

THOUSAND TRAILS INC /DE/

Form PREM14A

May 22, 2003

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE

SECURITIES EXCHANGE ACT OF 1934

(AMENDMENT NO.)

Filed by the Registrant ☒

Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☒ Preliminary Proxy Statement
- ☐ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- ☐ Definitive Proxy Statement
- ☐ Definitive Additional Materials
- ☐ Soliciting Material Pursuant to Section 240.14a-12

THOUSAND TRAILS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- ☐ No fee required.
- ☒ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

- (1) Title of each class of securities to which transaction applies: Common Stock (par value \$.01)
- (2) Aggregate number of securities to which transaction applies: 6,973,943
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined): The filing fee is determined based upon the sum of (a) the product of 6,973,943 shares of Common Stock and the expected merger consideration of \$14.50 per share and (b) the difference between the expected merger consideration of \$14.50 per share and the exercise price per share of each of the outstanding options to purchase 1,200,368 shares of Common Stock for which the exercise price per share is less than the merger consideration per share. In accordance with Exchange Act Rule 0-11(c) and Fee Rate Advisory #11 for fiscal year 2003 the filing fee was determined by calculating a fee of \$80.90 per \$1,000,000 of the aggregate merger consideration of \$113,664,293.
- (4) Proposed maximum aggregate value of transaction: \$113,664,293
- (5) Total fee paid: \$9,195

☐ Fee paid previously with preliminary materials.

☐ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount Previously Paid:
- (2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Preliminary Copy

Thousand Trails, Inc.

3801 Parkwood Blvd., Suite 100
P.O. Box 2529
Frisco, Texas 75034

MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT

To the Stockholders of Thousand Trails, Inc.:

You are cordially invited to attend a special meeting of stockholders of Thousand Trails, Inc., which will be held at _____ local time on _____, 2003 at our headquarters at 3801 Parkwood Blvd., Suite 100, Frisco, Texas 75034.

At the special meeting you will be asked to consider and vote upon a proposal to approve an Agreement and Plan of Merger under which KTTI Acquisition Company, Inc., a wholly owned subsidiary of KTTI Holding Company, Inc., will merge with and into Thousand Trails. If the merger is completed, for each share of Thousand Trails common stock you own, you will receive \$14.50 in cash, subject to adjustment in the event our working capital is less than a specified amount at the end of the month before the closing of the merger. We do not currently expect that any adjustment will be required. Following the merger, Thousand Trails will be a wholly-owned subsidiary of KTTI Holding Company, Inc.

After careful consideration, the Thousand Trails board of directors has approved the merger agreement and has determined that the merger and merger agreement are advisable, fair to and in the best interests of Thousand Trails and the Thousand Trails stockholders. The board of directors recommends that you vote **FOR** the merger proposal.

Your vote is very important, regardless of the number of shares you own. Please vote your shares as soon as possible so that your shares are represented at the meeting. Whether or not you plan to attend the meeting, please take the time to vote on the proposal by completing and mailing the enclosed proxy card to us. To vote your shares please complete, sign and date the enclosed proxy card and promptly return it in the enclosed postage prepaid envelope.

The accompanying proxy statement and notice of special meeting contain important information about the merger. We encourage you to read this entire document carefully.

Sincerely,

William J. Shaw
President and Chief Executive Officer

The merger has not been approved or disapproved by the Securities and Exchange Commission or any state securities regulator nor has the Securities and Exchange Commission or any state securities regulator passed upon the fairness or merits of the merger or upon the accuracy or adequacy of the information contained in the proxy statement. Any representation to the contrary is unlawful.

The proxy statement and form of proxy are dated _____, 2003 and are first being mailed to stockholders _____ on or about _____, 2003.

Thousand Trails, Inc.

3801 Parkwood Blvd., Suite 100
P.O. Box 2529
Frisco, Texas 75034

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS TO BE HELD ON _____, 2003

The Special Meeting of Stockholders of Thousand Trails, Inc., a Delaware corporation, will be held beginning at _____ local time on _____, 2003 at its headquarters at 3801 Parkwood Blvd., Suite 100, Frisco, Texas 75034, to consider and vote on the following matters:

1. To consider and vote upon a proposal recommended by the Thousand Trails board of directors to approve the Agreement and Plan of Merger, dated as of April 29, 2003, by and among Thousand Trails, KTTI Holding Company, Inc., a Delaware corporation, and KTTI Acquisition Company, Inc., a Delaware corporation and wholly owned subsidiary of KTTI Holding Company, Inc., and the merger contemplated thereby, as more fully described in the accompanying proxy statement; and
 2. To transact such other business as may properly come before the special meeting or any adjournment or postponement thereof.
- _____, 2003 has been fixed as the record date for stockholders entitled to receive notice of and to vote at the special meeting, and only holders of record of Thousand Trails common stock at the close of business on that day will be entitled to receive notice of, and to vote at, the special meeting.

All stockholders are cordially invited to attend the special meeting. To ensure your representation at the special meeting, whether or not you plan to attend, you are urged to complete and promptly return the enclosed proxy, which is solicited by the board of directors, in the return envelope provided. Returning your proxy does not deprive you of your right to attend the special meeting and to vote your shares of common stock in person, should you desire to do so.

BY ORDER OF THE BOARD OF DIRECTORS

Walter B. Jaccard
Corporate Secretary

Dated: _____, 2003

**PLEASE DATE, MARK AND SIGN THE ACCOMPANYING PROXY CARD AND MAIL IT
PROMPTLY IN THE ENCLOSED ENVELOPE, WHICH REQUIRES
NO POSTAGE FOR MAILING IN THE UNITED STATES.**

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THOUSAND TRAILS, INC.

PROXY STATEMENT

**SPECIAL MEETING OF STOCKHOLDERS
, 2003**

SUMMARY TERM SHEET

The following is a summary of the terms of the proposed merger of KTTI Acquisition Company, Inc., a wholly-owned subsidiary of KTTI Holding Company, Inc., with and into Thousand Trails, Inc., with Thousand Trails surviving as a subsidiary of KTTI Holding, and other information relating to the special meeting of stockholders of Thousand Trails.

This summary may not contain all of the information that is important to you. For a more complete understanding of the merger and the other information contained in this proxy statement, you should read this entire proxy statement carefully, as well as the additional documents to which it refers. A copy of the Agreement and Plan of Merger, dated as of April 29, 2003, by and among Thousand Trails, KTTI Holding and KTTI Acquisition, is attached as Annex A to this proxy statement. For instructions on obtaining more information, see Additional Information Where You Can Find More Information.

The Parties

Thousand Trails (see page 11)

Thousand Trails, Inc., a Delaware corporation, and its subsidiaries own and operate a system of 59 membership-based campgrounds located in 17 states and British Columbia, Canada, serving 112,000 members as of June 30, 2002. Through its subsidiaries, Thousand Trails also provides a reciprocal use program for members of approximately 280 recreational facilities and manages 240 public campgrounds for the United States Forest Service and other entities.

KTTI Holding and KTTI Acquisition (see page 11)

KTTI Holding Company, Inc. is a Delaware corporation formed solely for the purpose of holding 100% of the capital stock of KTTI Acquisition Company, Inc. and, after the merger, the surviving corporation. At the closing of the merger, investment funds affiliated with Kohlberg Management IV, L.L.C. (Kohlberg) will be the owners of all of the outstanding capital stock of KTTI Holding.

KTTI Acquisition Company, Inc. is a Delaware corporation and is a wholly-owned subsidiary of KTTI Holding and was formed solely for the purpose of merging with and into Thousand Trails, at which time the separate corporate existence of KTTI Acquisition will cease and Thousand Trails will continue in existence as the surviving corporation and a wholly-owned subsidiary of KTTI Holding. KTTI Acquisition has not engaged in any business except in furtherance of the merger.

The Special Meeting

General (see page 7)

This proxy statement is being furnished to holders of shares of Thousand Trails common stock for use at the special meeting of stockholders in connection with the approval of the merger agreement. The meeting will be held at _____ local time on _____, 2003 at its headquarters at 3801 Parkwood Blvd., Suite 100, Frisco, Texas 75034.

Vote Required to Approve the
Merger Agreement (see page 8)

The holders of a majority of the outstanding shares of Thousand Trails common stock entitled to vote at the meeting must vote to approve the merger agreement. **If you do not vote your shares, the effect will be a vote against the approval and adoption of the merger agreement and the merger.**

Voting Agreements of Principal
Stockholders (see page 8)

Simultaneously with the execution of the merger agreement, William J. Shaw, the William J. Shaw Family Partnership, L.P. and Carl Marks Strategic Investments, L.P., entered into voting agreements with KTTI Holding and KTTI Acquisition, in which such stockholders agreed among other things to vote their shares of Thousand Trails common stock in favor of the merger and against any competing transaction at any meeting of Thousand Trails stockholders held to consider and vote upon the merger. These stockholders also granted KTTI Holding an irrevocable proxy to accomplish such actions. Mr. Shaw is the president, chief executive officer and a director of Thousand Trails; Carl Marks is the largest stockholder of Thousand Trails; and Andrew M. Boas, an affiliate of Carl Marks, is a director of Thousand Trails. The shares held by Mr. Shaw, the William J. Shaw Family Partnership and Carl Marks collectively represent approximately 57% of the shares of Thousand Trails common stock outstanding as of the record date for the special meeting. These shares will be sufficient to approve the merger agreement and the merger.

The voting agreements will terminate on the earlier of the effective time of the merger or the termination of the merger agreement according to its terms. The merger agreement provides Thousand Trails with specified termination rights, including the right to terminate in connection with the determination that it is required in order for the board of directors to comply with its fiduciary duties under applicable law. The voting agreements do not limit or restrict Mr. Shaw or Mr. Boas in their capacity as directors or as an officer of Thousand Trails.

Record Date and Quorum
Requirement (see page 8)

Thousand Trails has set , 2003 as the record date for determining those stockholders who are entitled to notice of and to vote at the special meeting.

A majority of the shares of Thousand Trails common stock issued and outstanding and entitled to vote at the meeting must be present in person or represented by proxy to constitute a quorum for transacting business at the meeting.

Revocation of Proxies (see page 7)

You have the unconditional right to revoke your proxy at any time prior to its use at the meeting by:

delivering written notice that the proxy is revoked to the Corporate Secretary of Thousand Trails prior to the special meeting,

submitting a subsequently dated proxy to the Corporate Secretary prior to the special meeting or to the inspector of elections at the special meeting, or

attending the special meeting, delivering written notice that the proxy is revoked to the inspector of elections, and voting in person.

The Merger

The Merger (see page 28)

KTTI Holding will acquire Thousand Trails through a merger of KTTI Acquisition with and into Thousand Trails. Following the merger, Thousand Trails will be a wholly-owned subsidiary of KTTI Holding.

What You Will Receive in the Merger (see page 28)

Upon the closing of the merger, you will be entitled to receive \$14.50 in cash, without interest, for each share of Thousand Trails common stock you hold. However, if Thousand Trails' working capital, as defined in the merger agreement, is less than \$26 million as of the last day of the month prior to the closing of the merger, then the per share merger consideration will be reduced by an amount equal to (i) the amount by which the working capital is less than \$26 million, divided by (ii) the fully-diluted number of shares of common stock outstanding as of the date of determination of working capital. It is a condition to closing that Thousand Trails working capital is at least \$24 million. Thousand Trails does not currently expect that any working capital adjustment will be required.

The Board of Directors Recommends That You Vote For the Merger Agreement (see page 18)

After careful consideration, the Thousand Trails board of directors approved the merger agreement and has determined that the merger agreement and merger are advisable, fair to, and in the best interests of, Thousand Trails and its stockholders. **The Thousand Trails board of directors recommends that you vote FOR the adoption and approval of the merger agreement and the merger.**

Reasons for the Merger (see pages 17 to 18)

The Thousand Trails board of directors considered a number of factors in reaching its determination to approve the merger agreement. The factors are discussed in detail beginning on page 17 Reasons for the Merger and Recommendation of the Thousand Trails Board of Directors.

Interests of Directors and Executive Officers (see pages 37 to 38)

Some of the directors and executive officers of Thousand Trails have interests and arrangements that may be considered different from, or in addition to, your interests as Thousand Trails stockholders.

Opinion of Financial Advisor (see pages 18 to 22)

Stephens Inc., financial advisor to Thousand Trails, has provided an opinion to the Thousand Trails board of directors that, as of the date of that opinion, the cash price of \$14.50 per share provided in the merger agreement was fair, from a financial point of view, to holders of Thousand Trails common stock, other than Carl Marks and its affiliates. The full text of Stephens' written opinion, which sets forth the assumptions made, the matters considered, the scope and limitations of the review undertaken and the procedures followed by Stephens in rendering such opinion, is attached to this proxy statement as Annex B. Stephens' opinion was provided for the information and assistance of the Thousand Trails board of directors and is not a recommendation as to how Thousand Trails stockholders should vote at the special meeting. The stockholders are urged to read Stephens' opinion carefully and in its entirety.

Financing of the Merger (see pages 22 to 24)

The merger is subject to a financing contingency. KTTI Holding intends to fund the merger and Thousand Trails' working capital needs through a combination of an equity contribution, debt financing, a new revolving credit facility and available cash. Kohlberg has delivered a commitment letter to Thousand Trails to provide the equity and KTTI Holding has provided Thousand Trails with a copy of a commitment letter from iStar Financial Inc. to provide debt, in amounts, when taken together with the available cash of Thousand Trails, sufficient for the payment of the aggregate merger consideration and transaction expenses. KTTI Holding has also provided Thousand Trails with a copy of a commitment letter from a commercial bank to provide a new revolving credit facility for Thousand Trails after the merger. If the financings contemplated by the debt commitment letters are not completed, the merger agreement provides that KTTI Holding and KTTI Acquisition will use commercially reasonable efforts to obtain alternate financing on terms no less favorable to them than the financings contemplated by those debt commitment letters.

Thousand Trails common stock information (see page 40)

The closing price of a share of Thousand Trails common stock on April 29, 2003, which was the trading day immediately preceding Thousand Trails' announcement that it had signed the merger agreement, was \$9.35 per share. The average closing price for a share of Thousand Trails common stock for the four weeks preceding Thousand Trails' announcement that it had signed the merger agreement was \$9.32 per share. The closing price of a share of Thousand Trails common stock on _____, 2003, which was the last trading day for which a closing sales price was available before this proxy statement was mailed, was \$ _____ per share.

Appraisal Rights (see pages 24 to 26)

Under Delaware law, Thousand Trails stockholders are entitled to exercise appraisal rights by following the requirements of the Delaware General Corporation Law. A copy of Section 262 of the Delaware General Corporation Law is attached as Annex C to this proxy statement.

Federal Income Tax Consequences (see pages 26 to 27)

The receipt of cash by holders of Thousand Trails common stock will be a taxable transaction. All stockholders are urged to consult their own tax advisors to determine the effect of the merger on them under federal law and under their own state and local tax laws.

The Merger Agreement

Conditions to the Merger (see pages 32 to 33)

The merger will be completed only if a number of conditions are satisfied or waived by Thousand Trails, KTTI Acquisition and KTTI Holding, as applicable. These conditions include:

Stockholder Approval. The merger agreement and the merger will have been approved by the stockholders of Thousand Trails. As noted above, Mr. Shaw, the William J. Shaw Family Partnership and Carl Marks, have entered into voting agreements with respect to approximately 57% of the Thousand Trails common stock.

Representations and Warranties. The representations and warranties of the parties shall be true and correct on and as of the closing date of the merger, except to the extent that any failure of such representations and warranties to be true and correct, individually or in the aggregate, would not have a material adverse effect on Thousand Trails.

Material Adverse Effect. Since April 29, 2003, no circumstances will have occurred that, individually or in the aggregate, would reasonably be expected to have a material adverse effect on Thousand Trails.

Financing. The financing contemplated by the debt commitments letters described above will have been consummated.

Working Capital. Thousand Trails will have working capital, as defined in the merger agreement, of at least \$24 million.

Appraisal Shares. No more than 5% of the stockholders will have exercised their appraisal rights.

No Orders. The absence of any judgment, injunction or order prohibiting the merger.

No Solicitation of Transactions;
Rights to Enter Into a Superior
Proposal (see pages 33 to 34)

The merger agreement provides that Thousand Trails will not initiate, solicit, negotiate, encourage or provide nonpublic or confidential information to facilitate any proposal or offer from any person concerning an acquisition transaction, or enter into any agreement with respect to an acquisition transaction, except as necessary for its board of directors to comply with its fiduciary duties under applicable law in connection with unsolicited acquisition proposals that could constitute a superior proposal.

If Thousand Trails receives a superior proposal, the board of directors may withdraw or adversely modify its prior recommendation, recommend any alternative acquisition transaction, or enter into an agreement with respect to any alternative acquisition transaction if within five business days after receiving notice of the material terms of the superior proposal KTTI Holding and KTTI Acquisition do not offer adjustments to the merger agreement that permit the board of directors to determine that the merger will be at least as favorable as the superior proposal. In that event, upon payment of a termination fee and expense reimbursement, Thousand Trails may terminate the merger agreement. The Thousand Trails board of directors may cancel the special meeting if it determines it is required to do so to comply with its fiduciary duties under applicable law upon payment of a termination fee and expense reimbursement.

Termination (see pages 34 to 35)

The merger agreement can be terminated in specified circumstances prior to the effective time. These circumstances include:

By KTTI Acquisition if the Thousand Trails board of directors withdraws or adversely modifies its recommendation of the merger, recommends any alternative acquisition transaction, or, after receiving a proposal for an alternative acquisition transaction, fails to reconfirm the recommendation or publicly announce that it is not recommending the alternative acquisition transaction.

By Thousand Trails if the Thousand Trails board of directors receives a superior proposal to acquire Thousand Trails and the board of directors authorizes Thousand Trails to enter into a definitive agreement with respect to such superior proposal, the Thousand Trails board of directors notifies KTTI Holding of its intent to enter into

such agreement and the material terms of the superior proposal, KTTI Holding and KTTI Acquisition have not made an offer that the Thousand Trails board of directors determines is at least as favorable as such superior proposal, and Thousand Trails pays KTTI Acquisition the termination fee and expense reimbursement.

By Thousand Trails if the board of directors has determined in good faith, after consultation with legal counsel, that not holding the special meeting is required for the board of directors to comply with its fiduciary duties and Thousand Trails pays KTTI Acquisition a termination fee and expense reimbursement.

By Thousand Trails or KTTI Acquisition if, as of the last day of the month preceding the closing of the merger, Thousand Trails' working capital is less than \$24 million.

Termination under each of the circumstances listed above requires Thousand Trails to pay KTTI Acquisition a termination fee of \$4 million and reimburse its expenses up to a specified amount. However, there are other circumstances in which termination could require expense reimbursement or the payment of the termination fee.

Regulatory and Third-Party
Approvals

Thousand Trails anticipates that no material governmental or third party approvals will be required in order to consummate the merger.

Where You Can Find More Information (see page 42)

If you have more questions about the merger or would like additional copies of this proxy statement, you should contact:

Thousand Trails, Inc.
3801 Parkwood Blvd., Suite 100
P.O. Box 2529
Frisco, Texas 75034
Attn: Investor Relations
(214) 618-7200

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS

The statements contained in this proxy statement include statements as to Thousand Trails' future financial condition, results of operations, cash flows and business. All of these statements are forward-looking statements made pursuant to the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended. These statements are not historical and involve risks and uncertainties. Thousand Trails' actual financial condition, results of operations, cash flows and business for future periods may differ materially due to several factors, including but not limited to Thousand Trails' ability to control costs, campground market conditions and other factors affecting Thousand Trails' sales and marketing plan, the actual rate of attrition in the campground membership base, the actual use of the campgrounds by members and guests, Thousand Trails' success in collecting its contracts receivable and selling assets, Thousand Trails' success in acquiring members through the purchase of other membership campground operations and the other factors affecting Thousand Trails' operations described in this proxy statement and other reports filed by Thousand Trails with the SEC. For further information, please refer to Thousand Trails' annual report on Form 10-K for the fiscal year ended June 30, 2002 and its quarterly reports on Form 10-Q for the fiscal quarters ended September 30, 2002, December 31, 2002 and March 31, 2003.

THE SPECIAL MEETING

General

This proxy statement is being furnished to you in connection with the solicitation of proxies by the Thousand Trails board of directors for use at the special meeting of stockholders of Thousand Trails to be held beginning at _____ local time on _____, 2003 at its headquarters at 3801 Parkwood Blvd., Suite 100, Frisco, Texas 75034, and any adjournments and postponements of the special meeting. At the special meeting, holders of Thousand Trails common stock of record as of the close of business on the record date will be eligible to consider and vote on the following matters:

1. To consider and vote upon a proposal recommended by the Thousand Trails board of directors to approve the merger agreement, which is attached as Annex A to this proxy statement and summarized in this proxy statement under the heading "The Merger Agreement" and the merger contemplated thereby; and

2. To transact such other business as may properly come before the special meeting or any adjournment or postponement thereof.

The Thousand Trails board of directors recommends that you vote FOR approval of the merger agreement and the merger.

A proxy for the meeting is enclosed with this notice. You are requested to fill in and sign the proxy and mail it promptly in the enclosed postage prepaid envelope. Return of an executed proxy with no instructions indicated on this proxy will result in the shares represented by the proxy being voted FOR approval of the merger agreement. Failure to return a properly executed proxy card or to vote at the special meeting will have the effect of a vote against approval of the merger agreement.

Voting Information

Shares of common stock, represented by a properly executed proxy, will be voted as indicated on the proxy. The form of proxy accompanying this proxy statement and the persons named as proxies have been approved by the board of directors. Any proxy given pursuant to this solicitation is revocable at any time prior to the voting at the special meeting by:

delivering written notice that the proxy is revoked to the Corporate Secretary of Thousand Trails prior to the special meeting,

submitting a subsequently dated proxy to the Corporate Secretary prior to the special meeting or to the inspector of elections at the special meeting, or

attending the special meeting, delivering written notice that the proxy is revoked to the inspector of elections, and voting in person.

Any written notice of revocation should be delivered to Corporate Secretary, Thousand Trails, Inc., 3801 Parkwood Blvd., Suite 100, P.O. Box 2529, Frisco, Texas 75034. Subject to proper revocation, all shares of Thousand Trails common stock entitled to vote at the special meeting and represented at the special meeting by properly executed proxies received by Thousand Trails will be voted in accordance with the instructions contained in such proxies.

It is proposed that, at the special meeting, action will be taken on the matter set forth in the accompanying notice of special meeting and described in this proxy statement. The board of directors knows of no other matters at this time that may properly be presented for action at the special meeting. If any other matters do properly come

before the special meeting, the persons named on the enclosed proxy will have discretionary authority to vote thereon in accordance with their best judgment.

When proxies in the form accompanying this proxy statement are returned properly executed, the shares represented thereby will be voted as indicated thereon, and, where a choice has been specified by the stockholder on the proxy, the shares will be voted in accordance with the specification so made. The expense of soliciting proxies, including the cost of preparing, assembling and mailing the material submitted with this proxy statement, will be paid for by Thousand Trails. In addition to solicitations by mail, directors, officers and regular employees of Thousand Trails may solicit proxies personally or by telephone, mail or other means, for which no compensation will be paid other than their regular salary or other usual compensation. Arrangements also will be made as appropriate with banks and brokerage houses and other custodians, nominees and fiduciaries to forward solicitation materials to the beneficial owners of common stock held of record by such persons, and Thousand Trails will, upon request, reimburse those persons for their reasonable expenses in so doing.

The Thousand Trails board of directors has fixed the close of business on _____, 2003 as the record date for the determination of the stockholders entitled to notice of, and to vote, at the special meeting and any adjournments and postponements of the special meeting. At the close of business on _____, 2003, the record date for the special meeting, there were outstanding and entitled to vote at the special meeting _____ shares of common stock. As of the record date, Thousand Trails directors and executive officers and their affiliates owned _____ shares of Thousand Trails common stock, entitling them to cast approximately _____ % of the votes entitled to be cast at the special meeting. The directors and executive officers of Thousand Trails have advised that they intend to vote for the merger and the merger agreement. Shares of Thousand Trails common stock are the only authorized and outstanding voting securities of Thousand Trails.

The presence at the special meeting, in person or by proxy, of stockholders holding a majority of the voting power of Thousand Trails will constitute a quorum for the transaction of business at the special meeting. Abstentions and broker non-votes will be counted as shares that are present for purposes of determining the presence of a quorum.

Voting Agreements

Simultaneously with the execution of the merger agreement, William J. Shaw, president and chief executive officer and chairman of the board of directors of Thousand Trails, the William J. Shaw Family Partnership, L.P. and Carl Marks Strategic Investments, L.P., entered into voting agreements with KTTI Holding and KTTI Acquisition, in which such stockholders agreed to vote their shares of common stock in favor of the merger and against any competing transaction at any meeting of Thousand Trails stockholders held to consider and vote upon the merger and also granted KTTI Holding an irrevocable proxy to accomplish such actions. The shares held by Mr. Shaw, the William J. Shaw Family Partnership and Carl Marks collectively represent approximately 57% of the shares of Thousand Trails common stock outstanding as of the record date for the special meeting. These shares will be sufficient to approve the merger agreement and the merger.

The voting agreements will terminate on the earlier of the effective time of the merger or termination of the merger agreement according to its terms. The merger agreement provides Thousand Trails with specified termination rights, including the right to terminate in connection with the determination that it is required in order for the board of directors to comply with its fiduciary duties under applicable law upon payment of a termination fee and expense reimbursement. The voting agreements do not limit or restrict Mr. Shaw or Mr. Boas in their capacity as directors or as an officer of Thousand Trails.

Required Vote

Each holder of Thousand Trails common stock as of the record date is entitled to cast one vote per share, in person or by proxy, upon each matter properly submitted for the vote of the stockholders at the special meeting. Votes at the special meeting will be tabulated by an inspector of elections appointed by Thousand Trails. Approval of the merger agreement requires the affirmative vote of holders of a majority of the outstanding shares of Thousand Trails common stock entitled to vote at the special meeting. A failure to vote, an abstention from voting, or a broker non-vote will have the same legal effect as a vote cast against approval of the merger agreement. Executed but

unmarked proxies will be voted FOR approval of the merger agreement. Brokers, and in many cases nominees, will not have discretionary power to vote on the proposals to be presented at the special meeting. Accordingly, beneficial owners of shares must instruct their brokers or nominees how to vote their shares with respect to the merger proposal at the special meeting. Stockholders are urged to read and carefully consider the information presented in this proxy statement and to complete, date and sign the accompanying proxy card and return it promptly to Thousand Trails in the enclosed postage-prepaid envelope.

Postponement or Adjournment

Although it is not expected, the special meeting may be postponed or adjourned to a date not later than 30 days after the date of the special meeting without fixing a new record date. Such postponement or adjournment may be made by the Thousand Trails board of directors prior to the special meeting or by approval of the holders of a majority of the shares of Thousand Trails common stock present in person or represented by proxy at the special meeting, whether or not a quorum exists. Thousand Trails will announce the postponement of the special meeting by press release if made prior to the special meeting and will announce any adjournment at the special meeting. Notice of the time and place of any such postponement or adjournment need not be given unless the meeting is postponed or adjourned for more than 30 days, or a new record date is set. Any postponement or adjournment of the special meeting will allow Thousand Trails stockholders who have already sent in their proxies to revoke them at any time prior to their use.

Surrender of Share Certificates

Prior to the effective time, KTTI Holding will select a bank or trust company, reasonably acceptable to Thousand Trails, to act as paying agent for the benefit of holders of shares of Thousand Trails common stock in connection with the merger. It is expected that KTTI Holding will deposit with the paying agent funds sufficient to make the payments to Thousand Trails stockholders and option holders required under the merger agreement.

Promptly after the date on which the transactions contemplated by the merger agreement are consummated, the paying agent will send to each holder of shares of Thousand Trails common stock a letter of transmittal and instructions for use in effecting the surrender of stock certificates. The merger agreement provides that holders of more than 5% of the outstanding shares of Thousand Trails common stock, directors and executive officers will receive letters of transmittal prior to the closing of the merger so that such persons will have an opportunity to surrender their stock certificates and receive the merger consideration on the day of closing. The letter of transmittal will specify that the delivery will be effected, and risk of loss and title will pass, only upon delivery of the stock certificates representing shares of Thousand Trails common stock to the paying agent. The paying agent will receive a customary fee as compensation for its services, plus reimbursement of its out-of-pocket expenses in connection with such services. Thousand Trails has agreed to indemnify the paying agent against specified liabilities arising in connection with its engagement.

Each holder of a share of Thousand Trails common stock that has been converted into the right to receive the cash payment of \$14.50 per share, less any adjustment for working capital, upon surrender to the paying agent of a stock certificate or certificates representing such shares, together with a properly completed letter of transmittal covering such shares, will receive a cash payment of such consideration. Until surrendered in this manner, each such stock certificate will, after the effective time of the merger, represent for all purposes only the right to receive the merger consideration. No interest will be paid or will accrue on the cash payment.

If any portion of the cash payment is to be paid to a person other than the registered holder of the stock certificate surrendered in exchange therefor, the stock certificate being surrendered must be properly endorsed or otherwise be in proper form for transfer. In addition, the person requesting such payment must pay to the paying agent any transfer or other taxes required as a result of such payment, or establish that such tax has been paid or is not applicable. Beginning six months after the closing date, holders of Thousand Trails common stock who have not surrendered their stock certificates will be entitled to look to the surviving corporation only as general creditors for payment of their claim for cash. Any amounts remaining unclaimed by holders of common stock five years after the effective time of the merger, or earlier if such amounts would otherwise escheat to or become the property of any governmental entity, will become the property of the surviving corporation, to the extent permitted by applicable law. Neither the paying agent nor any party to the merger agreement will be liable to any holder of certificates

formerly representing shares for any amount paid to a public official pursuant to any abandoned property, escheat or similar laws.

At and after the effective time of the merger, there will be no further registration of transfers of Thousand Trails common stock on the records of Thousand Trails or its transfer agent. From and after the effective time, the holders of Thousand Trails common stock will cease to have any rights with respect to such shares except as provided in the merger agreement or under applicable law.

THE MERGER

Parties to the Merger

Thousand Trails, Inc. Thousand Trails, Inc., a Delaware corporation, and its subsidiaries own and operate a system of 59 membership-based campgrounds located in 17 states and British Columbia, Canada, serving 112,000 members as of June 30, 2002. Through its subsidiaries, Thousand Trails also provides a reciprocal use program for members of approximately 280 recreational facilities and manages 240 public campgrounds for the United States Forest Service and other entities. Thousand Trails' principal executive office is located at 3801 Parkwood Boulevard, Suite 100, P.O. Box 2529, Frisco, Texas 75034; its telephone number is (214) 618-7200; and its home page on the Internet is www.thousandtrails.com. The Thousand Trails home page on the Internet is not part of this proxy statement.

Thousand Trails entered the membership campground business in 1991 with the acquisition of 100% of the capital stock of National American Corporation, a Nevada corporation, and 69% of the capital stock of Thousand Trails, Inc., a Washington corporation (*Old Trails*). Thousand Trails subsequently increased its ownership in Old Trails to 100% and merged Old Trails into Thousand Trails. In December 1999, Thousand Trails acquired 100% of the capital stock of Leisure Time Resorts of America, Inc., a Washington corporation. Thousand Trails and Leisure Time were incorporated in 1984, National American Corporation was incorporated in 1967, and Old Trails was incorporated in 1969.

KTTI Holding Company, Inc. KTTI Holding Company, Inc. is a Delaware corporation with its principal executive and business office located at 111 Radio Circle, Mount Kisco, New York 10549. Its business telephone number is (914) 241-7430. KTTI Holding was formed solely for the purpose of holding 100% of the capital stock of KTTI Acquisition Company, Inc. and, after the merger, the surviving corporation. At the closing of the merger, investment funds affiliated with Kohlberg Management IV, L.L.C. (*Kohlberg*) will be the owners of all of the outstanding capital stock of KTTI Holding.

KTTI Acquisition Company, Inc. KTTI Acquisition Company, Inc. is a Delaware corporation with its principal executive and business office located at 111 Radio Circle, Mount Kisco, New York 10549. Its business telephone number is (914) 241-7430. KTTI Acquisition is a wholly-owned subsidiary of KTTI Holding and was formed solely for the purpose of merging with and into Thousand Trails, at which time the separate corporate existence of KTTI Acquisition will cease and Thousand Trails will continue in existence as the surviving corporation and a wholly-owned subsidiary of KTTI Holding. KTTI Acquisition has not engaged in any business except in furtherance of the merger.

Background of the Merger

In early November 2002, Andrew M. Boas, a director of Thousand Trails and a managing partner of the general partner of Carl Marks Strategic Investments, L.P., Thousand Trails' largest stockholder, received an unsolicited telephone call from John S. Eastburn, Jr., a principal of Kohlberg & Company, LLC, requesting a meeting with Mr. Boas to discuss a possible acquisition of Thousand Trails. Mr. Boas subsequently telephoned William J. Shaw, Thousand Trails' president and chief executive officer, to inform him of the contact.

On November 13, 2002, Mr. Boas and Mr. Eastburn met in New York City. At the meeting Mr. Eastburn expressed an interest in Thousand Trails at a price of from \$11.00 to \$12.00 per share. Mr. Boas informed Mr. Eastburn that Thousand Trails would be interested in a transaction only at a significantly higher price. At the meeting, Mr. Eastburn signed a confidentiality agreement on behalf of Kohlberg that had been prepared and requested by Thousand Trails. Mr. Boas suggested that Mr. Eastburn follow up on their conversations by contacting Mr. Shaw.

On November 14, 2002, the board of directors of Thousand Trails held its regularly scheduled meeting at Thousand Trails' offices in Frisco, Texas. At the meeting, Mr. Boas informed the board that Kohlberg had expressed interest in possibly acquiring Thousand Trails and signed a confidentiality agreement and intended to conduct due diligence regarding Thousand Trails. Mr. Shaw informed the board that two other private equity firms

had signed confidentiality agreements with Thousand Trails and were conducting due diligence on Thousand Trails. Mr. Shaw told the board that, in his opinion, the likelihood of a transaction occurring was remote because these firms typically invest in companies that are growing at a faster rate than Thousand Trails.

On November 18, 2002, Mr. Eastburn telephoned Mr. Shaw to discuss Kohlberg's interest in Thousand Trails and to gather more information about the operating results and financial condition of Thousand Trails. After the conversation, Mr. Shaw sent diligence materials to Mr. Eastburn, including financial and marketing information. On November 21, 2002, Mr. Eastburn telephoned Bryan D. Reed, Thousand Trails chief financial officer, and they discussed the financial information included in the materials.

On November 25, 2002, Mr. Eastburn telephoned Mr. Shaw to arrange a diligence meeting and followed up by sending Messrs. Shaw and Reed questions to be addressed in the meeting.

On December 4, 2002, Mr. Eastburn and another representative of Kohlberg, met with Messrs. Shaw and Reed at Thousand Trails' executive offices in Frisco, Texas, to conduct diligence. After the meeting, Mr. Reed provided Mr. Eastburn with additional information that he had requested.

On December 5, 2002, Messrs. Boas and Shaw discussed approaches to valuation of Thousand Trails that reflected its cash flow as well as its excess cash and assets available for sale. Later that day, Mr. Boas telephoned Mr. Eastburn to advise him that he and Mr. Shaw would recommend to the board of directors of Thousand Trails the pursuit of a possible combination with affiliates of Kohlberg at a price of \$18.50 per share, subject to possible adjustment based on Thousand Trails' cash position at closing. Mr. Eastburn responded that affiliates of Kohlberg would be willing to pay \$15.75 per share, plus up to an additional \$1.80 per share based on Thousand Trails' cash position at closing. He also advised Mr. Boas that a transaction would be subject to a financing contingency. Mr. Boas rejected Mr. Eastburn's price.

On December 6, 2002, Messrs. Boas and Eastburn spoke again and Mr. Eastburn proposed a price of \$18.50 per share in cash, subject to possible adjustment for Thousand Trails' cash position, as a basis for proceeding further. Mr. Boas reported the results of his conversation with Mr. Eastburn to Mr. Shaw and Walter B. Jaccard, Thousand Trails' general counsel.

On December 13, 2002, the Board of Directors of Thousand Trails held a special meeting by conference telephone. At the meeting, Mr. Boas reviewed for the board the discussions he and Mr. Shaw had had with representatives of Kohlberg. Mr. Shaw also reviewed for the board generally the unsolicited expressions of interest that Thousand Trails had previously received from others. He noted that past interest had generally been withdrawn at an early stage because of concerns with Thousand Trails' rate of growth and an inability to obtain financing. He also noted that Kohlberg was a substantially capitalized potential acquirer that appeared to have the resources and strategic interest required to consummate a transaction at a value substantially in excess of the interests previously received by Thousand Trails. He also noted that the price proposed by representatives of Kohlberg was substantially beyond the highest market price at which Thousand Trails' shares had historically traded. At the meeting, counsel from Gibson, Dunn & Crutcher LLP reviewed for the board its fiduciary duties and responsibilities when considering the possible sale of Thousand Trails. After discussion, it was the consensus of the board that the Kohlberg proposal should be pursued. The board also authorized Mr. Shaw to retain a financial advisor to render a fairness opinion concerning the proposed transaction in the event Thousand Trails was able to negotiate a definitive agreement with affiliates of Kohlberg. After the meeting, Mr. Shaw telephoned Mr. Eastburn to advise him of the sense of the board in the meeting.

On December 16, 2002, Mr. Eastburn sent to Mr. Shaw a draft letter proposing a business combination in which Thousand Trails would be acquired by a newly formed affiliate of Kohlberg for \$18.50 per share in cash, subject to reduction if Thousand Trails' cash was below a minimum level. The letter advised that affiliates of Kohlberg would provide significant equity financing and that it was confident that the required debt financing could be arranged. The letter invited, but did not require, participation in the transaction by management and certain stockholders. The letter stated that the transaction would be subject to the satisfactory completion of diligence, the receipt of commitment letters for the financing and the agreement of Thousand Trails' principal stockholders to vote in favor of the transaction. In the letter, Kohlberg requested an exclusivity period and expense reimbursement if

affiliates of Kohlberg provided a financed transaction at the indicated price which Thousand Trails did not accept, and a fee in the event a competing transaction were consummated.

On December 16, 2002, Thousand Trails retained Stephens Inc. to render an opinion as to the fairness of the transaction to the Board of Directors of Thousand Trails.

On December 17, 2002, Mr. Eastburn telephoned Mr. Shaw to schedule additional diligence meetings at Thousand Trails' offices.

On December 18 and 19, 2002, Messrs. Shaw and Boas, together with Mr. Jaccard, discussed the contents of the Kohlberg letter and the appropriate response. On December 19, 2002, Mr. Shaw telephoned Mr. Eastburn to advise him of Thousand Trails' response. During this call, Mr. Shaw informed Mr. Eastburn that management and Thousand Trails' stockholder affiliates did not desire to participate in the transaction. After the call, Mr. Jaccard sent Mr. Eastburn and Kohlberg's counsel, Ropes & Gray LLP, a revised draft proposal letter. The revised draft provided for a potential increase to the purchase price based on Thousand Trails' cash position, eliminated any financing contingency in the event a definitive agreement was reached, shortened the exclusivity period to end on February 10, 2003, and eliminated the payment of any fee on account of any competing transaction arising prior to a definitive agreement.

On December 20, 2002, Messrs. Shaw and Jaccard, along with counsel, participated in a conference call with Mr. Eastburn and Kohlberg's counsel to negotiate the open points of the proposal letter. On December 23, 2002, negotiations continued in a conference call among the same participants. Later that day Thousand Trails and Kohlberg signed the proposal letter. The letter provided for a price per share of \$18.50 in cash, subject to adjustment upward or downward to reflect Thousand Trails' cash position at the time of closing, a limited financing contingency and an exclusivity period with limited potential expense reimbursement and no associated fee. The letter also confirmed that the agreement of Carl Marks and Mr. Shaw to vote in favor of the transaction would be subject to Thousand Trails' not exercising its termination rights in any definitive agreement for a superior offer.

During January and early February 2003, representatives of Kohlberg conducted diligence on Thousand Trails and sought to obtain financing commitments for the transaction, and representatives of Thousand Trails provided representatives of Kohlberg with requested information. At Mr. Eastburn's request, on January 6, 2003, Messrs. Shaw, Reed and Jaccard, together with R. Gerald Gelinas, Thousand Trails' vice president of sales and marketing, had a telephone conference with Kohlberg's marketing consultants to discuss marketing and other diligence matters. On January 8 and 9, 2003, Mr. Jaccard worked with Kohlberg's counsel on legal and other diligence items. On January 10, 2003, Mr. Reed met with Kohlberg's accounting and tax consultants.

On January 16, 2003, at the request of Mr. Eastburn, Messrs. Shaw, Reed, Gelinas and Jaccard made a presentation about Thousand Trails to potential lenders at a conference facility at the Dallas/Ft. Worth airport. Mr. Eastburn and other representatives of Kohlberg also attended the presentation. Between January 16 and 24, 2003, Kohlberg representatives made site visits to several Thousand Trails campgrounds. On January 24, 2003, Mr. Shaw spoke with Kohlberg's environmental consultant.

On January 30, 2003, Messrs. Shaw, Reed, Gelinas and Jaccard made a video conference presentation to some of the principals of Kohlberg & Company, LLC concerning Thousand Trails.

On January 31, 2003, Mr. Eastburn telephoned Mr. Shaw to discuss the state of Kohlberg's diligence and arrange a diligence meeting at Thousand Trails' Frisco, Texas offices. In anticipation of the meeting, Kohlberg sent Thousand Trails a supplemental diligence request list that addressed its main questions. On February 4, 2003, Mr. Eastburn telephoned Mr. Shaw to ask for an extension of its exclusivity period.

On February 5 and 6, 2003, Mr. Eastburn, together with other representatives of Kohlberg, met with Messrs. Shaw, Reed and Gelinas to discuss diligence matters. On February 5, 2003, Thousand Trails and Kohlberg executed an amendment to the proposal letter extending the exclusivity period to February 24, 2003.

On February 7, 2003, the board of directors of Thousand Trails held its regularly scheduled meeting at Thousand Trails' offices in Frisco, Texas. In addition to its other business, the board discussed the status of Kohlberg's diligence review. Mr. Shaw advised the board that Kohlberg had raised issues about Thousand Trails' growth, the ongoing member attrition and certain tax and other matters. Mr. Shaw also advised the board that Kohlberg had encountered difficulties in obtaining debt financing for the transaction at the price specified in its proposal, but that it believed that debt financing might be available at a lower purchase price than assumed by its proposal. A representative of Stephens reported to the board concerning the ongoing financial analyses addressing the fairness of the proposed price and possibly lower prices. After discussion, it was the board's consensus that Thousand Trails should continue to pursue a transaction with Kohlberg.

On February 18, 2003, Mr. Eastburn telephoned Mr. Shaw and requested a conference to discuss the implications of Kohlberg's diligence review and efforts to obtain debt financing.

On February 21, 2003, Messrs. Shaw and Boas, together with a representative of Stephens, participated in a telephone conversation with Mr. Eastburn. Mr. Eastburn advised that in view of the results of its diligence and the limitations on available financing, Kohlberg would only be willing to proceed with the transaction at a price of \$13.75 per share. He also requested that Carl Marks and Mr. Shaw, as large stockholders of Thousand Trails, agree to a post-closing indemnity with respect to certain tax matters. Later that day, Mr. Eastburn delivered a letter to Mr. Shaw detailing Kohlberg's concerns as to business, financial, tax, real estate and other matters. The letter also addressed the implications of the financing Kohlberg believed to be available for a transaction with Thousand Trails.

On February 24, 2003, Messrs. Shaw, Boas and Jaccard discussed the revised Kohlberg proposal. A representative of Stephens joined the discussion, and the participants addressed possible prices at which Thousand Trails might make a counter-proposal to Kohlberg. Later that day, Messrs. Shaw and Jaccard telephoned each of Thousand Trails' independent directors to inform them of the Kohlberg letter and the possible Company response. Mr. Jaccard provided each director with a copy of the Kohlberg letter. That day, the exclusivity period in Kohlberg's original proposal letter expired.

On February 25, 2003, Mr. Shaw and a representative of Stephens telephoned Mr. Eastburn and suggested a price of \$15.00 per share in cash, plus \$20 million aggregate face amount of subordinated pay-in-kind debt. Mr. Eastburn did not respond to the proposal.

On February 26, 2003, Mr. Boas telephoned Mr. Eastburn to discuss Thousand Trails' proposal. Mr. Eastburn responded with alternatives as to price: either \$14.50 per share in cash, or \$13.75 per share in cash plus \$11 million aggregate face amount of subordinated pay-in-kind debt. Mr. Boas did not respond to the proposal.

On February 26, 2003, Messrs. Shaw and Boas discussed the revised Kohlberg proposal. Mr. Shaw telephoned a representative of Stephens to review the alternatives proposed.

On February 27, 2003, Mr. Shaw telephoned Mr. Eastburn to discuss Kohlberg's latest proposal. Mr. Shaw advised that he and Mr. Boas would be prepared to support a price of \$14.50 per share in cash with a possible upward adjustment if Thousand Trails achieved an excess cash position before closing. Mr. Eastburn did not respond to the proposal.

On February 28, 2003, the Board of Directors of Thousand Trails met by conference telephone to review the negotiations with Kohlberg. Mr. Shaw reviewed the history of the negotiations and discussed the reasons provided by representatives of Kohlberg for the price decrease from its original proposal, including the difficulty in obtaining debt financing and issues concerning Thousand Trails' growth and member attrition. He also noted that Kohlberg continued to require an indemnity from Carl Marks and himself with respect to certain tax matters. He also reviewed with the board the terms of the draft commitment letter that Kohlberg had received from its prospective secured lender. He also reported to the board that a representative of Stephens had advised that he believed a price of \$14.50 per share would be supported by the financial analyses he was preparing for a possible fairness opinion from Stephens. The board concluded that Thousand Trails should continue its negotiations with Kohlberg.

On March 5, 2003, Mr. Eastburn sent Mr. Shaw a revised proposal letter. The letter provided for a price of \$14.50 per share, with an upward or downward adjustment for cash, and an expense reimbursement if an acceptable definitive agreement were not executed. Mr. Jaccard sent an email message to Mr. Eastburn that the original proposal letter had expired and transmitted a revised form of standstill that did not provide for any expense reimbursement. Mr. Eastburn later telephoned Mr. Shaw and told him that Kohlberg would not proceed without the requested expense reimbursement provision.

On March 9 and 10, 2003, Mr. Eastburn and Mr. Shaw discussed their respective proposals but did not reach any agreement.

On March 11, 2003, Mr. Jaccard sent Mr. Eastburn a revised proposal. The proposal provided for a price of \$14.75 per share, with no adjustment for Thousand Trails' cash position, and for expense reimbursement only if a definitive agreement were fully negotiated with committed financing and Thousand Trails declined to proceed. Later that day, Mr. Eastburn advised Mr. Shaw that Thousand Trails' position on expense reimbursement was not acceptable to Kohlberg.

On March 14, 2003, Mr. Shaw telephoned Mr. Eastburn and told him that Kohlberg's position on expense reimbursement was not acceptable. Mr. Shaw encouraged Mr. Eastburn to proceed directly to the negotiation of a merger agreement. Mr. Eastburn declined to do so. During this call, Mr. Shaw also advised Mr. Eastburn that he and Carl Marks were not willing to supply the requested indemnity.

On March 17, 2003, Messrs. Shaw and Jaccard telephoned Thousand Trails' directors to advise them of the impasse that had been reached with Kohlberg with respect to expense reimbursement. The directors were supportive of Thousand Trails' position.

On March 20, 2003, Mr. Eastburn telephoned Mr. Boas to discuss the state of the negotiations. Mr. Boas returned the call. In the conversation, Mr. Boas repeated to Mr. Eastburn that Carl Marks and Mr. Shaw were not willing to supply the requested indemnity. Mr. Eastburn advised that Kohlberg would be willing to proceed without the indemnity for a price of \$14.50 per share, with no adjustments for Thousand Trails' cash position.

On March 24, 2003, Mr. Eastburn sent Mr. Shaw a revised proposal letter. The letter provided for a price of \$14.50 per share, without adjustment, and expense reimbursement if Thousand Trails did not agree to the form of merger agreement to be attached to the proposal letter. Mr. Eastburn also sent a draft merger agreement and the latest draft of Kohlberg's secured debt financing commitment.

On March 25, 2003, Messrs. Shaw, Boas and Jaccard, together with Robert C. Ruocco and James F. Wilson, managing partners of the general partner of Carl Marks, had a telephone conference to discuss possible responses to Kohlberg's position. The group decided to respond to the draft merger agreement and not to the terms of the revised proposal letter.

On March 31, 2003, Mr. Jaccard sent Mr. Eastburn a revised draft of the merger agreement, together with a memorandum outlining the major points of disagreement reflected in the draft.

On April 2, 2003, Mr. Eastburn sent a letter to the Board of Directors of Thousand Trails stating that Thousand Trails' revisions to the draft merger agreement presented serious economic and legal points of disagreement. The letter addressed the merger consideration, the level of Thousand Trails' disclosures, the termination provisions in the event of Thousand Trails' receipt of a superior proposal, the financing and other conditions to the closing and the expense reimbursement and break-up fee provisions. Mr. Eastburn renewed his requirement for a standstill agreement with expense reimbursement provisions as a condition for proceeding further.

On April 3, 2003, Mr. Shaw telephoned Mr. Eastburn and discussed their disagreements, including how to proceed. That day and the next, Messrs. Shaw, Boas and Jaccard, together with a representative of Stephens, discussed the matters raised by Mr. Eastburn's letter. Mr. Shaw then attempted to reach Mr. Eastburn by telephone.

On April 7, 2003, Mr. Eastburn returned Mr. Shaw's call, and he and Mr. Shaw agreed to a one day meeting for the purpose of trying to negotiate a merger agreement.

On April 8, 2003, Kohlberg's counsel distributed a revised draft of the merger agreement.

On April 9, 2003, representatives of Thousand Trails and Kohlberg met in New York City to address the draft merger agreement. Messrs. Shaw, Boas and Jaccard, together with counsel and a representative of Stephens, attended for Thousand Trails. Mr. Eastburn and other Kohlberg representatives, together with counsel, attended for Kohlberg. In the meeting, the parties addressed the principal outstanding matters, including Kohlberg's requirement that Thousand Trails have minimum cash and working capital levels at closing and other closing conditions, the respective parties' termination rights, and the circumstances under which Kohlberg would be entitled to expense reimbursement or a break-up fee. At the meeting, it was resolved that there would be only a downward adjustment of the purchase price if the requisite cash and working capital level condition were not satisfied, and that each party would have the right to terminate if the cash and working capital were below a minimum level. Several issues remained unresolved, including whether Kohlberg would be entitled to expense reimbursement if Thousand Trails experienced a material adverse change prior to closing, and the parties undertook to address them in the next few days.

On April 10, 2003, after consultation with Messrs. Shaw and Boas, Mr. Jaccard and counsel telephoned Kohlberg's counsel to propose a compromise regarding the principal outstanding matters. The suggested compromise included reimbursement of Kohlberg for its expenses if Thousand Trails did not have the requisite cash and working capital, but no reimbursement of expenses should Thousand Trails experience a material adverse change.

On April 11, 2003, Mr. Eastburn informed Mr. Shaw that the absence of expense reimbursement for a material adverse change was still not acceptable. On April 13, 2003, Messrs. Shaw and Eastburn discussed the parties' differences but were unable to resolve them. On April 14, 2003, Messrs. Shaw, Boas and Jaccard discussed the differences. H. Sean Mathis, a director of Thousand Trails, telephoned Mr. Shaw for an update on the negotiations, and then telephoned an operating principal of Kohlberg & Company, LLC concerning the negotiations. Mr. Mathis then reported on the conversation to Mr. Shaw.

From April 15 to 27, 2003, representatives of and counsel for Thousand Trails and Kohlberg negotiated and resolved the outstanding issues concerning the merger agreement, including the contents of the disclosure schedule prepared by Thousand Trails for the merger agreement and expense reimbursement issues. During this period, these representatives also negotiated the terms of the voting agreements for Carl Marks and Mr. Shaw. On April 15, 2003, Mr. Jaccard and a representative of Kohlberg participated in a telephone call with Kohlberg's proposed secured lender to discuss diligence items. During this period, Kohlberg provided Thousand Trails with the commitment letters it had received for the debt and equity financings for the transaction, and Mr. Jaccard discussed the status of the financings with Mr. Eastburn by telephone.

On April 29, 2003, the Board of Directors of Thousand Trails held a special meeting at a conference facility at the Dallas/Ft. Worth airport. Two of the directors, Mr. Boas and Donald R. Leopold, attended by telephone. Messrs. Reed and Jaccard, together with counsel and representatives of Stephens, were also in attendance. Counsel reviewed with the board the legal duties and responsibilities of the directors with respect to the merger. The Stephens representatives made a detailed financial presentation and discussed with the board the treatment in its analyses of the net deferral of sales revenue and expense. Mr. Reed reviewed the most recent financial results of Thousand Trails and Thousand Trails' expected cash and working capital levels over the term of the merger agreement. Mr. Jaccard reported on the status of Kohlberg's financing. Counsel reviewed with the board the terms and conditions of the merger agreement and the voting agreements, copies of which had been previously distributed to the board. A representative of Stephens delivered the oral opinion of Stephens, subsequently confirmed in writing, to the effect that, based on and subject to the matters that are stated in the opinion letter, as of the date of the opinion, the consideration to be received by the stockholders of Thousand Trails, other than Carl Marks and its affiliates, is fair to them from a financial point of view. The directors, other than Messrs. Shaw and Boas, then met in executive session to discuss the merger. After the executive session, the discussions of the board continued. After further discussion and consideration, the board unanimously determined that the merger agreement and the merger are advisable, fair to and in the best interests of Thousand Trails and the

stockholders of Thousand Trails and voted to recommend the adoption and approval of the merger agreement and the merger to the stockholders of Thousand Trails.

Later on April 29, 2003, Thousand Trails, KTTI Holding, KTTI Acquisition and Messrs. Shaw and Boas executed and delivered the merger agreement and the voting agreements. On April 30, 2003, prior to the opening of the markets, Thousand Trails announced that it had entered into the merger agreement.

Reasons for the Merger and Recommendation of the Thousand Trails Board of Directors

At the Thousand Trails board of directors meeting held on April 29, 2003, the Thousand Trails board of directors determined that the merger agreement and the merger are advisable, fair to, and in the best interests of, Thousand Trails and its stockholders and approved the merger agreement and the transactions contemplated thereby. In reaching its decision to approve the merger, the Thousand Trails board of directors, with the assistance of management and its financial and legal advisors, considered a number of factors. The following discussion includes all material factors considered by the board.

Among the factors the Thousand Trails board of directors considered in deciding to approve the merger are the following:

the significant premium to historical market prices represented by the cash price being provided to Thousand Trails stockholders in the merger;

the relative lack of liquidity of Thousand Trails common stock due to its low trading volumes on the American Stock Exchange and the absence of research analyst coverage;

historical information regarding the financial performance and condition, operations, marketing, management and competitive position of the business;

the growth prospects for the business due to the aging and declining membership base of Thousand Trails and the marketing challenges presented to management;

the limited opportunities to achieve growth through acquisitions;

the terms and conditions of the merger agreement, including the representations, warranties and covenants, the termination provisions and the conditions to the parties' obligations;

the terms of the merger agreement regarding the right of Thousand Trails to consider and negotiate an alternative transaction, as well as the possible effects of the provisions regarding a termination fee and expense reimbursement;

management's assessment of Kohlberg's ability to obtain the financing to consummate the merger, including the significant equity investment to be made by affiliates of Kohlberg;

the experience of Kohlberg in consummating acquisition transactions;

the presentation and oral opinion of Stephens, which was later confirmed in writing;

the fact that Thousand Trails can terminate the merger agreement, with the reimbursement of Kohlberg's expenses, if the merger consideration would be less than \$14.26 per share on account of the working capital adjustment; and

the directors' fiduciary duties under Delaware law to the Thousand Trails stockholders.

In approving the merger agreement, the Thousand Trails board of directors also considered other factors, which they believed were outweighed by the foregoing. These include the following:

the anticipated increase in the number of recreational vehicle owners over the coming years and the possible increase in driving vacations due to changes in airport security measures;

Thousand Trails management has been generally successful in controlling costs; and

Thousand Trails has accumulated cash reserves and is not currently dependent on financing for its working capital.

The foregoing discussion of the factors considered by the Thousand Trails board of directors is not intended to be exhaustive. In view of the many factors considered in connection with its evaluation of the proposed merger, the Thousand Trails board of directors did not find it practical to, and did not, quantify or otherwise attempt to assign relative weights to the specific factors considered in reaching its determination. Instead, the board conducted an overall analysis of the factors described. Individual members of the Thousand Trails board of directors may have considered different factors and may have given differing weights to the factors considered.

Thousand Trails Board of Directors Recommendation

The Thousand Trails board of directors has approved the merger agreement and the transactions contemplated by the merger agreement and recommends that the stockholders vote FOR approval of the merger agreement.

Opinion of Stephens Inc.

Stephens Inc. was retained to render a fairness opinion to the Thousand Trails board of directors in connection with the merger. Pursuant to Stephens' engagement letter with Thousand Trails, dated January 31, 2003, Stephens delivered a written opinion to the board of directors on April 29, 2003, that, based upon and subject to the assumptions, limitations and qualifications set forth in the opinion, its work described below and other factors it deemed relevant, as of that date, the consideration to be received by the shareholders of Thousand Trails, other than Carl Marks and its affiliates, under the merger agreement was fair, from a financial point of view.

The full text of Stephens' written opinion, dated April 29, 2003, which sets forth the assumptions made, general procedures followed, matters considered and limits on the review undertaken, is included as Annex B to this proxy statement. The summary of Stephens' opinion set forth below is qualified in its entirety by reference to the full text of the opinion. **Stockholders are urged to read Stephens' opinion carefully and in its entirety.**

In arriving at its opinion, Stephens:

analyzed certain publicly available financial statements regarding Thousand Trails;

analyzed certain internal financial statements and other financial and operating data (including financial projections) concerning Thousand Trails prepared by management of Thousand Trails;

reviewed the reported prices and trading activity for Thousand Trails common stock;

compared the financial performance of Thousand Trails and the prices and trading activity of the common stock of Thousand Trails with that of certain other publicly-traded companies engaged in similar or related lines of business and their securities;

reviewed the financial terms, to the extent publicly available, of certain transactions involving similar or related lines of business;

performed discounted cash flow analyses using financial projections prepared by the management of Thousand Trails;

reviewed the merger agreement and related documents;

discussed with the management of Thousand Trails the operations of and future business prospects for Thousand Trails and the anticipated financial consequences of the merger; and

performed such other analyses and provided such other services as it deemed appropriate.

In rendering its opinion, Stephens relied on the accuracy and completeness of the information and financial data provided to Stephens by Thousand Trails and Stephens' opinion is based upon such information. Stephens inquired into the reliability of such information and financial data only to the limited extent necessary to provide a reasonable basis for its opinion, recognizing that Stephens rendered only an informed opinion and not an appraisal or certification of value. With respect to the financial projections prepared by management of Thousand Trails, Stephens assumed that they were reasonably prepared on bases reflecting the then best currently available estimates and judgments of the management of Thousand Trails as to the future financial performance of Thousand Trails. Stephens did not make and was not provided with an independent evaluation or appraisal of the assets or liabilities, contingent or otherwise, of Thousand Trails nor did Stephens make any physical inspection of the properties or assets of Thousand Trails.

For purposes of rendering the fairness opinion, Stephens assumed, in all respects material to its analysis, that the representations and warranties of each party to the merger agreement and all related documents and instruments were true and correct, that each party to these documents would perform all of the covenants and agreements required to be performed by each party under these documents and that all conditions to the consummation of the merger would be satisfied without waiver. Stephens assumed that in the course of obtaining any necessary regulatory or other consents or approvals for the merger, no restrictions, including any divestiture requirements or amendments or modifications, would be imposed that would have a material adverse effect on the contemplated benefits of the merger.

Stephens' opinion was provided for the information of the board of directors of Thousand Trails in its evaluation of the merger, and did not constitute a recommendation of the merger to Thousand Trails or its stockholders, nor does it constitute a recommendation to any stockholder as to how such stockholder should vote on any matters relating to the merger. The consideration to be received in the merger was determined through negotiations between Thousand Trails and representatives of Kohlberg. Stephens advised Thousand Trails in connection with these negotiations but did not recommend any specific amount of consideration to Thousand Trails.

Presentation of Stephens Inc.

In connection with rendering its opinion, Stephens made a presentation to the board of directors of Thousand Trails on April 29, 2003, with respect to the material analyses performed by Stephens in evaluating the fairness of the consideration received. The following is a summary of that presentation. The summary includes information presented in tabular format. **In order to understand fully the financial analyses used by Stephens, these tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses.** The following quantitative information, to the extent it is based on market data, is, except as otherwise indicated, based on market data as it existed at or prior to April 29, 2003, and is not necessarily indicative of current or future market conditions.

Stock Price History

Stephens examined and presented the history of the trading prices for Thousand Trails common stock for the ten-year period ending April 28, 2003. Stephens reviewed the daily closing prices of Thousand Trails common stock and analyzed the implied premium represented in the merger relative to the ten-year high closing price of Thousand Trails common stock. This information was presented to the board of directors of Thousand Trails to provide

contextual background information regarding the prices of Thousand Trails common stock over the periods indicated.

Comparable Company Analysis

Stephens compared certain publicly available financial and operating data of selected publicly traded companies engaged in similar or related lines of business to Thousand Trails. This comparison was based on the respective companies' annual reports on Form 10-K and quarterly reports on Form 10-Q as well as recent Wall Street analysts' research reports. The selected comparable companies considered by Stephens were:

Bluegreen Corporation;

ResortQuest International, Inc.;

Thor Industries, Inc.;

Fleetwood Enterprises, Inc.;

Winnebago Industries, Inc.; and

Monaco Coach Corporation.

Equity value of the selected comparable companies was calculated based on the closing price per share of each company's common stock on April 28, 2003. For the selected comparable companies, Stephens derived the ratio of each entity's market value of fully-diluted common equity plus outstanding debt less cash, cash equivalents and marketable securities (Enterprise Value) as of April 28, 2003, to the selected comparable companies' earnings before interest, taxes, depreciation and amortization (EBITDA) and operating income for the latest twelve month (LTM) period. Stephens also derived the ratio of each company's market price per share to the respective company's LTM earnings per share (P/E). The following table sets forth the results of this analysis.

Ratio of Enterprise Value to:	Range:	Mean:
LTM EBITDA	4.9x - 6.5x	5.9x
LTM operating income	5.9x - 9.5x	7.0x

Ratio of :	Range:	Mean:
LTM P/E	8.8x - 15.9x	11.4x

Based on this data, Stephens derived a range of implied trading value of Thousand Trails' common stock of \$9.63 to \$13.31 per share based on the ratio of Enterprise Value to Thousand Trails LTM EBITDA; a range of \$9.24 to \$12.11 per share based on the ratio of Enterprise Value to Thousand Trails operating income; and a range of \$9.39 to \$13.14 per share based on the ratio of Thousand Trails LTM P/E.

Comparable Transactions Analysis

Stephens reviewed the financial terms, to the extent publicly available, for the following six transactions involving timeshare and vacation membership companies:

Closing Date	Acquirer	Target
September 24, 2002	USA Interactive, Inc.	Interval International, Inc.
June 3, 2002	Cendant Corporation	Trendwest Resorts
February 12, 2002	Cendant Corporation	Equivest Finance, Inc.
April 3, 2001	Cendant Corporation	Fairfield Communities Inc.
November 17, 1999	Equivest Finance, Inc.	Peppertree Resorts, LTD
October 1, 1999	Starwood Hotels & Resorts	Vistana Inc.

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Stephens analysis of the selected transactions yielded a ratio of the price paid for the common equity plus the assumed debt (Total Transaction Value) to the EBITDA of the target company for the LTM period preceding the announcement of the transaction and operating income of the target company for the LTM period

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preceding the announcement of the transaction. In deriving a range of values, Stephens utilized only precedent transactions in which the price paid for the common equity (Equity Value) was less than \$150 million (Cendant Corporation's acquisition of Equivest Finance, Inc. and Equivest Finance, Inc.'s acquisition of Peppertree Resorts, LTD).

The following table sets forth the results of this analysis:

Ratio of Total Transaction Value of Target Company to:	Range:	Mean:
LTM EBITDA	5.3x-7.6x	6.5x
LTM operating income	8.9x-8.9x	8.9x

Stephens derived a range of implied value of Thousand Trails common stock of \$11.47 to \$15.15 per share based on a ratio of Total Transaction Value to LTM EBITDA and a range of \$10.67 to \$13.54 per share based on a ratio of Total Transaction Value to LTM operating income.

Discounted Cash Flow Analysis

Stephens performed a discounted cash flow analysis of Thousand Trails based upon estimates of projected financial performance prepared by the management of Thousand Trails. Utilizing these projections, Stephens calculated a range of implied equity value per share based upon the discounted net present value of the sum of the projected stream of unlevered free cash flows for the years ending June 30, 2003 to June 30, 2006 and a projected terminal value of both GAAP EBITDA and Adjusted EBITDA (defined as GAAP EBITDA plus net deferral of sales revenue and expense) at June 30, 2006 less net debt outstanding as of December 31, 2002 divided by the number of Thousand Trails fully-diluted shares outstanding. Stephens applied several discount rates (ranging from 18.0% to 22.0%) and multiples of both GAAP EBITDA and Adjusted EBITDA ranging from 4.5x to 6.5x to generate the terminal value. Utilizing this methodology, the implied value per share of Thousand Trails common stock ranged from \$11.14 to \$18.12 per share.

The summary set forth above does not purport to be a complete description of the analyses performed by Stephens but describes, in summary form, the principal elements of the presentation made by Stephens to the Thousand Trails board of directors on April 29, 2003. The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods to the particular circumstances and, therefore, such an opinion is not readily susceptible to summary description. Each of the analyses conducted by Stephens was carried out in order to provide a different perspective on the transaction and to add to the total mix of information available. Stephens did not form a conclusion as to whether any individual analysis, considered in isolation, supported or failed to support an opinion as to the fairness of the merger from a financial point of view. Rather, in reaching its conclusion, Stephens considered the results of the analyses in light of each other and ultimately reached its opinion based on the analyses taken as a whole. Accordingly, notwithstanding the separate factors summarized above, Stephens has indicated to Thousand Trails that it believes that consideration of some of the analyses and factors considered, without considering all analyses and factors, could create an incomplete or inaccurate view of the evaluation process underlying the opinion. The analyses performed by Stephens are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by such analyses.

Fees

Stephens will receive a fee for its services to Thousand Trails. Under a letter agreement between Thousand Trails and Stephens, Thousand Trails agreed to pay Stephens, upon the rendering of a fairness opinion, a fee of \$200,000 for such services. Stephens will also be reimbursed for its out-of-pocket expenses, including reasonable fees and expenses for its legal counsel. In addition, Thousand Trails has agreed to indemnify Stephens for liabilities related to or arising out of the engagement.

As part of Stephens' investment banking business, it regularly issues fairness opinions and is continually engaged in the valuation of companies and their securities in connection with business reorganizations, private placements, negotiated underwritings, mergers and acquisitions and valuations for estate, corporate and other purposes. In the ordinary course of business, Stephens and its affiliates at any time may hold long or short positions and may trade or

otherwise effect transactions as principal or for the accounts of customers, in debt or equity securities or options on securities of Thousand Trails and, accordingly, may at any time hold a long or short position in those securities. Stephens, and its affiliates, may maintain other relationships with Thousand Trails and its respective affiliates.

Financing of the Merger

The obligations of KTTI Holding to consummate the merger are subject to a financing contingency. It is expected that KTTI Holding will fund the merger through a combination of equity contributions and debt financing, which is expected to be sufficient to make the payments required under the merger agreement. Kohlberg has provided Thousand Trails with a commitment letter to provide equity, and KTTI Holding has provided Thousand Trails with a copy of a commitment letter from iStar Financial, Inc. to provide debt financing as further described below.

The merger agreement provides that KTTI Holding and KTTI Acquisition will use commercially reasonable efforts to complete the financings contemplated by the debt commitment letters and will use their best efforts to cause their affiliates to satisfy their obligations under the equity commitment letter. In the event that the financings contemplated by the debt commitment letters are not completed, the merger agreement provides that KTTI Holding and KTTI Acquisition will use commercially reasonable efforts to obtain alternate financing on terms no less favorable to them than the financings contemplated by the debt commitment letters.

Thousand Trails has been advised by KTTI Holding that it estimates that the total amount of funds necessary for KTTI Holding and KTTI Acquisition to consummate the merger and pay related fees and expenses is approximately \$121,000,000 (of which approximately \$113,000,000 is expected to be used to pay merger consideration and \$8,000,000 is expected to be used to pay transaction fees and expenses). KTTI Holding expects these funds to come from the following:

available cash balances of Thousand Trails;

a term loan in the amount of \$72,000,000 from iStar Financial; and

equity financing in the amount of \$35,000,000 to be provided by affiliates of Kohlberg.

In addition, KTTI Holding has advised Thousand Trails that pursuant to the terms of a binding commitment letter, subject to the execution of definitive loan agreements and the satisfaction of the conditions specified in the commitment letter, Union Bank of California, N.A. has committed to provide the surviving corporation with a \$10,000,000 revolving credit facility for working capital and general corporate purposes following the consummation of the merger.

Term Loan

KTTI Holding has advised Thousand Trails that iStar Financial has committed to make a term loan to KTTI Acquisition in the principal amount of \$72 million to finance a portion of the merger consideration. The term loan will be secured by first priority mortgage liens on the U.S. properties of Thousand Trails, a first priority pledge of all dues payments under its membership contracts, a first priority pledge of Thousand Trails' interest in all of its U.S. subsidiaries and a 65% interest in its Canadian subsidiary, a first priority pledge of all permits, licenses, reservation systems and all other tangible and intangible property of Thousand Trails. The loan will have a ten year term and will bear interest at 10% per annum. The term loan will amortize monthly on a 20-year amortization schedule with mandatory additional annual principal payments equal to 75% of net cash flow, after monthly debt service payments, for the prior calendar year. After the principal balance is reduced to \$50 million, the additional annual principal payments shall be made only if then required by iStar Financial.

Funding of the term loan will be subject to the following significant conditions and other closing conditions:

receipt of at least a \$35 million equity contribution to KTTI Acquisition;

the execution of loan documentation satisfactory to iStar Financial with respect to the term loan;

the satisfaction of the closing conditions to be set forth in such loan documentation, including without limitation opinions of counsel satisfactory to iStar Financial;

iStar Financial's satisfaction with the due diligence of Thousand Trails' properties, including:

- o physical inspections,
- o title,
- o survey,
- o environmental,
- o litigation,
- o permit status,
- o compliance with other laws, including all governmental requirements and compliance with public and private restrictions for all of the properties,
- o delivery of specified documents, and
- o establishment of any reserves or holdbacks as may be required by iStar Financial;

iStar Financial's review and approval of the documents evidencing the revolving credit facility described below and the execution of an intercreditor agreement related to such revolving credit facility;

approval of the merger by the Thousand Trails stockholders; and

the absence of any material adverse change in Thousand Trails or Thousand Trails' business or assets since April 22, 2003.

Equity Financing

Thousand Trails has received a commitment letter from Kohlberg to provide the equity financing. The equity financing will consist of the purchase by investment funds affiliated with Kohlberg of shares of KTTI Holding common stock for total consideration of \$35,000,000.

The obligations of Kohlberg to provide and fund the equity financing are subject to receipt by KTTI Holding or KTTI Acquisition of the debt financing proceeds described above in accordance with the terms of the commitment letters with respect to the term loan and the revolving credit facility and the fulfillment of all of the other conditions to KTTI Holding's and KTTI Acquisition's obligations to consummate the merger and the related transactions under the merger agreement.

Revolving Credit Facility

KTTI Holding has advised Thousand Trails that Union Bank of California has committed to make a revolving credit facility available to the surviving corporation to fund working capital requirements following consummation of the merger. The revolving credit facility would permit the surviving corporation to borrow up to \$10 million and would bear interest at either the prime rate, minus 0.50% per annum, or at the London Interbank Offered Rate, plus 1.75% per annum. The revolving credit facility would mature two years after the closing date. Interest on any borrowings under the revolving credit facility would be paid monthly while principal amounts would

only be due at maturity; however, the line must be reduced annually to zero for at least 60 consecutive days. Amounts repaid on the revolving credit facility before maturity may be reborrowed. The revolving credit facility would be secured by the surviving corporation's membership contract purchase price receivables.

Funding of the revolving credit facility will be subject to the following significant conditions and other closing conditions:

the absence of any material adverse change in Thousand Trails' financial condition, operations, assets, liabilities, business or prospects since April 27, 2003;

the consummation of the merger;

the negotiation, execution and delivery of loan documentation satisfactory to Union Bank of California with respect to the revolving credit facility; and

the satisfaction of the closing conditions to be set forth in such loan documentation.

If the conditions related to the debt and equity financings described herein are satisfied, it is expected that the proceeds of the debt and equity financings described above, together with Thousand Trails' available cash, will be sufficient to consummate and fund the merger, pay all fees and expenses related to the merger and provide working capital for the surviving corporation.

Because the only consideration in the merger is cash and the completion of the merger is subject to a financing condition in an amount sufficient for the payment of the aggregate merger consideration, Thousand Trails does not believe that the financial condition of KTTI Holding or KTTI Acquisition would be material to a stockholder's decision whether to vote to approve the merger.

Appraisal Rights

If the merger occurs, holders of Thousand Trails common stock who follow the procedures for asserting and perfecting appraisal rights specified in Section 262 of the Delaware General Corporation Law will be entitled to receive the appraised fair value of their shares instead of the merger consideration. The fair value could be greater than, less than or the same as the merger consideration. The following summary is qualified in its entirety by Section 262, a copy of which is attached as Annex C to this proxy statement and incorporated herein by this reference. Stockholders should carefully review Section 262 as well as the information discussed below.

A stockholder who wishes to exercise appraisal rights under Section 262 must do all of the following:

The stockholder must deliver a written demand for appraisal to Thousand Trails, which must reasonably inform Thousand Trails of the identity of the stockholder and that the stockholder is demanding appraisal. The demand must be delivered before the vote is taken at the special meeting and must be in addition to and separate from any proxy or vote against adopting the merger agreement. Neither voting against, abstaining from voting nor failing to vote on the adoption of the merger agreement will constitute a valid demand for appraisal within the meaning of Section 262.

The stockholder must not vote in favor of adopting the merger agreement. Failing to vote or abstaining from voting will satisfy this requirement. However, voting for adoption of the merger agreement, whether by proxy or in person, or returning a signed proxy that does not specify an abstention or a vote against adoption of the merger agreement, will constitute a vote in favor of the merger agreement, a waiver of appraisal rights, and will nullify any previously delivered written demand for appraisal.

The stockholder must continuously hold the shares of record until the completion of the merger.

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All written demands for appraisal should be delivered to Thousand Trails, Inc., 3801 Parkwood Blvd., Suite 100, P.O. Box 2529, Frisco, Texas 75034, Attention: Corporate Secretary, before the vote is taken at the special meeting. The written demand must be executed by or for the record holder of shares as the holder's name appears on the certificate(s) for the shares. If the shares are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, the demand must be executed by the fiduciary in that capacity, and if the shares are owned of record by more than one person, such as in a joint tenancy or tenancy in common, the demand must be executed by or for all joint owners. An authorized agent, including one of two or more joint owners, may execute the demand for appraisal for a holder of record; however, the agent must identify the record owner(s) and expressly disclose the fact that, in executing the demand, the agent is acting as agent for the record owner(s).

A beneficial owner who desires appraisal of shares held in street name by a bank, broker or other nominee holder should take appropriate actions to ensure that the nominee holder makes a timely and proper demand for appraisal. Shares held through brokerage firms, banks and other financial institutions are frequently deposited with and held of record in the name of a nominee of a central security depository, such as Cede & Co. Beneficial owners who hold shares through a brokerage firm, bank or other nominee holder are responsible for ensuring that the demand for appraisal is timely made by the record holder. The beneficial holder of the shares should instruct the nominee holder that the demand for appraisal should be made by the record holder of the shares (which may be the nominee of a central security depository if the shares have been so deposited).

A record holder, such as a bank, broker, fiduciary, depository or other nominee, who holds shares of Thousand Trails common stock as a nominee for others, may exercise appraisal rights with respect to the shares held for all or less than all beneficial owners of the shares as to which the person is the record owner. In that case, the written demand must specify the number of shares covered by the demand. If the number of shares is not expressly stated, the demand will be presumed to cover all shares outstanding in the name of the record owner.

Within ten days after the merger, Thousand Trails will give written notice of the date of the merger to each stockholder who has properly demanded appraisal and satisfied the requirements of Section 262. These people are referred to as dissenting stockholders. Within 120 days after the merger, Thousand Trails or any dissenting stockholder may file a petition in the Delaware Court of Chancery demanding a determination of the fair value of the shares held by all dissenting stockholders. Thousand Trails has no obligation to, and does not presently intend, to file such a petition. Accordingly, it is the obligation of the dissenting stockholders to initiate all necessary actions to perfect appraisal rights within the time prescribed by Section 262.

If a petition for appraisal is timely filed, the court will determine which stockholders are entitled to appraisal rights and will determine the fair value of the shares of Thousand Trails common stock held by dissenting stockholders, exclusive of any element of value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, if any, to be paid on the fair value. In determining fair value, the court will take into account all relevant factors. The Delaware Supreme Court has stated, among other things, that proof of value by any techniques or methods which are generally acceptable in the financial community and otherwise admissible in court should be considered in an appraisal proceeding. In addition, Delaware courts have decided that the statutory appraisal remedy may or may not be the stockholder's exclusive remedy in connection with transactions such as the merger, depending on the factual circumstances. The court may determine fair value to be more than, less than or equal to the consideration that the dissenting stockholder would otherwise be entitled to receive pursuant to the merger agreement. The costs of the appraisal proceeding shall be determined by the court and taxed against the parties as the court determines to be equitable under the circumstances. Upon application of a stockholder, the court may order all or a portion of the expenses incurred in connection with the appraisal proceeding, including reasonable attorneys' fees and the fees and expenses of experts, to be charged *pro rata* against the value of all shares subject to appraisal.

From and after the completion of the merger, no dissenting stockholder shall have any rights of a stockholder for any purpose, except the right to receive payment of the fair value determined by the court and to receive payment of dividends or other distributions on the holder's shares of Thousand Trails common stock, if any, payable to stockholders of record as of a time prior to the merger. If a dissenting stockholder delivers a written withdrawal of the demand for an appraisal within 60 days after the completion of the merger or subsequently with the written approval of the surviving company, or, if no petition for appraisal is filed within 120 days after the completion of the merger, then the right of that dissenting stockholder to an appraisal will cease and the dissenting

stockholder will be entitled to receive only the merger consideration for his or her shares. Once a petition for appraisal is filed with the Delaware court, the appraisal proceeding may not be dismissed as to any stockholder without the approval of the court.

If you wish to exercise your appraisal rights, you must not vote in favor of the merger agreement and must strictly comply with the procedures set forth in Section 262 of the Delaware General Corporation Law. If you fail to take any required step in connection with the exercise of appraisal rights, it may result in the termination or waiver of these rights.

Federal Income Tax Consequences

The following discussion is a summary of the material United States federal income tax consequences of the merger. This discussion is based upon the Internal Revenue Code of 1986, as amended, final and temporary regulations issued by the United States Treasury Department, judicial authorities, and rulings and administrative practice of the Internal Revenue Service, as currently in effect, all of which are subject to change at any time, possibly with retroactive effect. This discussion does not address all aspects of United States federal income taxation that could be relevant to particular holders of Thousand Trails common stock in light of their status or personal investment circumstances, such as foreign persons, dealers in securities, regulated investment companies, life insurance companies, other financial institutions, tax-exempt organizations, pass-through entities, persons who hold Thousand Trails common stock as part of a straddle, hedge or conversion transaction or who have a functional currency other than the United States dollar, persons who have received their Thousand Trails common stock as compensation or otherwise in connection with the performance of services or individuals subject to the alternate minimum tax. Further, this discussion does not address the state, local or foreign tax consequences of the merger. The discussion assumes that each stockholder holds its Thousand Trails common stock as a capital asset within the meaning of the Internal Revenue Code.

The receipt of cash for Thousand Trails common stock pursuant to the merger will be a taxable transaction for United States federal income tax purposes. Each holder will recognize gain or loss per share equal to the difference between the merger consideration and the holder's adjusted tax basis per share in Thousand Trails common stock.

In general, a holder's gain or loss from the merger will be capital gain or loss, and will be long-term capital gain or loss if the holder's holding period for the shares exceeds twelve months. If a holder acquired Thousand Trails shares in different lots, the amount and type of gain or loss generally will be computed separately for each lot. Under current law, net long-term capital gains of individuals are subject to federal income tax at a rate of up to 20%, not taking into account any phase-out of tax benefits such as personal exemptions and certain itemized deductions. However, ordinary income and net short-term capital gains i.e., gain on capital assets held for not more than twelve months of individuals currently are subject to federal income tax at a rate of up to 38.6%, not taking into account any phase-out of tax benefits such as personal exemptions and certain itemized deductions. For corporations, capital gains and ordinary income are subject to tax at a federal rate of up to 35%. Capital losses are currently deductible only to the extent of capital gains plus, in the case of taxpayers other than corporations, \$3,000 of ordinary income or \$1,500 in the case of married individuals filing separate returns. In the case of individuals and other non-corporate taxpayers, capital losses that are not currently deductible may be carried forward to other years, subject to certain limitations, but may not be carried back. In the case of corporations, capital losses that are not currently deductible may generally be carried back to each of the three years preceding the loss year and forward to each of the five years following the loss year, subject to certain limitations.

A holder of Thousand Trails common stock may be subject to backup withholding at the rate of 30% with respect to payments of cash consideration received in the merger, unless the holder provides a correct taxpayer identification number in the manner required or is a corporation or other exempt recipient and, when required, demonstrates this fact. To prevent the possibility of backup federal income tax withholding, each holder must provide the paying agent with his or her correct taxpayer identification number by completing a Form W-9 or Substitute Form W-9. A holder of Thousand Trails common stock who does not provide the paying agent with his or her correct taxpayer identification number may be subject to penalties imposed by the IRS, as well as backup withholding. Any amount withheld will be creditable against the holder's federal income tax liability, with any excess refunded, provided a claim is properly filed with the IRS on a timely basis. Thousand Trails or its agent will

report to the holders of Thousand Trails common stock and the IRS the amount of any reportable payments, as defined in Section 3406 of the Internal Revenue Code, and the amount of tax, if any, withheld from those payments.

The foregoing discussion is not a complete description of all of the potential tax consequences that may occur as a result of the merger. Each Thousand Trails stockholder should consult his, her or its tax advisor regarding the United States federal income and other tax consequences, as well as the tax consequences under the laws of any state, local or other jurisdiction, arising from the merger.

THE MERGER AGREEMENT

The following is a summary of the Merger Agreement, a copy of which is attached as Annex A to this proxy statement and is incorporated herein by reference. You are urged to review the Merger Agreement carefully in its entirety.

Effective Time

The merger agreement provides that the merger will become effective upon the filing of a certificate of merger with the Delaware Secretary of State or at such later time as may be specified in the certificate of merger. Subject to approval of the merger agreement at the special meeting, the filing of the certificate of merger is expected to occur promptly following the satisfaction or waiver of the conditions set forth in the merger agreement.

Certificate of Incorporation and By-Laws

The certificate of incorporation and by-laws of Thousand Trails will be amended and restated to be identical to those of KTTI Acquisition, except that the name of the surviving company will be Thousand Trails, Inc.

Payment for Thousand Trails Common Stock and Options

At the time of the merger:

each share of Thousand Trails common stock outstanding as of the effective time of the merger will be canceled and converted into the right to receive \$14.50 per share in cash, less any working capital adjustment described below;

all outstanding options to purchase Thousand Trails common stock, whether or not then vested or exercisable, will be canceled and thereafter the former holder thereof will be entitled to a payment from Thousand Trails, subject to any applicable withholding taxes, as the case may be, equal to the product of (a) the total number of shares of Thousand Trails common stock subject to such Thousand Trails stock option and (b) the excess of the per share merger consideration over the per share option exercise price for such Thousand Trails stock option, payable in cash; and

each share of KTTI Acquisition common stock will be canceled and converted into one share of common stock of Thousand Trails.

The per share merger consideration will be adjusted in the event that Thousand Trails' working capital, as defined in the merger agreement, is less than \$26 million as of the last day of the month immediately preceding the closing date of the merger. In such event, the per share merger consideration would be reduced by an amount equal to the amount by which working capital is less than \$26 million divided by the fully-diluted number of shares of common stock outstanding as of the date of determination of working capital. Thousand Trails will announce in a press release any adjustment in the merger consideration due to the working capital amount promptly after the determination is made. Either party may terminate the merger agreement if the amount of working capital is less than \$24 million. Based on the number of fully-diluted shares of common stock outstanding as of the date of this proxy statement, the following table shows the per share merger consideration that stockholders would receive in the event of a working capital adjustment:

Working Capital Amount	Adjusted Merger Consideration
\$26,000,000	\$ 14.50
\$25,500,000	\$ 14.44
\$25,000,000	\$ 14.38
\$24,500,000	\$ 14.32
\$24,000,000	\$ 14.26

If, on the last day of the month immediately preceding the closing date of the merger, working capital is less than \$24 million, each party has the right to terminate the merger agreement. Termination in such circumstances would require Thousand Trails to reimburse Kohlberg's expenses in connection with the merger. Thousand Trails is currently unable to determine whether it would exercise its right to terminate the merger agreement in that event. Thousand Trails believes that any decision to terminate the merger agreement should be based on the facts and circumstances existing at the time the decision is required. If the total amount of the merger consideration falls below \$14.26 per share as a result of the working capital adjustment, Thousand Trails will announce whether it will exercise its right to terminate the merger agreement in the press release announcing the determination of the adjusted merger consideration. Thousand Trails does not currently intend to resolicit proxies if it does not exercise its right to terminate. However, because the announcement will be made prior to the special meeting, stockholders may then submit or revoke their proxies in accordance with the procedures described in the section entitled "The Special Meeting - Voting Information." As of April 30, 2003, Thousand Trails had \$28.8 million of working capital as defined in the merger agreement. Thousand Trails management currently expects working capital to be in excess of \$26 million as of June 30, 2003 and July 31, 2003.

Directors and Officers of Thousand Trails Following the Merger

The directors of KTTI Acquisition immediately prior to the effective time of the merger will be the directors of the surviving corporation immediately after the merger, each to hold office in accordance with the certificate of incorporation and the bylaws of the surviving corporation. The officers of Thousand Trails immediately prior to the effective time of the merger will be the officers of the surviving corporation immediately after the merger.

Representations and Warranties

The merger agreement contains specified representations and warranties of Thousand Trails relating to its business, operations and financial condition, including representations and warranties relating to:

organization and qualification of Thousand Trails and its subsidiaries;

certificate of incorporation and by-laws;

capitalization of Thousand Trails and its subsidiaries;

authorization, execution, delivery and enforceability of the merger agreement;

the absence of conflicts between the merger agreement and Thousand Trails' charter documents, any material contracts or applicable law;

governmental entity or third party consent or filing requirements;

company permit requirements;

proxy statements, reports and financial statements filed with the Securities and Exchange Commission and the accuracy of the information in those documents;

undisclosed liabilities;

information supplied in the proxy statement;

absence of events or changes having a material adverse effect, as defined, on Thousand Trails;

conduct of the business in the ordinary course;

litigation;

employee benefit matters;

material contracts, as defined by the merger agreement;

environmental matters;

title to properties and an absence of liens and encumbrances;

intellectual property;

tax matters;

insurance matters;

compliance with applicable law;

membership contracts;

stockholder rights agreements;

opinions of financial advisor;

the absence of brokers and finders fees with respect to the merger;

employee relations; and

affiliate transactions.

Each of KTTI Holding and KTTI Acquisition has made representations and warranties with respect to, among other things:

organization and qualification;

ownership of KTTI Holding and KTTI Acquisition;

authorization, execution, delivery and enforceability of the merger agreement;

the absence of conflicts between the merger agreement and charter documents, contracts or applicable law;

governmental entity or third party consent or filing requirements;

the accuracy of information supplied to Thousand Trails for inclusion in the proxy statement;

the absence of brokers and finders fees with respect to the merger; and

financing commitments and arrangements to fund the merger.

Conduct of Business Pending the Merger

The merger agreement provides, among other things, that Thousand Trails will not take any action outside the ordinary course of business, consistent with past practice, without the prior written consent of KTTI Holding, which consent shall not be unreasonably withheld, including the following:

amend its certificate of incorporation or bylaws;

issue any stock except for shares pursuant to options previously granted or under the Thousand Trails employee stock purchase plan;

authorize, declare, set aside or pay any dividend or other distribution;

split, combine, subdivide, reclassify or redeem, purchase or otherwise acquire any shares of Thousand Trails stock or issue or authorize the issuance of any other securities in respect of or in lieu of or in substitution to such shares;

acquire another business or sell any portion of its business other than specified assets held for sale;

sell, lease or encumber any real property;

incur any further debt, guarantee any other person's debt or make any loans except in specified circumstances;

enter into or modify any specified material contract or agreement;

make capital expenditures above a specified amount;

amend or change the terms of, or waive stock repurchase or acceleration rights, of any options, warrants or restricted stock;

increase compensation of any employee except in accordance with past practices and consistent with approved budgets, grant severance pay or forgive employee indebtedness;

pay any claims above a specified amount or waive any confidentiality agreements;

settle or compromise any litigation above a specified amount;

make or revoke any material tax elections or change any method of tax accounting inconsistent with past practice or above a specified amount;

change any of the accounting principles or practices used by it;

adopt, amend or terminate any employee benefits plan or collective bargaining agreement; and

implement any stockholder rights plan.

Covenants and Agreements

The merger agreement provides for specified covenants and agreements between Thousand Trails and KTTI Acquisition, including the following:

KTTI Holding and Thousand Trails will give prompt notice to the other if any occurrence or nonoccurrence would be likely to cause any representation, warranty, covenant, condition, or agreement not to be complied with or satisfied in any material respect.

Thousand Trails will suspend its employee stock purchase plan as of June 30, 2003.

Thousand Trails will prepare and file a proxy statement as promptly as practicable and call, give notice and hold a meeting of its stockholders as promptly as practicable to seek approval of the merger and the merger agreement.

Thousand Trails will give KTTI Holding, KTTI Acquisition and specified representatives reasonable access to Thousand Trails properties, books, contracts, personnel and records.

KTTI Holding and KTTI Acquisition, on one hand, and Thousand Trails, on the other, will hold any confidential information of the other in accordance with the terms of a confidentiality agreement between Thousand Trails and Kohlberg.

KTTI Holding and Thousand Trails will use their commercially reasonable efforts to obtain any necessary authorizations, consents and approvals of any governmental entity or third party.

KTTI Holding and KTTI Acquisition, on one hand, and Thousand Trails, on the other, will cooperate with each other and use their commercially reasonable efforts to do all things reasonably necessary, proper or advisable in order to consummate the transactions contemplated by the merger agreement.

KTTI Holding and KTTI Acquisition, on one hand, and Thousand Trails, on the other, will consult with each other before making any public statements regarding the merger.

KTTI Holding and KTTI Acquisition will use commercially reasonable efforts to complete the debt financings contemplated by the debt commitment letters and will use their best efforts to cause their affiliates to satisfy their obligations under the equity commitment letters and, if the debt financings contemplated by the debt commitment letters are not completed, KTTI Holding and KTTI Acquisition will use commercially reasonable efforts to obtain alternate financing on terms no less favorable to them than the debt financings contemplated by the debt commitment letters.

Conditions to Consummation of Merger

The obligations of Thousand Trails, KTTI Acquisition and KTTI Holding to consummate the merger are subject to the following conditions:

the merger agreement will have been approved by the stockholders of Thousand Trails in accordance with Delaware law;

there will not be any judgment, order, decree or injunction in effect preventing consummation of the merger and transactions; and

the working capital, as defined, of Thousand Trails will be equal to or greater than \$24 million.

The obligations of KTTI Acquisition and KTTI Holding to consummate the merger are subject to the following conditions:

the representations and warranties made by Thousand Trails contained in the merger agreement will be true and correct at and as of the closing date except to the extent not having a material adverse effect on Thousand Trails;

Thousand Trails will have performed and complied with all of its agreements and covenants under the merger agreement in all material respects;

the absence of any circumstance or event that has had or would reasonably be expected to have a material adverse effect, as defined, on Thousand Trails;

the absence of any action pending or threatened by any government entity or by any other person if reasonably expected to have a material adverse effect;

the debt financing contemplated by the debt commitment letters has been consummated;

delivery of specified closing certificates and documents;

delivery of signed letters of resignation from each director of Thousand Trails and each Thousand Trails subsidiary;

all indebtedness and other obligations under the Union Bank loan agreement other than an outstanding letter of credit have been fully paid off and discharged; and

no more than 5% of the shares of Thousand Trails common stock are appraisal shares, as defined in the merger agreement.

The obligations of Thousand Trails to consummate the merger are subject to the following conditions:

the representations and warranties made by KTTI Acquisition and KTTI Holding contained in the merger agreement will be true and correct at and as of the closing date except to the extent not having a material adverse effect on their ability to consummate the merger;

each of KTTI Holding and KTTI Acquisition will have performed and complied with all of its agreements and covenants under the merger agreement in all material respects; and

delivery of specified closing certificates and documents.

No Solicitation of Transactions

The merger agreement provides that, subject to exceptions described below, Thousand Trails:

will cease all activities, discussions or negotiations with any parties with respect to an acquisition proposal; and

will not initiate, solicit, negotiate, encourage or provide nonpublic or confidential information to facilitate any acquisition proposal.

An acquisition proposal means any written proposal or offer to acquire any part of the Thousand Trails business or properties constituting 25% or more of the net revenue, net income or assets of Thousand Trails and its subsidiaries, taken as a whole, or a significant equity interest in the capital stock of Thousand Trails or any of its subsidiaries, whether by merger, consolidation, recapitalization, purchase of assets, tender offer or otherwise. Thousand Trails is required to notify KTTI Holding of any acquisition proposal orally within 24 hours and in writing with 48 hours of receipt of such a proposal.

Notwithstanding the above, if Thousand Trails and its board of directors determine in good faith after consultation with its independent financial advisor and legal counsel that such acquisition proposal reasonably could constitute a superior proposal, as defined in the merger agreement, and the board of directors determines in good faith after consultation with legal counsel that such action is required to comply with its fiduciary duties under

applicable law and such party enters into a confidentiality agreement with Thousand Trails on terms no less favorable to Thousand Trails than its confidentiality agreement with Kohlberg, then Thousand Trails and its board of directors may respond to, furnish information to or engage in discussions or negotiations with any person in response to such superior proposal. The board of directors is also permitted to take and disclose to Thousand Trails stockholders a position with respect to any tender or exchange offer by a third party.

The merger agreement provides that the board of directors will not withdraw, amend, qualify or modify in any manner adverse to KTTI Holding or KTTI Acquisition the recommendation of the board of directors of the merger or the merger agreement, endorse, approve, recommend or submit to the stockholders any alternative acquisition transaction, or cause Thousand Trails to enter into any agreement with respect to an acquisition transaction, unless the board of directors:

determines in good faith, after it has received a superior proposal and after taking into account advice from independent outside legal counsel with respect to its fiduciary duties under applicable law, that such action is required to comply with such fiduciary duties,

delivers notice to KTTI Holding of its intent to take such action, and

allows five business days to elapse during which KTTI Holding and KTTI Acquisition may offer adjustments to the terms and conditions of the merger agreement that will permit the board of directors to determine that, with such adjustments, the merger is at least as favorable to the Thousand Trails stockholders as such superior proposal.

Termination

The merger agreement may be terminated at any time before the effective time, notwithstanding any approval of the merger agreement by the stockholders of Thousand Trails:

by mutual consent of the boards of directors of Thousand Trails and KTTI Acquisition;

by either Thousand Trails or KTTI Acquisition, if any governmental authority issues a final order or law preventing the consummation of the merger;

by either Thousand Trails or KTTI Acquisition if the merger has not been completed by August 29, 2003;

by KTTI Acquisition if:

- o the Thousand Trails board of directors has withdrawn, amended, qualified or modified in a manner adverse to KTTI Acquisition its recommendation to approve the merger and the merger agreement, has endorsed, approved, recommended or submitted to the stockholders an alternative acquisition proposal or has caused Thousand Trails to enter into any agreement with respect to an alternative acquisition proposal,
- o the board of directors, upon request of KTTI Acquisition, fails to reconfirm its recommendation within 15 business days after public announcement of an alternative acquisition proposal or fails to publicly announce that it is not recommending any alternative acquisition proposal, or
- o Thousand Trails has breached in any material respect its obligations under the merger agreement regarding non-solicitation of alternative acquisition proposals,

in which case Thousand Trails would be obligated to pay KTTI Holding the termination fee and expense reimbursement described below under Termination Fee; Expenses ;

by either Thousand Trails or KTTI Acquisition, if the merger agreement and the merger do not receive stockholder approval, in which case Thousand Trails would be obligated to pay KTTI Acquisition the expense reimbursement and, if Thousand Trails consummates, or enters into a definitive agreement with respect to, a business combination with a third party within 12 months of such termination of the merger agreement, the termination fee;

by KTTI Acquisition because of:

- o a breach of the representations and warranties made by Thousand Trails in the merger agreement at the time of its execution, other than with respect to the accuracy of reports delivered to KTTI Acquisition regarding Thousand Trails membership contracts, that would reasonably be expected to have a material adverse effect on Thousand Trails or
- o a material breach of any covenant or agreement of Thousand Trails,

in each such case where such breach, if capable of being cured, remains uncured 15 days after receipt of notice of such breach, and in either case, except with respect to the inability of Thousand Trails to make such representations and warranties at and as of the closing date, Thousand Trails would be obligated to pay KTTI Acquisition the expense reimbursement and, if Thousand Trails consummates, or enters into a definitive agreement with respect to, a business combination with a third party within 12 months of such termination of the merger agreement, the termination fee;

by Thousand Trails because of:

- o a breach of the representations and warranties made by KTTI Acquisition in the merger agreement at the time of its execution that would reasonably be expected to have a material adverse effect on KTTI Acquisition's ability to consummate the merger or
- o a material breach of any covenant or agreement of KTTI Acquisition,

in each case where such breach, if capable of being cured, remains uncured 15 days after receipt of notice of such breach;

by Thousand Trails if the Thousand Trails board of directors receives a superior proposal and the board of directors authorizes Thousand Trails to enter into a definitive agreement with respect to such superior proposal, the Thousand Trails board of directors notifies KTTI Holding of its intent to enter into such agreement, KTTI Holding and KTTI Acquisition have not made an offer that the Thousand Trails board of directors determines is at least as favorable as such superior proposal, and Thousand Trails pays KTTI Acquisition the termination fee and expense reimbursement;

by Thousand Trails if the board of directors has determined in good faith, after consultation with legal counsel, that not holding the stockholders meeting is required for the board of directors to comply with its fiduciary duties and Thousand Trails pays KTTI Acquisition the termination fee and expense reimbursement;

by Thousand Trails or KTTI Acquisition if, as of the last day of the month preceding the closing of the merger, Thousand Trails working capital is less than \$24 million, in which case Thousand Trails would be obligated to pay KTTI Acquisition the expense reimbursement; and

by KTTI Acquisition because of a breach of the representations and warranties made by Thousand Trails with respect to the accuracy of reports previously delivered to KTTI Acquisition regarding Thousand Trails membership contracts.

If the merger agreement is terminated, no party will have any liability or obligation to the other party, other than for willful breaches, except as described above and under Termination Fee; Expenses.

Termination Fee; Expenses

Except as disclosed in this proxy statement and as set forth in the merger agreement, all fees and expenses incurred in connection with the merger, the merger agreement and any other transactions contemplated thereby will be paid by the party incurring such fees and expenses.

Under the merger agreement, Thousand Trails must reimburse KTTI Acquisition for up to \$3 million of its expenses if the merger agreement is terminated under the specified circumstances described above in Termination. Further, in addition to the expense reimbursement, in some of those specified circumstances, Thousand Trails must pay KTTI Acquisition a termination fee of \$4 million.

Amendment and Waiver

The merger agreement may be amended by Thousand Trails and KTTI Holding in accordance with applicable law. Either party may waive compliance by the other party with respect to any of the agreements or conditions contained in the merger agreement.

Director and Officer Indemnification

Subject to limitations imposed under applicable law, all rights to indemnification available to the present and former officers and directors of Thousand Trails and its subsidiaries with regard to acts or omissions occurring before the merger will remain available to the maximum extent provided under Thousand Trails' certificate of incorporation and bylaws as in effect on the date of the merger agreement.

For five years after the merger, KTTI Holding and Thousand Trails will maintain officers' and directors' liability insurance for acts or omissions occurring before the merger covering each person currently covered by Thousand Trails' officers' and directors' liability insurance policy, and on terms substantially equivalent to those of the current policy; provided, however, that such coverage can be maintained at an annual cost not greater than 200% of Thousand Trails' current premium level. If the current level of coverage cannot be maintained, then KTTI Holding will provide as much insurance as can be maintained at a cost equal to 200% of the premium level for Thousand Trails' current insurance policy.

Delaware's Anti-Takeover Statute

Thousand Trails is a Delaware corporation and is subject to Section 203 of the Delaware General Corporation Law. In general, Section 203 prevents an interested stockholder from engaging in a business combination with Thousand Trails for three years following the date that person became an interested stockholder unless:

before that person became an interested stockholder, Thousand Trails' board of directors approved the transaction in which the interested stockholder became an interested stockholder or approved the business combination;

upon completion of the transaction that resulted in the interested stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of Thousand Trails outstanding at the time the transaction commenced, excluding stock held by persons who are both directors and officers of Thousand Trails or by certain employee stock plans; or

on or following the date on which that person became an interested stockholder, the business combination is approved by Thousand Trails' board and authorized at a meeting of stockholders by the affirmative vote of the holders of at least 66 2/3% of the outstanding voting stock of Thousand Trails, excluding shares held by the interested stockholder.

An interested stockholder is defined generally as a person owning 15% or more of Thousand Trails' outstanding voting stock. A business combination includes mergers, asset sales and other transactions resulting in

a financial benefit to the interested stockholder. Because the Thousand Trails board of directors approved the merger and the voting agreements, Section 203 by its terms would not apply to the merger.

INTERESTS OF CERTAIN PERSONS IN THE MERGER

In considering the merger, Thousand Trails stockholders should be aware that the directors and executive officers of Thousand Trails have interests in the merger that may be considered different from, or in addition to, their interests solely as stockholders of Thousand Trails. These are described below.

Treatment of Options

At the time of the merger, each Thousand Trails stock option outstanding immediately prior to the effective time, whether or not then vested or unvested, will be canceled and converted into the right to receive a payment from the surviving corporation in cash, subject to any applicable withholding taxes, as the case may be, equal to the product of (i) the total number of shares of Thousand Trails common stock subject to such stock option and (ii) the excess of the per share merger consideration over the per share option exercise price for such stock option. As a result, if the merger is consummated with a merger consideration of \$14.50 per share, the directors and the executive officers of Thousand Trails will receive an aggregate cash payment of \$10,429,534, less applicable withholding taxes, in respect of the 1,016,368 Thousand Trails stock options held by such directors and officers, as described below.

Director or Executive Officer	Options	Cash Amount
Andrew M. Boas	36,700	\$ 435,375
R. Gerald Gelinas	32,500	\$ 388,125
Walter B. Jaccard	72,500	\$ 941,900
William P. Kovacs	36,700	\$ 435,325
Donald R. Leopold	26,700	\$ 299,675
H. Sean Mathis	5,000	\$ 42,750
Bryan D. Reed	20,000	\$ 197,125
William J. Shaw	786,268	\$7,689,259

Arrangements with Continuing Management

CEO Employment Agreement

Thousand Trails has an employment agreement with Mr. Shaw that provides for a payment of twice his annual base salary if a change in control occurs. The merger will constitute a change of control under this agreement. Under Mr. Shaw's employment agreement, if the merger is consummated this payment would be \$797,000. KTTI Holding has advised Thousand Trails of its intention to cause the surviving corporation to enter into a new employment agreement with Mr. Shaw upon consummation of the merger, which will provide for, among other things, a base salary equal to Mr. Shaw's current base salary, the continuation of Mr. Shaw's bonus arrangement for so long as Mr. Shaw remains the chief executive officer of the surviving corporation, a bonus equal to 50% of Mr. Shaw's base salary if Mr. Shaw is employed by the surviving corporation on the one year anniversary of the closing of the merger and a bonus equal to 50% of Mr. Shaw's base salary if the surviving corporation consummates agreed upon acquisition transactions. In addition, KTTI Holding has advised Thousand Trails that Mr. Shaw's employment with the surviving corporation will be terminable by the surviving corporation at any time and that Mr. Shaw will not be entitled to severance upon such termination. KTTI Holding expects that Mr. Shaw will serve as the chief executive officer of the surviving corporation until such time as a new chief executive officer is hired and that the surviving corporation expects to hire a new chief executive officer within one year from the closing of the merger, at which time, Mr. Shaw is expected to become a consultant to the surviving corporation.

Other Continuing Executive Officers

KTTI Holding has advised that it desires that, in addition to Mr. Shaw, the current executive officers of Thousand Trails continue as executive officers of the surviving corporation following the merger. KTTI Holding has advised Thousand Trails that the existing employment agreements with such executive officers will not be

terminated as a result of the merger. Each of these employment agreements provides for a payment to the executive officer in a lump sum equal to 12 months of base salary, if such executive officer's employment is terminated without cause or if the surviving corporation does not expressly assume the obligations under the employment agreement in the event of a change of control.

KTTI Holding Option Plan

KTTI Holding has advised Thousand Trails of its intention to establish a stock option plan for the grant to members of the management of the surviving corporation of options to purchase common shares of KTTI Holding. KTTI Holding has also advised Thousand Trails that it does not intend to grant any such options to Mr. Shaw but does intend to grant options to purchase 0.5% of KTTI Holding's total number of authorized shares to each of Messrs. Gelinas, Jaccard and Reed, each exercisable at the price affiliates of Kohlberg will pay for their shares. These options to be granted to these persons would constitute approximately 1.7% of the total number of issued and outstanding shares of KTTI Holding on a fully-diluted basis immediately after the closing of the merger if no further options or shares were granted.

Indemnification and Insurance

The merger agreement provides that Thousand Trails' directors and officers will continue to have rights to indemnification for acts or omissions occurring through the effective time and that KTTI Acquisition will cause to be purchased five-year, premiums prepaid, tail-end coverage under the directors' and officers' insurance policy of Thousand Trails, subject to a cost limitation, and will make funding arrangements to pay related deductible amounts, if any. See The Merger Agreement Director and Officer Indemnification. The Securities and Exchange Commission advises that indemnification for securities law violations is against public policy and may be unenforceable.

INFORMATION ABOUT THOUSAND TRAILS

Selected Financial Data

The following table presents Thousand Trails' selected consolidated financial data as of the dates and the periods indicated. The selected consolidated financial data for the fiscal years 2002, 2001, 2000, 1999 and 1998 are derived from Thousand Trails' audited consolidated financial statements. The selected consolidated financial data for the nine months ended March 31, 2003 and 2002 are derived from Thousand Trails' unaudited consolidated financial statements. The information in the following table is only a summary and does not provide all of the information contained in Thousand Trails' financial statements, which are contained in the reports Thousand Trails files with the SEC. See Additional Information Where You Can Find More Information for where you can obtain a copy of Thousand Trails' financial statements.

	For the nine months ended March 31,		For the year ended June 30,				
	2003	2002	2002	2001	2000(1)	1999	1998
(in thousands, except per share amounts and statistical data)							
Statement of Operations Data:							
Total revenue	\$ 68,977	\$ 64,979	\$ 89,185	\$ 79,396	\$ 70,771	\$ 67,925	\$ 75,509
Membership dues	30,061	29,994	39,856	40,080	37,495	36,455	37,330
Other campground revenue	12,721	13,350	18,505	17,849	16,731	15,585	14,204
Membership contracts originated	19,102	19,234	27,434	22,903	13,912	5,480	3,867
Membership sales revenue	16,294	11,908	16,616	9,540	5,564	3,959	3,227
Interest income	2,073	1,662	2,383	1,951	1,509	2,008	2,635
Interest expense and amortization	13	27	32	1,013	1,427	2,957	4,599
Income from operations before taxes	11,445	9,228	13,145	6,429	5,458	7,915	15,716
Net income	7,033	6,029	8,326	4,276	9,249	5,571	24,879
Income per share basic:							
Net income	\$ 1.01	\$.74	\$ 1.04	\$.52	\$ 1.16	\$.73	\$ 3.36
Weighted average number of shares	6,946	8,129	8,012	8,107	7,981	7,630	7,407
Income per share diluted:							
Net income	\$.92	\$.70	\$.97	\$.50	1.08	\$.66	\$ 2.96
Weighted average number of shares	7,650	8,638	8,585	8,598	8,594	8,475	8,398
Balance Sheet Data:							
Cash and cash equivalents	\$ 3,319	\$ 5,623	\$ 4,180	\$ 9,016	\$ 2,420	\$ 2,197	\$ 13,631
Marketable securities	17,536	11,700	5,343				
Receivables, net	10,709	8,623	9,638	7,588	5,775	2,184	4,181
Campground properties	47,390	49,556	48,640	47,191	48,150	36,941	37,991
Properties at unrelated resorts				70	70	75	1,092
Total assets	101,942	96,584	92,240	83,949	74,515	56,804	74,262
PIK notes, including deferred gain(2)							32,973
Borrowings under Credit Agreement(2)					9,614	10,887	
Long-term debt(2)					7,043	8,787	32,973
Shareholders' equity	27,699	27,757	20,663	22,435	18,109	9,648	2,754
Statistical Data:							
Number of operating campgrounds	59	59	59	59	63	53	53
Number of campsites	17,900	17,900	17,900	18,100	19,000	17,700	17,700
Number of members	110,000	113,000	112,000	117,000	119,000	106,000	111,000
Average annual dues per member	\$ 377	\$ 367	\$ 369	\$ 360	\$ 355	\$ 357	\$ 351
Average cost per camper night	\$ 21.31	\$ 19.43	\$ 20.41	\$ 19.33	\$ 18.72	\$ 17.62	\$ 18.23

(1) The historical selected financial data for fiscal 2000 includes the operating results of Leisure Time from December 16, 1999, the date of acquisition.

- (2) Long-term debt includes only the long-term portions of the 12% senior subordinated pay-in-kind notes due 2003 (PIK notes) and indebtedness under a credit agreement.

Price Range of Thousand Trails Common Stock

Thousand Trails common stock trades on the American Stock Exchange system under the symbol TRV . Historically, the common stock has not traded every day and the trading volume has often been small. The following table sets forth the high and low closing sale prices per share of Thousand Trails common stock for the fiscal quarters indicated below:

	<u>High</u>	<u>Low</u>
Fiscal 2001		
First Quarter	\$ 4.875	\$4.500
Second Quarter	5.125	4.625
Third Quarter	6.100	4.800
Fourth Quarter	6.300	5.100
Fiscal 2002		
First Quarter	\$ 6.300	\$5.240
Second Quarter	7.200	5.200
Third Quarter	10.990	6.600
Fourth Quarter	11.700	7.520
Fiscal 2003		
First Quarter	\$ 11.400	\$9.000
Second Quarter	9.850	7.900
Third Quarter	9.680	8.600
Fourth Quarter (through May 19, 2003)	14.300	9.300

On April 29, 2003, the last full day of trading before the public announcement of the signing of the merger agreement, the closing sales price was \$9.35 per share. On May 19, 2003, the closing sales price was \$14.22 per share. You should obtain current market price quotations for Thousand Trails common stock in connection with voting your shares.

Dividends

Since inception, Thousand Trails has not paid any dividends and has no plans to pay any dividends. Moreover, under the merger agreement, Thousand Trails has agreed not to declare or pay any dividends on Thousand Trails common stock prior to the closing of the merger or the earlier termination of the merger agreement.

Principal Stockholders And Security Ownership Of Management

The following table sets forth information as of May 19, 2003 regarding beneficial ownership of Thousand Trails common stock by each person known to Thousand Trails to have owned more than 5% of the outstanding shares of common stock, each of Thousand Trails' directors and executive officers and all directors and executive officers as a group. The information with respect to holders of more than 5% of the outstanding shares of common stock is based solely on statements filed with the Securities and Exchange Commission or other information that Thousand Trails believes to be reliable. Each of the named stockholders has sole voting and investment power with respect to the shares shown, except in connection with the voting agreements with KTTI Holding and KTTI Acquisition and the other shared voting and investment arrangements, each as described below.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percentage of Outstanding Shares
Andrew M. Boas (2)	3,201,372(2)(3)(6)	45.7%(2)(3)(6)
Carl Marks Management Co., LP (2)	3,153,848(2)(3)	45.2%(2)(3)
Carl Marks Strategic Investments, LP (2)	3,153,848(2)(3)	45.2%(2)(3)
Robert C. Ruocco (2)	3,153,848(2)(3)	45.2%(2)(3)
James F. Wilson (2)	3,153,848(2)(3)	45.2%(2)(3)
IAT Reinsurance Syndicate, Ltd. (4)	1,160,000(4)	16.8%(4)
Peter R. Kellogg (4)	1,160,000(4)	16.8%(4)
William J. Shaw (5)	1,210,698(3)(5)(6)	16.4%(3)(5)(6)
R. Gerald Gelinas (8)	83,654(6)(7)	1.2%(6)(7)
Walter B. Jaccard (8)	66,667(6)	*
William P. Kovacs (8)	81,700(6)	1.2%(6)
Donald R. Leopold (8)	23,367(6)	*
H. Sean Mathis (8)	1,667(6)	*
Bryan D. Reed (8)	12,500(6)	*
All directors and executive officers as a group (8 individuals)	4,681,625	61.9%

- (1) To Thousand Trails' knowledge, except as described below, the persons in this table have sole voting, investment, and dispositive power, either directly or through one or more entities controlled by such person, with respect to all shares of the common stock shown as beneficially owned by them, subject to community property laws, where applicable.
- (2) The ownership of these shares of common stock includes multiple beneficial ownership of the same shares. Carl Marks Strategic Investments, LP ("CM Strategic") owns 3,153,848 shares of common stock. Carl Marks Management Co., LP ("CM Management") is the general partner of CM Strategic. CM Management, therefore, beneficially owns all of the shares of common stock that CM Strategic beneficially owns. Messrs. Boas, Ruocco and Wilson are each a general partner of CM Management. Messrs. Boas, Ruocco and Wilson, therefore, beneficially own all of the shares of common stock that CM Management beneficially owns. In addition, Mr. Boas (i) owns 11,569 shares of common stock, (ii) is deemed to own an additional 33,367 shares because he owns options exercisable within 60 days to acquire 5,000 shares at a price of \$.79 per share, 5,000 shares at a price of \$.80 per share, 10,000 shares at a price of \$1.08 per share, 5,000 shares at a price of \$3.71 per share, 4,200 shares at a price of \$4.25 per share, 2,500 shares at a price of \$4.75 per share and 1,667 shares at a price of \$5.95 per share and (iii) beneficially owns 2,588 shares because he is a co-trustee of a trust that owns these shares. CM Strategic, CM Management, and Messrs. Boas, Ruocco and Wilson disclaim the existence of a group. The reported voting and investment power over these shares is as follows: (i) CM Strategic and CM Management shared voting and investment power over 3,153,848 shares, (ii) Mr. Boas sole voting and investment power over 44,936 shares and shared voting and investment power over 3,156,436 shares and (iii) Mr. Ruocco and Mr. Wilson shared voting and investment power over 3,153,848 shares. The business address of each of these persons is c/o Carl Marks Management Co., LP, 135 East 57th Street, New York, New York 10022.
- (3) Simultaneously with the execution of the merger agreement, Mr. Shaw, the William J. Shaw Family Partnership, L.P. and CM Strategic each entered into voting agreements with KTTI Holding and KTTI Acquisition, in which such stockholders agreed, among other things, to vote their respective shares of Thousand Trails common stock in favor of the merger and against any competing transaction at any meeting of Thousand Trails stockholders held to consider and vote upon the merger and also granted KTTI Holding and KTTI Acquisition an irrevocable proxy to accomplish such actions. In addition, Mr. Shaw, the William J. Shaw Family Partnership and CM Strategic each agreed, with certain exceptions, not to transfer any shares of Thousand Trails common stock during

the term of the voting agreement. As a consequence of entering into the voting agreements, Mr. Shaw, CM Strategic, CM Management, and Messrs. Boas, Ruocco and Wilson may each be deemed to share voting power with KTTI Holding and KTTI Acquisition with respect to the shares beneficially owned by Mr. Shaw, the William J. Shaw Family Partnership and CM Strategic, as applicable, with respect to the merger.

- (4) The ownership of these shares of common stock includes multiple beneficial ownership of the same shares. IAT Reinsurance Syndicate, Ltd. owns 1,160,000 shares of common stock. Peter Kellogg is the sole holder of the voting shares of IAT Reinsurance Syndicate, Ltd. and, therefore, beneficially owns all of the shares of common stock that IAT Reinsurance Syndicate, Ltd. beneficially owns. The business address of each of these persons is c/o Peter R. Kellogg, Spear, Leeds & Kellogg, 120 Broadway, New York, New York 10271.
- (5) The shares of common stock owned by Mr. Shaw include (i) stock options exercisable within 60 days of the record date for 179,568 shares at a price of \$0.69 per share, 4,200 shares at a price of \$4.25 per share, 2,500 shares at a price of \$4.75 per share and 200,000 shares at a price of \$5.93 per share and (ii) 781,038 shares held by the William J. Shaw Family Partnership. Mr. Shaw controls the sole general partner of the William J. Shaw Family Partnership, and trusts for the benefit of Mr. Shaw and his children and grandchildren are the limited partners. Mr. Shaw disclaims beneficial ownership of the shares held by the William J. Shaw Family Partnership except to the extent of his partnership interests therein.
- (6) The shares of common stock beneficially owned by the following individuals include stock options exercisable within 60 days of the record date for the number of shares following their name: Mr. Boas, 33,367; Mr. Gelinas, 26,667; Mr. Jaccard, 66,667; Mr. Kovacs, 33,367; Mr. Leopold, 23,367; Mr. Mathis, 1,667; Mr. Reed, 12,500; and Mr. Shaw, 386,268; and all directors and executive officers as a group, 583,868. Each option to purchase Thousand Trails common stock outstanding immediately prior to the effective time, whether vested or unvested, will be cancelled and each holder of an option will receive a cash payment equal to the product of (a) the excess of the per share merger consideration over the per share option exercise price multiplied by (b) the total number of shares subject to the option, less any applicable withholding taxes. The following individuals hold stock options that would accelerate and vest upon the closing of the merger: Mr. Boas, 3,333; Mr. Gelinas, 5,833; Mr. Jaccard, 5,833; Mr. Kovacs, 3,333; Mr. Leopold, 3,333; Mr. Mathis, 3,333; Mr. Reed, 7,500; and Mr. Shaw, 400,000; and all directors and executive officers as a group, 432,500.
- (7) Includes 2,400 shares held by Mr. Gelinas' spouse.
- (8) The business address of each of these persons is c/o Thousand Trails, Inc., 3801 Parkwood Blvd., Suite 100, P.O. Box 2529, Frisco, Texas 75034.

* Less than 1%.

ADDITIONAL INFORMATION

Stockholder Proposals For The Next Annual Meeting

Thousand Trails' 2003 Annual Meeting of Stockholders is scheduled to be held on November 20, 2003. To be considered for inclusion in the proxy statement for that meeting, stockholder proposals must be received at Thousand Trails' principal executive offices no later than June 6, 2003. Notice of business proposed to be brought before the annual meeting must be given to Thousand Trails' Corporate Secretary in writing in the form provided in the By-laws of Thousand Trails not less than 60 or more than 90 days prior to the date of such annual meeting, but if less than 60 days notice of the date of such annual meeting is given to the stockholders, notice of proposed business must be given not later than the tenth day following the day on which the notice of the date of the annual meeting is mailed.

Where You Can Find More Information

Thousand Trails files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. The annual reports include Thousand Trails' audited financial statements and the quarterly reports include Thousand Trails' unaudited financial statements. You may read and copy any reports, statements or other information that Thousand Trails files at the SEC's public reference room, which is located at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. Stockholders may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. Copies of such materials are also available from the public reference section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. Copies of such materials may also be accessed through the SEC's Internet web site at <http://www.sec.gov>. Once the merger is completed, Thousand Trails will no longer be subject to the reporting requirements of the Exchange Act.

Thousand Trails will provide by first class mail, without charge, upon receipt of any written or oral request, to any person to whom a copy of this proxy statement has been delivered, a copy of its annual report on Form 10-K, including financial statements and the financial statement schedules, filed with the SEC for the fiscal year ended June 30, 2002. Requests for such copies should be directed to Thousand Trails, Inc., 3801 Parkwood Blvd., Suite 100, P.O. Box 2529, Frisco, Texas 75034, Attn: Investor Relations, telephone (214) 618-7200.

You should rely only on the information contained in this proxy statement to vote your shares of Thousand Trails common stock at the special meeting. Neither Thousand Trails nor Kohlberg, KTTI Holding or KTTI Acquisition has authorized anyone to provide you with information that is different from what is contained in this proxy statement.

This proxy statement is dated , 2003. You should not assume that the information contained in this proxy statement is accurate as of any date other than such date, and the mailing of this proxy statement to stockholders will not create any implication to the contrary.

BY ORDER OF THE BOARD OF DIRECTORS

William J. Shaw
President and Chief Executive Officer

AGREEMENT AND PLAN OF MERGER

**by and among
KTTI HOLDING COMPANY, INC.
KTTI ACQUISITION COMPANY, INC.
and
THOUSAND TRAILS, INC.**

Dated as of April 29, 2003

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