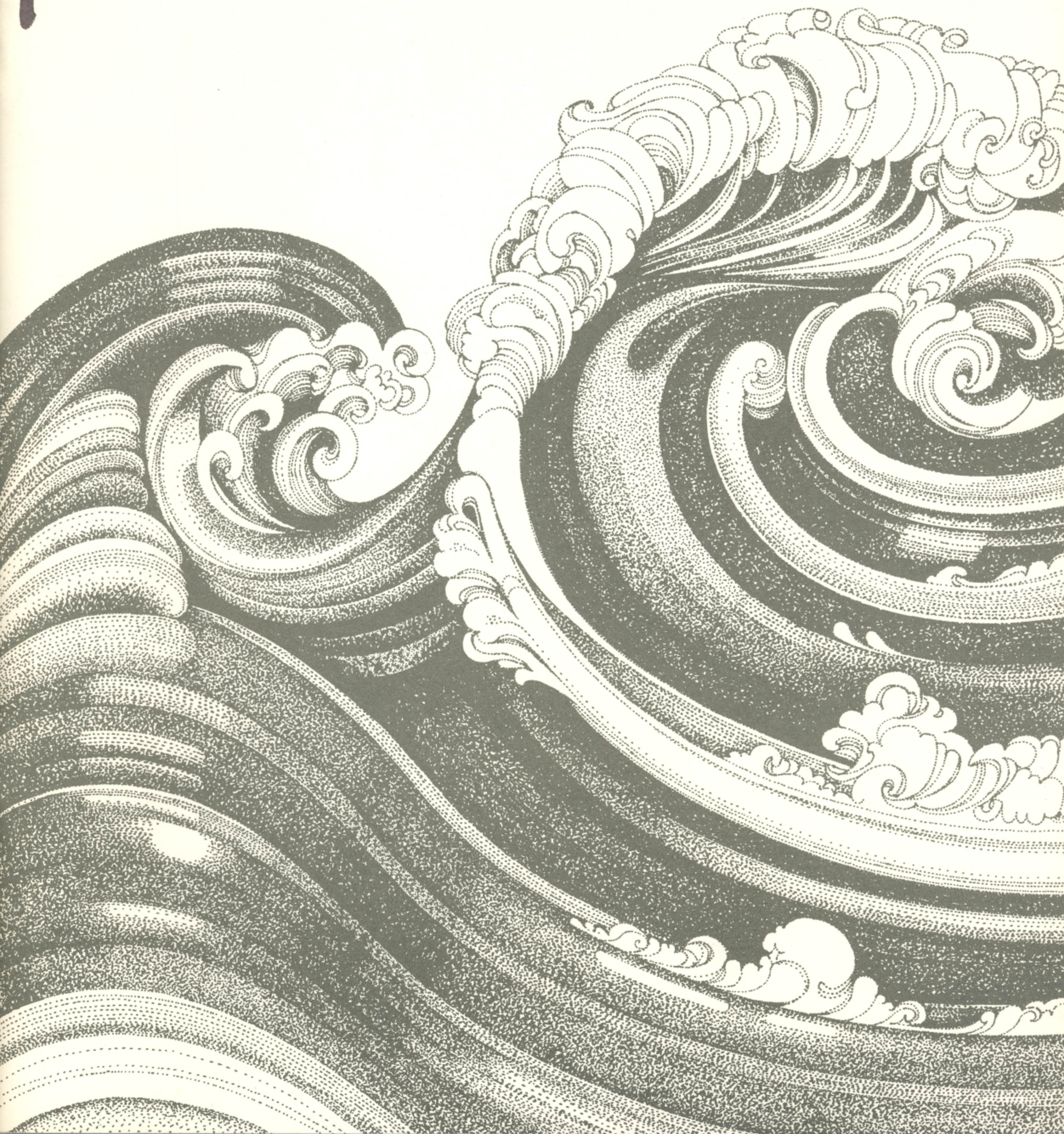


1981

1981 ANNUAL REPORT

SKIPPER'S,® INC.

Stack



SHAREHOLDER INFORMATION

Corporate Offices

Skipper's, Inc.
14450 N.E. 29th Place, Suite 200
Bellevue, Washington 98007
Telephone (206) 454-3456

Counsel

Preston, Thorgrimson, Ellis & Holman
2000 IBM Building
Seattle, Washington 98101

Independent Accountants

Price Waterhouse
The Financial Center
Seattle, Washington 98161

Transfer Agent

Seattle - First National Bank
1001 -4th Avenue
Seattle, Washington 98154

Annual Meeting

The 1982 annual meeting of stockholders will be held on Thursday, May 13, 1982 at 3:00 p.m. at the Seattle-First National Bank Auditorium, 1001-4th Avenue, Seattle, Washington 98154.

For a copy of the Skipper's, Inc. Annual Report on Form 10-K write:

Jay W. Switzer
Vice President Finance, Secretary/Treasurer
Skipper's, Inc.
14450 N.E. 29th Place, Suite 200
Bellevue, Washington 98007
A copy will be provided at no charge.

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Directors	Inside Back Cover

OUR COMPANY

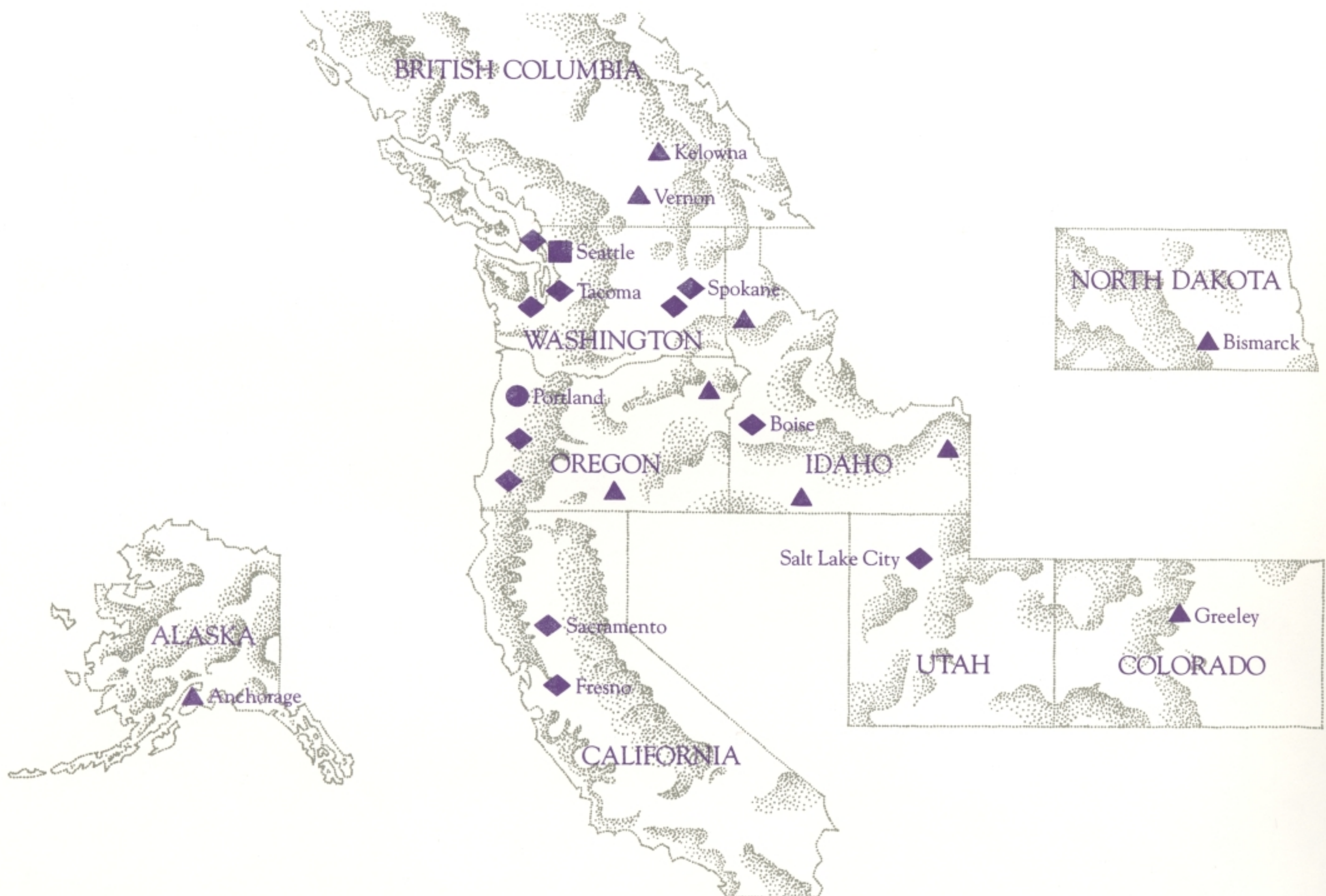
Based in the Pacific Northwest, Skipper's, Inc. operates a chain of quick-service seafood restaurants, the largest such chain in the western United States and the fourth largest in the nation. Of the 117 Skipper's restaurants, all of which use the name "Skipper's Seafood 'n Chowder House", 107 are operated by the Company in Washington, Oregon, Idaho, Utah and California, and 10 are operated by franchisees in Alaska, British Columbia (Canada), Idaho, Oregon, North Dakota and Colorado. The Company was incorporated in the state of Washington in 1969 and introduced its franchise program in 1978.

The Company's restaurants are located in free-standing one story buildings or in-line store fronts, occupying approximately 2,000 square feet. The decor is a casual, nautical motif with a seating capacity of 100 to 120 persons; seating

arrangements are suitable for both family and individual dining. Customers order at a central counter and are served at their tables.

The Company's emphasis on high quality products requires that most food preparation be performed on the restaurant premises several times a day and that all seafood and chicken entrees be cooked upon each customer order. The menu offers deep-fried fish fillets, clams, scallops and shrimp, as well as clam chowder, coleslaw, a salad bar, fried chicken and french fries. Beer and wine, in addition to soft drinks and other beverages, are available at most of the restaurants. For convenience, all menu items except beer and wine are offered for take-out service.

Skipper's, Inc. made its initial public stock offering in May, 1981. The Company's shares are traded on the NASDAQ over-the-counter system under the symbol "SKIP".

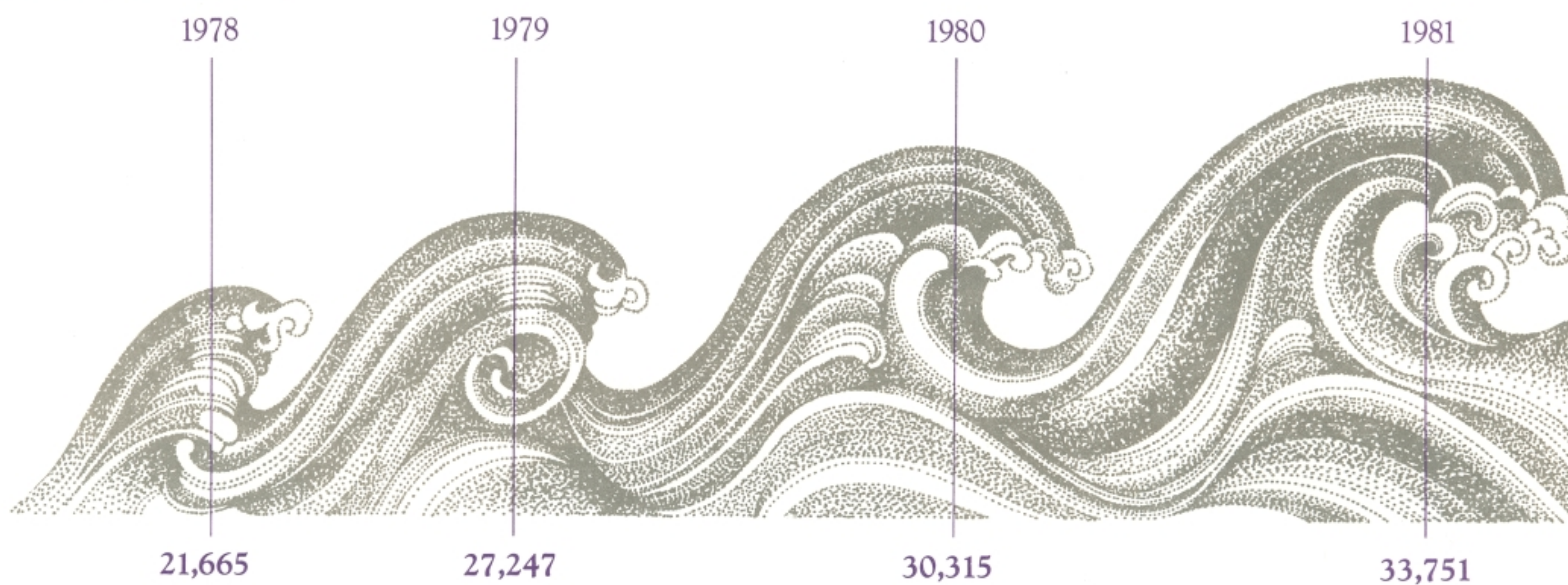


FINANCIAL HIGHLIGHTS

	For the 52 Weeks Ended	
	December 27, 1981	December 28, 1980
Revenues	\$33,991,000	\$30,463,000
Income Before Provision for Income Taxes	1,418,000	1,104,000
Net Income	953,000	771,000
Earnings per Common Share	.73	.72
Restaurant Sales:		
Company-operated	33,751,000	30,315,000
Franchised	3,929,000	2,325,000
Total	37,680,000	32,640,000
Restaurants Open:		
Company-operated	107	102
Franchised	10	7
Total Restaurants Open	117	109

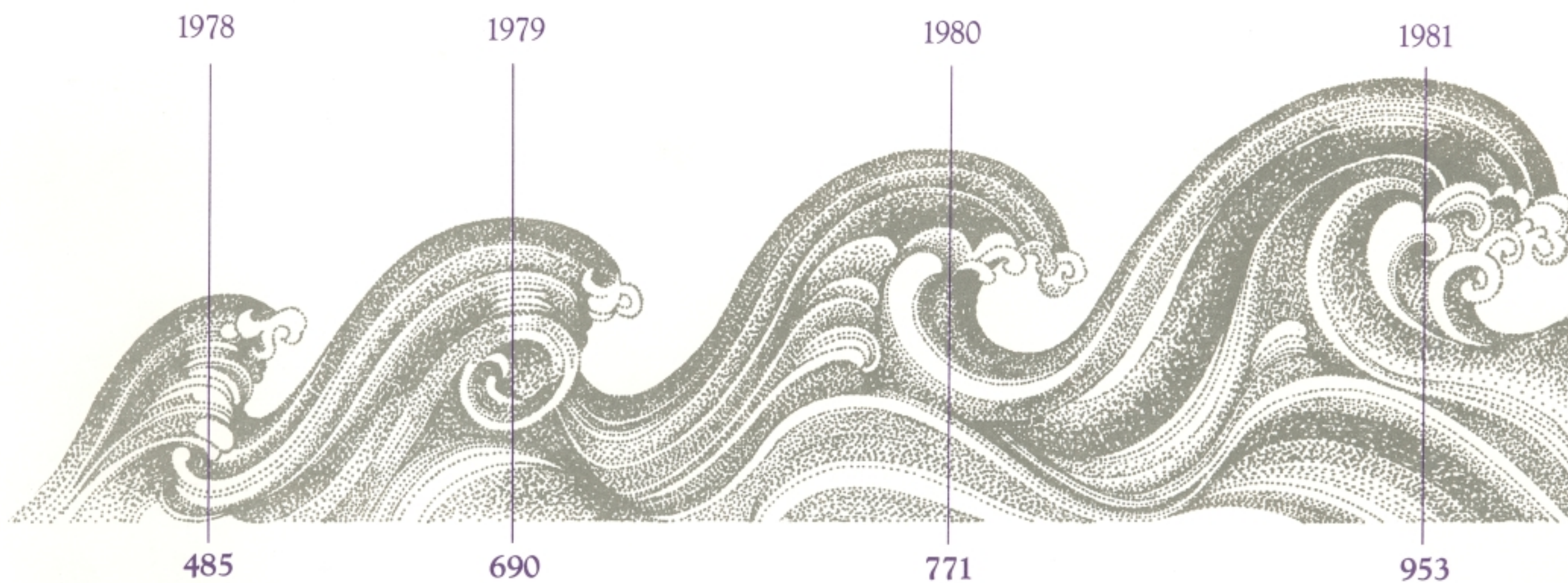
NET SALES

(Dollar amounts in thousands)



NET INCOME

(Dollar amounts in thousands)



TO OUR SHAREHOLDERS

We are pleased to report that Skipper's, Inc. achieved several important goals during the fiscal year ended December 27, 1981. Profitability continued to increase, with a 24% rise in net income on a 12% gain in revenues. Earnings per share were \$.73 as compared to \$.72 in 1980. The increase in earnings per share was less than the increase in net income due to dilution resulting from the public stock issue in May, 1981. It is especially gratifying to have accomplished these performance levels in spite of rising costs, high interest rates and a weak economy.

The Company's first common stock offering of 341,300 shares in May, 1981 raised \$3,102,000 in additional capital. Of this amount, \$455,000 was used to repay interest bearing debt and \$988,000 was used in 1981 to build new restaurants and remodel older units. The remaining \$1,659,000 is available to finance more restaurant openings and other corporate purposes.

The Company opened five new restaurants during the year, all within established market areas in Washington and Oregon. This rate of expansion represents a decision to realign our spending priorities in 1981. We had fewer new restaurant openings than originally planned, a significant reason being high interest rates which made it difficult to acquire property at acceptable costs. The remodeling of existing restaurants was placed on an accelerated schedule so that the Company's restaurants in all markets would project a uniform image. We remodeled 23 restaurants bringing more comfortable seating and a more appealing nautical decor to our increasingly sophisticated customers.

Surveys indicate that the Company's remodeled restaurants with warmer surroundings are receiving wide public approval. We anticipate that with this phase of the remodeling program essentially completed, and if and when interest rates decline, the number of 1982 restaurant openings will substantially increase.

The high cost of borrowing also is temporarily inhibiting the number of additions to our franchise program. However, in 1981 we established aggressive marketing of the franchise program to attract qualified, potential franchise owners—a strategy that the Company expects will provide growth into new markets during the next several years.

The Company considers closely administered restaurant operations as fundamental to the establishment of satisfied and loyal food service customers. In 1980 we increased the number of district managers in our field operations, which continued to increase our general and administrative costs in 1981. However, we have as a result gained tighter control over restaurant operations, and considering our long-term goals we view these expenses as investments in the future which should continue to benefit the Company in the years ahead.

Much of our success in 1981 can be attributed to the high calibre of our individual restaurant managers. Throughout Skipper's growing network, restaurant managers are

committed to increasing unit sales through local promotions and improved service, and instituted cost controls to improve profit margins. The adaptability and resourcefulness of our managers in the face of severe economic conditions are gratefully acknowledged by the Company.

Vigorous and resourceful marketing supported the company-wide effort to win new customers with an aggressive series of promotions and advertising campaigns. One example was expanding our established and popular "Tuesday All-You-Can-Eat" special to an every day offer, and to date it has been an accepted and successful promotional effort. Marketing also conducted an extensive program of customer surveys and building design research for application in 1982 and beyond.

We proceeded with our plan to strengthen and expand management expertise, concentrating on three departments particularly important to the Company's future growth—product development, franchising and real estate. Each of these departments is critical to revenue and profit growth either by supporting new restaurant openings or by increasing product appeal. In addition, during August, 1981 we moved into our new corporate headquarters, a larger facility which promises to comfortably accommodate a growing staff as we continue to extend our markets.

The last quarter of fiscal 1981 reflects the compounding effects of a slowing economy, and a severe winter in many of our major markets placed additional strains on the Company's operations. These factors combined have impacted the first quarter of fiscal 1982, which is off to a very slow start. Management has taken the steps to develop new marketing plans for our next phase of growth. Our goal for 1982 is to improve sales and profits, increase new restaurant openings, and expand our market share.

With aggressive marketing, efficient restaurant operations, plans for controlled growth and the guidance of experienced management, we are dedicated to defining firm solutions and look toward the future with justified confidence.



M. Eugene Stone
President-Chief Executive Officer



Herbert I. Rosen
Chairman of the Board



SKIPPER'S STORY

We started small. In fact, we could not have started much smaller. In 1969 Skipper's was a compact fish and chips restaurant on a hilltop in Bellevue, Washington. When we opened, we knew that there would be hard work ahead. The people of The Pacific Northwest will not abide second-rate seafood. However, we had every reason to be optimistic. The Skipper's product was unique in the marketplace. Our lightly-breaded fish fillets offered a different and lighter taste appeal than the more commonly used heavy batter. We also chose to follow food preparation standards that set us apart from most quick-service restaurants. All fish was freshly prepared each day and every customer received an individually cooked meal. These early principles continue to form the keystone to our restaurant operations.

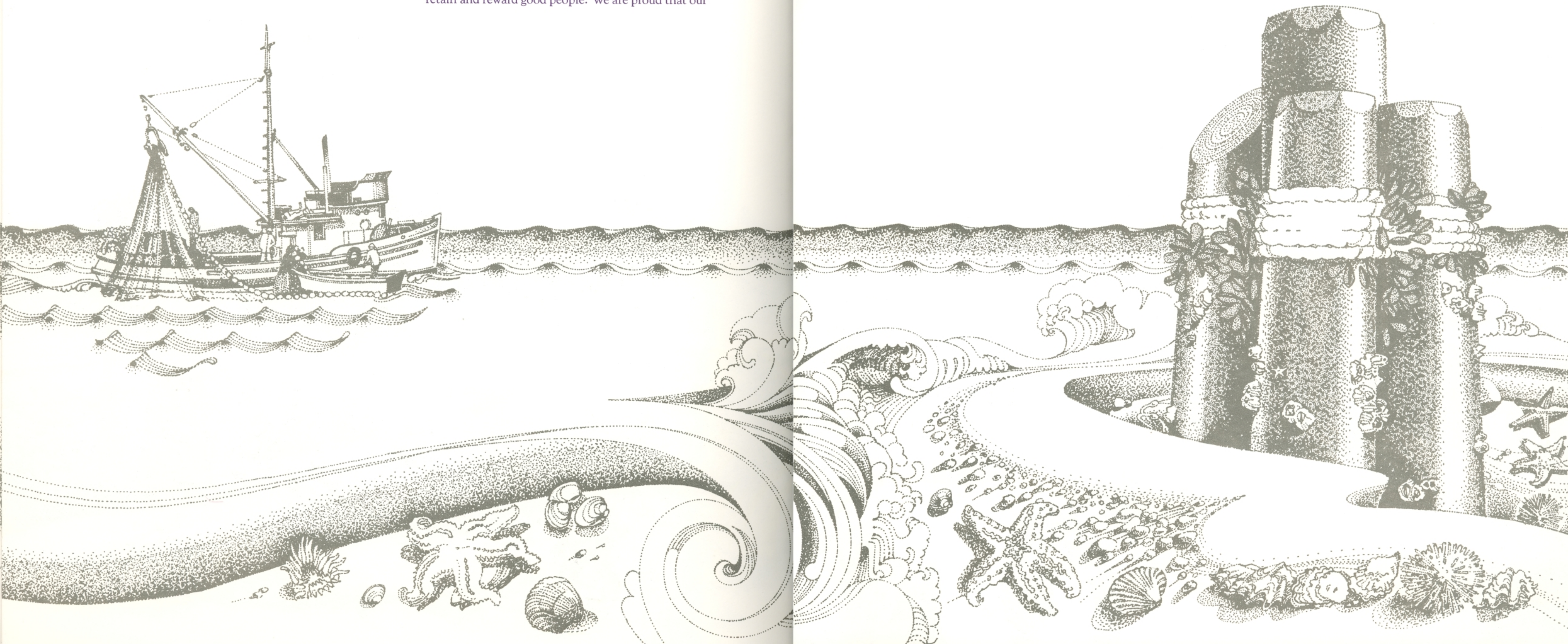
We believed that the public would endorse a nutritious alternative to the standard fast-food fare. It would be an understatement to say that we were right. Our plank tables and benches continued to fill with satisfied customers wherever we opened a restaurant. We prospered and grew. The early 1970's brought changes. We had expanded to become a regional chain without significantly changing our entrepreneurial style of management. As we were experiencing these early growing pains, an intense local recession struck the Puget Sound area. Gene Stone was brought in as our president to help redirect the company. Gene inspired a high level of morale throughout the Company by introducing several employee recognition, achievement and cash incentive programs. Our Company's success absolutely depends upon the good will and loyalty of our employees. At Skipper's this is not an empty cliché. A service-oriented business must recognize that its staff is as important as its customers. We have always endeavored to retain and reward good people. We are proud that our

employee relations are good and that our turnover rate has improved over the years. During the past five years, we have lowered restaurant management and hourly employee turnover rates by 39% and 46%, respectively.

Outstanding employees are promoted at Skipper's. All of our top-level operations managers—and most of the middle managers—have advanced from within the Company. Employee longevity has become a Skipper's hallmark. Our corporate executives have served for an average of six years while our president has been with us for nearly eleven years. Every employee, from corporate executive to hourly worker, is in some way, responsible for the satisfaction of our customers. In our "inverted pyramid" management structure, the corporate staff directly supports the requirements of our restaurant employees. Restaurant employees directly support the needs of our customers. We have proven that this approach develops and inspires quality in our most valuable resource—our people.

Quality has always been a Skipper's trademark. Our food preparation methods were designed to ensure delivering the best meals possible. Suppliers and restaurants are rigorously inspected at frequent intervals. We negotiate annual contracts to guarantee a consistently superior supply of seafood and other food products. Consequently, Skipper's has won several Gold Medals for the superior taste and quality of our products.

When we introduce changes into our restaurant operations, the action represents a carefully analyzed response to our customer's needs. The new "Fisherman's Wharf" design, for example, fulfilled the desire for a more comfortable, warmer dining atmosphere. By remodeling, we appealed to the tastes of a maturing, sophisticated clientele.



Innovations in Skipper's product line also reflect customer preferences. Introducing chicken presented an alternative to seafood. The Seafood Choice and Fish Sandwich selections offered variety and value to the consumer. Limited table service, a salad bar and serving beer and wine upgraded our image within the "fast-food" restaurant category. In-restaurant retailing of our clam chowder answered customer requests while spreading the fame of an extremely popular product. The new "skin-on" platter fries met the demand for a natural and nutritious complement to our fish and seafood dishes. Customer interest will continue to be stimulated with the upcoming introduction of larger portions served in new in-restaurant packaging and through the testing and development of dessert items and non-fried fish.

Many of us drive by Skipper's first restaurant on our way to the new corporate offices. We are now located on another hilltop in Bellevue, not too far from where we first entered the marketplace. The view is a little better now, but our principles still remain the same: We will always be people-oriented; we will never accept less than the very highest quality. Much like the sea, we have changed while still remaining the same.



MANAGEMENT'S DISCUSSION AND ANALYSIS

SKIPPER'S®, Inc.

Results of Operations.

Total sales for Company-operated restaurants increased by 11% in both 1981 and 1980. Skipper's opened five new restaurants in 1981, three in 1980 and eight in 1979. Average menu prices increased 2.2% in 1981, 4.4% in 1980, and 6.1% in 1979. Real sales (meals served per restaurant) declined slightly in 1981 compared to 1980, as they did in 1980 compared to 1979. Thus, the increase in revenues in recent years has resulted from the opening of new restaurants and menu price increases.

In 1981, sales by franchisees of \$3,929,000 provided \$210,000 in franchise revenue. This is a 71% increase over 1980, when the Company earned \$123,000 on franchise sales of \$2,268,000. Franchise revenues in 1979 were \$95,000.

Food, labor and other restaurant expenses have decreased as a percent of sales due to improved operational efficiency, lower employee turnover and menu price increases. Total restaurant operating costs increased 9% in 1981 over 1980, and 10% in 1980 compared to 1979. However, as a percent of sales, these costs declined from 80.2% in 1979, to 79.4% in 1980, to 77.6% in 1981. Food cost as a percent of sales declined from 35.9% in 1979 to 34.0% in 1981. Labor costs as a percent of sales declined from 25.7% in 1979 to 24.7% in 1981. Other costs stayed constant at approximately 19% of sales.

Due to the popularity of the "Everyday All You Can Eat" promotion introduced in November, 1981, the Company will continue the offer at least through Lent 1982. This, and the recent additions of coleslaw and larger french fry portions to most entrees, will increase total food costs by approximately \$1,000,000 in 1982. The Company anticipates that such increase in total food costs will be offset by increased menu prices and increased sales volume. The Company expects average composite prices for its raw food product purchases to be approximately the same in 1982 as in 1981.

General and administrative expenses, which consist of corporate general and administrative expense and advertising, were 16.5% of revenues in 1979, 17.4% in 1980, and 18.9% in 1981. The percentage increases reflect growth in the number of employees, the effect of inflationary cost increases on all aspects of corporate expenses, and the increase in advertising expenses (up 1.9% as a percentage of revenues in 1981 over 1979.) The relatively low number of new restaurant openings in 1981 contributed to the increase in general and administrative expenses as a percentage of revenues.

Proceeds from the initial public offering in May 1981 were used in part to reduce indebtedness and invested in short-term securities, which decreased net interest expense in 1981 from the levels of 1980 and 1979.

Net income as a percent of revenue was 2.5% in 1979, 2.5% in 1980, and 2.8% in 1981. The effective tax rate was 33.8% in 1979, 30.2% in 1980, and 32.8% in 1981. The fluctuations in tax rates result primarily from variations in available tax credits.

Present economic conditions are generally unfavorable to restaurant operators and management anticipates that such conditions may continue throughout 1982. In such event, management will focus on reducing expenses. It can be anticipated, however, that if the current general economic conditions continue to prevail, the Company will experience a decrease in net earnings in 1982 compared to 1981.

Liquidity.

Due to costs of expansion and because restaurant businesses generally do not have significant receivables or inventory but often receive trade credit in purchasing food and supplies, companies in this industry often operate with working capital deficits, where current liabilities exceed current assets. To minimize the impact of higher interest rates, the Company operated with substantial working capital deficits in 1979 and 1980. These deficits resulted from using working capital to finance both construction of new restaurants and remodeling of older units, a practice which the Company expects to continue in the future. Although the proceeds from the sale of common stock in 1981 increased available working capital, it is anticipated that working capital deficits will recur from time to time as the Company implements its expansion program. To fund working capital deficits, the Company can utilize a revolving credit line of \$5,000,000 which expires in June 1986 and stipulates interest rates which may range from prime to 1% over prime. There were no borrowings under this bank agreement at December 27, 1981.

Capital Resources.

During 1979, 1980 and 1981, the Company undertook a major remodeling program which encompassed 72 restaurants requiring total expenditures of \$1,854,000. In addition, during the three years ended December 27, 1981, the Company opened 16 new restaurants requiring capital expenditures totaling \$3,092,000. Although the major portion of these expenditures were internally financed, the Company incurred obligations under capital leases totaling \$491,000 to finance the buildings at certain of the new restaurants.

The Company received net proceeds of \$3,102,000 in the May, 1981, public stock offering. Of this amount, \$455,000 was used to repay interest bearing debt, \$988,000 was utilized in 1981 to construct new restaurants and remodel older units and \$1,659,000 is available to finance restaurant openings and other corporate purposes.

Inflation.

Because of the absence of receivables and inventory in the restaurant business, it is difficult to compute and evaluate the effects of inflation and changing prices upon the operations of the Company. The Company has, however, experienced substantial increases in cost of food, other products, and labor due to inflation and such increases must be offset to a large extent by menu price increases for the Company to be profitable.

SELECTED FINANCIAL DATA

(Dollar amounts in thousands, except earnings per share)

SKIPPER'S®, Inc.

	1981	1980	1979	1978	1977
Operating Results					
Company-operated restaurant sales	33,751	30,315	27,247	21,665	20,040
Franchised restaurant sales	3,929	2,325	1,799	560	—
Total sales	37,680	32,640	29,046	22,225	20,040
Company-operated restaurant sales	33,751	30,315	27,247	21,665	20,040
Franchise revenues	240	148	145	120	—
Total revenues	33,991	30,463	27,392	21,785	20,040
Income before provision for income taxes	1,418	1,104	1,042	670	926
Provision for income taxes	465	333	352	185	343
Net income	953	771	690	485	583
Weighted average common shares and equivalents outstanding	1,304,229	1,077,849	1,079,648	1,079,211	1,066,911
Earnings per share	.73	.72	.64	.46	.56
Cash dividends declared per common share	.08	.06	—	—	—
Depreciation expense	1,515	1,234	1,247	918	791
Capital expenditures	2,796	2,242	2,328	2,810	1,879
Financial Position (End of Year)					
Total assets	16,913	13,191	12,498	11,039	10,229
Working capital	695	(1,971)	(1,388)	(683)	(432)
Long-term debt	4,977	5,357	5,534	6,062	5,410
Stockholders' equity	8,793	4,506	3,774	3,073	2,543
Ratio Analysis					
Net income as a percentage of sales	2.82	2.54	2.53	2.24	2.91
Percent return on average equity during the year	14.33	18.62	20.15	17.27	25.96
Current ratio	1.23	.38	.54	.62	.82
Total debt to equity ratio	.92	1.93	2.31	2.59	3.02
Book value per outstanding common share	6.74	4.18	3.50	2.85	2.38
Restaurants					
Number open (end of year)					
Company-operated	107	102	99	83	83
Franchised	10	7	5	9	—
Total restaurants	117	109	104	92	83
Annual company-operated restaurant sales (restaurants open longer than 14 months)	321	311	310	268	258
Company Employment					
Employees (average)	1,341	1,283	1,219	1,176	902

QUARTERLY FINANCIAL INFORMATION (Unaudited)

SKIPPER'S®, Inc.

For the 52 Weeks Ended
December 27, 1981

First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(Dollar amounts in thousands, except earnings per share)			

Company sales and franchise revenue	\$7,590	\$7,969	\$7,822	\$10,610
Gross profit	1,704	1,874	1,739	2,479
Net income	164	295	238	256
Net income per share	.15	.26	.15	.17
Weighted average common shares and equivalents outstanding	1,080,688	1,179,516	1,453,088	1,452,702

For the 52 Weeks Ended
December 28, 1980

First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(Dollar amounts in thousands, except earnings per share)			

Company sales and franchise revenue	\$6,689	\$7,174	\$6,809	\$9,791
Gross profit	1,178	1,440	1,442	2,349
Net income (loss)	(16)	125	192	470
Net income (loss) per share ⁽¹⁾	(.01)	.11	.18	.44
Weighted average common shares and equivalents outstanding ⁽¹⁾	1,079,375	1,080,959	1,082,453	1,077,685

⁽¹⁾ Restated to reflect four for three
stock split approved March 25, 1981.

Annual Dividend Per Share

1981	1980 ⁽¹⁾
\$.08 (paid equally in April and October, 1981)	\$.06 (paid equally in April and October, 1980)

Quarterly Low & High Bid Prices
For the Fiscal Year

	1981*
First Quarter	—
Second Quarter	\$10½—\$13½
Third Quarter	6 — 12¼
Fourth Quarter	5¾— 7¾

*The company's stock was not publicly traded,
prior to May 19, 1981
(OTC market; NASDAQ Symbol: SKIP)

Shareholders and Shares
At Fiscal Year End

	1981	1980
Shareholders of record	1,600	124
Shares outstanding	1,449,240	762,009

CONSOLIDATED STATEMENT OF INCOME

SKIPPER'S®, Inc.

For the 52 weeks ended

	December 27, 1981	December 28, 1980	December 30, 1979
Sales	\$33,751,000	\$30,315,000	\$27,247,000
Franchise revenues	240,000	148,000	145,000
	<u>33,991,000</u>	<u>30,463,000</u>	<u>27,392,000</u>
Cost of sales	11,468,000	10,381,000	9,786,000
Salaries, wages and benefits	8,333,000	7,925,000	6,990,000
Other restaurant expenses	6,394,000	5,748,000	5,067,000
	<u>26,195,000</u>	<u>24,054,000</u>	<u>21,843,000</u>
General and administrative expenses (including net interest expense of \$243,000, \$530,000 and \$612,000, respectively)	6,378,000	5,305,000	4,507,000
	<u>32,573,000</u>	<u>29,359,000</u>	<u>26,350,000</u>
Income before provision for income taxes	<u>1,418,000</u>	<u>1,104,000</u>	<u>1,042,000</u>
Provision for income taxes—Note 5:			
Payable currently (including state taxes of \$41,000, \$33,000, and \$29,000, respectively)	437,000	336,000	308,000
Deferred	28,000	(3,000)	44,000
	<u>465,000</u>	<u>333,000</u>	<u>352,000</u>
Net income	<u>\$ 953,000</u>	<u>\$ 771,000</u>	<u>\$ 690,000</u>
Earnings per common share—Notes 1 and 7	<u>\$.73</u>	<u>\$.72</u>	<u>\$.64</u>

See accompanying notes to consolidated financial statements

CONSOLIDATED BALANCE SHEET

SKIPPER'S®, Inc.

	December 27, 1981	December 28, 1980
ASSETS		
Current Assets		
Cash and temporary investments of \$2,873,000 in 1981 and \$460,000 in 1980	\$ 2,972,000	\$ 457,000
Inventories at lower of cost (first-in, first-out method) or market	434,000	423,000
Prepaid expenses	219,000	165,000
Other	66,000	164,000
Total current assets	3,691,000	1,209,000
Property and Equipment , at cost—Notes 1, 2, 3, and 4	12,741,000	11,510,000
Intangibles and Other Assets		
Intangibles, net of amortization of \$65,000 and \$39,000, respectively	151,000	176,000
Notes receivable	281,000	283,000
Other	49,000	13,000
	481,000	472,000
	<u>\$16,913,000</u>	<u>\$13,191,000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Demand notes payable—Note 9		\$ 555,000
Salaries, wages and payroll taxes payable	\$ 837,000	717,000
Accounts payable, trade	1,049,000	938,000
Accounts payable, other	719,000	606,000
Federal and state income taxes payable	182,000	123,000
Current portion of long-term debt—Notes 3 and 4	209,000	241,000
Total current liabilities	2,996,000	3,180,000
Long-term Debt , net of current portion:		
Notes and contracts payable—Note 3	109,000	295,000
Obligations under capital leases—Note 4	4,868,000	5,062,000
	4,977,000	5,357,000
Deferred Franchise Revenue	49,000	78,000
Deferred Federal and State Income Taxes —Note 5	98,000	70,000
Stockholders' Equity —Notes 6, 7 and 8:		
Preferred stock, \$.10 par value—1,000,000 shares authorized; no shares issued		
Common stock, at December 27, 1981, \$.10 par value—2,500,000 shares authorized; 1,449,240 shares issued and outstanding; at December 28, 1980, \$1.00 par value— 762,009 shares issued and outstanding	145,000	762,000
Capital in excess of par	4,286,000	57,000
Retained earnings	4,362,000	3,687,000
	8,793,000	4,506,000
	<u>\$16,913,000</u>	<u>\$13,191,000</u>

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For The Three Years Ended December 27, 1981

SKIPPER'S®, Inc.

	Common stock		Capital in excess of par	Retained earnings	Total stockholders' equity
	Shares issued	Amount			
Balance, December 31, 1978	746,729	\$747,000	\$ 39,000	\$2,287,000	\$3,073,000
Exercise of stock options, \$1 par value—Note 8	7,124	7,000	4,000		11,000
Net income for the year ended December 30, 1979				690,000	690,000
Balance, December 30, 1979	753,853	754,000	43,000	2,977,000	3,774,000
Exercise of stock options, \$1 par value—Note 8	8,156	8,000	14,000		22,000
Net income for the year ended December 28, 1980				771,000	771,000
Dividends (\$.06 per share)				(61,000)	(61,000)
Balance, December 28, 1980	762,009	762,000	57,000	3,687,000	4,506,000
Exercise of stock options, \$1 par value—Note 8	2,696	3,000	7,000		10,000
Four for three stock split—Note 6	254,003	254,000	(72,000)	(182,000)	
Change in par value of common stock from \$1 to \$.10 per share—Note 6		(917,000)	917,000		
Exercise of stock options, \$.10 par value—Note 8	28,280	3,000	155,000		158,000
Conversion of subordinated debentures—Note 7	60,952	6,000	154,000		160,000
Sale of stock to public, net of related expense—Note 7	341,300	34,000	3,068,000		3,102,000
Net income for the year ended December 27, 1981				953,000	953,000
Dividends (\$.08 per share)				(96,000)	(96,000)
Balance, December 27, 1981	1,449,240	\$145,000	\$4,286,000	\$4,362,000	\$8,793,000

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

SKIPPER'S®, Inc.

	For the 52 Weeks Ended		
	December 27, 1981	December 28, 1980	December 30, 1979
Financial resources were provided by:			
Net income	\$ 953,000	\$ 771,000	\$ 690,000
Add (deduct) income charges (credits) not affecting working capital in the period—			
Depreciation and amortization	1,541,000	1,283,000	1,252,000
Deferred income taxes	28,000	(3,000)	44,000
Loss on disposition of property and equipment	48,000	34,000	91,000
Franchise revenue recognized currently	(30,000)	(25,000)	(50,000)
Working capital provided by operations	2,540,000	2,060,000	2,027,000
Proceeds from public stock offering, net	3,102,000		
Obligations arising from capitalization of leases		77,000	415,000
Proceeds from bank notes payable	495,000	872,000	175,000
Proceeds from exercise of stock options	168,000	22,000	11,000
Deferred franchise revenue	1,000	(5,000)	46,000
Termination of long-term receivable under financing leases			405,000
Proceeds from conversion of subordinated debentures	160,000		
Proceeds from sale of real property			166,000
Other	16,000	28,000	23,000
Total financial resources provided	<u>6,482,000</u>	<u>3,054,000</u>	<u>3,268,000</u>
Financial resources were used for:			
Additions to property and equipment	2,795,000	2,056,000	1,707,000
Additions to capital leases		76,000	415,000
Purchase of trademark	1,000	110,000	
Reacquisition of equipment and buildings sold under financing leases			540,000
Conversion of subordinated debentures	160,000		
Payment of bank notes payable	495,000	872,000	875,000
Long-term debt current year repayments	26,000	52,000	47,000
Real estate held for sale			71,000
Receivable resulting from sale of real property		150,000	128,000
Current maturities under capital lease obligations	194,000	202,000	197,000
Payment of dividends	96,000	61,000	
Other	49,000	58,000	24,000
Total financial resources used	<u>3,816,000</u>	<u>3,637,000</u>	<u>4,004,000</u>
Increase (decrease) in working capital	<u>\$2,666,000</u>	<u>\$ (583,000)</u>	<u>\$ (736,000)</u>

See accompanying notes to consolidated financial statements

ANALYSIS OF CHANGES IN COMPONENTS OF WORKING CAPITAL

SKIPPER'S®, Inc.

Increase (decrease) in current assets:

Cash and temporary investments	\$2,515,000	\$ (604,000)	\$ 628,000
Costs recoverable under construction and financing agreements			(38,000)
Inventories	11,000	38,000	(2,000)
Prepaid expenses	54,000	72,000	32,000
Other current assets	(98,000)	83,000	(80,000)
	<u>2,482,000</u>	<u>(411,000)</u>	<u>540,000</u>

Increase (decrease) in current liabilities:

Demand notes payable	(555,000)	202,000	353,000
Salaries, wages and payroll taxes payable	120,000	(17,000)	323,000
Accounts payable, trade	111,000	66,000	278,000
Accounts payable, other	113,000	24,000	115,000
Federal and state income taxes payable	59,000	(108,000)	189,000
Current portion of long-term debt	(32,000)	5,000	18,000
	<u>(184,000)</u>	<u>172,000</u>	<u>1,276,000</u>

Increase (decrease) in working capital

<u>\$2,666,000</u>	<u>\$ (583,000)</u>	<u>\$ (736,000)</u>
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See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 27, 1981, December 28, 1980, and December 30, 1979

SKIPPER'S®, Inc.

Note 1—Accounting Policies:

Principles of consolidation—

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Seattle Restaurant Equipment Company, Inc., and its one (two in 1980) majority owned (80%) limited partnership. Significant intercompany transactions have been eliminated from the consolidated financial statements.

Depreciation, property and equipment—

Depreciation is provided by the straight-line method over the estimated useful lives of properties owned by the Company or over the terms of leases capitalized (Note 4). Estimated lives are generally 20 to 35 years for buildings and 7 to 10 years for equipment.

Franchise operations—

The Company grants franchise rights for a term of 20 years to private operators in exchange for an initial franchise fee which is deferred from income until preopening obligations are satisfied and restaurants are opened. Royalties based on a percentage of monthly gross sales as well as expenses associated with franchise operations are recognized on the accrual basis.

Income taxes—

Deferred income taxes arise primarily from timing differences relating to the recognition of depreciation expense for financial and tax reporting purposes and in the recognition of expenses arising from leases which are capitalized for financial reporting purposes and are reported as operating leases for tax reporting purposes. Investment tax credits are recognized when the assets are placed in service under the "flow-through" method of accounting.

Earnings per share—

Primary earnings per share are calculated using the weighted average number of common shares outstanding during each year plus the equivalent outstanding shares attributable to stock options and convertible subordinated debentures. Fully diluted earnings per share are not materially different from primary earnings per share.

Note 2—Property and Equipment:

The Company had property and equipment at cost as follows:

	December 27, 1981	December 28, 1980
Buildings and leasehold improvements	\$ 4,026,000	\$ 3,143,000
Equipment	8,518,000	6,974,000
	<u>12,544,000</u>	<u>10,117,000</u>
Less—Accumulated depreciation and amortization	(4,572,000)	(3,536,000)
	<u>7,972,000</u>	<u>6,581,000</u>
Land	486,000	317,000
	<u>8,458,000</u>	<u>6,898,000</u>
Leased property under capital leases:		
Buildings and leasehold improvements	5,838,000	5,838,000
Equipment	292,000	292,000
	<u>6,130,000</u>	<u>6,130,000</u>
Less—Accumulated amortization	(1,909,000)	(1,580,000)
	<u>4,221,000</u>	<u>4,550,000</u>
Real estate held for sale	62,000	62,000
	<u>\$12,741,000</u>	<u>\$11,510,000</u>

Note 3—Long-Term Debt:

Long-term debt at December 27, 1981 and December 28, 1980 consisted of:

	1981	1980
Equipment notes payable to credit company (affiliated with stockholder) in 84 equal monthly installments, including interest at 12% per annum		\$ 44,000
Mortgages payable to banks in equal installments ranging from 160 to 240 months, including interest at 9% to 10% per annum	\$124,000	136,000
Convertible subordinated debentures payable to a stockholder with interest payable quarterly at 6% per annum (Note 7)		160,000
	<u>124,000</u>	<u>340,000</u>
Less current portion	(15,000)	(45,000)
	<u>\$109,000</u>	<u>\$295,000</u>

The Company has an agreement with a bank to advance up to \$5,000,000 at interest rates ranging from the bank's prime rate to 1% over the bank's prime rate through June 1986.

Covenants of the borrowing agreement require the company to maintain minimum amounts of tangible net worth, and limit the incurrence of other indebtedness. There were no borrowings under this agreement at December 27, 1981.

Note 4—Leases:

The Company leases a majority of its restaurant facilities and its administrative offices. Certain leases require the Company to pay property taxes and insurance and others require additional rental payments if sales exceed specified amounts. The leases are generally for 20-year periods and frequently provide options to renew for 5- to 10-year periods.

Of the foregoing leases, five are with stockholders, two are with a company with which Skipper's has common stockholders and one is held by a trust in which the trustee at the lease's inception was a director-stockholder of the Company. The remaining terms of these eight leases range from 10 to 17 years and require minimum annual payments of approximately \$118,000.

Total minimum commitments under noncancellable leases in force at December 27, 1981 are payable as follows:

Fiscal year	Operating leases	Capital leases	Total
1982	\$ 808,000	\$ 680,000	\$ 1,488,000
1983	801,000	675,000	1,476,000
1984	804,000	669,000	1,473,000
1985	811,000	671,000	1,482,000
1986	812,000	670,000	1,482,000
Thereafter	7,176,000	5,996,000	13,172,000
Total minimum lease commitments	<u>\$11,212,000</u>	9,361,000	<u>\$20,573,000</u>
Less—Amounts representing implicit interest		(4,299,000)	
Present value of net minimum lease commitments		5,062,000	
Less—Current portion		(194,000)	
		<u>\$ 4,868,000</u>	

Total rent expense was \$1,140,000, \$940,000 and \$832,000 during 1981, 1980 and 1979, respectively, which included contingent rent expense of \$258,000, \$235,000 and \$210,000, respectively.

Note 5—Income Taxes:

The Company files consolidated federal and state income tax returns. The difference between the total "expected" income tax rate of 46% and the actual tax rates is as follows:

	1981	1980	1979
Federal income tax rate	46.0%	46.0%	46.0%
Investment and other credits	(12.5)	(15.1)	(8.3)
State income taxes, net of federal tax benefit	1.5	1.7	1.4
Other, net	(2.2)	(2.4)	(5.3)
Provision for income taxes	<u>32.8%</u>	<u>30.2%</u>	<u>33.8%</u>

Investment tax credits were \$146,000, \$152,000 and \$80,000 in 1981, 1980 and 1979, respectively.

Deferred tax expense was attributable to the following:

	1981	1980	1979
Excess tax depreciation	\$101,000	\$64,000	\$81,000
Capitalized leases	(60,000)	(63,000)	(65,000)
Other	(13,000)	(4,000)	28,000
Total	<u>\$ 28,000</u>	<u>\$ (3,000)</u>	<u>\$44,000</u>

Note 6—Stock Split and Par Reduction:

On March 25, 1981, the Company declared a four for three stock split in the form of a 33% stock dividend paid on May 4, 1981. The \$1.00 per share par value of the 254,000 shares issued was credited to common stock by transfers from capital in excess of par and from retained earnings. Except where otherwise indicated, all references in the financial statements and other notes to the average number of shares of common stock and related prices, dividends and per share amounts have been restated to give effect to this stock split.

On May 13, 1981, the Company's Articles of Incorporation were amended to affect a reduction in the par value of the Company's common stock from \$1.00 per share to \$.10 per share and to increase the number of authorized common shares from 1,500,000 to 2,500,000. The amendment also authorized the Company to issue up to 1,000,000 shares of \$.10 par value preferred shares.

Note 7—Public Stock Offering:

On May 27, 1981, the Company completed its first public stock offering, selling 341,300 shares of the Company's common stock. In connection with the public stock offering, the convertible subordinated debentures were converted to 60,952 shares of common stock. If the stock sale and the conversion of the debentures had occurred on December 29, 1980, earnings per share for the year ended December 27, 1981 would have been \$.75 per share.

Note 8—Stock Options:

Under a nonqualified stock option plan adopted in 1977, options to purchase a total of 13,333 shares of the Company's common stock may be granted to employees at prices not less than the fair market value (as determined by the Board of Directors) of the stock at date of grant. The plan terminates on June 30, 1987 but may be terminated sooner by the Board of Directors without affecting options then outstanding. Options become exercisable in five equal annual installments commencing one year from the date of grant and expire ten years from the option date. At December 27, 1981 there were 5,892 shares available for future grant.

At December 27, 1981, there were outstanding options under the nonqualified plan to acquire 9,163 shares at prices ranging from \$4.50 to \$5.25. During 1981, 1980, and 1979, 4,101, 27 and 27 options, respectively, were exercised at prices ranging from \$4.50 to \$5.06.

The Company terminated its qualified stock option plan on May 21, 1981 at the direction of the Board of Directors. During 1981, 1980 and 1979, 26,823, 10,848 and 9,472 options, respectively, were exercised at prices ranging from \$1.96 to \$6.75.

Note 9—Related Party Transactions:

Certain of the Company's stockholders are also stockholders of a company which provides consulting and distribution services for substantially all of the seafood purchased. A fee, based on the cost of the seafood, was charged by the distributor for the distribution service. Their services were terminated just prior to December 27, 1981.

During 1981, 1980 and 1979 the company borrowed funds from shareholders, employees and others in the form of unsecured demand notes. Interest, which was charged at 1¾% less than the prime rate, totaled approximately \$43,000 in 1981, \$59,000 in 1980 and \$16,000 in 1979.

During 1980 the company entered into an agreement to lease office space in a building in which a shareholder has an ownership interest. The lease agreement provides for annual rentals of \$156,000.

See Notes 3 and 4 for a discussion of other related party transactions.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders
of Skipper's, Inc.:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, stockholders' equity and of changes in financial position present fairly the financial position of Skipper's, Inc. and its subsidiaries at December 27, 1981 and December 28, 1980, the results of their operations and the changes in their financial position for each of the three years in the period ended December 27, 1981, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse

Seattle, Washington
February 19, 1982

OFFICERS

Douglas C. Bamford
Vice President Marketing

Rodger Duncan
Vice President Operations

Chris R. LeSourd
Executive Vice President

Carol L. Nolan
Controller

Herbert I. Rosen
Chairman, Board of Directors

Joel R. Starin
Assistant Secretary

M. Eugene Stone
President - Chief Executive Officer

Jay W. Switzer
Vice President Finance -
Secretary/Treasurer

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Chief Executive Officer of Skipper's[®], Inc.

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