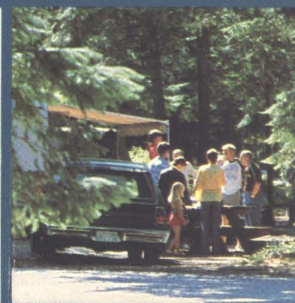


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STACK

A GENUINE
CONCERN
FOR PEOPLE



The Company

The Thousand Trails product is a concept in outdoor, family-oriented recreation. In delivering this product, the Company acquires, develops and operates membership-based recreational preserves offering the finest in outdoor resorts on scenic properties located in the western United States and British Columbia, Canada. A membership in Thousand Trails offers families an alternative to the many shortcomings of existing state and national campgrounds.

Since the beginning of 1982, Thousand Trails members could share in 19 choice areas located within 50 to 100 miles of major cities in California, Oregon, Washington, Nevada, Texas and British Columbia, Canada.

The Company's resort preserves each have their own special amenities on 50 to 750-acre sites, and generally feature 24-hour security, planned recreational programs, adult and family club houses, tennis and sport courts, swimming pools, playground facilities, nature trails and other amenities necessary to meet the specific requirements of its members.

Weekends or vacations, Thousand Trails member families are able to cope with rising inflation and fuel costs by tailoring their outings to take advantage of ocean fronts, mountains, lakes and canals at, or adjacent to, Thousand Trails resorts.

Family memberships in Thousand Trails have grown from 104 in 1972 to over 29,000 in early 1982.



Stock Price and Dividend Data

Traded: Over-the-counter

Symbol: TRLS

Dividend: 10% stock in 1980

None in 1981

Quarterly High and Low Bid Prices

Quarter	1981	1980
1	12¼ - 10½	7¾ - 4½
2	13¼ - 10½	6½ - 5½
3	12 - 5¾	13¾ - 6
4	8¼ - 5½	12¼ - 9¾

Operating Highlights

Year ended December 31,

	1981	1980
Membership sales	\$40,006,000	\$33,950,000
Net earnings	\$ 3,327,000	\$ 4,536,000
Earnings per share		
Primary	\$1.06	\$1.69
Fully diluted	\$1.02	\$1.42
Weighted average shares and equivalents (primary basis)	3,149,000	2,679,000
Shareholders' equity per share	\$5.85	\$4.72
Number of shareholders	1,507	929
Employees	675	647
Family memberships	27,600	21,000
Preserves	19	14

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Chairman's Letter

April 12, 1982

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Dear Shareholder:

The year just completed, 1981, was a year of consolidation and reorganization for Thousand Trails. As you may know, the Company has experienced growth in sales from slightly over \$7.7 million in 1977 to sales of \$40.0 million in 1981, up from \$33.9 million in 1980. Net earnings declined, however, to \$3.3 million representing an after-tax margin of 8.3%. Earnings per share were \$1.02, compared to \$1.42 the prior year.

Thousand Trails' compounded growth rate for the five years

ended December 31, 1981 was 39%. Shareholders' equity increased from \$1.0 million in 1977 to \$17.8 million at the end of 1981. Book value per share was \$5.85 with a return on average equity of 20.8%.

While many companies would be pleased with the growth and margins produced in 1981, frankly, the management of your Company was disappointed. We have a very proud management group who knows that our collective performance in 1981 was less than what has been produced in the past, and the results were un-



Jim Jensen, Bill Peare, Mel Kays,

acceptable when compared to what we expect of ourselves in 1982 and future years.

It would be easy to cite the external economic climate and unprecedented high interest rates as reasons for our less-than-satisfactory performance in 1981. But these were not the primary factors. Interest income actually exceeded our interest expense in 1981. We have not measurably experienced a deterioration in the demand for our product and services because of the recessionary environment.

We do know, however, that marketing costs were prohibitive. We further know the build-up of general and administrative expenses in anticipation of higher sales volume impacted margins; and management did not timely react to the need for reduction of such costs.

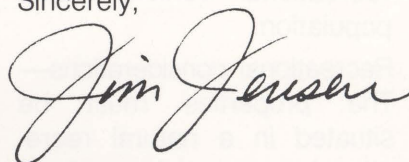
Management is acutely aware of what has to be done to restore the margins we have set as attainable to sustain our established standard of performance.

We are sensitive to the realities of 1982 and hopefully, wiser than a year ago when we anticipated accomplishing certain objectives that were unrealistic when measured against actualities for the year. Not that these goals were necessarily unattainable, but we believe they will take longer to achieve than initially

anticipated. However, it is important to recognize that the company is returning to an aggressive posture of geographical expansion and growth. In 1981, we added only one new location with the acquisition of the Oakzanita preserve in November. Since then, we have acquired four additional preserves, three of which became operational in the first quarter of 1982. Our financial ability to continue expansion has been further strengthened by the addition of another major bank to participate in our credit line, which was increased from \$10,000,000 at the beginning of 1981 to \$20,000,000 at year end.

We would like to take this opportunity to express our gratitude for the continued support of our shareholders, professional and institutional investors, the unusual dedication and loyalty of our employees, and the support of our members. Working together, we should be able to meet the needs and desires of all in building this Company to the heights we know it is able to accomplish.

Sincerely,



C. James Jensen
Chairman

Acquisitions

"Prerequisite to growth is the continued acquisition and development of quality locations and amenities."

The Company's first preserve, located near Mt. St. Helens in southwestern Washington, was acquired in 1969. Since that beginning, eighteen more preserves have been added. Today the Company offers nineteen

people would go to recreate—even if Thousand Trails were not there!

Natural amenities—Each property must include, or be immediately adjacent to, one or more outstanding natural amenity—a lake, ocean beach, river, mountain range or national forest for use by our outdoor-minded members.



separate and unique preserves for members' use, ranging from British Columbia, Canada, throughout the western coastal states of Washington, Oregon and California, to the most recently added locations in Nevada and Texas.

Analyses by the Company's acquisition team include the following:

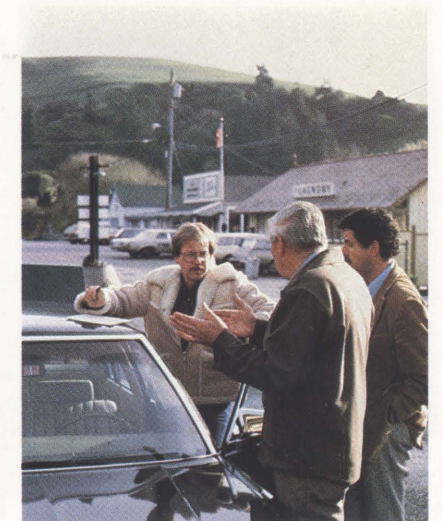
Market considerations—Sites within 50 to 100 miles of a major metropolitan area containing a relatively large recreational vehicle owner population.

Recreational considerations—The properties must be situated in a natural recreational area—a place where

Development potential—The properties, consisting typically of 50 to 300 acres, should have relatively heavy tree cover, water supply, and terrain suitable for campsite and amenity construction without destroying the natural environment.

Recent acquisitions include five properties satisfying the company's acquisition criteria.

OAKZANITA SPRINGS, located near San Diego, California, is a heavily wooded 148-acre property with natural springs and is immediately adjacent to Lake Cuyamaca State Park. Oakzanita Springs became the Company's 15th preserve in October, 1981. LAS VEGAS, Nevada, became





the location of Preserve 16 in early 1982. This preserve is a "special purpose" site; although it currently has 214 fully developed campsites, a swimming pool and other recreational amenities, it was acquired in response to membership requests. This site differs from other locations as it offers proximity to recreation other than the outdoors.

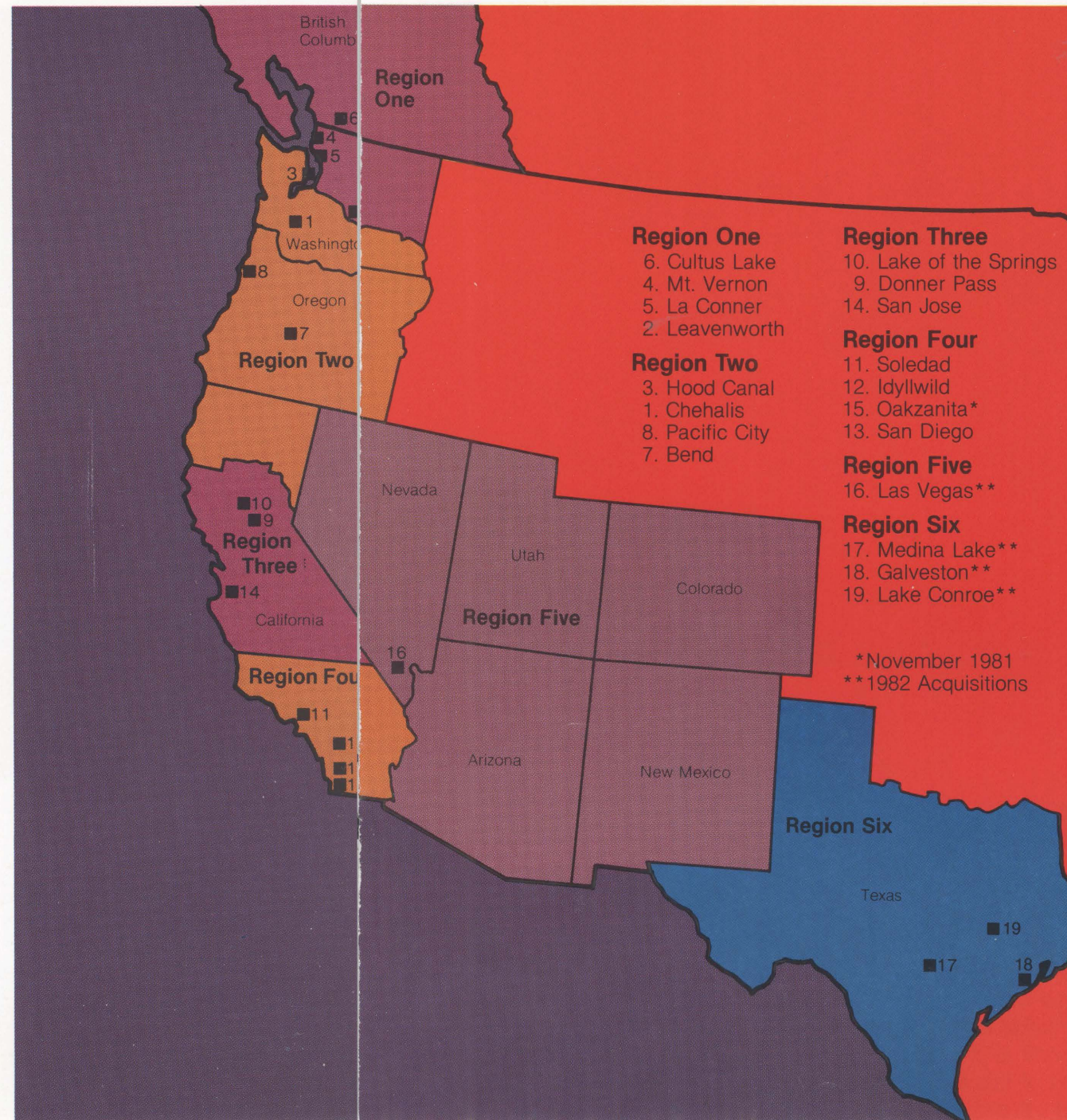
MEDINA LAKE, within 45 minutes of San Antonio, Texas, is Preserve 17. This 260-acre prop-

erty, located in the "Hill Country" of Texas, includes approximately one mile of waterfront and is partially developed, including 85 campsites, a lodge and a swimming pool.

The GALVESTON ISLAND, Texas property became Preserve 18 in January, 1982. This 85-acre, currently undeveloped property, will ultimately include 400 campsites, a lodge and a pool. Galveston Island is a natural recreation area utilized by many outdoor enthusiasts from the greater Houston area of Texas.

Our most recent acquisition, situated on LAKE CONROE, Texas, 45 minutes north of Houston, became Preserve 19 in February, 1982. This 130-acre property also is partially developed and provides the Company with increased exposure to the Houston marketplace.

While continuing our search for recreational areas that meet Thousand Trails' established criteria, the Company also will be concentrating on developing people to staff these new operations.



People

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"I have a high degree of integrity and honesty. I am well-groomed and conduct myself professionally at all times. I am a responsible person and accept complete accountability for myself on the job and in my personal life. I see myself continuing to grow with the Company in an avenue I choose because I am a well-informed, industrious, highly motivated person. My associates respect and like me and I them, and I have committed myself to work with them for the good of the Company, for that is where my loyalty lies. I maintain a good balance in my personal, spiritual and business life. I am polite to everyone and maintain a good attitude, and this is why I am my Company's greatest asset. I am a Thousand Trails Employee!"...Employee Credo

While the Company frequently refers to its recreational resource as pertaining to the environment, its greatest resource is its employees and the members who make it work.

From just 18 employees in 1974, the Company has grown to include 647 at the end of 1980, and 675 at the end of 1981. During the peak months of the summer, seasonal employees will swell these ranks by an additional 300.

Approximately 30% of the Company's regular employees may be found at its headquarters in Seattle performing executive, administrative, clerical, marketing, member services and public affairs duties.

The Company is careful to control its growth and expansion, coordinating it with the development of adequately trained people to staff the facilities, maintain its services and perform the numerous support functions.

Individuals in every area are encouraged to increase their skills which will benefit themselves along with everyone with whom they come in contact. Seminars are scheduled for each level of the Company's operations with outside consultants who are experts in their respective fields. All of this is done with the goal of improving and expanding



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"It is Management's privilege to teach and encourage employee development. Equally important is the opportunity to assist our employees in becoming better people." ...Management's Philosophy

service to the Company's nearly 29,000 member families.

Thousand Trails' computerized and manual operations help expedite every level of service to its members. Through sophisticated systems, advance notification requests for campsites are instantly confirmed, effective controls on receivables are maintained, supplies are kept at

it may more effectively be utilized to gain maximum enjoyment. Member satisfaction is demonstrated by the prompt way that monthly installment payments are made. The Company's receivables program continues to impress individuals in the financial field, who express surprise that less than 2% are delinquent. Percentage-wise,



desired levels at the preserves, and numerous other functions essential to operating the Company's activities are performed.

Once a new member indicates his or her desire to join "the Thousand Trails family", careful attention is given to that person's understanding of what a membership provides and how

Thousand Trails ranks at the top of the field with a record for payment equal to lending institutions holding home mortgages.

Membership growth has gone from 13,000 in 1979 to 21,000 in 1980 and to 27,600 at the end of 1981. With each increase, Thousand Trails focuses an increasing amount of attention on member services and the adequate training of persons to provide these services.



Growth

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"We are committed to expand and develop the Thousand Trails' concept at as great a rate as possible without sacrificing the quality of our product or services to our members, employees and shareholders."

Growth for the sake of growth alone is not a desirable goal unless it is well planned and conditioned to coincide with all other objectives of the Company.

Essential to the successful growth of Thousand Trails are five critical elements:

- 1) Property acquisition and development
- 2) People development
- 3) Access to capital
- 4) Member awareness (existing and prospective)
- 5) Ancillary revenue producing products and services

Property Acquisition and Development

As evidenced by recent property acquisitions, the Company is committed to expansion in the number of properties available for use by existing and prospective members. Ongoing growth will also occur with the continued addition of campsites and development of existing properties, thus increasing the recreational amenities available for use by our members.

People

With growth comes the need for managers and employees to acquire the properties, plan and develop the preserves, make membership sales, deliver the ongoing services and create the systems so necessary to manage and account for the new business. Thousand Trails is committed to the most up-to-



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date methods of recruiting and hiring, training and development of its staff and managers.

Access to Capital

The Company meets its working capital requirements through borrowings, leases, real estate loans, private and public placement of its debt and equity securities, and bank borrowings. During 1981, Thousand Trails expanded its bank line of credit from \$10.0 million to \$20.0 million and added a second participating bank to its credit arrangement.

Member Awareness

It is absolutely critical to the successful growth of the Company that we create and maintain a substantial degree of visibility and awareness both with our members and with prospective members. Awareness of the quality of our product and service in the eyes of our members is important, as a large portion of our future sales will be generated by referral from those satisfied and enthusiastic Thousand Trails members. Growth in our membership base must also come from new markets and outdoor enthusiasts who have yet to hear the Thousand Trails' story.



Ancillary Revenues

As our membership base continues to expand and more and more outdoor enthusiasts utilize our properties, the opportunity for sale of additional products and services becomes increasingly greater. We are currently evaluating the possibility of expanding our ancillary revenues and anticipate introducing certain new products and services during the latter part of 1982.



Financial Data

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Management's Responsibility for Financial Statements

18

The financial statements of Thousand Trails, Inc. and subsidiaries, and all other information presented in this Annual Report, are the responsibility of the management of the Company. The financial statements have been prepared in accordance with generally accepted accounting principles, consistently applied.

Management is responsible for the integrity and objectivity of the financial statements, including estimates and judgments reflected therein, and fulfills this responsibility primarily by establishing and maintaining accounting systems and practices adequately supported by internal accounting controls. Such controls include the selection and training of management and supervisory personnel; an organization structure providing for delegation of authority and establishment of responsibilities; communication of requirements for compliance with approved accounting, control and business practices throughout the organization; and business planning and review. Management believes that the

internal accounting controls in use are satisfactory to provide reasonable assurance that the Company's assets are safeguarded, that transactions are executed in accordance with management's authorizations, and that the financial records are reliable for the purpose of preparing financial statements.

Independent public accountants are appointed annually by the Company's shareholders to examine the financial statements in accordance with generally accepted auditing standards. Their report appears elsewhere in this Annual Report. Their examinations include a review of internal accounting controls and selective review of transactions.

The Audit Committee of the Board of Directors, which consists of three directors who are not officers or employees of the Company, meets regularly with management and the independent public accountants to review matters relating to financial reporting, internal accounting controls and auditing.

Selected Financial Data

Selected Income Statement Data (in thousands except per share amounts)

Year Ended December 31,

	1981	1980	1979	1978	1977
Sale of Memberships	\$40,006	\$33,950	\$21,396	\$14,341	\$7,713
Gross Profit on Membership Sales	14,422	13,802	10,405	6,340	3,328
Gross Profit(Loss) on Preserve Operations	970	383	366	84	(122)
Earnings Before Extraordinary Item	3,327	4,536	2,790	1,480	826
Extraordinary Item Tax Benefit From Carry-Over of Prior Years' Losses	—	—	—	—	246
Net Earnings	3,327	4,536	2,790	1,480	1,072
Primary Earnings Per Share:					
Before Extraordinary Item	1.06	1.69	1.17	.66	.42
After Extraordinary	1.06	1.69	1.17	.66	.55
Fully Diluted Earnings Per Share	1.02	1.42	1.17	.66	.55

Selected Balance Sheet Data (in thousands)

December 31,

	1981	1980	1979	1978	1977
Current Assets	\$10,967	\$ 7,575	\$ 8,014	\$ 2,809	\$1,701
Current Liabilities	9,395	7,755	6,950	5,002	1,716
Membership Contracts Receivable (Net)	34,696	23,482	13,949	7,308	3,476
Operating Preserves	39,003	29,658	15,356	7,762	2,312
Total Assets	70,822	52,567	34,280	17,188	7,852
Debt:					
Long-Term	22,344	20,498	17,527	7,023	4,136
Bank Line of Credit	15,855	6,811	3,300	3,387	1,723
Total Deferred Income Taxes	11,437	8,458	4,256	1,673	410
Shareholders' Equity	17,865	14,110	7,107	3,011	1,024

Management's Discussion and Analysis of Financial Condition and Results of Operations

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Results of Operations

The Company has experienced a significant increase in sales and earnings during the past five years. Sales increases were primarily a result of growth in the number of preserves operated by the Company, thus giving the Company's product greater exposure and visibility to an increased number of prospective members.

Additionally, increased development of existing preserves has enhanced the desirability of a Thousand Trails membership.

The following table sets forth items in the Consolidated Statements of Earnings as a percentage of revenues from the sale of memberships and from preserve operations and the percentage increase or decrease of those items as compared to the prior year.

				Percent Increase (Decrease)	
				1981 v. 1980	1980 v. 1979
	1981	1980	1979		
SALE OF MEMBERSHIPS	100%	100%	100%	18%	59%
Costs Attributable to Membership Sales:					
Marketing Expenses	49	45	38	29	88
Preserve Land and Improvement Costs	14	14	13	19	70
General and Administrative Expenses	18	17	19	24	45
Provision for Doubtful Accounts	5	2	4	126	(17)
Income from Membership Sales	14%	22%	26%	(25)	30
PRESERVE OPERATIONS					
MEMBERSHIP DUES AND TRADING POST SALES	100%	100%	100%	64	87
Costs Attributable to Preserve Operations					
Preserve Maintenance, Operations and Trading Post Expenses	80	87	77	51	112
General and Administrative Expenses	17	18	32	53	5
Income (Loss) from Preserve Operations	3%	(5%)	(9%)	220	7

Net Earnings

Net earnings as a percentage of membership sales were 13.0%, 13.4% and 8.3% in 1979, 1980 and 1981, respectively. Earnings for 1980 and 1981 include \$544,000 and \$731,000 (1.6% and 1.8% of sales, respectively) resulting in a change in accounting for certain interest costs as explained in Note G of Notes to Consolidated Financial Statements.

Sale of Memberships

Increases in revenues from membership sales during the last three years resulted from increases in the number of memberships sold (5,581 in 1979, 7,704 in 1980, 7,585 in 1981) and from increases in the average membership price (\$3,825 in 1979, \$4,400 in 1980, \$5,275 in 1981). The Company anticipates that the average membership price for 1982 will be approximately \$5,500. Membership sales increases were also due to the addition of six new preserves during the three years.

Marketing

Marketing expenses as a percentage of sales in 1981 increased from the 1980 level (45% to 49%) due to increased lead generation costs, increased compensation paid to sales personnel and a decrease in sales as a percentage of prospective members touring the Company preserves (16% to 14%). The Company is continuing its efforts to reduce marketing costs and has initiated actions to improve margins from sales in future periods.

General and Administrative

In 1980, general and administrative expenses as a percentage of membership sales decreased from 19% to 17% due principally to the Company's ability to obtain higher utilization from the existing manage-

ment and administrative staff during a period when sales of memberships increased by 58%. In 1981, general and administrative expenses increased as a percentage of membership sales from 17% to 18%. This increase reflects the impact of inflationary personnel costs in 1981, and an overall increase in the administrative effort necessary to properly serve the increasing membership base and the expanded geographical dispersion of our preserves.

Doubtful Accounts

The provision for doubtful accounts as a percentage of membership sales increased from 1980 to 1981 (2.4% to 4.6%). While 1981 delinquency percentages remain constant with 1980, the provision for doubtful accounts was increased to reflect management's assessment of general economic conditions.

Liquidity and Capital Resources

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Preserve Operations

Revenues from preserve operations have continued to increase as the base of dues paying members has grown from 7,675 at January 1, 1979, to 27,600 at December 31, 1981. In 1981, preserve operations for the first time in the Company's history generated a profit of \$169,000. The Company anticipates that preserve operations will continue at or near break-even as it continues to expand the number of preserves.

Interest Expense

Interest continues to be a significant cost of the Company's operations due to increases in bank lending rates. Historically, a substantial portion of the Company's total debt has been in the form of low interest real estate contracts. However, as borrowings under its bank line of credit have become proportionately greater, the average cost of borrowed funds has increased (16.2% in 1981, 12.7% in 1980 and 11.5% in 1979). As previously mentioned, 1981 and 1980 interest expense excludes a portion of the Company's interest costs due to a change in accounting methods.

Liquidity and Capital Resources

The Company has relied heavily upon borrowed funds to finance its preserve acquisition and development program. Substantial land acquisition, development and marketing costs are incurred as new preserves are developed, while cash flow from a new preserve is spread over a number of years as memberships are sold and as payments are made on memberships sold on installment contracts. Continued rapid growth of the Company's system of preserves will require additional external financing, since cash flow from membership sales is not expected to be sufficient to finance the acquisition and development of new preserves. As in the past, the Company expects to meet its working capital requirements through borrowings under its bank line of credit or other arrangements, leases, real estate loans and the private and public placement of its debt and equity securities. As the Company continues to expand, liquidity will be enhanced to the extent that income taxes can continue to be deferred.

At December 31, 1981, the Company's unused sources of liquidity consisted principally of \$172,000 cash and approximately \$4,145,000 under its \$20,000,000 bank line of credit.

Consolidated Statements of Earnings

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	Year Ended December 31,		
	1981	1980	1979
SALE OF MEMBERSHIPS	\$40,006,000	\$33,950,000	\$21,396,000
COSTS ATTRIBUTABLE TO MEMBERSHIP SALES:			
Marketing expenses	19,831,000	15,323,000	8,159,000
Preserve land and improvement costs	5,753,000	4,825,000	2,832,000
General and administrative expenses	7,141,000	5,760,000	3,980,000
Provision for doubtful accounts	1,866,000	824,000	886,000
	34,591,000	26,732,000	15,857,000
INCOME FROM MEMBERSHIP SALES	5,415,000	7,218,000	5,539,000
PRESERVE OPERATIONS:			
Membership dues	3,304,000	2,048,000	1,170,000
Trading post and other sales	1,482,000	868,000	389,000
	4,786,000	2,916,000	1,559,000
Less—			
Cost of trading post sales	1,346,000	675,000	148,000
Maintenance and operations expenses	2,470,000	1,858,000	1,045,000
General and administrative expenses	801,000	524,000	498,000
	4,617,000	3,057,000	1,691,000
INCOME (LOSS) FROM PRESERVE OPERATIONS	169,000	(141,000)	(132,000)
OTHER INCOME (EXPENSE):			
Interest income	4,153,000	2,530,000	1,267,000
Interest expense (Note G)	(3,213,000)	(1,332,000)	(1,470,000)
Gain on sale of property held for investment		437,000	122,000
Other	(147,000)	24,000	50,000
	793,000	1,659,000	(31,000)
EARNINGS BEFORE TAXES	6,377,000	8,736,000	5,376,000
DEFERRED INCOME TAXES	3,050,000	4,200,000	2,586,000
NET EARNINGS	\$ 3,327,000	\$ 4,536,000	\$ 2,790,000
NET EARNINGS PER SHARE:			
Primary	\$1.06	\$1.69	\$1.17
Fully diluted	\$1.02	\$1.42	\$1.17

See notes to consolidated financial statements.

Consolidated Balance Sheets

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Assets	December 31,	
	1981	1980
CURRENT ASSETS:		
Cash	\$ 172,000	\$ 632,000
Notes, contracts and accounts receivable—		
Current portion of membership contracts	9,190,000	6,078,000
Notes and other accounts receivable	830,000	438,000
	10,020,000	6,516,000
Less allowance for doubtful accounts	(447,000)	(254,000)
	9,573,000	6,262,000
Prepaid expenses	1,222,000	681,000
TOTAL CURRENT ASSETS	10,967,000	7,575,000
CONTRACTS RECEIVABLE, less current portion:		
Membership contracts receivable	27,279,000	18,429,000
Real estate contracts	844,000	889,000
Notes and other accounts receivable	191,000	180,000
	28,314,000	19,498,000
Less allowance for doubtful accounts	(1,326,000)	(771,000)
	26,988,000	18,727,000
OPERATING PRESERVES:		
Land	8,643,000	7,299,000
Improvements	30,360,000	22,359,000
	39,003,000	29,658,000
Less costs applicable to sale of memberships	(17,109,000)	(11,362,000)
	21,894,000	18,296,000
PRESERVES UNDER DEVELOPMENT, at cost	4,624,000	2,311,000
INVESTMENT IN REAL ESTATE, at cost	2,204,000	2,222,000
CONSTRUCTION AND OPERATING EQUIPMENT, net of accumulated depreciation of \$1,350,000 and \$863,000	2,798,000	2,133,000
OTHER ASSETS, at cost	1,347,000	1,303,000
	\$70,822,000	\$52,567,000

See notes to consolidated financial statements.

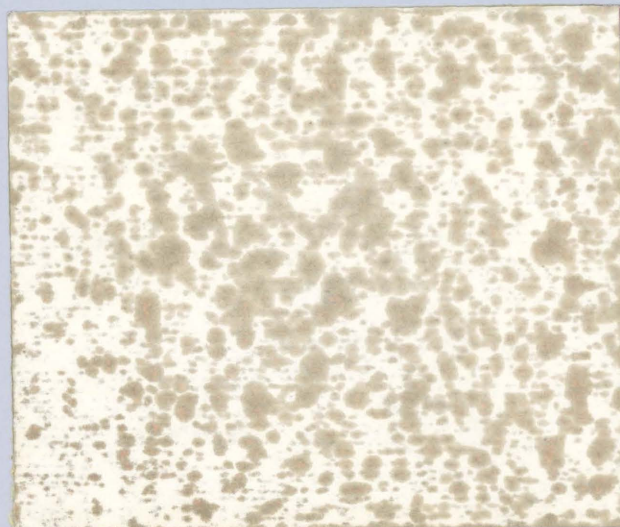
December 31,

	1981	1980
CURRENT LIABILITIES:		
Accounts payable	\$ 653,000	\$ 594,000
Accrued salaries	855,000	848,000
Accrued payroll and business taxes	242,000	238,000
Other liabilities	547,000	412,000
Prepaid membership dues	1,024,000	598,000
Deferred income taxes	2,882,000	2,098,000
Current portion of long-term debt	3,192,000	2,967,000
TOTAL CURRENT LIABILITIES	9,395,000	7,755,000
DEFERRED INCOME TAXES	8,555,000	6,360,000
LONG-TERM DEBT, less current portion	35,007,000	24,342,000
COMMITMENTS AND CONTINGENCIES (Note F)		
SHAREHOLDERS' EQUITY:		
Common stock, no par value		
Authorized, 5,000,000 shares		
Issued, 3,054,918 and 2,984,593 shares	6,590,000	6,162,000
Retained earnings	11,277,000	7,950,000
Treasury stock, 1,254 shares, at cost	(2,000)	(2,000)
	17,865,000	14,110,000
	\$70,822,000	\$52,567,000

Consolidated Statements of Shareholders' Equity

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	Common stock		Retained earnings	Treasury stock
	Shares	Amount		
Balance, January 1, 1979	2,053,490	\$ 981,000	\$ 2,039,000	\$ (9,000)
Sale of treasury stock, 4,685 shares		6,000		7,000
Sale of stock, less related expenses of \$237,000	255,000	1,293,000		
Net earnings			2,790,000	
Balance, December 31, 1979	2,308,490	2,280,000	4,829,000	(2,000)
Stock dividend	230,766	1,415,000	(1,415,000)	
Debenture conversions	430,337	2,367,000		
Issuance of common stock	15,000	100,000		
Net earnings			4,536,000	
Balance, December 31, 1980	2,984,593	6,162,000	7,950,000	(2,000)
Debenture conversions	56,124	310,000		
Issuance of common stock	14,201	118,000		
Net earnings			3,327,000	
Balance, December 31, 1981	3,054,918	\$6,590,000	\$11,277,000	\$ (2,000)



See notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

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	Year Ended December 31,		
	1981	1980	1979
CASH RECEIVED FROM OPERATIONS:			
Cash sales of memberships and down payments on contracts	\$18,003,000	\$15,410,000	\$10,698,000
Collections on contracts receivable, including interest	13,258,000	11,047,000	4,943,000
Dues and preserve revenues	5,133,000	3,294,000	1,746,000
Other income (expense)	(69,000)	154,000	98,000
Proceeds from loans for construction of preserve improvements	11,000	1,000,000	791,000
	36,336,000	30,905,000	18,276,000
CASH EXPENDED FOR OPERATIONS:			
Marketing expenses	19,983,000	15,276,000	8,088,000
General and administrative expenses	7,130,000	5,866,000	4,316,000
Preserve maintenance and operations	4,571,000	3,035,000	1,170,000
Interest expense	3,213,000	1,158,000	1,395,000
Preserve improvements	6,848,000	8,673,000	3,016,000
Principal payments on debt related to preserve properties	2,032,000	2,581,000	890,000
	43,777,000	36,589,000	18,875,000
CASH USED BY OPERATIONS	(7,441,000)	(5,684,000)	(599,000)
OTHER SOURCES (USES) OF CASH:			
Issuance of debentures, net of related costs of \$596,000			3,804,000
Issuance of common stock	10,000	100,000	1,293,000
Proceeds of bank borrowings		74,000	
Proceeds of borrowings collateralized by contracts receivable	9,069,000	9,102,000	2,556,000
Principal payments on notes payable and credit line arrangements	(743,000)	(6,281,000)	(2,519,000)
Purchase of construction and operating equipment, net of related borrowings of \$1,588,000, \$901,000 and \$422,000	(789,000)	(480,000)	(458,000)
Increase in notes and other receivables	(403,000)	(300,000)	(4,000)
Principal payments on debt related to investments in real estate	(194,000)	(127,000)	(471,000)
Other, net	31,000	97,000	19,000
	6,981,000	2,185,000	4,220,000
INCREASE (DECREASE) IN CASH	(460,000)	(3,499,000)	3,621,000
CASH:			
Beginning of period	632,000	4,131,000	510,000
End of period	\$ 172,000	\$ 632,000	\$ 4,131,000

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Three Years Ended December 31, 1981

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Note A—Significant Accounting Policies:

General

The Company operates outdoor recreational resorts (preserves) in the United States and Canada. All significant intercompany transactions and balances have been eliminated in the accompanying financial statements.

Revenue Recognition

The Company sells memberships for cash or on installment contracts. Revenues are recorded in full upon execution of membership agreements. Installment sales require a down payment of at least 10% of the sales price. All marketing costs and an allowance for estimated contract collection losses (based on historical loss occurrence rates) are recorded currently.

Members are assessed annual dues which are used for preserve maintenance and operations, member services and allocated general and administrative expenses. The Company establishes dues at rates intended to fully provide for such expenses when active memberships sold reach approximately 40% of total memberships available for sale. Membership agreements provide for annual adjustment of dues to reflect increases in the consumer price index.

Preserve operating costs in excess of those necessary for preserve operations and member services are incurred to provide support for

the Company's marketing program. Accordingly, those costs which management considers to be primarily related to membership sales are included in marketing expenses as follows—

	December 31,
1979	\$296,000
1980	\$611,000
1981	\$767,000

Operating Preserves

Operating preserve land and improvement costs, including estimated costs to complete preserves in accordance with the Company's development plans, are aggregated by geographical region and are charged to costs and expenses based on the relationship of memberships sold to total memberships available for sale in each region. The maximum number of memberships which will be sold in a geographical region is determined based on members' historical use of the Company's preserve facilities in that region. The Company plans to sell ten memberships for each campsite. Preserve utilization statistics are reviewed on a regular basis and revision of total planned memberships available for sale is made as necessary. As of December 31, 1981, the Company had approximately 27,600 members which represented approximately one-third of the total memberships available for sale on operating preserves.

The Company generally incurs indebtedness in connection with the acquisition of preserve land and improvements. It is the Company's policy to reduce such indebtedness in a proportion at least equal to the ratio that memberships sold bears to total memberships available for sale. The Company capitalizes interest as a component of the cost of significant improvements of preserve properties.

Preserves Under Development

Costs related to preserves under development are classified as operating preserve land and improvements in the appropriate geographical region when development has been completed to the extent that the preserve is reflected in the Company's marketing program as available for use by members.

Investment in Real Estate

Land acquired in excess of that necessary for operating preserves or preserves under development is classified as investment in real estate. Real estate contiguous to operating preserves is infrequently used but is generally available for use by members until disposition or further development. Certain parcels of the real estate contiguous to operating preserves are subject to land use permits required in connection with development of the preserves. Prior to disposition or development of such parcels, the Company will be required to obtain waivers or modifications of such restrictions from local governmental authorities.

Depreciation

Depreciation is provided on the straight-line method over the assets' respective useful lives.

Foreign Currency Translation

The assets and liabilities of the Company's Canadian subsidiary are translated into U.S. dollars at exchange rates in effect at the balance sheet dates except for preserve land and improvements, investments and certain other items which are translated at historical exchange rates. All revenue and expense items (except balance sheet related items translated at historical rates) are translated at average exchange rates for the period. Unrealized translation gains and losses are reflected in earnings in the period they arise.

Earnings Per Share

Earnings per share of common stock are computed based on the weighted average number of common and equivalent shares outstanding during the year. Stock options and the warrant to purchase stock are included in the computation of earnings per share when they are dilutive. Fully diluted earnings per share gives effect to the assumed conversion of the Company's convertible subordinated debentures.

Reclassifications

Certain reclassifications have been made in the 1979 and 1980 financial statements to conform with the 1981 classifications.

Note B—Membership Contracts Receivable:

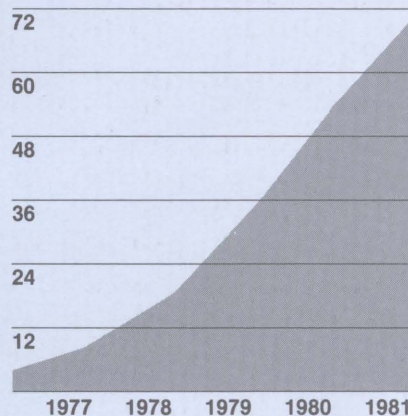
Membership contracts receivable bear interest at an average rate of 14% and are written with initial terms of 24 to 72 months (average term of 54 months). The Company has no obligation to refund monies received or provide further services to members in the event membership is cancelled for nonpayment of contract obligations.

Substantially all membership contracts receivable are pledged as collateral for debt, as described in Note C.

Membership contracts provide for aggregate annual principal payments as follows—

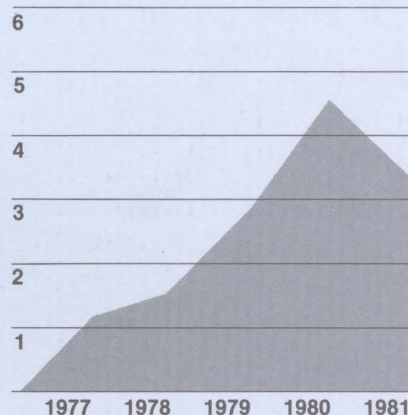
Year Ending December 31,	
1982	\$9,242,000
1983	9,433,000
1984	7,752,000
1985	5,598,000
1986	3,390,000
1987	1,204,000

84 Millions of Dollars



Total Assets

7 Millions of Dollars



Net Earnings

Note C—Long-Term Debt and Line-of-Credit Arrangements:

Long-term debt consists of the following—

	December 31,	
	1981	1980
Real estate contracts and capitalized leases, 6% to 13.25% (average 10.2%), due in aggregate monthly installments of \$174,000 and \$137,000	\$16,242,000	\$13,375,000
Notes, 6% to 24% (average 15.2%), due in monthly installments of approximately \$87,000 and \$106,000 including interest	2,642,000	4,129,000
Equipment and other contracts, 10% to 25% (average 18.2%), due in aggregate monthly installments of \$79,000 and \$47,000 including interest	2,154,000	1,331,000
13% convertible subordinated debentures, due 1994, interest payable quarterly with semiannual sinking fund payments of \$25,000 required beginning December 15, 1982	1,306,000	1,663,000
	22,344,000	20,498,000
Lines of credit	15,855,000	6,811,000
	38,199,000	27,309,000
Less current portion	(3,192,000)	(2,967,000)
	\$35,007,000	\$24,342,000

Substantially all of the Company's assets are pledged as collateral for the above debt.

The Company's 13% convertible subordinated debentures are convertible into common stock of the Company at a price of \$6.36 per share, subject to adjustment. The indenture requires a sinking fund sufficient to redeem prior to maturity 84% of the principal amount of debentures outstanding at November 1, 1982. At the Company's option, the debentures may be redeemed in whole or in part com-

mencing December 15, 1984 at 113% of the principal amount, declining to par at maturity. At the option of the Company, debentures converted to common stock can be used to offset sinking fund requirements.

Aggregate annual principal and sinking fund payments during each of the next five years are as follows—

1982	\$3,192,000
1983	3,275,000
1984	2,883,000
1985	2,604,000
1986	2,555,000

At December 31, 1981 the Company had a bank line of credit of

\$20,000,000. The Company pays interest at the bank's prime lending rate plus 2% (17.75% as of December 31, 1981) and a maximum annual fee of \$150,000. The Company is restricted from making cash dividend payments without the bank's approval. At the option of either party, the loan may be converted to a term loan and the principal balance paid in 36 equal monthly installments plus interest. None of the balance outstanding at December 31, 1981 is included in the current portion of long-term debt.

Note D—Deferred Income Taxes:

The provision for deferred income taxes consists of the following—

	Year Ended December 31,		
	1981	1980	1979
Federal	\$2,640,000	\$3,590,000	\$2,223,000
Foreign and state	410,000	610,000	363,000
	\$3,050,000	\$4,200,000	\$2,586,000

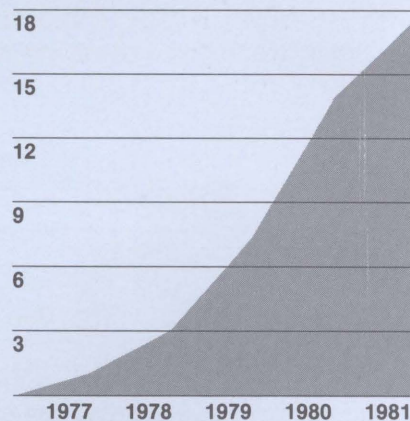
The tax effects of items reported in different periods for financial statement and income tax purposes are as follows—

	Year Ended December 31,		
	1981	1980	1979
Installment sales	\$4,570,000	\$4,446,000	\$2,308,000
Capitalized interest	670,000	768,000	
Amortization of site improvements	205,000	(193,000)	(222,000)
Gain on sale of real property		219,000	
Decrease (increase) in tax basis net operating loss carryforward	(2,350,000)	(1,010,000)	275,000
Other, net	(45,000)	(30,000)	225,000
	\$3,050,000	\$4,200,000	\$2,586,000

No U.S. income taxes have been provided on earnings of the Canadian subsidiary as the Company reinvests substantially all of these earnings in the growth of the business in Canada. Undistributed

earnings of the foreign subsidiary included in consolidated retained earnings amounted to \$475,000 at December 31, 1981. If such earnings were distributed, U.S. income taxes would be offset by available foreign tax credits.

21 Millions of Dollars



Shareholders' Equity

Note E—Incentive Stock Plans and Other Plans:

The Company has key employee stock option plans under which common stock is reserved for issuance to officers and key employees. Options are exercisable 25% each year commencing one year after the date of grant and expire after ten years under the 1979 plan. Options are exercisable in full after one year and expire after five years under the 1980 plan. The stock op-

tion exercise price is determined by the Board of Directors but cannot be less than market value at the date of grant.

In 1980 the Company adopted a key employee incentive compensation plan and a marketing benefit plan which authorized the issuance of common stock to employees based upon performance.

Details with respect to these plans as of December 31, 1981 are as follows—

	Total Shares Authorized	Granted	Price per Share	Exercisable	Exercised
1979 key employee stock option plan	216,700	205,766	\$.91-\$6.375	129,495	338
1980 key employee stock option plan	137,500	128,150	\$6.50-\$8.50		
Key employee incentive plan	82,500	10,842	\$4.73		5,412
Marketing benefit plan	220,000	32,351	\$5.34-\$11.16		6,451

In connection with a public offering of the Company's common stock in 1979, the Company issued a five-year stock purchase warrant for 28,050 shares of Company common stock at \$6.55 per share. In 1980 the Company entered into a consulting agreement with a mem-

ber of the Board of Directors (currently Chairman of the Board and Chief Executive Officer) providing for the sale of 50,000 shares of Company common stock at \$5 per share. As of December 31, 1981, 7,000 shares had been issued under this agreement.

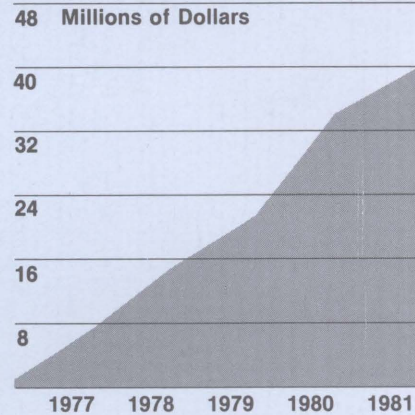
Note F—Commitments and Contingencies:

Certain of the Company's preserves have been developed, and must be operated, in compliance with the provisions of applicable land use permits. Management believes the Company currently is in compliance with such permits and, in the future, will make applications for new permits or for modifications of existing permits as considered necessary for preserve operations or for further development.

The Washington State Department of Revenue has notified the Company that a portion of membership sales and dues assessments made in the State of Washington after January 1, 1979 are subject to retail sales tax. The Company is appealing this assessment; however, since August 1979, it has collected sales tax on that portion of revenues which it considers potentially subject to sales tax. If sales taxes are ultimately determined to be due in an amount greater than the amount collected, management believes that such amount would not have a material impact on the Company's financial statements.

Note G—Capitalization of Interest:

Effective January 1, 1980, the Company adopted the policy of capitalizing interest as a component of the cost of significant improvements to operating preserves. Interest costs amounted to \$5,092,000 in 1981 and \$2,868,000 in 1980, of which \$1,879,000 and \$1,536,000, respectively, was capitalized. The capitalization of interest resulted in an increase in net earnings by \$731,000 and \$544,000 (fully diluted earnings per share of \$.22 and \$.16 in 1981 and 1980, respectively).



Membership Sales

Note H—Quarterly Financial Information (Unaudited):

The following table sets forth financial information by quarter for 1981 and 1980 (in thousands except per share data).

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1981:				
Sale of memberships	\$6,547	\$10,719	\$15,228	\$7,512
Gross profit	2,322	4,245	5,960	1,895
Earnings (loss) before taxes on income	1,192	2,691	3,173	(679)
NET EARNINGS (LOSS)	620	1,399	1,650	(342)
Earnings (loss) per share:				
Primary	\$.20	\$.44	\$.52	\$(.10)
Fully diluted	.19	.42	.50	—
1980:				
Sale of memberships	\$5,776	\$8,932	\$12,945	\$6,297
Gross profit	2,222	4,030	5,573	1,977
Earnings before taxes on income	1,624	2,406	4,035	671
NET EARNINGS	845	1,250	2,096	345
Earnings per share:				
Primary	\$.32	\$.48	\$.77	\$.12
Fully diluted	.32	.48	.63	.11

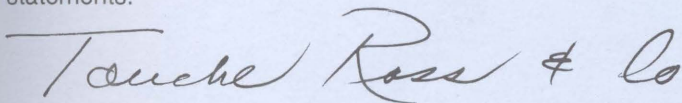
Accountant's Report

February 26, 1982

Board of Directors and Shareholders
Thousand Trails, Inc.
Seattle, Washington

We have examined the consolidated balance sheets of Thousand Trails, Inc. and subsidiaries as of December 31, 1981 and 1980, and the related statements of earnings, shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1981. Our examinations 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.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Thousand Trails, Inc. and subsidiaries as of December 31, 1981 and 1980, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles, which have been consistently applied during the period except for the adoption, with which we concur, of the policy of capitalizing interest cost as described in Note G to the consolidated financial statements.

A handwritten signature in cursive script that reads "Touche Ross & Co".

Touche Ross & Co.
Certified Public Accountants

Directors and Officers

36

Directors

Richard Burke, *Vice President,
Canadian Enterprise Development
Corp., Ltd., Vancouver, B.C.*

Thomas J. Cable, *President, Cable &
Howse, Inc., General Partner,
CH Partners, Seattle, WA*

Kingdon J. Dunham, *The Boeing
Company, retired*

C. James Jensen, *Chairman of the
Board of Directors and Chief
Executive Officer, Thousand Trails,
Inc.*

Melvyn R. Kays,
*Executive Vice President,
Treasurer & Chief Financial Officer,
Thousand Trails, Inc.*

Milton G. Kuolt II, *President,
Horizon Air*

J. Paul Meyer, *Material Finance
Manager, The Boeing Company*

Robert R. Newgard, *President,
Newgard Capital Services Corp.*

William F. Peare, *President and Chief
Operating Officer, Thousand Trails,
Inc.*

Maj./Gen. Donald R. Pierce,
U.S. Army, retired

J.P. Weyerhaeuser III,
Weyerhaeuser Company

Executive Officers

C. James Jensen,
*Chairman of the Board and Chief
Executive Officer*

William F. Peare,
President & Chief Operating Officer

Melvyn R. Kays,
*Executive Vice President, Treasurer &
Chief Financial Officer*

Kathleen M. Hornsby,
Vice President & Corporate Secretary

Jerol E. Andres,
Vice President, Resort Services

Ronald L. Bidleman,
Vice President, Administration

R. Craig Kirsch,
Vice President, Finance

Robert M. Mayes,
Vice President, Sales & Marketing

J. Michael Moyer,
Vice President, Corporate Affairs

Rodger C. Sheraton,
*Vice President, Construction &
Engineering*

Julie A. Brooks,
General Counsel

Transfer Agent and Registrar

Seattle First National Bank
Stock Transfer Agent & Registrar
Seattle, WA 98124

Trustees Under Indenture

Security Pacific National Bank
Los Angeles, CA 90051

Legal Counsel

Hillis, Phillips, Cairncross, Clark &
Martin P.S.
403 Columbia
Seattle, WA 98104

Independent Accountants

Touche Ross & Co.
30th Floor
1111 Third Avenue
Seattle, WA 98101

Corporate Headquarters

4800 South 188th Way
Seattle, WA 98188

Annual Meeting

Thursday, April 29, 1982
2 p.m.
Washington Athletic Club
1325 6th Avenue
Seattle, WA 98111

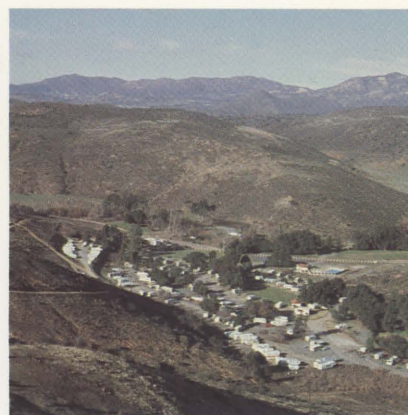
Form 10-K

The Company files an Annual Report with the Securities and Exchange Commission on Form 10-K, pursuant to the Securities Exchange Act of 1934. Shareholders may obtain a copy of this report without charge by writing: M.R. Kays, Executive Vice President, Treasurer and Chief Financial Officer, Thousand Trails, Inc., 4800 South 188th Way, Seattle, WA 98188.

Investor Relations Counsel

Corporate Communications, Inc.
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Bob Mayes, Jerry Andres, Bill Peare, Roger Sheraton, Mike Moyer



Julie Brooks
Mel Kays
Kathy Hornsby
Ron Bidleman
Craig Kirsch



