VAIL RESORTS INC
Form 10-Q
December 07, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 31, 2017
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-09614
Vail Resorts, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	51-0291762
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
390 Interlocken Crescent Broomfield, Colorado	80021
(Address of Principal Executive Offices)	(Zip Code)

(303) 404-1800
(Registrant's Telephone Number, Including Area Code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ý Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ý Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes ý No
As of December 4, 2017, 40,407,160 shares of the registrant's common stock were outstanding.

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Vail Resorts, Inc.
Consolidated Condensed Balance Sheets
(In thousands, except per share amounts)
(Unaudited)

	October 31, 2017	July 31, 2017	October 31, 2016
Assets			
Current assets:			
Cash and cash equivalents	$140,397	$117,389	$106,751
Restricted cash	16,609	10,273	13,203
Trade receivables, net	84,571	186,913	59,445
Inventories, net	108,081	84,814	112,792
Other current assets	46,045	33,681	40,172
Total current assets	395,703	433,070	332,363
Property, plant and equipment, net (Note 6)	1,694,692	1,714,154	1,699,087
Real estate held for sale and investment	102,697	103,405	116,852
Goodwill, net	1,484,335	1,519,743	1,454,943
Intangible assets, net	287,093	294,932	286,360
Other assets	44,096	45,414	34,514
Total assets	$4,008,616	$4,110,718	$3,924,119
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities (Note 6)	$630,467	$467,669	$542,923
Income taxes payable	40,707	98,491	73,739
Long-term debt due within one year (Note 4)	38,422	38,397	38,374
Total current liabilities	709,596	604,557	655,036
Long-term debt, net (Note 4)	1,262,325	1,234,024	1,371,779
Other long-term liabilities (Note 6)	290,420	301,736	272,309
Deferred income taxes	136,863	171,442	98,192
Total liabilities	2,399,204	2,311,759	2,397,316
Commitments and contingencies (Note 8)			
Stockholders' equity:			
Preferred stock, $0.01 par value, 25,000 shares authorized, no shares issued and outstanding	—	—	—
Common stock, $0.01 par value, 100,000 shares authorized, 45,842, 45,448 and 45,061 shares issued, respectively	458	454	451
Exchangeable shares, $0.01 par value, 61, 69 and 418 shares issued and outstanding, respectively (Note 5)	1	1	4
Additional paid-in capital	1,157,547	1,222,510	1,209,935
Accumulated other comprehensive income (loss)	10,591	44,395	(19,784)
Retained earnings	479,997	550,985	394,690
Treasury stock, at cost, 5,436, 5,436, and 5,435 shares, respectively (Note 10)	(247,189)	(247,189)	(246,979)
Total Vail Resorts, Inc. stockholders' equity	1,401,405	1,571,156	1,338,317
Noncontrolling interests	208,007	227,803	188,486
Total stockholders' equity	1,609,412	1,798,959	1,526,803
Total liabilities and stockholders' equity	$4,008,616	$4,110,718	$3,924,119

The accompanying Notes are an integral part of these unaudited consolidated condensed financial statements.

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Vail Resorts, Inc.
Consolidated Condensed Statements of Operations
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended October 31,	
	2017	2016
Net revenue:		
Mountain and Lodging services and other	$143,348	$114,686
Mountain and Lodging retail and dining	76,866	63,483
Resort net revenue	220,214	178,169
Real Estate	636	96
Total net revenue	220,850	178,265
Operating expense (exclusive of depreciation and amortization shown separately below):		
Mountain and Lodging operating expense	181,276	152,645
Mountain and Lodging retail and dining cost of products sold	35,679	28,940
General and administrative	57,863	50,748
Resort operating expense	274,818	232,333
Real Estate	1,691	1,485
Total segment operating expense	276,509	233,818
Other operating (expense) income:		
Depreciation and amortization	(48,624)	(40,581)
Gain on sale of real property	—	6,466
Change in estimated fair value of contingent consideration (Note 7)	—	(300)
Gain (loss) on disposal of fixed assets, net	567	(550)
Loss from operations	(103,716)	(90,518)
Mountain equity investment income, net	522	832
Investment income and other, net	383	4,523
Foreign currency loss on intercompany loans (Note 4)	(7,346)	—
Interest expense, net	(15,174)	(11,964)
Loss before benefit from income taxes	(125,331)	(97,127)
Benefit from income taxes	93,404	33,509
Net loss	(31,927)	(63,618)
Net loss attributable to noncontrolling interests	3,542	1,031
Net loss attributable to Vail Resorts, Inc.	$(28,385)	$(62,587)
Per share amounts (Note 3):		
Basic net loss per share attributable to Vail Resorts, Inc.	$(0.71)	$(1.70)
Diluted net loss per share attributable to Vail Resorts, Inc.	$(0.71)	$(1.70)
Cash dividends declared per share	$1.053	$0.81

The accompanying Notes are an integral part of these unaudited consolidated condensed financial statements.

Vail Resorts, Inc.
Consolidated Condensed Statements of Comprehensive Income (Loss)
(In thousands)
(Unaudited)

	Three Months Ended October 31,	
	2017	2016
Net loss	$(31,927)	$(63,618)
Foreign currency translation adjustments, net of tax	(45,405)	(24,412)
Comprehensive loss	(77,332)	(88,030)
Comprehensive loss attributable to noncontrolling interests	15,143	7,209
Comprehensive loss attributable to Vail Resorts, Inc.	$(62,189)	$(80,821)

The accompanying Notes are an integral part of these unaudited consolidated condensed financial statements.

Vail Resorts, Inc.
Consolidated Condensed Statements of Stockholders' Equity
(In thousands)
(Unaudited)

	Common Stock		Additional Paid in Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Treasury Stock	Total Vail Resorts, Inc. Stockholders Equity	Noncontrolling Interests	Total Stockholders' Equity
	Vail Resorts	Exchangeable							
Balance, July 31, 2016	$416	$ —	$635,986	$(1,550)	$486,667	$(246,979)	$874,540	$13,926	$888,466
Comprehensive loss:									
Net loss	—	—	—	—	(62,587)	—	(62,587)	(1,031)	(63,618)
Foreign currency translation adjustments, net of tax	—	—	—	(18,234)	—	—	(18,234)	(6,178)	(24,412)
Total comprehensive loss							(80,821)	(7,209)	(88,030)
Stock-based compensation expense	—	—	4,577	—	—	—	4,577	—	4,577
Shares issued for acquisition (Note 5)	33	4	574,608	—	—	—	574,645	—	574,645
Issuance of shares under share award plans, net of shares withheld for taxes	2	—	(11,526)	—	—	—	(11,524)	—	(11,524)
Tax benefit from share award plans	—	—	6,290	—	—	—	6,290	—	6,290
Dividends (Note 3)	—	—	—	—	(29,390)	—	(29,390)	—	(29,390)
Acquisition of noncontrolling interest (Note 5)	—	—	—	—	—	—	—	181,818	181,818
Distributions to noncontrolling interests, net	—	—	—	—	—	—	—	(49)	(49)
Balance, October 31, 2016	$451	$ 4	$1,209,935	$(19,784)	$394,690	$(246,979)	$1,338,317	$188,486	$1,526,803
Balance, July 31, 2017	$454	$ 1	$1,222,510	$44,395	$550,985	$(247,189)	$1,571,156	$227,803	$1,798,959
Comprehensive loss:									
Net loss	—	—	—	—	(28,385)	—	(28,385)	(3,542)	(31,927)
	—	—	—	(33,804)	—	—	(33,804)	(11,601)	(45,405)

Foreign currency translation adjustments, net of tax									
Total comprehensive loss							(62,189)	(15,143)	(77,332)
Stock-based compensation expense	—	—	4,521	—	—	—	4,521	—	4,521
Measurement period adjustment (Note 5)	—	—	—	—	—	—	—	(1,776)	(1,776)
Issuance of shares under share award plans, net of shares withheld for taxes	4	—	(69,484)	—	—	—	(69,480)	—	(69,480)
Dividends (Note 3)	—	—	—	—	(42,603)	—	(42,603)	—	(42,603)
Distributions to noncontrolling interests, net	—	—	—	—	—	—	—	(2,877)	(2,877)
Balance, October 31, 2017	$458	$ 1	$1,157,547	$ 10,591	$479,997	$(247,189)	$1,401,405	$ 208,007	$1,609,412

The accompanying Notes are an integral part of these unaudited consolidated condensed financial statements.

Vail Resorts, Inc.
Consolidated Condensed Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended October 31,	
	2017	2016
Cash flows from operating activities:		
Net loss	$(31,927)	$(63,618)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	48,624	40,581
Stock-based compensation expense	4,521	4,577
Deferred income taxes, net	(41,600)	(33,509)
Gain on sale of real property	—	(6,466)
Other non-cash income, net	4,885	(5,879)
Changes in assets and liabilities:		
Restricted cash	(6,654)	(1,111)
Trade receivables, net	101,642	90,431
Inventories, net	(23,208)	(22,490)
Accounts payable and accrued liabilities	(7,543)	(25,925)
Deferred revenue	167,752	112,130
Income taxes payable - excess tax benefit from share award exercises	(51,804)	(6,290)
Income taxes payable - other	(5,603)	(18,115)
Other assets and liabilities, net	(10,332)	(7,289)
Net cash provided by operating activities	148,753	57,027
Cash flows from investing activities:		
Capital expenditures	(37,449)	(46,043)
Acquisition of businesses, net of cash acquired	(1,356)	(512,348)
Cash received from the sale of real property	—	7,692
Other investing activities, net	5,153	538
Net cash used in investing activities	(33,652)	(550,161)
Cash flows from financing activities:		
Proceeds from borrowings under Vail Holdings Credit Agreement	95,000	619,375
Proceeds from borrowings under Whistler Credit Agreement	11,920	—
Repayments of borrowings under Vail Holdings Credit Agreement	(59,375)	(50,000)
Repayments of borrowings under Whistler Credit Agreement	(17,081)	—
Employee taxes paid for share award exercises	(69,480)	(11,524)
Dividends paid	(42,603)	(29,390)
Other financing activities, net	(6,989)	3,456
Net cash (used in) provided by financing activities	(88,608)	531,917
Effect of exchange rate changes on cash and cash equivalents	(3,485)	71
Net increase in cash and cash equivalents	23,008	38,854
Cash and cash equivalents:		
Beginning of period	117,389	67,897
End of period	$140,397	$106,751
Non-cash investing activities:		
Accrued capital expenditures	$25,314	$17,546

The accompanying Notes are an integral part of these unaudited consolidated condensed financial statements.

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Vail Resorts, Inc.
Notes to Consolidated Condensed Financial Statements
(Unaudited)

1. Organization and Business

Vail Resorts, Inc. ("Vail Resorts") is organized as a holding company and operates through various subsidiaries. Vail Resorts and its subsidiaries (collectively, the "Company") operate in three business segments: Mountain, Lodging and Real Estate. The Company refers to "Resort" as the combination of the Mountain and Lodging segments.

In the Mountain segment, the Company operates eleven world-class mountain resort properties and three urban ski areas including:

Mountain Resorts:	Location:
1. Vail Mountain Resort ("Vail Mountain")	Colorado
2. Breckenridge Ski Resort ("Breckenridge")	Colorado
3. Keystone Resort ("Keystone")	Colorado
4. Beaver Creek Resort ("Beaver Creek")	Colorado
5. Park City Resort ("Park City")	Utah
6. Heavenly Mountain Resort ("Heavenly")	Lake Tahoe area of Nevada and California
7. Northstar Resort ("Northstar")	Lake Tahoe area of California
8. Kirkwood Mountain Resort ("Kirkwood")	Lake Tahoe area of California
9. Perisher Ski Resort ("Perisher")	New South Wales, Australia
10. Whistler Blackcomb Resort ("Whistler Blackcomb")	British Columbia, Canada
11. Stowe Mountain Resort ("Stowe")	Vermont
Urban Ski Areas ("Urban"):	Location:
1. Wilmot Mountain ("Wilmot")	Wisconsin
2. Afton Alps Ski Area ("Afton Alps")	Minnesota
3. Mount Brighton Ski Area ("Mt. Brighton")	Michigan

Additionally, the Mountain segment includes ancillary services, primarily including ski school, dining and retail/rental operations, and for Perisher including lodging and transportation operations. The resorts located in the United States ("U.S."), except for Northstar, Park City, Stowe and the Urban ski areas, operate primarily on federal land under the terms of Special Use Permits granted by the U.S. Department of Agriculture Forest Service. The operations of Whistler Blackcomb are conducted on land owned by the government of the Province of British Columbia, Canada within the traditional territory of the Squamish and Lil'wat Nations. The operations of Perisher are conducted pursuant to a long-term lease and license on land owned by the government of New South Wales, Australia. Stowe operates on land owned by the Company as well as land it leases from the State of Vermont.

In the Lodging segment, the Company owns and/or manages a collection of luxury hotels and condominiums under its RockResorts brand, as well as other strategic lodging properties and a large number of condominiums located in proximity to the Company's North American mountain resorts, National Park Service ("NPS") concessionaire properties including the Grand Teton Lodge Company ("GTLC"), which operates destination resorts in Grand Teton National Park, Colorado Mountain Express ("CME"), a Colorado resort ground transportation company, and mountain resort golf courses.

Vail Resorts Development Company ("VRDC"), a wholly-owned subsidiary, conducts the operations of the Company's Real Estate segment, which owns, develops and sells real estate in and around the Company's resort communities.

The Company’s mountain business and its lodging properties at or around the Company’s mountain resorts are seasonal in nature with peak operating seasons primarily from mid-November through mid-April in North America. The Company’s operating season at Perisher, its NPS concessionaire properties and its golf courses generally occur from June to early October.

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2. Summary of Significant Accounting Policies

Basis of Presentation

Consolidated Condensed Financial Statements— In the opinion of the Company, the accompanying Consolidated Condensed Financial Statements reflect all adjustments necessary to state fairly the Company's financial position, results of operations and cash flows for the interim periods presented. All such adjustments are of a normal recurring nature. Results for interim periods are not indicative of the results for the entire fiscal year, particularly given the significant seasonality to the Company's operating cycle. The accompanying Consolidated Condensed Financial Statements should be read in conjunction with the audited Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2017. Certain information and footnote disclosures, including significant accounting policies, normally included in fiscal year financial statements prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP") have been condensed or omitted. The Consolidated Condensed Balance Sheet as of July 31, 2017 was derived from audited financial statements.

The Consolidated Condensed Statement of Operations for the three months ended October 31, 2016 has been revised to separately disclose revenues and costs from retail and dining operations, as well as general and administrative costs. Retail and dining revenues were previously included within Mountain and Lodging revenues, and the related costs were previously included in Mountain and Lodging operating costs. Management considers the change in presentation of its Consolidated Condensed Statement of Operations to be immaterial to the period presented. There is no change to previously reported total net revenue, operating expense, loss from operations, net loss attributable to Vail Resorts, Inc., per share amounts or segment results.

Use of Estimates— The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Fair Value Instruments— The recorded amounts for cash and cash equivalents, receivables, other current assets, and accounts payable and accrued liabilities approximate fair value due to their short-term nature. The fair value of amounts outstanding under the Vail Holdings Credit Agreement revolver and term loan, Whistler Credit Agreement revolver and the Employee Housing Bonds (all as defined in Note 4, Long-Term Debt) approximate book value due to the variable nature of the interest rate, which is a market rate, associated with the debt.

Recently Issued Accounting Standards

Adopted Standards

In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." The new guidance requires companies to record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement when the awards vest or are settled, as applicable, rather than within additional paid in capital which was required under the previous guidance. The guidance also requires companies to present excess tax benefits as an operating activity and cash paid to a taxing authority to satisfy employee statutory withholding as a financing activity on the statement of cash flows. Additionally, the guidance allows companies to make a policy election to account for forfeitures either upon occurrence or by estimating forfeitures. The Company adopted this standard on August 1, 2017, and will prospectively record excess tax benefits and deficiencies within the provision or benefit for income taxes on its Consolidated Condensed Statements of Operations when stock-based compensation awards vest or are exercised. The Company expects this will increase volatility of the provision or benefit for income taxes as the amount of excess tax benefits or deficiencies from stock-based compensation awards are dependent on the Company's stock price at the date the awards vest or are exercised. As a result of adopting this provision of the standard, the Company recorded $51.8 million of excess tax benefits within benefit from income taxes on its Consolidated Condensed Statement of Operations for the three months ended October 31, 2017 (or $1.29 per diluted share) resulting from vesting and exercises of equity awards during the quarter. As of August 1, 2017, the Company prospectively presented excess tax benefits as operating activities on its Consolidated Condensed Statement of Cash Flows for the three months ended October 31, 2017. Additionally, the Company has elected to record actual forfeitures for recording stock-based compensation expense when they occur, rather than estimate expected forfeitures, which did not have a material impact to the Consolidated Condensed Statement of Operations for the three months ended October 31, 2017. In accordance with the disclosure provisions of the new guidance, the Company retrospectively adopted the new presentation. Cash paid to taxing authorities on an employee's behalf was changed to be classified as a financing activity in the Consolidated Condensed Statements of Cash Flows, which resulted in a $11.5 million decrease to cash provided by financing activities with a corresponding increase to cash provided by operating activities for the three months ended October 31, 2016, as shown below (in thousands).

	Three Months Ended October 31, 2016		
	Previously Reported (Previous Guidance)	Tax Payments Change	Revised Reported (New Guidance)
Cash flows provided by operating activities	$45,503	$11,524	$57,027
Cash flows used in investing activities (no change)	(550,161)	—	(550,161)
Cash flows provided by financing activities	543,441	(11,524)	531,917
Effect of exchange rate changes (no change)	71	—	71
Net increase in cash and cash equivalents	$38,854	$—	$38,854

Standards Being Evaluated

The authoritative guidance listed below is currently being evaluated for its impact to Company policies upon adoption as well as any significant implementation matters yet to be addressed.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606),” which supersedes the revenue recognition requirements in Accounting Standards Codification 605, “Revenue Recognition.” This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. Subsequent to the issuance of ASU 2014-09, the FASB has issued several amendments, which do not change the core principle of the guidance and are intended to clarify and improve understanding of certain topics included within the revenue standard. This standard will be effective for the first interim period within fiscal years beginning after December 15, 2017 (the Company’s first quarter of fiscal 2019), using one of two retrospective application methods. The Company will not early adopt this standard and is evaluating the impacts, if any, the adoption of this accounting standard will have on the Company’s financial position or results of operations and cash flows and related disclosures and is determining the appropriate transition method.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842),” which supersedes “Leases (Topic 840).” The standard requires lessees to recognize the assets and liabilities arising from all leases, including those classified as operating leases under previous accounting guidance, on the balance sheet and disclose key information about leasing arrangements. The standard also allows for an accounting policy election not to recognize on the balance sheet lease assets and liabilities for leases with a term of 12 months or less. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset on their balance sheets, while lessor accounting will be largely unchanged. The standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those years (the Company’s first quarter of fiscal 2020), and must be applied using a modified retrospective transition approach to leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with early adoption permitted. The Company is currently evaluating the impacts the adoption of this accounting standard will have on the Company’s financial position or results of operations and cash flows and related disclosures. Additionally, the Company is evaluating the impacts of the standard beyond accounting, including system, data and process changes required to comply with the standard.

3. Net Loss per Share

Earnings per Share

Basic earnings per share (“EPS”) excludes dilution and is computed by dividing net loss attributable to Vail Resorts stockholders by the weighted-average shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised, resulting in the issuance of shares of common stock that would then share in the earnings of Vail Resorts.

In connection with the Company's acquisition of Whistler Blackcomb in October 2016 (see Note 5, Acquisitions), the Company issued consideration in the form of shares of Vail Resorts common stock (the "Vail Shares") and shares of the Company's wholly-owned Canadian subsidiary ("Exchangeco"). Whistler Blackcomb shareholders elected to receive 3,327,719 Vail Shares and 418,095 shares of Exchangeco (the "Exchangeco Shares"). Both Vail Shares and Exchangeco Shares have a par value of $0.01 per share, and Exchangeco Shares, while outstanding, are substantially the economic equivalent of Vail Shares and are exchangeable, at any time prior to the seventh anniversary of the closing of the acquisition, into Vail Shares. The Company's calculation of weighted-average shares outstanding includes the Exchangeco Shares.

Presented below is basic and diluted EPS for the three months ended October 31, 2017 and 2016 (in thousands, except per share amounts):

	Three Months Ended October 31,			
	2017		2016	
	Basic	Diluted	Basic	Diluted
Net loss per share:				
Net loss attributable to Vail Resorts	$(28,385)	$(28,385)	$(62,587)	$(62,587)
Weighted-average Vail Shares outstanding	40,147	40,147	36,766	36,766
Weighted-average Exchangeco Shares outstanding	64	64	68	68
Total Weighted-average shares outstanding	40,211	40,211	36,834	36,834
Effect of dilutive securities	—	—	—	—
Total shares	40,211	40,211	36,834	36,834
Net loss per share attributable to Vail Resorts	$(0.71)	$(0.71)	$(1.70)	$(1.70)

The Company computes the effect of dilutive securities using the treasury stock method and average market prices during the period. The number of shares issuable upon the exercise of share based awards excluded from the calculation of diluted EPS because the effect of their inclusion would have been anti-dilutive totaled approximately 1.3 million and 1.7 million for the three months ended October 31, 2017 and 2016, respectively.

Dividends

The Company paid cash dividends of $1.053 and $0.81 per share ($42.6 million and $29.4 million in the aggregate) during the three months ended October 31, 2017 and 2016, respectively. On December 6, 2017, the Company's Board of Directors declared a quarterly cash dividend of $1.053 per share, for Vail Shares, payable on January 10, 2018 to stockholders of record as of December 27, 2017. Additionally, a Canadian dollar equivalent dividend on the Exchangeco Shares will be payable on January 10, 2018 to the shareholders of record on December 27, 2017.

4. Long-Term Debt

Long-term debt, net as of October 31, 2017, July 31, 2017 and October 31, 2016 is summarized as follows (in thousands):

	Maturity	October 31, 2017	July 31, 2017	October 31, 2016
Vail Holdings Credit Agreement term loan (a)	2021	$712,500	$721,875	$750,000
Vail Holdings Credit Agreement revolver (a)	2021	95,000	50,000	135,000
Whistler Credit Agreement revolver (b)	2022	104,625	113,119	142,103
Employee housing bonds	2027-2039	52,575	52,575	52,575
Canyons obligation	2063	330,217	328,786	324,521
Other	2024-2028	9,743	10,166	10,617
Total debt		1,304,660	1,276,521	1,414,816
Less: Unamortized debt issuance costs		3,913	4,100	4,663
Less: Current maturities (c)		38,422	38,397	38,374
Long-term debt, net		$1,262,325	$1,234,024	$1,371,779

(a) On October 14, 2016, in order to finance the cash portion of the consideration and payment of associated fees and expenses of the Whistler Blackcomb acquisition (see Note 5, Acquisitions), the Company's wholly owned subsidiary, Vail Holdings, Inc. ("VHI"), entered into the Second Amendment to the Seventh Amended and Restated Credit Agreement, dated as of May 1, 2015 (the "Vail Holdings Credit Agreement"), with Bank of America, N.A., as administrative agent, and other lenders named therein, through which these lenders provided an additional $509.4 million in incremental term loans and agreed, on behalf of all lenders, to extend the maturity date for the outstanding term loans and revolver facility under the Vail Holdings Credit Agreement to October 14, 2021 (the “Amendment”). The Vail Holdings Credit Agreement consists of a $400.0 million revolving credit facility and a $750.0 million term loan facility. The other material terms of the Vail

Holdings Credit Agreement were not altered by the Amendment. Borrowings under the Vail Holdings Credit Agreement, including the term loan facility, bear interest annually at the rate of LIBOR plus 1.25% (2.49%, as of October 31, 2017), and interest payments are due monthly. Additionally, the term loan facility is subject to quarterly principal payments of approximately $9.4 million, which began on January 31, 2017. Final payment of the remaining principal outstanding plus accrued and unpaid interest is due upon maturity in October 2021. The Vail Holdings Credit Agreement provides for affirmative and negative covenants that restrict, among other things, the Company's ability to incur indebtedness, dispose of assets, make capital expenditures, make distributions and make investments.

(b) The WB Partnerships (as defined in Note 5, Acquisitions) are party to a credit agreement, dated as of November 12, 2013 (as amended, the "Whistler Credit Agreement"), by and among Whistler Mountain Resort Limited Partnership ("Whistler LP"), Blackcomb Skiing Enterprises Limited Partnership ("Blackcomb LP"), certain subsidiaries of Whistler LP and Blackcomb LP party thereto as guarantors (the "Whistler Subsidiary Guarantors"), the financial institutions party thereto as lenders and The Toronto-Dominion Bank, as administrative agent. The Whistler Credit Agreement consists of a C$300.0 million revolving credit facility, and during the three months ended October 31, 2017, the Company exercised its right under the Whistler Credit Agreement, with the consent of the lender parties thereto, to extend the maturity date for the Whistler Credit Agreement from November 12, 2021 to November 12, 2022. No other terms of the Whistler Credit agreement were altered. The WB Partnerships' obligations under the Whistler Credit Agreement are guaranteed by the Whistler Subsidiary Guarantors and are collateralized by a pledge of the capital stock of the Whistler Subsidiary Guarantors and a pledge of substantially all of the assets of Whistler LP, Blackcomb LP and the Whistler Subsidiary Guarantors. In addition, pursuant to the terms of the Whistler Credit Agreement, the WB Partnerships have the ability to increase the commitment amount by up to C$75.0 million subject to lender approval. Borrowings under the Whistler Credit Agreement are available in Canadian or U.S. dollars and bear interest annually, subject to an applicable margin based on the WB Partnerships' Consolidated Total Leverage Ratio (as defined in the Whistler Credit Agreement), with pricing as of October 31, 2017, in the case of borrowings (i) in Canadian dollars, at the WB Partnerships' option, either (a) at the Canadian Prime Rate plus 0.75% per annum or (b) by way of the issuance of bankers' acceptances plus 1.75% per annum; and (ii) in U.S. dollars, at the WB Partnerships option, either at (a) the U.S. Base Rate plus 0.75% per annum or (b) Bankers Acceptance Rate plus 1.75% per annum. As of October 31, 2017 all borrowings under the Whistler Credit Agreement were made in Canadian dollars and by way of the issuance of bankers' acceptances plus 1.75% (approximately 3.11%). The Whistler Credit Agreement also includes a quarterly unused commitment fee based on the Consolidated Total Leverage Ratio, which as of October 31, 2017 is equal to 0.3937% per annum. The Whistler Credit Agreement provides for affirmative and negative covenants that restrict, among other things, the WB Partnerships' ability to incur indebtedness and liens, dispose of assets, make capital expenditures, make distributions and make investments. In addition, the Whistler Credit Agreement includes the restrictive financial covenants (leverage ratios and interest coverage ratios) customary for facilities of this type.

(c) Current maturities represent principal payments due in the next 12 months.

Aggregate maturities of debt outstanding as of October 31, 2017 reflected by fiscal year (August 1 through July 31) are as follows (in thousands):

	Total
2018 (November 2017 through July 2018)	$28,599
2019	38,455
2020	38,516
2021	38,580
2022	772,648
Thereafter	387,862
Total debt	$1,304,660

The Company recorded gross interest expense of $15.2 million and $12.0 million for the three months ended October 31, 2017 and 2016, respectively, of which $0.3 million and $0.2 million, respectively, were amortization of deferred financing costs. The Company was in compliance with all of its financial and operating covenants required to be maintained under its debt instruments for all periods presented.

In connection with the acquisition of Whistler Blackcomb, VHI funded a portion of the purchase price through an intercompany loan to Whistler Blackcomb of $210.0 million, which was effective as of November 1, 2016, and requires foreign currency remeasurement to Canadian dollars, the functional currency for Whistler Blackcomb. As a result, foreign currency fluctuations associated with the loan are recorded within the Company's results of operations. The Company recognized approximately $7.3

million in foreign currency loss on the intercompany loan to Whistler Blackcomb for the three months ended October 31, 2017 on the Company’s Consolidated Condensed Statements of Operations.

5. Acquisitions

Stowe

On June 7, 2017, the Company, through a wholly-owned subsidiary, acquired Stowe Mountain Resort in Stowe, Vermont, from Mt. Mansfield Company, Inc., a wholly-owned subsidiary of American International Group, Inc., for total cash consideration of $40.7 million. The Company acquired all of the assets related to the mountain operations of the resort, including base area skier services (food and beverage, retail and rental, lift ticket offices and ski and snowboard school facilities). The purchase price was allocated to identifiable tangible and intangible assets acquired based on their estimated fair values at the acquisition date. The Company has completed its preliminary purchase price allocation and has recorded $39.1 million in property, plant and equipment; $3.0 million in intangible assets; $2.3 million in other assets; and $3.7 million of assumed liabilities on the date of acquisition. The operating results of Stowe are reported within the Mountain segment.

Whistler Blackcomb

On October 17, 2016, the Company, through Exchangeco, acquired all of the outstanding common shares of Whistler Blackcomb, for aggregate purchase consideration paid to Whistler Blackcomb shareholders of $1.09 billion. The consideration paid consisted of (i) approximately C$673.8 million ($512.6 million) in cash (or C$17.50 per Whistler Blackcomb share), (ii) 3,327,719 Vail Shares and (iii) 418,095 Exchangeco Shares. Each Exchangeco Share is exchangeable by the holder thereof for one Vail Share (subject to customary adjustments for stock splits or other reorganizations). In addition, the Company may require all outstanding Exchangeco Shares to be exchanged into an equal number of Vail Shares upon the occurrence of certain events and at any time following the seventh anniversary of the closing of the acquisition. While outstanding, holders of Exchangeco Shares are entitled to cast votes on matters for which holders of Vail Shares are entitled to vote and are entitled to receive dividends economically equivalent to the dividends declared by the Company with respect to the Vail Shares.

Whistler Blackcomb owns a 75% interest in each of Whistler LP and Blackcomb LP (the “WB Partnerships”), which together operate Whistler Blackcomb Resort, a year round mountain resort in British Columbia, Canada with a comprehensive offering of recreational activities, including both snow sports and summer activities. The remaining 25% limited partnership interest in each of the WB Partnerships is owned by Nippon Cable Co. Ltd. (“Nippon Cable”), an unrelated party to the Company. The WB Partnerships hold land leases and rights-of-way under long-term agreements with the government of the province of British Columbia, Canada within the traditional territory of the Squamish and Lil’wat Nations, which provide for the use of land at Whistler Mountain and Blackcomb Mountain.

The Company executed forward contracts for the underlying Canadian dollar cash consideration to economically hedge the risk associated with the U.S. dollar to Canadian dollar exchange rates. The Company’s total cost was $509.2 million to accumulate C$673.8 million which was required for the cash component of the purchase consideration. The estimated fair value of the Canadian dollars was approximately $512.6 million upon settlement. Accordingly, the Company realized a gain of $3.4 million on foreign currency exchange rate changes during the three months ended October 31, 2016. The gain on foreign currency is a separate transaction as it primarily benefited the Company and therefore the Company recorded this gain within Investment income and other, net in its Consolidated Condensed Statements of Operations. The estimated fair value of $512.6 million is considered the cash component of the purchase consideration.

The Company held shares of Whistler Blackcomb common stock prior to the acquisition and, as such, the acquisition-date estimated fair value of this previously held investment was a component of the purchase consideration. Based on the acquisition-date estimated fair value of this investment of $4.3 million, the Company recorded a gain of $0.8 million within Investment income and other, net in its Consolidated Condensed Statements of Operations during the three months ended October 31, 2016.

Nippon Cable’s 25% limited partnership interest is a noncontrolling economic interest containing certain protective rights and no ability to participate in the day to day operations of the WB Partnerships. The WB Partnership agreements provide that distributions made out of the partnerships be made on the basis of 75% to Whistler Blackcomb and 25% to Nippon Cable. In addition, based upon the terms of the WB Partnership agreements, the annual distribution rights are non-transferable and transfer of the limited partnership interest is limited to Nippon Cable’s entire interest. Accordingly, the estimate of fair value associated with the noncontrolling interest at the date of acquisition has been determined based on expected underlying cash flows of the WB Partnerships discounted at a rate commensurate with a market participant’s expected rate of return for an equity instrument with these associated restrictions.

The following summarizes the purchase consideration and the estimated fair values of the identifiable assets acquired and liabilities assumed at the date the transaction was effective (in thousands, except exchange ratio and share price):

(in thousands, except exchange ratio and share price amounts)	Acquisition Date Estimated Fair Value
Total Whistler Blackcomb shares acquired	38,500
Exchange ratio as of October 14, 2016	0.097294
Total Vail Shares issued to Whistler Blackcomb shareholders	3,746
Vail Resorts closing share price on October 14, 2016	$153.41
Total value of Vail Shares issued	$574,645
Total cash consideration paid at C$17.50 ($13.31 on October 17, 2016) per Whistler Blackcomb share	512,558
Total purchase consideration to Whistler Blackcomb shareholders	1,087,203
Estimated fair value of previously held investment in Whistler Blackcomb	4,308
Estimated fair value of Nippon Cable’s 25% interest in Whistler Blackcomb	180,803
Total estimated purchase consideration	$1,272,314
Allocation of total estimated purchase consideration:	
Estimated fair values of assets acquired:	
Current assets	$36,820
Property, plant and equipment	332,609
Real estate held for sale and investment	8,216
Goodwill	956,459
Identifiable intangibles	150,681
Deferred income taxes, net	7,992
Other assets	1,973
Current liabilities	(74,358)
Assumed long-term debt	(144,922)
Other long-term liabilities	(3,156)
Net assets acquired	$1,272,314

During the three months ended October 31, 2017, the Company recorded adjustments in the measurement period to its purchase price allocation which decreased the estimated fair value of noncontrolling interest and season pass holder relationships intangible asset with a corresponding net decrease to goodwill.

The estimated fair values of definite-lived and indefinite-lived identifiable intangible assets were determined using significant estimates and assumptions. The estimated fair value and estimated useful lives of identifiable intangible assets, where applicable, are as follows.

	Estimated Fair Value ($ in thousands)	Weighted Average Amortization Period (in years) [1]
Trademarks and trade names	$ 139,977	n/a
Season pass holder relationships	6,596	5
Property management contracts	4,108	n/a
Total acquired identifiable intangible assets	$ 150,681	

[1] Trademarks and trade names and property management contracts are indefinite-lived intangible assets.

The excess of the purchase consideration over the aggregate estimated fair values of assets acquired and liabilities assumed was recorded as goodwill. The goodwill recognized is attributable primarily to expected cost efficiencies from the elimination of certain public company costs as well as other select areas of general and administrative functions, synergies (including utilization of the Company’s yield management strategies at Whistler Blackcomb and increased season pass sales and visitation across the Company’s resort portfolio) the assembled workforce of Whistler Blackcomb and other factors. The goodwill is not expected to be deductible for income tax purposes. The operating results of Whistler Blackcomb, which are primarily recorded in the Mountain segment, contributed $0.6 million of net revenue for the three months ended October 31, 2016, prospectively from the acquisition date (acquired on October 17, 2016). The Company recognized $2.6 million of transaction related expenses in Mountain operating expense in the Consolidated Condensed Statements of Operations for the three months ended October 31, 2016.

Whistler Blackcomb Pro Forma Financial Information

The following presents the unaudited pro forma consolidated financial information of the Company as if the acquisition of Whistler Blackcomb was completed on August 1, 2015. The following unaudited pro forma financial information includes adjustments for (i) depreciation on acquired property, plant and equipment; (ii) amortization of intangible assets recorded at the date of the transactions; (iii) transaction and business integration related costs; (iv) interest expense associated with financing the cash portion of the transaction; and (v) total weighted average shares outstanding related to the acquisition; and excludes the impact of the intercompany loan. This unaudited pro forma financial information is presented for informational purposes only and does not purport to be indicative of the results of future operations or the results that would have occurred had the transaction taken place on August 1, 2015 (in thousands, except per share amounts).

	Three Months Ended October 31, 2016
Pro forma net revenue	$200,929
Pro forma net loss attributable to Vail Resorts, Inc.	$(67,678)
Pro forma basic net loss per share attributable to Vail Resorts, Inc.	$(1.69)
Pro forma diluted net loss per share attributable to Vail Resorts, Inc.	$(1.69)

6. Supplementary Balance Sheet Information

The composition of property, plant and equipment follows (in thousands):

	October 31, 2017	July 31, 2017	October 31, 2016
Land and land improvements	$550,627	$553,655	$530,634
Buildings and building improvements	1,186,731	1,210,864	1,157,546
Machinery and equipment	985,639	987,080	954,722
Furniture and fixtures	284,815	280,292	291,141
Software	111,440	108,048	106,901
Vehicles	59,600	59,596	64,344
Construction in progress	77,512	49,359	82,895
Gross property, plant and equipment	3,256,364	3,248,894	3,188,183
Accumulated depreciation	(1,561,672)	(1,534,740)	(1,489,096)
Property, plant and equipment, net	$1,694,692	$1,714,154	$1,699,087

The composition of accounts payable and accrued liabilities follows (in thousands):

	October 31, 2017	July 31, 2017	October 31, 2016
Trade payables	$103,540	$71,558	$90,773
Deferred revenue	407,848	240,096	328,009
Accrued salaries, wages and deferred compensation	19,699	44,869	29,544
Accrued benefits	30,317	32,505	28,564
Deposits	21,017	23,742	18,418

Other liabilities	48,046	54,899	47,615
Total accounts payable and accrued liabilities	$630,467	$467,669	$542,923

The composition of other long-term liabilities follows (in thousands):

	October 31, 2017	July 31, 2017	October 31, 2016
Private club deferred initiation fee revenue	$117,151	$118,417	$120,546
Unfavorable lease obligation, net	23,922	24,664	27,284
Other long-term liabilities	149,347	158,655	124,479
Total other long-term liabilities	$290,420	$301,736	$272,309

7. Fair Value Measurements

The FASB issued fair value guidance that establishes how reporting entities should measure fair value for measurement and disclosure purposes. The guidance establishes a common definition of fair value applicable to all assets and liabilities measured at fair value and prioritizes the inputs into valuation techniques used to measure fair value. Accordingly, the Company uses valuation techniques which maximize the use of observable inputs and minimize the use of unobservable inputs when determining fair value. The three levels of the hierarchy are as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities;

Level 2: Inputs include quoted prices for similar assets and liabilities in active and inactive markets or that are observable for the asset or liability either directly or indirectly; and

Level 3: Unobservable inputs which are supported by little or no market activity.

The table below summarizes the Company's cash equivalents, Contingent Consideration and Interest Rate Swap measured at estimated fair value (all other assets and liabilities measured at fair value are immaterial) (in thousands).

Description	Estimated Fair Value Measurement as of October 31, 2017			
	Total	Level 1	Level 2	Level 3
Assets:				
Money Market	$3,010	$3,010	$—	$ —
Commercial Paper	$2,401	$—	$2,401	$ —
Certificates of Deposit	$2,406	$		