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INC.

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Financial Statement

SKIPPER'S®, INC.

COMPANY PROFILE

Skipper's, Inc. is a Washington State corporation which operates Skipper's Seafood 'n Chowder House restaurants throughout the western United States. Incorporated in 1969, Skipper's has become the nation's largest seafood chain based on the west coast. By the end of 1980, the company had 109 Skipper's Seafood 'n Chowder House restaurants: 102 company-operated in Washington, Oregon, Idaho, Utah and California, and seven franchised in Alaska, Idaho, Oregon, North Dakota and British Columbia, Canada.

Skipper's offers moderately priced quality seafood in a casual, Fisherman's Wharf setting. In addition, Skipper's menu offers chicken, salads, clam chowder and a variety of beverages, including wine and beer. Most menu items are available for take-out.

Skipper's, Inc. is a privately-held corporation with approximately 120 shareholders at the end of 1980. The Seattle-based SAFECO Corporation has held approximately one-third of the outstanding common stock since 1969.

COMMON STOCK OFFERING

To provide equity capital for planned growth, a proposed common stock offering by Skipper's, Inc. is projected for the summer of 1981. The prospectus for the offering will contain detailed information about the company and will be distributed to shareholders when available.

The company is proceeding with this program, but since it is in preliminary stages there can be no assurance that such an offering will occur.

SKIPPER'S®, INC.

FINANCIAL HIGHLIGHTS

	For the Year Ended 1980	For the Year Ended 1979	Increase (Decrease)
Revenues	\$30,463,000	\$27,392,000	11%
Income Before Provision for Income Taxes	\$ 1,104,000	\$ 1,042,000	6%
Net Income	\$ 771,000	\$ 690,000	12%
Earnings Per Common Share	\$.95	\$.86	10%
Restaurant Sales:			
Company Operated	\$30,315,000	\$27,247,000	11%
Franchised	\$ 2,325,000	\$ 1,799,000	29%
Total Systemwide Sales	\$32,640,000	\$29,046,000	12%
Restaurants Open:			
Company Operated	102	99	
Franchised	7	5	
Total Restaurants Open	109	104	5%

SKIPPER'S®, INC.

TO OUR SHAREHOLDERS

Nineteen-eighty proved to be an outstanding year for Skipper's, Inc. despite the challenge of a most uncertain economic period. Our aggressive efforts to minimize the full effects of the depressed economy were successful. The economic pressures which impacted our performance early in the year were lessened as we made strong recovery in the second half, concluding in year-end results that show significant gains over the previous year.

Our results are encouraging, for during the past two years, Skipper's has seen growth in both sales and income and compares favorably against figures for the industry in general.

Total system-wide sales for the fiscal year ended December 28, 1980, advanced to a record \$32,640,000. Company sales were \$30,315,000, representing an 11.3% gain over 1979. The increase in sales is a result of four menu price increases and three new restaurant openings. Our franchised restaurants have also done remarkably well. Total sales for these operations were \$2,325,000, an annual average of \$430,000 per restaurant. Net income for the company rose to a record \$771,000, a healthy increase of 11.7% over last year.

Earnings per common share increased 10.5% in 1980 to 95¢. Shareholder's equity increased 19.4% to \$4,506,000, a book value of \$5.91 per share.

Shareholders are aware that in February, 1980, Skipper's Board of Directors declared a cash dividend of 8¢ per share, paid semi-annually in 1980. In addition, a 5¢ per share dividend has since been declared and will be paid in April, 1981.

1980 and Beyond

Nineteen-eighty was a year that spoke plainly to important issues of the coming decade. First, it was a year that dramatized the strength of Skipper's fiscal responsibility. To combat the depressed economy, we stressed maximum operational efficiency and tighter management controls. Better management of our operations increased restaurant profitability and greater cost control was exhibited in the construction of new restaurants. A comparison of restaurant construction cost for 1980 versus 1979 shows a 5.3% reduction in cost per square foot. These improved methods of efficiency will carry over to 1981 and should provide continued savings for the company.

Further savings were realized with the company's purchase of fish, due to successful contract negotiations which provided a lower price in 1980 than in the previous year.

Second, 1980 tested the strength of Skipper's management and operations team within an industry that has fully come of age. Skipper's recognized the maturing needs of its customers, and like other leaders of the industry, is an operation whose growing professionalism matches the growing sophistication of its customers. Quality, service, nutrition, ambience and value are the criteria customers use when dining out — and are also the prerequisites for the continued success of any restaurant chain. More than ever before, Skipper's emphasis on strong operations and customer satisfaction will determine our success and our potential for increasing past levels of success.

Third, because the industry has reached a mature state, competition has become more intense. Skipper's, like most food service operators, is vying for a larger share of the static market. Our advantage, however, lies in the fact that the seafood segment of the industry has not been fully developed and we have greater opportunities to build a demand for our product. As often stated, consumers desire better nutrition. Seafood has long held an image of providing high nutrition and this in itself presents a clear cut opportunity for Skipper's in the 1980's. In addition, research shows that perhaps as much as two-thirds of the seafood consumed in the United States is eaten outside the home*, presenting an encouraging outlook for restaurants offering a seafood menu.

As part of an industry that has matured, Skipper's has recognized that a growing segment of its consumers has also matured. Senior citizens have gained a larger share of the consumer spotlight and will influence our business more than ever before. In response, Skipper's implemented a company-wide senior citizen discount program early in the year.

In 1980, Skipper's looked ahead toward the new decade by acting upon new growth opportunities. The restaurant remodel program, begun in 1978, gained speed during the year and neared completion. Forty-six restaurants were remodeled to reflect the upgraded "Fisherman's Wharf" design, exceeding the previously projected 35 remodels.

At the end of 1980 the remodel program was 75% complete and a renewed emphasis on company growth was made possible. A new

*Source: Brand, Gruber & Co.

nine-year financing agreement, which more than tripled our line of credit, was reached late in the year with Seattle-First National Bank, our new primary bank. The additional capital will be used to build new company restaurants and to complete the remodel program.

Corporate Promotions

Plans for expansion spurred two management level promotions. Chris LeSourd was promoted from senior vice president operations/franchising to executive vice president in charge of operations, franchising, real estate and construction. Rodger Duncan was promoted from executive director/operations to vice president/operations.

To accommodate the expected growth, a restructuring of our operations regions was implemented, in which a new operations director was added. In addition, to better serve our restaurants, the number of restaurants per area supervisor was reduced. Each of our 19 supervisors now has an average of 5.4 restaurants under his/her direction.

Board Changes

Two new members were elected to the Skipper's Board of Directors in 1980. Donald L. Perlyn, president-owner of Florida Food Systems, Inc. was recently elected to the Board. Prior to his association with Florida Food Systems, Perlyn was president of Lums Restaurant Corp. and Weinerwald, U.S.A. Earlier in the year, Larry Wells joined the Board as a replacement for James Ruddy, an outgoing board member. Wells, who is executive vice president of Winmar Corp., was a previous member of the Board.

Skipper's, Inc. welcomes our new members to the Board and looks forward to their valuable contributions during the coming year. Their expertise will aid Skipper's in building an even stronger and more dynamic company.

Marketing

As various pressures on the industry become more challenging, the need for aggressive marketing becomes more pronounced. Under the direction of Douglas Bamford, vice president marketing, Skipper's saw several major accomplishments in this area during the year. A successful new radio and television advertising campaign featuring the Seafood Choice Meal aired during the fourth quarter. Using our new tag line, "Get Good Seafood Without Getting Soaked", the

campaign boosted sales by nearly 20 per cent.

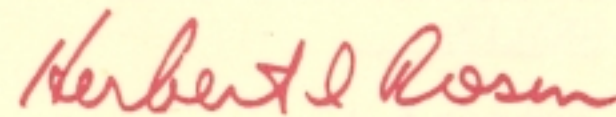
The marketing department also was instrumental in strengthening community relations. A highly successful promotion in our Utah market, the "First Annual Survival Fair/World's Largest Clam Chowder Bash", was among the list of many community promotions sponsored by Skipper's.

One of marketing's distinctions in 1980 was Pepsi Cola's prestigious "Most Valuable Promotion" award, given to Skipper's at the National Restaurant Association Convention for our "Tuesday All You Can Eat" radio promotion.

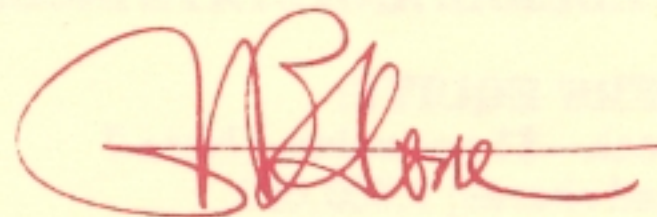
Product development was emphasized in 1980 as a formal marketing program. Wine was introduced and promoted chainwide in November, as part of our continuing effort to upgrade our restaurants out of the low-end fast food image. Salad bars were also added to most of our restaurants during the year. In addition, a new thicker cut, skin-on french fry was tested during the fourth quarter and has since been added as a regular menu feature.

Opportunities for the Future

Fiscal 1980 was a year filled with unprecedented challenges. Inflation and recession plagued the economy, distinct shifts occurred in consumer attitudes and changes in value demands were a few of the challenges we faced. We responded to these problems with positive solutions because we realize that these conditions might persist well into the new decade. It is Skipper's policy to be aggressive in its pursuit of greater fiscal responsibility, improved management techniques and to consistently strengthen operations. This positive approach views change as an opportunity. And, it provides Skipper's with a sound corporate policy for achieving our goals in the eighties.



HERBERT I. ROSEN
Chairman, Board of Directors



M. EUGENE STONE
President-Chief Executive Officer

Bellevue, Washington
March 20, 1981

SKIPPER'S®, INC.

CONSOLIDATED BALANCE SHEET

	ASSETS	December 28, 1980	December 30, 1979*
CURRENT ASSETS:			
Cash		\$ 457,000	\$ 1,061,000
Inventories at lower of cost (first-in, first-out method) or market		423,000	385,000
Prepaid expenses		165,000	93,000
Other		164,000	81,000
Total current assets		<u>1,209,000</u>	<u>1,620,000</u>
PROPERTY AND EQUIPMENT , at cost—Notes 1, 2, 3, 4 and 5		<u>11,510,000</u>	<u>10,648,000</u>
INTANGIBLES AND OTHER ASSETS:			
Intangibles, net of amortization of \$33,000 and \$22,000, respectively—Note 1		176,000	77,000
Notes receivable		283,000	128,000
Other		13,000	25,000
		<u>472,000</u>	<u>230,000</u>
		<u>\$13,191,000</u>	<u>\$12,498,000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Demand notes payable—Note 9		\$ 555,000	\$ 353,000
Salaries, wages and payroll taxes payable		717,000	734,000
Accounts payable, trade		938,000	872,000
Accounts payable, other		606,000	582,000
Federal and state income taxes payable		123,000	231,000
Current portion of long-term debt—Notes 4 and 5		241,000	236,000
Total current liabilities		<u>3,180,000</u>	<u>3,008,000</u>
LONG-TERM DEBT , net of current portion:			
Notes and contracts payable—Note 4		295,000	347,000
Obligations under capital leases—Note 5		5,062,000	5,187,000
		<u>5,357,000</u>	<u>5,534,000</u>
DEFERRED FRANCHISE REVENUE		<u>78,000</u>	<u>109,000</u>
DEFERRED FEDERAL AND STATE INCOME TAXES —Note 6		<u>70,000</u>	<u>73,000</u>
STOCKHOLDERS' EQUITY:			
Common stock—\$1 par value—Note 7			
Authorized shares; 1,500,000;			
Issued and outstanding; 762,009 and			
753,853 shares, respectively		762,000	754,000
Capital in excess of par		57,000	43,000
Retained earnings		3,687,000	2,977,000
		<u>4,506,000</u>	<u>3,774,000</u>
		<u>\$13,191,000</u>	<u>\$12,498,000</u>
<i>*Restated for change in accounting for leases</i>			

See accompanying notes to consolidated financial statements

SKIPPER'S®, INC.

**CONSOLIDATED STATEMENT OF INCOME
AND RETAINED EARNINGS**

	For the 52 weeks ended	
	December 28, 1980	December 30, 1979*
Sales	\$30,315,000	\$27,247,000
Franchise revenues	148,000	145,000
	<u>30,463,000</u>	<u>27,392,000</u>
Cost of sales	10,381,000	9,786,000
Salaries, wages and benefits	7,925,000	6,990,000
Other restaurant expenses	5,748,000	5,067,000
	<u>24,054,000</u>	<u>21,843,000</u>
General and administrative expenses (including net interest expense of \$707,920 and \$579,000, respectively)	5,305,000	4,507,000
	<u>29,359,000</u>	<u>26,350,000</u>
Income before provision for income taxes	<u>1,104,000</u>	<u>1,042,000</u>
Provision for income taxes—Note 6:		
Payable currently (including state taxes of \$33,000 and \$29,000, respectively)	336,000	308,000
Deferred, noncurrent	(3,000)	44,000
	<u>333,000</u>	<u>352,000</u>
Net income	771,000	690,000
Retained earnings at beginning of fiscal year	2,977,000	2,287,000
Less—Dividends paid (\$.08 per share)	(61,000)	
Retained earnings at end of fiscal year	<u>\$ 3,687,000</u>	<u>\$ 2,977,000</u>
Earnings per common share—Note 8	<u>\$.95</u>	<u>\$.86</u>

*Restated for change in accounting for leases

See accompanying notes to consolidated financial statements

SKIPPER'S®, INC.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	For the 52 weeks ended December 28, 1980	For the 52 weeks ended December 30, 1979*
Financial resources were provided by:		
Net income	\$ 771,000	\$ 690,000
Add (deduct) income charges not affecting working capital in the period—		
Depreciation and amortization	1,283,000	1,252,000
Deferred income taxes	(3,000)	44,000
Loss on disposition of property and equipment	34,000	91,000
Franchise revenue recognized currently	(25,000)	(50,000)
Working capital provided by operations	2,060,000	2,027,000
Obligations arising from capitalization of leases	77,000	415,000
Proceeds from bank notes payable	872,000	175,000
Proceeds from exercise of stock options	22,000	11,000
Deferred franchise revenue	(5,000)	46,000
Termination of long-term receivable under financing leases		405,000
Proceeds from sale of real property		166,000
Other	28,000	23,000
Total financial resources provided	3,054,000	3,268,000
Financial resources were used for:		
Additions to property and equipment	2,089,000	1,701,000
Additions to capital leases	77,000	415,000
Purchase of trademark	110,000	
Reacquisition of equipment and buildings sold under financing leases		540,000
Real estate held for sale		71,000
Payment of bank notes payable	872,000	875,000
Long-term debt current year repayments	52,000	47,000
Receivable resulting from sale of real property	150,000	128,000
Current maturities under capital lease obligations	202,000	197,000
Payment of dividends	61,000	
Other	24,000	30,000
Total financial resources used	3,637,000	4,004,000
Decrease in working capital	\$ (583,000)	\$ (736,000)

*Restated for change in accounting for leases

See accompanying notes to consolidated financial statements

SKIPPER'S®, INC.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(cont'd.)

	For the 52 weeks ended December 28, 1980	For the 52 weeks ended December 30, 1979*
ANALYSIS OF CHANGES IN WORKING CAPITAL		
Increase (decrease) in current assets:		
Cash	\$ (604,000)	\$ 628,000
Costs recoverable under construction and financing agreements		(38,000)
Inventories	38,000	(2,000)
Prepaid expenses	72,000	32,000
Other current assets	83,000	(80,000)
	<u>(411,000)</u>	<u>540,000</u>
Increase (decrease) in current liabilities:		
Demand notes payable	202,000	353,000
Salaries, wages and payroll taxes payable	(17,000)	323,000
Accounts payable, trade	66,000	278,000
Accounts payable, other	24,000	115,000
Federal and state income taxes payable	(108,000)	189,000
Current portion of long-term debt	5,000	18,000
	<u>172,000</u>	<u>1,276,000</u>
Decrease in working capital	<u><u>\$ (583,000)</u></u>	<u><u>\$ (736,000)</u></u>

*Restated for change in accounting for leases

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 28, 1980 AND DECEMBER 30, 1979

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 two majority owned (80%) limited partnerships. 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 5). Estimated lives are generally 20 to 35 years for buildings and 7 to 10 years for equipment.

Intangibles—

Intangibles represent the excess of par value of common stock issued to the company's organizers over the net tangible assets which they contributed and in 1980 the cost of acquiring name and trademark rights in Canada. The excess of par value is being amortized over a 37½ year period which commenced in 1971 and the trademark rights over five years.

Capital leases and sale and leaseback transactions—

As a means of financing certain new restaurants, the company purchases land and constructs buildings to its specifications, which are then sold to and subsequently leased back from investors. In accordance with the provisions of Statement of Financial Accounting Standards No. 13, gains resulting from such leaseback agreements are capitalized and amortized over the term of the lease. The company sold and leased back under 20-year agreements, property having an aggregate sales price of \$150,000 and \$93,000 during 1980 and 1979, respectively.

As more fully described in Notes 2 and 5, the company has determined that certain other leases pertaining to buildings and equipment meet the criteria for capitalization under Statement of Financial Accounting Standards No. 13.

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.

NOTE 2—CHANGE IN ACCOUNTING FOR LEASES:

Beginning in 1977, the company adopted the Statement of Financial Accounting Standards No. 13 for building and equipment leases entered into during 1977 and thereafter. During 1980 the company changed its accounting method for leases entered into prior to 1977 which qualified as capital leases under the pronouncement but had previously been accounted for as operating leases. All leases meeting the appropriate criteria have been recorded as though the leased assets were capitalized and an obligation incurred, based upon interest rates, ranging from 8% to 12% per annum, implicit in the leases. The resulting assets, representing primarily buildings and signs, are amortized over the lease term using the straight-line method. Interest expense is provided on the declining balance of the recorded lease obligations, based upon rates implicit in the underlying agreements.

All financial statements have been restated to apply this accounting method retroactively. Net income for the year ended December 30, 1979 was reduced \$50,000 or \$.06 per share as a result of this change in accounting. The retroactive adjustment to retained earnings at the beginning of 1979 was a reduction of \$228,000.

NOTE 3—PROPERTY AND EQUIPMENT:

The company had property and equipment at cost as follows:

	December 28, 1980	December 30, 1979
Buildings and leasehold improvements	\$ 3,143,000	\$ 2,694,000
Equipment (Note 4)	6,974,000	5,500,000
	<u>10,117,000</u>	<u>8,194,000</u>
Less—Accumulated depreciation and amortization	(3,536,000)	(2,708,000)
	6,581,000	5,486,000
Land	317,000	294,000
	<u>6,898,000</u>	<u>5,780,000</u>
Leased property under capital leases, less accumulated amortization of \$1,580,000 and \$1,312,000, respectively (Note 5)	4,550,000	4,806,000
Real estate held for sale	62,000	62,000
	<u>\$11,510,000</u>	<u>\$10,648,000</u>

NOTE 4—LONG TERM DEBT:

Long-term debt at December 28, 1980 and December 30, 1979 consisted of:

	1980	1979
Equipment notes payable to credit company (affiliated with stockholder) in 84 equal monthly installments, including interest at 12% per annum	\$ 44,000	\$ 88,000
Mortgages payable to banks in equal installments ranging from 160 to 240 months, including interest at 9% to 10% per annum	136,000	149,000
Convertible subordinated debentures payable to a stockholder on October 1, 1983, with interest payable quarterly at 6% per annum	<u>160,000</u>	<u>160,000</u>
	340,000	397,000
Less current portion—Notes and contracts payable	<u>45,000</u>	<u>50,000</u>
	<u>\$295,000</u>	<u>\$347,000</u>

The company has an agreement with a bank to advance up to \$5,000,000 at 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 limits the incurrence of other indebtedness. There were no borrowings under this agreement at December 28, 1980.

The collateral for the equipment notes is a first lien security interest in all equipment, furniture and fixtures installed in various restaurant locations.

The mortgages payable to banks are secured by buildings (on leased property) with a net book value at December 28, 1980 of \$168,000.

Principal and interest on the convertible subordinated debentures are subordinated to the company's contract creditors and are callable only with the lender's permission. These debentures are convertible at the rate of \$3.50 of principal amount of debentures for each share of the company's common stock; conversion may be made at the lender's option at any time prior to maturity.

Provisions of the convertible subordinated debentures restrict the payment of dividends to 50% of retained earnings in excess of \$300,000 and limit, without prior written consent, sale of certain assets including sale and leaseback of certain personal property; certain borrowings and guarantees; and merger with any nonaffiliated entity.

NOTE 5—LEASES:

The company leases its administrative office and land, buildings and signs at nearly all of its restaurant locations. Certain leases require the company to pay property taxes and insurance and others require additional rental payments if sales exceed specified amounts. The land and building leases are generally for 20-year periods and frequently provide options to renew for 5- to 10-year periods. The sign leases are normally for 5-year periods with an option to renew for an additional four years.

Note 5 (cont'd.)

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 11 to 18 years and require minimum annual payments of approximately \$116,000.

Total minimum commitments under noncancellable leases in force at December 28, 1980 are payable as follows:

Fiscal year	Operating leases	Capital leases	Total
1981	\$ 565,000	\$ 700,000	\$ 1,265,000
1982	563,000	680,000	1,243,000
1983	556,000	674,000	1,230,000
1984	559,000	669,000	1,228,000
1985	561,000	670,000	1,231,000
Thereafter	<u>6,361,000</u>	<u>6,666,000</u>	<u>13,027,000</u>
Total minimum lease commitments	<u>\$9,165,000</u>	10,059,000	<u>\$19,224,000</u>
Less—Amounts representing implicit interest		<u>4,801,000</u>	
Present value of net minimum lease commitments		5,258,000	
Less—Current portion		<u>(196,000)</u>	
		<u>\$ 5,062,000</u>	

Excluding payments under capitalized leases, total rent expense was \$1,433,000 and \$1,357,000 during 1980 and 1979, respectively. Of these expenses, minimum rental payments amounted to \$1,201,000 and \$1,147,000, respectively.

NOTE 6—INCOME TAXES:

The company files consolidated federal and state income tax returns. The difference between the total "expected" income tax rate of 46% for 1980 and 1979, respectively, and the actual tax rates is as follows:

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

Taxes payable currently are reduced by investment tax credits using the "flow through" method of accounting. Such investment tax credits were \$152,000 and \$80,000 in 1980 and 1979, respectively.

Deferred income tax liabilities arise primarily from timing differences related to the recognition of depreciation expense for financial and tax reporting purposes, and from timing differences in the recognition of expenses arising from leases which are reported as though capitalized for financial reporting purposes and as operating leases for tax reporting purposes.

NOTE 7—STOCK OPTIONS:

Under a qualified stock option plan adopted in 1972 and amended in 1974 and 1976, options to purchase a total of 70,000 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 April 20, 1982 but may be terminated sooner by the Board of Directors without affecting options then outstanding. Options become exercisable in five equal annual installments commencing nine months from the date of grant and expire five years from the option date. At December 28, 1980 there were 400 shares available for future grant.

At December 28, 1980, there were outstanding options to acquire 24,130 shares at prices ranging from \$5 to \$9, all of which were exercisable. During the years ended December 28, 1980 and December 30, 1979, 8,136 and 7,104 options, respectively, were exercised at prices ranging from \$1.35 to \$5.00.

Note 7 (cont'd.)

During 1977, the company adopted a nonqualified stock option plan containing provisions which are substantially the same as those of the company's qualified stock option plan described above. At December 28, 1980 there were 2,030 shares available for future grant.

At December 28, 1980, there were outstanding options under the nonqualified plan to acquire 7,950 shares at prices ranging from \$6.00 to \$6.75, all of which were exercisable. During both 1980 and 1979, 20 options were exercised at \$6.50.

NOTE 8—EARNINGS PER SHARE:

For 1980 and 1979 primary earnings per share are calculated using the weighted average number of common shares outstanding plus the equivalent shares outstanding attributable to stock options (Note 7) and convertible subordinated debentures (Note 4). The weighted average outstanding equivalent shares related to stock options are 664 for 1980 and 10,164 for 1979. The company applies the treasury stock method, using average market price per share (as determined by the Board of Directors), to determine outstanding common stock equivalents attributable to stock options. Outstanding equivalent shares related to the 6% convertible subordinated debentures are 45,714 for both 1980 and 1979.

Fully diluted earnings per share, which were the same as primary earnings per share in 1980 and 1979, are determined in the same manner as primary earnings per share except that year-end market price per share is used in calculations for the treasury stock method.

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, is charged by the distributor for the distribution service.

During 1980 and 1979 the company borrowed funds from shareholders, employees and others in the form of unsecured demand notes. Interest, which was charged at 1 3/4 % less than the prime rate, totaled approximately \$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 \$134,000.

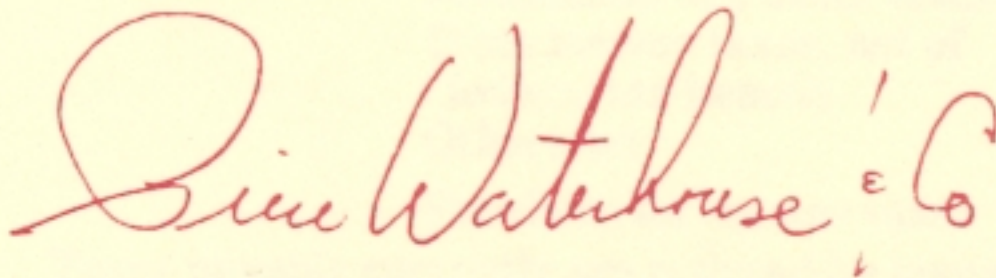
See Notes 4 and 5 for a discussion of other related party transactions.

SKIPPER'S®, INC.

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 and retained earnings and of changes in financial position present fairly the financial position of Skipper's, Inc. and its subsidiaries at December 28, 1980 and December 30, 1979, the results of their operations and the changes in their financial position for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for leases as described in Note 2 to the financial statements. 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.

A handwritten signature in dark ink, reading "Dine Waterhouse". To the right of the signature is a stylized circular mark containing the number "6".

Seattle, Washington
March 11, 1981

SKIPPER'S®, INC.
CORPORATE INFORMATION

OFFICERS

Douglas C. Bamford
Vice President Marketing

Ted A. Caress
Vice President Purchasing

Rodger Duncan
Vice President Operations

Chris R. LeSourd
Executive Vice President

Herbert I. Rosen
Chairman, Board of Directors

M. Eugene Stone
President-Chief Executive Officer

Jay W. Switzer
Vice President Finance-Secretary/Treasurer

DIRECTORS

Herman S. Feinberg, *Vice President*
ABC Pacific Corporation

Richard W. Hubbard, *Vice President &*
Assistant Treasurer
Safeco Corporation

Louis M. Lundquist, *Vice President*
Kidder Peabody & Company

Donald L. Perlyn, *President*
Florida Food Systems, Inc.

A. William Pratt, *Vice President*
Kidder Peabody & Company

Herbert I. Rosen, *Chairman of the Board of*
Skipper's®, Inc.

M. Eugene Stone, *President-Chief Executive*
Officer of Skipper's®, Inc.

William M. Weisfield, *Vice President &*
Assistant to the President
Schoenfeld Industries, Inc.

Larry Wells
Winmar Company, Inc.

CORPORATE OFFICES
Skipper's®, Inc.
1715 114th S.E., Suite 220
Bellevue, WA 98004
Telephone (206) 454-3456

COUNSEL
Preston, Thorgrimson, Ellis, Holman &
Fletcher
2000 IBM Building
Seattle, WA 98101

INDEPENDENT ACCOUNTANTS
Price Waterhouse & Co.
The Financial Center
Seattle, WA 98161

TRANSFER AGENT
Skipper's®, Inc.
1715 114th S.E., Suite 220
Bellevue, WA 98004

ANNUAL MEETING
The 1981 annual meeting of stockholders will
be held on Friday, May 1, 1981 at 2:00 p.m. in
the Pacific Coca-Cola Bottling Co. auditorium,
1150 124th N.E., Bellevue, WA 98004.
