

VAIL RESORTS INC
Form 10-K
September 25, 2008

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, 2008

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, Suite 1000
Broomfield, Colorado
(Address of Principal Executive Offices)

80021
(Zip Code)

(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 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 \$47.12 per share as reported on the New York Stock Exchange Composite Tape on January 31, 2008 (the last business day of the Registrant's most recently completed second quarter) was \$1,465,211,620.

As of September 22, 2008, 36,921,791 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:

- downturn in general economic conditions, including adverse affects on the overall travel and leisure related industries;
 - terrorist acts upon the United States;
 - threat of or actual war;
 - unfavorable weather conditions;
- our ability to obtain financing on terms acceptable to us to finance our real estate investments, capital expenditures and growth strategy;
 - our ability to continue to grow our resort and real estate operations;
 - competition in our mountain and lodging businesses;
 - our ability to hire and retain a sufficient seasonal workforce;
- our ability to successfully initiate and/or complete real estate development projects and achieve the anticipated financial benefits from such projects;
 - adverse changes in real estate markets;
- implications arising from new Financial Accounting Standards Board (“FASB”)/governmental legislation, rulings or interpretations;
- our reliance on government permits or approvals for our use of Federal land or to make operational improvements;
 - our ability to integrate and successfully operate future acquisitions; and
 - adverse consequences of current or future legal claims.

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 59%, 15% and 26%, respectively, of the Company's net revenue for the year ended July 31, 2008. 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 International, LLC (“RockResorts”) brand, 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”), 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 14, 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:

- Breckenridge Ski Resort (“Breckenridge”) -- the single most visited resort in the United States for the 2007/2008 ski season and currently ranked ninth best resort in North America by SKI Magazine;
- Vail Mountain (“Vail Mountain”) – the second most visited resort in the United States for the 2007/2008 ski season and currently ranked second best resort in North America by SKI Magazine, receiving the top honor in 14 of the past 21 years;
- Keystone Resort (“Keystone”) -- the third most visited ski resort in the United States for the 2007/2008 ski season and currently ranked sixteenth best resort in North America by SKI Magazine;
- Heavenly Mountain Resort (“Heavenly”) -- the seventh most visited resort in the United States for the 2007/2008 ski season and currently ranked seventeenth best resort in North America by SKI Magazine; and
- Beaver Creek Resort (“Beaver Creek”) -- the ninth most visited resort in the United States for the 2007/2008 ski season and currently ranked sixth best resort in North America by SKI Magazine.

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 primarily 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, among other activities, in 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 770 ski areas in North America and approximately 480 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 2007/2008 ski season, combined skier visits for all the United States ski areas were approximately 60.5 million and all North American skier visits were approximately 81.2 million. The Company's ski resorts had 6.2 million skier visits during the 2007/2008 ski season, or approximately 10.2% of United States skier visits, and an approximate 7.6% 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 26 ski areas, six of which are classified as "Front Range Destination Resorts," including all of the Company's Colorado resorts, catering to both the Front Range and destination-skier markets. All Colorado ski resorts combined recorded approximately 12.5 million skier visits for the 2007/2008 ski season with skier visits at the Company's Colorado ski resorts totaling 5.2 million, or approximately 41.9% of all Colorado skier visits for the 2007/2008 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 24 ski areas. Heavenly had 948,000 skier visits for the 2007/2008 ski season, capturing approximately 13.1% of California's and Nevada's 7.2 million total skier visits for the 2007/2008 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 seven best seasons occurring in the past eight years for United States visitation, including a record year this past ski season, a particular ski area's growth is also largely dependent on either attracting skiers away from other resorts or generating more revenue per skier visit. 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 customer 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. 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 20 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 2007/2008 (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 --

- Unique Features

- Vail Mountain is the single largest ski mountain in the United States and 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.
- Beaver Creek is a European-style resort delivering luxury and impeccable guest service, including a children's ski school program focused on providing a first-class experience with unique amenities such as a dedicated gondola.
- Keystone offers the largest area of night skiing in Colorado, including night-riding in the A51 Terrain Park. Also, guests are afforded access to a unique skiing experience accessed through guided cat ski tours to recently opened new terrain.
- Breckenridge is well known for its historic town, vibrant night-life and progressive and award-winning pipes and parks. Breckenridge also offers 150 acres of above tree line expert terrain accessed by the Imperial Express Super Chair, the highest chairlift in North America, reaching 12,840 feet.
- Heavenly, which straddles the boarder of California and Nevada, is the second largest ski resort in United States and is home to unique and spectacular views of Lake Tahoe.

- 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 receive average yearly snowfall between 20 and 30 feet and Heavenly, located in the Sierra Nevada Mountains, receives average yearly snowfall of approximately 23 feet. Even in these abundant snowfall areas, the Company has significant snowmaking systems that can help provide a more consistent experience. Additionally, the Company meticulously maintains its slopes with extensive fleets of snow grooming equipment.

- 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.

- Lift Service

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

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 in booking 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.

- 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 expertly prepared 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 included scenic chairlift and gondola rides, mountain biking, 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. Under this program, the Company became the largest restaurant operator in North America to exclusively serve natural meats and organic dairy products at all of its on-mountain restaurants.

- Retail/rental

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The Company, through SSI Venture, LLC (“SSV”), has over 140 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 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 13 owned and managed hotels proximate to its five mountain resorts, including five RockResorts branded hotels, and an inventory of approximately 1,500 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 new The Arrabelle at Vail Square hotel (“The Arrabelle Hotel”), a RockResort property in Vail 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 to open 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; a new spa at The Keystone Lodge opened for the 2007/2008 ski season; the Crystal Peak Lodge in Breckenridge to be open for the 2008/2009 ski season; and the Vail Mountain Club, a private mountain club to be open 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. For example, it has chosen to offset approximately 100% of its electrical usage by purchasing 152,000 megawatt-hours of wind energy credits annually 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 would be the largest LEED-certified project for resort use in North America. Additionally, the Company is partnering 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 visitors.

- Colorado resorts

The Colorado Front Range market, with a population of approximately 3.8 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.

These markets provide the Company with excellent opportunities to market its season pass products which provided approximately 26% of the Company's total lift ticket revenue for the 2007/2008 ski season. The Company believes this percentage should increase in future ski seasons due to the introduction of a new season pass product, the Epic Season Pass, targeted at destination guests and available to all guests.

Marketing and Sales

The Company promotes its resorts through extensive marketing and sales programs, which include print media advertising in lifestyle and industry publications, direct marketing to a targeted audience, promotional programs, 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, which provide visitors 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, 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 portfolio of five Company-owned and four managed, third-party owned resort hotels with locations in Colorado, Wyoming, New Mexico and St. Lucia, West Indies;
- Five additional independently flagged Company-owned hotels, management of the Vail Marriott Mountain Resort & Spa ("Vail Marriott"), Mountain Thunder 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; and
 - Five Company-owned resort golf courses in Colorado and one in Wyoming.

The Lodging segment currently includes approximately 3,800 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:

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Name	Location	Own/Manage	Rooms
RockResorts:			
The Lodge at Vail	Vail, CO	Own	160*
La Posada de Santa Fe	Santa Fe, NM	Manage	157
The Keystone Lodge	Keystone, CO	Own	152
Snake River Lodge & Spa	Teton Village, WY	Manage	151
Hotel Jerome	Aspen, CO	Manage	93
The Pines Lodge	Beaver Creek, CO	Own	68*
The Arrabelle at Vail Square	Vail, CO	Own	48*
The Landings St. Lucia	St. Lucia, West Indies	Manage	47
The Osprey at Beaver Creek	Beaver Creek, CO	Own	41*
Other Hotels and Resorts:			
Jackson Lake Lodge	Grand Teton Nat'l Pk., WY	Concessionaire Contract	385
Colter Bay Village	Grand Teton Nat'l Pk., WY	Concessionaire Contract	166
Jenny Lake Lodge	Grand Teton Nat'l Pk., WY	Concessionaire Contract	37
Vail Marriott Mountain Resort & Spa	Vail, CO	Manage	344
The Great Divide Lodge	Breckenridge, CO	Own	208
Inn at Keystone	Keystone, CO	Own	103
Mountain Thunder Lodge	Breckenridge, CO	Manage	99
Breckenridge Mountain Lodge	Breckenridge, CO	Own	71
Village Hotel	Breckenridge, CO	Own	60
Austria Haus Hotel	Vail, CO	Manage	25
Ski Tip Lodge	Keystone, CO	Own	10

*Includes individual owner units that are in a rental program managed by the Company.

Created by Laurance S. Rockefeller in 1956, the portfolio of RockResorts properties was purchased by the Company in December 2001. The RockResorts collection includes luxury hotels influenced by a strong connection to the natural surrounding environment and feature award-winning dining, and state-of-the-art RockResorts Spas and fitness centers. The properties incorporate the indigenous environment into the guest experience and feature access to a variety of year-round outdoor activities ranging from skiing to golf.

The Company's lodging strategy, through RockResorts, is focused on the resort hotel niche within the luxury segment and competes for boutique full-service hotel management contracts with other hotel management companies, including Rosewood Hotels & Resorts, the KOR group and Auberge Resorts.

The Company's lodging strategy seeks to complement and enhance its mountain resort operations through the ownership or management of lodging properties in proximity to its mountain resorts and management of luxury resorts in premier destination locations. Additionally, the Company continues to pursue new management contracts, which may include, in addition to management fees, marketing license fees and technical service fees in conjunction with a project's design, development and sales.

In December 2007, the Company opened The Arrabelle Hotel, which is just steps from Vail's Eagle Bahn gondola. The hotel reflects the ambiance of the European Alps and features 36 lavish guest rooms and approximately 50 additional condominium lock-off units, a state-of-the-art RockResorts spa and fitness center and fine dining. During the year, RockResorts also added The Landings St. Lucia, in St. Lucia, West Indies to its portfolio of managed luxury hotels. Additionally, current properties under development as RockResorts owned or managed resorts include: Tempo Miami, Miami, Florida; One Ski Hill Place, Breckenridge; Rum Cay Resort Marina, Bahamas and the Third Turtle Club & Spa, Turks & Caicos.

Lodging Industry/Market

Hotels are categorized by Smith Travel Research, a leading lodging industry research firm, as luxury, upper upscale, upscale, mid-price and economy. The service quality and level of accommodations of the RockResorts' hotels place them in the luxury category, which represents hotels achieving the highest average daily rates ("ADR") in the industry, and includes such brands as the Four Seasons, Ritz-Carlton and Starwood's Luxury Collection hotels. The Company's other hotels are categorized in the upper upscale and upscale segments of the hotel market. The luxury and upper upscale segments consist of approximately 853,000 rooms at approximately 3,020 properties in the United States as of July 2008. For the year ended July 31, 2008, the Company's owned hotels, which includes a combination of certain RockResorts, as well as other hotels in proximity to the Company's ski resorts, had an overall ADR of \$184.42, a paid occupancy rate of 64.5% and revenue per available room ("RevPAR") of \$118.97, as compared to the upper upscale segment's ADR of \$166.79, a paid occupancy rate of 69.6% and RevPAR of \$116.16. The Company believes that this comparison to the upper upscale category is appropriate as its mix of owned hotels include those in the luxury and upper upscale categories, as well as certain of its hotels that fall in the upscale category. The highly seasonal nature of the Company's lodging properties results in lower average occupancy as compared to the general lodging industry.

Competition

Competition in the hotel industry is generally based on quality and consistency of rooms, restaurant and meeting facilities and services, attractiveness of locations, availability of a global distribution system, price and other factors. The Company's properties compete within their geographic markets with hotels and resorts that include locally owned independent hotels, as well as facilities owned or managed by national and international chains, including such brands as Four Seasons, Hilton, Hyatt, Marriott, Ritz-Carlton, Starwood's Luxury Collection and Westin. The Company's properties also compete for convention and conference business across the national market. The Company believes it is highly competitive in the resort hotel niche for the following reasons:

- All of the Company's hotels are located in unique highly desirable resort destinations.
- The Company's hotel portfolio has achieved some of the most prestigious hotel designations in the world, including seven properties and five hotel restaurants in its portfolio that are currently rated as AAA 4-Diamond.
- The RockResorts brand is a historic brand name with a rich tradition associated with high quality luxury resort hotels.
- Many of the Company's hotels (both owned and managed) are designed to provide a look that feels indigenous to their surroundings, enhancing the guest's vacation experience.
- Many of the hotels in the Company's portfolio provide a wide array of amenities available to the guest such as access to world-class ski and golf resorts, spa facilities, water sports and a number of other outdoor activities as well as highly acclaimed dining options.
- Conference space with the latest technology is available at most of the Company's hotels. In addition, guests at Keystone can use the Company-owned Keystone Conference Center, the largest conference facility in the Colorado

Rocky Mountain region with more than 100,000 square feet of meeting, exhibit and function space.

- The Company has a central reservations system in Colorado that leverages off of its ski resort reservations system and has a web-based central reservation system that provides guests with the ability to plan their vacation online. Non-Colorado properties are served by a central reservations system and global distribution system provided by a third party.
- The Company actively upgrades the quality of the accommodations and amenities available at its hotels through capital improvements. Capital funding for third-party owned properties is provided by the owners of those properties. Recently completed projects include extensive upgrades to The Lodge at Vail including a fully renovated ballroom and meeting spaces, room upgrades and the addition of a 7,500 square foot spa. Additional projects include renovation of the spa at The Keystone Lodge, room upgrades at GTLC's historic Jenny Lake Lodge and system upgrades at both GTLC and La Posada de Santa Fe. Planned and current projects include additional facility upgrades at GTLC's properties within the Grand Teton National Park, extensive renovations at La Posada de Santa Fe and full renovation of The Osprey at Beaver Creek (formerly known as the Inn at Beaver Creek).

National Park Concession

The Company also owns GTLC, which is based in the Jackson Hole area in Wyoming and operates within the Grand Teton National Park under a 15 year concessionaire agreement (that expires December 31, 2021) with the National Park Service ("NPS"). GTLC also owns JHG&TC, which is located outside of the Grand Teton National Park near Jackson, Wyoming. GTLC's operations within the Grand Teton National Park and JHG&TC have operating seasons that generally run from mid-May to mid-October.

There are 390 areas within the National Park System covering approximately 85 million acres across the United States and its territories. Of the 390 areas, 58 are classified as National Parks. While there are more than 500 NPS concessionaires, ranging from small privately-held businesses to large corporate conglomerates, the Company primarily competes with such companies as Aramark Parks & Resorts, Delaware North Companies Parks & Resorts, Forever Resorts and Xanterra Parks & Resorts in retaining and obtaining National Park Concessionaire agreements. The NPS uses "recreation visits" to measure visitation within the National Park System. In calendar 2007, areas designated as National Parks received approximately 62.3 million recreation visits. The Grand Teton National Park, which spans approximately 310,000 acres, had 2.6 million recreation visits during calendar 2007, or approximately 4% of total National Park recreation visits. Four concessionaires provide accommodations within the Grand Teton National Park, including GTLC. GTLC offers three lodging options within the Grand Teton National Park: Jackson Lake Lodge, a full-service, 385-room resort with conference facilities which can accommodate up to 700 people; the Jenny Lake Lodge, a small, rustically elegant retreat with 37 cabins; and Colter Bay Village, a facility with 166 log cabins, 66 tent cabins, 350 campsites and a 112-space RV park. GTLC offers dining options as extensive as its lodging options, with cafeterias, casual eateries and fine dining establishments. GTLC's resorts provide a wide range of activities for guests to enjoy, including cruises on Jackson Lake, boat rentals, horseback riding, guided fishing, float trips, golf and guided Grand Teton National Park tours. Because of the extensive amenities offered as well as the tremendous popularity of the National Park System, GTLC's accommodations within the Grand Teton National Park operate near full capacity during their operating season.

Marketing and Sales

The Company promotes its luxury and resort hotels and seeks to maximize lodging revenue by using its marketing network established at the Company's ski resorts. This network includes local, national and international travel relationships which provide the Company's central reservation systems with a significant volume of transient customers. Additionally, the individual hotels and the Company have active sales forces to generate conference and group business.

Seasonality

The Company's lodging business is highly seasonal in nature, with peak seasons primarily in the winter months (with the exception of GTLC, certain managed properties and golf operations). In recent years, the Company has grown its business by promoting its extensive conference facilities and offering more off-season activities to help offset the seasonality of the Company's lodging business. The Company owns and operates six golf courses: The Beaver Creek Golf Club, The Keystone Ranch Golf Course, The River Course at Keystone, JHG&TC and the Tom Fazio and Greg Norman courses at Red Sky Ranch near the Beaver Creek Resort. JHG&TC was ranked the third best course in Wyoming for 2007 by Golf Digest, the Tom Fazio course was ranked the second best course in Colorado in the State by State ranking for 2008 by Golfweek and ranked the eighth best course in Colorado for 2007 by Golf Digest, and the Greg Norman course was ranked the third best course in Colorado in the State by State ranking for 2008 by Golfweek and ranked the seventh best course in Colorado for 2007 by Golf Digest and 24th in the United States in the 2008 "Top 100 You Can Play" by Golf Magazine. Red Sky Ranch was ranked one of America's Top 100 Golf Communities in 2008 by Travel & Leisure Golf.

Real Estate Segment

The Company has extensive holdings of real property at its resorts throughout Summit and Eagle Counties in Colorado. The Company's real estate operations, through Vail Resorts Development Company ("VRDC"), a wholly owned subsidiary of the Company, include the planning, oversight, infrastructure improvement, development, marketing and sale of the Company's real property holdings. In addition to the substantial cash flow generated from real estate development sales, these development activities benefit the Company's mountain and lodging operations through (i) the creation of additional resort lodging and other resort related facilities and venues (primarily restaurants, spas, commercial space, private mountain clubs, skier services facilities and parking structures) which provide the Company with the opportunity to create new sources of recurring revenue, enhance the guest experience at the resort and expand the destination bed base; (ii) the ability to control the architectural themes of the Company's resorts; and (iii) the expansion of the Company's property management and commercial leasing operations. Additionally, in order to facilitate the sale of real estate development projects, these projects often include the construction of resort assets benefiting the development, such as chairlifts, gondolas, ski trails or golf courses. While these improvements enhance the value of the real estate held for sale (for example, by providing ski-in/ski-out accessibility), they also benefit mountain and lodging operations.

The Company in recent years has primarily focused on projects that involve significant vertical development. In addition to the substantially completed The Arrabelle at Vail Square project, current vertical development projects under construction include: Vail's Front Door, Crystal Peak Lodge at Breckenridge, One Ski Hill Place at Breckenridge and The Ritz-Carlton Residences, Vail. The Company attempts to mitigate the risk of vertical development by utilizing guaranteed maximum price contracts (although certain construction costs may not be covered by contractual limitations), pre-selling all or a portion of the project, which generally requires significant non-refundable deposits, and obtaining non-recourse financing for certain projects. In some instances as warranted by the Company's business model, VRDC attempts to minimize the Company's exposure to development risks and maximize the long-term value of the Company's real property holdings by selling improved and entitled land to third-party developers while retaining the right to approve the development plans, as well as an interest in the developer's profit. The Company also typically retains the option to purchase, at cost, any retail/commercial space created in a development. The Company is able to secure these benefits from third-party developers because of the high property values and strong demand associated with property in close proximity to the Company's mountain resorts.

VRDC's principal activities include (i) the vertical development of certain residential mixed-use projects that consist of both the sales of real estate units to third parties and the construction of resort depreciable assets such as hotels, restaurants, spas, private clubs, commercial space, skier service facilities, parking structures and other amenities that

the Company will own and operate and that will benefit the Company's mountain and lodging operations; (ii) the sale of single-family homesites to individual purchasers; (iii) the sale of certain land parcels to third-party developers for condominium, townhome, cluster home, single family home, lodge and mixed use developments; (iv) the zoning, planning and marketing of resort communities; (v) arranging for the construction of the necessary roads, utilities and resort infrastructure for new resort communities; and (vi) the purchase of selected strategic land parcels for future development.

VRDC's current construction activities include the following major projects:

- Vail's Front Door -- This development consists of 13 chalets at The Lodge at Vail Chalets, ranging in size from approximately 3,700 to 5,700 square feet, of which five chalets were completed and sold in the year ended July 31, 2008. The Company expects to close on the remaining eight chalets during the year ending July 31, 2009. This project also includes resort assets benefiting the Resort segment, including the Vail Mountain Club, a private ski club, which will offer members exclusive amenities including a member lounge, ski valet concierge services, private lockers and, for full members, valet parking. The ski club will be available to members for the upcoming 2008/2009 ski season. In addition to the Vail Mountain Club, construction includes a new 7,500 square foot RockResorts spa, two additional guest suites at The Lodge at Vail (both opened in July 2008), new skier services space that includes a retail/rental shop, ticketing and ski school product sales, food and beverage outlet and ski storage which were available during the 2007/2008 ski season.
- Crystal Peak Lodge at Breckenridge -- This development consists of 45 ski-in/ski-out residences and certain amenities that will include a retail/rental shop, ticket sales counter and outdoor plaza at the base of Peak 7 and will connect to the Town of Breckenridge via the BreckConnect gondola. The Company expects to close on a vast majority, if not all of the Crystal Peak Lodge units during the year ending July 31, 2009.
- One Ski Hill Place at Breckenridge -- This development consists of 88 ski-in/ski-out residences and certain amenities which include a slopeside skiers' plaza, a skier restaurant, apres-ski bar, owner's ski lounge, parking garage, conference space and retail space, all of which are located at the base of Peak 8 and will connect to the Town of Breckenridge via the BreckConnect gondola. This development will be branded a RockResorts property upon completion and the sale of the residences.
- The Ritz-Carlton Residences, Vail -- Located in the western part of Vail, this project consists of 71 whole ownership luxury residences and 45 Ritz-Carlton Club fractional ownership units to be sold. This development will offer exclusive amenities, including a great room with bar, ski valet concierge services, fitness facility and a heated parking garage with valet service.

Additionally, VRDC is currently in the planning and approval stages for numerous projects at all five of its mountain resorts, including the Ever Vail project in Vail and One River Run proximate to the new gondola in Keystone.

Employees

The Company, through certain operating subsidiaries, currently employs approximately 3,500 year-round and 11,600 seasonal employees. In addition, the Company manages approximately 800 year-round and 200 seasonal employees on behalf of the owners of the managed hotel properties. None of the Company's employees are unionized. The Company considers employee relations to be good.

Regulation and Legislation

Federal Regulation

The 1986 Ski Area Permit Act (the “1986 Act”) allows the USDA Forest Service (the “Forest Service”) to grant Term Special Use Permits (each, an “SUP”) for the operation of ski areas and construction of related facilities on National Forest lands. In addition, the 1986 Act requires a Master Development Plan for each ski area that is granted an SUP. Each of the Company’s five ski resorts operate under an SUP.

Each distinct area of National Forest lands is required by the National Forest Management Plan to develop and maintain a Land and Resource Management Plan (a “Forest Plan”), which establishes standards and guidelines for the Forest Service to follow and consider in reviewing and approving proposed actions by the Company.

Under the 1986 Act, the Forest Service has the right to review and approve the location, design and construction of improvements in the permit area and many operational matters. Virtually all of the skiable terrain on Vail Mountain, Breckenridge, Heavenly and Keystone is located on Forest Service land. While Beaver Creek also operates on Forest Service land, a significant portion of the skiable terrain, primarily in the lower main mountain, Western Hillside, Bachelor Gulch and Arrowhead Mountain areas, is located on Company-owned land. Heavenly operates on Forest Service land but operates four separate base areas on Company-owned land.

Special Use Permits

Vail Mountain operates under an SUP for the use of 12,226 acres that expires October 31, 2031. Breckenridge operates under an SUP for the use of 5,702 acres that expires December 31, 2029. Keystone operates under an SUP for the use of 8,376 acres that expires December 31, 2032. Beaver Creek operates under an SUP for the use of 3,849 acres that expires December 31, 2038. Heavenly operates under an SUP for the use of 7,050 acres that expires May 1, 2042.

Each SUP contains a number of requirements, including that the Company indemnify the Forest Service from third-party claims arising out of its operation under the SUP and that it comply with applicable laws, such as those relating to water quality and endangered or threatened species.

For use of the SUPs, the Company pays a fee to the Forest Service ranging from 1.5% to 4.0% of sales for services occurring on Forest Service land. Included in the calculation are sales from, among other things, lift tickets, season passes, ski school lessons, food and beverages, equipment rentals and retail merchandise.

The SUPs may be amended by the Company or by the Forest Service to change the permit area or permitted uses. The Forest Service may amend an SUP if it determines that such amendment is in the public interest to do so. While the Forest Service is required to seek the permit-holders consent to any amendment, an amendment can be finalized over permit-holder objections. Permit amendments must be consistent with the Forest Plan and are subject to the provisions of the National Environmental Policy Act (“NEPA”), both of which are discussed below.

The Forest Service can also terminate a SUP if it determines that termination is required in the public interest. However, to the Company's knowledge, no SUP has ever been terminated by the Forest Service over the opposition of the permittee.

Master Development Plans

All improvements that the Company proposes to make on National Forest lands under any of its SUPs must be included in a Master Development Plan. Master Development Plans describe the existing and proposed facilities, developments and area of activity within the permit area. Master Development Plans are prepared by the Company and set forth a conceptual overview of all potential projects at each resort. The Master Development Plans are reviewed by the Forest Service for compliance with the Forest Plan and other applicable law and, if found to be compliant, are accepted by the Forest Service. Notwithstanding acceptance by the Forest Service of the conceptual Master Development Plans, individual projects still require separate applications to be submitted evidencing

compliance with NEPA and other applicable laws before the Forest Service will approve such projects. The Company updates or amends its Master Development Plans for Vail Mountain, Beaver Creek, Keystone, Breckenridge and Heavenly from time to time.

White River National Forest Plan

Operational and development activities on National Forest System lands at the Company's four Colorado ski resorts are subject to the additional regulatory and planning requirements set forth in the April 2002 Record of Decision (“ROD”) for the White River National Forest Land and Resources Management Plan (the “White River Forest Plan”).

When approving Company applications for development, area expansion and other activities on National Forest lands in Colorado, the Forest Service must adhere to the White River Forest Plan and ROD. Any such decision may be subject to judicial review in Federal court if a party, with standing, challenges a Forest Service decision that applies the ROD at one of the Company’s four Colorado ski resorts.

National Environmental Policy Act; California Environmental Quality Act

NEPA requires an assessment of the environmental impacts of “major” proposed actions of the Company on National Forest land, such as expansion of a ski area, installation of new lifts or snowmaking facilities, or construction of new trails or buildings. The Company must comply with NEPA when seeking Forest Service approval of such improvements. The Forest Service is responsible for preparing and compiling the required environmental studies, usually through third-party consultants. NEPA allows for two different types of environmental study, depending on the scope and size of the expected impact of the proposed project. An Environmental Assessment (“EA”) is typically used for projects where the environmental impact is expected to be limited. For projects with more significant expected impacts, an Environmental Impact Statement (“EIS”) is more commonly required. An EIS is more detailed and broader in scope than an EA. The Forest Service usually takes more time to compile, review and issue an EIS. Consequently, projects that require an EIS typically take longer to approve.

During the requisite environmental study, the Forest Service is required to analyze alternatives to the proposed action (including not taking the proposed action) as well as impacts that may be unavoidable. Following completion of the requisite environmental study, the Forest Service may decide not to approve the proposed action or may decide to approve an alternative. In either case the Company may be forced to abandon or alter its development or expansion plans.

In limited cases, projects can be subject to a Categorical Exclusion, which allows approval by the Forest Service without preparation of an environmental study required by NEPA. The Forest Service has a list of available Categorical Exclusions, which typically are only available for projects that are not expected to have an environmental impact, such as redevelopment of an existing developed area.

Proposed actions at Heavenly may also be subject to the California Environmental Quality Act (“CEQA”), which is similar to NEPA in that it requires that the California governmental entity approving any proposed action on the California portion of Heavenly study potential environmental impacts. Projects with significant expected impacts require an Environmental Impact Report while more limited projects may be approved based on a Mitigated Negative Declaration.

Breckenridge Regulatory Matters

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The Company submitted an updated Master Development Plan for Breckenridge, which was accepted by the Forest Service in January 2008. The Master Development Plan was updated to include, among other things, additional skiable area, snowmaking and lift improvements.

In January 2008, the Forest Service commenced public scoping of the Company's proposal to develop a portion of Peak 6, which adjoins the Breckenridge Ski Area to the north. Approval of the Peak 6 development requires the preparation of an EIS, in compliance with NEPA. The initial round of public scoping has been completed and the Forest Service is preparing the EIS. It is not possible at this time to determine whether the expansion will be approved as proposed.

Keystone Regulatory Matters

In August 1999, the Colorado Water Quality Control Commission (the "Commission") adopted "temporary modifications" for certain metals standards applicable to three streams within the Keystone permit area. The Commission has been delegated authority by the Federal Environmental Protection Agency to regulate water quality in Colorado. All water quality standards, including "temporary modifications," are reviewed by the Commission every three years. Under the Keystone SUP, which requires that the Company comply with water quality standards, the Forest Service mandated that the Company conduct ongoing studies of the three streams within the Keystone permit boundary as well as one additional stream. These studies were designed to determine the potential water quality impacts of snowmaking operations as a result of metals contamination from abandoned mines located upstream from Keystone's snowmaking diversions. Using the data collected through the ongoing monitoring, the Company has completed a use attainability analysis for the Commission. At the Commission review in June 2008, the "temporary modifications" were lifted and new water quality standards were adopted for all four of the streams. The Company expects to meet or exceed the newly adopted standards.

In November 2007, the Forest Service approved the extension and replacement of the River Run Gondola, as contemplated by the Keystone Ski Area Master Development Plan. This approval did not require extensive review under NEPA as it qualified for a Categorical Exclusion. The new gondola is currently being installed and the Company expects it to be operational for the 2008/2009 ski season.

The Company is currently updating the Keystone Ski Area Master Development Plan to include, among other things, ski area expansion, construction of new lifts, trails and snowmaking systems, and construction or redevelopment of skier buildings and other facilities. The Company anticipates the updated Master Development Plan to be completed and submitted to the Forest Service during the fall 2008.

Vail Regulatory Matters

In September 2007, the updated Vail Master Development Plan was accepted by the Forest Service. The Vail Master Development Plan includes, among other things, additional snowmaking on Vail Mountain, additional lifts, and a race facility expansion at Vail's Golden Peak. In October 2007, the Company submitted to the Forest Service the Company's first proposal under the updated Master Development Plan to install a new chair lift in Vail's Sundown Bowl and to upgrade the existing chair 5 to a high-speed, detachable quad chair lift. NEPA requires that an EIS be prepared in connection with the approval of this proposal. The Company anticipates the final EIS and approval of the projects during the winter 2008.

In June 2005, the Company submitted a proposal to the Forest Service to construct a chairlift to service existing and potential future residential and commercial development in the proposed Ever Vail area. This proposal was approved in March 2006 by the Forest Service and the administrative appeals period for this approval has expired. However, since receiving approval, the Company has modified the plans for the chairlift and will need to seek approval from the Forest Service of the modified plans.

Beaver Creek Regulatory Matters

The Company is in the final stages of updating the Beaver Creek Master Development Plan to include, among other things, certain chairlift and snowmaking upgrades and adjustments to visitor capacity parameters in light of prior lift and trail upgrades contemplated in the Master Development Plan. The Company intends to submit the updated Master Development Plan to the Forest Service in fall 2008.

In January 2007, the Forest Service approved an amendment to the Beaver Creek SUP boundary to include additional terrain near the top of chair 16, west of Cabin Fever and east of the Arrowhead Alpine Club Yurt. The Company plans to provide additional terrain for beginners skiing off of chair 16 by the 2008/2009 ski season. No additional Forest Service approvals are required for this project.

Heavenly Regulatory Matters

The Company has been conducting ongoing monitoring of groundwater contamination levels using three existing monitoring wells and a seasonal, downstream seep as required by the State of California Regional Water Quality Control Board, Lahontan Region ("Lahontan"), and the El Dorado County Department of Environmental Management. This requirement was imposed in response to an accidental release of waste oil at a vehicle maintenance shop in 1998. All cleanup work has been completed in accordance with the approved work plan and a new underground vault, piping and overflow protection system was installed to prevent any further releases. Notwithstanding submission of a final report on March 31, 2003, Lahontan has required additional monitoring and reporting. Monitoring results have been provided to Lahontan but no response has been received to date.

In July 2003, Heavenly received updated waste discharge requirements ("WDRs") relating to storm runoff on the California portions of the resort. WDRs are normally valid for ten years. The approved WDRs will permit Heavenly to continue year round operations and to continue with implementation of the approved Heavenly Ski Area Master Plan ("Heavenly Master Plan"), which is discussed in more detail immediately below. The WDRs require the retrofit of certain existing facilities within California according to specified deadlines. Due in part to the lengthy time period required to process and approve Heavenly's Master Plan Amendment (as defined below), Heavenly requested and received amendments to the WDRs, extending the deadline to October 15, 2008 for completion of the California Main Lodge and Parking Lot water quality Best Management Practices ("BMPs"). Under the amendment, the Main Lodge and Parking Lot is required to meet revised surface runoff water quality criteria by November 30, 2008. The WDRs also contained a requirement to retrofit the Upper Vehicle Maintenance Facility with water quality BMPs, which was completed on October 15, 2007.

During summer 2007, an amendment to the Heavenly Master Plan (the "Master Plan Amendment") to include new and upgraded trails, lifts, snowmaking, lodges and other facilities was accepted by the Forest Service and approved by the Tahoe Regional Planning Agency ("TRPA") and the underlying units of local government with jurisdiction. Portions of the Master Plan Amendment applying to the California side of the resort were subject to the approval of TRPA and El Dorado County, which required compliance with CEQA. The Master Plan Amendment was approved by TRPA and El Dorado County after completion of a joint TRPA/Forest Service EIS/Environmental Impact Report to comply with both CEQA and NEPA. Approval of the Master Plan Amendment included approval by the Forest Service and TRPA of the Phase I projects contemplated in the Master Plan Amendment. Phase I projects, including snowmaking, trail and lift upgrades and construction of a new lodge have been or are in the process of being implemented. Heavenly has begun planning for the implementation of the Phase II projects contemplated in the Master Plan Amendment, which will require compliance with NEPA, CEQA and TRPA regulations and other local laws.

GTLC Concession Contract

GTLC operates three lodging properties, food and beverage services, retail, camping and other services within the Grand Teton National Park under a concession contract with the NPS. The Company's concession contract with the NPS for GTLC expires on December 31, 2021. Upon expiration of the concession contract, the Company will have to bid against other prospective concessionaires for award of a new contract.

The NPS may suspend operation under the concession contract at any time if the NPS determines it is necessary to protect visitors or resources within the National Park. NPS also has the right to terminate the contract for breach, following notice and a 15 day cure period or if it believes termination is necessary to protect visitors or resources within the National Park.

The Company pays a fee to the NPS of 8.01% on the majority of sales occurring in the Grand Teton National Park.

Water

The Company relies on a supply of water for operation of its ski areas for domestic and snowmaking purposes and for real estate development. Availability of water depends on existence of adequate water rights as well as physical delivery of the water when and where it is needed.

Snowmaking

To provide a level of predictability in dates of operation of our ski areas, the Company relies on snowmaking. Snowmaking requires a significant volume of water, which is viewed as a non-consumptive use – approximately 80% of the water is returned to the watershed at spring runoff.

In Colorado, the Company owns or has ownership interest in water rights in reservoir companies, reservoirs, groundwater wells, and other sources. The primary source of water for Keystone and Breckenridge is the Clinton Reservoir, in which the Company owns a non-controlling interest. For Vail Mountain and Beaver Creek, the primary water source is Eagle Park Reservoir, in which the Company owns a controlling interest. The Company believes that it has rights to sufficient quantities of water for the operation of the Company's four Colorado resorts for the foreseeable future.

Delivery of the water to each resort is typically by stream, from which the water is diverted by the Company to on-site storage facilities or directly into the snowmaking system. The streams that deliver the water are subject to minimum stream flows, freezing and other limitations that may prevent or reduce the amount of water physically available to the resort.

Unlike the Company's other Colorado resorts, Keystone does not have on-site storage for snowmaking water and so is more vulnerable to interruptions in delivery of a physical supply of water.

Heavenly's primary sources of water are the South Tahoe Public Utility District and Kingsbury General Improvement District, which are California and Nevada public utilities, respectively. Heavenly has short term contracts with both utility companies and pays prevailing rates. While the Company believes that both sources of water will be available long term, the Company has no contractual guaranty of service, delivery or future pricing. Further, the delivery systems of each utility are limited and may not be able to provide the immediate physical supply of water needed for optimal snowmaking.

Real Estate Development

In March 2007, 55 water units required for completion of the Stagecoach Lodge Planned Development in Douglas County, Nevada reverted to the Kingsbury General Improvement District, the water and sewer district that services the planned development. Heavenly continues to hold an additional 65 water units for the planned development, which

provides sufficient water for Phase I of the proposed development. However, the Company cannot predict whether it will be able to acquire the additional water units required for future phases of the planned development.

Available Information

The Company reports to the Securities and Exchange Commission ("SEC") information, including its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Act") that are available free of charge on the Company's corporate website (www.vailresorts.com) as soon as reasonably practicable after the information is electronically filed with or furnished to the SEC. In addition, the Company's Code of Ethics and Business Conduct is available on its website. None of the content of the Company's corporate website is incorporated by reference herein. Copies of any materials the Company files with the SEC can be obtained at www.sec.gov or at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room is available by calling the SEC at 1-800-SEC-0330.

ITEM 1A. RISK FACTORS.

The risks described below should carefully be considered together with the other information contained in this report. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially affect our business, financial condition and results of operations.

Risks Related to Our Business

Our business is highly seasonal. Our mountain and lodging operations are highly seasonal in nature. In particular, revenue and profits from our mountain and most of our lodging operations are substantially lower and historically result in losses from late spring to late fall. Conversely, peak operating seasons for GTLC, certain managed hotel properties and our golf courses occur during the summer months while the winter season generally results in operating losses. Revenue and profits generated by GTLC's summer operations, management fees from certain managed properties, certain other lodging properties and golf operations are not nearly sufficient to fully offset the Company's off-season losses from its mountain and other lodging operations. For the year ended July 31, 2008, 80% of total combined Mountain and Lodging segment net revenue was earned during our fiscal second and third quarters. In addition, the timing of major holidays can impact vacation patterns and therefore visitation at our ski resorts. Operating results for any three-month period are not necessarily indicative of the results that may be achieved for any subsequent quarter or for a full fiscal year (see Note 15, Selected Quarterly Financial Data, of the Notes to Consolidated Financial Statements).

We are vulnerable to the risk of unfavorable weather conditions. The ability to attract visitors to our resorts is influenced by weather conditions and by the amount and timing of snowfall during the ski season. Unfavorable weather conditions can adversely affect skier visits and our revenue and profits. Unseasonably warm weather may result in inadequate natural snowfall and reduce skiable terrain which increases the cost of snowmaking and could render snowmaking wholly or partially ineffective in maintaining quality skiing conditions, including in areas which are not accessible by snowmaking equipment. Excessive natural snowfall may materially increase the costs incurred for grooming trails and may also make it difficult for visitors to obtain access to our mountain resorts. In the past 20 years, our Colorado ski resorts have averaged between 20 and 30 feet of annual snowfall and Heavenly receives average yearly snowfall of approximately 23 feet, both of which are significantly in excess of the average for United States ski resorts. However, there is no assurance that our resorts will receive seasonal snowfalls near the historical average in the future. Also, the early season snow conditions and skier perceptions of early season snow conditions influence the momentum and success of the overall season. In addition, a severe and prolonged drought could affect our otherwise adequate snowmaking water supplies or increase the cost of snowmaking. Unfavorable weather conditions, including those which may increase the risk of the occurrence of forest fires, can adversely affect our

resorts and lodging properties as vacationers tend to delay or postpone vacations if conditions differ from those that typically prevail at such resorts for a given season. There is no way for us to predict future weather patterns or the impact that weather patterns may have on our results of operations or visitation.

We are subject to the risk of economic downturns including adverse affects on the overall travel and leisure related industries. Periods of economic slowdown or recession, whether regional, national or international, may decrease the discretionary spending of our guests. Actual or perceived fear of recession may also lead to decreased discretionary spending. Skiing, travel and tourism are discretionary recreational activities that can entail a relatively high cost of participation and can be adversely affected by economic slowdown or recession, which, in turn, could negatively impact our operating results. This could further be exacerbated by the fact that we charge some of the highest ticket prices, as well as prices for our ancillary businesses including ski school, in the ski industry. While pricing increases historically have not reduced demand, there can be no assurances that demand will remain price inelastic. Similarly, there can be no assurance that a decrease in the amount of discretionary spending by the public would not have an adverse effect on our results of operations. Additionally, many of our guests travel by air and the impact of higher fuel costs in addition to higher cost and availability of air services may cause a decrease in visitation by destination guests to our resorts. Higher energy costs and gasoline prices may also result in a reduction to in-state visitation.

We depend on a seasonal workforce. Our mountain and lodging operations are largely dependent on a seasonal workforce. We recruit worldwide to fill staffing needs each season and utilize visas to enable the use of foreign workers. In addition, we manage seasonal wages and the timing of the hiring process to ensure the appropriate workforce is in place. We cannot guarantee that material increases in the cost of securing our seasonal workforce will not be necessary in the future. Furthermore, we cannot guarantee that we will be able to obtain the visas necessary to hire foreign workers who are an important source for the seasonal workforce. Increased seasonal wages or an inadequate workforce could have an adverse impact on our results of operations.

Terrorist acts upon the United States and acts of war (actual or threatened) could have a material adverse effect on us. The terrorist acts carried out against the United States on September 11, 2001 and the war with Iraq and its aftermath adversely impacted the international travel and leisure industry. Additional terrorist acts against the United States and the threat of or actual war by or upon the United States could depress the public's propensity to travel, upon which our operations are highly dependent, which could have a material adverse impact on our results of operations.

We face significant competition. The ski resort and lodging industries are highly competitive. The number of people who ski in the United States (as measured in skier visits) has generally ranged between 52 million and 61 million annually over the last decade, with approximately 60.5 million visits for the 2007/2008 ski season. The factors that we believe are important to customers include:

- proximity to population centers;
- availability and cost of transportation to ski areas;
- ease of travel to ski areas (including direct flights by major airlines);
- pricing of lift tickets and/or season passes and the number, quality and price of related ancillary services (ski school, dining and retail/rental), amenities and lodging;
- snowmaking facilities;
- type and quality of skiing and snowboarding offered;
- duration of the ski season;

- weather conditions; and
- reputation.

We have many competitors for our ski vacationers, including other major resorts in Colorado, Lake Tahoe area and other major destination ski areas worldwide. Our destination guests can choose from any of these alternatives, as well as non-skiing vacation destinations around the world. In addition, other forms of leisure such as sporting events and participation in other competing indoor and outdoor recreational activities are available to potential guests.

RockResorts hotels and our other hotels compete with numerous other hotel companies that may have greater financial resources than we do and they may be able to adapt more quickly to changes in customer requirements or devote greater resources to promotion of their offerings than us. We believe that developing and maintaining a competitive advantage will require us to make continued capital investment in our resorts. We cannot assure that we will have sufficient resources to make the necessary capital investments to do so, and we cannot assure that we will be able to compete successfully in this market or against such competitors.

Our future acquisitions might not be successful. Historically, we have acquired certain ski resorts and other destination resorts and hotel properties, as well as developable land in proximity to our resorts. We cannot make assurances that we will be able to continue to successfully integrate and manage these acquired properties profitably or increase our profits from these operations. We continually evaluate potential acquisitions and intend to actively pursue acquisition opportunities, some of which could be significant. We could face various risks from additional acquisitions, including:

- inability to integrate acquired businesses into our operations;
- diversion of our management's attention;
- potential increased debt leverage;
- litigation arising from acquisition activity; and
- unanticipated problems or liabilities.

In addition, we run the risk that any new acquisitions may fail to perform in accordance with expectations, and that estimates of the costs of improvements for such properties may prove inaccurate.

Our future real estate development plans might not be successful. We have significant development plans for our properties and/or operations. We could experience significant difficulties initiating or completing these projects, due to among other things:

- adverse changes in real estate markets;
- escalation in construction costs due to price increases in commodities, unforeseen conditions, inadequate design or drawings, or other causes;
- difficulty in meeting pre-sale targets;
- work stoppages;
- weather interferences;

- shortages in obtaining materials;
- difficulty in receiving the necessary regulatory approvals;
- difficulty in obtaining qualified contractors or subcontractors; and
- unanticipated incremental remediation costs related to design and construction issues.

Our real estate development plans are designed to make our resorts attractive to our guests and to maintain competitiveness. If we are not successful in implementing our development plans, in addition to not realizing intended profits from the real estate developments, our guests may choose to go to other resorts that they perceive have better amenities and our results of operations could be materially adversely affected.

Future changes in the real estate market could affect the value of our investments. We have extensive holdings of real property at our resorts throughout Summit and Eagle Counties in Colorado. We have plans to make significant additional investments in developing property at all of our mountain resorts. The value of our real estate property and the revenue from related development activities may be adversely affected by a number of factors, including:

- local and national economic climate;
- local real estate conditions (such as an oversupply of space or a reduction in demand for real estate in an area);
- attractiveness of the properties to prospective purchasers and tenants;