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SKIPPER'S,
INCORPORATED
ANNUAL
REPORT
1982

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**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 1983 annual meeting of
stockholders will be held
on Thursday, May 12, 1983
at 2:00 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.

THEME

To exact the most from any or-
ganization, you must thoroughly
understand its people and re-

sources. This year, Skipper's has
chosen to give shareholders an
overview of the corporation,
demonstrating how our people

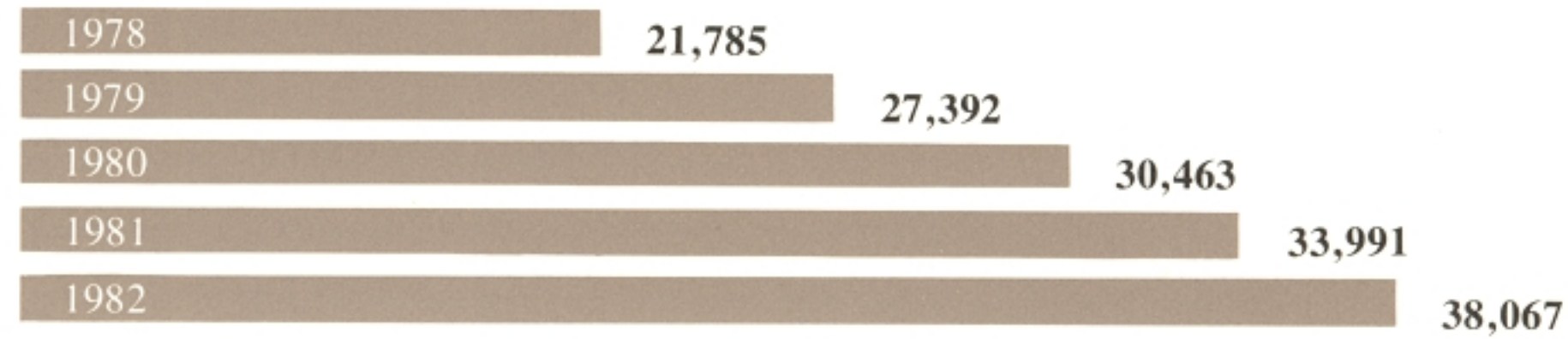
and our popular products contri-
bute to the attainment of our
corporate goals.

FINANCIAL
HIGHLIGHTS

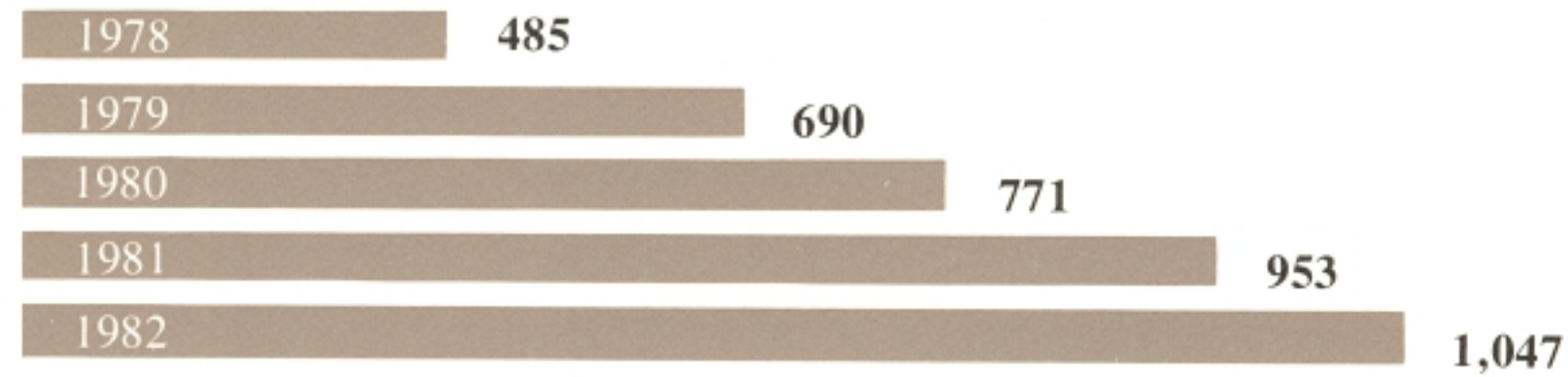
For the 52 Weeks Ended

	December 26, 1982	December 27, 1981
Revenues	\$38,067,000	\$33,991,000
Income Before Provision for Income Taxes	1,443,000	1,418,000
Net Income	1,047,000	953,000
Earnings per Common Share	.72	.73
Restaurant Sales:		
Company-operated	37,704,000	33,751,000
Franchised	5,649,000	3,929,000
Total	43,353,000	37,680,000
Restaurants Open:		
Company-operated	118	107
Franchised	15	10
Total Restaurants Open	133	117

Revenues

(Dollar amount
in thousands)

Net Income

(Dollar amount
in thousands)

THE COMPANY

Skipper's, Inc. operates and franchises the nation's fourth largest chain of fast-food seafood restaurants. Currently, of 133 "Skipper's Seafood 'n Chowder House" restaurants, 118 are company operated in Washington, Oregon, Northern California, Utah and Idaho; 15 are franchised operations in Alaska, Colorado, Idaho, North Dakota, Oregon and British Columbia.

Skipper's, Inc. common stock is traded over-the-counter (NASDAQ Symbol SKIP), with approximately 1,600 shareholders of record at December 26, 1982. We are pleased to report that Safeco Corporation has always been our principal shareholder and presently owns approximately one-quarter of Skipper's outstanding common stock.

Our restaurants feature deep-fried cod fillets, shrimp, clams, chicken, clam chowder, coleslaw, french fries, a salad bar, pie tart desserts and soft drinks. In addition, beer and wine are available in most locations. All menu items can be consumed on-premise and, with the exceptions of beer and wine, are also available for "take-out."

With our limited-service format customers place their orders at a central counter, and then freshly prepared meals are served at their tables by Skipper's employees.

All restaurants offer a casual, family atmosphere, with a nautical theme. Locations can be found either in free-standing buildings or in-line store fronts.

Incorporated in 1969, the company developed a restaurant concept based on an important axiom: fast-food customers wanted—and deserved—nutritious, high-quality meals at reasonable prices. To this end, we provide affordable, tasty products prepared by dedicated people observing high standards of quality. For example, individual entree preparation occurs only after the customer places an order.

Our aim: To make dining at any Skipper's a pleasant experience... one which our customers will want to repeat.



British Columbia 2

Washington 58

North Dakota 2

Oregon 29

Idaho 11

Utah 11

Colorado 2

California 14

Alaska 4

**SKIPPER'S RESTAURANTS
YEAR-END TOTAL
1982**

Alaska	4
Washington	58
Oregon	29
Idaho	11
California	14
Utah	11
North Dakota	2
Colorado	2
British Columbia	2
Total	133

TO OUR SHAREHOLDERS

In a year with more than its share of general economic obstacles, Skipper's, Inc. is pleased to report that 1982 marked our fourth consecutive year of improved sales and earnings. Through our people's skilled resourcefulness the company maintained a long-term commitment to consistent and profitable growth, in spite of intense promotional activity from competitors and record levels of unemployment in our market areas.

Our net income for the fiscal year ended December 26, 1982, rose 10%, with a 12% gain in revenues, compared with fiscal 1981. Earnings per share decreased one cent during the period due to the effect of a full year's dilution of weighted average shares outstanding, which resulted from the May, 1981 public offering.

During the year we acted upon several opportunities to insure steady growth in revenues and income:

First, we introduced stringent cost controls to soften the growth of general and administrative expenses. Re-alignment of spending priorities and renewed vigor to higher productivity levels improved the balance between expenditures and operating revenues. These tighter spending guidelines will again keep our costs in check through 1983.

Second, we concentrated on assuring steady revenue growth. On-going programs to attain this goal included:

Accelerating the rate of restaurant expansion;

Improving operations and achieving greater penetration in our weaker markets;

Employing the findings of consumer and product research in the development of product and building design improvements;

Strengthening our marketing and advertising programs.

In 1982 we achieved significant progress in our restaurant expansion program. With all restaurants

remodeled to the "fisherman wharf" motif, and with the slow decline in interest rates, our manpower and capital were rechanneled into researching and securing prime real estate.

We opened 17 restaurants during the year, double the number of openings over 1981 and triple the number in 1980. Five of these are franchise operations, resulting from intensified efforts to market the program. Franchise area-development agreements in new markets, such as Reno, Nevada, Palm Springs, California and Maui, Hawaii were obtained, with restaurants scheduled to begin opening in 1983.

Our long-term growth hinges on continued aggressive expansion. Our 1983 sales goal covers a system-wide target of 20 to 30 new restaurants, with major development in California and a new market entry in Denver.

Substantial progress was made this year in our historically weaker markets, primarily California and Utah, where significant gains in real sales (total sales, minus menu price increases and new restaurant openings) were achieved. We attribute this success to improved regional restaurant operations and corporate commitment to increased levels of advertising and market penetration.

Research continues to play a key position in defining new directions for marketing the company. In the area of building design our studies were instrumental in identifying some design weaknesses, and as a result, significant modifications were employed in our new restaurant and remodel programs.

The results of extensive customer surveys taken last year revealed distinct and actionable opportunities for increasing customer satisfaction. We upgraded product

presentation and improved the price-value relationship of our menu early in the year.

Although these menu enhancements, in conjunction with inclement weather, temporarily lowered restaurant profit margins during the first quarter, we believe their fundamental appeal to consumer value supported the achievement of steady sales and profit gains each subsequent quarter.

Product innovations will continue through 1983. New menu alternatives include a new seafood platter and a salmon product unique to the fast-food industry. A non-fried fish entree will be tested for possible future introduction.

Skipper's quality-value marketing approach should provide durable appeal as the national economy becomes more prosperous and consumer spending improves.

In addition, the company has constructed a long-range plan for more timely and accurate information flow within the organization. The first phase, a computerized point-of-sale register, was selected during the year. Over the next three years, we will complete the design, testing and implementation of this sophisticated information program.

We're proud of 1982's accomplishments. Skipper's, Inc. is confident it will continue its high-performance levels through 1983, as we deliver quality products and quality service to a loyal customer base.



M. Eugene Stone
President-Chief Executive Officer



Herbert I. Rosen
Chairman of the Board

March 25, 1983



SKIPPER'S SERVICE

Research during this past year confirmed what many at Skipper's already knew: customers expect a quality meal, served by friendly, dedicated employees. At Skipper's, we really believe our people make the difference... at every level... in every capacity.

The new management book "In Search of Excellence, Lessons from America's Best-Run Companies" (by Thomas Peters and Robert Waterman, Jr. of McKinsey and Co.) supports the Skipper's philosophy. "The excellent companies have a deeply ingrained philosophy that says, in effect, 'respect the individuals,' 'make people winners.'" Skipper's "inverted pyramid" management structure places immediate and direct importance on our restaurant front-line employees. The information from the people who serve our customers each day provides key input to operating policies and procedures.

Our talented restaurant employees uphold daily the company's strict standards for *Product—Service—Cleanliness*. Their attention to detail is crucial to our reputation. As we move down the "pyramid", restaurant managers, district managers, general managers, and finally the corporate employees contribute a variety of talents and skills to company operations.

The Skipper's philosophy of customer satisfaction inspires everyone to achieve. We have found they also become productive, long-term employees in the process. Morale remains high through training and motivational programs, incentive plans, and employee-recognition awards.

We have also begun establishing a pool of regional restaurant training centers to augment our present employee-instruction programs. All management hires undergo intensive training in the program, which averages approximately eight weeks, before they assume restaurant management duties.

Our entire management team balances a blend of fine people promoted from within our organization and talent recruited from outside sources. We're pleased with our ability to attract—and more importantly—retain quality employees.

Skipper's firmly believes in recognizing and rewarding outstanding employees. Our record speaks for itself: most of our general managers and 80% of our district managers have been promoted from within the organization. Additionally, we have reduced our restaurant employee turnover rate by 35% over the last six years, and believe our rates are now among the lowest in the fast-food industry. This improvement in turnover rates has provided us with greater stability, which enhances overall operating efficiencies.

Employee stability also provides other key benefits to Skipper's: people with experience and understanding of the entire cycle of our business. Our corporate-office employees—devoted to the support and guidance of restaurant operations—recognize customer satisfaction goes beyond the confines of the restaurant; the responsibility extends throughout each and every company department.

Skipper's taps a vigorous and flexible resource—highly motivated people with a long-term corporate belief—to foster loyal customers. Quite simply, the company's high-calibre people are one of our strongest assets.



SKIPPER'S PRODUCT

Equally important is our trademark of product quality: *freshly prepared*. Skipper's takes the quality advantages of individual food preparation and adapts it to the fast-food business. Our customers have come to rely on our tasty, nutritious meals . . . and that's why return business gives us an envious competitive advantage.

Most products are prepared several times a day. All of our entrees, from the popular "Shrimp Basket" to our fried chicken, are cooked upon order, never in advance. Each entree comes with natural-cut french fries and a serving of coleslaw; many of our customers order Skipper's award-winning clam chowder.

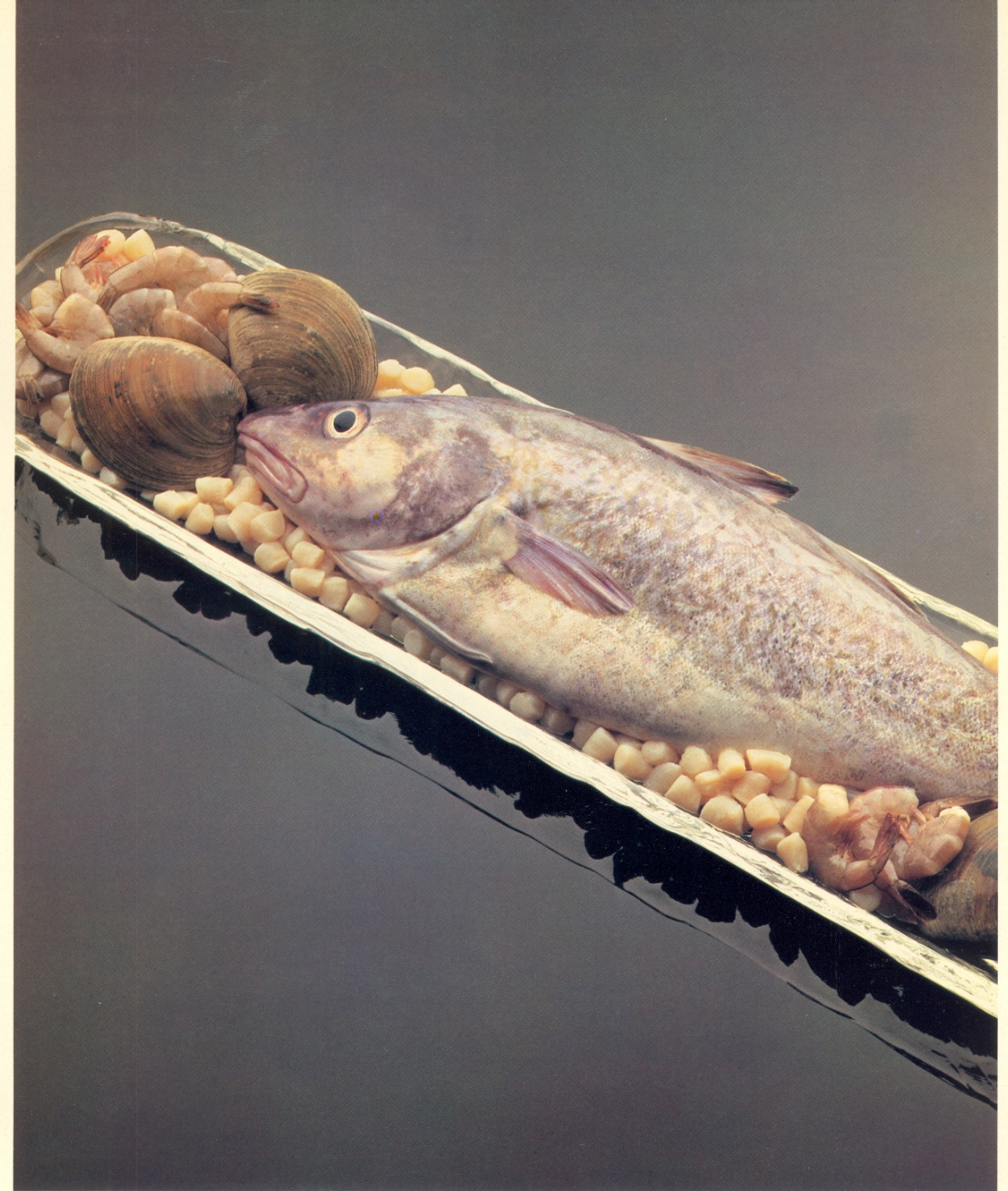
This past year, the company undertook a major program to enhance our customers' value perception of our products. Reflecting consumer research, we added a serving of coleslaw and increased french-fry portions at no additional customer cost. And a long-time favorite, the "Tuesday All You Can Eat" special, was extended to every day.

Another 1982 introduction was the successful promotion of a new style shrimp product, introduced after Lent. Customer reaction was very positive, contributing to a 19% average sales increase during the promotion period. As a result, the new shrimp entree was added to the menu.

In addition to new product development, our Product Service Department continually reviews quality, recipes and preparation procedures. Our attention to quality makes straightforward business sense by ensuring a stable customer base.

Suppliers also recognize the relationship of value to sales. This has enhanced our ability to negotiate superior contracts on an annual basis, which guarantee food quality, quantity and price.

Research into customer response to our products quite literally continues every day as we draw on every person . . . every resource within the Skipper's organization. This approach will take on even greater importance as Skipper's expands throughout the West, providing our customers the finest value in food *and* service.



A good variety of reasonably priced, quality seafood products win customer loyalty. Extras, like beer and wine, make Skipper's a pleasant dining experience for many of our customers.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations. Total sales for company-operated restaurants increased by 12% in 1982 over 1981 and by 11% in 1981 over 1980. Skipper's opened twelve new restaurants in 1982, five in 1981, and three in 1980. Average menu prices increased 3.8% in 1982, 2.2% in 1981, and 4.4% in 1980. Real sales (meals served per restaurant) increased 1% in 1982, 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 primarily from the opening of new restaurants and menu price increases.

In 1982, sales by 15 franchised restaurants of \$5,649,000 provided \$283,000 in franchise revenue. This is a 35% increase over 1981, when the company earned \$210,000 on franchise sales from 10 restaurants of \$3,929,000. Franchise revenues in 1980 were \$123,000.

Food costs increased as a percentage of sales from 34.0% in 1981 to 35.4% in 1982. The increase is due primarily to the continuation of the "Everyday All You Can Eat" promotion introduced in November, 1981 through all of 1982, and the additions of coleslaw and increased french fry portions to most entrees. Raw food product costs are expected to increase slightly in 1983. The company expects to offset these increases with changes in menu prices and/or sales volumes.

Labor and other restaurant expenses decreased slightly in 1982 as a percentage of sales due to menu price increases. No increase in the minimum wage was mandated in 1982 which helped control labor costs.

Total restaurant operating costs increased 17% in 1982 over 1981 and 9% in 1981 over 1980. As a percent of sales, these costs increased from 77.6% in 1981 to 79.0% in 1982.

General and administrative expenses, which consist of corporate general and administrative expenses and advertising, were 17.4% of revenues in 1980, 18.9% in 1981 and 17.9% in 1982. The 1982 reduction in general and administrative expenses resulted from a management program to decelerate growth in this area. Efforts to minimize general and administrative expenses are continuing in 1983.

Although now exhausted, proceeds from the initial public offering in May, 1981 were used to reduce indebtedness and finance new restaurant openings. Remaining portions of these funds were invested in short-term securities until utilized, resulting in a decrease in net interest expense in 1982 from the levels of 1981 and 1980.

Net income as a percent of revenue was 2.5% in 1980, 2.8% in 1981 and 2.8% in 1982. The effective tax rate was 30.2% in 1980, 32.8% in 1981, and 27.5% in 1982. The fluctuations in tax rates result primarily from variations in available tax credits.

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 1980. These deficits resulted from using working capital to finance both construction of new restaurants and remodeling of older units. The proceeds from the sale of common stock increased the available working capital in 1981. During 1982, however, the balance of the proceeds was used to finance new restaurants resulting in a working capital deficit by year-end. It is anticipated that a substantial working capital deficit

will be prevalent in 1983 as the company continues 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 at prime plus 1%. There were no borrowings under this bank agreement at December 26, 1982.

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. During 1982 an additional 8 restaurants were remodeled at a cost of \$490,000. In addition, during the three years ended December 26, 1982, the company opened 20 new restaurants requiring capital expenditures totaling \$5,603,000. Although the major portion of these expenditures were internally financed, the company incurred obligations under capital leases totaling \$226,000 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 the balance of \$1,659,000 was utilized in 1982 to finance new restaurants.

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. During 1982, the company did experience some increase in the cost of food, labor and other products but not to the degree experienced in the prior two years. These rising costs were offset by menu price increases. Management controls inflation in occupancy costs either by owning the properties or by entering long-term fixed-rate leases.

**SELECTED
FINANCIAL
DATA**

(Dollar amounts in thousands,
except earnings per share)

	1982	1981	1980	1979	1978
Operating Results					
Company-operated restaurant sales	37,704	33,751	30,315	27,247	21,665
Franchised restaurant sales	5,649	3,929	2,325	1,799	560
Total sales	43,353	37,680	32,640	29,046	22,225
Company-operated restaurant sales	37,704	33,751	30,315	27,247	21,665
Franchise revenues	363	240	148	145	120
Total revenues	38,067	33,991	30,463	27,392	21,785
Income before provision for income taxes	1,443	1,418	1,104	1,042	670
Provision for income taxes	396	465	333	352	185
Net income	1,047	953	771	690	485
Weighted average common shares and equivalents outstanding	1,449,541	1,304,229	1,077,849	1,079,648	1,079,211
Earnings per share	.72	.73	.72	.64	.46
Cash dividends declared per common share	.08	.08	.06	—	—
Depreciation and amortization expense	1,788	1,541	1,283	1,252	918
Capital expenditures	5,507	2,795	2,132	2,122	2,680
Financial Position (End of Year)					
Total assets	18,800	16,913	13,191	12,498	11,039
Working capital	(1,884)	672	(1,971)	(1,388)	(683)
Long-term debt	4,899	4,977	5,357	5,534	6,062
Stockholders' equity	9,695	8,793	4,506	3,774	3,073
Ratio Analysis					
Net income as a percentage of revenues	2.75	2.80	2.53	2.52	2.23
Percent return on average equity during the year	11.33	14.33	18.62	20.15	17.27
Current ratio	.50	1.23	.38	.54	.62
Total liabilities to equity ratio	.94	.92	1.93	2.31	2.59
Book value per outstanding common share	6.71	6.07	4.44	3.76	3.09
Restaurants					
Number open (end of year)					
Company-operated	118	107	102	99	83
Franchised	15	10	7	5	9
Total restaurants	133	117	109	104	92
Average annual company-operated restaurant sales (restaurants open longer than 14 months)	341	321	311	310	268
Company Employment					
Employees (average)	1,487	1,341	1,283	1,219	1,176

**QUARTERLY
FINANCIAL
INFORMATION**
(Unaudited)

**For the 52 Weeks Ended
December 26, 1982**

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(Dollar amounts in thousands, except earnings per share)				
Company sales and franchise revenue	\$ 7,547	\$ 8,907	\$ 8,797	\$ 12,816
Gross profit	1,467	1,882	1,942	2,979
Net income	10	257	267	513
Net income per share	.01	.17	.19	.35
Weighted average common shares and equivalents outstanding	1,450,683	1,450,664	1,447,600	1,446,822

**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

	<u>1982</u>	<u>1981</u>
Annual Dividend Per Share—paid equally in April and October	\$.08	\$.08
Quarterly Low & High Bid Prices For the Fiscal Year	<u>1982</u>	<u>1981*</u>
First Quarter	\$4¼ - \$6½	—
Second Quarter	5 - 5¾	\$10½ - \$13½
Third Quarter	4¾ - 7¼	6 - 12¼
Fourth Quarter	6 - 8	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**

	<u>1982</u>	<u>1981</u>
Shareholders of record	1,600	1,600
Shares outstanding	1,449,559	1,449,240

**REPORT
OF
INDEPENDENT
ACCOUNTANTS**

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

In our opinion, the accompanying consolidated balance sheet and 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 26,

1982 and December 27, 1981 and the results of their operations and the changes in its stockholders' equity and in their financial position for each of the three years in the period ended December 26, 1982, 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.

Pricewaterhouse

Seattle, Washington
February 23, 1983

**CONSOLIDATED
STATEMENT
OF
INCOME**

	For the 52 Weeks Ended		
	December 26, 1982	December 27, 1981	December 28, 1980
Sales	\$37,704,000	\$33,751,000	\$30,315,000
Franchise revenues	363,000	240,000	148,000
	<u>38,067,000</u>	<u>33,991,000</u>	<u>30,463,000</u>
Cost of sales	13,360,000	11,468,000	10,381,000
Salaries, wages and benefits	9,178,000	8,333,000	7,925,000
Other restaurant expenses	7,259,000	6,394,000	5,748,000
	<u>29,797,000</u>	<u>26,195,000</u>	<u>24,054,000</u>
General and administrative expenses (including net interest expense of \$217,000, \$243,000 and \$530,000, respectively)	6,827,000	6,378,000	5,305,000
	<u>36,624,000</u>	<u>32,573,000</u>	<u>29,359,000</u>
Income before provision for income taxes	1,443,000	1,418,000	1,104,000
Provision for income taxes—Note 5:			
Payable currently (including state taxes of \$35,000, \$41,000 and \$33,000, respectively)	191,000	402,000	336,000
Deferred	205,000	63,000	(3,000)
	<u>396,000</u>	<u>465,000</u>	<u>333,000</u>
Net income	<u>\$ 1,047,000</u>	<u>\$ 953,000</u>	<u>\$ 771,000</u>
Earnings per common share—Note 6	<u>\$.72</u>	<u>\$.73</u>	<u>\$.72</u>

*See accompanying notes
to consolidated financial statements*

**CONSOLIDATED
BALANCE
SHEET**

	December 26, 1982	December 27, 1981
ASSETS		
CURRENT ASSETS:		
Cash and temporary investments of \$162,000 in 1982 and \$2,873,000 in 1981	\$ 585,000	\$ 2,972,000
Notes receivable	334,000	
Inventories at lower of cost (first-in, first-out method) or market	488,000	434,000
Prepaid expenses	283,000	219,000
Other	212,000	66,000
Total current assets	1,902,000	3,691,000
PROPERTY AND EQUIPMENT, at cost—Notes 2, 3, and 4	16,376,000	12,741,000
INTANGIBLES AND OTHER ASSETS:		
Intangibles, net of amortization of \$101,000 and \$65,000, respectively	266,000	151,000
Notes receivable	195,000	281,000
Other	61,000	49,000
	522,000	481,000
	<u>\$18,800,000</u>	<u>\$16,913,000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Salaries, wages and payroll taxes payable	\$ 1,039,000	\$ 837,000
Accounts payable, trade	1,556,000	1,049,000
Accrued contingent rents—Note 4	278,000	254,000
Accrued sales tax	225,000	175,000
Accounts payable, other	408,000	290,000
Federal and state income taxes payable	14,000	147,000
Current portion of long-term debt—Notes 3 and 4	225,000	209,000
Deferred income taxes—Note 5	41,000	58,000
Total current liabilities	3,786,000	3,019,000
LONG-TERM DEBT, net of current portion:		
Mortgages payable—Note 3	94,000	109,000
Obligations under capital leases—Note 4	4,805,000	4,868,000
	4,899,000	4,977,000
DEFERRED FRANCHISE REVENUE	123,000	49,000
DEFERRED FEDERAL INCOME TAXES—Note 5	297,000	75,000
STOCKHOLDERS' EQUITY—Notes 6 and 7:		
Preferred stock, \$.10 par value—1,000,000 shares authorized; No shares issued		
Common stock, \$.10 par value—2,500,000 shares authorized; 1,449,559 and 1,449,240 shares issued and outstanding, respectively	145,000	145,000
Capital in excess of par	4,282,000	4,286,000
Retained earnings	5,293,000	4,362,000
	9,720,000	8,793,000
Less—Treasury stock, 4,700 shares at cost—Note 6	25,000	
	9,695,000	8,793,000
	<u>\$18,800,000</u>	<u>\$16,913,000</u>

See accompanying notes
to consolidated financial statements

**CONSOLIDATED
STATEMENT
OF
STOCKHOLDERS'
EQUITY**

For The Three Years Ended
December 26, 1982

	Common stock		Capital in excess of par	Retained earnings	Treasury stock	Total stock- holders' equity
	Shares issued	Amount				
Balance, December 30, 1979	753,853	\$754,000	\$ 43,000	\$2,977,000		\$3,774,000
Exercise of stock options, \$1 par value—Note 7	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 7	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 7	28,280	3,000	155,000			158,000
Conversion of subordi- nated debentures—Note 6	60,952	6,000	154,000			160,000
Sale of stock, net of related expense—Note 6	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
Exercise of stock options, \$.10 par value	319		2,000			2,000
Adjustment of amount recorded in respect of stock options exercised in 1981			(6,000)			(6,000)
Purchase of treasury stock, 4,700 shares at cost—Note 6					\$(25,000)	(25,000)
Net income for the year ended December 26, 1982				1,047,000		1,047,000
Dividends (\$.08 per share)				(116,000)		(116,000)
	<u>1,449,559</u>	<u>\$145,000</u>	<u>\$4,282,000</u>	<u>\$5,293,000</u>	<u>\$(25,000)</u>	<u>\$9,695,000</u>

See accompanying notes
to consolidated financial statements

**CONSOLIDATED
STATEMENT
OF
CHANGES
IN
FINANCIAL
POSITION**

		For the 52 Weeks Ended		
		December 26, 1982	December 27, 1981	December 28, 1980
Financial resources were provided by:				
Net income		\$ 1,047,000	\$ 953,000	\$ 771,000
Add (deduct) income charges (credits)				
not affecting working capital in the period—				
Depreciation and amortization		1,788,000	1,541,000	1,283,000
Deferred income taxes		222,000	5,000	(3,000)
Loss on disposition of property and equipment		8,000	48,000	34,000
Franchise revenue recognized currently		(80,000)	(30,000)	(25,000)
Working capital provided by operations		2,985,000	2,517,000	2,060,000
Proceeds from sales of property and equipment		112,000		
Proceeds from public stock offering, net			3,102,000	
Long-term obligations arising from capitalization of leases		145,000		77,000
Proceeds from bank notes payable			495,000	872,000
Proceeds from exercise of stock options		2,000	168,000	22,000
Deferred franchise revenue		154,000	1,000	(5,000)
Proceeds from conversion of subordinated debentures			160,000	
Current portion of long-term notes receivable		186,000	14,000	8,000
Other		14,000	2,000	20,000
Total financial resources provided		3,598,000	6,459,000	3,054,000
Financial resources were used for:				
Additions to property and equipment		5,358,000	2,795,000	2,056,000
Additions to capital leases		149,000		76,000
Purchase of trademark			1,000	110,000
Additions to intangible preoperating costs		112,000		
Conversion of subordinated debentures			160,000	
Payment of bank notes payable			495,000	872,000
Long-term debt current year repayments		16,000	26,000	52,000
Receivable resulting from sale of real property		100,000		150,000
Current maturities under capital lease obligations		208,000	194,000	202,000
Payment of dividends		116,000	96,000	61,000
Purchase of treasury stock		25,000		
Other		70,000	49,000	58,000
Total financial resources used		6,154,000	3,816,000	3,637,000
Increase (decrease) in working capital		<u>\$ (2,556,000)</u>	<u>\$ 2,643,000</u>	<u>\$ (583,000)</u>

*See accompanying notes
to consolidated financial statements*

**CONSOLIDATED
STATEMENT
OF
CHANGES
IN
FINANCIAL
POSITION**

Continued

**Analysis of Changes
in Components
of Working Capital**

Increase (decrease) in current assets:

Cash and temporary investments
Notes receivable
Inventories
Prepaid expenses
Other current assets

For the 52 Weeks Ended		
December 26, 1982	December 27, 1981	December 28, 1980
\$(2,387,000)	\$2,515,000	\$ (604,000)
334,000		
54,000	11,000	38,000
64,000	54,000	72,000
146,000	(98,000)	83,000
(1,789,000)	2,482,000	(411,000)
Increase (decrease) in current liabilities:		
	(555,000)	202,000
Demand notes payable		
Salaries, wages and payroll taxes payable	120,000	(17,000)
Accounts payable, trade	111,000	66,000
Accrued contingent rents	30,000	29,000
Accrued sales tax	66,000	6,000
Accounts payable, other	17,000	(11,000)
Federal and state income taxes payable	24,000	(108,000)
Current portion of long-term debt	(32,000)	5,000
Deferred income taxes	58,000	
767,000	(161,000)	172,000
\$(2,556,000)	\$2,643,000	\$ (583,000)

Increase (decrease) in working capital

*See accompanying notes
to consolidated financial statements*

**NOTES
TO
CONSOLIDATED
FINANCIAL
STATEMENTS**

December 26, 1982,
December 27, 1981,
and December 28, 1980

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.

*Restaurant
Preopening Expenses*

In 1982 the company adopted a policy of capitalizing costs incurred in preparation of opening

new restaurants. Previously preopening costs were not significant and were charged to operations as incurred. These items are included in property and equipment and intangibles and are depreciated or amortized on a straight-line basis over a three-year period. Adoption of this policy, which occurred in the fourth quarter, increased net income by approximately \$93,000.

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. Average shares were 1,449,541 and 1,304,229 in 1982 and 1981, respectively. Fully diluted earnings per share are not materially different from primary earnings per share (Note 6).

**NOTES
TO
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Note 2—Property and Equipment:

The company had property and equipment as follows:

	December 26, 1982	December 27, 1981
Buildings and leasehold improvements	\$ 6,267,000	\$ 4,026,000
Equipment	10,352,000	8,518,000
	16,619,000	12,544,000
Less—Accumulated depreciation and amortization	(5,833,000)	(4,572,000)
	10,786,000	7,972,000
Land	1,484,000	486,000
	12,270,000	8,458,000
Leased property under capital leases:		
Buildings and leasehold improvements	5,988,000	5,838,000
Equipment	241,000	292,000
	6,229,000	6,130,000
Less—Accumulated amortization	(2,185,000)	(1,909,000)
	4,044,000	4,221,000
Real estate held for sale	62,000	62,000
	\$16,376,000	\$12,741,000

Note 3—Long-Term Debt:

The company had mortgages to banks in the amount of \$109,000 and \$124,000 at December 26, 1982 and December 27, 1981, respectively. The related current portion for both years is \$15,000.

The mortgages are payable in equal installments, including interest at 9% to 10% per annum, and mature in 1985 and 1995.

The company has an agreement with a bank to advance through June 1986 up to \$5,000,000 at an interest rate of the bank's prime rate plus 1%. Covenants of the

borrowing agreement require the company to maintain minimum amounts of tangible net worth, and limits the incurrence of other indebtedness. There were no borrowings under this agreement at December 26, 1982.

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 contingent upon sales exceeding specified amounts. The leases are generally for 20-year periods and frequently provide options to renew for 5 to 10-year periods.

During 1980 the company entered into an agreement to lease its administrative offices in a building in which a stockholder has an ownership interest. The lease agreement provides for annual rentals of \$153,000.

Of the restaurant 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 9 to 16 years and require minimum annual payments of approximately \$118,000.

Total minimum commitments under noncancellable leases in force at December 26, 1982 are payable as follows:

NOTES
TO
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Note 4—Leases: Continued

	Fiscal year	Operating leases	Capital leases	Total
	1983	\$ 981,000	\$ 692,000	\$ 1,673,000
	1984	988,000	687,000	1,675,000
	1985	1,000,000	688,000	1,688,000
	1986	1,005,000	688,000	1,693,000
	1987	1,011,000	688,000	1,699,000
	Thereafter	9,948,000	5,586,000	15,534,000
Total minimum lease commitments		<u>\$14,933,000</u>	9,029,000	<u>\$23,962,000</u>
Less—Amounts representing implicit interest			<u>(4,014,000)</u>	
Present value of net minimum lease commitments			5,015,000	
Less—Current portion			<u>(210,000)</u>	
			<u>\$4,805,000</u>	

Total rent expense was \$1,219,000, \$1,140,000 and \$940,000 during 1982, 1981 and 1980, respectively, which included contingent rent expense of \$283,000, \$258,000 and \$235,000, 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:

	1982	1981	1980
Federal income tax rate	46.0%	46.0%	46.0%
Investment and other tax credits	(18.8)	(12.5)	(15.1)
State income taxes, net of federal tax benefit	1.3	1.5	1.7
Other, net	(1.0)	(2.2)	(2.4)
Provision for income taxes	<u>27.5%</u>	<u>32.8%</u>	<u>30.2%</u>

Investment tax credits were \$247,000, \$146,000 and \$152,000 in 1982, 1981 and 1980, respectively.

Deferred tax expense was attributable to the following:

	1982	1981	1980
Excess tax depreciation	\$157,000	\$101,000	\$64,000
Capitalized leases	(61,000)	(60,000)	(63,000)
Restaurant preopening costs	88,000		
Other	21,000	22,000	(4,000)
Total	<u>\$205,000</u>	<u>\$ 63,000</u>	<u>\$ (3,000)</u>

**NOTES
TO
CONSOLIDATED
FINANCIAL
STATEMENTS**

Note 6—Capital Stock Transactions:

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. 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.

Note 7—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

On May 13, 1981, the company's Articles of Incorporation were amended to effect a reduction in the par value of the company's common stock from \$1.00 per share to \$0.10 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 \$0.10 par value preferred stock.

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 26, 1982 all options under the plan had been granted.

On May 13, 1982, the Board of Directors issued and granted nonqualified options to purchase 5,892 shares of common stock under a separate plan with the same terms and conditions of the 1977 plan.

At December 26, 1982, there were outstanding options under

On May 27, 1981, the company issued 341,300 shares of the company's common stock. In connection with the issuance, convertible subordinated debentures of \$160,000 were converted to 60,952 shares of common stock.

On August 2, 1982, the company repurchased 4,700 outstanding shares of its common stock at a cost of \$25,051 or \$5.33 per share. The company intends to hold this stock in treasury for future issuance for various corporate purposes.

the nonqualified plans to acquire 14,736 shares at prices ranging from \$4.50 to \$5.50. During 1982, 1981 and 1980, 319, 4,101 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. During 1981 and 1980, 26,823 and 10,848 options, respectively, were exercised at prices ranging from \$1.96 to \$6.75.

Note 8—Related Party Transactions:

Certain of the company's stockholders are also stockholders of a company which provided 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 in December 1981. A director of the company also serves on the board of directors of a computer services company

which provides services to the company and from whom the company purchased, during 1982 and 1981, hardware and software costing approximately \$55,000 and \$185,000, respectively.

See Note 4 for a discussion of other related party transactions.

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

M. Eugene Stone
President/Chief Executive Officer
Jay W. Switzer
Vice President Finance
Secretary/Treasurer

DIRECTORS

Marvin H. Chudnoff,
Consultant
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Richard W. Hubbard,
Vice President/Assistant Treasurer
Safeco Insurance Company
of America
Safeco Plaza
Seattle, Washington 98105

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Chief Operating Officer
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Donald L. Peryln,
President
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A. William Pratt,
Vice President
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Herbert I. Rosen,
Chairman of the Board
Skipper's®, Inc.

M. Eugene Stone,
President/Chief Executive Officer
Skipper's®, Inc.
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