

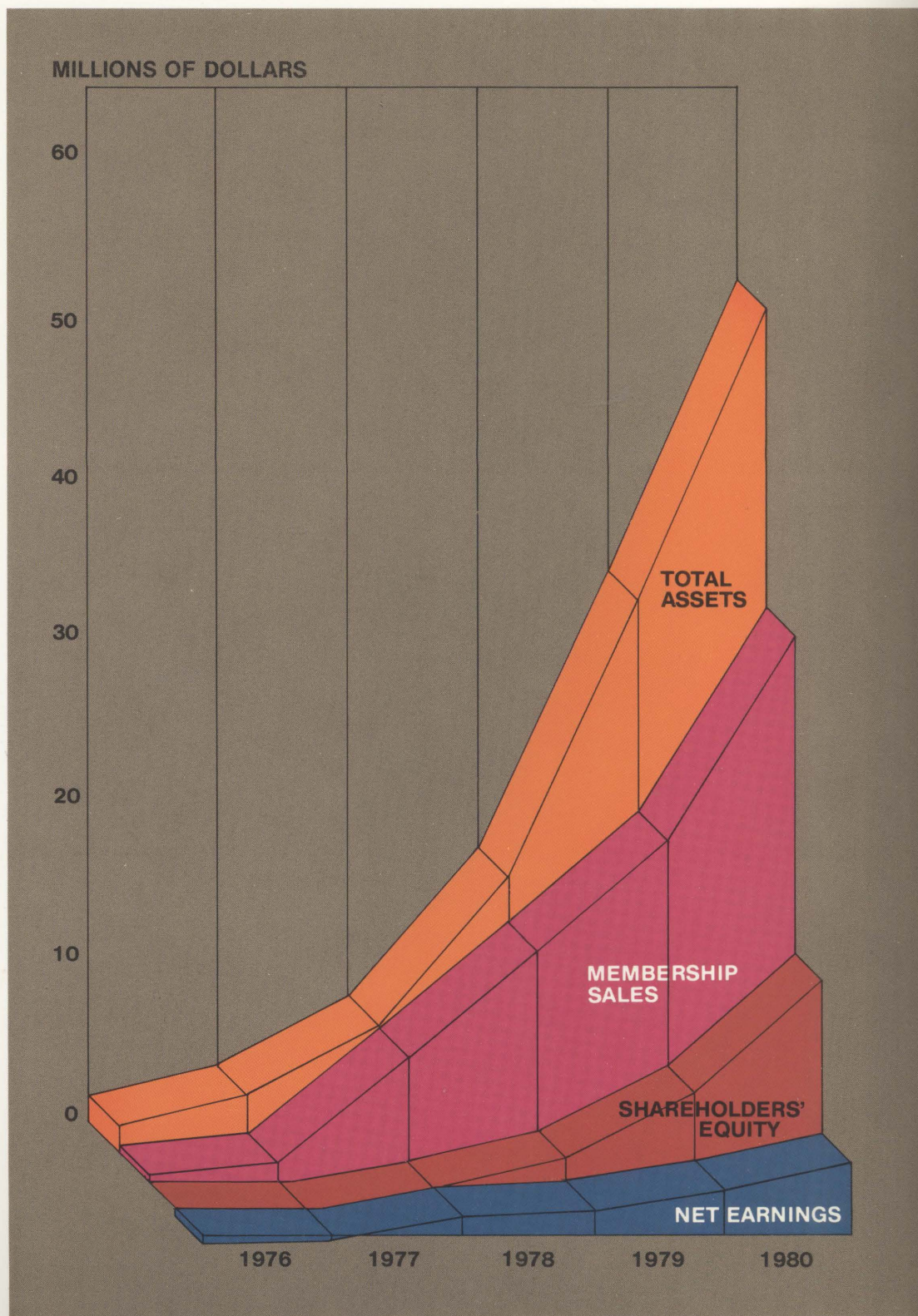
Thousand
Trails, Inc.
1980
Annual
Report



Table of Contents

Executive Officers' Letter.....	3-5
Site Selection	7
Design and Construction.....	9
Sales and Marketing	11
Resort Services	13
Corporate Services.....	15
Financial Statements.....	17-35
Officers and Directors	36
Thousand Trails Preserves	Back Cover

The Cover . . . Natural beauty is a prime consideration in site selection of a Thousand Trails preserve. This winter scene at Donner Pass typifies the Company's concern in providing a natural environment for members.





The Company

Thousand Trails owns and operates membership-based recreational preserves offering the finest in outdoor living on scenic properties located on the West Coast. A membership in Thousand Trails offers to thousands of families an alternative to many of the shortcomings of existing State and National campgrounds. The Company's preserves generally include amenities such as 24-hour security, planned recreational programs, adult and family clubhouses, tennis and sports courts, swimming pools, playground facilities, nature trails and other amenities to meet the requirements of our members.

Now members can share in fourteen choice areas, ranging from Pio Pico near San Diego, California to Cultus Lake, British Columbia. Each preserve offers its own special amenities on 60 to 750-acre sites in scenic areas generally

within 100 miles of major population centers.

Weekends or vacations, those owning family memberships are able to cope with rising inflation and fuel costs by taking advantage of Thousand Trails preserves.

Thousand Trails meets a need in the outdoor recreation field—after all, family memberships have grown from 104 in 1974 to over 21,000 in early 1981.

Thousand Trails went public on December 12, 1979.

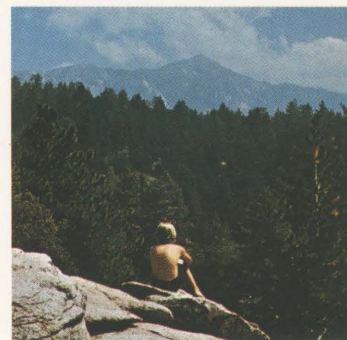
Since then, the Company's quarterly high/low bid range was:

1980	
First Quarter	7 ³ / ₄ -4 ¹ / ₂
Second Quarter	6 ¹ / ₄ -5 ¹ / ₂
Third Quarter	13 ³ / ₄ -6
Fourth Quarter	12 ¹ / ₂ -9 ³ / ₄

SYMBOL: TRLS

TRADED: Over-The-Counter

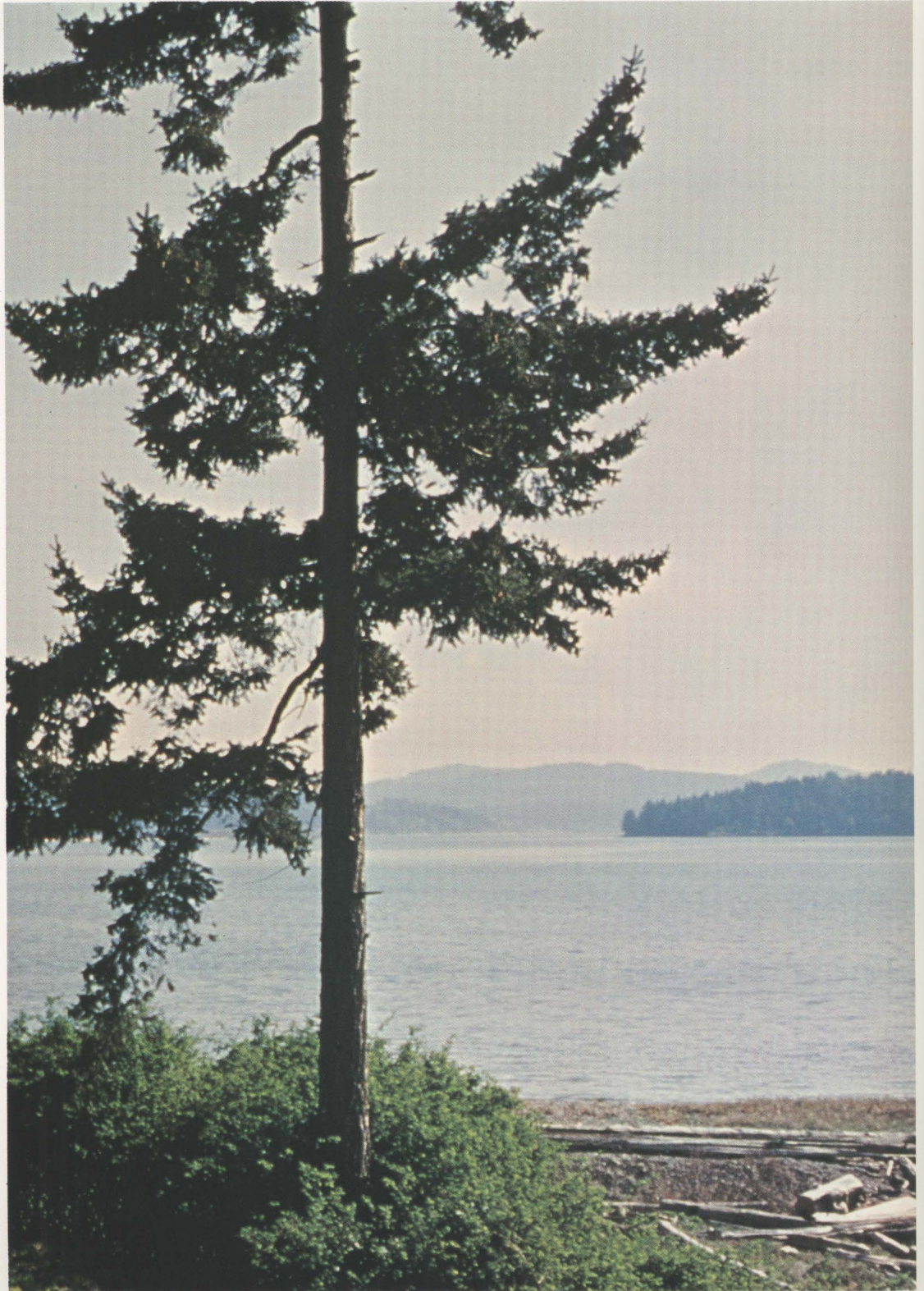
DIVIDEND: 10% Stock



Stock Price and Dividend Data

Operating Highlights

	Year Ended December 31,	
	1980	1979
Membership Sales	\$33,950,000	\$21,396,000
Net Earnings	\$4,536,000	\$2,790,000
Earnings Per Share:		
Primary	\$1.69	\$1.17
Fully Diluted	\$1.42	\$1.17
Weighted Average Share and		
Equivalents (Primary basis)	2,679,000	2,372,000
Shareholders' Equity Per Share	\$4.72	\$2.80
Number of Shareholders	1,000	460
Employees	647	575
Family Memberships	21,000	13,000
Preserves	14	10



"Commitment to quality"

Dear Shareholder:

1980 was an exciting year for Thousand Trails, a year of achievement and growth. Significant milestones achieved in 1980 were:

- Sales of membership increased 59% to \$33,950,000
- Earnings increased 63% to \$4,536,000
- Earnings per share of common stock were \$1.42 (fully diluted basis) up from the \$1.17 of a year ago
- A \$10,000,000 bank line of credit was negotiated
- Four preserves were added in the state of California, bringing the system total to 14
- Continued growth of our middle management staff

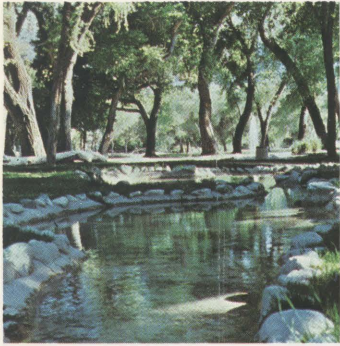
In addition, during the third quarter of the year, we announced certain changes in our organization to better position ourselves to meet the challenge of increased growth of the 80's. Bill Peare, formerly Executive Vice President was named President and Chief Operating Officer with major responsibilities in the marketing and sales, resort services and construction and engineering divisions. Mel Kays, formerly Vice President

of Finance, was elected Executive Vice President, Treasurer and Chief Financial Officer. In this position, in addition to his financial duties, he has responsibility for all corporate administrative functions and near-term corporate planning. Jim Jensen, formerly the President of Grantree Corporation, was appointed Vice-Chairman of the Board of Directors and serves the Company in a consulting capacity. His primary responsibility is implementing new and innovative techniques for management and employee development, and marketing of the Company's product.

Systems development continued during the year, and in November, implementation of the new contracts receivable system was completed. As a result, our receivable portfolio, one of the Company's largest assets, is in better shape today than at any time in the Company's history.

Shareholders' equity grew by 100% this year to \$14,110,000, partly as a result of record earnings, but also due to conversion of the convertible





debentures issued in 1979. These debentures had an initial "call" date of 1984; however, due to substantial increases in the price of the Company's stock, holders of \$2,700,000 of the debentures opted to convert, thus reducing interest costs for 1980 and future years.

Enhanced financial stability enabled the Company to obtain its first major bank line of credit in August 1980. This line of credit gives the Company increased flexibility in acquisition and development of properties to support the marketing effort.

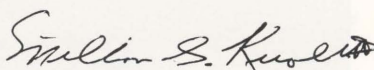
In 1980 we began an aggressive management training and development program to achieve the growth we project; recruiting and training young, ambitious management-oriented people interested in a long-term commitment to the Thousand Trails organization.

With the acquisition of the previously mentioned California preserves, we have strategically covered the major market areas of the west coast. Accordingly, we are now conducting studies of selected midwest states and Texas to determine the appropriate timing of penetrating these virtually untapped major markets. We expect to make this determination by mid-1981. Additionally, we are now considering placing lodging facilities on certain of our preserves to accommodate the noncamper, thereby opening our resort facilities

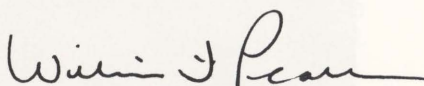
and successful concept to an entirely new market segment.

As we enter 1981, Thousand Trails is now not only in the strongest and most flexible financial position in the Company's history, but also considerably stronger in its management resources, and we look forward to increased profitability during this and future years. Accomplishments and goals are realized only through a team effort. We would like to take this opportunity to acknowledge the support of our shareholders, the dedication of our employees, and the enthusiasm of our members, all of which combined to provide a record performance for Thousand Trails in 1980.

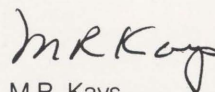
Sincerely,



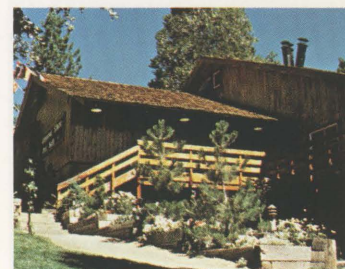
M.G. Kuolt II
Chairman of the Board

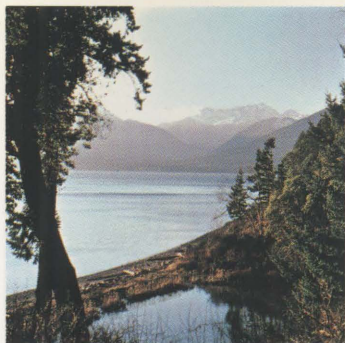


W.F. Pearce
President



M.R. Kays
Executive Vice President







"Planning tomorrow's dreams"

Quality growth is a commitment at Thousand Trails. To attain this growth requires the addition of quality locations. Choice of a site for a new Thousand Trails Preserve is a careful and thorough process. Before a site receives even preliminary consideration, it must have certain outstanding features. These include:

Natural Amenities

- Lake, stream or ocean
- Forest, vegetation
- Climate

Recreational opportunities

- Water sports
- Hiking, fishing
- Skiing

Access to prospective members

- Proximity to major metropolitan areas
- Aesthetics of surrounding properties

Additionally, the Company requires that the property be situated in an area people would prefer for recreation; even if Thousand Trails were not there.

Of course, there are additional considerations for site selection, most of which are economic.

The following must be considered:

Cost of development

- Topography
- Soil conditions
- Labor and material availability and cost

Approval process

- Relative ease of permit process

Existing approvals

Property package

- Potential number of campsites
- Cost of property

Once a property has met a majority of the foregoing requirements, then, and only then, can it join the growing system of Thousand Trails preserves. Four such sites were added to the system in 1980:

Soledad Canyon, CA

Located northeast of Burbank in the foothills of the Santa Clara Mountains. February 1980.

Idyllwild, CA

Located south and east of Riverside in the San Jacinto Mountains and next to the San Jacinto National Forest. June 1980.

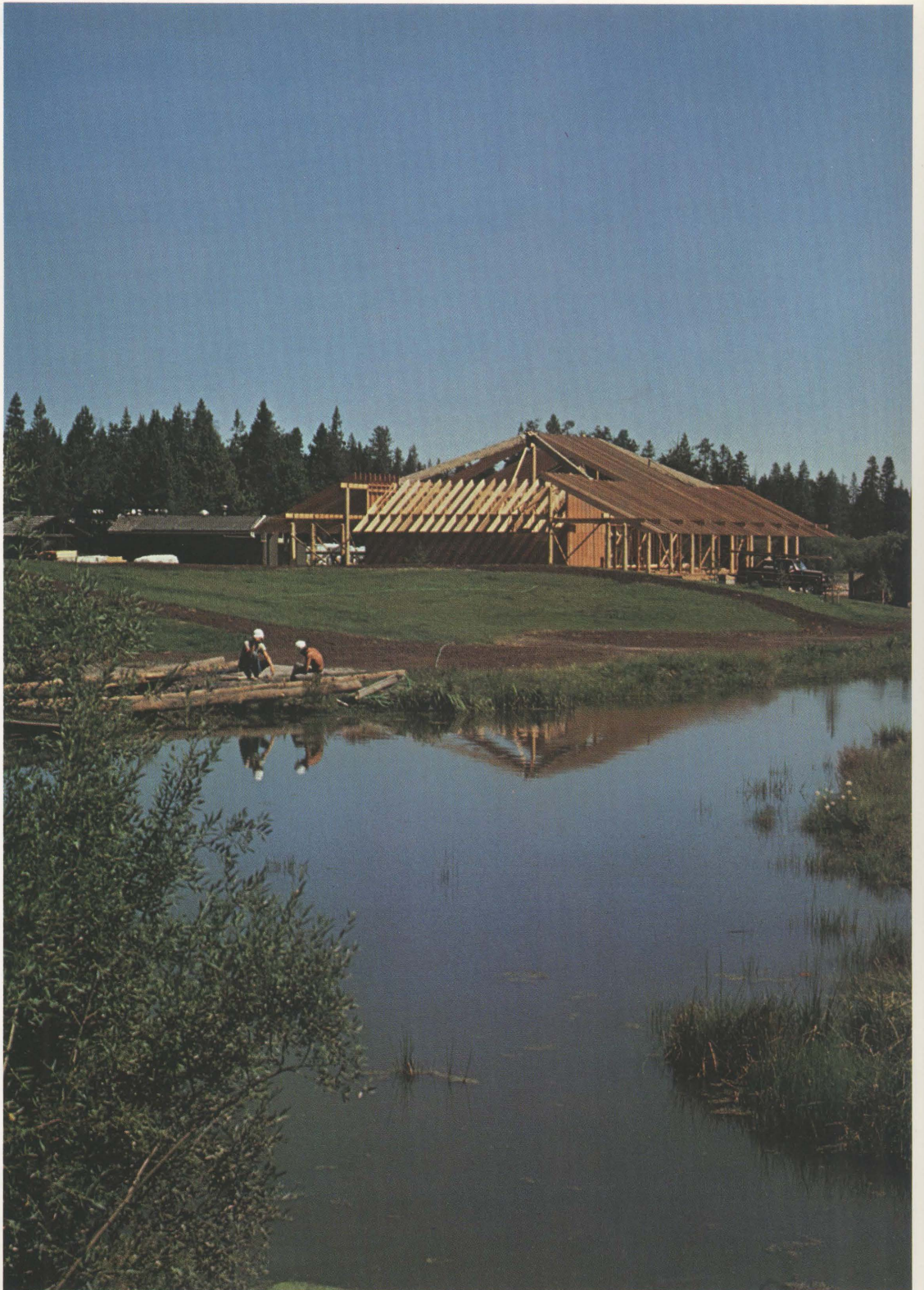
San Diego, CA

Located east of San Diego in the foothills of the Coastal mountain range. September 1980.

San Jose, CA

Located south and west of San Jose in the foothills of the Coastal mountain range. December 1980.

All existing locations are situated on the west coast; however, the Company is currently evaluating Texas and the midwestern states for future expansion.





"Growing better
each day"

Once a site is clearly defined for development potential, a master plan is detailed outlining the scope of work, design particulars and determination of required amenities such as tennis courts, swimming facilities, clubhouse and recreational parks. These plans are thoroughly challenged by the Thousand Trails Design and Review Committee to determine if the Plan meets the stringent standards of all the Company's preserves. They include:

- Compatibility with the environment
- Maintenance and security considerations
- Aesthetics
- Accessibility for members
- Regulatory compliance

Approved plans result in commencement of activities by the construction arm of the Company. Approvals and permits are obtained, equipment is mobilized, contracts are negotiated and the newly acquired property immediately takes on a new look; another Thousand Trails Preserve in the making!

Each campsite will contain 1,000 to 1,200 square feet, more than ample to accommodate the average family on an outing. With quality the watchword, total cost per campsite unit may be as much as \$7,500 to \$8,000 on a particular project.

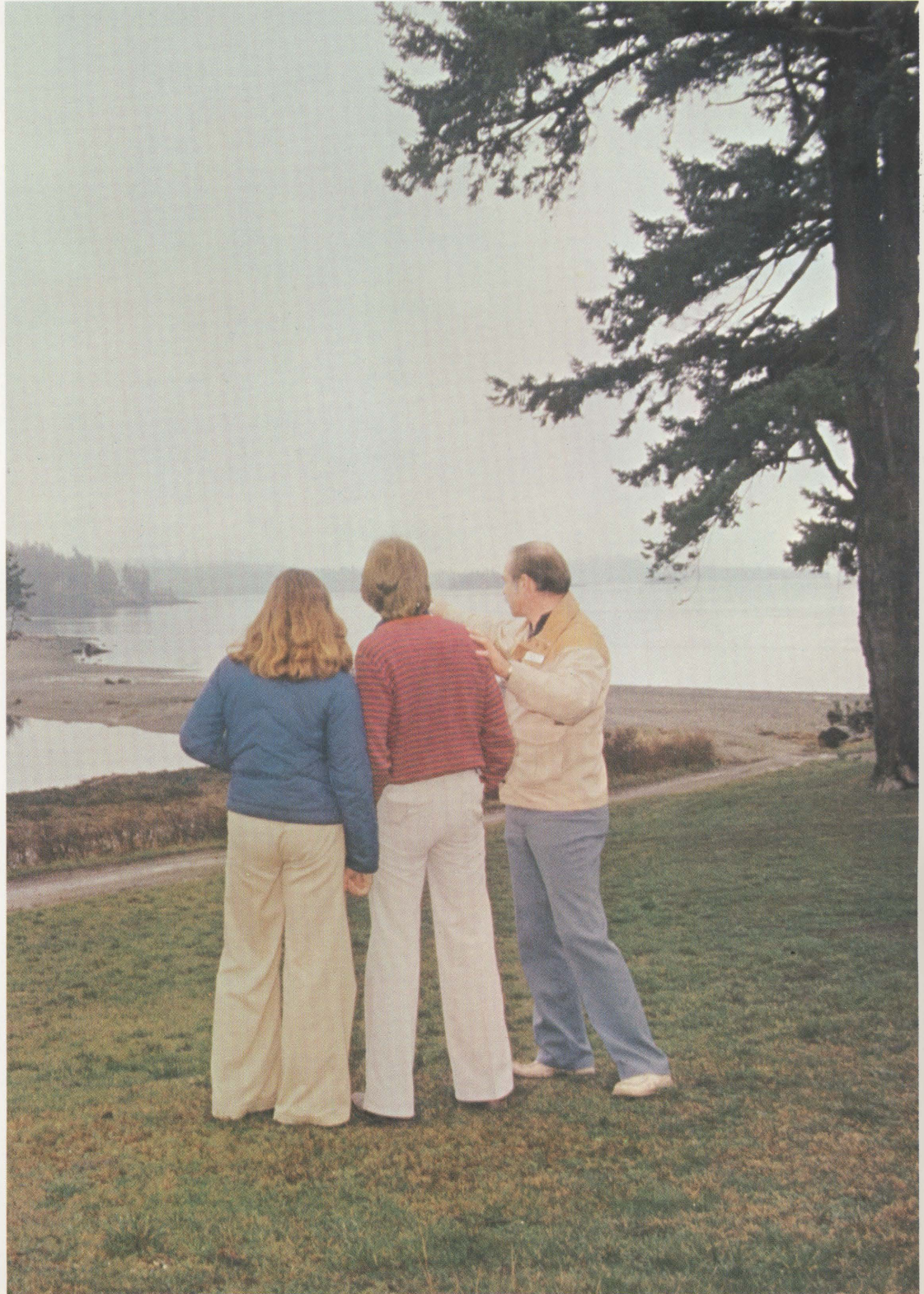
During 1980 the Company's construction division built:

- 850 campsites,
- 80,000 lineal feet of roads,
- 340,000 lineal feet of utilities,
- 29,000 square feet of buildings, and
- 24,000 square feet of pools and courts

resulting in total constructed improvements cost for the year of \$8,673,000; all for the enjoyment of existing and future Thousand Trails members.



"An invitation to
quality outdoor
recreation"



A membership in Thousand Trails provides a member family access to the very finest in outdoor recreational resort camping and entertainment. During the past three years, the number of families availing themselves of this exciting new concept has grown from 3,600 to 21,000, an increase of 478%!

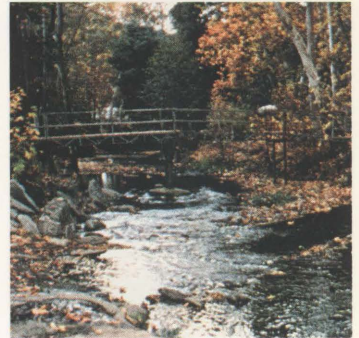
Memberships permit member families to use existing and future preserves and are offered only at one of the Company's locations after a tour of the facilities. Prospective members come from varying backgrounds, but have one common goal—quality outdoor recreation and entertainment at an affordable price.

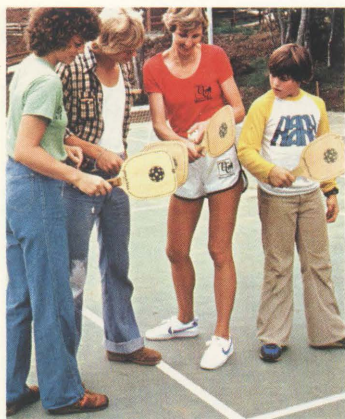
At each operational preserve, professional sales staff are on hand to greet prospective members and offer them the opportunity to experience the "good life" in the outdoors at Thousand Trails; to answer any questions and explain the benefits of memberships. Presentations to prospective members include not only a tour of that particular preserve, but also a video presentation of the other locations available for use upon becoming a member.

The Company calculates new member potential at 1000 for each 100 individually developed campsites. This ratio is based upon utilization of experience gained through years of managing this very successful concept.

To better acquaint the general public with the advantages of a membership in Thousand Trails, the Company created a series of radio and television spots, together with attractive newspaper advertising, all geared to increasing awareness of the Company and its product. This combination of media is used selectively in major metropolitan market areas within a short drive of a Thousand Trails preserve.

Thousand Trails . . . a story with no ending.





"A commitment to
deliver the very best"

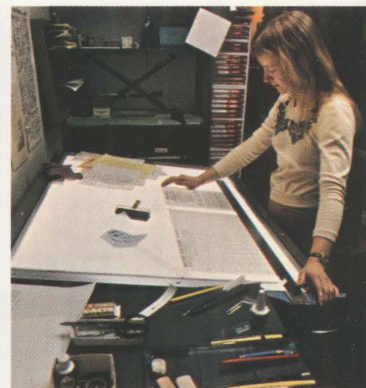
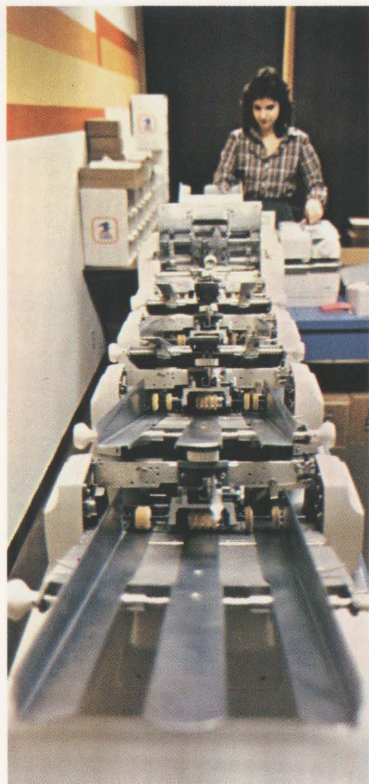
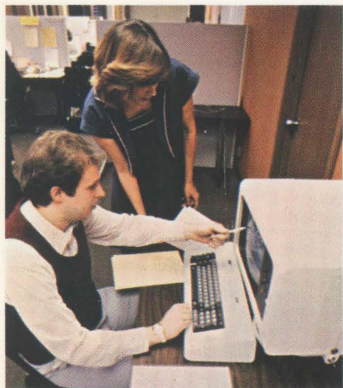


Every Thousand Trails family is assured the very finest in resort camping and outdoor recreational opportunities at each Thousand Trails preserve. The services provided for member comfort and enjoyment are a perfect complement to the beautiful and thoughtfully designed buildings and grounds.

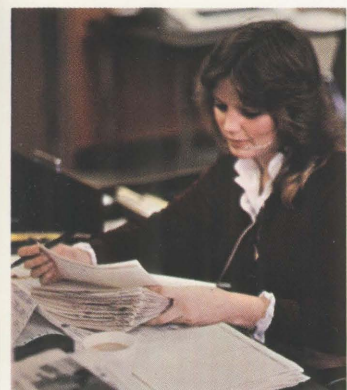
Members and guests are registered by uniformed Security Rangers who patrol the preserve and control access and traffic. Restrooms are kept sparkling clean and grounds carefully manicured by trained maintenance staffs. A full range of recreational opportunities is provided by talented and energetic Recreational Directors and their assistants. A well-stocked Trading Post is available at most Preserves to provide a convenient source of foods and supplies popular with campers.

Individual campsites are served by water and power hookups, with some preserves offering sanitary hookups as well. Level, roomy and picnic table-equipped campsites have barbeque grills or campfire boxes. Nearby indoor recreation centers provide warm and cheerful surroundings for quiet reading, table games, movies and dances. Playgrounds, ballfields and sport courts add to the range of member enjoyment available at Thousand Trails Preserves.





"A commitment to
deliver the very best"



"Working indoors to keep Thousand Trails in the outdoors"

Administrative, financial and other support personnel perform a myriad of functions to coordinate and report the results of the operational activities of Thousand Trails.

Publishing "The Trailblazer" serving over 21,000 members is the equivalent of producing a newspaper to serve a small city. This "in-house" publication enables the Thousand Trails member to keep up to date on events, activities and development on existing and future preserves. This function is only one of the charges of the publications and communications group. It also generates marketing and other brochures, forms, etc. necessary to maintaining communications throughout the network of 14 preserves from Southern California to British Columbia, Canada. As the Company increases its emphasis on use of video equipment to demonstrate standardized sales presentations, management development and career training, the activities of this group have also become extremely important to internal communication.

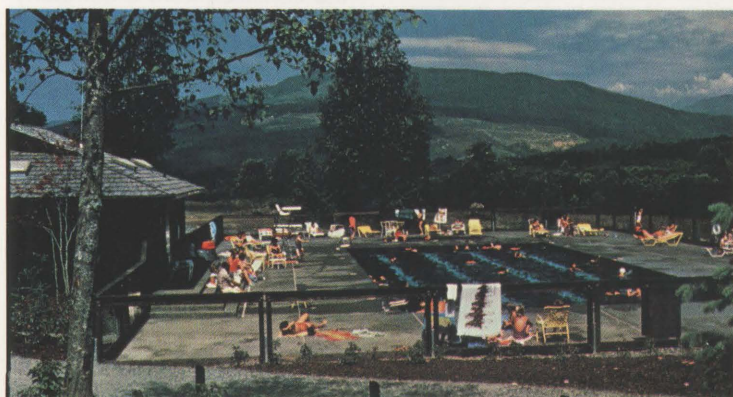
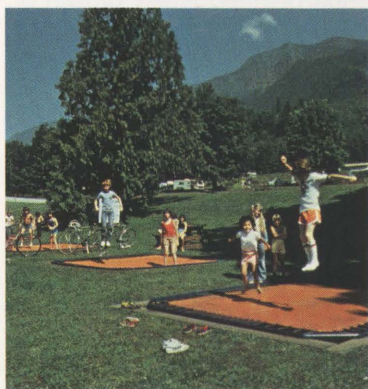
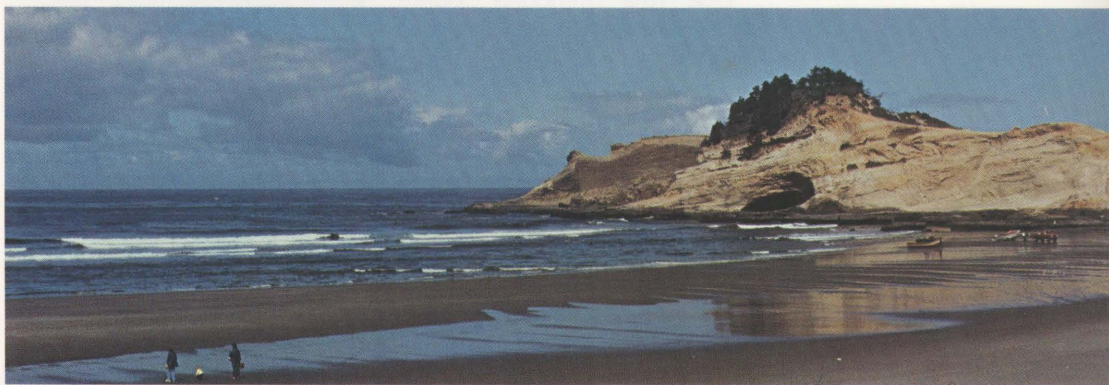
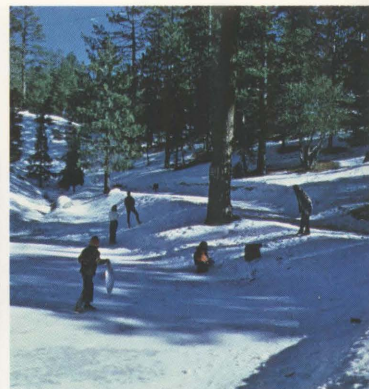
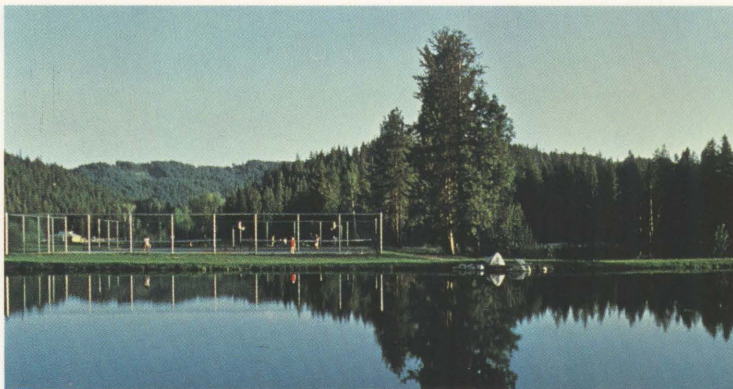
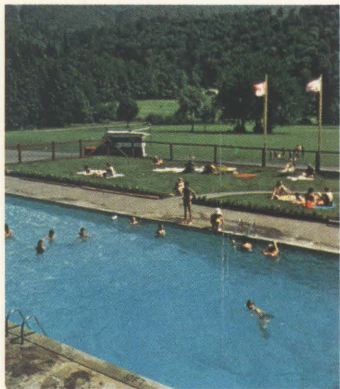
Centralized purchasing and distribution is essential to the efficient dispatch to the preserves on a regular basis of supplies and material necessary to deliver the very best service and product to the Thousand Trails members.

Managing and collecting \$25,000,000 of contracts receivable has many of the requirements of a small financial institution. A new automated system to provide instant up-to-date statistics on the Company's receivables and sales processing was finalized in late 1980 to provide management with information to monitor this important Company resource.

Ongoing and warm relationships with communities nearby Thousand Trails Preserves is essential. Without such activity, necessary regulatory permit and approval processes become lengthy and impractical.

Financial and banking relations are critical to meeting the planned timely growth of Thousand Trails. To operate effectively, it is important the Company have the flexibility to move quickly to acquire and develop available properties.

People are the greatest asset of Thousand Trails. Development of this resource is necessary to continued success of the Company. Thousand Trails is now making the transition from a company managing its operations to that of a management development company. Internally, the Company is committed to ongoing training and development of this valuable resource.





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. Manage-

ment 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 Income Statement Data

(in thousands except per share amounts)

	Year Ended December 31,				
	1980	1979	1978	1977	1976
Sale of Memberships	\$33,950	\$21,396	\$14,341	\$7,713	\$ 1,171
Gross Profit on Membership Sales	13,802	10,405	6,340	3,328	284
Gross Profit on Preserve Operations	383	366	84	(122)	(15)
Earnings (Loss) Before Extraordinary Item	4,536	2,790	1,480	826	(194)
Extraordinary Item—Tax Benefit From Carry-Over of Prior Years Losses	—	—	—	246	—
Net Earnings (Loss)	4,536	2,790	1,480	1,072	(194)
Primary Earnings (Loss) Per Share:					
Before Extraordinary Item	1.69	1.17	.66	.42	(.11)
After Extraordinary	1.69	1.17	.66	.55	(.11)
Fully Diluted Earnings Per Share	1.42	1.17	.66	.55	(.11)

Selected Balance Sheet Data

(in thousands)

	Year Ended December 31,				
	1980	1979	1978	1977	1976
Current Assets	\$7,575	\$8,014	\$2,809	\$1,701	\$ 458
Current Liabilities	7,755	6,950	5,002	1,716	845
Membership Contracts Receivable (Net)	23,482	13,949	7,308	3,476	786
Operating Preserves	29,658	15,356	7,762	2,312	1,064
Total Assets	52,567	34,280	17,188	7,852	3,598
Debt:					
Long-Term	20,498	17,527	7,023	4,136	3,472
Bank Line of Credit	6,811	3,300	3,387	1,723	
Total Deferred Income Taxes	8,458	4,256	1,673	410	
Shareholders' Equity	14,110	7,107	3,011	1,024	(106)

Results of Operations

The Company has experienced a significant increase in sales and earnings during each of 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 Company has also improved the effectiveness of its marketing effort and has increased its peak season sales force from 16 in 1976 to 236 at peak season in 1980.

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.

	1980	1979	1978	Percent Increase (Decrease)	
				1980 v. 1979	1979 v. 1978
SALE OF MEMBERSHIPS	100%	100%	100%	59%	49%
Costs Attributable to Membership Sales:					
Marketing Expenses	45	38	42	88	37
Preserve Land and Improvement Costs	14	13	14	70	39
General and Administrative Expenses	17	19	13	45	118
Provision for Doubtful Accounts	2		8	(1)	(23)
Income from Membership Sales	22%	26%	23%	30	65
PRESERVE OPERATIONS					
Membership Dues and Preserve Revenues	100%	100%	100%	87	129
Less:					
Preserve Maintenance Operations Expenses	87	77	87	112	100
General and Administrative Expenses	18	32	64	5	15
(Loss) from Preserve Operations	(5%)	(9%)	(51%)	7	(62)

Net Earnings.

Net earnings as a percentage of membership sales were 10.3%, 13.0% and 13.4% in 1978, 1979 and 1980, respectively. Earnings for 1980 include \$544,000 (1.6% of sales) resulting from a change in accounting methods 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 each of the last three years resulted primarily from increases in the number of memberships sold each year (from 4,263 in 1978, to 5,581 in 1979, to 7,704 in 1980). In addition, the average membership price increased from \$3,375 in 1978, to \$3,825 in 1979, to \$4,400 in 1980. The Company anticipates that the average membership price for 1981 will be approximately \$5,100. Membership sales increases were also due to the addition of nine new preserves during the three years.

Marketing.

Marketing expenses as a percentage of sales in 1980 increased from the 1979 level (38% to 45%) and approximated the 1978 level due to increased lead generation costs, increased commissions paid to sales personnel and a slight decrease in sales as a percentage of prospective

members touring the Company preserves. As a result, the Company has initiated actions to improve margins from sales in future periods, including implementation of new incentive compensation programs, reorganization of its marketing and sales staff and alteration of incentives offered for referrals of prospective members.

In 1979, general and administrative expenses as a percentage of membership sales increased from 13% to 19% due principally to increases in the Company's management and administrative staff to meet adequately the requirements of projected increased volume and geographic dispersion of its operations. In 1980, general and administrative expenses decreased as a percentage of membership sales from 19% to 17%.

The provision for doubtful accounts as a percentage of membership sales continued to decline (from 8% in 1978 to 2% in 1980), resulting from increased emphasis on collection and implementation of a new automated contracts receivable system in 1980.

General and Administrative.**Doubtful Accounts.**

Preserve Operations.

Revenues from preserve operations have continued to increase as the base of dues paying members has grown from 3,575 at January 1, 1978, to 20,675 at December 31, 1980. It is anticipated that as the Company continues to expand the number of preserves, preserve operations will continue at or near break even.

Interest Expense.

Interest continues to be a significant cost of the Company's operations due to increases in bank lending rates; however, because a substantial portion of the Company's total debt is in the form of low interest real estate contracts, the average cost of borrowed funds for 1980 was approximately 12.7%, compared to 11.5% and 11.3% in 1978 and 1979, respectively. Additionally, as previously mentioned, 1980 results exclude a portion of the Company's increased 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, 1980, the Company's unused sources of liquidity consisted principally of \$632,000 cash and approximately \$3,200,000 under its bank line of credit.

	Year ended December 31,		
	1980	1979	1978
SALE OF MEMBERSHIPS	\$33,950,000	\$21,396,000	\$14,341,000
COSTS ATTRIBUTABLE TO MEMBERSHIP SALES:			
Marketing expenses	15,323,000	8,159,000	5,957,000
Preserve land and improvement costs	4,825,000	2,832,000	2,044,000
General and administrative expenses	5,760,000	3,980,000	1,828,000
Provision for doubtful accounts	824,000	886,000	1,146,000
	26,732,000	15,857,000	10,975,000
INCOME FROM MEMBERSHIP SALES	7,218,000	5,539,000	3,366,000
PRESERVE OPERATIONS:			
Membership dues and preserve revenues	2,916,000	1,559,000	680,000
Less –			
Preserve maintenance and operations expense	(2,533,000)	(1,193,000)	(596,000)
General and administrative expenses	(524,000)	(498,000)	(433,000)
LOSS FROM PRESERVE OPERATIONS	(141,000)	(132,000)	(349,000)
OTHER INCOME (EXPENSE):			
Interest income	2,530,000	1,267,000	642,000
Interest expense (Note G)	(1,332,000)	(1,470,000)	(932,000)
Gain on sale of property held for investment	437,000	122,000	
Other income	24,000	50,000	16,000
	1,659,000	(31,000)	(274,000)
EARNINGS BEFORE DEFERRED INCOME TAXES	8,736,000	5,376,000	2,743,000
DEFERRED INCOME TAXES	4,200,000	2,586,000	1,263,000
NET EARNINGS	\$ 4,536,000	\$ 2,790,000	\$ 1,480,000
NET EARNINGS PER SHARE:			
Primary	\$1.69	\$1.17	\$.66
Fully diluted	\$1.42	\$1.17	\$.66

Assets

	December 31,	
	1980	1979
CURRENT ASSETS:		
Cash	\$ 632,000	\$ 4,131,000
Notes, contracts and accounts receivable –		
Current portion of membership contracts	6,078,000	3,481,000
Notes and other accounts receivable	438,000	450,000
	6,516,000	3,931,000
Less allowance for doubtful accounts	(254,000)	(201,000)
	6,262,000	3,730,000
Prepaid expenses	681,000	153,000
TOTAL CURRENT ASSETS	7,575,000	8,014,000
CONTRACTS RECEIVABLE, less current portion:		
Membership contracts receivable	18,429,000	11,324,000
Real estate contracts	889,000	939,000
Notes and other accounts receivable	180,000	66,000
	19,498,000	12,329,000
Less allowance for doubtful accounts	(771,000)	(655,000)
	18,727,000	11,674,000
OPERATING PRESERVES:		
Land	7,299,000	4,679,000
Improvements	22,359,000	10,677,000
	29,658,000	15,356,000
Less costs applicable to membership revenues	(11,362,000)	(6,602,000)
	18,296,000	8,754,000
PRESERVES UNDER DEVELOPMENT, at cost	2,311,000	
INVESTMENT IN REAL ESTATE, at cost	2,222,000	2,609,000
CONSTRUCTION AND OPERATING EQUIPMENT, net of		
accumulated depreciation of \$863,000 and \$426,000	2,133,000	1,556,000
OTHER ASSETS, at cost	1,303,000	1,673,000
	\$52,567,000	\$34,280,000

See notes to consolidated financial statements.

Liabilities and Shareholders' Equity

December 31,

	1980	1979
CURRENT LIABILITIES:		
Notes payable to bank	\$ —	\$ 194,000
Accounts payable	594,000	441,000
Accrued salaries	848,000	738,000
Prepaid membership dues	598,000	365,000
Other liabilities	412,000	145,000
Accrued payroll and business taxes	238,000	207,000
Deferred income taxes	2,098,000	1,012,000
Current portion of long-term debt	2,967,000	3,848,000
TOTAL CURRENT LIABILITIES	7,755,000	6,950,000
DEFERRED INCOME TAXES	6,360,000	3,244,000
LONG-TERM DEBT, less current portion	24,342,000	16,979,000
COMMITMENTS AND CONTINGENCIES (Note F)		
SHAREHOLDERS' EQUITY:		
Common stock, no par value –		
Authorized, 5,000,000 shares		
Issued, 2,984,593 and 2,539,256 shares	6,162,000	2,280,000
Retained earnings	7,950,000	4,829,000
Treasury stock, 1,254 shares, at cost	(2,000)	(2,000)
	14,110,000	7,107,000
	\$52,567,000	\$34,280,000

Consolidated Statements of Shareholders' Equity**26**

Three Years Ended December 31, 1980

	Common Stock		Retained earnings	Treasury stock
	Shares	Amount		
Balance, January 1, 1978	1,885,580	\$ 465,000	\$ 559,000	\$ -
Issuance of common stock:				
Sales for cash	137,330	412,000		
Officer and employee compensation	30,580	104,000		
	167,910	516,000		
Purchase of treasury stock, 5,825 shares				(9,000)
Net earnings			1,480,000	
Balance, December 31, 1978	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		
Net earnings			4,536,000	
Issuance of common stock	15,000	100,000		
Balance, December 31, 1980	2,984,593	\$6,162,000	\$7,950,000	\$(2,000)

See notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

27

	Year ended December 31,		
	1980	1979	1978
CASH RECEIVED FROM OPERATIONS:			
Cash sales of memberships and down payments on contracts	\$15,410,000	\$10,698,000	\$ 7,027,000
Collections on contracts receivable, including interest	11,047,000	4,943,000	2,978,000
Dues and preserve revenues	3,294,000	1,746,000	673,000
Other income	154,000	98,000	16,000
Proceeds from loans for construction of preserve improvements	1,000,000	791,000	224,000
	30,905,000	18,276,000	10,918,000
CASH EXPENDED FOR OPERATIONS:			
Marketing expenses	15,276,000	8,088,000	5,169,000
General and administrative expenses	5,866,000	4,316,000	1,962,000
Preserve maintenance and operations	3,035,000	1,170,000	517,000
Interest expense	1,158,000	1,395,000	932,000
Preserve improvements	8,673,000	3,016,000	2,872,000
Principal payments on debt related to preserve properties	2,581,000	890,000	787,000
	36,589,000	18,875,000	12,239,000
CASH USED BY OPERATIONS	(5,684,000)	(599,000)	(1,321,000)
OTHER SOURCES (USES) OF CASH:			
Issuance of debentures, net of related costs of \$596,000		3,804,000	
Issuance of common stock	100,000	1,293,000	412,000
Proceeds of bank borrowings	74,000		225,000
Proceeds of borrowings collateralized by contracts receivable	9,102,000	2,556,000	2,917,000
Principal payments on notes payable and credit line arrangements	(6,281,000)	(2,519,000)	(1,505,000)
Purchase of construction and operating equipment, net of related borrowings of \$901,000, \$422,000, and \$554,000	(480,000)	(458,000)	(178,000)
Increase in notes and other receivables	(300,000)	(4,000)	(26,000)
Principal payments on debt related to investments in real estate	(127,000)	(471,000)	(253,000)
Other, net	97,000	19,000	(206,000)
	2,185,000	4,220,000	1,386,000
INCREASE (DECREASE) IN CASH	(3,499,000)	3,621,000	65,000
CASH:			
Beginning of period	4,131,000	510,000	445,000
End of period	\$ 632,000	\$ 4,131,000	\$ 510,000

See notes to consolidated financial statements.

Three Years Ended December 31, 1980

Note A—Significant Accounting Policies:**General**

The Company operates outdoor recreational facilities (preserves) in the Western 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, members' 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, 1978	\$384,000
December 31, 1979	296,000
December 31, 1980	611,000

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, 1980, the Company had approximately 20,700 members which represented approximately 30% of the total memberships available for sale on operating preserves.

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.

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

Depreciation

Deferred income taxes result from use of the installment method of reporting gross profit on installment sale of memberships for tax purposes. Benefits from tax credits are reflected as reductions of current income taxes or the provision for deferred income taxes.

Income taxes

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.

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.

Foreign currency translation

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.

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

Earnings per share

share when they are dilutive. Fully diluted earnings per share give effect to the assumed conversion of the Company's convertible subordinated debentures. All per share data reflect the issuance of a 10% stock dividend in June 1980.

Note B—Membership Contracts Receivable:

Membership contracts receivable bear interest at an average rate of 13.5% and are written with initial terms of 24 to 72 months (average term of 47 months). The Company has no obligation to refund monies received or provide further services to members in the event a membership is

cancelled for nonpayment of contract obligations or annual dues.

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,	
1981	\$6,078,000
1982	6,396,000
1983	5,857,000
1984	3,799,000
1985	1,764,000
1986	613,000

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

Long-term debt consists of the following—

	December 31,	
	1980	1979
Real estate contracts and capitalized lease, 6% to 13.25% (average 9.3%), due in aggregate monthly installments of \$137,000 and \$116,000	\$13,375,000	\$ 7,913,000
Notes, 6% to 24% (average 12.6%), due in monthly installments of approximately \$106,000 and \$139,000 including interest	3,755,000	3,998,000
Equipment and other contracts, 8.25% to 23% (average 15.6%), due in aggregate monthly installments of \$47,000 including interest	1,331,000	804,000
Small Business Administration guaranteed loan, 9.25%, due in monthly installments of \$6,500 including interest	374,000	412,000
13% convertible subordinated debentures, due 1994, interest payable quarterly with semiannual sinking fund payments of \$40,000 required beginning December 15, 1982	1,663,000	4,400,000
	20,498,000	17,527,000
Lines of credit	6,811,000	3,300,000
	27,309,000	20,827,000
Less current portion	(2,967,000)	(3,848,000)
	\$24,342,000	\$16,979,000

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 part commencing 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

in future years for debentures, notes, loans and contracts are as follows—

Year ending December 31,	
1981	\$2,967,000
1982	3,138,000
1983	2,930,000
1984	2,561,000
1985	1,986,000
1986-1990	3,832,000
1991-1994	2,941,000

During 1980, the Company entered into a line-of-credit agreement with a bank for borrowings up to \$10,000,000. The Company pays interest at the bank's prime lending rate plus 2% 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, 1980 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—

	December 31,		
	1980	1979	1978
Federal	\$3,589,000	\$2,223,000	\$1,154,000
Foreign and state	611,000	363,000	109,000
	<u>\$4,200,000</u>	<u>\$2,586,000</u>	<u>\$1,263,000</u>

The provision for income taxes is net of tax credits of \$69,000 in 1980 and \$34,000 in 1979. As none of the Company's income taxes are currently payable, the tax credits will be offset against income taxes payable in the future.

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 \$470,000 at December 31, 1980. If such earnings were distributed, U.S. income taxes would be offset by available foreign tax credits.

Note E—Stock Options, Incentive Plans and Other:

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. As of December 31, 1980, no options under these plans have been exercised. The stock option 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 are as follows—

	Total shares authorized	Granted	Exercisable	Price per share
1979 key employee stock option plan	216,700	206,828	78,376	\$.91-\$6.375
1980 key employee stock option plan	137,500	28,500		\$10.625-\$13.875
Key employee incentive plan	82,500	17,845		\$4.73
Marketing benefit plan	220,000	29,261		\$5.34-\$11.16

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 member of the Board of Directors providing for the sale of 50,000 shares of Company common stock at \$5 per share. At December 31, 1980, 5,000 shares had been issued under this agreement.

Note F—Commitments and Contingencies:

As described in Note A, certain of the Company's preserves have been developed, and must be operated, in compliance with the provisions of 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 membership sales and dues assessments made in the State of Washington after January 1, 1979 may be subject to a 5% retail sales tax. The Company is opposing any assessment; however, since August 1979,

it has collected sales tax on a 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 in accordance with a recent statement of the Financial Accounting Standards Board. Interest costs in 1980 amounted to \$2,868,000, of which \$1,536,000 was capitalized. Adoption of this policy resulted in an increase in net earnings of \$544,000 (\$.16 per share, fully diluted).

Note H—Quarterly Financial Information (Unaudited):

The following table sets forth financial information by quarter for 1980 and 1979 (in thousands except per share data).

	Quarter ended							
	March 31,		June 30,		September 30,		December 31,	
	1980	1979	1980	1979	1980	1979	1980	1979
Sale of member-ships	\$5,776	\$1,988	\$8,932	\$5,977	\$12,945	\$10,180	\$6,297	\$3,251
Gross profit	2,222	914	4,030	3,021	5,573	5,607	1,977	683
Earnings before taxes on income	1,624	261	2,406	1,477	4,035	3,534	671	104
NET EARNINGS	845	136	1,250	764	2,096	1,803	345	87
Earnings per share:								
Primary	\$.32	\$.05	\$.48	\$.33	\$.77	\$.76	\$.12	\$.03
Fully diluted	.32	.05	.48	.33	.63	.76	.11	.03

Results for 1980 reflect increases by quarter of \$133, \$157, \$141 and \$113 or \$.05, \$.07, \$.05 and \$.03 per share primary, and \$.04, \$.06, \$.04 and \$.02 fully diluted, respectively, resulting from a change in accounting for interest costs incurred during construction of preserve properties.

Seattle, Washington
February 20, 1981

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, 1980 and 1979, 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, 1980. 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, 1980 and 1979, 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, 1980, 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.

Touche Ross & Co.

Touche Ross & Co.
Certified Public Accountants

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 23, 1981 2 p.m. Seattle First National Bank Auditorium Third Avenue Entrance Seattle, WA
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, Thou- sand Trails, Inc., 4800 South 188th Way, Seattle, WA 98188.
Investor Relations Counsel	Corporate Communications, Inc. 516 2nd Ave. W. Seattle, WA 98119

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*

Jim Jensen, *Vice-Chairman of
the Board of Directors*

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

Milton G. Kuolt II, *Chairman
of the Board and Chief
Executive Officer, Thousand
Trails, Inc.*

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

Milton G. Kuolt II,
*Chairman of the Board &
Chief Executive Officer*

William F. Peare,
*President & Chief Operating
Officer*

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

Richard M. Toohey,
*Senior Vice President,
Marketing & Sales*

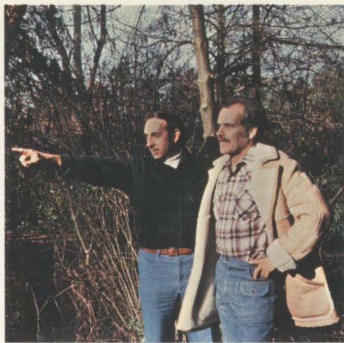
Kathleen M. Hornsby,
*Vice President & Corporate
Secretary*

Jerol E. Andres,
Vice President, Resort Services

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

J. Michael Moyer,
Director of Corporate Affairs

Left to Right
Mike Moyer, Milt Kuolt



Bill Peare, Mel Kays,
Kathy Hornsby



Board of Directors



Rich Toohey, Jerry Andres,
Rodger Sheraton



1. Chehalis
2. Leavenworth
3. Hood Canal
4. Mt. Vernon
5. LaConner
6. Cultus Lake
7. Bend
8. Pacific City
9. Donner Pass
10. Lake of the Springs
11. Soledad Canyon
12. Idyllwild
13. San Diego (Pio Pico)
14. San Jose

