

THOUSAND  
TRAILS, INC.

AMERICA'S  
PRIVATE  
NATIONAL  
PARK  
SYSTEM

1984  
ANNUAL  
REPORT

PROPERTY OF  
SEATTLE PUBLIC LIBRARY  
~~QUESTIONS~~  
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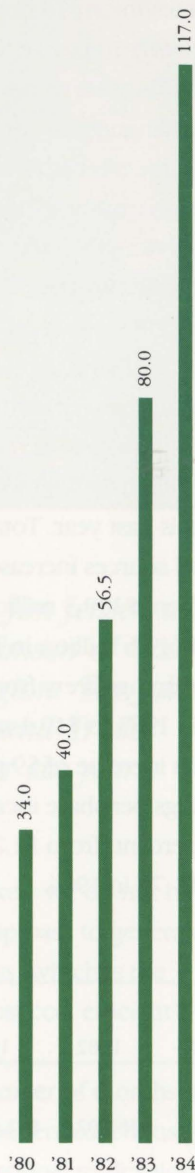




**Total Assets**  
(\$ Millions)



**Sales Revenue**  
(\$ Millions)



**Net Earnings**  
(\$ Millions)



**Shareholders' Equity**  
(\$ Millions)



## Management's Letter to Shareholders

The 1984 Thousand Trails Annual Report is dedicated to our members because it is our members who have made possible the growth and development of the Company. Without their enthusiastic support and desire to share the Thousand Trails experience with their friends, the Company would not be where it is today.

Thousand Trails' more than 68,000 member families are the lifeblood of the Company. Our faith in our existing and future members allows us to envision a future with one million member families from coast to coast.

Our confidence in our members is not based on theory, but on information gathered over Thousand Trails' 15 year history. For instance, we know that 49 percent of our members have fully paid for their memberships. Financial institutions marvel that 93 percent of our installment receivable payments are received on or before the scheduled

due date. Those familiar with installment receivable financing are equally impressed by the fact that in 1984, delinquencies of 32 days or more averaged only 1.6 percent of the entire receivable portfolio. These record results are a testimony to both the members' *ability* to pay as well as their *willingness* to pay. We know that willingness to pay is a direct result of member satisfaction with the high quality of products and services they receive.

### Financial Highlights

1984 was another year of record sales and earnings for your Company. Sales of memberships increased 46 percent, from \$80.0 million in 1983 to \$117.0 million this past year. Total revenues from all sources increased 49 percent, from \$100.3 million in 1983 to \$149.6 million in 1984. Net earnings grew from \$12.0 million in 1983 to \$19.1 million in 1984, an increase of 59 percent. Earnings per share increased 45 percent, from \$1.21 in 1983 to \$1.76 in 1984.

## Thousand Trails 5-Year Compounded Growth Table

|                          |       |
|--------------------------|-------|
| Sales                    | 40.5% |
| Earnings                 | 46.9% |
| Return on average equity | 28.1% |

Record operating results were not the only financial achievements of the Company during the year. The Company restructured and expanded its bank credit arrangement in 1984 to provide for a \$125.0 million bank line of credit. Subsequent to year-end, the Company sold \$75 million of seven year subordinated notes which will provide increased flexibility for growth. Proceeds of the issue were used to reduce bank indebtedness.

### Market Size

Prior to 1983, most Thousand Trails memberships were sold to families who owned their own recreational vehicles (RV's). The RV market is growing rapidly, representing today more than 7 million owners. Even throughout the recent recession, the RV industry enjoyed successive annual increases in sales, with 1984 shipments of new RV units topping the 400,000 mark.

In 1983, the Company introduced a concept throughout its system which enables families who do not own their own RV to participate in the Thousand Trails experience through the use of fully furnished and equipped, Company-owned travel trailers. This strategy to expand the Company's market universe has been so successful that of the 18,625 new memberships sold in 1984, more than 56 percent were sold to customers choosing this

## Thousand Trails Membership Receivables Table

| (Dollars in Thousands)       | 1980     | 1981     | 1982     | 1983     | 1984      |
|------------------------------|----------|----------|----------|----------|-----------|
| Average membership           |          |          |          |          |           |
| contracts receivable         | \$19,656 | \$30,488 | \$46,292 | \$71,619 | \$115,138 |
| Average 32 day delinquency   |          |          |          |          |           |
| as a percent of membership   |          |          |          |          |           |
| contracts receivable         | 2.73%    | 1.87%    | 1.79%    | 1.72%    | 1.62%     |
| Accounts written-off         |          |          |          |          |           |
| as a percentage of           |          |          |          |          |           |
| average membership           |          |          |          |          |           |
| contracts receivable         | 3.3%     | 3.7%     | 2.9%     | 2.7%     | 1.6%      |
| Membership contracts         |          |          |          |          |           |
| receivable written-off (net) | \$655    | \$1,118  | \$1,343  | \$1,899  | \$1,827   |



type of membership. As a result, the market for Thousand Trails memberships has increased from the 7 million RV owners to more than 27 million American families whose socio/economic profile matches closely that of the Thousand Trails member.

### **1984 Strategies**

Last year we asked you to share with us the vision of creating "America's Private National Park System." In 1984, Thousand Trails made great strides towards realizing its goal of a coast-to-coast network of resorts. In a period of only 12 months, we acquired fourteen new properties, entered eight new states, and established a strong presence in two major new markets, the Midwest and East Coast of the United States. This was a very aggressive endeavor for the Company. The 1984 expansion of the resort network into these regions was in planning for three years and recognizes the need to establish a "network" of resorts rather than one or two properties. By clustering property acquisitions within new geographic regions, Thousand Trails is able to offer its members easy access to multiple resort camping. Our reception in these new areas was greater than expected, with sales in 1984 in the Midwest and East Coast of approximately \$20.0 million and 1985 sales expected to exceed \$50.0 million.

### **Marketing Costs**

One of the results of our rapid expansion was the anticipated increase in our marketing costs as a percent of sales revenues. These higher marketing costs are due to



*Chairman Jim Jensen with Dale and Peg Johnson of Oak Harbor, Washington. The Johnsons have been Thousand Trails Members for over six years.*

several factors:

1. In new markets we do not have the membership base to generate referral business, which is the Company's most cost efficient source of sales.
2. It takes a number of months of training by experienced Thousand Trails sales personnel to develop an effective sales team at new locations.
3. When sales are begun at a new location, some parts of the resort are still under development, which creates a natural and expected "wait and see" attitude in the minds of many potential members.

Our experience has proven that

marketing costs generally decline in the second and third years after the initial opening of a property for sales. Therefore, although marketing costs will tend to be higher in 1985 than they were in 1984, we anticipate a decrease in these costs in 1986.

### **Future Expansion Strategy**

Having secured a foothold in the Midwest and East Coast markets, the Company intends to open only five to seven new resorts per year in each of the next three years. This slower rate of growth is expected to result in reduced costs and greater marketing efficiencies beginning in 1986.

### **Conclusion**

1984 was a year of great growth for your Company. It was a year that marked the creation of several new business units, which will be discussed in detail in this report. It was also a year of major reorganization resulting in a streamlined and more efficient organizational structure.

Because of our successful 1984 expansion and excellent financial results, we are well postured to continue the development of "America's Private National Park System."

As always, we appreciate your support.

Sincerely,

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





*"I've been a member and a part of the Thousand Trails family for nearly three years and I've been amazed at the growth and development that have taken place. All over the country, families are making Thousand Trails their vacation paradise, and that makes me feel proud to be part of this great company. I've got to agree that Thousand Trails has truly become America's Private National Park System."*

*Roy Rogers*

*\*Roy Rogers has been the Company's official spokesperson since June 1982*



**THOUSAND TRAILS**  
PRIVATE NATIONAL PARK SYSTEM







## Introduction

In the 1983 Annual Report, we asked our shareholders to "share the vision" of creating a system of destination campground resorts from coast to coast. During 1984 that vision was realized. Thousand Trails acquired 14 new properties, 13 of which are located east of the Mississippi River. Our long-term strategy is to firmly establish Thousand Trails' presence in all major markets throughout the United States—thus becoming "America's Private National Park System."

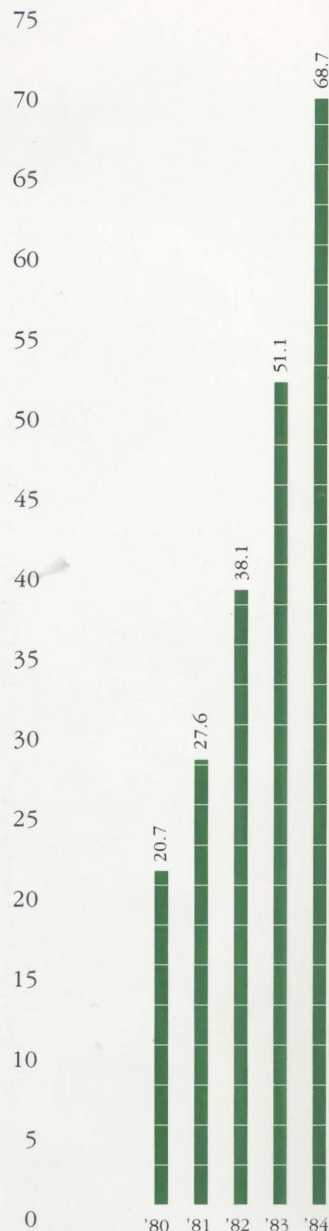
Thousand Trails is more than an expanding network of destination campground resorts. It is a family of over 68,000 members. The Company's theme, "We are Family," is a strong statement of the unity of Thousand Trails members and employees.

The Company's annual survey

of members profiles a mature, stable and financially sound group of individuals. In addition, Thousand Trails members possess certain intangible qualities which cannot readily be measured by demographic characteristics. Thousand Trails members are representative of changing American social values.

The "focus on self" environment of the 1970's has changed. Consumers are actively searching for a sense of value and well being. With this trend has come a renewed commitment to family, friends and community. By offering planned social activities, a relaxing environment for personal development, a sense of community and an opportunity to experience the outdoors, a Thousand Trails membership provides a significant social experience tied to basic human values.

## Total Member Families (In Thousands)



**Thousand Trails Membership Survey Table**

|   | Camping* | Vacation** |
|---|----------|------------|
|   | Member   | Member     |
| Percentage who own a recreational vehicle           | 95.3%    | 27.6%      |
| Median family income                                | \$30,000 | \$33,000   |
| Percentage who are homeowners                       | 91.6%    | 88.5%      |
| Years at present residence                          | 12.3     | 11.7       |
| Of members not retired, years with present employer | 14.4     | 13.4       |
| Average age of head of household                    | 55.5     | 52.5       |
| Percentage who are retired                          | 42.0%    | 33.5%      |

\*A camping membership entitles the member's family to use individual campsites without charge and is designed for recreational vehicle owners.

\*\*A vacation membership is designed for members who do not have a recreational vehicle and entitles the member's family to rent travel trailers located on the resorts.



Doris Skeates  
Member  
Delta, British Columbia,  
Canada



*“As soon as Charlie retires, we intend to see all the resorts—coast to coast. We are thrilled with everything about Thousand Trails—the beauty of the surroundings, the well-kept grounds, clean restrooms and, especially, the 24-hour security. This is the best thing we’ve done for ourselves.”*



Leroy Huffman  
Member  
Chester, Virginia

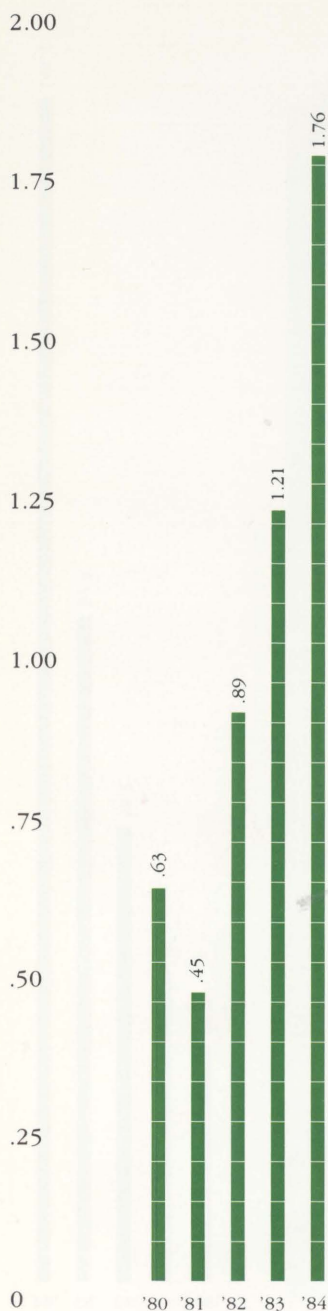


*“Roy Rogers and I go back many years. We used to hunt bear together out here. He’s the spokesman for Thousand Trails, and if anyone knows about the outdoors, it’s Roy Rogers. That’s why I joined, and it’s even better than he described. I think this is the best outdoor bargain around!”*



## Earnings Per Share

(\$ Fully Diluted)



## Financial Highlights

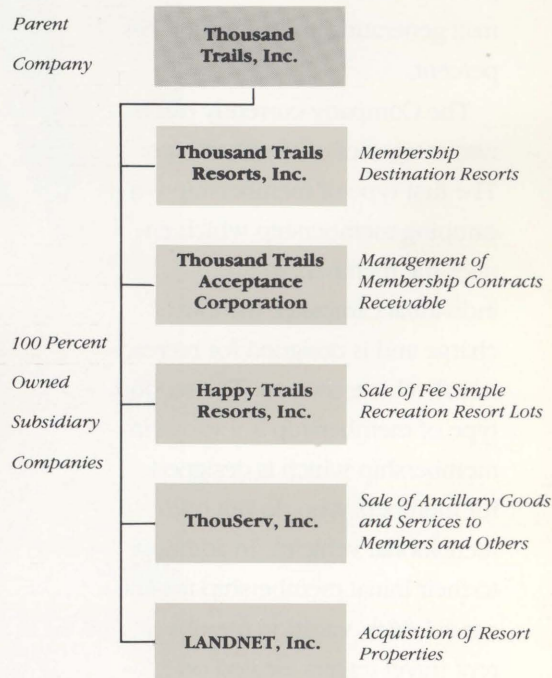
Thousand Trails generates revenues from three interrelated profit centers: membership sales, resort operations and interest earned on membership contracts receivable. Thousand Trails' total revenues, sales and earnings were at record levels for the year. Total 1984 revenues were \$149.6 million, up 49 percent from the \$100.3 million of 1983.

Membership sales were \$117.0 million, an increase of 46 percent over the \$80 million achieved in 1983. Net earnings in 1984 were \$19.1 million, up 59 percent from the \$12.0 million of 1983. Company assets grew to \$269.8 million, with shareholders' equity exceeding \$80.0 million.

Record operating results were not the only financial achievements of the Company during the year. The Company restructured and expanded its bank credit arrangement in 1984 to provide for a \$125 million bank line of credit, consisting of a \$65 million revolving credit, a \$50 million acquisition and development credit, and a \$10 million term loan. As of year-end, approximately \$88.3 million of this credit facility had been utilized. Subsequent to year-end, \$75 million of 1992 senior subordinated notes were sold. Proceeds of the issue were used to reduce bank indebtedness. Expansion of the bank credit facility, together with the issuance of the subordinated debt provides the Company with necessary funds to finance its growth and development for the foreseeable future.

## Corporate Reorganization

To position the Company for future growth, incorporation of the Company's major divisions into five subsidiary companies was accomplished in 1984. Each subsidiary is an independent profit center, working toward the common goal of providing high quality goods and services for vacationing and leisure time America.



### Thousand Trails Resorts, Inc.

Thousand Trails Resorts, Inc. is the largest of the new subsidiaries, consisting of the Construction and Engineering, Sales and Marketing and Resort Services Divisions. Thousand Trails Resorts is also the parent Company's greatest source of revenue and earnings.

A Thousand Trails member pays an initial membership fee and annual dues entitling the member's family to three generations of use of any existing or



future locations for an unlimited number of visits of up to two weeks' duration per visit. All membership sales are made at Company preserves (resort locations). Marketing supports the on-site efforts by generating potential new members through direct mail, advertising, telemarketing and member referral programs. Member referral programs accounted for approximately 26 percent of 1984 sales, with direct mail generating approximately 54 percent.

The Company currently offers two categories of memberships. The first type of membership is a camping membership which entitles the members to use individual campsites without charge and is designed for recreational vehicle owners. The second type of membership is a vacation membership which is designed for members who do not own recreational vehicles. In addition to their initial membership fee and annual dues, vacation members rent travel trailers located on the resorts for a modest nightly fee.

Basic to the Thousand Trails Resorts concept is the acquisition and development of properties. Several criteria are used in evaluating potential resort locations. Generally, properties are located within 90 miles of a city with a population of 500,000 or more and contain or offer access to lakes, rivers, mountains, beaches or other natural attractions. Properties must be suitable for developing the Company's standard facilities and amenities, and the purchase and development costs per campsite must meet

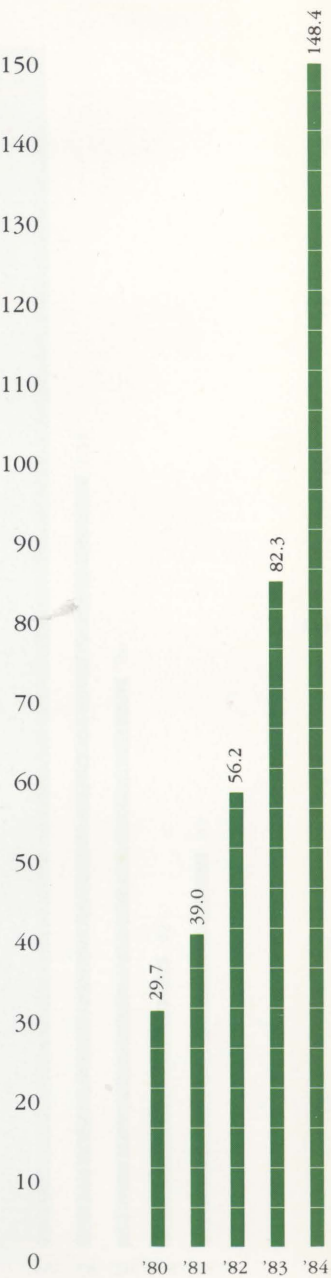
established profitability criteria.

After a property is selected, the Company's staff of engineers, designers and land use planners develop site plans which include all primary facilities such as water and electrical systems, sewage and disposal plants and road construction. Great care is given to protect the environment and retain the natural landscape.

In determining the optimum rate of development for a resort, the Company uses historical data regarding use of the resort by members as well as estimates of future membership sales at the property. The time between acquisition of a property and the opening of sales at a resort varies, depending on whether the new property is undeveloped land or an existing campground. In general, the Company develops each resort in stages. The initial construction phase consists of core facilities, including the information center, entry and tour road and common facilities, such as an activity center, swimming pool and cabana complex, athletic courts and restroom facilities, along with an initial number of campsites. The start-up development phase may last up to two years. As membership sales and usage increase, additional common facilities and campsites are built.

In 1984, the Construction and Engineering Division of Thousand Trails Resorts built 3,783 new campsites, seven adult lodges, four family recreation centers, seven swimming pools and eleven new information centers. The construction team built 46 miles of new roads, laid 66 miles of

**Total Land and Improvements, at Cost**  
(\$ Millions)





*Fran Engstrom  
Member  
Houston, Texas*



*“**W**hen we came to take a tour of  
Thousand Trails, we had no idea that we’d be  
leaving with such a wonderful new lifestyle—42  
‘homes’ to visit throughout the United States.  
This is the perfect alternative to the overcrowded  
and unclean public parks we’ve visited elsewhere.”*



Larry Lawson

Member

Virginia Beach, Virginia



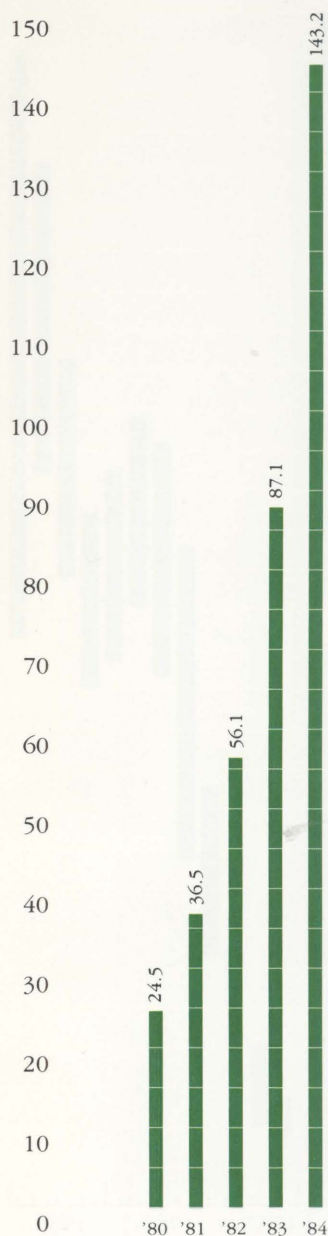
*“My wife and I considered other options before choosing Thousand Trails. What we really appreciate is the sense of ‘family’ we feel wherever we go. All of the employees, from the ranger at the gate to the recreation director, go out of their way to make us feel at home.”*



## Total Membership Contracts

### Receivable

(\$ Millions)



water lines, and installed 152 miles of electrical wire and 46 miles of sewer lines, all without destroying the natural beauty that gives a Thousand Trails resort its character.

*Thousand Trails is, above all else, a social experience.*

Members come to have fun. The challenge of Thousand Trails Resorts is to ensure that every visit to a Thousand Trails resort meets our members' expectations. From the operators of the Advance Notification (reservation) system, to the ranger that greets each member, to the hundreds of men and women who organize and supervise activities and maintain the grounds—all are unified in a single purpose: to provide consistently high levels of quality service to member families. During 1984, Thousand Trails Resorts welcomed more than three quarters of a million members and guests to the resorts, served over 400,000 meals and handled 117,000 advance notification calls.

### Thousand Trails Acceptance Corporation

During 1984, Thousand Trails, Inc. incorporated its membership receivable division into Thousand Trails Acceptance Corporation. This subsidiary manages and controls the contracts receivable arising from installment sales of memberships. In 1984, 12 percent of the Company's membership sales were made for cash and the balance were installment sales.

*Of the Company's memberships at December 31, 1984, approximately 33,900 or 49% were paid in full.* The remaining members who had purchased their mem-

berships on an installment basis had paid an average of 32 percent of their original membership fee.

The total contracts receivable portfolio as of December 31, 1984 was approximately \$143,153,000, with an annual yield of 14.8 percent. Interest income increased from \$10,147,000 in 1983 to \$16,067,000 in 1984 and, as a percentage of total revenues, from 10.1 percent in 1983 to 10.7 percent in 1984.

Each new membership goes through an intensive verification process which is designed to eliminate all questionable sales before they are recorded for financial reporting purposes. Before a sale is recognized, the member is contacted by the corporate office to review the contract and verify the member's commitment to his purchase. Approximately 11 percent of new contracts sent from the resorts to the corporate office are cancelled at this time, and a full refund of any payment is made. A new contract is recognized as a sale and, if an installment sale, added to the receivable portfolio only following this verification. The Company reserves approximately 7 percent of sales for estimated sales cancellations during the first year. The Company further reserves approximately 5 percent of sales for estimated bad debt over the remaining life of the receivable.

During 1984, the "Trails Automatic Payment Plan" was introduced system wide. At year end under this plan, 35 percent of all accounts had monthly payments transferred automatically from the member's bank account to the Company. Currently, 90 percent



of all new members are electing to use the "Trails Automatic Payment Plan." We are especially excited about this program as the Company derives many benefits including a substantial reduction in receivable processing cost and increased payment efficiencies.

The results of the above processes substantiate the high quality of the Thousand Trails membership receivable file and further validate the strength of the Thousand Trails member. During 1984, 93 percent of all payments were received on or before the payment due date. Less than 1.6 percent on the average were over 32 days past-due.

Receivables more than 92 days past-due are written off and membership privileges are terminated. Once an account is written off, an "account recovery" representative is assigned to the account. A member may reinstate his membership by satisfying all prior payments, with interest.

We are often asked how, each year, we consistently improve the quality of our membership receivables in terms of payments, delinquencies and bad debt. Quite simply, in addition to the verification and payment process discussed, we know that receipt of payment is directly correlated to member satisfaction. We also know that member satisfaction is directly correlated to high quality products and services. We not only want our members to use our product, we actively promote usage. Our experience has been that whatever we can do to increase members' use of our product results in multiple benefits to the Company, including

better membership receivable collection results, less bad debt, increased bad debt recovery and better membership referrals.

Historical and planned 1985 usage of Thousand Trails Resorts truly indicates the increased value we have provided to Thousand Trails members. Usage per member has increased from an average of 9 days in 1980 to an average of 21 days in 1984. Our estimates indicate planned usage increasing to an average of 28 days in 1985. This increased usage does not pose a capacity problem for the Company, but rather represents the increased value of our memberships to our more than 68,000 member families.

#### **Happy Trails Resorts, Inc.**

Happy Trails Resorts, Inc. represents a new product for Thousand Trails which allows the Company to capitalize on its campground resort development experience and the growing market for sunbelt recreational vehicle (RV) communities.

A Happy Trails Resort will be a recreational vehicle campground which sells RV lots fee simple and offers a number of resort amenities and special services primarily geared to the needs of active mature adults. In contrast to the Thousand Trails concept, where members purchase usage rights, each lot at Happy Trails will be sold to an individual owner. Typical on-site facilities will include a full-service cafeteria; general store; 18-hole regulation golf course; 4 swimming pools; two neighborhood centers; jacuzzis and saunas; fitness center; health care facility; tennis, shuffleboard and horseshoe courts;

**Quarterly  
Stock  
Prices**

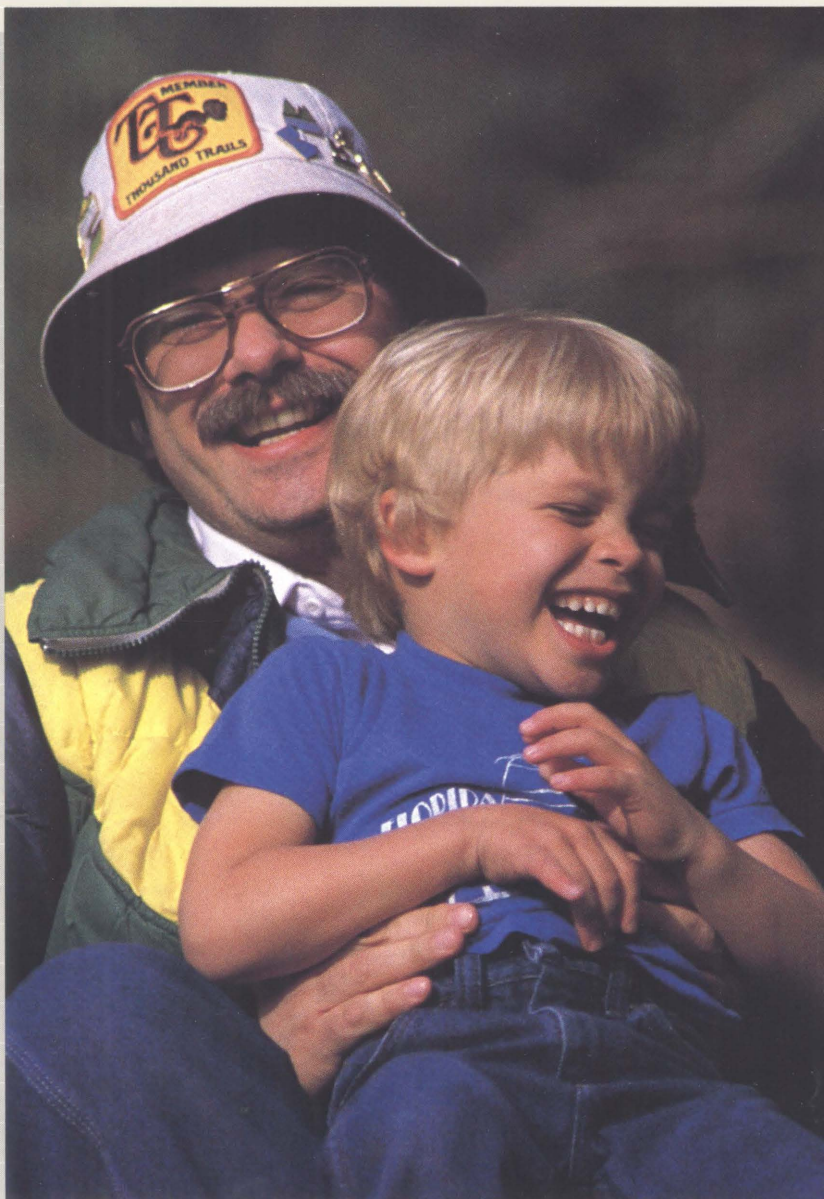




*Dan and Devin Holcombe*

*Members*

*Gresham, Oregon*



*“This is a great place to bring kids. There are so many things for them to do—swimming, biking and lots of planned activities. It’s like sending them to summer camp, but we can all be together, too. As parents, we value the feeling of safety and security that Thousand Trails provides for our family.”*



billiard rooms; chapel; auditorium/ banquet room; outdoor amphitheatre; and arts and crafts workshops. Planned social activities and educational programs will also be available to lot owners.

The first Happy Trails Resort is a joint project of Thousand Trails and Western Savings and Loan of Phoenix, Arizona. Under the agreement, Happy Trails Resorts provides sales, marketing and development services and Western Savings provides all financing at no risk or recourse to Thousand Trails.

The phase one, 320-acre development, now under construction, is 30 miles northwest of Phoenix. When complete, it will include 2,244 RV lots and a full package of resort amenities.

Roy Rogers and Dale Evans are the official spokespeople for Happy Trails Resorts, Inc.

#### **ThouServ, Inc.**

ThouServ, Inc. develops ancillary products and services designed to meet the needs of Thousand Trails members. During its first year of operation, ThouServ offered Visa cards and auto, RV and life insurance products to members. These products were well received, with a majority of the Thousand Trails members taking advantage of these products and services. In 1984, ThouServ generated approximately \$700,000 in revenue.

In 1985, ThouServ will offer additional products to members, such as automobile club services and consumer products for recreational and camping activities. The marketing of these products will be expanded to non-mem-

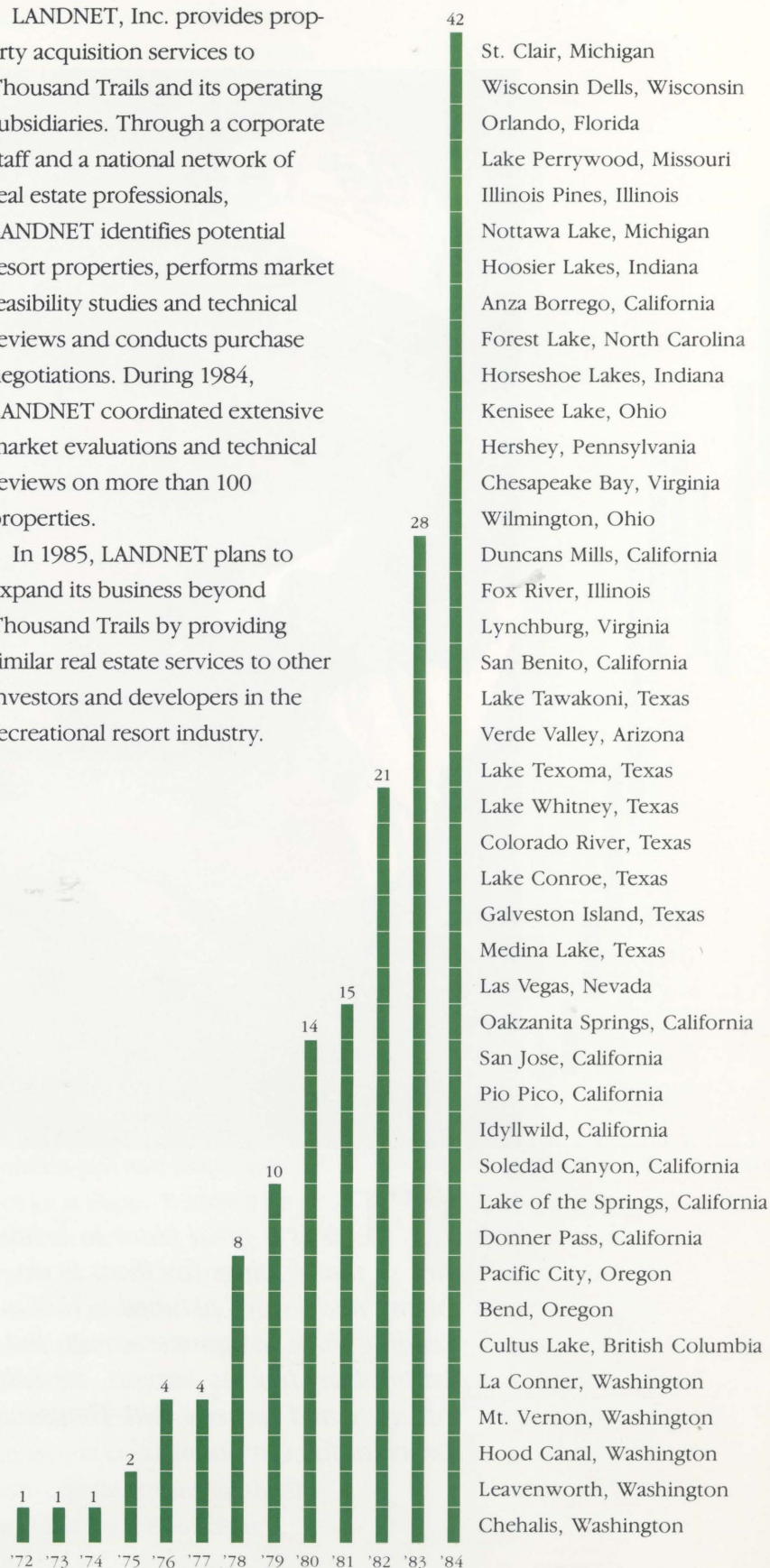
bers, including people who attended a Company sales presentation but did not purchase a membership.

#### **LANDNET, Inc.**

LANDNET, Inc. provides property acquisition services to Thousand Trails and its operating subsidiaries. Through a corporate staff and a national network of real estate professionals, LANDNET identifies potential resort properties, performs market feasibility studies and technical reviews and conducts purchase negotiations. During 1984, LANDNET coordinated extensive market evaluations and technical reviews on more than 100 properties.

In 1985, LANDNET plans to expand its business beyond Thousand Trails by providing similar real estate services to other investors and developers in the recreational resort industry.

#### **Resort Network**





|                                |    |  |
|--------------------------------|----|--|
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**Management's  
Responsibility  
for Financial  
Statements**

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 a 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  
Income Statement  
Data**  
*(in thousands except  
per share amounts)*

| Year Ended December 31,           | 1980     | 1981     | 1982     | 1983     | 1984             |
|-----------------------------------|----------|----------|----------|----------|------------------|
| Membership Sales                  | \$33,950 | \$40,006 | \$56,454 | \$79,971 | <b>\$116,983</b> |
| Gross Profit on Membership Sales  | 13,802   | 14,422   | 23,173   | 31,715   | <b>44,960</b>    |
| Gross Profit on Resort Operations | 383      | 880      | 1,298    | 1,995    | <b>1,965</b>     |
| Net Earnings                      | 4,536    | 3,327    | 7,761    | 12,004   | <b>19,110</b>    |
| Primary Earnings Per Share        | .75      | .47      | .97      | 1.23     | <b>1.78</b>      |
| Fully Diluted Earnings Per Share  | .63      | .45      | .89      | 1.21     | <b>1.76</b>      |

**Selected  
Balance Sheet  
Data**  
*(in thousands)*

| December 31,                          | 1980     | 1981     | 1982     | 1983     | 1984            |
|---------------------------------------|----------|----------|----------|----------|-----------------|
| Current Assets                        | \$ 7,575 | \$10,967 | \$15,981 | \$23,666 | <b>\$35,479</b> |
| Current Liabilities                   | 7,755    | 9,395    | 15,001   | 22,118   | <b>36,674</b>   |
| Membership Contracts Receivable (Net) | 23,482   | 34,696   | 53,443   | 82,373   | <b>134,351</b>  |
| Operating Resorts                     | 29,658   | 39,003   | 56,167   | 82,282   | <b>148,398</b>  |
| Total Assets                          | 52,567   | 70,822   | 102,299  | 151,767  | <b>269,770</b>  |
| Debt:                                 |          |          |          |          |                 |
| Long-Term                             | 20,498   | 22,344   | 23,183   | 28,206   | <b>33,937</b>   |
| Bank Line of Credit                   | 6,811    | 15,855   | 24,279   | 25,033   | <b>88,317</b>   |
| Total Deferred Income Taxes           | 8,458    | 11,437   | 18,505   | 29,033   | <b>45,053</b>   |
| Shareholders' Equity                  | 14,110   | 17,865   | 30,194   | 60,299   | <b>80,917</b>   |



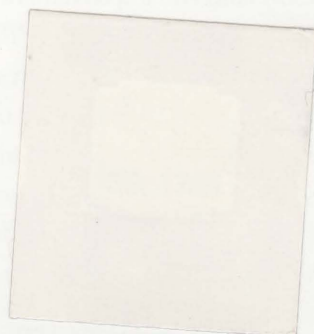
**Management's  
Discussion  
and Analysis of  
Financial Condition  
and Results  
of Operations**

The Company acquires, develops and operates destination campground resorts and sells memberships conveying the right to use these resorts. Memberships are sold either on a cash or an installment basis. All marketing costs and an allowance for estimated losses on installment contracts are recorded currently. Operating resort land and improvement costs, including the Company's estimated costs to fully develop the resorts, are aggregated by geographical region and recorded as a cost of membership sales based upon the ratio of actual memberships sold within each region to the total memberships planned for sale within the region. Members are assessed annual dues which are intended to cover resort operating costs when 40% of the memberships planned for sale in a geographical region have been sold. The Company derives revenue from membership sales, resort operations (principally membership dues) and interest earned on the receivable portfolio arising from the sale of memberships on an installment basis. Set forth below is a table of the Company's sources of revenue as a percentage of total revenues.

| Year Ended December 31, | 1980          | 1981          | 1982          | 1983          | 1984          |
|-------------------------|---------------|---------------|---------------|---------------|---------------|
| Source of Revenue       |               |               |               |               |               |
| Membership Sales        | 85.2%         | 82.0%         | 80.5%         | 79.8%         | <b>78.2%</b>  |
| Resort Operations       | 7.3           | 9.8           | 10.0          | 10.1          | <b>10.6</b>   |
| Interest Income         | 6.3           | 8.5           | 9.4           | 10.1          | <b>10.7</b>   |
| Other                   | 1.2           | (.3)          | .1            | —             | <b>.5</b>     |
|                         | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> |

Membership sales are made only at Company resorts. Sales activities are conducted at most, but not all, operating resorts. Prior to 1983, substantially all membership sales were made to owners of recreational vehicles. During 1983, the Company purchased travel trailers, installed them on its resorts for use by members and began marketing vacation memberships to individuals who do not have a recreational vehicle. The availability of vacation memberships has expanded considerably the number of people capable of utilizing a Thousand Trails membership. Although the vacation membership was designed primarily for individuals who do not have a recreational vehicle, the Company believes that vacation memberships have also been purchased by owners of recreational vehicles who wish to have the ability to rent a Company-owned travel trailer at preferential rates.

Membership sales increases have resulted primarily from growth in the number of resorts operated by the Company and available for use by members ("operating resorts"), as well as the number of operating resorts at which memberships are sold ("selling resorts"). The Company believes that its ability to offer vacation memberships to individuals who do not have a recreational vehicle has significantly enhanced membership sales in geographic areas, particularly the Midwest and East, which have a lower concentration of recreational vehicles than the West and Southwest. The vacation membership has also increased membership sales at the Company's older resorts in the West. The number of vacation memberships sold as a percentage of total memberships sold was 28% in 1983 and 57% in 1984.





The following table provides historical information on membership sales and resorts owned by the Company.

| Year Ended December 31,           | 1980  | 1981  | 1982   | 1983   | 1984   |
|-----------------------------------|-------|-------|--------|--------|--------|
| Units of membership sales:        |       |       |        |        |        |
| Camping                           | 7,704 | 7,585 | 9,743  | 9,989  | 8,037  |
| Vacation                          | —     | —     | 377    | 3,852  | 10,588 |
| Total                             | 7,704 | 7,585 | 10,120 | 13,841 | 18,625 |
| Operating Resorts:                |       |       |        |        |        |
| Selling                           | 12    | 15    | 16     | 21     | 30     |
| Non-Selling                       | 1     | —     | 3      | 4      | 6      |
| Resorts under initial development | 1     | —     | 2      | 3      | 6      |
| Total resorts owned               | 14    | 15    | 21     | 28     | 42     |

## Membership Sales

Revenues from membership sales during the three years ended December 31, 1982, 1983 and 1984 were \$56,454,000, \$79,971,000 and \$116,983,000, respectively. Increases in revenues from membership sales were a result of increases in the number of memberships sold and increases in the average membership price from \$5,600 in 1982 to \$5,800 in 1983, and to \$6,300 in 1984. Increases in the number of total memberships sold in 1983 and 1984 from the prior periods were due primarily to the addition of five selling resorts in 1983 and nine selling resorts in 1984, accounting for 16% and 25% of the total memberships sold in such years, respectively, and to the availability of vacation memberships.

Marketing expenses as a percentage of sales were 44.1% in 1982 and 44.0% in 1983 and increased to 46.3% in 1984. Compensation paid to sales personnel represented approximately 35% of marketing expenses in each of these years. The increase in marketing costs as a percentage of sales in 1984 was due primarily to the commencement of sales activities at 10 of the 11 new operating resorts. New selling resorts tend to have higher marketing costs than the more established selling resorts. Marketing expenses for new selling resorts in new geographic market areas also tend to be higher than for new resorts in established market areas. Nine of the new selling resorts opened in 1984 were in geographical areas in which the Company had not previously marketed memberships.

Resort land and improvement costs attributable to membership sales were \$8,389,000 (14.9% of sales) in 1982, \$13,047,000 (16.3% of sales) in 1983 and \$17,842,000 (15.3% of sales) in 1984. The average land and improvement costs expensed per membership sold in 1982, 1983 and 1984 were approximately \$830, \$940 and \$940, respectively. The percentage increase in 1983 compared with 1982 was due primarily to the sale of more memberships in California, where land and improvement costs are typically higher than the Company's overall average. The percentage decrease in 1984 compared with 1983 resulted from a \$500 increase in the average membership sales price.

The Company expenses resort land and improvement costs based on the ratio of memberships sold to total memberships planned by the Company to be available for sale in each region. The number of memberships planned for sale is derived from the Company's estimate that its resorts can support 10 memberships per campsite without overcrowding. As a result, since inception, the Company has used a 10 to 1 ratio in expensing land and improvement costs attributable to membership sales. For the Company to amortize fully in accordance with its accounting practices the total of incurred and all estimated future land and improvement costs with respect to the planned 22,452 campsites for its current 36 operating resorts, it would be



necessary for it to sell approximately 224,520 memberships, of which 68,660 memberships (31%) were outstanding as of December 31, 1984. If in the future it appears that this number of memberships cannot be sold because of market or usage constraints, the Company will reassess planned future development at its resorts and, if necessary, increase the rate at which it expenses land and improvement costs against subsequent sales, which would adversely affect profit margins and earnings, unless offset in whole or in part by increases in the membership sales prices.

General and administrative expenses as a percentage of membership sales have decreased from 15.2% in 1982 to 14.8% in 1983, and to 12.6% in 1984. These decreases are primarily the result of economies obtained from increases in sales.

The Company provides for estimated losses on installment sales based on its historical collection experience. The provision for doubtful accounts as a percentage of membership sales increased from 4.0% in 1982 to 5.0% in 1983 and 1984 as a result of the increase in the number of sales made on the installment basis, but remained constant as a percentage of the financed portion of installment sales. Installment sales were 74% of sales in 1982, 82% of sales in 1983 and 88% of sales in 1984. Delinquent receivables (defined as receivables more than 32 days past due), as a percentage of the total contracts receivable portfolio of the Company, have averaged approximately 1.8% during each of these three years.

The Company has been able to offset the impact of inflation on its operations through increases in the membership sales prices and increases in annual dues for new members.

#### **Resort Operations**

Revenues from resort operations continued to increase as the base of members grew from 27,620 on January 1, 1982 to 68,660 at December 31, 1984. After allocating to marketing expenses certain costs related to membership sales, resort operations generated a profit during 1982 and 1983, increasing from \$325,000 in 1982 to \$489,000 in 1983. As a result of the addition of 11 new operating resorts in 1984, resort operations incurred a loss of \$588,000 in that year because new resorts initially have a relatively small base of members paying dues. To support its sales activities and maintain member satisfaction, it is the philosophy of the Company to provide facilities and a complete staff at all resorts regardless of the number of memberships sold at any particular resort. The Company does not anticipate any significant earnings contribution from resort operations during the next few years as it continues to expand its resort network.

#### **Interest Income and Expense**

The Company charges interest on the unpaid portion of its membership contracts receivable portfolio at fixed rates which averaged approximately 14.8% in 1982, 1983 and 1984. Interest income increased from \$6,622,000 in 1982 to \$10,147,000 in 1983, and to \$16,067,000 in 1984, due to the substantial increases in the Company's membership contracts receivable portfolio. The total contracts receivable portfolio increased from \$56,114,000 at December 31, 1982 to \$143,153,000 at December 31, 1984.

The Company finances its acquisition and development of resorts through borrowings under its bank line of credit and seller-financed real estate contracts. Seller financing of resort acquisitions accrues interest at fixed rates, generally ranging from 9% to 11%. Financing under the Company's bank line of credit bears interest at variable rates which averaged 12.8% in 1984.

The average cost to the Company of all borrowed funds over the past three years has varied but decreased from 15.2% in 1982 to 11.7% in 1983 and increased to 11.9% in 1984. An increase in interest rates would adversely affect the Company's earnings because interest costs on borrowings under the bank line of credit fluctuate.



## Liquidity and Capital Resources

The Company believes that the number of memberships that may be sold within a region is limited by campsite capacity at, and the size of the market area for, each resort within the region. Accordingly, to continue to generate additional growth in membership sales, it is necessary for the Company to add new resorts as well as to continue development of existing resorts. Substantial costs are incurred to acquire and develop resorts prior to membership sales and usage by members. Revenues from membership sales are recorded in full at the time of sale, although cash flow from memberships sold on installment contracts (constituting 88% of total membership sales in 1984) is received over a number of years.

The following table presents the historical cash flow of the Company.

| Year Ended December 31, (in thousands)  | 1982              | 1983              | 1984              |
|---|-------------------|-------------------|-------------------|
| Cash received from operations:  |                   |                   |                   |
| Membership sales  | \$22,582          | \$27,738          | \$30,549          |
| Collections on contracts receivable,<br>including interest                                | 19,278            | 28,619            | 44,060            |
| Dues and resort revenues  | 7,336             | 10,507            | 15,586            |
| Other   | 133               | 211               | 1,288             |
|   | 49,329            | 67,075            | 91,483            |
| Principal operating expenditures  | (37,077)          | (52,782)          | (74,906)          |
| Cash provided by operations before debt service and<br>resort acquisition and development | 12,252            | 14,293            | 16,577            |
| Cash expended for resort acquisition<br>and development                                   | (12,631)          | (20,609)          | (59,316)          |
| Interest expense  | (4,203)           | (3,957)           | (4,984)           |
| Principal payments on debt related to<br>resort properties                                | (2,388)           | (4,337)           | (4,688)           |
| Cash used in operations   | <u>(\$ 6,970)</u> | <u>(\$14,610)</u> | <u>(\$52,411)</u> |

Although cash provided by operations before debt service and resort acquisition and development has increased over the past three years, internally generated cash flow has not been sufficient to fund the Company's operations because of expenditures to expand the Company's resort network. The Company's decision to offer a number of resorts in the new market areas of the Midwestern and Eastern United States in 1984 required acquisition and development of a substantial number of properties.

The Company also spent \$2,562,000, \$4,331,000 and \$13,480,000 in 1982, 1983 and 1984, respectively, for purchase of construction and operating equipment, a portion of which was financed through borrowings secured by such equipment. These expenditures include approximately \$1,384,000 in 1983 and \$6,744,000 in 1984 for purchase of rental trailers.

The principal sources of cash to fund expansion over the past three years have been bank borrowings of \$8,646,000 and proceeds from the sale of common stock of \$4,161,000 in 1982, bank borrowings of \$851,000 and proceeds from the sale of common stock of \$17,756,000 in 1983, and bank borrowings of \$63,284,000 in 1984.

During 1985, the Company anticipates spending approximately \$37,000,000 for additional development of its 36 operating resorts and six resorts under initial development, approximately \$15,000,000 for acquisition and development of new resorts and approximately \$8,000,000 for additional rental trailers.

On December 31, 1984, the Company's unused sources of liquidity consisted principally of \$1,644,000 in cash and approximately \$9,646,000 of additional borrowing capacity under its



bank line of credit. On March 14, 1985, the Company sold \$75,000,000 of 14<sup>5</sup>/<sub>8</sub>% Senior Subordinated Notes due 1992. The net proceeds to the Company from the sale of the notes were \$71,254,500, and such proceeds were used to reduce borrowings under the Company's bank line of credit. After application of the net proceeds from the sale of the notes, the Company had a total of \$46,172,000 in available credit under the \$65,000,000 revolving portion of its bank line of credit. In addition, the Company has received a commitment from the bank to readvance the \$50,000,000 term portion of its bank line of credit which, upon execution of final documentation, will provide a total of \$96,172,000 in available credit, subject to collateral limitations.

The Company has generated additional liquidity through the deferral of income taxes, principally as a result of reporting membership sales on the installment method for income tax purposes. Income taxes may continue to be deferred and additional liquidity thereby provided as long as the Company continues to use the installment method for income tax purposes and continues to expand its membership contracts receivable portfolio. The United States Treasury Department has proposed legislation which, if adopted, could limit tax deferral by the Company and others which use the installment method. In addition, other legislative changes, judicial decisions or administrative rulings, positions or regulations could preclude use of the installment method by the Company, perhaps with retroactive effect. In the event that any of the foregoing were to occur, the Company's cash flow, working capital and results of operations would be adversely affected.

The Company has developed and will continue to assess incentive programs intended to accelerate cash flow by encouraging members to pay their installment contracts in full prior to maturity. These incentive programs generated additional cash of approximately \$1,139,000 in 1982, \$2,249,000 in 1983 and \$9,800,000 in 1984. Down payments and cash sales as a percentage of membership sales were 40% in 1982, 35% in 1983 and 26% in 1984. The Company is currently testing incentive programs intended to increase down payments and cash sales as a percentage of membership sales and will implement programs which prove successful.

The Company believes its capital requirements through the end of 1985 will be met by its bank line of credit, including the additional commitment discussed above, seller financing of resort acquisitions, deferral of income taxes, and cash generated by operations.



Thousand Trails, Inc.  
and Subsidiaries

**Consolidated  
Balance Sheets**

| <b>Assets</b> Year Ended December 31,   | 1983                 | 1984                 |
|---|----------------------|----------------------|
| Current Assets:   |                      |                      |
| Cash  | \$ 770,000           | \$ 1,644,000         |
| Membership Contracts Receivable, net of allowance of<br>\$1,111,000 and \$1,797,000                 | 19,271,000           | 27,426,000           |
| Inventory and other assets  | 3,625,000            | 6,409,000            |
| Total Current Assets  | 23,666,000           | 35,479,000           |
| Membership Contracts Receivable, net of allowance of<br>\$3,638,000 and \$7,005,000                 | 63,102,000           | 106,925,000          |
| Operating Resorts:  |                      |                      |
| Land  | 17,702,000           | 28,981,000           |
| Improvements  | 64,580,000           | 119,417,000          |
|   | 82,282,000           | 148,398,000          |
| Costs attributable to membership sales  | (38,466,000)         | (55,661,000)         |
|   | 43,816,000           | 92,737,000           |
| Resorts Under Initial Development, at Cost  | 6,592,000            | 9,830,000            |
| Resort Operating Equipment, Net of Accumulated<br>Depreciation of \$1,060,000 and \$2,217,000       | 2,688,000            | 9,356,000            |
| Investment in Real Estate, at Cost  | 2,773,000            | 3,203,000            |
| Construction and Other Equipment, Net of Accumulated<br>Depreciation of \$2,114,000 and \$2,902,000 | 2,605,000            | 5,596,000            |
| Other Assets, at Cost   | 6,525,000            | 6,644,000            |
|   | <u>\$151,767,000</u> | <u>\$269,770,000</u> |

See notes to consolidated financial statements.



Thousand Trails, Inc.  
and Subsidiaries

**Consolidated  
Balance Sheets**

| <b>Liabilities and Shareholders' Equity</b>   | December 31, | 1983                 | 1984                 |
|---|--------------|----------------------|----------------------|
| <b>Current Liabilities:</b>                   |              |                      |                      |
| Accounts payable                              |              | \$ 2,415,000         | \$ 5,980,000         |
| Accrued salaries                              |              | 3,714,000            | 6,110,000            |
| Prepaid membership dues                       |              | 1,887,000            | 2,706,000            |
| Other liabilities                             |              | 1,180,000            | 3,322,000            |
| Current portion of long-term debt             |              | 5,896,000            | 9,359,000            |
| Deferred income taxes                         |              | 7,026,000            | 9,197,000            |
| Total Current Liabilities                     |              | 22,118,000           | 36,674,000           |
| <b>Long-Term Debt</b>                         |              |                      |                      |
|   |              | 47,343,000           | 112,895,000          |
| Deferred Income Taxes                         |              | 22,007,000           | 35,856,000           |
| Deferred Rental Revenue                       |              |                      | 3,428,000            |
| <b>Commitments and Contingencies (Note G)</b> |              |                      |                      |
| <b>Shareholders' Equity:</b>                  |              |                      |                      |
| Common Stock, no par value—                   |              |                      |                      |
| Authorized, 15,000,000 shares;                |              |                      |                      |
| Issued and outstanding,                       |              |                      |                      |
| 10,197,145 and 10,658,476                     |              | 29,358,000           | 30,934,000           |
| Retained Earnings                             |              | 30,941,000           | 49,983,000           |
|   |              | 60,299,000           | 80,917,000           |
|   |              | <u>\$151,767,000</u> | <u>\$269,770,000</u> |



| Thousand Trails, Inc.<br>and Subsidiaries          | Year Ended December 31,                 | 1982                | 1983                | 1984                 |
|--|---|---------------------|---------------------|----------------------|
| <b>Consolidated<br/>Statements<br/>of Earnings</b> | Membership Sales                        | \$56,454,000        | \$79,971,000        | <b>\$116,983,000</b> |
|  | Costs Attributable to Membership Sales: |                     |                     |                      |
|  | Marketing expenses                      | 24,892,000          | 35,209,000          | <b>54,181,000</b>    |
|  | Resort land and improvement costs       | 8,389,000           | 13,047,000          | <b>17,842,000</b>    |
|  | General and administrative expenses     | 8,612,000           | 11,827,000          | <b>14,730,000</b>    |
|  | Provision for doubtful accounts         | 2,241,000           | 3,977,000           | <b>5,880,000</b>     |
|  |   | 44,134,000          | 64,060,000          | <b>92,633,000</b>    |
|  | Income from Membership Sales            | 12,320,000          | 15,911,000          | <b>24,350,000</b>    |
|  | Resort Operations:                      |                     |                     |                      |
|  | Membership dues                         | 4,982,000           | 7,355,000           | <b>10,551,000</b>    |
|  | Resort revenue and rental income        | 2,015,000           | 2,749,000           | <b>5,264,000</b>     |
|  |   | 6,997,000           | 10,104,000          | <b>15,815,000</b>    |
|  | Less —                                  |                     |                     |                      |
|  | Maintenance and operations expense      | 3,860,000           | 5,709,000           | <b>10,107,000</b>    |
|  | Cost of resort revenue                  | 1,839,000           | 2,400,000           | <b>3,743,000</b>     |
|  | General and administrative expenses     | 973,000             | 1,506,000           | <b>2,553,000</b>     |
|  |   | 6,672,000           | 9,615,000           | <b>16,403,000</b>    |
|  | Income (Loss) from Resort Operations    | 325,000             | 489,000             | <b>(558,000)</b>     |
|  | Other Income (Expense):                 |                     |                     |                      |
|  | Interest income                         | 6,622,000           | 10,147,000          | <b>16,067,000</b>    |
|  | Interest expense                        | (4,203,000)         | (3,957,000)         | <b>(5,124,000)</b>   |
|  | Other                                   | 35,000              | 42,000              | <b>691,000</b>       |
|  |   | 2,454,000           | 6,232,000           | <b>11,634,000</b>    |
|  | Earnings Before Deferred Income Taxes   | 15,099,000          | 22,632,000          | <b>35,396,000</b>    |
|  | Deferred Income Taxes                   | 7,338,000           | 10,628,000          | <b>16,286,000</b>    |
|  | Net Earnings                            | <b>\$ 7,761,000</b> | <b>\$12,004,000</b> | <b>\$19,110,000</b>  |
|  | Net Earnings Per Share:                 |                     |                     |                      |
|  | Primary                                 | <b>\$ .97</b>       | <b>\$1.23</b>       | <b>\$1.78</b>        |
|  | Fully diluted                           | <b>\$ .89</b>       | <b>\$1.21</b>       | <b>\$1.76</b>        |

See notes to consolidated financial statements.



Thousand Trails, Inc.  
and Subsidiaries

**Consolidated  
Statements of  
Shareholders' Equity**

|                                     | Common Stock      |                     | Retained Earnings   |
|-------------------------------------|-------------------|---------------------|---------------------|
|                                     | Shares            | Amount              |                     |
| Balance, January 1, 1982            | 6,873,565         | \$ 6,588,000        | \$11,277,000        |
| Debenture conversions               | 114,239           | 286,000             |                     |
| Issuance of common stock            | 1,221,435         | 4,378,000           |                     |
| Foreign currency translation        |                   |                     | (96,000)            |
| Net earnings                        |                   |                     | 7,761,000           |
| Balance, December 31, 1982          | 8,209,239         | 11,252,000          | 18,942,000          |
| Debenture conversions               | 116,704           | 296,000             |                     |
| Issuance of common stock            | 1,871,202         | 17,810,000          |                     |
| Foreign currency translation        |                   |                     | (5,000)             |
| Net earnings                        |                   |                     | 12,004,000          |
| Balance, December 31, 1983          | 10,197,145        | 29,358,000          | 30,941,000          |
| <b>Debenture conversions</b>        | <b>230,135</b>    | <b>587,000</b>      |                     |
| <b>Issuance of common stock</b>     | <b>231,196</b>    | <b>989,000</b>      |                     |
| <b>Foreign currency translation</b> |                   |                     | <b>(68,000)</b>     |
| <b>Net earnings</b>                 |                   |                     | <b>19,110,000</b>   |
| <b>Balance, December 31, 1984</b>   | <b>10,658,476</b> | <b>\$30,934,000</b> | <b>\$49,983,000</b> |

See notes to consolidated financial statements.



| Thousand Trails, Inc.<br>and Subsidiaries                                   | Year Ended December 31,   | 1982          | 1983          | 1984          |
|---|---|---------------|---------------|---------------|
| <b>Consolidated<br/>Statements of<br/>Changes in<br/>Financial Position</b> | Operations:   |               |               |               |
|   | Cash Received —   |               |               |               |
|   | Membership sales  | \$ 22,582,000 | \$ 27,738,000 | \$ 30,549,000 |
|   | Collections on contracts receivable,<br>including interest  | 19,278,000    | 28,619,000    | 44,060,000    |
|   | Dues and resort revenues  | 7,336,000     | 10,507,000    | 15,586,000    |
|   | Other   | 133,000       | 211,000       | 1,288,000     |
|   |   | 49,329,000    | 67,075,000    | 91,483,000    |
|   | Cash Expended —   |               |               |               |
|   | Marketing expenses  | 23,211,000    | 32,832,000    | 48,653,000    |
|   | General and administrative expenses   | 7,739,000     | 11,325,000    | 12,510,000    |
|   | Resort maintenance and operations   | 6,127,000     | 8,625,000     | 13,743,000    |
|   |   | 37,077,000    | 52,782,000    | 74,906,000    |
|   | Cash provided by operations before debt<br>service and resort acquisition<br>and development                        | 12,252,000    | 14,293,000    | 16,577,000    |
|   | Cash expended for resort acquisition<br>and development   | (12,631,000)  | (20,609,000)  | (59,316,000)  |
|   | Interest expense  | (4,203,000)   | (3,957,000)   | (4,984,000)   |
|   | Principal payments on debt related<br>to resort properties  | (2,388,000)   | (4,337,000)   | (4,688,000)   |
|   | Cash used in operations   | (6,970,000)   | (14,610,000)  | (52,411,000)  |
|   | Other Sources (Uses) of Cash:   |               |               |               |
|   | Issuance of common stock  | 4,161,000     | 17,756,000    | 989,000       |
|   | Proceeds of borrowings collateralized by<br>contracts receivable  | 8,646,000     | 851,000       | 63,284,000    |
|   | Purchase of resort operating equipment,<br>net of related borrowings of \$1,008,000,<br>\$1,302,000 and \$3,165,000 | (313,000)     | (1,711,000)   | (5,953,000)   |
|   | Purchase of construction and other equipment,<br>net of related borrowings of \$64,000,<br>\$86,000 and \$96,000    | (1,177,000)   | (1,232,000)   | (4,266,000)   |
|   | Principal payments on notes payable and<br>credit line arrangements   | (735,000)     | (1,109,000)   | (306,000)     |
|   | Investment in preferred stock   | (3,000,000)   |               |               |
|   | Other, net  | (81,000)      | 122,000       | (463,000)     |
|   |   | 7,501,000     | 14,677,000    | 53,285,000    |
|   | Increase in Cash  | 531,000       | 67,000        | 874,000       |
|   | Cash:   |               |               |               |
|   | Beginning of year   | 172,000       | 703,000       | 770,000       |
|   | End of year   | \$ 703,000    | \$ 770,000    | \$ 1,644,000  |

See notes to consolidated financial statements.



Thousand Trails, Inc.  
and Subsidiaries

**Notes to Consolidated  
Financial Statements**

Three Years Ended  
December 31, 1984

**NOTE A**

**Significant  
Accounting  
Policies**

**General**

The Company and its subsidiaries operate membership-based destination resort campgrounds 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 an installment basis. Membership sales are recorded in full upon execution of membership contracts. Installment sales require a down payment of at least ten percent of the sales price. All marketing costs and an allowance for estimated contract collection losses (based on historical loss occurrence rates) are recorded currently.

Certain membership contracts provide for prepaid use by members of Company-owned rental trailers. Revenue attributable to prepaid use is recorded as deferred rental revenue and recognized over the period of expected use.

Members are assessed annual dues which are used for resort maintenance and operations, member services and related general and administrative expenses. The Company establishes dues at rates intended to fully provide for such expenses when active memberships sold reach approximately 40 percent of total memberships available for sale. Membership contracts provide for annual adjustment of dues to reflect increases in the Consumer Price Index.

**Operating Resorts**

Operating resort land and improvement costs, including the estimated costs to fully develop the resorts, are aggregated by geographical region and recorded as a cost of membership sales based upon the ratio of actual memberships sold within each region to the total memberships planned for sale within the 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 resorts in that region. The Company currently plans to sell ten memberships for each campsite. Resort utilization statistics are reviewed on a regular basis, and the number of total planned memberships available for sale will be revised if future experience indicates the ten-to-one ratio is no longer appropriate. As of December 31, 1984, the Company had 68,660 members, which represented approximately one-third of the total memberships planned for sale on its 36 operating resorts.

**Resorts Under Initial Development**

Resorts under initial development are classified as operating resorts when development has been completed to the extent that the resorts are 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 resorts is classified as investment in real estate. Real estate contiguous to operating resorts 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 resorts are subject to land use permits obtained in connection with development of the resorts. Prior to disposition or development of such parcels, the Company will be required to obtain waivers or modifications of such permits from local governmental authorities.

**Depreciation**

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

**Foreign Currency Translation**

The Company translates the financial statements of its Canadian subsidiary into U.S. dollars at exchange rates in effect as of the balance sheet dates. Unrealized translation gains and losses are included in retained earnings.



## Earnings Per Share

Earnings per share of common stock are computed based on weighted average common and equivalent shares outstanding during the year retroactively restated for the three-for-two stock split payable to shareholders of record on May 22, 1984. Stock options, warrants and rights to purchase stock are included in the computation of earnings per share when dilutive. The effect of an assumed conversion of the Company's convertible subordinated debentures is also included in the computation of fully diluted earnings per share.

## Reclassifications

Certain reclassifications have been made in the 1982 and 1983 financial statements to conform with 1984 classifications.

## NOTE B

### Membership

### Contracts

### Receivable

Membership contracts receivable bear interest at an average rate of 14.8% and currently are written with initial terms of 24 to 84 months (average 71 months in 1984). The Company has no obligation to refund monies received or to provide further services to members in the event a membership is cancelled for nonpayment of contractual obligations.

Scheduled aggregate annual principal payments on membership contracts are as follows:

| Year ended December 31, |              |
|-------------------------|--------------|
| 1985                    | \$29,223,000 |
| 1986                    | 28,828,000   |
| 1987                    | 26,683,000   |
| 1988                    | 22,516,000   |
| 1989                    | 16,605,000   |
| 1990                    | 11,678,000   |
| 1991                    | 7,620,000    |

The Company received principal payments in excess of scheduled payments in 1982, 1983 and 1984 of \$1,139,000, \$2,249,000 and \$9,800,000, respectively, by utilizing early payment incentive programs.

Substantially all membership contracts receivable are pledged as collateral for debt.

## NOTE C

### Long-Term Debt

### and Line of Credit

Long-term debt and line of credit consist of the following:

| Year ended December 31,  | 1983         | 1984          |
|--|--------------|---------------|
| Real estate contracts and capitalized leases, 6.5% to 13.25% (average 9.7%), payable in aggregate monthly installments of \$491,000 and \$587,000 including interest | \$23,096,000 | \$ 28,604,000 |
| Notes, 6% to 14.5% (average 12.4%), payable in monthly installments of approximately \$60,000 and \$46,000 including interest  | 1,967,000    | 1,378,000     |
| Equipment and other contracts, 8.8% to 18.6% (average 13.1%), payable in aggregate monthly installments of \$116,000 and \$182,000 including interest                | 2,492,000    | 3,955,000     |
| 13% convertible subordinated debentures  | 651,000      | —             |
|  | 28,206,000   | 33,937,000    |
| Line of credit   | 25,033,000   | 88,317,000    |
|  | 53,239,000   | 122,254,000   |
| Current portion  | (5,896,000)  | (9,359,000)   |
|  | \$47,343,000 | \$112,895,000 |



Substantially all of the Company's assets are pledged as collateral for the above debt. Aggregate annual principal payments are as follows:

| Year ended December 31, |             |
|-------------------------|-------------|
| 1985                    | \$9,359,000 |
| 1986                    | 9,692,000   |
| 1987                    | 8,841,000   |
| 1988                    | 10,449,000  |
| 1989                    | 17,867,000  |

The Company's \$100,000,000 bank line of credit includes a \$65,000,000 revolving working capital credit line, a \$25,000,000 term loan restricted to acquisition and development of properties and a \$10,000,000 working capital term loan. Borrowings under the credit line may not exceed 70% of the aggregate amount of the Company's qualifying membership contracts receivable. At December 31, 1984, qualifying membership contracts receivable totaled \$139,947,000 which would permit maximum borrowings of \$97,963,000. The Company is restricted from payment of cash dividends without the bank's approval.

The \$65,000,000 revolving credit line, which may be converted at the option of the Company or the bank to a term loan payable over 36 months, bears interest at the bank's prime lending rate plus .25% (11% as of December 31, 1984). The Company had borrowed \$53,342,000 of the revolving credit line as of December 31, 1984. None of the amount due under the revolving credit line is included in the current portion of long-term debt. The bank can, at its option, cease making additional advances under the \$65,000,000 revolving credit line, in which case the outstanding revolving balance would convert to a three-year term loan.

The \$25,000,000 term loan bears interest at the 26-week Treasury bill rate plus 3.5% (12.5% as of December 31, 1984). This loan is payable in twelve monthly principal installments of \$293,000 commencing June 1985 with the balance due in equal principal payments over 72 months. The Company had borrowed \$24,975,000 of this loan as of December 31, 1984. The financial institution funding this loan owned approximately 23% of the Company's common stock on December 31, 1984.

As of December 31, 1984, the Company had borrowed all of the \$10,000,000 working capital term loan which bears interest at 14.875%. This loan is payable in five equal annual principal installments commencing in 1988.

The Company has received a commitment from the bank to increase its line of credit to \$125,000,000 by adding a second \$25,000,000 term loan restricted to acquisition and development of resorts. This loan will bear interest at a fixed rate of 14.875% and, if borrowed by the Company, will be payable in twelve monthly principal installments of \$107,000 commencing June 1985 with the balance due in equal principal payments over 72 months. The funding of this loan is subject to execution of final documentation.

#### NOTE D

#### Deferred

#### Income Taxes

The provision for deferred income taxes consists of the following:

| Year ended December 31, | 1982                | 1983                | 1984                |
|-------------------------|---------------------|---------------------|---------------------|
| Federal                 | \$ 6,563,000        | \$ 9,539,000        | <b>\$14,434,000</b> |
| Foreign and state       | 775,000             | 1,089,000           | <b>1,852,000</b>    |
|                         | <b>\$ 7,338,000</b> | <b>\$10,628,000</b> | <b>\$16,286,000</b> |



The income tax provision was reduced by investment tax credits of \$66,000 in 1982, \$226,000 in 1983 and \$934,000 in 1984. Investment tax credits are recorded as a reduction of the income tax provision in the year available.

The tax effect of items reported in different periods for financial statement and income tax purposes is as follows:

| Year ended December 31,  | 1982               | 1983                | 1984                |
|--|--------------------|---------------------|---------------------|
| Installment sales  | \$ 9,200,000       | \$13,309,000        | <b>\$18,514,000</b> |
| Capitalized interest   | 805,000            | 211,000             | <b>1,379,000</b>    |
| Resort land and improvement costs                                | (1,642,000)        | (4,033,000)         | <b>(1,877,000)</b>  |
| Decrease (increase) in tax basis net operating loss carryforward | (1,138,000)        | 977,000             | <b>(2,079,000)</b>  |
| Other, net   | 113,000            | 164,000             | <b>349,000</b>      |
|  | <b>\$7,338,000</b> | <b>\$10,628,000</b> | <b>\$16,286,000</b> |

## NOTE E

### Incentive

### Stock Plans

The Company has two stock option plans under which common stock is reserved for issuance to officers and key employees. Under the 1979 plan, options are exercisable 25% each year commencing one year after the date of grant and expire after ten years. Under the 1980 plan, options are exercisable in full commencing one year after the date of grant and expire after five years. Options are priced at not less than the market price of the Company's common stock at the date of grant.

Information with respect to options granted under the plans is as follows:

|                                 | Authorized       | Available for Grant | Options Outstanding<br>Shares | Price Per Share       | Options<br>Currently<br>Exercisable | Options<br>Exercised |
|---------------------------------|------------------|---------------------|-------------------------------|-----------------------|-------------------------------------|----------------------|
| Balance at                      |                  |                     |                               |                       |                                     |                      |
| December 31, 1983               | 796,950          | 19,200              | 232,778                       | \$2.37—\$15.33        | 163,656                             | 544,972              |
| Additional shares               | 365,625          | 365,625             |                               |                       |                                     |                      |
| Options granted                 |                  | (201,875)           | 201,875                       |                       |                                     |                      |
| Options exercised               |                  |                     | (136,552)                     |                       | (136,552)                           | 136,552              |
| Options forfeited               |                  | 7,236               | (7,236)                       |                       |                                     |                      |
| Options exercisable during year |                  |                     |                               |                       | 30,426                              |                      |
| <b>Balance at</b>               |                  |                     |                               |                       |                                     |                      |
| <b>December 31, 1984</b>        | <b>1,162,575</b> | <b>190,186</b>      | <b>290,865</b>                | <b>\$2.37—\$15.33</b> | <b>57,530</b>                       | <b>681,524</b>       |

Since 1982, the Company has reserved 975,000 shares for issuance under a stock purchase plan for officers and key employees. The plan provides for sale of common stock to participants on a cash or installment basis at a price not less than market value. Shares sold on the installment basis are issued and recorded in the financial statements upon receipt of payment. Of the shares reserved for issuance under the plan, 286,875 shares were sold in 1982 at \$2.55 per share, 347,250 shares were sold in 1983 at an average of \$13.91 per share and 111,125 shares were sold in 1984 at an average of \$15.27 per share. During 1983 and 1984, 215,491 and 88,743 shares, respectively, were issued under the plan.

In November 1983 and April 1984, the Company sold 150,000 shares of common stock to its then President on the installment basis at an average of \$15.71 per share. At December 31, 1984, payment for 3,750 shares had been received and such shares had been issued.



**NOTE F****Post-Employment  
Agreements**

During 1983, the Company entered into post-employment agreements with certain key officers. The agreements provide for pre-retirement death benefits, post-employment consulting, retirement benefits and an agreement not to compete. Costs to the Company under these agreements were \$275,000 in 1983 and \$300,000 in 1984.

**NOTE G****Commitments and  
Contingencies**

Certain of the Company's resorts have been developed and must be operated in compliance with the provisions of applicable land use permits. Management believes the Company 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 resort operations or for further development.

The Company has operating lease obligations of approximately \$975,000 annually until 1994.

**NOTE H****Costs and Expenses**

The Company capitalizes interest as a component of the cost of significant improvements to resorts. Total interest costs were \$6,756,000 in 1982, \$6,411,000 in 1983 and \$11,007,000 in 1984, of which \$2,553,000, \$2,454,000 and \$5,883,000, respectively, were capitalized.

Certain resort operating costs are incurred to provide support for the Company's marketing program and classified as marketing expenses as follows:

| Year ended December 31, |            |
|-------------------------|------------|
| 1982                    | \$ 963,000 |
| 1983                    | 1,234,000  |
| 1984                    | 3,040,000  |

**NOTE I****Quarterly  
Financial  
Information  
(Unaudited)**

The following table sets forth quarterly financial information (in thousands except per share data).

|                       | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
|-----------------------|------------------|-------------------|------------------|-------------------|
| <b>1983:</b>          |                  |                   |                  |                   |
| Membership sales      | \$ 8,722         | \$21,773          | \$31,317         | \$18,159          |
| Gross profit          | 2,967            | 8,975             | 12,892           | 6,881             |
| Earnings before taxes | 1,698            | 7,012             | 9,729            | 4,193             |
| Net earnings          | 873              | 3,604             | 5,001            | 2,526             |
| Earnings per share —  |                  |                   |                  |                   |
| Primary               | \$.10            | \$.39             | \$.50            | \$.24             |
| Fully diluted         | .09              | .38               | .49              | .23               |
| <b>1984:</b>          |                  |                   |                  |                   |
| Membership sales      | \$17,725         | \$32,725          | \$42,649         | \$23,884          |
| Gross profit          | 6,700            | 13,630            | 17,062           | 7,568             |
| Earnings before taxes | 5,129            | 11,400            | 14,715           | 4,152             |
| Net earnings          | 2,641            | 5,871             | 7,650            | 2,948             |
| Earnings per share —  |                  |                   |                  |                   |
| Primary               | \$.25            | \$.55             | \$.70            | \$.28             |
| Fully diluted         | .25              | .54               | .70              | .27               |



**Report of  
Independent  
Certified  
Public Accountants**

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, 1983 and 1984, 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, 1984. 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, 1983 and 1984, 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, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

TOUCHE ROSS & CO.  
Certified Public Accountants

Seattle, Washington  
February 7, 1985

In November 1983 and April 1984, the Company sold 190,000 shares of common stock to its President at an average price of \$15.74 per share. At December 31, 1984, payment for 3,750 shares had been received and such shares had been issued.



### **Transfer Agent and Registrar**

The First Jersey National Bank  
One Exchange Plaza  
Jersey City, New Jersey 07303

### **Independent Accountants**

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

### **Corporate Headquarters**

15325 S.E. 30th Place  
Bellevue, Washington 98007

### **Annual Meeting**

Thursday, June 20  
2 p.m.  
15325 S.E. 30th Place  
Bellevue, WA 98007

### **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 and Chief Financial Officer, Thousand Trails, Inc. 15325 S.E. 30th Place Bellevue, WA 98007

### **Investor Relations Counsel**

Wall Street Group  
63 Wall Street  
New York, NY 10005

### **Directors**

Thomas J. Cable, ▲●  
*General Partner, Cable, Howse  
& Ragen, Inc.,  
Seattle, WA*

Gary H. Driggs, ■  
*President & Chief Executive Officer  
Western Savings & Loan  
Association, Phoenix, AZ*

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

Jerry D. Horn, ▲  
*President & Chief Executive Officer  
General Nutrition Corporation*

C. James Jensen, ▲  
*Thousand Trails, Inc.*

Melvyn R. Kays, ▲  
*Thousand Trails, Inc.*

Milton G. Kuolt II, ▲  
*President & Chief Executive Officer  
Horizon Air, Seattle, WA*

Robert M. Mayes,  
*Thousand Trails, Inc.*

J. Paul Meyer, ●■  
*The Boeing Company, retired*

James F. Nordstrom,  
*President,  
Nordstrom, Inc., Seattle WA*

Edwin M. Stanley, ■  
*Chairman,  
Management Compensation  
Group, Portland, OR*

J.P. Weyerhaeuser III,  
*Weyerhaeuser Company, retired*

▲ member of executive committee

● member of audit committee

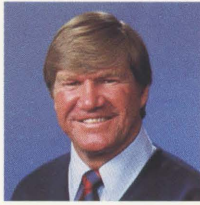
■ member of compensation committee



## Corporate Officers

### Thousand Trails, Inc.

Jim Jensen  
*Chairman of the Board & Chief Executive Officer*



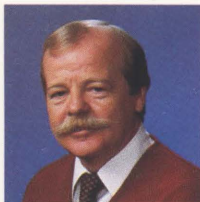
Julie Brooks  
*Vice President & General Counsel*



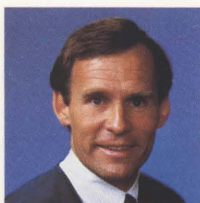
Kathy Hornsby  
*Vice President & Corporate Secretary*



Mel Kays  
*Executive Vice President & Chief Financial Officer*



Craig Kirsch  
*Vice President Finance & Corporate Treasurer*

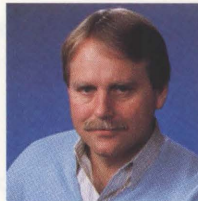


### Thousand Trails Resorts, Inc.\*

Bob Mayes  
*President*



Jerry Alto  
*Vice President Communications*



Howard Behar  
*Vice President Resort Operations*



Duke Campbell  
*Vice President Operations*



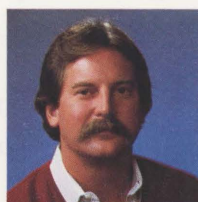
Jim Claus  
*Vice President Finance*



Tom James  
*Vice President Sales*



Don Kent  
*Vice President Marketing*



### Thousand Trails Acceptance Corporation\*

Al Schriber  
*President*



### Happy Trails Resorts, Inc.\*

Jerry Andres  
*President*



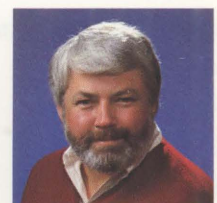
### ThouServ, Inc.\*

Ron Bidleman  
*President*



### LANDNET, Inc.\*

Paul Constantine  
*President*



*\*Wholly-owned subsidiaries of Thousand Trails, Inc.*



THOUSAND TRAILS, INC.

15325 S.E. 30th Place

Bellevue, WA 98007

11 1982  
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