

VAIL RESORTS INC  
Form 10-Q  
December 07, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended October 31, 2018

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 (I.R.S. Employer

Incorporation or Organization) Identification No.)

390 Interlocken Crescent 80021  
Broomfield, Colorado

(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.  Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).  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  Accelerated filer

Non-accelerated filer  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  No

As of December 3, 2018, 40,349,123 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, 2018	July 31, 2018	October 31, 2017
Assets			
Current assets:			
Cash and cash equivalents	\$ 141,031	\$ 178,145	\$ 140,397
Restricted cash	12,005	6,895	16,609
Trade receivables, net	74,240	230,829	84,571
Inventories, net	114,984	85,588	108,081
Other current assets	50,752	37,279	46,045
Total current assets	393,012	538,736	395,703
Property, plant and equipment, net (Note 7)	1,825,982	1,627,219	1,694,692
Real estate held for sale and investment	101,743	99,385	102,697
Goodwill, net (Note 7)	1,543,941	1,475,686	1,484,335
Intangible assets, net	307,268	280,572	287,093
Other assets	43,976	43,386	44,096
Total assets	\$4,215,922	\$4,064,984	\$4,008,616
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities (Note 7)	\$ 703,633	\$ 504,533	\$ 630,467
Income taxes payable	38,303	50,632	40,707
Long-term debt due within one year (Note 5)	48,482	38,455	38,422
Total current liabilities	790,418	593,620	709,596
Long-term debt, net (Note 5)	1,486,968	1,234,277	1,262,325
Other long-term liabilities (Note 7)	273,566	291,506	290,420
Deferred income taxes, net	115,169	133,918	136,863
Total liabilities	2,666,121	2,253,321	2,399,204
Commitments and contingencies (Note 9)			
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, 46,097, 46,021 and 45,842 shares issued, respectively	461	460	458
Exchangeable shares, \$0.01 par value, 57, 58 and 61 shares issued and outstanding, respectively (Note 4)	1	1	1
Additional paid-in capital	1,130,855	1,137,467	1,157,547
Accumulated other comprehensive (loss) income	(20,596 )	(2,227 )	10,591
Retained earnings	551,863	726,722	479,997
Treasury stock, at cost, 5,750, 5,552, and 5,436 shares, respectively (Note 11)	(322,989 )	(272,989 )	(247,189 )
Total Vail Resorts, Inc. stockholders' equity	1,339,595	1,589,434	1,401,405
Noncontrolling interests	210,206	222,229	208,007
Total stockholders' equity	1,549,801	1,811,663	1,609,412
Total liabilities and stockholders' equity	\$4,215,922	\$4,064,984	\$4,008,616

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



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

	Three Months Ended October 31,	
	2018	2017
Net revenue:		
Mountain and Lodging services and other	\$ 144,022	\$ 143,348
Mountain and Lodging retail and dining	75,884	76,866
Resort net revenue	219,906	220,214
Real Estate	98	636
Total net revenue	220,004	220,850
Operating expense (exclusive of depreciation and amortization shown separately below):		
Mountain and Lodging operating expense	194,112	181,276
Mountain and Lodging retail and dining cost of products sold	34,876	35,679
General and administrative	64,379	57,863
Resort operating expense	293,367	274,818
Real Estate	1,370	1,691
Total segment operating expense	294,737	276,509
Other operating (expense) income:		
Depreciation and amortization	(51,043 )	(48,624 )
Change in estimated fair value of contingent consideration (Note 8)	(1,200 )	—
(Loss) gain on disposal of fixed assets and other, net	(619 )	567
Loss from operations	(127,595 )	(103,716 )
Mountain equity investment income, net	950	522
Investment income and other, net	463	383
Foreign currency loss on intercompany loans (Note 5)	(2,311 )	(7,346 )
Interest expense, net	(18,638 )	(15,174 )
Loss before benefit from income taxes	(147,131 )	(125,331 )
Benefit from income taxes	36,405	93,404
Net loss	(110,726 )	(31,927 )
Net loss attributable to noncontrolling interests	2,931	3,542
Net loss attributable to Vail Resorts, Inc.	\$(107,795)	\$(28,385)
Per share amounts (Note 4):		
Basic net loss per share attributable to Vail Resorts, Inc.	\$(2.66 )	\$(0.71 )
Diluted net loss per share attributable to Vail Resorts, Inc.	\$(2.66 )	\$(0.71 )
Cash dividends declared per share	\$1.47	\$1.053

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

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

	Three Months Ended	
	October 31,	
	2018	2017
Net loss	\$(110,726)	\$(31,927)
Foreign currency translation adjustments, net of tax	(22,636 )	(45,405 )
Comprehensive loss	(133,362 )	(77,332 )
Comprehensive loss attributable to noncontrolling interests	7,198	15,143
Comprehensive loss attributable to Vail Resorts, Inc.	\$(126,164)	\$(62,189)

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 Stockholders' Equity  
(In thousands)  
(Unaudited)

	Common Stock	Vail Resorts Exchangeable	Additional Paid in Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Treasury Stock	Total Vail Resorts, Inc. Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
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)
Foreign currency translation adjustments, net of tax	—	—	—	(33,804)	—	—	(33,804)	(11,601)	(45,405)
Total comprehensive loss							(62,189)	(15,143)	(77,332)
Stock-based compensation expense	—	—	4,521	—	—	—	4,521	—	4,521
Measurement period adjustment	—	—	—	—	—	—	—	(1,776)	(1,776)
Issuance of shares under share award plans, net of shares withheld for employee taxes	4	—	(69,484)	—	—	—	(69,480)	—	(69,480)
Dividends (Note 4)	—	—	—	—	(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
Balance, July 31, 2018	\$ 460	\$ 1	\$ 1,137,467	\$(2,227)	\$ 726,722	\$(272,989)	\$ 1,589,434	\$ 222,229	\$ 1,811,663
Comprehensive loss:									
Net loss	—	—	—	—	(107,795)	—	(107,795)	(2,931)	(110,726)
Foreign currency translation adjustments, net of tax	—	—	—	(18,369)	—	—	(18,369)	(4,267)	(22,636)
							(126,164)	(7,198)	(133,362)

Total comprehensive loss									
Stock-based compensation expense	—	—	4,753	—	—	—	4,753	—	4,753
Cumulative effect for adoption of revenue standard (Notes 2 & 3)	—	—	—	—	(7,517)	—	(7,517)	—	(7,517)
Issuance of shares under share award plans, net of shares withheld for employee taxes	1	—	(11,365)	—	—	—	(11,364)	—	(11,364)
Repurchase of common stock (Note 11)	—	—	—	—	—	(50,000)	(50,000)	—	(50,000)
Dividends (Note 4)	—	—	—	—	(59,547)	—	(59,547)	—	(59,547)
Distributions to noncontrolling interests, net	—	—	—	—	—	—	—	(4,825)	(4,825)
Balance, October 31, 2018	\$ 461	\$ 1	\$ 1,130,855	\$ (20,596)	\$ 551,863	\$ (322,989)	\$ 1,339,595	\$ 210,206	\$ 1,549,801

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 Cash Flows

(In thousands)

(Unaudited)

	Three Months Ended October 31,	
	2018	2017
Cash flows from operating activities:		
Net loss	\$(110,726)	\$(31,927)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	51,043	48,624
Stock-based compensation expense	4,753	4,521
Deferred income taxes, net	(31,823)	(41,600)
Change in fair value of contingent consideration	1,200	—
Other non-cash expense, net	80	4,885
Changes in assets and liabilities:		
Trade receivables, net	157,759	101,642
Inventories, net	(26,011)	(23,208)
Accounts payable and accrued liabilities	(14,599)	(7,543)
Deferred revenue	167,727	167,752
Income taxes payable - excess tax benefit from share award exercises	(4,582)	(51,804)
Income taxes payable - other	(7,421)	(5,603)
Other assets and liabilities, net	(10,319)	(10,332)
Net cash provided by operating activities	177,081	155,407
Cash flows from investing activities:		
Capital expenditures	(47,881)	(37,449)
Acquisition of businesses, net of cash acquired	(292,878)	(1,356)
Other investing activities, net	96	5,153
Net cash used in investing activities	(340,663)	(33,652)
Cash flows from financing activities:		
Proceeds from borrowings under Vail Holdings Credit Agreement	335,625	95,000
Proceeds from borrowings under Whistler Credit Agreement	7,667	11,920
Repayments of borrowings under Vail Holdings Credit Agreement	(80,000)	(59,375)
Repayments of borrowings under Whistler Credit Agreement	—	(17,081)
Employee taxes paid for share award exercises	(11,364)	(69,480)
Dividends paid	(59,547)	(42,603)
Repurchases of common stock	(50,000)	—
Other financing activities, net	(6,486)	(6,989)
Net cash provided by (used in) financing activities	135,895	(88,608)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(4,317)	(3,803)
Net (decrease) increase in cash, cash equivalents and restricted cash	(32,004)	29,344
Cash, cash equivalents and restricted cash:		
Beginning of period	185,040	127,662
End of period	\$153,036	\$157,006
Non-cash investing activities:		
Accrued capital expenditures	\$33,051	\$25,314

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



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 the following fifteen world-class mountain resort properties and three urban ski areas:

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. Crested Butte Mountain Resort (“Crested Butte”)	Colorado
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. Mount Sunapee Mountain Resort (“Mount Sunapee”)	New Hampshire
10. Park City Resort (“Park City”)	Utah
11. Stowe Mountain Resort (“Stowe”)	Vermont
12. Okemo Mountain Resort (“Okemo”)	Vermont
13. Stevens Pass Mountain Resort (“Stevens Pass”)	Washington
14. Whistler Blackcomb Resort (“Whistler Blackcomb”)	British Columbia, Canada
15. Perisher Ski Resort (“Perisher”)	New South Wales, Australia
Urban Ski Areas:	Location:
1. Afton Alps Ski Area (“Afton Alps”)	Minnesota
2. Mount Brighton Ski Area (“Mt. Brighton”)	Michigan
3. Wilmot Mountain (“Wilmot”)	Wisconsin

Additionally, the Mountain segment includes ancillary services, primarily including ski school, dining and retail/rental operations, and for Perisher, including lodging and transportation operations. Several of the resorts located in the United States (“U.S.”) 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. Okemo, Mount Sunapee and Stowe operate on land we lease from the respective states in which the resorts are located and on land owned by the Company.

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, a Colorado resort ground transportation company, and mountain resort golf courses.

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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.

## 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, 2018. 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, 2018 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 periods. Actual results could differ from those estimates.

Revenue Recognition— The Company recognizes revenues from contracts with customers when or as control of goods or services promised in the contracts is transferred in an amount that reflects consideration to which it expects to be entitled to in exchange for those goods or services. The Company determines the appropriate revenue recognition for contracts with customers by analyzing the type, terms and conditions of contracts or arrangements with customers. Certain contracts with customers contain multiple performance obligations in which case revenue is allocated to each distinct and separate performance obligation based on its relative standalone selling price. See Note 3, Revenues, for more information.

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 5, 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 May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606),” which supersedes the revenue recognition requirements in Topic 605. 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 issued several amendments, which did not change the core principle of the guidance and were intended to clarify and improve understanding of certain topics included within the revenue standard. On August 1, 2018, the Company adopted this standard using the modified retrospective transition method for contracts which were not completed as of August 1, 2018. In accordance with this transition method, results for reporting periods beginning after August 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605. On August 1, 2018, as a result of adopting the standard, the Company recorded an approximate \$7.5 million reduction of retained earnings with a corresponding increase in accounts payable and accrued liabilities, which was primarily

associated with the measurement of the loyalty reward programs under the new standard at an estimated fair value of underlying products or services expected to be delivered to satisfy the Company's obligations associated with such loyalty programs. The application of this standard had an immaterial impact on total net revenue and net loss attributable to Vail Resorts, Inc. for the three months ended October 31, 2018.

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In accordance with the new revenue recognition standard disclosure requirements, the impact of adoption of Topic 606 on the Consolidated Condensed Balance Sheet as of October 31, 2018 was as follows (in thousands):

	As of October 31, 2018	
Balance Sheet	Balances Without Adoption Adjustments of Topic 606	As Reported (Under Topic 606)
Liabilities		
Accounts payable and accrued liabilities	\$696,116	\$751,633
Stockholders' equity		
Retained earnings	\$559,380	(\$7,517) \$551,863

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." This standard provides guidance for eight targeted changes with respect to how cash receipts and cash payments are classified in the statements of cash flows, with the objective of reducing diversity in practice. The Company adopted this accounting standard on August 1, 2018, which did not have an impact on its consolidated condensed financial statements.

In November 2016, the FASB issued ASU No. 2016-18, "Restricted Cash," which requires that a statement of cash flows present the change during a period for the total of cash, cash equivalents and restricted cash. Historically, under previous guidance, changes in restricted cash have been included within operating, investing or financing activities, which were eliminated under the new standard. The Company adopted this standard as of August 1, 2018, which required retrospective application to all periods presented. As a result, cash provided by operating activities during the three months ended October 31, 2017 increased by \$6.7 million under the new guidance as compared to what was reported under the previously required guidance. Additionally, due to the inclusion of restricted cash in the beginning and end of period balances, cash, cash equivalents and restricted cash as of October 31, 2017 and July 31, 2017 increased \$16.6 million and \$10.3 million, respectively, as compared to what was reported under the previously required guidance.

#### 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 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 and has selected an information system application that will centralize the Company's lease information and be utilized for accounting under the new standard.

3. Revenues

Revenue Recognition

The following provides information about the Company's composition of revenue recognized from contracts with customers and other revenues, the performance obligations under those contracts, and the significant judgments made in accounting for those contracts:

Mountain revenue is derived from a wide variety of sources, including, among other things: lift revenue, which includes sales of lift tickets and season passes; ski school revenue, which includes the revenue derived from ski school operations; dining revenue, which includes both casual and fine dining on-mountain operations; retail sales and equipment rentals; and other on-mountain revenue, which includes private ski club revenue (which includes both club dues and amortization of initiation fees), marketing and internet advertising revenue, municipal services and lodging and transportation



operations at Perisher. Revenue is recognized over time as performance obligations are satisfied as control of the good or service (e.g. access to ski areas, provision of ski school services, etc.) is transferred to the customer, except for our retail sales and dining operations revenues which are recognized at a point in time when performance obligations are satisfied by transferring control of the underlying goods to the customer. The Company records deferred revenue primarily related to the sale of season passes. Deferred revenue is recognized throughout the ski season as the Company's performance obligations are satisfied as control of the service (e.g. access to ski areas throughout the ski season) is transferred to the customer. Transfer of control is based on an estimated number of season pass holder visits relative to total expected visits. Total expected visits is estimated based on historical data. The Company believes this estimate provides a faithful depiction of its customers' season pass usage. When sufficient historical data to determine usage patterns is not available, deferred revenue is recognized on a straight-line basis throughout the ski season. The Company also includes other sources of revenue, mostly related to commercial leasing, and employee housing leasing arrangements within other mountain revenue.

Lodging revenue is derived from a wide variety of sources, including, among other things: revenue from owned hotel rooms and managed hotel rooms; revenue from hotel dining operations; transportation revenue which relates to the Company's Colorado resort ground transportation operations; and other lodging revenue which includes property management services, managed properties other costs reimbursements, private golf club revenue (which includes both club dues and amortization of initiation fees), and golf course fees. Lodging revenue also includes managed hotel property payroll cost reimbursements, related to payroll costs at managed properties where the Company is the employer which are reimbursed by the owner with no added margin, therefore, these revenues and corresponding expenses have no net effect on the Company's operating income or net income. Other than revenue from dining operations, lodging revenue is mostly recognized over time as performance obligations are satisfied as control of the service (e.g. nightly hotel room access) is transferred to the customer.

Real estate revenue primarily relates to the sale of land parcels. Real estate revenue is generally recognized at a point in time when performance obligations have been satisfied, which is usually upon closing of the sales transaction and in an amount that reflects the consideration to which the Company expects to be entitled.

For certain contracts that have an original term length of one year or less, the Company uses the practical expedient applicable to such contracts and does not consider the time value of money. For contracts with an expected term in excess of one year, the Company has considered the provisions of Topic 606 in determining whether contracts contain a financing component.

The Company presents revenues in the accompanying consolidated condensed statements of operations, net of taxes, when collected from its customers that are remitted or payable to government taxing authorities, except when products are inclusive of taxes where applicable.

## Disaggregation of Revenues

The following table presents net revenues disaggregated by segment and major revenue type (in thousands):

	Three Months Ended October 31,	
	2018	2017
Mountain net revenue:		
Lift	\$24,685	\$25,468
Ski School	4,272	4,438
Dining	18,292	18,302
Retail/Rental	43,342	45,407
Other	54,415	54,510
Total Mountain net revenue	\$145,006	\$148,125
Lodging net revenue:		
Owned hotel rooms	\$19,599	\$19,635
Managed condominium rooms	11,118	10,171
Dining	16,129	15,880
Transportation	2,474	2,553
Golf	9,150	8,426
Other	12,777	12,115
	71,247	68,780
Payroll cost reimbursements	3,653	3,309
Total Lodging net revenue	\$74,900	\$72,089
Total Resort net revenue	\$219,906	\$220,214
Total Real Estate net revenue	98	636
Total net revenue	\$220,004	\$220,850

## Arrangements with Multiple Performance Obligations

Several of the Company's contracts with customers include multiple performance obligations, primarily related to bundled services such as ski school packages, lodging packages and events (e.g. weddings and conferences). For such contracts, revenue is allocated to each distinct and separate performance obligation based on its relative standalone selling price. The standalone selling prices are generally based on observable prices charged to customers or estimated based on historical experience and information.

## Contract Balances

Contract liabilities are recorded as deferred revenues when payments are received or due in advance of the Company's performance, including amounts which may be refundable. The deferred revenue balance is primarily related to accounts receivable or cash payments received in advance of satisfying our performance obligations related to sales of season passes prior to the start of the ski season, private club initiation fees and other related advance purchase products, including advance purchase lift tickets, multiple-day lift tickets, ski school lessons, equipment rentals and lodging advance deposits. Due to the seasonality of the Company's operations, its largest deferred revenue balances occur during the season pass selling window, which generally begins in the fourth quarter of its fiscal year and ends in the first quarter of the subsequent fiscal year. Deferred revenue balances were \$450.3 million and \$282.1 million as of October 31, 2018, and July 31, 2018, respectively (see Note 7, Supplementary Balance Sheet Information). For the three months ended October 31, 2018, the Company recognized approximately \$26.5 million of revenue that was included in the deferred revenue balance as of July 31, 2018.

Contract assets are recorded as trade receivables when the right to consideration is unconditional. Trade receivable balances were \$74.2 million and \$230.8 million as of October 31, 2018 and July 31, 2018, respectively. Payments from customers are based on billing terms established in the contracts with customers, which vary by the type of customer, the location and the products or services offered. The term between invoicing and when payment is due is

not significant. For certain products or services and customer types, contracts require payment before the products are delivered or services are provided to the customer. Impairment losses related to contract assets are recognized through the Company's allowance for doubtful accounts analysis. Contract asset write-offs are evaluated on an individual basis.

#### Costs to Obtain Contracts with Customers

The Company expects that credit card fees and sales commissions paid in order to obtain season ski pass products contracts are recoverable. Accordingly, the Company recognizes these amounts as assets when they are paid prior to the start of the ski season. Deferred credit card fees and sales commissions are amortized commensurate with the recognition of season ski pass revenue. As of October 31, 2018, \$8.7 million of costs to obtain contracts with customers were recorded within other current assets on the Company's Consolidated Condensed Balance Sheet. The amounts capitalized will be subject to amortization beginning in the second quarter of fiscal 2019, commensurate with the revenue recognized for skier visits, and will be recorded within Mountain and Lodging operating expenses on the Company's Consolidated Condensed Statement of Operations.

Utilizing the practical expedient provided for under Topic 606, the Company has elected to expense credit card fees and sales commissions as incurred, as the amortization period is generally one year or less for the time between customer purchase and utilization. These fees are related to obtaining contracts with customers for all non-season ski pass products and services and are recorded within Mountain and Lodging operating expenses on the Company's Consolidated Condensed Statements of Operations.

#### 4. 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, 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, 2018 and 2017 (in thousands, except per share amounts):

	Three Months Ended October 31,			
	2018		2017	
	Basic	Diluted	Basic	Diluted
Net loss per share:				
Net loss attributable to Vail Resorts	\$(107,795)	\$(107,795)	\$(28,385)	\$(28,385)
Weighted-average Vail Shares outstanding	40,447	40,447	40,147	40,147
Weighted-average Exchangeco Shares outstanding	58	58	64	64
Total Weighted-average shares outstanding	40,505	40,505	40,211	40,211
Effect of dilutive securities	—	—	—	—
Total shares	40,505	40,505	40,211	40,211
Net loss per share attributable to Vail Resorts	\$(2.66 )	\$(2.66 )	\$(0.71 )	\$(0.71 )

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 1.0 million and 1.3 million for the three months ended October 31, 2018 and 2017, respectively.



## Dividends

The Company paid cash dividends of \$1.47 and \$1.053 per share (\$59.5 million and \$42.6 million in the aggregate) during the three months ended October 31, 2018 and 2017, respectively. On December 5, 2018, the Company's Board of Directors declared a quarterly cash dividend of \$1.47 per share, for Vail Shares, payable on January 10, 2019 to stockholders of record as of December 27, 2018. Additionally, a Canadian dollar equivalent dividend on the Exchangeco Shares will be payable on January 10, 2019 to the shareholders of record on December 27, 2018.

## 5. Long-Term Debt

Long-term debt, net as of October 31, 2018, July 31, 2018 and October 31, 2017 is summarized as follows (in thousands):

	Maturity	October 31, 2018	July 31, 2018	October 31, 2017
Vail Holdings Credit Agreement term loan (a)	2023	\$950,000	\$684,375	\$712,500
Vail Holdings Credit Agreement revolver (a)	2023	120,000	130,000	95,000
Whistler Credit Agreement revolver (b)	2022	72,170	65,353	104,625
Employee housing bonds	2027-2039	52,575	52,575	52,575
Canyons obligation	2063	335,947	334,509	330,217
Other	2024-2028	8,821	9,270	9,743
Total debt		1,539,513		