



Title: Trendwest Resorts, Inc.

Course: EMGT 525/625

Term: Spring

Year: 1998

Author(s): B. Iewwongcharoen, T. Sandiford, B. Desmond and D. Andert

Report No: P98071

ETM OFFICE USE ONLY

Report No.: See Above

Type: Student Project

Note: This project is in the filing cabinet in the ETM department office.

Abstract: Trendwest Resorts, Inc. is a timeshare destination resort company. This paper analyses the critical internal and external issues in shaping a competitive strategy, alternative strategies, and a recommendation for a future strategy.

Trendwest Resorts, Inc.

**B. Iewwongcharoen, T. Sandiford, B. Desmond,
D. Andert**

EMP-P98071

Trendwest Resorts, Inc.

EMGT 525
Strategic Management



Prepared by
Team Imagineers

Boonkiart Iewwongcharoen

Tony Sandiford

Bert Desmond

Dale Andert

June 4, 1998

Trendwest Resorts, Inc.
Table of Contents

INTRODUCTION	1
STRATEGY IDENTIFICATION	2
KEY SUCCESS FACTORS.....	3
INDUSTRY ANALYSIS	3
ENVIRONMENTAL ANALYSIS	5
INTERNAL RESOURCES	6
MARKETING AND SALES RESOURCES	6
1997 KEY NUMBERS	6
OBJECTIVE SETTING.....	13
STRATEGIC ALTERNATIVES.....	13
RECOMMENDED STRATEGY.....	16
BIBLIOGRAPHY.....	I
APPENDIX A PORTER'S FIVE FORCES MODEL	II
APPENDIX B TRENDWEST INCOME STATEMENTS 1995-1997	III
APPENDIX C TRENDWEST BALANCE SHEETS 1995-1997	IV
APPENDIX D TRENDWEST CASH FLOW STATEMENTS	V
APPENDIX E TRENDWEST STOCKHOLDERS EQUITY STATEMENTS	VII

Introduction

To accommodate a vacation oriented society many vacation ownership plans are available. One type of plan is a timeshare ownership. This plan allows a vacationer to purchase a vacation period at a destination resort of their choice. This usually allows them to use the facilities at the resort as an owner without having to own and maintain a vacation property. The destination resort industry is very competitive. The players are very diverse and creative in the use of techniques to lure the vacation crowd. Trendwest Resorts, Inc. is a timeshare destination resort company that uses an approach to capitalize on location and affordability.

In 1989, Trendwest Resorts, Inc. was founded on a vision: to create a quality vacation experience that was flexible, convenient and affordable to upper and middle income families - a product distinctly different from that offered by other timeshare companies. Trendwest markets, sells, and finances timeshare ownership interests in the form of Vacation Credits and acquires, develops and manages the WorldMark Resorts.[1]

To realize its' vision Trendwest developed WorldMark, The Club. This company is a nonprofit organization that acts as a holding company for vacation credits and as the manager for the resorts. Trendwest manages WorldMark in exchange for a management fee.

WorldMark manages 22 destination resorts located in the Western United States, Hawaii, British Columbia, and Mexico. There are currently 52,000 owners. The owners are allowed to personalize their vacations, with the right to use a fully furnished unit at any resort. Their amount of use is based on the amount of vacation credits that the owner has purchased. Trendwest went public in 1997 and is traded on the NASDAQ.

This paper analyzes the strategy that Trendwest is using, alternative strategies, and a recommendation for a future strategy.

Strategy Identification

Trendwest Resorts, Inc. is utilizing a growth strategy to increase sales of vacation credits. The growth strategy is based on selling a vacation at a fair price for increased value relative to their competitors. The value proposition to the customer is increased flexibility, easy financing, customer service and quality resorts. At the core of this proposition is Trendwest's innovation.

Their innovation relies on a flexible plan for vacations. It is tied to their concept of allowing an owner to use any of the 22 resorts, for any length of time, at any time of year, given availability of space. In addition, they allow credits to be banked forward or taken early. This allows an owner to be able to use three years of credits all during a continuous vacation.

Another innovation is the marketing of vacations within an easy day's drive. This enables a vacationer to drive to a resort for a long or short vacation. In contrast, the remote resorts require a long trip and normally an expensive airfare.

Another support feature for the growth strategy is the use of an internal financing. This allows WorldMark at time of sale to offer financing (provided by Trendwest) ~~at the time~~ of sale. Trendwest receives above market interest income on the transaction.

The growth strategy of Trendwest has an objective of providing outstanding customer service. This is delivered through increased employee training and an emphasis on clean, maintained resorts. They try to take care of as much of the details as possible to insure that the owner's vacation is an enjoyable experience.

Their growth strategy relies on the use of aggressive marketing. They push hard to add off-site sales offices in numerous large metropolitan communities. The strategy of Trendwest is aimed at succeeding in a highly competitive industry. To succeed there are several key success factors that must be addressed.

Key Success Factors

For a company to succeed in the destination resort business there are several areas that must be addressed.

- Marketing: The ability to locate prospective customers and close them.
- Resort Location: Obtaining resorts in locations that are desirable and within a days drive of a large metropolitan area.
- Financing: Being able to provide purchaser financing.
- Value: Maintaining cost control so that products are less expensive to the consumer.
- Quality: Providing a product quality that insures repeat business.
- Customer Service: Providing good service to insure an enjoyable vacation experience.
- Flexibility: Allow the end user to trade vacations with other resorts.

The success factors were determined with the help of Porter's five forces model (Appendix A).

Industry Analysis

This level of analysis is associated with the factors that Trendwest can control.

Organization: The organizational structure for this industry needs to be aligned to provide maximum service to the consumer. This requires a flatter organization that can get input from customers much faster and react quicker to changes in environmental conditions.

Customer Service: As with any service that is related to consumer relaxation the customer service is essential. While a person is on vacation they want to be relaxed and details attended to by others. By providing excellent service they insure that the vacation experience is relaxing and a repeated event.

Quality: For repeat business and referrals, it is necessary that the consumer have a quality experience. This experience is provided by providing clean, well-maintained, value priced accommodation's.

Flexibility: The ability to package your vacations with maximum flexibility will allow you to market and appeal to a larger variety of consumers. This flexibility refers to options within the WorldMark resorts.

Networking: This area is important for the ability of a purchaser to trade their credits for other vacation properties. This provides a bigger value to the consumer. Networking refers to options for vacations at resorts that are not operated by WorldMark.

Location: The location of the resorts is crucial. They must be in a place that where many people will want to visit and vacation. This includes beauty as well as numerous activities. The activities that are of interest are golf, skiing, swimming, hiking, and nature viewing.

Financing: The ability to offer financing creates two benefits. The first is that the purchaser's credit rating is not crucial. The second benefit is that a company can profit from loaning money at an above market interest rate.

Marketing: This area is crucial for a destination resort company. A strong-arm approach is often necessary. This is due to the nature of the sale. You are purchasing something with very little chance of return.

Environmental Analysis

The environmental analysis is focused on the factors that are not within Trendwest's control but that can have a significant impact on their operations.

Competition: The destination resort vacation industry is very competitive. There are numerous vacation companies such as Club Med and cruise lines that have established a strong base. There are also new players such as the large hotel chains that are entering the timeshare vacation arena. With the new players being experienced and well financed, it will create an even more competitive industry.

Brand Recognition: Several brands such as Club Med, The Hilton, Carnival Cruises, and The Marriott have strong brand recognition. This is a very valuable marketing tool.

Economy: A major factor for vacation markets is the availability of disposable income. If the United State's economy is bullish then people will have more disposable income. Currently the economy is performing well but with the turmoil in Asia, there may be a pending downturn. A downturn would not only affect new sales but would also increase the number of customers who default on their monthly payments.

Inflation: Since the vacation experience has a fixed cost, if the price of operations increases rapidly it will affect the profits of a vacation company.

Transportation: Transportation can affect the destination resort industry in several ways. If air transportation becomes very expensive then people will be more likely to drive to their vacation destination. But if air prices go down then people will be more likely to fly to far away destinations. This factor is similar to inflation but is only related to relative changes in transportation costs.

Government: The taxes that the government imposes can affect this industry. Taxes on second homes will tend to steer vacationers away from second homes. Taxes on airline travel will encourage vacationers to use resorts that they can drive to.

This environmental analysis is done to identify economic, political, and social forces that are outside of the traditional boundaries of the destination resort industry. These forces are significantly influenced by or have a major impact on Trendwest.

Internal Resources

There are several resources that Trendwest possesses that can assist them in succeeding in the destination resort industry.

Marketing and Sales Resources

Timeshare vacation sales are currently a numbers game. Trendwest identifies qualified customers to pitch to. Trendwest has a very strong marketing program with improved efficiencies possible. The important number for 1997 are shown in the following table.

1997 Key Numbers	
Number of Prospects who were exposed to a Trendwest Sales Office	130,000
Number of people who purchased vacation credits (9.8% of above).	12,500
Number of people who canceled within seven days (17%)	2,000
Average Vacation Credits Purchased per owner	6,600
Average purchase price per owner	\$8,507
Percent of purchases financed by Trendwest	88%
Receivable 60 days past due (million)	\$4.5
[1], [4]	

Trendwest reports that at each sales office, there are three to four presentations per day, five days a week with about 20 prospects per presentation.[4] This correlates to between

300 to 400 presentations per week per sales office. The following diagram shows the typical conversion of the 400 prospects per week who attend a presentation at a Trendwest Sales office.

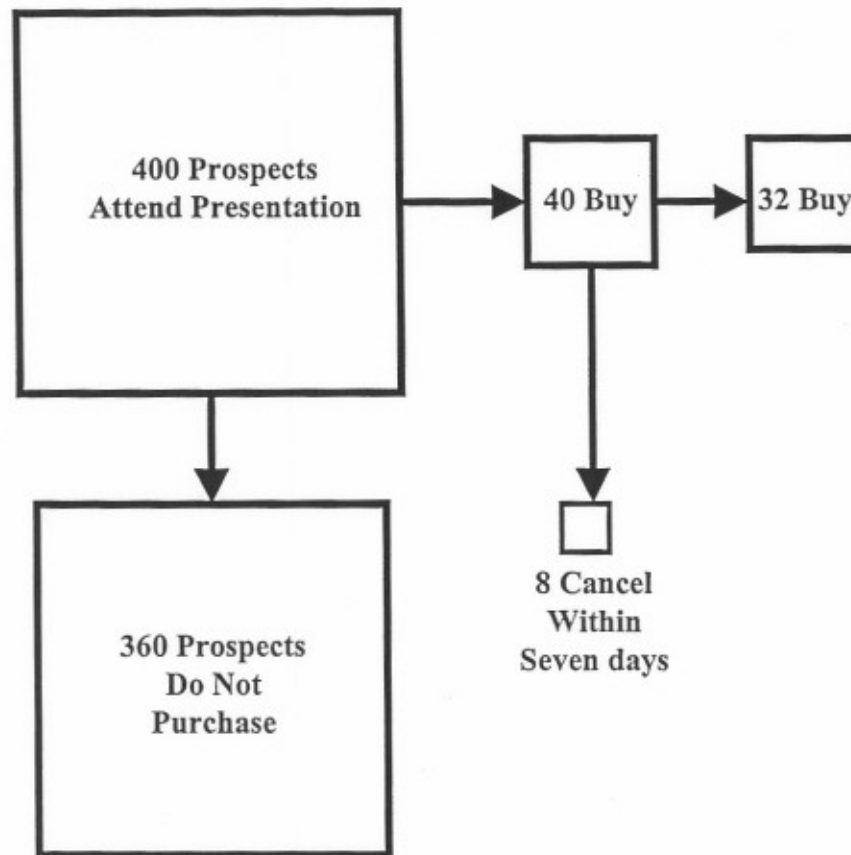


Figure 1 Typical Trendwest Sales Conversion

The Sales Conversion figure shows that increasing each sales office's efficiency of converting prospects into people who buy from 10% to 15% is the equivalent of opening 50 more sales offices (with no additional investments in sales people or sales offices).

Trendwest Culture

Trendwest culture is toward a more relaxed soft sales approach. This is in contrast to their competitors. [4]. This is a resource that needs to be re-emphasized. As noted by one of our reviewers who recently visited a sales office. "I attended a Trendwest sales presentation recently. Trendwest culture revealed glib, fast talking people who are focusing on closing, not educating. It was far from "a soft sales approach." I experienced a combination of an Amway meeting and used car sales people. Enthusiastic zealots present the beautiful vacation properties (never mentioning price). Following that I was assigned a sales representative, who was pushy, never answered a question directly and always closing. I told him I understood this was suppose to be soft sell, he responded defensively, asking, "who said that?" I told him the Trendwest Telephone person did. He replied, "what did you expect, you don't believe that stuff do you?" Although one reviewer had a negative experience with the soft sell approach, it can be a significant resource if used correctly.

Production Capabilities

Trendwest's inventory is the unsold ownership interests. Table 2 below shows how much Trendwest's inventory of vacations credits decreased from 1996 to 1997 and how many more vacations credits are in production for sales in 1998.[4]

(Thousands)	As of 1/1/97	As of 1/1/98
Vacation Credits	\$7,784	\$1,722
Construction in progress	\$8,463	\$42,812
Total inventories	\$16,247	\$44,534

Table 2 Trendwest Inventories

This ability to increase vacation credit inventory is a needed resource for Trendwest's growth strategy.

Financial

Because Trendwest's performance is sensitive to a number of economic and financial constraints, to be able to provide internal financing is a significant resource. Not only does this assist with the closing of sales but it also generates above market interest income. Due to a low default rate, Trendwest can sell their accounts receivable to third parties. This allows them to transfer their accounts receivable into cash by selling them at a discount to third parties. Currently, Trendwest funds 88% [4] of customers' purchases on a seven-year loan at 14% interest. In 1997, of the total \$242.3 million of notes receivable outstanding, Trendwest retained \$84.7 million (35%) and sold \$157.6 million (65%).[4]

Critical Issues

A comparison is done to determine how the resources of Trendwest match up against the issues identified in the internal and environmental analysis. The areas where there is a gap between what is available and what is needed are identified as critical issues.

Where is this?
(page 12)

SWOT Analysis

A Strengths, Weaknesses, Opportunities and Threat (SWOT) strategic planning tool was used to help identify critical issues.

Strengths <ul style="list-style-type: none">• Innovator in point-based vacation system• Good property locations• Financial strength• Number of sales offices	Weaknesses <ul style="list-style-type: none">• Properties limited to Western U.S.• Small entry barriers to point-based vacation system.• Timeshare vacations industry has a bad reputation• Low general awareness among target market of timeshare benefits and risks
--	---

Opportunities <ul style="list-style-type: none">• Increase their 8% conversion rate of prospects to paying customers• Baby boom generation becoming wealthy retirees• Improve customer service by becoming the Nordstrom of the Timeshare industry	Threats <ul style="list-style-type: none">• Much larger firms entering market.• Economic downturn could reduce number of potential customers and increase financial expenses.• Government regulations.• El Nino effect
---	--

Strengths

Trendwest is the pioneer in innovating traditional timeshare vacations offering the flexibility to vacation at different resorts, many within a five hour drive from the customers' home.

Trendwest has a large inventory of Vacation Credits in many attractive locations.

With its recent Initial Public Offering (IPO) Trendwest has capital to invest in new vacation properties and open new sales offices.

Weaknesses

Trendwest focuses on the Western part of the United States and, with limited international exposure in British Columbia and Mexico.

The barriers to entry into point-based vacation systems are low. WestMark has no protection from stronger, larger organizations entering the timeshare vacation market.

The timeshare vacation industry has a terrible reputation. One industry magazine wrote, "The timeshare industry has broken all records to become the industry with the fastest growth rate in complaints and the highest number of complaints in CASE's 25-year history." [2]

CourtTV claims that 94% of all timeshare owners never intended to buy in the first place; they are swept away by high-pressure sales pitches and cleverly disguised promotions. [3]

CourtTV describes a typical timeshare sales pitch, "A new camera, a half-price parasail ride, a free day's rental car, a free gourmet meal—you name it;" timeshare sales people have offered it. Many timeshare developers lure tourists to sales presentations by selling tours and activities at highly discounted prices, but provide only vague disclosure of what is required to qualify for the discount deal".

In the usual scenario, the catch for the gift is that you must sit through a presentation about a timeshare vacation property. The presentations vary, but most include high-pressure sales pitches that drone on for hours and leave visitors desperate to get out. Timeshare salespeople frequently go over the advertised time allotted for their presentation and are not responsive if you complain. They sometimes refuse to give the promised gift or discount if you don't buy. Although it may be illegal to not give you the gift or discount, few consumers complain—they just want out.

Another weakness is the lack of understanding of the buying market of what a credit based timeshare is. Most people have no idea of how it works.

Opportunities

A business where 92% of the prospects who decide to attend a sales presentation and do not buy offers tremendous opportunity for a firm who can invent a solution that makes it attractive enough for fewer of the potential customers to walk out the door. A reduction of the 92% reject rate by 10% would more than double sales with no increase in expenses or capital investment at all. Phil Crosby said, "Quality is Free." The firm who offers a product that will delight customers will rephrase Crosby's quote to "Quality is the highest profit item we sell."

Because of the timeshare vacation industry's negative reputation, there is an opportunity for a firm to differentiate itself from the pack by focusing on creating "delighted customers." The equivalent of a Nordstrom would remove potential customers' largest concern and it would position it away from the other firms in the industry.

A demographic opportunity that is presenting itself is the aging of the baby boomers. This age group will be in the retirement age very soon. There is a large potential market for services provided by the destination resort industry.

Threats

There are larger stronger companies entering the timeshare vacation market. These include Marriott, Walt Disney, Hilton, Hyatt, Fours Seasons Hotels and Resorts, Westin and others.[4]

Vacations are luxuries that are the first thing to be cut when the economy declines. This could have disastrous effects for Trendwest as fewer customers sign up and more customers default on their loans.

The timeshare vacation industry is vulnerable to government regulations as customer dissatisfaction with the industry grows.

The attractiveness of vacations depends on the weather. Abnormal weather could reduce the number of new customers and current customers who increase their investment in vacation credits.

The critical issues identified from a comparison of the SWOT analysis and the Key Success Factors are:

- 1) More closings are necessary; An analysis of Trendwest's Sales Efficiency shows their efficiency is very low and a small improvement in their sales efficiency would increase profits as much or more than opening new sales offices. A related issue is to decrease the amount of sales that are voided by purchasers after the closing.
- 2) Limited Sales Outlets; A limiting factor is the number of Trendwest sales outlets. Their SEC Form 10-K states that, "The increase in Vacation Credits Sold was largely attributable to two new off-site sales offices in Southern California region, Costa

Could've shown graphically

Mesa and Woodland Hills..."[4], this suggests that established sales outlets are near saturation.

- 3) The perceived image of Timeshares is bad; People are afraid to attend sales presentations because of the negative stories that they have heard.
- 4) Inventory of units must be increased; One limitation is the inventory of vacation properties available for sale. By law, Trendwest cannot sell more vacation credits than can be served by the number of available units. Trendwest must continue to acquire new facilities that are attractive to their customers and they must maintain their current properties.

Objective Setting

To address the critical issues several objectives have been identified.

- 1) Increase closed from 9.8% of prospects to 15 %.
- 2) Reduce voiders from 20% to 10%.
- 3) Improve image to a "Nordstrom" reputation.
- 4) Increase inventory of units to allow for continued growth.
- 5) Maintain quality of units to a standard of like new.

Strategic Alternatives

We evaluated three strategic alternatives for Trendwest and recommend one of the them in the next section. The three alternative strategies are as follows:

1. Improve current growth strategy.
2. Develop international opportunities.
3. Develop Joint Ventures with important industry players.

1. Improve Current Growth Strategy

This strategy is because there are tremendous growth opportunities by improving internal operations combined with adding new properties and maintaining current properties.

Improving internal operations means applying quality principles to reduce the waste and rework in the current system. For every 100 people exposed to a Trendwest presentation, only eight become satisfied customers. Many of the remaining 92 customers have a poor impression of Trendwest because of the pressure sales tactics currently used. This bad word-of-mouth influences potential customers to not attend a Trendwest presentation. While our sales tactics may be less distasteful than other firms in the timeshare vacation industry, there is considerable room for improvement.

Having a strategy of Trendwest becoming the "Nordstrom" of timeshare vacations opens rich growth opportunities for a very low price. For example, a switch from "selling" prospective customers to one of "educating" them can create a more positive impression for both customers and non-customers. By changing our selling process so there are more opportunities for people who are not interested to comfortably drop out will increase the concentration of high-potential prospective customers in the one-on-one presentations every prospect has to go through after they see the Trendwest presentation.

Long;
Run-
Sentence
like

Reducing the drop out rate from 90% to 80% creates very high profits. It means effectively doubling revenues with the no additional costs. Further, by continuing to focus on reducing the drop out rate in future years means higher profits.

Second, using a "Nordstrom" image as a goal for customer satisfaction forces us to develop alternative sales presentations. The timeshare vacation industry all uses the same selling process—high pressure. We need to develop and market test alternative presentation strategies to reform the industry. Trendwest can become recognized as an innovator in the industry and become a leader.

Third, Trendwest must continue to acquire attractive vacation properties and maintain them so every Trendwest customer feels like they are living in a new, clean, fresh vacation home.

The key to this strategy is to create a new ecosystem for the timeshare vacation industry by developing a focus on truly delighting our customers.

There are three major disadvantages to this strategy. First, fewer new sales offices might be open than if we did not do this. Second, more vacation properties need to be created. Third, there may be no way to make selling timeshare vacations a pleasant process.

2. Develop International Opportunities

Trendwest has few international operations now. Focusing on developing international markets will sustain Trendwest's high growth rate. Taking a systematic, step by step strategy of developing Trendwest in other countries will let Trendwest grow. At each successive step, the lessons learned from the previous steps will make it more efficient to develop new markets.

For example, focusing on three countries, Australia, New Zealand, and Great Britain starting in 1999 will give Trendwest experiences in the do's and don'ts of international markets few problems with language. The lessons learned in developing these markets will make it easier to develop non-English speaking markets.

Developing international markets at once lets Trendwest become a significant player in the international timeshare vacation industry before the window of opportunity closes.

There are some serious disadvantages to this strategy. First, Trendwest may spread itself too thin trying to grow the U.S. market while developing the international market. This could seriously weaken Trendwest's sales and profits everywhere. Second, developing international business is very risky with the combination of higher costs and uncertain

revenues and profit. Disney's problems in France show how even very powerful and successful firms can be punished by poorly executing an international strategy.

3. Develop Partnerships with Key Industry Players

This strategy focuses on doing what Trendwest does best, selling and marketing of properties and partnering with firms that have better resources to acquire, develop and support attractive vacation properties around the world.

As described in the first strategy, there is tremendous potential for increased sales at much lower costs with an improved selling process. Trendwest can become the innovator by applying the quality principles of continuous improvement to the selling process.

In essence, this could make Trendwest the timeshare vacation sales and marketing operation for companies such as Hilton and Disney who are starting to enter the industry.

The primary disadvantage of this strategy is Trendwest's success depends on a long-term friendly relationship with a few customers. If one of our partners cancelled the relationship, Trendwest would have much less revenue with little change in costs.

Recommended Strategy

In an ideal world, Trendwest would do all three strategies, however doing all three would assure the failure of every one. Each strategy offers rich opportunities and is vitally important to Trendwest's long term success. Trendwest must select one strategy and execute it relentlessly.

We recommend that Trendwest focus on the first strategy of improving current operations. This strategy will reposition the timeshare vacation process as much more pleasant than it is now. It will establish Trendwest as an innovative industry leader. It will

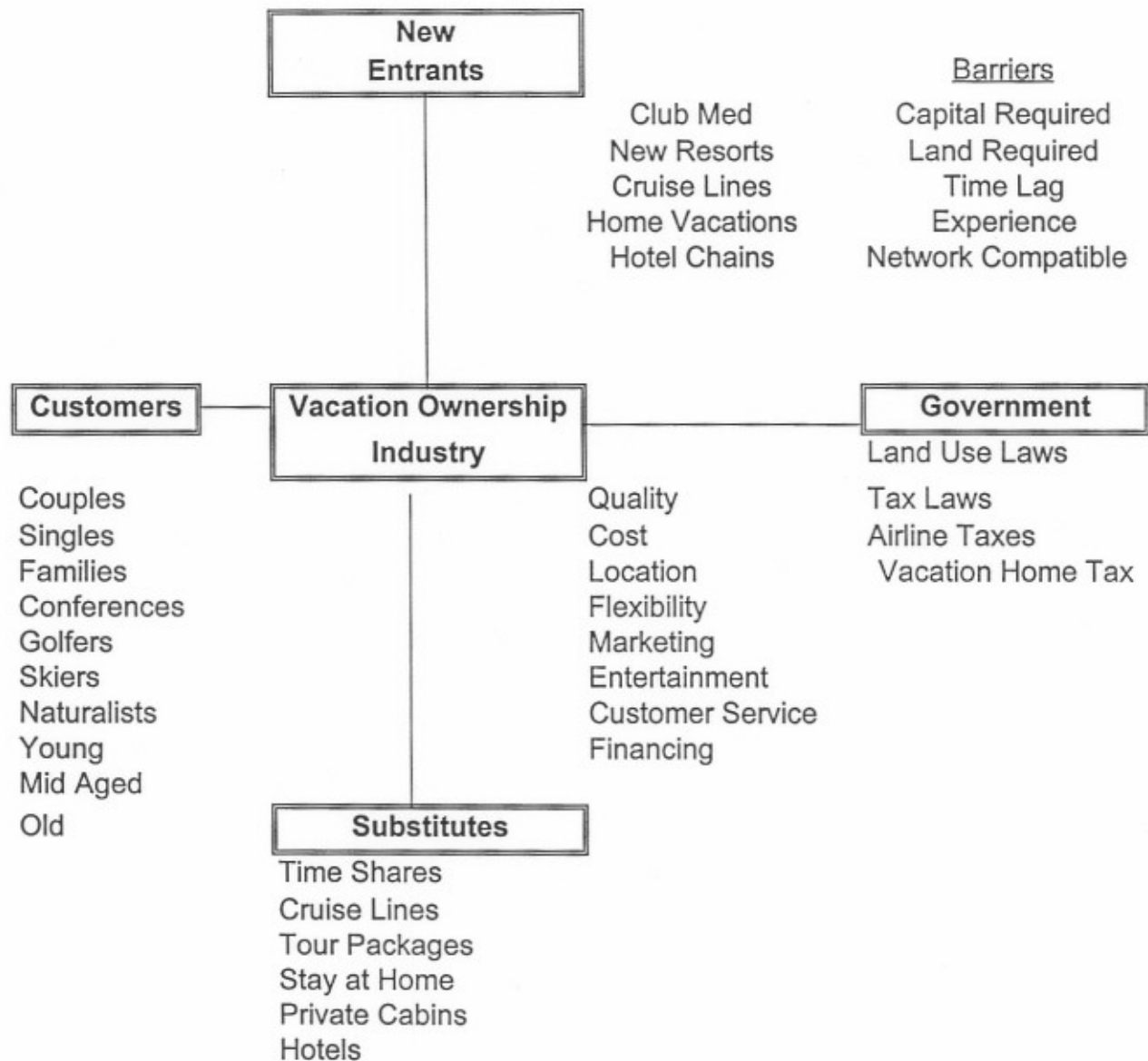
strengthen Trendwest' financial resources by greatly improving revenue at low incremental cost.

This means Trendwest will be in a much stronger position to execute the other two strategies.

Bibliography

- [1] *Annual Report*, Trendwest 1997
- [2] Web page, WWW.case.org.sg/magazine/sepoct96/t-share.htm
- [3] Web page, WWW.courtstv.com/legalcafe
- [4] Trendwest Resorts, United States Securities and Exchange Commission Form-10K, March 1998

Appendix A Porter's Five Forces Model



Appendix B Trendwest Income Statements 1995—1997

TRENDWEST RESORTS, INC.

AND SUBSIDIARIES

Combined and Consolidated Statements of Income
(dollars in thousands, except per share data)

	Year ended December 31,		
	1995	1996	1997
Revenues:			
Vacation Credit sales, net	\$ 77,783	\$ 100,040	\$ 128,835
Finance income	5,368	7,143	11,989
Gains on sales of notes receivable	3,222	5,673	6,582
Resort management services	1,579	1,501	2,032
Other	1,226	2,552	2,149
Total revenues	\$ 89,178	\$ 116,909	\$ 151,587
Costs and operating expenses:			
Vacation Credit cost of sales	20,484	27,400	34,569
Resort management services	1,283	859	1,108
Sales and marketing	36,374	47,810	59,448
General and administrative	8,391	10,904	13,449
Provision for doubtful accounts and recourse liability	6,522	7,467	9,077
Interest	2,380	2,445	1,739
Total costs and operating expenses	\$ 75,434	\$ 96,885	\$ 119,390
Income before income taxes	\$ 13,744	\$ 20,024	\$ 32,197
Income tax expense	4,979	7,348	11,588
Net income	\$ 8,765	\$ 12,676	\$ 20,609
Basic and diluted net income per common share	\$ 0.61	\$ 0.88	\$ 1.32
Basic and diluted weighted average shares of common stock outstanding	14,387,169	14,417,116	15,596,419

Appendix C Trendwest Balance Sheets 1995—1997

Combined and Consolidated Balance Sheets
(dollars in thousands)

	December 31,	
	1996	1997
Assets		
Cash	\$ 93	\$ 70
Restricted cash	709	1,219
Notes receivable, net of allowance for doubtful accounts, sales returns and deferred gross profit	45,448	73,075
Accrued interest and other receivables	4,505	7,435
Residual interest in notes receivable sold	10,839	15,235
Inventories	15,747	44,534
Property and equipment, net	5,912	7,057
Deferred Income taxes	2,350	924
Other assets	3,116	2,201
Total assets	\$ 89,330	\$ 151,750
Liabilities and Stockholders' Equity		
Liabilities		
Accounts payable	\$ 1,037	\$ 944
Accrued liabilities	2,100	3,852
Accrued construction in progress	2,089	10,480
Due To Parent	21316	1,947
Allowance for recourse liability and deferred gross profit on notes receivable sold	10,080	8,757
Income taxes payable to Parent	1,909	2,755
Income Taxes payable		880
Notes payable	1,055	
Total liabilities	\$ 39,586	\$ 29,625
Stockholders' Equity		
Preferred stock, no par value Authorized 10,000,000		
Common stock, no par value. Authorized 90,000,000 shares; issued and outstanding 17,593,366 shares at December 31, 1997	14,970	55,742
Retained earnings	34,774	55,383
Total stockholders' equity	\$ 49,744	122,125
Total liabilities and stockholders' equity	\$ 89,330	151,750

Appendix D Trendwest Cash Flow Statements 1995—1997

TRENDWEST RESORTS, INC AND SUBSIDIARIES

Consolidated Statements of Cash Flows
(amounts in thousands)

Year ended December 31,

	1995	1996	1997
Cash flows from operating activities:			
Net income	\$ 8,765	12,676	20,609
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	330	502	681
Amortization of residual interest in notes receivable sold	1,481	2,735	4,089
Provision for doubtful accounts,			
sales returns and recourse liability	7,655	10,078	11,755
Recoveries of notes receivable charged off	113	72	132
Residual interest in notes receivable sold	(3,258)	(5,674)	(6,729)
Unrealized gain on residual interest in notes receivable sold			(1,044)
Change in deferred gross profit	1,480	2,737	(684)
Deferred income tax expense (benefit)	(364)	(422)	1,436
Issuance of notes receivable	(71,052)	(91,593)	(112,170)
Proceeds from sale of notes receivable	46,665	67,257	42,292
Proceeds from repayment of notes receivable	11,084	21,388	28,781
Purchase of notes receivable	(11,305)	(11,150)	(16,571)
Changes in certain assets and liabilities:			
Increase in restricted cash	(110)	(328)	(510)
Inventories	1,493	(5,653)	(28,287)
Accounts payable and accrued liabilities	(3,279)	1,729	10,060
Income taxes payable to Parent	(2,207)	713	846
Income taxes payable			880
Other	(1,740)	(1,540)	(2,044)
Net cash provided by (used in) operating activities	\$ (14,249)	(3,527)	(46,478)

Cash flows from investing activities:			
Purchase of property and equipment	(4,312)	(1,429)	(1,696)
Proceeds from sale of marketable equity securities	4,219		
Net cash used in investing activities	\$ (93)	(1,429)	(1,696)
Cash flows from financing activities:			
Proceeds from notes payable	100		16,803
Payments on notes payable	(1,529)	(1,487)	(1,055)
Net change in due to Parent	15,877	(968)	(19,369)
Dividends paid	(120)		
Proceeds from issuance of common stock	15	1	51,772
Payments on notes receivable for stock	30	314	
Net cash provided by (used in) financing activities	\$ 14,373	2,140	48,151
Net increase (decrease) in cash	31	(42)	(23)
Cash at beginning of period	104	135	93
Cash at end of period	\$ 135	93	70
Supplemental disclosures of cash flow information			
cash paid during the period for:			
Interest	2,091	2,579	1,951
Income taxes	7,547	7,056	8,010
Supplemental schedule of noncash investing and financing activities:			
Issuance of common stock for notes receivable	\$ 41		
Reduction of notes payable through transfer of notes receivable			16,803
Issuance of notes receivable in exchange for other assets sold			489

Appendix E Trendwest Stockholders Equity 1995—1997

TRENDWEST RESORTS, INC AND SUBSIDIARIES

Consolidated Statements of Cash

Flows

(amounts in
thousands)

Year ended December 31,

	Class A		Class B		Employee notes receivable for common	Retained	Total Stockholders
	Shares	Amount	Shares	Amount	stock	earnings	equity
Balance at December 31, 1994	8,981,388	6,413	100	8,500	(910)	3,453	27,456
Exchanges for Parent company stock					607		607
Issuance Trendwest common stock to employees for notes	242,235	56			(41)		15
Note payments					30		30
Dividends declared and paid by TW Holdings						(120)	(120)
Net income						8,765	8,765
Balance at December 31, 1995	9,223,623	6,469	100	8,500	(314)	22,098	36,753
Issuance Trendwest Funding common stock	1,000	1					1
Note payments					314		314
Net income						12,676	12,676
Balance at December 31, 1996	9,224,623	6,470	100	8,500		34,774	49,744
Consolidation transactions (5,193,693 shares of Trendwest common stock issued in exchange for all of the outstanding share of TW holdings and Trendwest Funding)	5,192,493	8,500	(100)	(8,500)			
Issuance of common stock net of issuance costs of \$5,401	376,250	51,772					51,772
Net income						20,609	20,609
Balance at December 31, 1997	17,593,366	66,742				55,383	122,125

December 31, 1996

Authorized	Issued & outstanding
------------	-------------------------

Trendwest:		
Common stock, voting no par value	10,264,215	9,223,423
Preferred stock no par value		
TW Holdings:		
Class A, voting, no par value	200	200
Class B, nonvoting, no par value	200	100
Trendwest Funding common stock voting, no par value	1,000	1,000