THOUSAND TRAILS INC /DE/
Form 10-Q
February 12, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2002

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period of to

Commission File Number 1-14645

THOUSAND TRAILS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**75-2138671**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
3801 Parkwood Blvd., Suite 100, Frisco, Texas	**75034**
(Address of Principal Executive Office)	(Zip Code)

Registrant s Telephone Number, Including Area Code: **(214) 618-7200**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes _X_ No __

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act) Yes __ No _X_

The number of shares of Common Stock, par value $.01, issued and outstanding as of February 10, 2003, was 6,965,017.

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Thousand Trails, Inc.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Thousand Trails, Inc. and Subsidiaries
Consolidated Balance Sheets
(Dollars in thousands, except per share amounts)

	December 31, 2002	June 30, 2002
	(Unaudited)	
Assets		
Current Assets		
Cash and cash equivalents	$ 3,934	$ 4,180
Marketable securities available for sale	6,658	5,343
Current portion of receivables, net of allowances of $0.8 million and $1.0 million respectively	3,939	3,238
Current portion of deferred membership origination costs	5,783	5,013
Current portion of net deferred tax assets	5,870	6,106
Inventories	1,197	1,158
Other current assets	958	2,889
Total Current Assets	28,339	27,927
Restricted cash	646	646
Receivables, net of allowances of $1.4 million and $1.2 million, respectively	7,096	6,400
Campground land	20,696	20,696
Buildings and equipment, net of accumulated depreciation of $24.6 million and $24.5 million, respectively	22,697	22,781
Assets held for sale	5,402	5,402
Deferred membership origination costs, less current portion	7,449	7,337
Net deferred tax assets	795	296
Other assets	295	755
Total Assets	$ 93,415	$ 92,240
Liabilities and Shareholders Equity		
Current Liabilities		
Accounts payable	$ 1,527	$ 2,665
Other accrued liabilities	6,335	8,108
Current portion of deferred revenue	33,524	34,212
Other current liabilities	166	364
Total Current Liabilities	41,552	45,349
Deferred revenue, less current portion	25,795	24,984
Other liabilities	1,304	1,244
Total Liabilities	68,651	71,577
Commitments and Contingencies		
Shareholders Equity		
Preferred stock, $.01 par value, 1,500,000 shares authorized, none issued		
Common stock, $.01 par value, 15,000,000 shares authorized, 8,470,228 and 8,395,528 shares issued, respectively	85	84

Additional paid-in capital	22,708	22,596
Retained earnings	13,784	9,688
Accumulated other comprehensive loss	(185)	(132)
Treasury stock, 1,505,211 and 1,477,912 shares, respectively	(11,628)	(11,573)
Total Shareholders Equity	24,764	20,663
Total Liabilities and Shareholders Equity	$ 93,415	$ 92,240

The accompanying notes are an integral part of these consolidated financial statements.

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Thousand Trails, Inc. and Subsidiaries
Consolidated Statements of Operations
(Dollars and shares in thousands, except per share amounts)
(Unaudited)

	For the six months ended December 31,	
	2002	**2001**
Revenues		
Membership contracts originated	$ 13,981	$ 12,937
Change in deferred revenue	(3,373)	(5,374)
Membership sales revenue	10,608	7,563
Membership dues	20,141	20,073
Other campground revenue	9,638	10,086
Trails Management revenue	3,252	3,416
RPI membership fees	1,547	1,686
Interest income	1,268	1,030
Gain on asset sales	2	155
Other income	1,233	1,237
Total Revenues	47,689	45,246
Expenses		
Campground operating expenses	22,868	22,459
Membership origination costs	6,342	6,123
Change in deferred origination costs	(882)	(1,705)
Marketing expenses	3,099	3,062
Trails Management expenses	2,892	2,983
RPI membership expenses	801	899
Corporate member services	682	734
Interest expense and amortization	6	23
General and administrative expenses	5,217	4,718
Total Expenses	41,025	39,296
Income Before Income Taxes	6,664	5,950
Income Taxes		
Income tax provision current	(2,832)	(1,545)
Income tax provision deferred	264	(541)
	(2,568)	(2,086)
Net Income	$ 4,096	$ 3,864
Net Income per Share Basic	$ .59	$ .47
Net Income per Share Diluted	$ .54	$ .45
Shares Used to Calculate Net Income Per Share:		
Basic	6,933	8,163

Diluted	7,655	8,608

The accompanying notes are an integral part of these consolidated financial statements.

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Thousand Trails, Inc. and Subsidiaries
Consolidated Statements of Operations
(Dollars and shares in thousands, except per share amounts)
(Unaudited)

	For the three months ended December 31,	
	2002	**2001**
Revenues		
Membership contracts originated	$ 6,249	$ 5,669
Change in deferred revenue	(947)	(1,792)
Membership sales revenue	5,302	3,877
Membership dues	10,034	10,002
Other campground revenue	3,133	3,286
Trails Management revenue	80	113
RPI membership fees	605	798
Interest income	658	506
Gain on asset sales	6	173
Other income	535	556
Total Revenues	20,353	19,311
Expenses		
Campground operating expenses	9,669	9,449
Membership origination costs	2,837	2,954
Change in deferred origination costs	(261)	(627)
Marketing expenses	1,458	1,340
Trails Management expenses	363	281
RPI membership expenses	387	504
Corporate member services	307	432
Interest expense and amortization	4	18
General and administrative expenses	2,681	2,325
Total Expenses	17,445	16,676
Income Before Income Taxes	2,908	2,635
Income Taxes		
Income tax provision current	(1,398)	(786)
Income tax provision deferred	278	(138)
	(1,120)	(924)
Net Income	$ 1,788	$ 1,711
Net Income per Share Basic	$ .26	$ .21
Net Income per Share Diluted	$ .23	$ .20
Shares Used to Calculate Net Income Per Share:		
Basic	6,946	8,155

Diluted	7,627	8,597

The accompanying notes are an integral part of these consolidated financial statements.

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Thousand Trails, Inc. and Subsidiaries
Consolidated Statement of Shareholders Equity
For the Six Months Ended December 31, 2002
(Dollars in thousands)
(Unaudited)

	Comprehensive Income	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance, July 1, 2002		$ 84	$22,596	$ 9,688	$ (132)	$(11,573)	$20,663
Issuance of common stock		1	112				113
Purchase of treasury stock						(55)	(55)
Net income for the six months ended December 31, 2002	4,096			4,096			4,096
Other comprehensive loss	(53)				(53)		(53)
Balance, December 31, 2002	$ 4,043	$ 85	$22,708	$13,784	$ (185)	$(11,628)	$24,764

The accompanying notes are an integral part of these consolidated financial statements.

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Thousand Trails, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

	For the six months ended December 31,	
	2002	**2001**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Collections of principal on receivables	$ 3,470	$ 2,664
Interest received	1,268	1,030
Interest paid	(6)	(23)
General and administrative and corporate member services costs	(6,270)	(6,283)
Cash collected from operations, including deferred revenue	32,458	33,273
Cash from sales of memberships	10,435	9,263
Expenditures for property operations	(24,996)	(24,481)
Expenditures for sales and marketing	(9,552)	(9,170)
Expenditures for insurance premiums	(1,208)	(1,300)
Payment of income taxes	(3,031)	(1,495)
Net cash provided by operating activities	2,568	3,478
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net purchase of marketable securities	(1,315)	
Capital expenditures	(1,582)	(2,722)
Proceeds from asset sales	55	384
Net cash used in investing activities	(2,842)	(2,338)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of treasury stock	(55)	(714)
Payment of notes	(30)	(38)
Issuance of common stock	113	22
Net cash provided by (used in) financing activities	28	(730)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(246)	410
CASH AND CASH EQUIVALENTS		
Beginning of period	4,180	9,016
End of period	$ 3,934	$ 9,426

continued

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Thousand Trails, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (continued)
(Dollars in thousands)
(Unaudited)

	For the six months ended December 31,	
	2002	**2001**
Reconciliation of net income to net cash provided by operating activities:		
Net Income	$ 4,096	$ 3,864
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	1,613	1,435
Bad debt provision	342	504
Change in deferred sales revenue	3,373	5,374
Change in deferred membership origination costs	(882)	(1,705)
Gain on asset sales	(2)	(155)
Deferred income tax provision	(264)	541
Increase in receivables	(1,739)	(1,080)
Decrease in other assets	2,353	328
Decrease in accounts payable	(1,138)	(1,139)
Decrease in deferred dues	(2,862)	(2,833)
Decrease in other liabilities	(2,269)	(1,655)
Other, net	(53)	(1)
Total adjustments	(1,528)	(386)
Net cash provided by operating activities	$ 2,568	$ 3,478

The accompanying notes are an integral part of these consolidated financial statements.

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Thousand Trails, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2002

(Unaudited)

NOTE 1 NATURE OF OPERATIONS

Thousand Trails, Inc., a Delaware corporation, and its subsidiaries (collectively, the Company) own and operate 59 membership-based campgrounds located in 17 states and British Columbia, Canada. In addition, the Company provides a reciprocal use program for members of approximately 280 recreational facilities and manages 240 public campgrounds for the U.S. Forest Service and other entities. Operating revenues consist primarily of membership sales, membership dues received from campground members, fee revenue from members of the reciprocal use program, management fees from the campground management operations, and guest fees and revenues received from the campground and other operations.

The accompanying consolidated financial statements include the accounts of Thousand Trails, Inc. and the following wholly owned subsidiaries: Coast Financial Services, Inc., Leisure Time Resorts of America, Inc. (Leisure Time), National American Corporation and its subsidiaries (NACO), Resort Parks International, Inc. (RPI), Thousand Trails (Canada), Inc., and Thousand Trails Management Services, Inc. (Trails Management).

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The interim financial information is unaudited, but in the opinion of management, it reflects all adjustments necessary to present fairly, in all material respects, the consolidated financial position and results of operations of the Company as of the dates and for the periods presented. All such adjustments are of a normal recurring nature.

This Quarterly Report on Form 10-Q should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended June 30, 2002, filed with the Securities and Exchange Commission (the SEC) on September 30, 2002.

All significant intercompany transactions and balances have been eliminated in the accompanying consolidated financial statements as of and for the six and three month periods ended December 31, 2002 and 2001, and in the consolidated balance sheets as of December 31, 2002 and June 30, 2002.

Reclassification

Certain reclassifications have been made to prior period information to conform to the current period presentation.

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NOTE 2 COMPREHENSIVE INCOME

Comprehensive income includes all changes in equity during a period except those resulting from investments by owners and distributions to owners, as well as net income reported on the income statement. The Company lists items of other comprehensive income by their nature in its financial statements and presents the accumulated balance of such items separately from retained earnings and additional paid in capital in the equity section of its consolidated balance sheet.

Currently, the Company s items of other comprehensive income consist of its foreign currency translation and unrealized gains on marketable securities held as available for sale. The Company translates the balance sheet of its Canadian subsidiary into U.S. dollars at exchange rates in effect at the balance sheet date. Profit and loss accounts are translated monthly at exchange rates in effect at that time. Unrealized gains on marketable securities are calculated as the difference between the carrying amount and the fair market value of the Company s marketable securities.

The following table provides statements of comprehensive income for the six and three months ended December 31, 2002 and 2001 (dollars in thousands):

	For the six months ended December 31,		For the three months ended December 31,	
	2002	2001	2002	2001
	(Unaudited)		(Unaudited)	
Net Income	$4,096	$3,864	$1,788	$1,711
Other Comprehensive Income:				
Unrealized loss on marketable securities	(53)			
Foreign currency translation Adjustment		(1)		
Comprehensive Income	$4,043	$3,863	$1,788	$1,711

NOTE 3 SEGMENT REPORTING

The Company has three reportable segments: campgrounds, RPI, and Trails Management. The campground segment generates a majority of the Company s operating revenues. Each segment is differentiated by the products or services it offers.

The campgrounds segment consists of 59 membership-based campgrounds in 17 states and British Columbia, Canada. Operations within the campground segment include (i) the sale of memberships entitling the member to use campground facilities, (ii) the sale of undivided interests related to fee simple sales of interests in campground facilities, and (iii) net revenues earned from operations at the campgrounds.

RPI sells memberships that allow members to use any of the approximately 280 recreational facilities participating in RPI s reciprocal use system, subject to certain limitations. Operating revenue consists of annual membership fees paid by members.

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Trails Management manages 240 public campgrounds for the U.S. Forest Service and other entities. Operating revenue consists of the campsite usage fees paid by customers staying at the public campgrounds.

The Company evaluates performance based upon the income before income taxes for each business segment.

	Six months ended December 31, 2002				
	Campgrounds	RPI	Trails Management	Corporate and Other	Consolidated
Operating revenues	$29,779	$1,547	$3,252	$ 19	$34,597
Membership sales revenue	10,608				10,608
Income (loss) before income taxes	8,960	746	360	(3,402)	6,664

	Six months ended December 31, 2001				
	Campgrounds	RPI	Trails Management	Corporate and Other	Consolidated
Operating revenues	$30,159	$1,686	$3,416	$ 44	$35,305
Membership sales revenue	7,563				7,563
Income (loss) before income taxes	7,783	787	433	(3,053)	5,950

	Three months ended December 31, 2002				
	Campgrounds	RPI	Trails Management	Corporate and Other	Consolidated
Operating revenues	$13,167	$605	$ 80	$ (3)	$13,849
Membership sales revenue	5,302				5,302
Income (loss) before income taxes	4,766	218	(283)	(1,793)	2,908

	Three months ended December 31, 2001				
	Campgrounds	RPI	Trails Management	Corporate and Other	Consolidated
Operating revenues	$13,288	$798	$ 113	$ 18	$14,217
Membership sales revenue	3,877				3,877
Income (loss) before income taxes	4,049	294	(168)	(1,540)	2,635

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NOTE 4 NET INCOME PER SHARE

The table below sets forth the information necessary to compute basic and diluted net income per share for the six and three months ended December 31, 2002 and 2001, including a summary of the components of the numerators and denominators of the basic and diluted net income per share computations for the periods presented (dollars and shares in thousands, except per share amounts):

	For the six months ended December 31,		For the three months ended December 31,	
	2002	2001	2002	2001
	(Unaudited)		(Unaudited)	
Net Income	$4,096	$3,864	$1,788	$1,711
Weighted Average Number of Shares Basic	6,933	8,163	6,946	8,155
Dilutive Options	722	445	681	442
Weighted Average Number of Shares Diluted	7,655	8,608	7,627	8,597
Net Income Per Share Basic	$ .59	$ .47	$ .26	$ .21
Net Income Per Share Diluted	$ .54	$ .45	$ .23	$ .20

NOTE 5 LONG TERM DEBT

Line of Credit with Union Bank

The Company has a $15.0 million revolving, secured line of credit (Line of Credit) with Union Bank of California, N.A. (Union Bank). Borrowings under the Line of Credit carry an interest rate of prime minus 0.75%. The Company may borrow, repay and reborrow under the Line of Credit from time to time, provided, however, that for at least one day during each twelve-month period, the principal amount outstanding under the Line of Credit must be not more than $5.0 million. All borrowings under the Line of Credit will mature on July 1, 2003. The Company anticipates using the Line of Credit for general working capital purposes, although it is permitted under the terms of the Line of Credit to use up to $5.0 million for acquisitions from time to time.

On December 31, 2002, the Company had no outstanding borrowings under the Line of Credit. The Company s availability under the Line of Credit has been reduced by $1.1 million as a result of the issuance of a letter of credit to secure obligations that may arise in the future under the Company s insurance program.

The Company s ability to borrow under the Line of Credit for working capital purposes is subject to continued compliance by the Company with the financial covenants and other requirements of the Line of Credit, including certain covenants respecting minimum tangible net worth, minimum adjusted EBITDA (as defined) and minimum total debt to adjusted EBITDA. The Line of Credit prohibits the Company from borrowing from other sources.

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The Company has granted liens on substantially all of its assets, other than its real estate, to secure its obligations under the Line of Credit. In addition, the Company s principal subsidiaries have guaranteed the Company s obligations under the Line of Credit and have granted liens on substantially all of their assets, other than their real estate, to secure their guarantees.

NOTE 6 CONTINGENCIES

General Liability Insurance

The Company s general liability insurance requires the Company to pay the first $250,000 per occurrence, with an annual aggregate exposure of $2.0 million. The Company has provided a liability for estimated known and unknown claims related to uninsured general liability risks based on actuarial estimates. As of December 31, 2002 and June 30, 2002, the Company s recorded liability for estimated losses related to uninsured general liability claims totaled approximately $655,000 and $567,000, respectively, which is included in other liabilities in the accompanying consolidated balance sheets.

Environmental Issues

Certain environmental issues may exist at some of the Company s campgrounds concerning sewage treatment plants and septic systems and waste disposal. Management has reviewed these issues and believes that they will not have a material adverse impact on the Company s operations or financial position.

Litigation

The Company is involved in certain claims and litigation arising in the normal course of business. Management believes that the eventual outcome of these claims and litigation will not have a material adverse impact on the Company s operations or financial position.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Management s Discussion and Analysis of Financial Condition and Results of Operations included in the Company s Annual Report on Form 10-K for the year ended June 30, 2002, filed with the SEC on September 30, 2002.

All capitalized terms used herein have the same meaning as those defined in Item 1 Financial Statements.

In this Management s Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere in this report, the Company makes certain statements as to its expected financial condition, results of operations, cash flows and business strategies, plans and conditions for periods after December 31, 2002. All of these statements are forward-looking statements made pursuant to the safe harbor provisions of Section 21 (E) of the Securities Exchange Act of 1934, as amended. These statements are not historical and involve risks and uncertainties. The Company s actual financial condition, results of operations, cash flows and business strategies, plans and conditions for future periods may differ materially due to several factors, including but not limited to the Company s ability to control costs, campground market conditions and other factors affecting the Company s sales and marketing plan, the actual rate of decline in the campground membership base, the actual use of the campgrounds by members and guests, the Company s success in collecting its contracts receivable and selling assets, the Company s success in acquiring members through the purchase of other membership campground operations and the other factors affecting the Company s operations described in this report and other reports filed by the Company with the SEC.

LIQUIDITY AND CAPITAL RESOURCES

Current Business Strategy. The Company s current business strategy is to improve its campground operations and stabilize its campground membership base through increased sales and marketing efforts and the acquisition of members through the purchase of other membership campground operations. The Company believes there is a viable market for campground memberships and that it has a significant opportunity to compete for campers interested in higher quality facilities and a higher level of service than is typically available at public campgrounds or competing private campgrounds.

Over the past decade, the Company s membership base has been declining, although the Company has been successful in slowing the rate of this decline. In response to this attrition, the Company has downsized its business by closing and disposing of campgrounds and decreasing campground operating costs and general and administrative expenses. The Company intends to continue to keep the size of its campground system in an appropriate relation to the size of its membership base. In this regard, if the membership base continues to decline, or other opportunities arise consistent with the needs of the members, the Company may close and dispose of additional campgrounds and it will seek to decrease other expenses. At the same time, the Company has expanded its sales and marketing efforts with a view to stopping the membership decline. The Company has also acquired members through the purchase of Leisure Time, and it intends to explore the possible acquisition of additional members through the purchase of other membership campground organizations. However, at this time, the Company

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has not identified any realistic acquisition candidates. The Company believes that the ultimate size of its campground system and the amounts realized from future asset sales will depend principally upon the degree to which the Company can successfully implement this strategy.

Cash. On December 31, 2002, the Company had $3.9 million of cash and cash equivalents, a decrease of $246,000 from June 30, 2002. During the six months ended December 31, 2002, the Company s operating activities provided $2.6 million of cash, its investing activities used $2.8 million of cash, and its financing activities provided $28,000 of cash. The Company s investing activities consisted of net purchases of $1.3 million in marketable securities and $1.6 million in capital expenditures, partially offset by $55,000 in proceeds from asset sales. The Company s financing activities consisted of $113,000 of proceeds from the exercise of employee stock options and sales of shares through the Company s employee stock purchase plan, partially offset by $30,000 in payments on notes payable.

With respect to the Company s operating activities, for the six months ended December 31, 2002, the principal sources of operating cash were $32.5 million from operations, $4.7 million in principal and interest collections on contracts receivable and invested cash, and $10.4 million from sales of campground memberships. Principal uses of operating cash for the six months ended December 31, 2002, were $25.0 million in operating expenses, $6.3 million in administrative expenses (including general and administrative expenses and corporate member services costs), $9.6 million in membership origination costs and marketing expenses, $1.2 million in insurance premiums, and $3.0 million in income taxes. The Company s income tax payments were $1.5 million higher in the current period than in the same period last year because the Company had fully utilized its tax loss carryforwards by the end of fiscal 2002. Similarly, the Company expects its income tax payments for the balance of fiscal 2003 will be higher than the amounts it paid for the same period last year.

During the six months ended December 31, 2001, the Company s operating activities provided $3.5 million of cash, its investing activities used $2.3 million of cash, and its financing activities used $730,000 of cash. The Company s investing activities consisted of $1.5 million in expenditures to upgrade the Company s computer and communication systems and $1.2 million in capital expenditures at the campgrounds, partially offset by $384,000 in proceeds from the sale of assets. The Company s financing activities consisted of $22,000 of proceeds from the exercise of employee stock options, a payment of $714,000 for the purchase of 120,800 shares of common stock, and $38,000 in payments on notes payable.

The Company experiences lower cash flow from operating activities during the second quarter of its fiscal year because of the seasonal nature of its operations. The Company receives the majority of the dues revenue from its members during the winter, while incurring a higher level of operating expenses during the summer. In addition, a majority of the Company s sales and marketing efforts occur during the summer.

As of the date of this report, the Company had no outstanding borrowings under its Line of Credit, and it had the ability to borrow an additional $13.9 million for working capital purposes. The Company s availability under its Line of Credit has been reduced by $1.1 million as a result of the issuance of a letter of credit to secure obligations that may arise in the future under the Company s insurance program. At its current level of operations, the Company believes its cash reserves will increase during the balance of fiscal 2003. The amount of cash the Company is able to accumulate will depend on a number of factors including its ability to control costs, its success in collecting its contracts receivable and selling assets, and the other factors affecting the Company s operations described in this report. Based upon its current business plan, the Company believes that future cash flows provided from operations, asset sales and borrowings available under the Line of Credit will be adequate for the Company s operating and other cash requirements.

Material Changes in Financial Condition. Total assets increased by $1.2 million during the six months ended December 31, 2002. Marketable securities available for sale increased $1.3 million, contracts receivable increased by $1.4 million due primarily to an increase in the percentage of financed sales, and deferred membership origination costs increased $882,000. Cash decreased by $246,000 as discussed above. Other current assets decreased by $1.9 million due primarily to the collection of a receivable arising from a sale of assets and a decrease in accounts receivable from advertisers in the Company s member magazine, partially offset by increases in prepaid property taxes and insurance. Deferred tax assets increased by $264,000 in the current period as a result of a deferred tax benefit recognized in the current period.

Total liabilities decreased by $2.9 million during the six months ended December 31, 2002, primarily as a result of decreases in accounts payable, deferred dues revenue, and other accrued liabilities, partially offset by an increase in deferred revenue related to membership sales. Deferred dues decreased by $2.9 million because dues revenue recognized during the period exceeded dues collected. Accounts payable decreased by $1.1 million due to the timing of payments and other accrued liabilities decreased by $1.8 million due primarily to payments of accrued wages and benefits. Deferred sales revenue increased by $3.4 million due to an increase in membership contracts originated over historical rates.

Market Risk and Interest Rate Sensitivity. The Company is exposed to changes in interest rates primarily as a result of its investment in marketable securities, its financing of membership sales, and borrowings under its Line of Credit with Union Bank. The Company s objective is to limit the impact of interest rate changes on earnings and cash flows and to reduce overall borrowing costs. However, the Company does not engage in interest rate market risk management activities.

The Company has an investment in marketable securities, which consists of shares in a mutual fund that invests a majority of its assets in adjustable rate mortgage securities issued or guaranteed by the U.S. government, with the remaining assets invested in U.S. government obligations. Changes in interest rates may affect the fair value of the mutual fund shares as well as the amount of interest received. However, the risks associated with this investment are mitigated because the fund seeks to minimize portfolio volatility by limiting the duration of its investments to that of a six-month to one-year U.S. Treasury security. At December 31, 2002, the Company s investment in this mutual fund totaled $6.7 million, and it recorded an unrealized loss of $53,000 on this investment during the six months then ended. The Company invests the balance of its available cash in money market funds that provide relatively low rates of return and, thus, have little exposure to changes in interest rates.

The Company finances a portion of its membership sales creating contracts receivable. At December 31, 2002, the Company had $13.3 million of contracts receivable which have a weighted average interest rate of 14% and an average remaining term of 29 months. The Company is not exposed to changes in interest rates related to the collection of its contracts receivable because the interest rates on the contracts receivable are fixed. Changes in interest rates could affect the value of the Company s contracts receivable; however, the Company generally holds such contracts receivable to maturity.

The Company currently has no outstanding borrowings under its revolving Line of Credit with Union Bank. Under the Line of Credit, the Company could borrow $13.9 million for working capital purposes, which would accrue interest at a rate that fluctuates with changes in the prime rate. Changes in interest rates on borrowings under the Line of Credit would increase or decrease the Company s interest expense on these borrowings.

The Company receives revenues from its Canadian subsidiary and exchanges them into U.S. Dollars at exchange rates that fluctuate with market conditions; however, such revenues are not material to the Company s operations.

The Company does not use financial instruments for trading purposes.

The Company believes that a hypothetical ten percent change in market interest rates over the next year would not materially impact the Company s earnings or cash flow. In addition, the Company believes that a hypothetical ten percent change in market interest rates would not have a material effect on the fair value of the Company s marketable securities, contracts receivable or short-term cash investments.

RESULTS OF OPERATIONS

The following discussion and analysis are based on the historical results of operations of the Company for the six months ended December 31, 2002 and 2001. The financial information set forth below should be read in conjunction with the Company s consolidated financial statements included in Item 1.

Six Months Ended December 31, 2002 and 2001

Net Income. The Company reported net income of $4.1 million or $.54 per diluted share on revenues of $47.7 million for the six months ended December 31, 2002. This compares with net income of $3.9 million or $.45 per diluted share on revenues of $45.2 million for the same period last year.

The Company s revenues grew $2.4 million in the current period due primarily to increased membership sales revenue and interest income. Membership sales revenue was higher in the current period because of higher average new sales prices and an upgrade program. Expenses were also higher in the current period due to increased sales and marketing efforts and higher costs for insurance and employee benefits.

The table set forth on the following page shows separately the results of the campground operations, Trails Management, and RPI, without any allocation of corporate expenses, as well as corporate expenses and other revenues and expenses in the aggregate, for the six months ended December 31, 2002 and 2001.

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Thousand Trails, Inc. and Subsidiaries
Summary of Operating Results
(Dollars in thousands)
(Unaudited)

	Six Months Ended December 31,	
	2002	**2001**
Campground Operations		
Membership dues	$ 20,141	$ 20,073
Campground revenues	9,638	10,086
Cost of campground revenues	(4,141)	(4,320)
Operating expenses	(18,727)	(18,139)
Contribution from campground operations	6,911	7,700
Sales		
Membership contracts originated	13,981	12,937
Change in deferred revenue	(3,373)	(5,374)
Membership sales revenue	10,608	7,563
Membership origination costs	(6,342)	(6,123)
Change in deferred origination costs	882	1,705
Marketing expenses	(3,099)	(3,062)
Contribution from sales	2,049	83
Trails Management		
Revenues	3,252	3,416
Expenses	(2,892)	(2,983)
Contribution from Trails Management	360	433
Resort Parks International		
Revenues	1,547	1,686
Expenses	(801)	(899)
Contribution from RPI	746	787
Other income	1,214	1,193
Corporate member services	(682)	(734)
General and administrative expense	(5,217)	(4,718)
Other	19	44
Income before interest income and expense, gain on asset sales and taxes	5,400	4,788
Interest income	1268	1,030
Interest expense	(6)	(23)
Gain on asset sales	2	155
Income before taxes	$ 6,664	$ 5,950

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Operating Income. For the six months ended December 31, 2002, the Company s contribution from operations was $5.4 million, compared with $4.8 million for the same period last year. The increase in operating income resulted primarily from a $1.9 million increase in the contribution from the Company s sales operations, partially offset by decreases in the contributions from campground operations, Trails Management, and RPI, and an increase in general and administrative expenses. For this purpose, the contribution from operations is defined as income before interest income and expense, gains on asset sales, and taxes. See the table on the previous page for the elements of the contribution from operations and the Company s operating income before taxes for the periods presented.

Campground Operations. The Company s operations are highly seasonal. The Company receives the majority of the dues revenue from its members during the winter, which are recognized as income ratably during the year. However, the Company incurs a higher level of operating expenses during the summer. In addition, a majority of the Company s sales and marketing efforts occur during the summer.

Campground membership dues revenue was $20.1 million for both the six months ended December 31, 2002 and 2001. Dues revenue remained constant because the effect of the annual dues increase offset the net loss of campground members during the year.

Other campground revenues were $9.6 million for the six months ended December 31, 2002, compared with $10.1 million for the same period last year. The related expenses were $4.1 million for the six months ended December 31, 2002, compared with $4.3 million for the same period last year. Campground revenues decreased due primarily to decreases in revenues from guest fees, food service programs, and cabin and trailer rentals, partially offset by an increase in utility usage fees implemented to help control utility costs at the Company s campgrounds. These revenues may have declined in part because of a decrease in usage of the campgrounds during the current period. The slight decline in the related expenses was due primarily to decreases in maintenance expenses and the cost of operating the Company s rental trailers.

Campground operating expenses were $18.7 million for the six months ended December 31, 2002, compared with $18.1 million for the same period last year. The increase in campground operating expenses in the current period was due primarily to a $318,000 increase in employee benefit costs resulting from rising healthcare costs. In addition, the Company incurred higher communication and property and liability insurance costs, which were partially offset by decreases in maintenance expenses as well as administrative expenses associated with operating the campgrounds.

The Company intends to keep the size of its campground system in an appropriate relation to the size of its membership base. In this regard, if the membership base continues to decline, or other opportunities arise consistent with the needs of the members, the Company may close and dispose of additional campgrounds and it will seek to decrease other expenses. Although the Company believes that such changes would result in lower future operating expenses, no assurance can be given that such changes will not reduce revenues by an amount in excess of the expense reductions.

For the six months ended December 31, 2002, the Company originated membership contracts of $14.0 million, compared with $12.9 million for the same period last year. In the current period,

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the Company originated the same number of new membership contracts at a higher average price and a greater number of membership upgrades to its existing members, compared with the prior period. In the six months ended December 31, 2002, the Company originated approximately 2,000 new membership contracts at an average sales price of $3,466, compared with approximately 2,000 new membership contracts at an average sales price of $3,085 in the prior period. In the current period, the Company also originated approximately 2,000 upgrade contracts at an average sales price of $2,995, compared with approximately 1,900 upgrade contracts at the same average sales price in the same period last year.

In the six months ended December 31, 2001, the Company offered existing Thousand Trails and NACO members access to the Leisure Time campgrounds for a fee, which resulted in approximately 730 contracts at an average price of $244. The Company also offered Leisure Time members access to the Thousand Trails and NACO campgrounds for a fee, which resulted in approximately 300 contracts at an average price of $702.

The Company recognizes revenue from the sale of campground memberships that do not convey a deeded interest in real estate on a straight-line basis over the expected life of the memberships sold. For the six months ended December 31, 2002 and 2001, the Company recognized campground membership sales revenues of $10.6 million and $7.6 million, respectively. Membership sales revenue includes revenues of $9.3 million and $5.9 million, respectively, that were deferred in prior periods. Moreover, during these same periods, the Company deferred revenues of $12.7 million and $11.3 million, respectively, which will be recognized in future periods.

The net change in deferred revenue was $3.4 million this year, compared with $5.4 million last year. In fiscal 2001, the Company experienced a large increase in membership contracts originated, due primarily to the success of its upgrade programs. In fiscal 2002 and 2003 contract originations have continued to increase, but at a slower rate. As a result, revenue recognized from prior periods is beginning to decrease the impact of the deferral of revenue in the current period. As long as the rate of growth of membership contract originations is slower in the current period than in prior periods, the impact of the deferral on the Company s sales revenue will be lower in the current period as the recognition of revenues deferred in prior periods begins to outweigh revenue deferred in the current period.

Selling expenses directly related to the sale of campground memberships, substantially all of which are sales commissions, are deferred and recognized as expenses on a straight-line basis over the expected life of the memberships sold. All other selling and marketing costs are recognized as expenses in the period incurred. For the six months ended December 31, 2002 and 2001, the Company recognized selling expenses of $5.5 million and $4.4 million, respectively. These amounts include expenses of $2.8 million and $1.8 million, respectively, that were deferred in prior periods. Moreover, for these same periods, the Company deferred expenses of $3.7 million and $3.5 million, respectively, which will be recognized in future periods.

In the period ended December 31, 2002, the Company s sales revenues exceeded selling and marketing expenses by $2.0 million, compared with $83,000 during the same period last year. The Company incurs significant selling and marketing expenses to originate new membership contracts, and the majority of these expenses must be expensed in the current period, while the related sales revenues are generally deferred and recognized on a straight-line basis over the expected life of the memberships sold. As a result, the Company generally incurs a loss from the sale of new membership contracts. In contrast, the Company incurs substantially less selling and marketing expenses to originate upgrade contracts, and these expenses (substantially all of which are sales commissions) are generally deferred and recognized on a straight-line basis over the expected life of the memberships sold, as are the related sales revenue. As a result, the Company generally has a positive contribution from the sale of upgrade contracts, which offsets the loss from the sale of new membership contracts. Consequently, the Company expects that sales revenue will exceed selling and marketing expenses for the remainder of fiscal 2003, and until the positive impact from the sale of upgrade contracts decreases.

The Company s selling and marketing efforts have not produced the level of sales needed to stop the continuing decline in the Company s membership base, although the Company has been successful in slowing the rate of this decline. If the Company is not able to increase its campground membership sales over current levels or acquire members through the purchase of other membership campground operations, the membership base will continue to decline, which could decrease the Company s revenues, if not offset by dues increases or expense reductions.

Trails Management. Trails Management, a wholly owned subsidiary of the Company, currently manages 240 public campgrounds for the U.S. Forest Service and other entities. For the six months ended December 31, 2002, these operations produced a net contribution of $360,000 on revenues of $3.3 million, compared with a net contribution of $433,000 on revenues of $3.4 million for the same period last year. The decrease in contribution in the current period was due primarily to a decrease in usage fees, which was only partially offset by a decrease in expenses. Trails Management receives most of its revenues and incurs most of its expenses during the first fiscal quarter. During the balance of fiscal 2003, Trails Management s revenues will decline significantly, while it will continue to incur certain fixed costs, which will reduce its contribution for the full fiscal year.

Resort Parks International. RPI charges its members a fee for a membership that entitles them to use any of the campgrounds participating in RPI s reciprocal use system, subject to certain limitations. For the six months ended December 31, 2002, RPI s operations produced a net contribution of $746,000 on revenues of $1.5 million, compared with a net contribution of $787,000 on revenues of $1.7 million for the same period last year. The decrease in contribution in the current period was due primarily to a decrease in revenues from new memberships, which was only partially offset by a decrease in expenses.

Interest Income and Expense. Interest income increased to $1.3 million for the six months ended December 31, 2002, from $1.0 million for the same period last year. The increase in interest income in the current period was due primarily to an increase in the interest earned on the Company s growing portfolio of contracts receivable and invested cash. The Company s portfolio of contracts receivable increased over the past year as a result of the increase in membership sales, approximately 38% of which are sold on an installment basis. The Company expects the interest earned on its portfolio of contracts receivable and invested cash to increase during the balance of fiscal 2003, compared with historical levels, as the portfolio continues to grow and the Company accumulates cash.

Interest expense decreased to $6,000 for the six months ended December 31, 2002, from $23,000 for the same period last year.

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Gain on Asset Sales. The Company recognized a gain of $2,000 on asset sales for the six months ended December 31, 2002, compared with $155,000 for the same period last year. The decrease in the current period was due to the timing of asset sales. Over the next several years, the Company intends to dispose of the remaining assets it holds for sale.

Other Income. Other income generally consists of transfer fees received when existing memberships are transferred in the secondary market without assistance from the Company, collections of written-off contracts and delinquent dues, subscription fees received from members who subscribe to the Company s member magazine, and fees received from third parties for billing and collection services. Other income remained constant at $1.2 million for both the six months ended December 31, 2002 and 2001. In the current period, decreases in collections of written-off contracts and delinquent dues were offset by increases in transfer fees and subscription fees to the Company s member magazine.

Other Expenses. Administrative expenses, including corporate member service costs and general and administrative expenses, were $5.9 million for the six months ended December 31, 2002, compared with $5.5 million for the same period last year. Expenses increased in the current period due primarily to increases in maintenance costs and depreciation on the Company s new computer and communications systems, higher labor and employee benefit costs, and increased third-party legal fees. In addition, the Company recognized compensation expense of $224,000 on the purchase of 29,200 shares of its common stock from a director of the Company. These increases were partially offset by the elimination of a $180,000 reserve relating to contracts receivable that are no longer outstanding.

Income Taxes. The Company s current provision for income taxes was $2.8 million for the six months ended December 31, 2002, compared with $1.5 million for the same period last year. The current provision for the six months ended December 31, 2002 includes amounts for regular federal corporation income tax as well as state income taxes in the various states where the Company conducts its business. For the six months ended December 31, 2001, the Company did not have federal income taxes payable on a consolidated basis, with the exception of federal alternative minimum taxes, due to its net operating tax loss carryforwards. The Company fully utilized its tax loss carryforwards in fiscal 2002. As a result, the Company anticipates that its current provision for income taxes will be higher for the balance of fiscal 2003 than it was in prior periods.

The Company recorded a deferred tax benefit of $264,000 for the six months ended December 31, 2002, compared with a deferred tax provision of $541,000 for the same period last year. The deferred tax benefit in the current period was the result of timing differences related to the Company s deferral of revenue and expenses from the origination of membership contracts. The Company will continue to adjust its deferred taxes in future periods, and believes that the realization of the deferred tax benefit is more likely than not. The deferred tax provision will not affect current or future income tax payments.

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Three Months Ended December 31, 2002 and 2001

Net Income. The Company reported net income of $1.8 million or $.23 per diluted share on revenues of $20.4 million for the three months ended December 31, 2002. This compares with net income of $1.7 million or $.20 per diluted share on revenues of $19.3 million for the same period last year.

The Company s revenues increased in the current period due primarily to increased membership sales revenue. Expenses were also higher in the current period due to increased sales and marketing efforts and higher costs for insurance and employee benefits.

The table set forth on the following page shows separately the results of the campground operations, Trails Management, and RPI, without any allocation of corporate expenses, as well as corporate expenses and other revenues and expenses in the aggregate, for the three months ended December 31, 2002 and 2001.

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Thousand Trails, Inc. and Subsidiaries
Summary of Operating Results
(Dollars in thousands)
(Unaudited)

	Three Months Ended December 31, 2002	Three Months Ended December 31, 2001
Campground Operations		
Membership dues	$10,034	$10,002
Campground revenues	3,133	3,286
Cost of campground revenues	(1,526)	(1,564)
Operating expenses	(8,143)	(7,885)
Contribution from campground operations	3,498	3,839
Sales		
Membership contracts originated	6,249	5,669
Change in deferred revenue	(947)	(1,792)
Membership sales revenue	5,302	3,877
Membership origination costs	(2,837)	(2,954)
Change in deferred origination costs	261	627
Marketing expenses	(1,458)	(1,340)
Contribution from sales	1,268	210
Trails Management		
Revenues	80	113
Expenses	(363)	(281)
Contribution from Trails Management	(283)	(168)
Resort Parks International		
Revenues	605	798
Expenses	(387)	(504)
Contribution from RPI	218	294
Other income	538	538
Corporate member services	(307)	(432)
General and administrative expense	(2,681)	(2,325)
Other	(3)	18
Income before interest income and expense, gain on asset sales and taxes	2,248	1,974
Interest income	658	506
Interest expense	(4)	(18)
Gain on asset sales	6	173
Income before taxes	$ 2,908	$ 2,635

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Operating Income. For the three months ended December 31, 2002, the Company s contribution from operations was $2.2 million, compared with $2.0 million for the same period last year. The increase in operating income resulted primarily from a $1.1 million increase in the contribution from the Company s sales operations, partially offset by decreases in the contributions from campground operations, Trails Management, and RPI, and an increase in general and administrative expenses. For this purpose, the contribution from operations is defined as income before interest income and expense, gains on asset sales, and taxes. See the table on the previous page for the elements of the contribution from operations and the Company s operating income before taxes for the periods presented.

Campground Operations. Campground membership dues revenue was $10.0 million for both the three months ended December 31, 2002 and 2001. Dues revenue remained constant because the effect of the annual dues increase offset the net loss of campground members during the year.

Other campground revenues were $3.1 million for the three months ended December 31, 2002, compared with $3.3 million for the same period last year. The related expenses were $1.5 million for the three months ended December 31, 2002, compared with $1.6 million for the same period last year. Other campground revenues decreased due primarily to decreases in revenues from food service programs and usage fees. These revenues may have declined in part because of a decrease in usage of the campgrounds during the current period. The slight decline in the related expenses was due primarily to decreases in the cost of goods sold from the Company s food service programs and costs of operating the Company s rental trailers.

Campground operating expenses were $8.1 million for the three months ended December 31, 2002, compared with $7.9 million for same period last year. Increases in communications, utility and depreciation expenses, and employee benefit costs, in the current period were only partially offset by decreases in maintenance and worker s compensation expense.

For the three months ended December 31, 2002, the Company originated membership contracts of $6.2 million, compared with $5.7 million for the same period last year. In the current period, the Company originated approximately 750 new membership contracts at an average sales price of $3,324, compared with approximately 690 new membership contracts at an average sales price of $3,095 in the same period last year. For both the three months ended December 31, 2002 and 2001, the Company originated approximately 1,100 upgrade contracts at an average sales price of $2,995, and approximately 230 new contracts through sales agreements with other companies.

In the three months ended December 31, 2001, the Company offered existing Leisure Time members access to Thousand Trails campgrounds for a fee, which resulted in approximately 200 contracts at an average price of $253.

For the three months ended December 31, 2002 and 2001, the Company recognized campground membership sales revenues of $5.3 million and $3.9 million, respectively. Membership sales revenue includes revenues of $4.9 million and $3.2 million, respectively, that were deferred in prior periods. Moreover, for these same periods, the Company deferred revenues of $5.8 million and $5.0 million, respectively, which will be recognized in future periods.

For the three months ended December 31, 2002 and 2001, the Company recognized selling expenses of $2.6 million and $2.3 million, respectively. These amounts include expenses of $1.5

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million and $966,000, respectively, that were deferred in prior periods. Moreover, for these same periods, the Company deferred expenses of $1.7 million and $1.6 million, respectively, which will be recognized in future periods.

For the three months ended December 31, 2002, sales revenues exceeded selling and marketing expenses by $1.3 million, compared with $210,000 for the same period last year. The increase in the contribution from sales was due primarily to a decline in the net change in deferred revenue, which was $947,000 this year, compared with $1.8 million last year, reflecting the slower rate of growth of membership contract originations this year compared with prior years.

Trails Management. For the three months ended December 31, 2002, the operations of Trails Management produced a loss of $283,000 on revenues of $80,000, compared with a loss of $168,000 on revenues of $113,000 for the same period last year. The campground management operations generally incur a loss during the second fiscal quarter due to fixed expenses and the seasonal closure of the campgrounds.

Resort Parks International. For the three months ended December 31, 2002, RPI s operations produced a net contribution of $218,000 on revenues of $605,000, compared with a net contribution of $294,000 on revenues of $798,000 for the same period last year. The decrease in contribution in the current period was due primarily to a decrease in revenues from new memberships, which was only partially offset by a decrease in expenses.

Interest Income and Expense. Interest income increased to $658,000 for the three months ended December 31, 2002, from $506,000 for the same period last year. The increase in the current period was due primarily to an increase in the interest earned on the Company s growing portfolio of contracts receivable and invested cash.

Interest expense decreased to $4,000 for the three months ended December 31, 2002, from $18,000 for the same period last year.

Gain on Asset Sales. The Company recognized a gain of $6,000 on asset sales for the three months ended December 31, 2002, compared with $173,000 for the same period last year. The increase in the current period was due to the timing of asset sales.

Other Income. Other income was $538,000 for both the three months ended December 31, 2002 and 2001. In the current period, decreases in collections of written-off contracts and delinquent dues were offset by increases in transfer fees and subscription fees to the Company s member magazine.

Other Expenses. Administrative expenses, including corporate member service costs and general and administrative expenses, were $3.0 million for the three months ended December 31, 2002, compared with $2.8 million for the same period last year. Expenses increased in the current period due primarily to increases in maintenance costs and depreciation on the Company s new computer and communications systems, higher labor and employee benefit costs, and increased third-party legal fees.

Income Taxes. The Company s current provision for income taxes was $1.4 million for the three months ended December 31, 2002, compared with $786,000 for the same period last year.

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The Company recorded a deferred tax benefit of $278,000 for the three months ended December 31, 2002, compared with a deferred tax provision of $138,000 for the same period last year.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company currently does not have any derivative financial instruments. However, the Company does have other financial instruments that contain market risk. Management believes that the market risk associated with the Company s financial instruments as of December 31, 2002 is not material. The information required by Item 305 of Regulation S-K is contained in Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations under the heading *Market Risk and Interest Rate Sensitivity.*

Item 4. Controls and Procedures

Within the 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Company s Chief Executive Officer and Chief Financial Officer have concluded that the Company s disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company s periodic SEC filings. The Company has not made any significant changes in its disclosure controls and procedures or in other factors that could significantly affect its disclosure controls and procedures subsequent to the date of the evaluation described above.

Part II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security-Holders

On November 14, 2002, the Company held its annual meeting of shareholders. As of the record date for the meeting, the Company had 6,923,017 shares of common stock outstanding, of which 6,867,714 shares were represented at the meeting in person or by proxy. The shareholders took the following actions at the meeting.

1. The shareholders elected the six members of the Board of Directors of the Company who will serve until the next annual meeting of shareholders and until their successors are elected and qualified. The six directors and the votes cast for and withheld for each were as follows:

Name	Votes For	Votes Withheld
Arthur H. Baer	6,674,152	925
Andrew M. Boas	6,674,152	925
William P. Kovacs	6,674,152	925
Donald R. Leopold	6,674,152	925
H. Sean Mathis	6,674,152	925
William J. Shaw	6,674,152	925

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2. The shareholders ratified the appointment of Grant Thornton LLP as the Company s independent auditor for the fiscal year ended June 30, 2003. The votes cast for, votes cast against, and the abstentions were as follows:

Votes For	Votes Against	Abstentions
6,670,527	883	3,667

Item 6. Exhibits and Reports on Form 8-K

Exhibits

The following documents are filed as exhibits to this report.

Exhibit Number	Description
11.1	Statement re: Computation of Per Share Earnings.

Reports on Form 8-K

The Company did not file any Current Reports on Form 8-K during the quarter ended December 31, 2002.

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SIGNATURE

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf of the undersigned thereunto duly authorized.

		Thousand Trails, Inc.	
Date:	February 10, 2003	By:	/s/ William J. Shaw
			William J. Shaw President and Chief Executive Officer
Date:	February 10, 2003	By:	/s/ Bryan D. Reed
			Bryan D. Reed Chief Financial and Accounting Officer

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CERTIFICATIONS

I, William J. Shaw, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Thousand Trails, Inc.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report.

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. The registrant s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of the registrant s board of directors (or persons performing the equivalent function):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could

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significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date:	February 10, 2003	By:	/s/ William J. Shaw
			William J. Shaw Chief Executive Officer

I, Bryan D. Reed, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Thousand Trails, Inc.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report.

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and15d-14) for the registrant and we have:

a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. The registrant s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of the registrant s board of directors (or persons performing the equivalent function):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

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6. The registrant s other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date:	February 10, 2003	By:	/s/ Bryan D. Reed
			Bryan D. Reed Chief Financial and Accounting Officer

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EXHIBIT INDEX

Exhibit Number	Description
11.1	Statement re: Computation of Per Share Earnings.