corporate Secretary at the address below and should prominently indicate on the outside of the envelope that it is intended for the Board of Directors or for non-management directors. If no director is specified, the communication will be forwarded to the entire Board. Shareholder communications to the Board should be sent to:

Corporate Secretary

Winmark Corporation

Attention: Board of Directors

4200 Dahlberg Drive, Suite 100

Minneapolis, Minnesota 55422-4837



**EXECUTIVE OFFICERS**

The executive officers of Winmark are as follows:

<b>NAME</b>	<b>AGE</b>	<b>POSITION</b>
John L. Morgan	66	Director, Chairman and Chief Executive Officer
Brett D. Heffes	40	President of Finance and Administration, Chief Financial Officer and Treasurer
Steven A. Murphy	42	President, Franchising
Steven C. Zola	46	President, Winmark Capital Corporation
Leah A. Goff	46	Vice President of Human Resources
Catherine P. Heaven	30	Vice President and General Counsel
Merry Beth Hovey	45	Vice President of Marketing

---

**John L. Morgan** was elected Chairman of the Board and Chief Executive Officer of Winmark in March 2000. He was an independent investor/business consultant from April 1999 to February 2000. He was the founder of Winthrop Resources Corporation, a business equipment leasing company, and served as its President from March 1982 through March 1999. In addition, Mr. Morgan is currently a private investor and serves as a member of Rush River Group, LLC.

**Brett D. Heffes** has served as President of Finance and Administration of Winmark since December 2007, and as Chief Financial Officer and Treasurer of Winmark since November 2002.

**Steven A. Murphy** has served as the President of Franchising since October 2006. Mr. Murphy also served as Vice President of Franchise Management of Winmark from December 2003 to October 2006, remaining primarily responsible for the Play It Again Sports® and Music Go Round® brands from December 2003 until March 2006. Mr. Murphy has also served as Director of Play It Again Sports® brand from April 2002 to December 2003, and Director of Marketing and Sales from September 2001 to April 2002.

**Steven C. Zola** has served as the President of Winmark Capital Corporation since December 2005. Mr. Zola also served as an advisor to Winmark from January 2005 to December 2005. From September 2002 until January 2007, Mr. Zola served in a number of positions, including President and Chief Executive Officer, of CrystalVoice Communications, Inc, a VoIP software company. From March 1990 to January 2002 he was employed by Winthrop Resources Corporation, a technology equipment leasing company, where he served as Senior Vice President of Sales and Marketing prior to his departure.

**Leah A. Goff** has served as Vice President of Human Resources for Winmark since September 2005. From April 1997 to March 2000 and October 2000 to September 2005, Ms. Goff served as Human Resources Manager for Winmark.



**Catherine P. Heaven** has served as Vice President and General Counsel for Winmark since November 2007. From May 2006 until November 2007, Ms. Heaven served as General Counsel for Winmark. From March 2006 to May 2006, Ms. Heaven served as Associate General Counsel for Winmark. Prior to joining Winmark, Ms. Heaven was employed as an attorney at Faegre & Benson, LLP from February 2004 to February 2006, specializing in corporate and transactional law. From April 2003 to February 2004, Ms. Heaven was employed as an attorney at Anthony, Ostlund & Baer, P.A., specializing in business litigation.

**Merry Beth Hovey** has served as Vice President of Marketing for Winmark since July 2007. From April 2006 until July 2007, Ms. Hovey served as Director of Marketing for Winmark. Prior to joining Winmark, Ms. Hovey was Vice President of Marketing for 2<sup>nd</sup> Swing Golf from October 2004 to December 2005. Ms. Hovey also held the position of Director of Marketing for Minnesota Public Radio from October 2001 through January 2004.

The term of office of each executive officer continues until terminated by Winmark.

There are no arrangements or understandings among any of the executive officers of Winmark and any other person (not an officer or director of Winmark) pursuant to which any of the executive officers were selected as an officer of Winmark.

### EXECUTIVE COMPENSATION TABLES

The table below summarizes the total compensation paid or earned by each of the Named Executive Officers ( NEOs ) for the fiscal year ended December 29, 2007. Winmark s compensation structure for NEOs emphasizes the collective accountability to our shareholders, employees, and to one another by examining the performance of the NEOs as a group. The overall success of our business was examined to determine NEO salary, bonus, and incentive compensation, including a variety of financial and nonfinancial factors such as the overall performance of the company against long-term financial and strategic objectives, cash flow, human resources management, earnings per share, and the effectiveness of the NEOs as a group. Although our philosophy is to compensate NEOs as a group, we believe it is important to retain the flexibility and discretion to modify all elements of compensation awarded to individuals based upon their general business and company experience, leadership, potential future contribution, and the performance of the businesses for which they are responsible. There are 3 primary components to NEOs compensation: (1) base pay, (2) annual incentive bonus, and (3) equity based compensation.

Base pay provides the NEOs with regular compensation for services performed during the fiscal year, and is used to establish a pay range for the annual incentive bonus. The NEOs base pay is determined in part by examining awards from past years, both for NEOs as a group and for each individual NEO. The annual bonus for each NEO, awarded at the discretion of the Compensation Committee, may range in amount from 0% to 100% of that NEO s salary. The annual incentive bonus is designed to motivate and reward the NEOs as a group for furthering the achievement of the Company s short and long-term objectives during the fiscal year. The third primary component of compensation is long-term incentive compensation in the form of stock options. Options were granted to the NEOs by the Compensation Committee under our current employee stock option plan, with a four year vesting period beginning on the first anniversary of the grant date and a ten year term, both contingent upon the continued employment of the NEO. Although previous awards are considered, the amount of options a NEO receives depends primarily upon the NEOs performance as a group, the total number of option shares recommended for issuance, and the total number of people included in the annual stock option grants.

We have entered into an employment agreement with John L. Morgan, CEO, in March 2000, which has been subsequently amended three times. The most recent amendment clarified that Mr. Morgan s base salary will be set annually by the Compensation Committee or a similar body of independent directors in its discretion. Pursuant to the agreement, Mr. Morgan may also receive a bonus determined by the Compensation Committee in its discretion. The agreement is terminable for any reason by either party upon 30 days written notice. In connection with this agreement, Mr. Morgan was granted an option to purchase 600,000 shares of Common Stock at an exercise price of \$5.00 per share in March of 2000. The option has fully vested and has been exercised.

## Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)(3)	All Other Compensation (\$)(4)	Total (\$)
John L. Morgan	2007	230,000	125,000			7,811	362,811
Chief Executive Officer and Chairman of the Board of Directors	2006	200,000	100,000			7,167	307,167
Brett D. Heffes	2007	230,000	125,000		193,092	7,980	556,072
President of Finance and Administration, Chief Financial Officer and Treasurer (1)	2006	200,000	100,000		204,147	7,878	512,025
Steven A. Murphy	2007	200,000	125,000		137,584	7,980	470,564
President, Franchising (2)	2006	159,750	70,000		104,179	7,533	341,462
Steven C. Zola	2007	230,000	125,000		108,845	7,980	471,825
President, Winmark Capital Corporation	2006	200,000	100,000		59,792	1,278	361,070

(1) Mr. Heffes accepted the newly-created President of Finance and Administration position in December 2007. He retains his position and responsibilities as Chief Financial Officer and Treasurer.

(2) Mr. Murphy was promoted to the President, Franchising in October 2006. Previously, he was serving as the Vice President of Franchise Management.

(3) The amounts included under Option Awards column reflect the dollar amount recognized for financial statement reporting purposes (using FAS 123R) in fiscal 2006 and 2007 for awards granted under the 2001 Stock Option Plan, and thus includes amounts from options granted during and prior to fiscal years represented. In 2006, we had no forfeitures of stock options. In 2007, there were 129,500 forfeitures of options under the 2001 Stock Option Plan. A discussion of the assumptions made in the valuation of our stock options and the forfeitures is located in footnote 2 Significant Accounting Policies in the Accounting for Stock-Based Compensation section of the Annual Report on Form 10-K, and is incorporated herein by reference.

(4) All Other Compensation paid by Winmark is comprised of 401(k) matching contributions, an optional annual contribution to each employee's retirement account, and life insurance premium payments. NEOs receive the same 401(k) matching benefits and the same optional annual contribution to employee retirement accounts as all active and eligible employees. The maximum life insurance payout for executive officers (\$250,000), including NEOs, is higher than the maximum payout for salaried exempt (\$150,000) and non-exempt office employees (\$75,000).

All Other Compensation is subdivided as follows:

Name	Year	401(k) Matching Contribution (\$)	Company Optional	Life Insurance Premium (\$)	Total
------	------	-----------------------------------	------------------	-----------------------------	-------

Edgar Filing: WINMARK CORP - Form DEF 14A

			<b>Retirement Contribution (\$)</b>		
John L. Morgan	2007	6,750	750	311	7,811
	2006	6,000	750	417	7,167
Brett D. Heffes	2007	6,750	750	480	7,980
	2006	6,600	750	528	7,878
Steven A. Murphy	2007	6,750	750	480	7,980
	2006	6,255	750	528	7,533
Steven C. Zola	2007	6,750	750	480	7,980
	2006	0	750	528	1,278

## Outstanding Equity Awards at Fiscal Year-End 2007

Name	Number of Securities Underlying Unexercised Options (#) Exercisable (1)	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Awards Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)			Option Exercise Price (\$)	Option Expiration Date
John L. Morgan							
Brett D. Heffes	18,800	0			9.91	11/04/12	
	15,000	0			10.00	12/18/12	
	15,000	0			18.25	12/16/13	
	11,250	3,750			26.05	12/09/14	
	10,000	10,000			20.46	12/13/15	
	4,875	14,625			20.32	12/14/16	
	0	22,500			20.96	12/13/17	
Steven A. Murphy	15,000	0			10.52	12/19/11	
	10,000	0			10.00	12/18/12	
	10,000	0			18.25	12/16/13	
	7,500	2,500			26.05	12/09/14	
	5,000	5,000			20.46	12/13/15	
	4,875	14,625			20.32	12/14/16	
	0	22,500			20.96	12/13/17	
Steven C. Zola	400	600			25.99	1/13/15(2)	
	10,000	10,000			20.46	12/13/15	
	4,875	14,625			20.32	12/14/16	
	0	22,500			20.96	12/13/17	

(1) All of the above-listed option awards were granted pursuant to the 2001 Stock Option Plan. Unless otherwise indicated, the option awards vest 25% per year for four years, beginning on the first anniversary of the option grant. Each option award was granted on the date 10 years prior to the expiration date, and expires on the indicated date, or earlier in the case of an employee's termination, disability or death.

(2) Vests 20% per year for five years, beginning on the first anniversary date of the option grant. Expires on the tenth anniversary date of the grant, or earlier in the case of the recipient's death or disability.

**Potential Payments Upon Termination of Employment or Change-in-Control**

All of our NEOs are at-will employees operating without employment contracts, with the exception of John Morgan, our Chief Executive Officer. Although we have in the past, and at our discretion may in the future, negotiate severance agreements with our NEOs, we are under no obligation to do so. We have not entered into contracts or agreements with the NEOs, individually or as a group, guaranteeing lump sum payments to them upon a change of control of Winmark. However, our 2001 Stock Option Plan ( 2001 Plan ), which provides option awards to our NEOs, provides that optionees are eligible for certain benefits when a Transaction occurs, as defined therein. A Transaction includes the sale of substantially all of our assets, a merger, a consolidation, an exchange, a reorganization, reclassification, liquidation, or an extraordinary dividend. Generally speaking, all of the outstanding and unvested stock options granted under the 2001 Plan become immediately exercisable upon the occurrence of a Transaction unless the Board selects to either: (a) terminate the 2001 Plan and cancel outstanding options not exercised prior to reasonable exercise period; (b) pay optionees, either in cash or shares of the surviving corporation's stock, the difference between the Fair Market Value of the stock price and the stock option exercise price; or (c) continue the 2001 Plan and allow optionees the right to exercise their respective options for an equivalent number of shares of stock of the succeeding corporation.

As of December 29, 2007, the NEOs had the following outstanding and unvested options to purchase shares of our

Common Stock:

Name	Unexercisable Option Shares (#)	Option Exercise Price (\$)	Stock Price 12/29/07	Value Realized Upon Acceleration (\$)
John L. Morgan				
Brett D. Heffes	3,750	26.05	21.00	
	10,000	20.46		5,400
	14,625	20.32		9,945
	22,500	20.96		900
Steven A. Murphy	2,500	26.05	21.00	
	5,000	20.46		2,700
	14,625	20.32		9,945
	22,500	20.96		900
Steven C. Zola	600	25.99	21.00	
	10,000	20.46		5,400
	14,625	20.32		9,945
	22,500	20.96		900



**2007 Director Compensation*****Cash Compensation Paid to Board Members***

For the fiscal year ended December 29, 2007, nonemployee members of the Board of Directors were entitled to receive an annual cash retainer of \$15,000 and an attendance fee of \$1,000 for each Board or Committee meeting. The Lead Director received an additional annual retainer of \$5,000 and the Vice-Chair received an additional annual retainer of \$2,500.

***Stock Option Award***

Pursuant to the terms of our Stock Option Plan for Nonemployee Directors, nonemployee directors are automatically granted an option to purchase 25,000 common shares upon the initial election as a director. In 2007, Dean B. Phillips was elected by our shareholders and received such an option to purchase 25,000 common shares. In addition to an initial award under the Nonemployee Director Stock Option Plan, each nonemployee director is eligible to receive an annual stock option grant as determined by the Compensation Committee. In December 2007, each current nonemployee director received a stock option grant of 2,000 shares pursuant to the Nonemployee Director Stock Option Plan. All options our nonemployee directors have received vest 20% for five years, beginning one year from the date of the grant. Proposal #3 in this Proxy, if approved, will change the vesting of future options granted pursuant to the Nonemployee Director Stock Option Plan to 25% for four years, beginning one year from the date of the grant. Also pursuant to Proposal #3, the term of future options will extend from six years to 10 years.

The following table sets out the fiscal 2007 compensation for each of our current nonemployee directors.

<b>Name (1)</b>	<b>Fees Earned or Paid in Cash (\$)</b>	<b>Stock Awards (\$)</b>	<b>Option Awards (\$)(2)(3)</b>	<b>Non-Equity Incentive Plan Compensation (\$)</b>	<b>Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)</b>	<b>All Other Compensation (\$)</b>	<b>Total (\$)</b>
William D. Dunlap	26,000		14,565				40,565
Jenele C. Grassle	24,000		14,565				38,565
Kirk A. MacKenzie	22,500		14,565				37,065
Dean B. Phillips	18,250		21,805				40,055
Paul C. Reyelts	33,000		14,565				47,565
Mark L. Wilson	28,000		14,565				42,565

(1) John L. Morgan, our Chief Executive Officer, also serves as the Chairman of the Board of Directors. Mr. Morgan did not receive any compensation for his services as a director. His compensation is outlined in the Summary Compensation Table on page 12.

## Edgar Filing: WINMARK CORP - Form DEF 14A

(2) Reflects the dollar amount recognized for financial statement report purposes for the fiscal year ended December 29, 2007 in accordance with FAS 123R, and thus include amounts from awards granted in and prior to 2007. A discussion of the assumptions made in the valuation of our stock options is located in footnote 2 Significant Accounting Policies in the Accounting for Stock-Based Compensation section of the Annual Report on Form 10-K, and is incorporated herein by reference. In 2007, there were no forfeitures of stock options.

(3) As of December 29, 2007, each director, except for Dean B. Phillips, has an aggregate of 10,000 options to purchase shares of common stock pursuant to the Nonemployee Director Stock Option Plan outstanding, of which 3,600 are currently exercisable. In 2007, Mr. Phillips received options to purchase 27,000 shares of common stock, none of which are currently exercisable.

**Transactions with Related Persons, Promoters and Certain Control Persons**

*2007 Fiscal Year*

On February 12, 2007, in connection with Winmark's existing stock repurchase plan, Winmark agreed to repurchase 50,000 shares of common stock from K. Jeffrey Dahlberg, a greater than 5% shareholder, for aggregate consideration of \$900,000, or \$18.00 per share.

On February 27, 2007, John L. Morgan, Chief Executive Officer and Chairman of Winmark, subscribed for and purchased \$500,000 of two year maturity unsecured subordinated notes on a monthly interest payment schedule as described in the Interest Rate Supplement filed on Form 424(b)(2) with the Securities and Exchange Commission on June 16, 2006 offered by Winmark pursuant to a prospectus and related documents declared effective on June 14, 2006. In connection with his investment, Mr. Morgan agreed that his notes would be voted consistent with the majority of the remaining noteholders in an event of default.

On April 5, 2007, John L. Morgan subscribed for and purchased \$400,000 of four year maturity unsecured subordinated notes on a monthly interest payment schedule at the rates described in the Interest Rate Supplement filed on Form 424(b)(2) with the Securities and Exchange Commission on April 3, 2007 offered by Winmark pursuant to a prospectus and related documents declared effective on March 30, 2007. In connection with his investment, Mr. Morgan agreed that his notes would be voted consistent with the majority of the remaining noteholders in an event of default.

On May 15, 2007, in connection with Winmark's existing stock repurchase plan, Winmark repurchased 50,000 shares of common stock from K. Jeffrey Dahlberg for aggregate consideration of \$850,000, or \$17.00 per share.

On June 28, 2007, John L. Morgan subscribed for and purchased \$1,000,000 of three year maturity unsecured subordinated notes on a monthly interest payment schedule at the rates described in the Interest Rate Supplement filed on Form 424B2 with the Securities and Exchange Commission on April 3, 2007 offered by Winmark pursuant to a prospectus and related documents declared effective on March 30, 2007. In connection with his investment, Mr. Morgan agreed that his notes would be voted consistent with the majority of the remaining noteholders in an event of default.

On September 18, 2007, in connection with the Company's existing stock repurchase plan, the Company agreed to purchase 41,138 shares of common stock from Mark T. Hooley, a former executive officer and son-in-law of John L. Morgan, for aggregate consideration of \$771,700 or \$18.76 per share.

On October 4, 2007, John L. Morgan subscribed for and purchased \$800,000 of unsecured subordinated notes of various maturities (\$200,000 of six month maturity, \$200,000 of one year maturity, \$200,000 of two year maturity and \$200,000 of three year maturity) all on a monthly interest payment schedule at the rates described in the Interest Rate Supplement filed on Form 424(b)(2) with the Securities and Exchange Commission on August 23, 2007 offered by Winmark pursuant to a prospectus and related documents declared effective on March 30, 2007. In connection with his investment, Mr. Morgan agreed that his notes would be voted consistent with the majority of the remaining noteholders in an event of default.

Edgar Filing: WINMARK CORP - Form DEF 14A

On November 6, 2007, Sheila Morgan, spouse of John L. Morgan, subscribed for and purchased \$2,000,000 of unsecured subordinated notes of various maturities (\$500,000 of one year maturity, \$500,000 of two year maturity, and \$1,000,000 of three year maturity) all on a monthly interest payment schedule at the rates described in the Interest Rate Supplement filed on Form 424(b)(2) with the Securities and Exchange Commission on October 12, 2007 offered by Winmark pursuant to a prospectus and related documents declared effective on March 30, 2007. In connection with her investment, Mrs. Morgan agreed that her notes would be voted consistent with the majority of the remaining noteholders in an event of default.

*2006 Fiscal Year*

Our wholly owned subsidiary, Wirth Business Credit, Inc. ( Wirth ) has hired Orion First Financial, LLC ( Orion ) to perform certain back-office tasks in relation to its small-ticket financing business, including invoicing, collecting, default management and other administrative duties. Wirth and Orion also entered into a joint venture in 2006 to jointly fund higher-risk transactions that has not yet been active. In 2005, John L. Morgan, our Chairman and Chief Executive Officer, lent \$400,000 to Orion First Financial, LLC. During fiscal 2006, the entire amount of principal remained outstanding, and approximately \$58,000 was paid in interest. In March 2007, Orion repaid \$200,000 of the principal owed on the outstanding notes. During fiscal 2007, Orion paid approximately \$30,000 in interest, and after March 2007 \$200,000 of principal remained outstanding. Pursuant to the terms of the notes, the interest rates for the indebtedness range from 13.5 to 15%.

On May 16, 2006, we repurchased 420,000 shares of Common Stock from Rush River Group, LLC ( Rush River ) 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 Winmark Common Stock held by Rush River, an entity owned and controlled by John L. Morgan, our Vice Chairman Kirk A. MacKenzie, and Jack A. Norqual. Messrs Morgan, MacKenzie and Norqual each own one-third of the membership interest in Rush River.

On June 6, 2006, we repurchased 44,000 shares of Common Stock from K. Jeffrey Dahlberg for aggregate consideration of \$1.0362 million, or \$23.55 per share. At the time of the transaction, Mr. Dahlberg beneficially owned greater than 10% of the outstanding shares of Winmark.

On June 29, 2006, John L. Morgan subscribed for and purchased approximately \$1.5 million in unsecured subordinated notes of various maturities (\$250,000 of two year maturity, \$500,000 of three year maturity, \$500,000 of four year maturity, and \$250,000 of five year maturity notes, all on a monthly interest payment schedule at the rates described in the Interest Rate Supplement filed on Form 424(b)(2) with the Securities and Exchange Commission on June 16, 2006 pursuant to rule 424(b)(2) under the Securities Act of 1933) offered by Winmark pursuant to a prospectus and related documents declared effective on June 14, 2006. On the same day, Mr. Morgan's wife, Sheila Morgan, purchased \$220,000 in unsecured subordinated notes (\$100,000 of three year maturity, \$100,000 of four year maturity, and \$20,000 of five year maturity). In connection with his investment, Mr. and Mrs. Morgan agreed that their notes would be voted consistent with the majority of the remaining noteholders in an event of default.

On July 14, 2006, Rush River subscribed for and purchased approximately \$10 million in unsecured subordinated notes of various maturities (\$2 million of six month maturity, \$1 million of one year maturity, \$1 million of two year maturity, \$2 million of three year maturity and \$4 million of five year maturity notes, all on a monthly interest payment schedule at the rates described in the Interest Rate Supplement filed with the Securities and Exchange Commission on June 16, 2006 pursuant to rule 424(b)(2) under the Securities Act of 1933 offered by Winmark pursuant to a prospectus and related documents declared effective on June 14, 2006. In addition, Kirk A. MacKenzie subscribed for and purchased \$500,000 of three year maturity, unsecured, subordinated notes, on a monthly interest payment schedule at the rates described in the Interest Rate Supplement offered by Winmark pursuant to the Prospectus. In connection with their investment, Rush River and Mr. MacKenzie agreed that their notes would be voted consistent with the majority of the remaining noteholders in an event of default.

In 2006, Winmark paid approximately \$285,000 to Lindquist & Vennum, PLLP, a law firm in which John L. Morgan's son-in-law is a partner. Mr. Morgan's son-in-law is no longer with the firm.



**AMENDMENT TO STOCK OPTION PLAN FOR NONEMPLOYEE DIRECTORS**

**(Proposal #3)**

**General**

On February 22, 2008, the Board amended our Stock Option Plan for Nonemployee Directors (the Plan) to extend the term of the options from 6 years to 10 years and to modify the vesting schedule from 20% over 5 years to 25% over 4 years. These modifications apply only to future grants, and are consistent with the term and vesting schedule for stock options granted under the Company's other stock option plan, the 2001 Stock Option Plan. At the 2007 Annual Meeting, our shareholders approved an amendment to the Plan that increased the number of shares of Common Stock eligible to be granted under the Plan from 200,000 to 300,000. As of March 12, 2008, there were outstanding options to purchase an aggregate of 78,000 shares of Common Stock granted under the Plan, with exercise prices ranging from \$17.53 to \$26.05 per share. The Board of Directors believes that granting fairly priced stock options to directors is an effective means to promote the future growth and development of Winmark. The Board of Directors also believes the Plan will attract, reward and retain highly qualified nonemployee directors.

A general description of the Plan is set forth below, but such description is qualified in its entirety by reference to the full text of the Plan, a copy of which may be obtained without charge upon written request to our General Counsel, Catherine P. Heaven.

**Description of the Plan**

*Purpose.* The purpose of the Plan is to attract, reward and retain highly qualified nonemployee directors and to increase their proprietary interest in our success.

*Shares Available.* The Plan provides for the issuance of up to 300,000 shares of our Common Stock, subject to adjustment of such number in the event of any merger, reorganization, consolidation, recapitalization, stock dividend, stock split, or other change in corporate structure affecting our Common Stock.

*Eligibility.* The Plan provides that each director who is not also an employee of Winmark will receive an option to purchase 25,000 common shares at the beginning of that director's first term on the Board. Each current nonemployee director has received his or her initial grant to purchase 25,000 shares. The Plan also allows us to issue annual option grants to nonemployee directors of Winmark and its affiliates. The exercise price of all options under the Plan is equal to the fair market value on the date of grant.

*Options.* If approved by our shareholders, the proposed amendment to the Plan will decrease the period of time over which each option granted under the Plan vests from five equal annual increments to four equal annual increments, in each case beginning one year after the date of grant. Except upon a change of control or the approval by the Board of an agreement that would result in a change of control as defined in the Plan, any unvested portion of an option is forfeited upon the holder's termination as a nonemployee director. In the event of a change in control, all options under the Plan become fully exercisable. The exercise price of each option is the Fair Market Value of the underlying Common Stock

Edgar Filing: WINMARK CORP - Form DEF 14A

on the day the option is granted. If approved by our shareholders, the proposed amendment to the Plan will increase the term of exercise for the vested portion of an option from a term



ending on the date that is five years from the date of vesting of the first increment (the sixth anniversary of the grant date) to a term ending on the date that is nine years from the date of vesting of the first increment (the tenth anniversary of the grant date). The proposed amendment does not change the provision of the Plan that provides for the termination of option grants 30 days following the last day the holder served as a nonemployee director. In the event that a nonemployee director ceases to be a director due to the director's death, the director's legal representative has the right to exercise any options, to the extent exercisable on the date of termination and in no event later than the expiration of the stated terms, for a period of up to one year from the date of such death. In the event that a nonemployee director ceases to be a director due to the director's disability, the director may exercise the portion of the option as was exercisable at the date of termination until the expiration of the stated term of such option.

In the event of any merger, reorganization, consolidation, recapitalization, share dividend, share split, or other change in corporate structure affecting the share, such substitution or adjustment will be made as may be determined to be appropriate by the Board to prevent dilution or enlargement of the option rights under the Plan.

*Administration.* Options under the Plan may be exercised, by delivering to the company at its offices, written notice of the election to exercise and the number of shares subject to such exercise, together with payment in full of the exercise price. Payment of the exercise price shall be made by cash or certified bank check or delivery of Winmark shares owned by the holder with a fair market value equal to the exercise price. Unless otherwise determined by the Compensation Committee of the Board of Directors, tax-withholding obligations may be settled with common shares owned by the option holder.

*Amendment.* The Board of Directors may at any time suspend or terminate the Plan or any part thereof, and the Board of Directors or Compensation Committee may amend the Plan from time to time; provided, however, that no action of the Board of Directors or any committee may (i) impair the rights of a nonemployee director with respect to Options theretofore awarded, without such person's consent, or (ii) without the approval of the shareholders if such approval is necessary to comply with any legal, tax or regulatory requirement.

*Federal Income Tax Consequences.* The options granted under the Plan are not intended to be incentive stock options within the meaning of Section 422 of the Internal Revenue Code. At the time an option is granted, no income will be realized by the optionee, and no deduction will be allowable to Winmark. Upon the exercise of the option, the excess of the fair market value of the shares acquired on the date of exercise over the exercise price paid will be ordinary income to the optionee and deductible by Winmark, to the extent such amount satisfies the general rules concerning deductibility of compensation.

*Plan Benefits.* The benefits to our Nonemployee directors as a result of this amendment relate to extension of the term as well as the shortening of the vesting schedule for future options granted. Future grants of options are subject to the discretion of the Compensation Committee and therefore any benefits that result from these changes cannot be determined at this time. No executive officer or employee is eligible to receive an option under this Plan.

#### **Board of Directors Recommendation**

## Edgar Filing: WINMARK CORP - Form DEF 14A

The Board of Directors recommends that the shareholders vote FOR proposal #3 to approve the amendment to the Stock Option Plan for Nonemployee Directors to modify the vesting schedule and extend the term of future options granted under the plan. Under applicable Minnesota law, approval of the proposal requires the affirmative vote of the holders of the greater of (i) a majority of the voting power of the shares represented in person or by proxy at the Annual Meeting with authority to vote on such matter or (ii) a majority of the voting power of the minimum number of shares that would constitute a quorum for the transaction of business at the Annual Meeting.

**Securities Authorized for Issuance Under Equity Compensation Plans**

The following information reflects certain information about our equity compensation plans as of December 29, 2007:

	(a)	Equity Compensation Plan Information (b)	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	
Equity compensation plans approved by security holders	443,300	\$19.35	340,500
Equity compensation plans not approved by security holders (1)	175,000	6.00	
<b>TOTAL</b>	<b>618,300</b>	<b>\$15.57</b>	<b>340,500</b>

(1) On March 22, 2000, Sheldon Fleck, a former consultant to Winmark, was granted a warrant to purchase 200,000 shares of Common Stock at an exercise price of \$6 per share ( Warrant ). This Warrant would have expired on March 22, 2008 if unexercised. On October 4, 2007, Mr. Fleck completed a partial cashless exercise of the Warrant, using 25,000 shares to purchase Common Stock. On January 29, 2008, Mr. Fleck exercised the remaining Warrants to purchase shares using the Warrant s cashless exercise option.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS, DIRECTORS  
AND EXECUTIVE OFFICERS**

The following table sets forth the number of shares of Common Stock beneficially owned by (i) each person known by us to own more than 5% of the outstanding shares of Common Stock, (ii) each Named Executive Officer in the Summary Compensation Table, (iii) each director, (iv) each director nominee and (v) all directors and executive officers as a group. All persons named in the table have sole voting and investment power with respect to all shares of Common Stock owned, unless otherwise noted. The number of shares listed is as of March 12, 2008, unless otherwise noted.

Name (and Address of 5% Holders) or Identity of Group	Number of Shares Beneficially Owned	Percent of Outstanding Shares
John L. Morgan 4200 Dahlberg Drive, Suite 100 Minneapolis, MN 55422	1,405,787(1)	25.4 %
Kirk A. MacKenzie	173,600(2)	3.1 %
Paul C. Reylts	23,600(2)	*
William D. Dunlap	28,600(2)	*
Mark L. Wilson	31,100(2)	*
Jenele C. Grassle	10,100(2)	*
Dean B. Phillips	7,000(3)	*
Brett D. Heffes	98,953(4)	1.8 %
Steven A. Murphy	63,577(5)	1.1 %
Steven C. Zola	26,116(6)	*
K. Jeffrey Dahlberg 1040 High Lake View Colorado Springs, CO 80906	336,661(7)	6.1 %
Ronald G. Olson 1630 North Ridge Drive Wayzata, MN 55391	926,714(8)	16.7 %
Sheldon T. Fleck 5850 Opus Parkway, Suite 150 Minnetonka, MN 55343	478,644(9)	8.6 %
Farnum Street Partners, L.P. 3033 Excelsior Boulevard Minneapolis, MN 55416	302,313(10)	5.5 %
	661,568(11)	11.9 %

Bares Capital Management, Inc.  
221 West Sixth Street, Suite 1225  
Austin, TX 78701

All current directors and executive officers as a group (13 persons)	1,870,908(12)	32.8%
--	---------------	-------

---

\* Less than 1%

- (1) Includes 23,032 shares held by Mr. Morgan's wife, for which he disclaims beneficial ownership.
- (2) Includes 3,600 shares which are not outstanding, but may be acquired within 60 days through the exercise of a stock option.
- (3) Includes 5,000 shares which may be acquired within 60 days through the exercise of stock options.
- (4) Includes 74,925 shares which are not outstanding, but may be acquired within 60 days through the exercise of stock options. Includes 1,000 shares held by Mr. Heffes for a minor child.
- (5) Includes 52,375 shares which are not outstanding, but may be acquired within 60 days through the exercise of stock options. Includes 100 shares held in two trust accounts on behalf of Mr. Murphy's children.
- (6) Includes 15,475 shares which are not outstanding, but may be acquired within 60 days through the exercise of stock options. Includes 1,000 shares held in two trust accounts on behalf of Mr. Zola's children.
- (7) We have relied on information provided by Mr. Dahlberg on Schedule 13G filed on February 4, 2008. Includes 105,000 shares held in trust for minor children.
- (8) We have relied on information provided by Mr. Olson in a Form 4 filed on February 1, 2008. Includes 31,800 shares held in trust for his children and 1,500 shares held by Mr. Olson's wife. Mr. Olson disclaims beneficial ownership of these shares.
- (9) We have relied on information provided by Mr. Fleck on Schedule 13G filed on December 6, 2007, and have updated Mr. Fleck's ownership to reflect the exercise of his warrant shares on January 29, 2008.
- (10) We have relied on information provided by Farnum Street Partners, L.P. on Schedule 13D on November 15, 2007.

(11) We have relied on information provided by Bares Capital Management, Inc. on Schedule 13G on February 4, 2008.

(12) Includes 168,250 shares which may be acquired within 60 days by all directors and executive officer as a group through the exercise of stock options.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the 1934 Act requires directors, executive officers, and persons who own more than ten percent of our Common Stock to file with the Securities and Exchange Commission ( Commission ) initial reports of beneficial ownership and reports of changes in beneficial ownership of common shares. Directors, officers and greater than ten percent shareholders are required by the regulations of the Commission to furnish us with copies of all Section 16(a) reports they file. Except as set forth below, to our knowledge, based solely on review of the copies of such reports furnished to us and written representations that no other reports were required, during the fiscal year ended December 29, 2007, all Form 3, Form 4 and Form 5 filing requirements of our directors, executive officers and persons who own more than ten percent of our Common Stock were met except as follows: Steven A. Murphy failed to timely file one Form 4 reporting one transaction, Ronald G. Olson failed to file one Form 4 reporting one transaction, Steven C. Zola failed to timely file one Form 4 reporting one transaction.

**RATIFICATION OF INDEPENDENT AUDITORS****(Proposal #4)****General**

The Audit Committee has the authority to appoint and discharge the independent registered public accounting firm and has chosen to retain Grant Thornton LLP to serve as independent registered public accounting firm for fiscal year 2008. The Board is submitting such appointment of Grant Thornton LLP to the shareholders for ratification. If the appointment of Grant Thornton LLP is not ratified, the Board of Directors will require the Audit Committee to reconsider its selection. Representatives from Grant Thornton LLP will be present at the meeting, will have the opportunity to make a statement if they desire and will be available to respond to appropriate questions.

On July 5, 2006, the Audit Committee dismissed KPMG LLP as Winmark's independent registered public accounting firm, and appointed Grant Thornton LLP to serve as our independent registered public accounting firm. The audit reports of KPMG on our consolidated financial statements as of and for the years ended December 31, 2005 and December 25, 2004 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. In connection with the audits of the two fiscal years ended December 31, 2005 and December 25, 2004, and the subsequent interim period through July 5, 2006, there have been no disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of KPMG, would have caused KPMG to make reference in connection with their opinion to the subject matter of the disagreement.

**Principal Accountant Fees and Services**

The following is a summary of the fees billed by Grant Thornton LLP for professional services rendered as our independent registered public accounting firm during the 2006 and 2007 fiscal years, as well as the fees billed by KPMG LLP for professional services rendered as our independent registered public accounting firm during the 2006 fiscal year prior to their dismissal.

Fee Category	Grant Thornton LLP		KPMG LLP	
	Fiscal 2007 Fees	Fiscal 2006 Fees	Fiscal 2007 Fees	Fiscal 2006 Fees
Audit Fees	\$ 157,040	\$ 139,360	\$ 0	\$ 50,000
Audit-Related Fees	29,640	0	20,500	76,500
Tax Fees	0	0	0	0
All Other Fees	0	0	0	0
Total Fees	\$ 186,680	\$ 139,360	\$ 20,500	\$ 126,500

*Audit Fees.* Consists of fees billed for professional services rendered for the audit of our annual consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports, and services that are normally provided by the principal accountant in connection with statutory and regulatory filings or engagements.



## Edgar Filing: WINMARK CORP - Form DEF 14A

*Audit-Related Fees.* Consists of fees billed for services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under Audit Fees. These services primarily consist of employee benefit plan audits and consultations concerning financial accounting and reporting standards for Grant Thornton, and consents to use financial statements for KPMG. In 2006, KPMG billed us approximately \$50,000 in fees for services related to the filing of our Registration Statement on Form S-1, effective June 16, 2006.

Pursuant to its Audit Committee Charter, the Audit Committee is responsible for pre-approving all audit and permitted non-audit services to be performed for Winmark by its independent auditors or any other auditing or accounting firm.

### AUDIT COMMITTEE REPORT

The Board of Directors maintains an Audit Committee comprised of three of Winmark's independent directors. The Board of Directors and the Audit Committee believe that the Audit Committee's current member composition satisfies the rule of the National Association of Securities Dealers, Inc. (NASD) that governs audit committee composition, Rule 4350-4, including the requirement that audit committee members all be independent directors as that term is defined by NASD Rule 4200(a)(15).

In accordance with its written charter adopted by the Board of Directors, the Audit Committee assists the Board of Directors with fulfilling its oversight responsibility regarding the quality and integrity of the accounting, auditing and financial reporting practices of Winmark. In discharging its oversight responsibilities regarding the audit process, the Audit Committee:

(1) reviewed and discussed with management Winmark's consolidated audited financial statements as of and for the year ended December 29, 2007; and

(2) discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, *Professional Standards*, Vol. 1 AU Section 380, as adopted by the Public Company Accounting Oversight Board in Rule 3200T; and

(3) received and reviewed the written disclosures and the letter from the independent auditors required by the Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, as adopted by the Public Company Accounting Oversight Board in Rule 3600T, and discussed with the independent auditors the independent auditor's independence.

Based upon the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in Winmark's Annual Report on Form 10-K for the fiscal year ended December 29, 2007, as filed with the Securities and Exchange Commission.

#### Members of the Audit Committee:

Paul C. Reyelts, Chairman

Dean B. Phillips

Mark L. Wilson

**Board Recommendation**

The Board of Directors recommends that the shareholders vote FOR proposal #4 to ratify Grant Thornton LLP as the independent registered public accounting firm for Winmark. Under applicable Minnesota law, approval of the proposal to be voted on at the meeting requires the affirmative vote of the holders of the greater of (i) a majority of the voting power of the shares represented in person or by proxy at the Annual Meeting with authority to vote on such matter or (ii) a majority of the voting power of the minimum number of shares that would constitute a quorum for the transaction of business at the Annual Meeting.

**SHAREHOLDER PROPOSALS FOR THE 2009 ANNUAL MEETING**

Rule 114a-8 of the SEC permits shareholders of a company, after timely notice to the company, to present proposals for shareholder action in the company's proxy statement where such proposals are consistent with applicable law, pertain to matters appropriate for shareholder action and are not properly omitted by company action in accordance with the proxy rules.

The Winmark Corporation 2009 Annual Meeting of Shareholders is expected to be held on or about April 30, 2009. Proxy materials for that meeting are expected to be mailed on or about March 25, 2009. Under SEC Rule 14a-8, shareholder proposals to be included in the Winmark Corporation proxy statement for that meeting must be received by Winmark Corporation on or before November 25, 2008. Additionally, if Winmark Corporation receives notice of a shareholder proposal after February 8, 2009, the proposal will be considered untimely pursuant to SEC Rules 14a-4 and 14a-5(e) and the persons named in proxies solicited by the Board of Directors of Winmark Corporation, Inc. for its 2009 Annual Meeting of Shareholders may exercise discretionary voting power with respect to the proposal.

**ANNUAL REPORT ON FORM 10-K**

A COPY OF OUR FORM 10-K ANNUAL REPORT FOR THE FISCAL YEAR ENDED DECEMBER 29, 2007 (WITHOUT EXHIBITS) ACCOMPANIES THIS NOTICE OF MEETING AND PROXY STATEMENT. NO PART OF THE ANNUAL REPORT IS INCORPORATED HEREIN AND NO PART THEREOF IS TO BE CONSIDERED PROXY SOLICITING MATERIAL. WE WILL FURNISH TO ANY SHAREHOLDER, UPON WRITTEN REQUEST, ANY EXHIBIT DESCRIBED IN THE LIST ACCOMPANYING THE FORM 10-K, UPON THE PAYMENT, IN ADVANCE, OF REASONABLE FEES RELATED TO THE FURNISHING OF SUCH EXHIBIT(S). ANY REQUEST SHOULD INCLUDE A REPRESENTATION THAT THE SHAREHOLDER WAS THE BENEFICIAL OWNER OF SHARES OF OUR COMMON STOCK ON MARCH 12, 2008, THE RECORD DATE FOR THE 2008 ANNUAL MEETING, AND SHOULD BE DIRECTED TO CATHERINE P. HEAVEN, GENERAL COUNSEL, AT OUR PRINCIPAL ADDRESS.

**OTHER BUSINESS**

The Board of Directors knows of no other matters to be presented at the meeting. In the event any other business is presented at the meeting, the persons named in the enclosed proxy will have authority to vote on that business in accordance with their judgment.

By the Order of the Board of Directors

John L. Morgan  
Chairman and Chief Executive Officer



**WINMARK CORPORATION**

**STOCK OPTION PLAN**

**FOR NONEMPLOYEE DIRECTORS**

**(As Amended and Restated Through February 22, 2008)**

1. **Purpose.** This Stock Option Plan ( **Plan** ) for Winmark Corporation, a Minnesota corporation ( **Company** ), is intended (a) to advance the interests of the Company by providing nonemployee members of the Board of Directors with additional incentive to promote the success of the Company's business; (b) to increase the proprietary interest of the nonemployee directors in the success of the Company; and (c) to attract, reward, and retain highly qualified individuals as nonemployee directors of the Company.

2. **Definitions.** In addition to definitions that may be contained elsewhere herein, for purposes of this Plan and option agreements entered into pursuant hereto, the following terms are defined as follows:

(a) **Affiliate** shall mean a Parent or Subsidiary of the Company.

(b) **Board** means the Board of Directors of the Company.

(c) **Code** means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto.

(d) **Committee** means the Committee referred to in Section 3 of the Plan.

(e) **Disability** means disability as determined under procedures established by the Committee for purposes of this Plan or as defined in Section 22(e)(3) of the Code.

(f) **Exchange Act** means the Securities Exchange Act of 1934, as amended from time to time.

(g) **Fair Market Value** as of any date shall mean (i) if such stock is listed on the Nasdaq National Market, Nasdaq SmallCap Market, or an established stock exchange, the price of such stock at the close of the regular trading session of such market or exchange on such date, as reported by The Wall Street Journal or a comparable reporting service, or, if no sale of such stock shall have occurred on such date, on

## Edgar Filing: WINMARK CORP - Form DEF 14A

the next preceding day on which there was a sale of stock; (ii) if such stock is not so listed on the Nasdaq National Market, Nasdaq SmallCap Market, or an established stock exchange, the average of the closing bid and asked prices quoted by the OTC Bulletin Board, the National Quotation Bureau, or any comparable reporting service on such date or, if there are no quoted bid and asked prices on such date, on the next preceding date for which there are such quotes; or (iii) if such stock is not publicly traded as of such date, the per share value as determined by the Board, or the Committee, in its sole discretion, pursuant to the Company's By-Laws.

(h) Option or Stock Option means a nonqualified stock option granted pursuant to Section 5 below.

(i) Option Agreement means any written agreement, contract, or other instrument or document evidencing any Option granted hereunder and signed by both the Company and the Participant.

---

Edgar Filing: WINMARK CORP - Form DEF 14A

(j) **Parent** shall mean any corporation which owns, directly or indirectly in an unbroken chain, fifty percent (50%) or more of the total voting power of the Company's outstanding stock.

(k) **Participant** means any person entitled to participate in this Plan as set forth in Section 4 hereof.

(l) **The Plan** means the Winmark Corporation Stock Option Plan for Nonemployee Directors, as amended hereafter from time to time, including the form of Option Agreement as modified by the Committee from time to time.

(m) **Stock** means the Common Stock, no par value per share, of the Company.

(n) **A Subsidiary** shall mean any corporation of which fifty percent (50%) or more of the total voting power of outstanding stock is owned, directly or indirectly in an unbroken chain, by the Company.

(o) **Subsidiary Board** shall mean the board of directors of any Subsidiary of the Company.

3. **Administration.** The Plan will be administered by the Company's Compensation Committee or similar body of independent directors ( **Committee** ). Stock Options under the Plan will be granted pursuant to Section 5. The Committee will have full authority to interpret the Plan, to promulgate such rules and regulations with respect to the Plan as it deems desirable, and to make all other determinations necessary or appropriate for the administration of the Plan. Such determinations will be final and binding upon all persons having an interest in the Plan.

4. **Eligibility.** Options will be granted only to persons who at the time of the grant are members of the Board and who are not otherwise employees of the Company or any Affiliate of the Company ( **Nonemployee Director** or **Nonemployee Directors** ).

5. **Options.**

(a) **Initial and Annual Grants.**

(i) Pursuant to this Plan, each person elected to serve as a Nonemployee Director of the Board will be granted an Option to purchase Twenty-Five Thousand (25,000) shares of Stock (the **Initial Option** ). Except as otherwise provided herein, each such Initial Option: (i) will be granted to the Participant by the Board at the meeting coinciding with or immediately following the Participant's election; (ii) will be subject to all terms of this Plan; and (iii) will vest and become exercisable in four equal annual increments, beginning on the first anniversary of



Edgar Filing: WINMARK CORP - Form DEF 14A

the date of the grant of the Initial Option; provided, in each instance, that the Participant has continuously served as a Nonemployee Director until such date, and if not, such Initial Option or any nonvested portion thereof will be forfeited in its entirety. Each such vested Initial Option will remain exercisable for a term ending on the earlier of the date that is nine years from the date of vesting of the first increment or that is thirty days following the last day on which the Participant served as a Nonemployee Director.

---

(ii) Each Participant may be entitled to the grant of an annual Option to purchase that number of shares of Stock as determined by the Committee (the Annual Option ). Except as otherwise provided herein, each such Annual Option: (i) will be granted to the Participant by the Committee at its annual meeting regarding director and employee compensation or at such other time as the Committee deems advisable; (ii) will be subject to all terms of this Plan; and (iii) will vest and become exercisable in four equal annual increments, beginning on the first anniversary of the date of the grant of the Annual Option; provided, in each instance, that the Participant has continuously served as a Nonemployee Director until such date, and if not, such Annual Option or any nonvested portion thereof will be forfeited in its entirety. Each such vested Annual Option will remain exercisable for a term ending on the earlier of the date that is nine years from the date of vesting of the first increment or that is thirty days following the last day on which the Participant served as a Nonemployee Director.

(b) Exercise Price. The exercise price per share of Stock purchasable under an Option granted pursuant to Section 5(a) will be the Fair Market Value on the day the Option is granted to the Participant.

(c) Method of Exercise. Stock Options may be exercised in whole or in part at any time during the term of the Option, as described in Section 5(a). Payment of the exercise price will be made by (i) cash or certified bank check, (ii) delivery of shares of Stock already owned by the Participant, or (iii) any combination of the foregoing. For purposes of this paragraph, shares of Stock that are delivered in payment of the exercise price will be valued at their Fair Market Value as of the date of the exercise of the Option.

(d) Withholding. The Company's obligation to deliver shares upon the exercise of Options will be subject to applicable federal, state, and local tax withholding requirements. Unless otherwise determined by the Committee, the Participant may satisfy such obligation, in whole or in part, by electing to have the Company or its Affiliate withhold shares of Stock otherwise issuable to the Participant as a result of the exercise of the Stock Option, or by electing to deliver to the Company already-owned shares of Stock, in either case having a Fair Market Value equal to the minimum required tax withholding, based on the minimum statutory withholding rates for federal and state tax purposes, including payroll taxes, that are applicable to the supplemental income resulting from such exercise. In no event may the Company or its Affiliate withhold shares having a Fair Market Value in excess of such statutory minimum required tax withholding. The Participant's election to have shares withheld or to deliver already-owned shares of Common Stock for this purpose shall be made on or before the date the Stock Option is exercised or, if later, the date that the amount of tax to be withheld is determined under applicable tax law. Such election shall be approved by the Committee and otherwise comply with such rules as the Committee may adopt to assure compliance with Rule 16b-3, or any successor provision, as then in effect, of the General Rules and Regulations under the Securities Exchange Act of 1934, if applicable.

---

(e) Restrictions on Transfer of Option. Each Option granted under this Plan will be transferable only by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act ( ERISA ), or the rules thereunder. Except as permitted by the preceding sentence, no Option granted under the Plan or any of the rights and privileges thereby conferred will be transferred, assigned, pledged, or hypothecated in any way (whether by operation of law or otherwise), and no such option, right, or privilege will be subject to execution, attachment, or similar process. An Option may be exercised during the Participant's lifetime only by the Participant or his or her guardian or legal representative.

6. Shares of Stock Subject to the Plan.

(a) General. There will be reserved and available for issuance upon the exercise of Options granted from time to time under the Plan an aggregate of Three Hundred Thousand (300,000) shares of the Stock. Such shares may consist, in whole or in part, of authorized but unissued shares of Stock or issued shares that have been reacquired by the Company. If any shares subject to an Option are not issued because the Option is not exercised, such shares will again be available for distribution in connection with future options.

(b) Adjustments for Recapitalizations. In the event of any merger, reorganization, consolidation, recapitalization, stock dividend, stock split, or other change in corporate structure affecting the Stock, such substitution or adjustment will be made in the number and option price of shares purchasable pursuant to Section 5(a), in the aggregate number of shares reserved for issuance under the Plan under this Section 6, and in the number and option price of shares subject to outstanding Options granted under the Plan as may be determined to be appropriate by the Board to prevent dilution or enlargement of Option rights granted hereunder, provided that the number of shares subject to any Option will always be a whole number.

7. Death or Disability of Participant.

(a) Termination by Death. If a Participant's service on the Board or any Subsidiary Board terminates by reason of death, any Stock Option held by such Participant may thereafter be exercised by the legal representative of the Participant's estate or by any person who acquired the Option by will or the laws of descent and distribution for a period of one year from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is the shorter. The Option shall be exercisable only to the extent that such Option was exercisable as of the date of death.

(b) Termination by Reason of Disability. If a Participant's service on the Board or any Subsidiary Board terminates by reason of Disability, the Participant may exercise such portion of the Option as was exercisable at the date of termination until the expiration of the stated term of such Stock Option; provided, however, that, if the Participant dies prior to the expiration of the Option, any unexercised Stock Option held by such Participant will thereafter be exercisable to the extent to which it was exercisable at the time of death for a period of one year from the date of death or until the expiration of the stated term of such Stock Option, whichever period is the shorter.

8. Restrictions on Transfer of Stock. Unless a registration statement under the Securities Act of 1933 and applicable state securities laws is in effect with respect to Stock to be purchased upon exercise of options to be granted under the Plan, the Company may require that the Participant represent to and agree with the Company in writing that he or she is acquiring such shares of Stock for the purpose of investment and with no present intention to transfer, sell, or otherwise dispose of such shares of Stock. Further, in the absence of such registration, no shares of Stock acquired pursuant to exercise at an Option may be transferred unless, in the opinion of counsel to the Company, such transfer is in compliance with applicable securities laws, and each certificate representing any shares of Stock issued to a Participant hereunder will have endorsed thereon an appropriate legend referring to the restrictions against transfer. As a further condition to the issuance of Stock to Participant, Participant agrees to the following:

(a) Lock-Up Period Limitation. In the event the Company advises Participant that it plans an underwritten public offering of its Stock in compliance with the Securities Act of 1933, as amended, and the underwriter(s) seek to impose restrictions under which certain shareholders may not sell or contract to sell or grant any option to buy or otherwise dispose of part or all of their rights to the Stock underlying Options, Participant will not, for a period not to exceed 180 days from the prospectus, sell or contract to sell or grant an option to buy or otherwise dispose of any Option granted to Participant pursuant to the Plan or any of the underlying shares of Stock without the prior written consent of the underwriter(s) or its representative(s).

(b) Blue-Sky Limitation. In the event the Company makes any public offering of its securities and determines in its sole discretion that it is necessary to reduce the number of issued but unexercised Options so as to comply with any state's securities or Blue Sky law limitations with respect thereto, the Board shall have the right (i) to accelerate the exercisability of any Option and the date on which such Option must be exercised, provided that the Company gives Participant prior written notice of such acceleration, and (ii) to cancel any Options or portions thereof which Participant does not exercise prior to or contemporaneously with such public offering.

(c) Accounting Compliance. In the event of an acquisition of the Company through the sale of substantially all of the Company's assets and the consequent discontinuance of its business or through a merger, consolidation, exchange, reorganization, reclassification, extraordinary dividend, divestiture or liquidation of the Company (collectively referred to as a transaction), Participant will comply with Rule 145 of the Securities Act of 1933 and any other restrictions imposed under other applicable legal or accounting principles if Participant is an affiliate (as defined in such applicable legal and accounting principles) at the time of the transaction, and Participant will execute any documents necessary to ensure compliance with such rules.

The Company reserves the right to place a legend on any stock certificate issued upon the exercise of an Award pursuant to the Plan to assure compliance with this Section 8.

---

9. Amendment of the Plan. The Board may suspend or terminate the Plan or any portion thereof at any time. Further, either the Board or the Committee may amend the Plan from time to time as may be deemed to be in the best interests of the Company and its Affiliates; provided, however, that no such amendment, alteration, or discontinuation will be made (a) that would impair the rights of a Nonemployee Director with respect to Options theretofore awarded, without such person's consent, or (b) without the approval of the shareholders if such approval is necessary to comply with any legal, tax, or regulatory requirement, including any approval requirement that is a prerequisite for exemptive relief from Section 16(b) of the Exchange Act.

10. Applicability of Plan to Outstanding Stock Options. This Plan will not affect the terms and conditions of any Stock Options currently outstanding to any Nonemployee Director of the Company, nor will it affect any of the rights of any Nonemployee Director to whom such a Stock Option was granted.

11. Effective Date of Plan. This Plan was originally effective September 24, 1993. The restated Plan will become effective upon the date of its adoption by the Board, subject to approval of the shareholders of the Company at the next shareholders' meeting.

12. Change in Control Provisions.

(a) Impact of Event. All options granted hereunder will become fully exercisable and vested in the event of a Change in Control as defined in Section 12(b) or a Potential Change in Control as defined in Section 12(c).

(b) Definition of Change in Control. For purposes of Section 12(a), a Change In Control means the happening of any of the following:

(i) When any person as defined in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d) and 14(d) thereof, including a group as defined in Section 13(d) of the Exchange Act, but excluding the Company or any subsidiary or parent or any employee benefit plan sponsored or maintained by the Company or any subsidiary or parent (including any trustee of such plan acting as trustee), directly or indirectly, becomes the Beneficial Owner (as defined in Rule 13d-3 under the Exchange Act, as amended from time to time), of securities of the Company representing 20 percent or more of the combined voting power of the Company's then outstanding securities;

(ii) When, during any period of 24 consecutive months during the existence of the Plan, the individuals who, at the beginning of such period, constitute the Board (Incumbent Directors) cease for any reason other than death to constitute at least a majority thereof; provided, however, that a director who was not a director at the beginning of such 24-month period will be deemed to have satisfied such 24-month requirement (and be deemed an Incumbent Director) if such director was elected by, or on the recommendation or, or with the approval of, at least 60% of the directors who then qualified as Incumbent Directors either actually (because they were directors at the beginning of such 24-month period) or by prior operation of this Section 12(b)(ii); or

(iii) The approval by the shareholders of an acquisition of the Company by an entity other than the Company or a subsidiary or parent through purchase of assets, or by merger, or otherwise.



(c) Definition of Potential Change in Control. For purposes of Section 12(a), a Potential Change in Control means the approval by the Board of an agreement by the Company the consummation of which would result in a Change in Control of the Company as defined in Section 12(b).

13. Nonexclusivity of the Plan. The adoption of this Plan will not be construed as limiting the power of the Board to adopt such other incentive arrangements as it may deem desirable, including the granting of stock options otherwise than under this Plan. Such arrangements may be either generally applicable or applicable only in specific cases.

14. Miscellaneous.

(a) Governing Law. This Plan will be governed by and construed in accordance with the laws of the State of Minnesota, and all terms will be interpreted and construed so that there will not be committed any violation of applicable state or federal securities laws.

(b) No Additional Rights of Service. Participation in or eligibility for participation in the Plan does not grant any person any right of service as a Director, and the Company retains the right to terminate service of any Director pursuant to Company's Articles, Bylaws, and applicable law.

APPROVED and adopted by the Board of Directors of Winmark Corporation as of February 22, 2008.

---

**WINMARK CORPORATION**

**ANNUAL MEETING OF SHAREHOLDERS**

**Wednesday, April 30, 2008**

**4:00 p.m.**

**Winmark Corporation**

**Corporate Headquarters**

**4200 Dahlberg Drive, Suite 100**

**Minneapolis, MN 55422**

**Winmark Corporation  
4200 Dahlberg Drive Suite 100, Minneapolis, MN 55422**

PROXY

**This proxy is solicited by the Board of Directors for use at the Annual Meeting on April 30, 2008.**

The shares of stock you hold in your account or in a dividend reinvestment account will be voted as you specify below.

**If no choice is specified, the proxy will be voted FOR Items 1, 2, 3, and 4.**

By signing the proxy, you revoke all prior proxies and appoint John L. Morgan and Kirk A. MacKenzie, and each of them, with full power of substitution, to vote your shares on the matters shown on the reverse side and any other matters which may come before the Annual Meeting and all adjournments.



See reverse for voting instructions.

---

**The Board of Directors Recommends a Vote FOR Items 1, 2, 3, and 4.**

1. Set the number of directors at seven (7).  For  Against  Abstain
2. Election of Directors: 

01 John L. Morgan	05 Dean B. Phillips	<input type="radio"/> <b>Vote FOR</b>	<input type="radio"/> <b>Vote WITHHELD</b>
02 William D. Dunlap	06 Paul C. Reyelts	all nominees	from all nominees
03 Jenele C. Grassle	07 Mark L. Wilson		(except as marked)
04 Kirk A. MacKenzie			

**(Instruction: To withhold authority to vote for any indicated nominee, write the number(s) of the nominee(s) in the box provided at the right.)**

3. Amend the Stock Option Plan for Nonemployee Directors to modify the vesting schedule and extend the term of future options granted under the plan.  For  Against  Abstain
4. Ratify the appointment of Grant Thornton LLP as independent registered public accounting firm for the 2008 fiscal year.  For  Against  Abstain
5. In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting or any adjournment thereof.

**THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED AS DIRECTED OR, IF NO DIRECTION IS GIVEN, WILL BE VOTED FOR EACH PROPOSAL.**

Address Change?  Mark box and indicate changes below:

Dated: \_\_\_\_\_, 2008

Signature(s) in Box

Please sign exactly as your name(s) appear on Proxy. If held in joint tenancy, all persons must sign. Trustees, administrators, etc., should include title and authority. Corporations should provide full name of corporation and title of authorized officer signing the proxy.