

VAIL RESORTS INC
Form 10-K
September 24, 2009

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended July 31, 2009

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 (I.R.S. Employer Identification No.)
Organization)

390 Interlocken Crescent 80021
Broomfield, Colorado (Zip Code)
(Address of Principal Executive Offices)

(303) 404-1800
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:
Title of each class: Name of each exchange on which registered:
Common Stock, \$0.01 par value New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None.
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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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 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).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K.

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 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 Act).

Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of \$23.32 per share as reported on the New York Stock Exchange Composite Tape on January 30, 2009 (the last business day of the Registrant's most recently completed second quarter) was \$700,131,580.

As of September 18, 2009, 36,174,979 shares of Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Proxy Statement for the Annual Meeting of Shareholders is incorporated by reference herein into Part III, Items 10 through 14.

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FORWARD-LOOKING STATEMENTS

Except for any historical information contained herein, the matters discussed in this Annual Report on Form 10-K (this "Form 10-K") contain certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to analyses and other information, which are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our future prospects, developments and business strategies.

These forward-looking statements are identified by their use of terms and phrases such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "will" and similar terms and phrases, including references to assumptions. Although we believe that our plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, we cannot assure you that such plans, intentions or expectations will be achieved. Important factors that could cause actual results to differ materially from our forward-looking statements include, but are not limited to:

- prolonged downturn in general economic conditions, including continued adverse affects on the overall travel and leisure related industries;
 - unfavorable weather conditions or natural disasters;
 - competition in our mountain and lodging businesses;
 - our ability to grow our resort and real estate operations;
- our ability to successfully complete real estate development projects and achieve the anticipated financial benefits from such projects;
 - further adverse changes in real estate markets;
 - continued volatility in credit markets;
- our ability to obtain financing on terms acceptable to us to finance our real estate development, capital expenditures and growth strategy;
- our reliance on government permits or approvals for our use of Federal land or to make operational improvements;
 - adverse consequences of current or future legal claims;
 - our ability to hire and retain a sufficient seasonal workforce;
- willingness of our guests to travel due to terrorism, the uncertainty of military conflicts or outbreaks of contagious diseases, and the cost and availability of travel options;
 - negative publicity or unauthorized use of our trademarks which diminishes the value of our brands;
 - our ability to integrate and successfully operate future acquisitions; and
- implications arising from new Financial Accounting Standards Board ("FASB")/governmental legislation, rulings or interpretations.

All forward-looking statements attributable to us or any persons acting on our behalf are expressly qualified in their entirety by these cautionary statements.

If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those expected, estimated or projected. Given these uncertainties, users of the information included in this Form 10-K, including investors and prospective investors, are cautioned not to place undue reliance on such forward-looking statements. Actual results may differ materially from those suggested by the forward-looking statements that the Company makes for a number of reasons including those described in Part I, Item 1A, "Risk Factors" of this Form 10-K. All forward-looking statements are made only as of the date hereof. Except as may be required by law, the Company does not intend to update these forward-looking statements, even if new information, future events or other circumstances have made them incorrect or misleading.

PART I

ITEM 1. BUSINESS.

General

Vail Resorts, Inc. was organized as a public holding company in 1997 and operates through various subsidiaries (collectively, the “Company”). The Company's operations are grouped into three business segments: Mountain, Lodging and Real Estate, which represented approximately 63%, 18% and 19%, respectively, of the Company's net revenue for the year ended July 31, 2009 (“Fiscal 2009”). The Company's Mountain segment owns and operates five world-class ski resort properties as well as ancillary businesses, primarily including ski school, dining and retail/rental operations, which provide a comprehensive resort experience to a diverse clientele with an attractive demographic profile. The Company's Lodging segment 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, the Grand Teton Lodge Company (“GTLC”), which operates three destination resorts at Grand Teton National Park (the “Park”), Colorado Mountain Express (“CME”), a resort ground transportation company, and golf courses. Collectively, the Mountain and Lodging segments are considered the Resort segment. The Company's Real Estate segment owns and develops real estate in and around the Company's resort communities. Financial information by segment is presented in Note 15, Segment Information, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Form 10-K.

Mountain Segment

The Company's portfolio of world-class ski resorts currently includes:

- Vail Mountain (“Vail Mountain”) – the single most visited ski resort in the United States for the 2008/2009 ski season and the single largest ski mountain in the United States. Vail offers some of the most expansive and varied terrain with approximately 5,300 skiable acres including seven world renowned back bowls and the rustic Blue Sky Basin area of the resort.
- Breckenridge Ski Resort (“Breckenridge”) – the second most visited ski resort in the United States for the 2008/2009 ski season and host of the highest chairlift in North America, the Imperial Express Super Chair, reaching 12,840 feet and offering above tree line expert terrain. Breckenridge is well known for its historic town, vibrant night-life and progressive and award-winning pipes and parks.
- Keystone Resort (“Keystone”) – the fourth most visited ski resort in the United States for the 2008/2009 ski season and home to the highly renowned A51 Terrain Park as well as the largest area of night skiing in Colorado. Keystone also offers guests a unique skiing opportunity through guided snow cat ski tours accessing five bowls.
- Beaver Creek Resort (“Beaver Creek”) – the seventh most visited ski resort in the United States for the 2008/2009 ski season. Beaver Creek is a European –style resort with multiple villages and also includes a world renowned children’s ski school program focused on providing a first-class experience with unique amenities such as a dedicated children’s gondola.
- Heavenly Mountain Resort (“Heavenly”) – the ninth most visited ski resort in the United States for the 2008/2009 ski season and the second largest ski resort in the United States with over 4,800 skiable acres. Heavenly straddles the border of California and Nevada and offers unique and spectacular views of Lake Tahoe. Heavenly boasts the largest snowmaking capacity in the Lake Tahoe region and offers great night life including its proximity to several casinos.

Vail Mountain, Beaver Creek, Breckenridge and Keystone, all located in the Colorado Rocky Mountains, and Heavenly, located in the Lake Tahoe area of California/Nevada, are year-round mountain resorts. Each offers a full complement of recreational activities, including skiing, snowboarding, snowshoeing, sight-seeing, mountain biking, guided hiking, children's activities and other recreational activities.

The Company's Mountain segment derives revenue through the sale of lift tickets and season passes as well as a comprehensive offering of amenities available to guests, including ski and snowboard lessons, equipment rentals and retail merchandise sales, a variety of dining venues, private club operations and other recreational activities. In addition to providing extensive guest amenities, the Company also engages in, among other activities, the leasing out of the Company's owned commercial space around its base resorts for restaurants and retail stores.

Ski Industry/Market

There are approximately 760 ski areas in North America and approximately 470 in the United States, ranging from small ski area operations that service day skiers to large resorts that attract both day skiers and destination resort guests looking for a comprehensive vacation experience. One of the primary ski industry statistics for measuring performance is "skier visit," which represents a person utilizing a ticket or pass to access a mountain resort for any part of one day, and includes both paid and complimentary access. During the 2008/2009 ski season, combined skier visits for all the United States ski areas were approximately 57.4 million and all North American skier visits were approximately 76.1 million. The Company's ski resorts had 5.9 million skier visits during the 2008/2009 ski season, or approximately 10.3% of United States skier visits, and an approximate 7.8% share of the North American market's skier visits.

The Company's Colorado ski resorts appeal to both day skiers and destination guests due to the resorts' proximity to Colorado's Front Range (Denver/Colorado Springs/Boulder metropolitan areas), accessibility from several airports, including Denver International Airport and Eagle County Airport, and the wide range of amenities available at each resort. Colorado has 29 ski areas, six of which are considered "Front Range Destination Resorts," including all of the Company's Colorado resorts, catering to both the Colorado Front Range and destination-skier markets. All Colorado ski resorts combined recorded approximately 11.9 million skier visits for the 2008/2009 ski season with skier visits at the Company's Colorado ski resorts totaling 5.1 million, or approximately 42.9% of all Colorado skier visits for the 2008/2009 ski season.

Lake Tahoe, which straddles the border of California and Nevada, is a major skiing destination less than 100 miles from Sacramento and Reno and approximately 200 miles from San Francisco, making it a convenient destination for both day skiers and destination guests. South Lake Tahoe, where Heavenly is located, is also a popular year-round vacation destination, featuring extensive summer attractions and casinos in addition to its winter sports offerings. Heavenly is proximate to both the Reno/Tahoe International Airport and the Sacramento International Airport. California and Nevada have 33 ski areas. Heavenly had 802,000 skier visits for the 2008/2009 ski season, capturing approximately 11.8% of California's and Nevada's 6.8 million total skier visits for the 2008/2009 ski season.

Competition

There are significant barriers to entry for new ski areas due to the limited private lands on which ski areas could be built, the difficulty in getting the appropriate governmental approvals to build on public lands and the significant capital needed to construct the necessary infrastructure. As such, there has been virtually no new supply of major resorts in North America for the past 25 years which has and should continue to allow the best positioned resorts, including all of the Company's resorts, to capture a majority of future industry growth. The Company's resorts compete with other major ski resorts, including Aspen/Snowmass, Copper Mountain, Deer Valley, Mammoth Mountain, Northstar-at-Tahoe, Park City Mountain Resort, Squaw Valley USA, Steamboat, Whistler Blackcomb and Winter Park, as well as other ski areas in Colorado and the Lake Tahoe area, other destination ski areas worldwide and

non-ski related vacation destinations.

While the ski industry has performed well in recent years in terms of number of skier visits, with the eight best seasons occurring in the past nine years for United States visitation, a particular ski area's growth is also largely dependent on either attracting skiers away from other resorts, generating more revenue per skier visit and/or generating more visits from each skier. Better capitalized ski resorts, including all five mountain resorts operated by the Company, are expanding their offerings, as well as enhancing the quality and experience by adding new high speed chairlifts, gondolas, terrain parks, state of the art grooming machines, expanded terrain and amenities at the base areas of the resorts, all of which are aimed at increasing guest visitation and revenue per skier visit. The Company believes it invests more in capital improvements than the vast majority of its competitors and can also create synergies by operating multiple resorts thus enhancing the Company's profitability. Additionally, the Company through its sales of season passes (including the new Epic Season Pass introduced in the 2008/2009 ski season, which offers unrestricted and unlimited access to all five of its resorts) provides its guests with a strong value option, in return for the guest committing to ski at its resorts prior to, or very early into the ski season, which the Company believes attracts more guests to its resorts. All five of the Company's resorts typically rank in the top ten most visited ski resorts in the United States. Additionally, all of the Company's resorts consistently rank in the top 25 ranked ski resorts in North America according to industry surveys, which the Company attributes to its resorts' ability to provide a high-quality experience.

The ski industry statistics stated in this section have been derived from data published by Colorado Ski Country USA, Canadian Ski Council, Kottke National End of Season Survey 2008/2009 (the "Kottke Survey") and other industry publications.

All of the Company's ski resorts maintain the unique distinction of competing effectively as both market share leaders and quality leaders. The following inherent and strategic factors contribute directly to each resort's success:

Exceptional mountain experience --

- World-Class Mountain Resorts and Integrated Base Resort Areas

All five of the Company's mountain resorts offer a multitude of skiing and snowboarding experiences for the beginner, intermediate, advanced and expert levels. Each resort is also fully integrated into expansive resort areas offering a broad array of lodging, dining, retail, spas, nightlife and other amenities to the resort's guests, some of which are owned or managed by the Company.

- Snow Conditions

The Company's resorts are located in areas that receive significantly higher than average snowfall compared to most other ski resort locations in the United States. The Company's resorts in the Colorado Rocky Mountains and Heavenly in the Sierra Nevada Mountains all receive average yearly snowfall between 20 and 30 feet. Even in these abundant snowfall areas, the Company has significant snowmaking systems that can help provide a more consistent experience, especially in the early season. Additionally, the Company provides many acres of groomed terrain at its resorts with extensive fleets of snow grooming equipment.

- Lift Service

The Company systematically upgrades its lifts to streamline skier traffic and maximize guest experience. For the 2008/2009 ski season, the Company replaced its existing gondola at Keystone with an eight-passenger gondola including a mid-station feature. In the past three fiscal years, the Company has installed several high-speed chairlifts and gondolas across its resorts, including an eight-passenger gondola at Breckenridge with two mid-station features;

an eight-passenger gondola at Beaver Creek; two four-passenger high-speed chairlifts at Vail Mountain; and a four-passenger high-speed chairlift at Heavenly.

- Terrain Parks

The Company's resorts are committed to leading the industry in terrain park design, education and events for the growing segment of freestyle skiers and snowboarders. Each resort has multiple terrain parks that include progressively-challenging features. This park structure, coupled with new freestyle ski school programs, promotes systematic learning from basic to professional skills.

Extraordinary service and amenities --

- Commitment to Guest Service

The Company's mission is to provide quality service at every level of the guest experience. Prior to arrival, guests can receive personal assistance through the Company's full-service, in-house travel center to book desired lodging accommodations, lift tickets, ski school lessons, equipment rentals and air and ground travel. On-mountain ambassadors engage guests and answer questions and all personnel, from lift operators to ski patrol, convey a guest-oriented culture. The Company solicits guest feedback through a variety of surveys and results are utilized to ensure high levels of customer satisfaction to understand trends and develop future resort programs and amenities.

- Season Pass Products

The Company offers a variety of season pass products for all of its ski resorts, marketed towards both out-of-state and international guests ("Destination") and in-state and local guests ("In-State"). The Company's season pass products are available for purchase predominately during the period prior to the start of the ski season. The Company's season pass products provide a value option to its guests and in turn develops a loyal customer base that commit to ski at the Company's resorts, ski multiple days each season at the Company's resorts and return to purchase season pass products year after year. In addition, the Company's season pass products attract new guests to its resorts. Growth in sales of season pass products is a key strategic factor for the Company and also creates strong synergies between its resorts. In the 2008/2009 ski season the Company introduced a new pass product, (the "Epic Season Pass") primarily marketed to its Destination guests (and also available to In-State guests) allowing pass holders unlimited and unrestricted access to all five ski resorts. Season pass products provided approximately 34% of the Company's total lift ticket revenue for the 2008/2009 ski season.

- Premier Ski Schools

The Company's resorts are home to some of the finest and most recognized ski and snowboard schools in the industry. Through a combination of outstanding training and abundant work opportunities, the schools have become home to many of the most experienced and credentialed professionals in the business. The Company complements its instructor staff with state-of-the-art facilities and extensive learning terrain, all with a keen attention to guest needs, including offering a wide variety of adult and child group and private lesson options with a goal of creating lifelong skiers and riders.

- On-Mountain Activities

The Company is a ski industry leader in providing comprehensive destination vacation experiences, including on-mountain activities designed to appeal to a broad range of interests. In addition to the Company's exceptional ski experiences, guests can choose from a variety of non-ski related activities including snow tubing, snow shoeing, guided snowmobile and scenic cat tours, horse-drawn sleigh rides and a year-round zip line in addition to high altitude dining. During the summer, on-mountain recreational activities provide guests with a wide array of options including

scenic chairlift and gondola rides, mountain biking, alpine slide and zip-line rides, horseback riding and hiking.

- Dining

The Company's resorts provide a variety of quality on-mountain and base village dining venues, ranging from top-rated fine dining restaurants to trailside express food service outlets. The Company operates over 90 of such dining options at its five mountain resorts. Furthermore, the Company is committed to serving healthy food options to its guests at these dining venues through the Company's "Appetite for Life" program.

- Retail/rental

The Company, through SSI Venture, LLC ("SSV"), has over 150 retail/rental locations specializing in sporting goods including ski, snowboard, golf and cycling equipment. In addition to providing a major retail/rental presence at each of the Company's ski resorts, the Company also has retail/rental locations throughout the Colorado Front Range and at other Colorado, California and Utah ski resorts, as well as the San Francisco Bay Area and Salt Lake City. Many of the locations in the Colorado Front Range and in the San Francisco Bay Area also offer a prime venue for selling the Company's season pass products.

- Lodging and Real Estate Development

Quality lodging options are an integral part of providing a complete resort experience. The Company's 14 owned and managed hotels proximate to its five mountain resorts, including four RockResorts branded hotels, and a significant inventory of managed condominium rooms provide numerous accommodation options for the Company's mountain resort guests. The Company's real estate development efforts provide the Company with the ability to add profitability to the Company while expanding the destination bed base and upgrading its resorts through the development of amenities such as luxury hotels, private clubs, spas, parking and commercial space for restaurants and retail shops. The Company's Lodging and Real Estate segments have and continue to invest in resort related assets as part of their initiatives which enhance the overall resort experience. Examples include: the Arrabelle at Vail Square hotel (the "Arrabelle"), a RockResort property which opened in the 2007/2008 ski season; the major renovation of The Osprey at Beaver Creek (formerly the Inn at Beaver Creek), a RockResort property that opened in the 2008/2009 ski season; a new spa, guest rooms and renovated ballroom and meeting spaces at The Lodge at Vail for the 2008/2009 ski season; the Crystal Peak Lodge in Breckenridge which opened for the 2008/2009 ski season; and the Vail Mountain and Arrabelle Clubs, private mountain clubs which opened for the 2008/2009 ski season.

- Environmental Stewardship

As part of the Company's long-standing commitment to responsible stewardship of its natural mountain settings, the Company has several initiatives in environmental sustainability which transcend throughout all of the Company's operations. During Fiscal 2009, the Company announced an "energy layoff" initiative aimed at reducing overall energy consumption by 10%, with a goal of a 5% reduction in the first year and a 5% reduction in the second year. The Company reduced its energy consumption by 6.1% in Fiscal 2009, exceeding its first year goal. In addition, the Company recently introduced a "paperless" initiative with plans to substantially eliminate the internal use of paper by the end of calendar year 2011. In Fiscal 2009, the Company has also offset approximately 100% of its electrical usage by purchasing megawatt-hours of wind energy credits for its five mountain resorts, its lodging properties including RockResorts, its retail/rental locations and its corporate headquarters in Broomfield, Colorado. The Company's headquarters is LEED-certified and the Company's planned Ever Vail project is expected to be the largest LEED-certified project for resort use in North America. Additionally, the Company has partnered with the National Forest Foundation to raise funds for various conservation projects in the White River National Forest in Colorado and the National Forest of Tahoe Basin in California/Nevada where the Company operates its five mountain resorts. As a result of these efforts, the Company was honored by Conde Nast Traveler as a leader in social responsibility in the travel industry as a winner of the magazine's 2008 World Savers Awards in the category of environmental protection.

Accessibility from major metropolitan areas --

The Company's ski resorts are well located and easily accessible by both Destination and In-State guests.

- Colorado resorts

The Colorado Front Range market, with a population of approximately 4.3 million, and growing faster than the national average, is within approximately 100 miles from each of the Company's Colorado resorts, with access via a major interstate highway. Additionally, the Company's Colorado resorts are proximate to both Denver International Airport and Eagle County Airport.

- Heavenly

Heavenly is proximate to two large California population centers, the Sacramento/Central Valley and the San Francisco Bay Area. Heavenly is within 100 miles of Sacramento/Central Valley and approximately 200 miles from the San Francisco Bay area via major interstate highways. Heavenly is serviced by the Reno/Tahoe International Airport, Sacramento International Airport and the San Francisco International Airport.

Marketing and Sales

The Company promotes its resorts through extensive marketing and sales programs, which include direct marketing to a targeted audience, promotional programs, print media advertising in lifestyle and industry publications, loyalty programs that reward frequent guests and sales and marketing directed at attracting groups, corporate meetings and convention business. Additionally, the Company markets directly to many of its guests through its websites and internet presence, including using social media outlets, which provides guests with information regarding each of the Company's resorts, including services and amenities, reservations information and virtual tours (nothing contained on the websites shall be deemed incorporated herein). The Company also enters into strategic sponsorships with selected "name brand" companies to increase its market exposure and create opportunities for cross-marketing.

Seasonality

Ski resort operations are highly seasonal in nature, with a typical ski season beginning in mid-November and running through mid-April. In an effort to partially counterbalance the concentration of revenue in the winter months, the Company offers non-ski season attractions such as sight-seeing, mountain biking, guided hiking, alpine slides and zip-line rides, children's activities and other recreational activities such as golf (included in the operations of the Lodging segment). These activities also help attract destination conference and group business to the Company's resorts.

Lodging Segment

The Company's Lodging segment includes the following operations:

- RockResorts -- a luxury hotel management company with a current portfolio of eight properties, including four Company-owned and four managed third-party owned resort hotels with locations in Colorado, Wyoming, New Mexico and St. Lucia, West Indies as well as six properties currently under development that the Company will manage;
-

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Six additional independently flagged Company-owned hotels, management of the Vail Marriott Mountain Resort & Spa (“Vail Marriott”), Mountain Thunder Lodge, Crystal Peak Lodge and Austria Haus Hotel and condominium management operations, all of which are in and around the Company's Colorado ski resorts;

- GTLC -- a summer destination resort with three resort properties in the Grand Teton National Park and the Jackson Hole Golf & Tennis Club (“JHG&TC”) near Jackson, Wyoming;
 - CME -- a resort ground transportation company; and
 - Five Company-owned resort golf courses in Colorado and one in Wyoming.

The Lodging segment currently includes approximately 3,900 owned and managed hotel and condominium rooms. The Company's resort hotels collectively offer a wide range of services to guests.

The Company's portfolio of owned or managed luxury resort hotels and other hotels and resorts currently includes:

Name	Location	Own/Manage	Rooms
RockResorts:			
The Lodge at Vail	Vail, CO	Own	169*
The Arrabelle at Vail Square	Vail, CO	Own	88*
The Pines Lodge	Beaver Creek, CO	Own	68*
The Osprey at Beaver Creek	Beaver Creek, CO	Own	47*
La Posada de Santa Fe	Santa Fe, NM	Manage	157