VAIL RESORTS INC
Form 10-Q
December 09, 2013

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, 2013

¨ 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 (State or Other Jurisdiction of Incorporation or Organization)	51-0291762 (I.R.S. Employer Identification No.)
390 Interlocken Crescent Broomfield, Colorado (Address of Principal Executive Offices)	80021 (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 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting 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	¨

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 2, 2013, 36,125,333 shares of the registrant's common stock were outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements — Unaudited

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

	October 31, 2013	July 31, 2013	October 31, 2012
Assets			
Current assets:			
Cash and cash equivalents	$114,225	$138,604	$43,985
Restricted cash	12,403	12,624	14,526
Trade receivables, net	37,551	79,037	29,721
Inventories, net	89,531	68,318	84,752
Other current assets	57,334	44,886	49,115
Total current assets	311,044	343,469	222,099
Property, plant and equipment, net (Note 6)	1,185,513	1,169,288	1,056,643
Real estate held for sale and investment	188,205	195,230	227,662
Goodwill, net	346,625	348,824	269,859
Intangible assets, net	120,489	121,344	91,619
Other assets	97,998	97,267	45,553
Total assets	$2,249,874	$2,275,422	$1,913,435
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities (Note 6)	$369,551	$269,519	$318,258
Income taxes payable	39,946	42,822	17,026
Long-term debt due within one year (Note 4)	1,003	994	848
Total current liabilities	410,500	313,335	336,132
Long-term debt (Note 4)	797,062	795,928	489,525
Other long-term liabilities (Note 6)	240,725	242,906	231,800
Deferred income taxes	43,035	85,384	103,549
Commitments and contingencies (Note 9)			
Stockholders' equity:			
Preferred stock, $0.01 par value, 25,000,000 shares authorized, no shares issued and outstanding	—	—	—
Common stock, $0.01 par value, 100,000,000 shares authorized, 41,072,903, 40,903,731 and 40,826,977 shares issued, respectively	411	409	408
Additional paid-in capital	600,215	598,675	589,763
Accumulated other comprehensive (loss) income	(56)	(67)	39
Retained earnings	337,178	418,043	341,353
Treasury stock, at cost; 4,949,111, 4,949,111 and 4,949,111 shares, respectively (Note 11)	(193,192)	(193,192)	(193,192)
Total Vail Resorts, Inc. stockholders' equity	744,556	823,868	738,371
Noncontrolling interests	13,996	14,001	14,058
Total stockholders' equity (Note 2)	758,552	837,869	752,429
Total liabilities and stockholders' equity	$2,249,874	$2,275,422	$1,913,435

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

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

	Three Months Ended October 31,	
	2013	2012
Net revenue:		
Mountain	$57,331	$51,912
Lodging	57,214	52,508
Real estate	8,846	11,930
Total net revenue	123,391	116,350
Segment operating expense (exclusive of depreciation and amortization shown separately below):		
Mountain	124,774	107,548
Lodging	56,905	51,806
Real estate	9,231	15,614
Total segment operating expense	190,910	174,968
Other operating expense:		
Depreciation and amortization	(34,156)	(31,679)
Loss on disposal of fixed assets, net	(429)	(2)
Loss from operations	(102,104)	(90,299)
Mountain equity investment income, net	603	434
Investment income, net	95	54
Interest expense	(16,098)	(8,375)
Loss before benefit from income taxes	(117,504)	(98,186)
Benefit from income taxes	44,067	37,583
Net loss	(73,437)	(60,603)
Net loss attributable to noncontrolling interests	61	23
Net loss attributable to Vail Resorts, Inc.	$(73,376)	$(60,580)
Per share amounts (Note 3):		
Basic net loss per share attributable to Vail Resorts, Inc.	$(2.04)	$(1.70)
Diluted net loss per share attributable to Vail Resorts, Inc.	$(2.04)	$(1.70)
Cash dividends declared per share	$0.2075	$0.1875

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

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

	Three Months Ended October 31,	
	2013	2012
Net loss	$(73,437)	$(60,603)
Foreign currency translation adjustments, net of tax	11	294
Comprehensive loss	(73,426)	(60,309)
Comprehensive loss attributable to noncontrolling interests	61	23
Comprehensive loss attributable to Vail Resorts, Inc.	$(73,365)	$(60,286)

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

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

	Three Months Ended October 31, 2013	2012
Cash flows from operating activities:		
Net loss	$(73,437)	$(60,603)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	34,156	31,679
Cost of real estate sales	6,713	9,241
Stock-based compensation expense	3,492	3,472
Deferred income taxes, net	(44,067)	(37,583)
Other non-cash income, net	(1,611)	(2,712)
Changes in assets and liabilities:		
Trade receivables, net	43,818	35,223
Inventories, net	(21,032)	(18,879)
Investments in real estate	(462)	(477)
Accounts payable and accrued liabilities	95,052	85,627
Other assets and liabilities, net	(13,329)	(10,411)
Net cash provided by operating activities	29,293	34,577
Cash flows from investing activities:		
Capital expenditures	(46,751)	(35,907)
Other investing activities, net	100	255
Net cash used in investing activities	(46,651)	(35,652)
Cash flows from financing activities:		
Dividends paid	(7,489)	(6,729)
Other financing activities, net	445	5,704
Net cash used in financing activities	(7,044)	(1,025)
Effect of exchange rate changes on cash and cash equivalents	23	32
Net decrease in cash and cash equivalents	(24,379)	(2,068)
Cash and cash equivalents:		
Beginning of period	138,604	46,053
End of period	$114,225	$43,985

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

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

1. Organization and Business

Vail Resorts, Inc. (“Vail Resorts” or the “Parent Company”) is organized as a holding company and operates through various subsidiaries. Vail Resorts and its subsidiaries (collectively, the “Company”) currently operate in three business segments: Mountain, Lodging and Real Estate. In the Mountain segment, the Company operates eight world-class ski resort properties at the Vail, Breckenridge, Keystone and Beaver Creek mountain resorts in Colorado; the Heavenly, Northstar, and Kirkwood mountain resorts in the Lake Tahoe area of California and Nevada; the Canyons mountain resort in Park City, Utah; and the ski areas of Afton Alps in Minnesota and Mount Brighton in Michigan ("Urban" ski areas); as well as ancillary services, primarily including ski school, dining and retail/rental operations. These resorts (with the exception of Northstar, Canyons and the Urban ski areas) operate primarily on Federal land under the terms of Special Use Permits granted by the USDA Forest Service (the “Forest Service”). In the Lodging segment, the Company owns and/or manages a collection of luxury hotels under its RockResorts brand, as well as other strategic lodging properties and a large number of condominiums located in proximity to the Company’s ski resorts, National Park Service (“NPS”) concessionaire properties including the Grand Teton Lodge Company (“GTLC”), which operates destination resorts in the 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 and develops 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 ski resorts are seasonal in nature with peak operating seasons primarily from mid-November through mid-April. The Company’s operations at its NPS concessionaire properties and its golf courses generally operate from mid-May through mid-October. The Company also has non-majority owned investments in various other entities, some of which are consolidated (see Note 7, Variable Interest Entities).

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. 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 year ended July 31, 2013. 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 United States of America (“GAAP”) have been condensed or omitted. The Consolidated Condensed Balance Sheet as of July 31, 2013 was derived from audited financial statements.

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 period. Actual results could differ from those estimates.

Noncontrolling Interests in Consolidated Financial Statements— Net loss attributable to noncontrolling interests along with net loss attributable to the stockholders of the Company are reported separately in the Consolidated Condensed Statement of Operations. Additionally, noncontrolling interests in the consolidated subsidiaries of the Company are reported as a separate component of equity in the Consolidated Condensed Balance Sheet, apart from the Company's equity. The following table summarizes the changes in total stockholders' equity (in thousands):

	For the Three Months Ended October 31,					
	2013			2012		
	Vail Resorts Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity	Vail Resorts Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
Balance, beginning of period	$823,868	$ 14,001	$ 837,869	$802,311	$ 14,017	$ 816,328
Net loss	(73,376)	(61)	(73,437)	(60,580)	(23)	(60,603)
Stock-based compensation expense	3,492	—	3,492	3,472	—	3,472
Issuance of shares under share award plans, net of shares withheld for taxes	(4,793)	—	(4,793)	(3,989)	—	(3,989)
Tax benefit from share award plans	2,843	—	2,843	3,592	—	3,592
Cash dividends paid on common stock	(7,489)	—	(7,489)	(6,729)	—	(6,729)
Contributions from noncontrolling interests, net	—	56	56	—	64	64
Foreign currency translation adjustments, net of tax	11	—	11	294	—	294
Balance, end of period	$744,556	$ 13,996	$ 758,552	$738,371	$ 14,058	$ 752,429

Fair Value Instruments— The recorded amounts for cash and cash equivalents, trade 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 Employee Housing Bonds (Note 4, Long-Term Debt) approximate book value due to the variable nature of the interest rate associated with that debt. The fair value of the 6.50% Senior Subordinated Notes due 2019 ("6.50% Notes") (Note 4, Long-Term Debt) are based on quoted market prices (a Level 1 input). The fair value of the Canyons obligation (Note 4, Long-Term Debt) has been estimated using discounted cash flow analyses based on the discount rate established under the initial purchase accounting (Note 5, Acquisitions) (a Level 3 input). The fair value of the Company's Industrial Development Bonds (Note 4, Long-Term Debt) and other long-term debt have been estimated using discounted cash flow analyses based on current borrowing rates for debt with similar remaining maturities and ratings (a Level 3 input). The estimated fair values of the 6.50% Notes, Canyons obligation, Industrial Development Bonds and other long-term debt as of October 31, 2013 are presented below (in thousands):

	October 31, 2013	
	Carrying Value	Fair Value
6.50% Notes	$390,000	$415,350
Canyons obligation	$307,706	$307,706
Industrial Development Bonds	$41,200	$45,359
Other long-term debt	$6,584	$6,837

3. Net Loss Per Common 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. Presented below is basic and diluted EPS for the three months ended October 31, 2013 and 2012 (in thousands, except per share amounts):

	Three Months Ended October 31,			
	2013		2012	
	Basic	Diluted	Basic	Diluted
Net loss per share:				
Net loss attributable to Vail Resorts	$(73,376)	$(73,376)	$(60,580)	$(60,580)
Weighted-average shares outstanding	36,026	36,026	35,700	35,700
Effect of dilutive securities	—	—	—	—
Total shares	36,026	36,026	35,700	35,700
Net loss per share attributable to Vail Resorts	$(2.04)	$(2.04)	$(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 on the exercise of share based awards that were excluded from the calculation of diluted net loss per share because the effect of their inclusion would have been anti-dilutive totaled 1.5 million and 1.4 million for the three months ended October 31, 2013 and 2012, respectively.
The Company paid cash dividends of $0.2075 per share and $0.1875 per share ($7.5 million and $6.7 million in the aggregate) during the three months ended October 31, 2013 and 2012, respectively. On December 6, 2013 the Company's Board of Directors declared a quarterly cash dividend of $0.2075 per share payable on January 10, 2014 to stockholders of record as of December 26, 2013.

4. Long-Term Debt

Long-term debt as of October 31, 2013, July 31, 2013 and October 31, 2012 is summarized as follows (in thousands):

	Maturity (a)	October 31, 2013	July 31, 2013	October 31, 2012
Credit Facility Revolver	2016	$—	$—	$—
Industrial Development Bonds	2020	41,200	41,200	41,200
Employee Housing Bonds	2027-2039	52,575	52,575	52,575
6.50% Notes	2019	390,000	390,000	390,000
Canyons obligation (b)	2063	307,706	306,320	—
Other	2014-2029	6,584	6,827	6,598
Total debt		798,065	796,922	490,373
Less: Current maturities (c)		1,003	994	848
Long-term debt		$797,062	$795,928	$489,525

(a) Maturities are based on the Company's July 31 fiscal year end.

(b) On May 24, 2013, VR CPC Holdings, Inc. ("VR CPC"), a wholly-owned subsidiary of the Company entered into a transaction agreement (the "Transaction Agreement") with affiliate companies of Talisker Corporation ("Talisker") pursuant to which the parties entered into a master lease agreement (the "Lease") and certain ancillary transaction documents on May 29, 2013 (see Note 5, Acquisitions). The obligation at October 31, 2013 represents future fixed lease payments for the remaining initial lease term of 50 years (including annual increases at the floor of 2%) discounted using an interest rate of 10%, and includes accreted interest expense of $2.4 million.

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

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Aggregate maturities for debt outstanding as of October 31, 2013 reflected by fiscal year are as follows (in thousands):

	Total
2014	$ 772
2015	854
2016	262
2017	265
2018	271
Thereafter	795,641
Total debt	$ 798,065

The Company incurred gross interest expense of $16.1 million and $8.4 million for the three months ended October 31, 2013 and 2012, respectively, of which $0.5 million was amortization of deferred financing costs for both periods. The Company had no capitalized interest during the three months ended October 31, 2013 and 2012.

5. Acquisitions

Canyons

VR CPC and Talisker entered into the Transaction Agreement, the Lease and ancillary transaction documents, pursuant to which the Company assumed the resort operations of Canyons mountain resort in Park City, Utah, which includes the ski area, property management and related amenities effective May 29, 2013. Canyons is a year round mountain resort providing a comprehensive offering of recreational activities, including both snow sports and summer activities. The Lease between VR CPC and Talisker has an initial term of 50 years with six 50-year renewal options. The Lease provides for $25 million in annual fixed payments, which increase each year by an inflation linked index of CPI less 1%, with a floor of 2% per annum. In addition, the Lease includes participating contingent payments to Talisker of 42% of the amount by which EBITDA for the resort operations, as calculated under the Lease, exceeds approximately $35 million, with such threshold amount increased by an inflation linked index and a 10% adjustment for any capital improvements or investments made under the Lease by the Company (the "Contingent Consideration"). The Parent Company has guaranteed the payments under the Lease.

The following summarizes the preliminary estimated fair values of the identifiable assets acquired and liabilities assumed at the date the transaction was effective (in thousands).

	Estimates of Fair Value at Effective Date of Transaction
Accounts receivable	$ 1,805
Other current assets	1,564
Property, plant and equipment	5,475
Property, plant and equipment (under capital lease)	127,885
Deferred income tax assets, net	44,744
Intangible assets	30,700
Park City Mountain Resort ("PCMR") deposit	57,800
Goodwill	74,788
Total identifiable assets acquired	$ 344,761
Accounts payable and accrued liabilities	$ 7,349
Deferred revenue	1,212
Other liabilities	21,766
Canyons obligation	305,334
Contingent consideration	9,100
Total liabilities assumed	$ 344,761

The estimated fair values of assets acquired and liabilities assumed in the Canyons transaction are preliminary and are based on the information that was available as of the transaction date to estimate the fair value of assets acquired and liabilities assumed. The Company believes that information provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but the Company is obtaining additional information necessary to finalize those fair values, including a complete evaluation of the deductibility of goodwill for income tax purposes. Therefore, the preliminary measurements of fair value reflected are subject to change. The Company expects to finalize the valuation and complete the purchase price allocation as soon as practicable but no later than one year from the transaction date.

Land and certain improvements under the Park City Mountain Resort ski area are subject to on-going litigat