VAIL RESORTS INC
Form 10-Q
March 12, 2015

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 January 31, 2015

¨ 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 March 6, 2015, 36,347,232 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)

	January 31, 2015	July 31, 2014	January 31, 2014
Assets			
Current assets:			
Cash and cash equivalents	$36,578	$44,406	$205,276
Restricted cash	12,864	13,181	12,942
Trade receivables, net	68,454	95,977	57,673
Inventories, net	72,905	67,183	72,503
Other current assets	67,001	54,299	54,501
Total current assets	257,802	275,046	402,895
Property, plant and equipment, net (Note 6)	1,284,215	1,147,990	1,187,789
Real estate held for sale and investment	151,103	157,858	184,101
Goodwill, net	469,678	378,148	379,161
Intangible assets, net	142,440	117,523	119,460
Other assets	40,914	97,284	101,443
Total assets	$2,346,152	$2,173,849	$2,374,849
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities (Note 6)	$420,829	$289,218	$369,208
Income taxes payable	48,304	33,966	39,543
Long-term debt due within one year (Note 4)	1,196	1,022	965
Total current liabilities	470,329	324,206	409,716
Long-term debt (Note 4)	634,739	625,600	798,319
Other long-term liabilities (Note 6)	229,313	260,681	240,226
Deferred income taxes	148,309	128,562	112,531
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, 41,294,906, 41,152,800 and 41,091,390 shares issued, respectively	413	412	411
Additional paid-in capital	620,083	612,322	604,090
Accumulated other comprehensive loss	(646)	(199)	(186)
Retained earnings	422,845	401,500	388,944
Treasury stock, at cost, 4,949,111 shares (Note 11)	(193,192)	(193,192)	(193,192)
Total Vail Resorts, Inc. stockholders' equity	849,503	820,843	800,067
Noncontrolling interests	13,959	13,957	13,990
Total stockholders' equity (Note 2)	863,462	834,800	814,057
Total liabilities and stockholders' equity	$2,346,152	$2,173,849	$2,374,849

The accompanying Notes are an integral part of these 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 January 31,		Six Months Ended January 31,	
	2015	2014	2015	2014
Net revenue:				
Mountain	$463,031	$391,656	$523,417	$448,987
Lodging	59,364	56,187	117,857	113,401
Real estate	7,842	4,877	17,225	13,723
Total net revenue	530,237	452,720	658,499	576,111
Segment operating expense (exclusive of depreciation and amortization shown separately below):				
Mountain	268,966	243,512	400,918	368,286
Lodging	53,927	53,259	111,681	110,164
Real estate	9,871	8,006	21,485	17,237
Total segment operating expense	332,764	304,777	534,084	495,687
Other operating (expense) income:				
Depreciation and amortization	(37,376)	(36,204)	(73,345)	(70,360)
Gain on litigation settlement (Note 5)	—	—	16,400	—
Change in fair value of contingent consideration (Note 8)	—	—	4,550	—
Loss on disposal of fixed assets and other, net	(26)	(1,044)	(781)	(1,473)
Income from operations	160,071	110,695	71,239	8,591
Mountain equity investment income, net	200	14	525	617
Investment income, net	62	70	36	165
Interest expense	(13,807)	(16,239)	(27,375)	(32,337)
Income (loss) before (provision) benefit from income taxes	146,526	94,540	44,425	(22,964)
(Provision) benefit from income taxes (Note 12)	(30,826)	(35,340)	6,951	8,727
Net income (loss)	115,700	59,200	51,376	(14,237)
Net loss attributable to noncontrolling interests	62	63	110	124
Net income (loss) attributable to Vail Resorts, Inc.	$115,762	$59,263	$51,486	$(14,113)
Per share amounts (Note 3):				
Basic net income (loss) per share attributable to Vail Resorts, Inc.	$3.19	$1.64	$1.42	$(0.39)
Diluted net income (loss) per share attributable to Vail Resorts, Inc.	$3.10	$1.60	$1.38	$(0.39)
Cash dividends declared per share	$0.4150	$0.2075	$0.8300	$0.4150

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 January 31,		Six Months Ended January 31,	
	2015	2014	2015	2014
Net income (loss)	$115,700	$59,200	$51,376	$(14,237)
Foreign currency translation adjustments, net of tax	(307)	(130)	(447)	(119)
Comprehensive income (loss)	115,393	59,070	50,929	(14,356)
Comprehensive loss attributable to noncontrolling interests	62	63	110	124
Comprehensive income (loss) attributable to Vail Resorts, Inc.	$115,455	$59,133	$51,039	$(14,232)

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)

	Six Months Ended January 31, 2015	2014
Cash flows from operating activities:		
Net income (loss)	$51,376	$(14,237)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	73,345	70,360
Cost of real estate sales	12,620	10,104
Stock-based compensation expense	8,226	7,054
Deferred income taxes, net	24,321	(8,727)
Change in fair value of contingent consideration	(4,550)	—
Gain on litigation settlement	(16,400)	—
Park City litigation settlement payment	(10,000)	—
Other non-cash income, net	(2,577)	(1,501)
Changes in assets and liabilities:		
Trade receivables, net	28,742	22,396
Inventories, net	(5,358)	(4,004)
Accounts payable and accrued liabilities	129,655	100,724
Other assets and liabilities, net	(15,215)	(7,548)
Net cash provided by operating activities	274,185	174,621
Cash flows from investing activities:		
Capital expenditures	(74,020)	(93,771)
Acquisition of business	(182,500)	—
Other investing activities, net	704	149
Net cash used in investing activities	(255,816)	(93,622)
Cash flows from financing activities:		
Proceeds from borrowings under long-term debt	243,000	—
Payments of long-term debt	(243,536)	—
Dividends paid	(30,141)	(14,986)
Other financing activities, net	4,593	621
Net cash used in financing activities	(26,084)	(14,365)
Effect of exchange rate changes on cash and cash equivalents	(113)	38
Net (decrease) increase in cash and cash equivalents	(7,828)	66,672
Cash and cash equivalents:		
Beginning of period	44,406	138,604
End of period	$36,578	$205,276
Non-cash investing and financing activities:		
Accrued capital expenditures	$4,016	$8,051
Capital expenditures under long-term financing	$7,037	$—

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”) operate in three business segments: Mountain, Lodging and Real Estate.

In the Mountain segment, the Company operates nine world-class mountain 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 and Park City Mountain Resort ("Park City" acquired on September 11, 2014) in 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 (except for Northstar, Canyons, Park City 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 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 mountain 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 mountain 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 fiscal year ended July 31, 2014. 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, 2014 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.

Canyons Retrospective Adjustment— During the fiscal year ended July 31, 2014, the Company recorded a measurement period adjustment to its Canyons preliminary purchase price allocation of $32.9 million which reduced deferred income tax assets, net with a corresponding increase to goodwill and reflected this as a retrospective adjustment as of July 31, 2013. As such, the January 31, 2014 Consolidated Condensed Balance Sheet reflects this retrospective adjustment (including the Supplemental Consolidating Condensed Balance Sheet - see Note 13, Guarantor Subsidiaries and Non-Guarantor Subsidiaries).

Noncontrolling Interests in Consolidated Condensed Financial Statements— Net loss attributable to noncontrolling interests along with net income (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 Six Months Ended January 31,					
	2015			2014		
	Vail Resorts Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity	Vail Resorts Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
Balance, beginning of period	$820,843	$ 13,957	$ 834,800	$823,868	$ 14,001	$ 837,869
Net income (loss)	51,486	(110)	51,376	(14,113)	(124)	(14,237)
Stock-based compensation expense	8,226	—	8,226	7,054	—	7,054
Issuance of shares under share award plans, net of shares withheld for taxes	(3,705)	—	(3,705)	(4,877)	—	(4,877)
Tax benefit from share award plans	3,241	—	3,241	3,240	—	3,240
Cash dividends paid on common stock	(30,141)	—	(30,141)	(14,986)	—	(14,986)
Contributions from noncontrolling interests, net	—	112	112	—	113	113
Foreign currency translation adjustments, net of tax	(447)	—	(447)	(119)	—	(119)
Balance, end of period	$849,503	$ 13,959	$ 863,462	$800,067	$ 13,990	$ 814,057

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") are based on quoted market prices (a Level 1 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, Industrial Development Bonds and other long-term debt as of January 31, 2015 are presented below (in thousands):

	January 31, 2015	
	Carrying Value	Fair Value
6.50% Notes	$215,000	$223,063
Industrial Development Bonds	$41,200	$47,014
Other long-term debt	$11,984	$12,679

New Accounting 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 Accounting Standards Codification ("ASC") 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 entity 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. The standard will be effective for the first interim period within fiscal years beginning after December 15, 2016 (the Company's 2018 first fiscal quarter), using one of two retrospective application methods. The Company is evaluating the impacts, if any, the adoption of this accounting standard will have on the Company's financial position or results of operations.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis", which amends the consolidation requirements in ASC 810, "Consolidation". This ASU affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments: (i) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities, (ii) eliminate the presumption that a general partner should consolidate a limited partnership, (iii) affect the consolidated analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships and (iv) provide a scope exception for certain entities. The standard will be effective for the first interim period within fiscal years beginning after December 15, 2015 (the Company's 2017 first fiscal quarter). The standard may be applied retrospectively or through a cumulative effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The Company is evaluating the impacts, if any, the adoption of this accounting standard will have on the Company's financial position or results of operations.

3. Net Income (Loss) Per Common Share

Basic earnings per share (“EPS”) excludes dilution and is computed by dividing net income (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 participate in the earnings of Vail Resorts. Presented below is basic and diluted EPS for the three months ended January 31, 2015 and 2014 (in thousands, except per share amounts):

	Three Months Ended January 31,			
	2015		2014	
	Basic	Diluted	Basic	Diluted
Net income per share:				
Net income attributable to Vail Resorts	$115,762	$115,762	$59,263	$59,263
Weighted-average shares outstanding	36,329	36,329	36,130	36,130
Effect of dilutive securities	—	1,038	—	990
Total shares	36,329	37,367	36,130	37,120
Net income per share attributable to Vail Resorts	$3.19	$3.10	$1.64	$1.60

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 excluded from the calculation of diluted net income per share because the effect of their inclusion would have been anti-dilutive totaled 8,000 and 14,800 for the three months ended January 31, 2015 and 2014, respectively.

Presented below is basic and diluted EPS for the six months ended January 31, 2015 and 2014 (in thousands, except per share amounts):

	Six Months Ended January 31,			
	2015		2014	
	Basic	Diluted	Basic	Diluted
Net income (loss) per share:				
Net income (loss) attributable to Vail Resorts	$51,486	$51,486	$(14,113)	$(14,113)
Weighted-average shares outstanding	36,289	36,289	36,078	36,078
Effect of dilutive securities	—	1,024	—	—
Total shares	36,289	37,313	36,078	36,078
Net income (loss) per share attributable to Vail Resorts	$1.42	$1.38	$(0.39)	$(0.39)

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 excluded from the calculation of diluted net income (loss) per share because the effect of their inclusion would have been anti-dilutive totaled 4,000 and 1,017,000 for the six months ended January 31, 2015 and 2014, respectively.

During the three and six months ended January 31, 2015, the Company paid dividends of $0.4150 and $0.8300 per share ($15.1 million and $30.1 million, respectively, in the aggregate). During the three and six months ended January 31, 2014, the Company paid dividends of $0.2075 and $0.4150 per share ($7.5 million and $15.0 million, respectively, in the aggregate). On March 11, 2015 the Company's Board of Directors declared a quarterly cash dividend of $0.6225 per share payable on April 15, 2015 to stockholders of record as of March 31, 2015.

4. Long-Term Debt

Long-term debt as of January 31, 2015, July 31, 2014 and January 31, 2014 is summarized as follows (in thousands):

	Maturity (a)	January 31, 2015	July 31, 2014	January 31, 2014
Credit Facility Revolver	2019	$—	$—	$—
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	215,000	215,000	390,000
Canyons obligation	2063	314,657	311,858	309,093
Other	2015-2029	12,503	5,989	6,416
Total debt		635,935	626,622	799,284
Less: Current maturities (b)		1,196	1,022	965
Long-term debt		$634,739	$625,600	$798,319

(a) Maturities are based on the Company's July 31 fiscal year end.
(b) Current maturities represent principal payments due in the next 12 months.

Aggregate maturities for debt outstanding as of January 31, 2015 reflected by fiscal year are as follows (in thousands):

	Total
2015	$704
2016	779
2017	854
2018	897
2019	215,955
Thereafter	416,746
Total debt	$635,935

The Company incurred gross interest expense of $13.8 million and $16.2 million for the three months ended January 31, 2015 and 2014, respectively, of which $0.4 million and $0.5 million, respectively, were amortization of deferred financing costs. The Company had no capitalized interest during the three months ended January 31, 2015 and 2014. The Company incurred gross interest expense of $27.4 million and $32.3 million for the six months ended January 31, 2015 and 2014, respectively, of which $0.7 million and $1.0 million, respectively, were amortization of deferred financing costs. The Company had no capitalized interest during the six months ended January 31, 2015 and 2014.

5. Acquisition

Park City Mountain Resort

On September 11, 2014, VR CPC Holdings, Inc. ("VR CPC"), a wholly-owned subsidiary of the Company, and Greater Park City Company, Powdr Corp., Greater Properties, Inc., Park Properties, Inc., and Powdr Development Company (collectively, "Park City Sellers") entered into a Purchase and Sale Agreement (the "Purchase Agreement") providing for the acquisition of substantially all of the assets related to Park City in Park City, Utah. The cash purchase price was $182.5 million, subject to certain post-closing adjustments. The Company funded the cash purchase price through borrowings under the revolver portion of its existing credit facility.

As provided under the Purchase Agreement, the Company acquired the property, assets and operations of Park City, which includes the ski area and related amenities, from Park City Sellers and assumed leases of certain realty, acquired certain assets, and assumed certain liabilities of Park City Sellers relating to Park City. In addition to the Purchase Agreement, the parties settled the litigation related to the validity of a lease of certain land owned by Talisker Land Holdings, LLC under the ski terrain of Park City (the "Park City Litigation"). In connection with settling the Park City Litigation, the Company recorded a non-cash gain of $16.4 million in the Mountain segment for the six months ended January 31, 2015. The gain on litigation settlement represents the estimated fair value of the rents (including damages and interest) due the Company from the Park City Sellers for their use of land and improvements from the Canyons transaction date of May 29, 2013 to the Park City acquisition date. Additionally, the Company assigned a fair value of $10.1 million to the settlement of the Park City Litigation that applied to the period prior to the Canyons transaction. The combined fair value of the Park City Litigation settlement of $26.5 million was determined by applying market capitalization rates to the estimated fair market value of the land and improvements, plus an estimate of statutory damages and interest. The estimated fair value of the Park City Litigation settlement was not received in cash, but was instead reflected as part of the cash price negotiated for the Park City acquisition. Accordingly, the estimated fair value of the Park City Litigation settlement was included in the total consideration for the acquisition of Park City. Under an agreement entered into in conjunction with the Canyons transaction, the Company made a $10.0 million payment to Talisker in the six months ended January 31, 2015, resulting from the settlement of the Park City Litigation.

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	$1,348
Other assets	3,336
Property, plant and equipment	76,605
Deferred income tax assets, net	7,444
Real estate held for sale and investment	7,000
Intangible assets	27,700
Goodwill	91,861
Total identifiable assets acquired	$215,294
Accounts payable and accrued liabilities	$2,025
Deferred revenue	4,319
Total liabilities assumed	$6,344
Total purchase price	$208,950

The estimated fair values of assets acquired and liabilities assumed in the acquisition of Park City are preliminary and are based on the information that was available as of the acquisition 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. 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 acquisition date. During the three months ended January 31, 2015 the Company recorded an adjustment to its preliminary purchase price allocation of $13.0 million, which reduced real estate held for sale and investment with a corresponding increase to goodwill and will reflect this as a retrospective adjustment as of October 31, 2014.

The excess of the purchase price over the aggregate fair values of assets acquired and liabilities assumed was recorded as goodwill. The goodwill recognized is attributable primarily to expected synergies, the assembled workforce of Park City and other factors. The majority of goodwill is expected to be deductible for income tax purposes. The intangible assets consist of trademarks, water rights, and customer lists. The intangible assets have a weighted-average amortization period of approximately 46 years. The operating results of Park City, which are recorded in the Mountain segment, contributed $27.6 million and $28.4 million of net revenue (including an allocation of season pass revenue) for the three and six months ended January 31, 2015, respectively. The Company has recognized $0.8 million of transaction related expenses in Mountain operating expense in the Consolidated Condensed Statements of Operations for the six months ended January 31, 2015.

Certain land and improvements in the Park City ski area (excluding the base area) were part of the Talikser leased premises to Park City and was subject to the Park City Litigation as of the Canyons transaction date, and as such, was recorded as a deposit ("Park City Deposit") for the potential future interests in the land and associated improvements at its estimated fair value in conjunction with the Canyons transaction. Upon settlement of the Park City Litigation, the land and improvements associated with the Talisker leased premises became subject to the Canyons lease, and as a result, the Company reclassified the Park City Deposit to the respective assets within property, plant and equipment in the six months ended January 31, 2015. The inclusion of the land and certain land improvements that was subject to the Park City Litigation and now included in the Canyons lease requires no additional consideration from the Company to Talisker, but the financial contribution from the operations of Park City will be included as part of the calculation of EBITDA for the resort operations, and as a result, factor into the participating contingent payments (see Note 8, Fair Value Measurements). The majority of the assets acquired under the Park City acquisition, although not under lease, are subject to the terms and conditions of the Canyons lease.

The following presents the unaudited pro forma consolidated financial information of the Company as if the acquisition of Park City was completed on August 1, 2013. 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 transaction; (iii) related-party land leases; and (iv) transaction and business integration related costs. 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, 2013 (in thousands, except per share amounts).

	Three Months Ended January 31, 2014
Pro forma net revenue	$473,865
Pro forma net income attributable to Vail Resorts, Inc.	$62,252
Pro forma basic net income per share attributable to Vail Resorts, Inc.	$1.72
Pro forma diluted net income per share attributable to Vail Resorts, Inc.	$1.68

	Six Months Ended January 31,	
	2015	2014
Pro forma net revenue	$660,535	$600,057
Pro forma net income (loss) attributable to Vail Resorts, Inc.	$51,978	$(14,413)
Pro forma basic net income (loss) per share attributable to Vail Resorts, Inc.	$1.43	$(0.40)
Pro forma diluted net income (loss) per share attributable to Vail Resorts, Inc.	$1.39	$(0.40)

6. Supplementary Balance Sheet Information

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

	January 31, 2015	July 31, 2014	January 31, 2014
Land and land improvements	$411,148	$348,328	$349,532
Buildings and building improvements	959,863	907,280	906,658
Machinery and equipment	774,791	700,745	701,293
Furniture and fixtures	281,869	269,209	275,016
Software	104,511	98,653	99,262
Vehicles	58,760	55,724	55,146
Construction in progress	16,676	31,487	13,244
Gross property, plant and equipment	2,607,618	2,411,426	2,400,151
Accumulated depreciation	(1,323,403)	(1,263,436)	(1,212,362)
Property, plant and equipment, net	$1,284,215	$1,147,990	$1,187,789

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

	January 31, 2015	July 31, 2014	January 31, 2014
Trade payables	$87,864	$71,823	$76,575
Deferred revenue	163,253	110,566	140,156
Accrued salaries, wages and deferred compensation	41,710	29,833	33,243
Accrued benefits	22,304	21,351	22,755
Deposits	33,709	15,272	32,788
Accrued interest	5,550	5,429	7,912
Other accruals	66,439	34,944	55,779
Total accounts payable and accrued liabilities	$420,829	$289,218	$369,208

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

	January 31, 2015	July 31, 2014	January 31, 2014
Private club deferred initiation fee revenue	$129,315	$128,824	$130,241
Unfavorable lease obligation, net	30,096	31,338	32,702
Other long-term liabilities	69,902	100,519	77,283
Total other long-term liabilities	$229,313	$260,681	$240,226

The changes in the net carrying amount of goodwill allocated between the Company's segments for the six months ended January 31, 2015 are as follows (in thousands):

	Mountain	Lodging	Goodwill, net
Balance at July 31, 2014	$310,249	$67,899	$378,148
Acquisition	91,861	—	91,861
Effects of changes in foreign currency exchange rates	(331)	—	(331)
Balance at January 31, 2015	$401,779	$67,899	$469,678

7. Variable Interest Entities

The Company is the primary beneficiary of four employee housing entities (collectively, the “Employee Housing Entities”), Breckenridge Terrace, LLC, The Tarnes at BC, LLC, BC Housing, LLC and Tenderfoot Seasonal Housing, LLC, which are variable interest entities (“VIEs”), and the Company has consolidated them in its Consolidated Condensed Financial Statements. As a group, as of January 31, 2015, the Employee Housing Entities had total assets of $27.2 million (primarily recorded in property, plant and equipment, net) and total liabilities of $64.2 million (primarily recorded in long-term debt as “Employee Housing Bonds”). The Company’s lenders have issued letters of credit totaling $53.4 million under the Company's Credit Agreement related to Employee Housing Bonds. Payments under the letters of credit would be triggered in the event that one of the entities defaults on required payments. The letters of credit have no default provisions.

The Company is the primary beneficiary of Avon Partners II, LLC (“APII”), which is a VIE. APII owns commercial space and the Company leases substantially all of that space. APII had total assets of $4.4 million (primarily recorded in property, plant and equipment, net) and no debt as of January 31, 2015.

8. Fair Value Measurements

The Financial Accounting Standards Board 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 and Contingent Consideration measured at fair value (all other assets and liabilities measured at fair value are immaterial) (in thousands):

Description	Fair Value Measurement as of January 31, 2015 Balance at January 31, 2015	Level 1	Level 2	Level 3
Assets:				
Money Market	$7,578	$7,578	$—	$—
Commercial Paper	$2,401	$—	$2,401	$—
Certificates of Deposit	$2,900	$—	$2,900	$—
Liabilities:				
Contingent Consideration	$6,000	$—	$—	$6,000

Description	Fair Value Measurement as of July 31, 2014 Balance at July 31, 2014	Level 1	Level 2	Level 3
Assets:				
Money Market	$9,022	$9,022	$—	$—
Commercial Paper	$630	$—	$630	$—
Certificates of Deposit	$880	$—	$880	$—
Liabilities:				
Contingent Consideration	$10,500	$—	$—	$10,500

Description	Fair Value Measurement as of January 31, 2014 Balance at January 31, 2014	Level 1	Level 2	Level 3
Assets:				
Money Market	$9,023	$9,023	$—	$—
Commercial Paper	$630	$—	$630	$—