WINMARK CORP
Form 10-Q
October 18, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 24, 2016

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 000-22012

WINMARK CORPORATION

(Exact name of registrant as specified in its charter)

Minnesota	41-1622691
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

605 Highway 169 North, Suite 400, Minneapolis, MN 55441

(Address of principal executive offices) (Zip Code)

(763) 520-8500

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Common stock, no par value, 4,122,037 shares outstanding as of October 7, 2016.

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WINMARK CORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1: Financial Statements

WINMARK CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

	September 24, 2016	December 26, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,120,900	$ 1,006,700
Marketable securities	204,100	227,800
Receivables, less allowance for doubtful accounts of $2,300 and $200	1,555,300	1,416,900
Restricted cash	40,000	25,000
Net investment in leases - current	16,264,100	17,741,500
Income tax receivable	769,200	3,290,400
Inventories	95,600	45,200
Prepaid expenses	921,000	677,800
Total current assets	20,970,200	24,431,300
Net investment in leases - long-term	21,070,300	21,246,000
Property and equipment, net	847,700	1,121,500
Goodwill	607,500	607,500
	$ 43,495,700	$ 47,406,300
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Notes payable, net of unamortized debt issuance costs of $10,000 and $10,000	$ 1,990,000	$ 1,990,000
Accounts payable	1,118,900	1,643,300
Accrued liabilities	2,644,500	1,875,700
Discounted lease rentals	—	38,700
Deferred revenue	1,671,700	1,963,200
Total current liabilities	7,425,100	7,510,900
Long-Term Liabilities:		
Line of credit	25,200,000	42,400,000
Notes payable, net of unamortized debt issuance costs of $76,000 and $83,500	20,424,000	21,916,500
Deferred revenue	1,451,200	1,421,600
Other liabilities	1,036,100	1,216,300
Deferred income taxes	3,676,900	3,614,800

Total long-term liabilities	51,788,200	70,569,200
Shareholders' Equity (Deficit):		
Common stock, no par value, 10,000,000 shares authorized, 4,122,037 and 4,124,767 shares issued and outstanding	859,200	406,500
Accumulated other comprehensive loss	(7,300)	(32,900)
Retained earnings (accumulated deficit)	(16,569,500)	(31,047,400)
Total shareholders' equity (deficit)	(15,717,600)	(30,673,800)
	$ 43,495,700	$ 47,406,300

The accompanying notes are an integral part of these financial statements.

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WINMARK CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 24, 2016	September 26, 2015	September 24, 2016	September 26, 2015
REVENUE:				
Royalties	$ 11,311,000	$ 11,286,100	$ 32,140,800	$ 31,226,700
Leasing income	4,174,000	3,247,000	12,839,000	16,919,900
Merchandise sales	520,000	762,300	1,882,400	2,182,300
Franchise fees	501,800	483,200	1,367,800	1,253,500
Other	227,500	220,900	984,400	917,900
Total revenue	16,734,300	15,999,500	49,214,400	52,500,300
COST OF MERCHANDISE SOLD	499,100	711,600	1,784,800	2,055,600
LEASING EXPENSE	646,200	173,400	2,010,400	4,941,300
PROVISION FOR CREDIT LOSSES	(29,700)	38,800	(52,000)	(123,400)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	5,180,700	5,733,900	17,671,500	18,226,700
Income from operations	10,438,000	9,341,800	27,799,700	27,400,100
INTEREST EXPENSE	(552,300)	(687,700)	(1,786,800)	(1,142,900)
INTEREST AND OTHER INCOME (EXPENSE)	(6,300)	(12,400)	(7,300)	(61,800)
Income before income taxes	9,879,400	8,641,700	26,005,600	26,195,400
PROVISION FOR INCOME TAXES	(3,785,200)	(3,302,100)	(9,954,200)	(10,050,100)
NET INCOME	$ 6,094,200	$ 5,339,600	$ 16,051,400	$ 16,145,300
EARNINGS PER SHARE - BASIC	$ 1.48	$ 1.29	$ 3.90	$ 3.53
EARNINGS PER SHARE - DILUTED	$ 1.41	$ 1.23	$ 3.72	$ 3.39
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC	4,116,957	4,128,031	4,113,819	4,568,813
WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED	4,328,168	4,338,230	4,320,284	4,758,158

The accompanying notes are an integral part of these financial statements.

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WINMARK CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 24, 2016	September 26, 2015	September 24, 2016	September 26, 2015
NET INCOME	$ 6,094,200	$ 5,339,600	$ 16,051,400	$ 16,145,300
OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX:				
Unrealized net gains (losses) on marketable securities:				
Unrealized holding net gains (losses) arising during period	6,800	(30,700)	41,100	8,000
Reclassification adjustment for net gains included in net income	—	—	—	(2,300)
OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX	6,800	(30,700)	41,100	5,700
INCOME TAX (EXPENSE) BENEFIT RELATED TO ITEMS OF OTHER COMPREHENSIVE INCOME:				
Unrealized net gains/losses on marketable securities:				
Unrealized holding net gains/losses arising during period	(2,600)	11,600	(15,500)	(3,200)
Reclassification adjustment for net gains included in net income	—	—	—	900
INCOME TAX (EXPENSE) BENEFIT RELATED TO ITEMS OF OTHER COMPREHENSIVE INCOME	(2,600)	11,600	(15,500)	(2,300)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	4,200	(19,100)	25,600	3,400
COMPREHENSIVE INCOME	$ 6,098,400	$ 5,320,500	$ 16,077,000	$ 16,148,700

The accompanying notes are an integral part of these financial statements.

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WINMARK CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 24, 2016	September 26, 2015
OPERATING ACTIVITIES:		
Net income	$ 16,051,400	$ 16,145,300
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	320,600	322,800
Provision for credit losses	(52,000)	(123,400)
Compensation expense related to stock options	1,324,400	1,255,100
Deferred income taxes	62,100	(3,329,900)
Loss on sale of marketable securities	12,600	22,800
Deferred initial direct costs	(421,300)	(332,900)
Amortization of deferred initial direct costs	356,200	491,700
Tax benefits on exercised stock options	(69,700)	(16,600)
Change in operating assets and liabilities:		
Receivables	(138,400)	14,000
Restricted cash	(15,000)	—
Income tax receivable/payable	2,575,400	3,323,200
Inventories	(50,400)	33,900
Prepaid expenses	(243,200)	(290,100)
Other assets	—	70,000
Accounts payable	(524,400)	(747,100)
Accrued and other liabilities	617,600	1,133,300
Rents received in advance and security deposits	392,300	6,600
Deferred revenue	(261,900)	184,900
Net cash provided by operating activities	19,936,300	18,163,600
INVESTING ACTIVITIES:		
Proceeds from sale of marketable securities	52,200	299,000
Purchase of marketable securities	—	(75,800)
Purchase of property and equipment	(46,800)	(121,300)
Purchase of equipment for lease contracts	(16,432,200)	(18,516,900)
Principal collections on lease receivables	17,749,900	22,047,500
Net cash provided by investing activities	1,323,100	3,632,500
FINANCING ACTIVITIES:		
Proceeds from borrowings on line of credit	10,600,000	56,500,000
Payments on line of credit	(27,800,000)	(28,800,000)
Proceeds from borrowings on notes payable	—	25,000,000
Payments on notes payable	(1,500,000)	(500,000)
Repurchases of common stock	(1,573,900)	(74,261,500)

Proceeds from exercises of stock options	170,900	159,000
Dividends paid	(1,111,900)	(939,200)
Tax benefits on exercised stock options	69,700	16,600
Net cash used for financing activities	(21,145,200)	(22,825,100)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	114,200	(1,029,000)
Cash and cash equivalents, beginning of period	1,006,700	2,089,700
Cash and cash equivalents, end of period	$ 1,120,900	$ 1,060,700
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	$ 1,778,400	$ 830,400
Cash paid for income taxes	$ 7,316,700	$ 10,056,800

The accompanying notes are an integral part of these financial statements.

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WINMARK CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

1. Management's Interim Financial Statement Representation:

The accompanying consolidated condensed financial statements have been prepared by Winmark Corporation and subsidiaries (the Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. The Company has a 52/53 week year which ends on the last Saturday in December. The information in the consolidated condensed financial statements includes normal recurring adjustments and reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of such financial statements. The consolidated condensed financial statements and notes are presented in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for Form 10-Q, and therefore do not contain certain information included in the Company's annual consolidated financial statements and notes. This report should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's latest Annual Report on Form 10-K.

Revenues and operating results for the nine months ended September 24, 2016 are not necessarily indicative of the results to be expected for the full year.

Reclassifications

Certain reclassifications of previously reported amounts have been made to conform to the current year presentation. Such reclassifications did not impact net income or shareholders' equity (deficit) as previously reported.

2. Organization and Business:

The Company offers licenses to operate franchises using the service marks Plato's Closet®, Once Upon A Child®, Play It Again Sports®, Style Encore® and Music Go Round®. The Company also operates both middle market and small-ticket equipment leasing businesses under the Winmark Capital® and Wirth Business Credit® marks.

3. Fair Value Measurements:

The Company defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company uses three levels of inputs to measure fair value:

- Level 1 – quoted prices in active markets for identical assets and liabilities.
- Level 2 – observable inputs other than quoted prices in active markets for identical assets and liabilities.
- Level 3 – unobservable inputs in which there is little or no market data available, which require the reporting entity to develop its own assumptions.

The Company's marketable securities were valued based on Level 1 inputs using quoted prices.

Due to their nature, the carrying value of cash equivalents, receivables, payables and debt obligations approximates fair value.

4. Investments:

Marketable Securities

The following is a summary of marketable securities classified as available-for-sale securities:

	September 24, 2016		December 26, 2015	
	Cost	Fair Value	Cost	Fair Value
Equity securities	$ 215,800	$ 204,100	$ 280,600	$ 227,800

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The Company's unrealized gains and losses for marketable securities classified as available-for-sale securities in accumulated other comprehensive loss are as follows:

	September 24, 2016	December 26, 2015
Unrealized gains	$ —	$ —
Unrealized losses	(11,700)	(52,800)
Net unrealized losses	$ (11,700)	$ (52,800)

The Company's realized gains and losses recognized on sales of available-for-sale marketable securities are as follows:

	Three Months Ended		Nine Months Ended	
	September 24, 2016	September 26, 2015	September 24, 2016	September 26, 2015
Realized gains	$ —	$ —	$ —	$ 13,400
Realized losses	—	—	(12,600)	(36,200)
Net realized losses	$ —	$ —	$ (12,600)	$ (22,800)

Amounts reclassified out of accumulated other comprehensive loss into earnings is determined by using the average cost of the security when sold. Gross realized gains (losses) reclassified out of accumulated other comprehensive loss into earnings are included in Interest and Other Income (Expense) and the related tax benefits (expenses) are included in the Provision for Income Taxes lines of the Consolidated Condensed Statements of Operations.

5. Investment in Leasing Operations:

Investment in leasing operations consists of the following:

	September 24, 2016	December 26, 2015
Direct financing and sales-type leases:		
Minimum lease payments receivable	$ 35,780,200	$ 37,181,600
Estimated residual value of equipment	4,442,900	4,511,000
Unearned lease income net of initial direct costs deferred	(5,351,700)	(4,999,700)
Security deposits	(4,054,300)	(3,640,500)
Equipment installed on leases not yet commenced	7,312,600	6,754,200
Total investment in direct financing and sales-type leases	38,129,700	39,806,600
Allowance for credit losses	(817,700)	(859,100)
Net investment in direct financing and sales-type leases	37,312,000	38,947,500
Operating leases:		
Operating lease assets	1,001,700	1,083,300
Less accumulated depreciation and amortization	(979,300)	(1,043,300)
Net investment in operating leases	22,400	40,000
Total net investment in leasing operations	$ 37,334,400	$ 38,987,500

As of September 24, 2016, the $37.3 million total net investment in leases consists of $16.2 million classified as current and $21.1 million classified as long-term. As of December 26, 2015, the $39.0 million total net investment in leases consists of $17.7 million classified as current and $21.3 million classified as long-term.

As of September 24, 2016, leased assets with two customers approximated 18% and 15%, respectively, of the Company’s total assets.

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Future minimum lease payments receivable under lease contracts and the amortization of unearned lease income, net of initial direct costs deferred, is as follows for the remainder of fiscal 2016 and the full fiscal years thereafter as of September 24, 2016:

	Direct Financing and Sales-Type Leases		Operating Leases
Fiscal Year	Minimum Lease Payments Receivable	Income Amortization	Minimum Lease Payments Receivable
2016	$ 6,594,500	$ 1,297,400	$ 14,200
2017	19,031,000	3,152,900	18,000
2018	8,444,600	843,600	—
2019	1,682,100	54,800	—
2020	8,400	1,500	—
Thereafter	19,600	1,500	—
	$ 35,780,200	$ 5,351,700	$ 32,200

The activity in the allowance for credit losses for leasing operations during the first nine months of 2016 and 2015, respectively, is as follows:

	September 24, 2016	September 26, 2015
Balance at beginning of period	$ 859,100	$ 386,000
Provisions charged to expense	(52,000)	(123,400)
Recoveries	39,800	628,700
Deductions for amounts written-off	(29,200)	(9,300)
Balance at end of period	$ 817,700	$ 882,000

The Company's investment in direct financing and sales-type leases ("Investment In Leases") and allowance for credit losses by loss evaluation methodology are as follows:

	September 24, 2016		December 26, 2015	
	Investment In Leases	Allowance for Credit Losses	Investment In Leases	Allowance for Credit Losses
Collectively evaluated for loss potential	$ 38,129,700	$ 817,700	$ 39,806,600	$ 859,100
Individually evaluated for loss potential	—	—	—	—
Total	$ 38,129,700	$ 817,700	$ 39,806,600	$ 859,100

The Company's key credit quality indicator for its investment in direct financing and sales-type leases is the status of the lease, defined as accruing or non-accrual. Leases that are accruing income are considered to have a lower risk of loss. Non-accrual leases are those that the Company believes have a higher risk of loss. The following table sets forth information regarding the Company's accruing and non-accrual leases. Delinquent balances are determined based on the contractual terms of the lease.

	September 24, 2016				
	0-60 Days Delinquent and Accruing	61-90 Days Delinquent and Accruing	Over 90 Days Delinquent and Accruing	Non-Accrual	Total
Middle-Market	$ 37,052,300	$ —	$ —	$ —	$ 37,052,300
Small-Ticket	1,077,400	—	—	—	1,077,400
Total Investment in Leases	$ 38,129,700	$ —	$ —	$ —	$ 38,129,700

	December 26, 2015				
	0-60 Days Delinquent and Accruing	61-90 Days Delinquent and Accruing	Over 90 Days Delinquent and Accruing	Non-Accrual	Total
Middle-Market	$ 38,616,600	$ —	$ —	$ —	$ 38,616,600
Small-Ticket	1,185,800	4,200	—	—	1,190,000
Total Investment in Leases	$ 39,802,400	$ 4,200	$ —	$ —	$ 39,806,600

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6. Recent Accounting Pronouncements:

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, which provides guidance for revenue recognition that supersedes existing revenue recognition guidance (but does not apply to nor supersede accounting guidance for lease contracts). The ASU's core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires more detailed disclosures to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The ASU is effective for reporting periods beginning after December 15, 2016, and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. In July 2015, the FASB affirmed its proposal to defer the effective date by one year. The new standard will become effective for the Company beginning with the first quarter of fiscal 2018. The Company is currently in the process of evaluating the impact of the adoption of this ASU on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Statements – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which requires equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. There will no longer be an available-for-sale classification for equity securities with readily determinable fair values. The new guidance is effective for periods beginning after December 15, 2017, with early adoption permitted. The Company is currently in the process of evaluating the impact of the adoption of this ASU on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which provides guidance on accounting for leases that supersedes existing lease accounting guidance. The ASU's core principle is that a lessee should recognize lease assets and lease liabilities for those leases classified as operating leases under existing lease accounting guidance. The new standard also makes targeted changes to lessor accounting. This guidance is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. The provisions of this guidance are to be applied using a modified retrospective approach, with elective reliefs, which requires application of the guidance for all periods presented. The Company is currently in the process of evaluating the impact of the adoption of this ASU on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting, which simplifies the accounting for the taxes related to stock based compensation, including adjustments to how excess tax benefits should be classified. This guidance will be effective for reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is currently in the process of evaluating the impact of the adoption of this ASU on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses of Financial Instruments, which changes the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. This guidance will be effective for reporting periods beginning after December 15, 2019, with early adoption permitted. The Company is currently in the process of evaluating the impact of the adoption of this ASU on the Company's consolidated financial statements.

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7. Earnings Per Share:

The following table sets forth the presentation of shares outstanding used in the calculation of basic and diluted earnings per share ("EPS"):

	Three Months Ended		Nine Months Ended	
	September 24, 2016	September 26, 2015	September 24, 2016	September 26, 2015
Denominator for basic EPS — weighted average common shares	4,116,957	4,128,031	4,113,819	4,568,813
Dilutive shares associated with option plans	211,211	210,199	206,465	189,345
Denominator for diluted EPS — weighted average common shares and dilutive potential common shares	4,328,168	4,338,230	4,320,284	4,758,158
Options excluded from EPS calculation — anti-dilutive	12,868	5,309	18,348	16,961

8. Shareholders' Equity (Deficit):

Dividends

On January 27, 2016, the Company's Board of Directors approved the payment of a \$0.07 per share quarterly cash dividend to shareholders of record at the close of business on February 10, 2016, which was paid on March 1, 2016.

On April 27, 2016, the Company's Board of Directors approved the payment of a \$0.10 per share quarterly cash dividend to shareholders of record at the close of business on May 11, 2016, which was paid on June 1, 2016.

On July 27, 2016, the Company's Board of Directors approved the payment of a \$0.10 per share quarterly cash dividend to shareholders of record at the close of business on August 10, 2016, which was paid on September 1, 2016.

Repurchase of Common Stock

In the first nine months of 2016 the Company repurchased 17,194 shares of its common stock. Under the Board of Directors' authorization, as of September 24, 2016, the Company has the ability to repurchase additional 142,988 shares of its common stock. Repurchases may be made from time to time at prevailing prices, subject to certain restrictions on volume, pricing and timing.

Stock Option Plans and Stock-Based Compensation

The Company had authorized up to 750,000 shares of common stock be reserved for granting either nonqualified or incentive stock options to officers and key employees under the Company's 2001 Stock Option Plan (the "2001 Plan"). The 2001 Plan expired on February 20, 2011. The Company has authorized up to 500,000 shares of common stock to be reserved for granting either nonqualified or incentive stock options to officers and key employees under the Company's 2010 Stock Option Plan (the "2010 Plan").

The Company also sponsors a Stock Option Plan for Nonemployee Directors (the "Nonemployee Directors Plan") and has reserved a total of 350,000 shares for issuance to directors of the Company who are not employees.

Stock option activity under the 2001 Plan, 2010 Plan and Nonemployee Directors Plan (collectively, the "Option Plans") as of September 24, 2016 was as follows:

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	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Intrinsic Value
Outstanding, December 26, 2015	668,740	$ 53.73	6.41	25,582,300
Granted	34,300	98.25		
Exercised	(17,437)	26.84		
Forfeited	(3,501)	80.31		
Outstanding, September 24, 2016	682,102	$ 56.52	5.96	$ 33,470,500
Exercisable, September 24, 2016	473,817	$ 44.82	4.92	$ 28,790,800

The fair value of options granted under the Option Plans during the first nine months of 2016 and 2015 were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions and results: