ALTERA CORP
Form 10-Q
July 22, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 26, 2009

OR

¨ **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 0-16617

ALTERA CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	**77-0016691**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification Number)**

101 INNOVATION DRIVE

SAN JOSE, CALIFORNIA 95134

(Address of principal executive offices)(zip code)

408-544-7000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	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 ¨ No x

Number of shares of common stock outstanding at July 14, 2009: 294,184,602

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PART I FINANCIAL INFORMATION

ITEM 1: Financial Statements

ALTERA CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except par value amount)	**June 26, 2009**	**December 31, 2008**
Assets		
Current assets:		
Cash and cash equivalents	$ 1,274,975	$ 1,216,743
Accounts receivable, net of allowances for doubtful accounts of $3,205 and $3,096 as of June 26, 2009 and December 31, 2008, respectively	196,070	83,430
Inventories	66,219	84,637
Deferred income taxes - current	97,518	85,777
Deferred compensation plan - marketable securities	43,148	38,593
Deferred compensation plan - restricted cash equivalents	17,717	17,397
Other current assets	72,550	100,584
Total current assets	1,768,197	1,627,161
Property and equipment, net	185,307	192,262
Deferred income taxes - non-current	44,461	50,611
Other assets, net	8,291	9,873
Total assets	$ 2,006,256	$ 1,879,907
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 33,972	$ 33,834
Accrued liabilities	31,282	29,951
Accrued compensation and related liabilities	39,047	58,450
Deferred compensation plan obligations	60,865	55,990
Deferred income and allowances on sales to distributors	232,834	205,674
Income taxes payable	355	2,123
Total current liabilities	398,355	386,022
Income taxes payable - non-current	201,685	173,880
Long-term credit facility	500,000	500,000
Other non-current liabilities	7,392	20,128
Total liabilities	1,107,432	1,080,030
Commitments and contingencies		
(See Note 10 Commitments and Contingencies)		
Stockholders equity:		
Common stock: $.001 par value; 1,000,000 shares authorized; outstanding - 294,183 at June 26, 2009 and 292,733 shares at December 31, 2008	294	293
Capital in excess of par value	311,475	272,424
Retained earnings	587,055	528,278

Accumulated other comprehensive loss		(1,118)
Total stockholders equity	898,824	799,877
Total liabilities and stockholders equity	$ 2,006,256	$ 1,879,907

See accompanying notes to condensed consolidated financial statements.

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ALTERA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)	Three Months Ended June 26, 2009	Three Months Ended June 27, 2008	Six Months Ended June 26, 2009	Six Months Ended June 27, 2008
Net sales	$ 279,201	$ 359,854	$ 543,803	$ 695,925
Cost of sales	93,588	118,337	187,617	235,646
Gross margin	185,613	241,517	356,186	460,279
Research and development expense	64,981	63,623	123,171	124,760
Selling, general, and administrative expense	53,679	64,173	114,338	127,304
Compensation expense (benefit) - deferred compensation plan	3,586	284	3,609	(4,745)
Loss (gain) on deferred compensation plan securities	(3,586)	(284)	(3,609)	4,745
Interest income and other	(1,717)	(7,530)	(5,095)	(16,681)
Interest expense	1,321	3,907	2,659	7,044
Income before income taxes	67,349	117,344	121,113	217,852
Income tax expense	19,926	19,362	29,729	35,946
Net income	$ 47,423	$ 97,982	$ 91,384	$ 181,906
Net income per share:				
Basic	$ 0.16	$ 0.33	$ 0.31	$ 0.60
Diluted	$ 0.16	$ 0.32	$ 0.31	$ 0.59
Shares used in computing per share amounts:				
Basic	293,895	300,535	293,511	304,000
Diluted	295,503	305,868	295,157	307,950
Cash dividends per common share	$ 0.05	$ 0.05	$ 0.10	$ 0.09

See accompanying notes to condensed consolidated financial statements.

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ALTERA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Six Months Ended	
	June 26, 2009	June 27, 2008
Cash Flows from Operating Activities:		
Net income	$ 91,384	$ 181,906
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,714	15,220
Stock-based compensation	30,435	24,232
Deferred income tax	(6,286)	(8,232)
Tax effect of employee stock plans	(1,897)	7,517
Excess tax benefit from employee stock plans	(231)	(4,457)
Gain on sale of land		(112)
Gain on substantive termination of retiree medical plan	(6,488)	
Changes in assets and liabilities:		
Accounts receivable, net	(112,640)	(58,350)
Inventories	18,418	(1,896)
Other assets	30,018	(5,460)
Accounts payable and other liabilities	(21,019)	568
Deferred income and allowances on sales to distributors	27,160	55,201
Income taxes payable	26,037	22,370
Deferred compensation plan obligations	1,266	(1,749)
Net cash provided by operating activities	90,871	226,758
Cash Flows from Investing Activities:		
Purchases of property and equipment	(6,852)	(11,094)
Proceeds from the maturities and sales of available-for-sale investments		81,497
Proceeds from sale of land		9,063
Sales (purchases) of deferred compensation plan securities, net	(1,266)	1,749
Purchases of intangible assets	(510)	
Net cash provided by (used for) investing activities	(8,628)	81,215
Cash Flows from Financing Activities:		
Proceeds from issuance of common stock through various stock plans	11,933	38,601
Shares withheld for employee taxes	(4,655)	(3,745)
Repurchases of common stock		(276,680)
Payment of dividends to stockholders	(29,370)	(27,368)
Excess tax benefit from stock-based compensation	231	4,457
Decrease in book overdrafts		(320)
Proceeds from long-term credit facility		250,000
Principal payments on capital lease obligations	(2,150)	(669)
Net cash used for financing activities	(24,011)	(15,724)
Net increase in cash and cash equivalents	58,232	292,249
Cash and cash equivalents at beginning of period	1,216,743	890,095

Cash and cash equivalents at end of period	$ 1,274,975	$ 1,182,344
Non-cash Investing and Financing Activities:		
Assets acquired under capital leases	$	$ 11,155

See accompanying notes to condensed consolidated financial statements.

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ALTERA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Organization and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Altera Corporation and its subsidiaries, collectively referred to herein as Altera , we , us , or our , have been prepared by us in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information. This financial information reflects all adjustments which are, in the opinion of our management, of a normal recurring nature and necessary for a fair statement of the results for the periods presented. The December 31, 2008 condensed consolidated balance sheet data was derived from our audited consolidated financial statements included in our 2008 Annual Report on Form 10-K, but does not include all disclosures required by GAAP. The condensed consolidated financial statements include our accounts as well as those of our wholly-owned subsidiaries after elimination of all significant inter-company balances and transactions.

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in our condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates, and material effects on our consolidated operating results and financial position may result.

Certain reclassifications have been made to prior year condensed consolidated financial statements to conform to the current year presentation:

Condensed Consolidated Statements of Income: *Compensation expense (benefit) deferred compensation plan* is presented as a separate line item (previously reported as a component of *Cost of sales*[(1)], *Research and development expense*, and *Selling, general, and administrative expense*). *Loss (gain) on deferred compensation plan securities* is presented as a separate line item (previously reported as a component of *Interest income and other*).

Condensed Consolidated Statements of Cash Flows: Purchases and proceeds from sale of trading securities (previously presented separately) are reported on a net basis as *Sales (purchases) of deferred compensation plan securities, net.* Cash used for *Shares withheld for employee taxes* is presented as a separate line item (previously reported as a component of *Proceeds from issuance of common stock through various stock plans).*

(1) We allow our U.S.-based officers and director-level employees to defer a portion of their compensation under the Altera Corporation Non-Qualified Deferred Compensation Plan (NQDC Plan). The compensation expense (benefit) related to our NQDC Plan that was previously reported in *Cost of sales* was not significant for the three and six months ended June 27, 2008 and does not materially affect our gross margin for any period presented herein. See Note 13 - Employee Benefit Plans to our condensed consolidated financial statements for a detailed discussion of our NQDC Plan.

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These condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2008 included in our Annual Report on Form 10-K, as filed on February 25, 2009 with the Securities and Exchange Commission (SEC). The consolidated operating results for the three and six months ended June 26, 2009 are not necessarily indicative of the results to be expected for any future period.

Note 2 Recent Accounting Pronouncements

FASB Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board (FASB) issued SFAS No. 168, *The FASB Accounting Standards Codification*™ *and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162* (SFAS 168). The statement confirmed that the *FASB Accounting Standards Codification* (the Codification) will become the single official source of authoritative U.S. GAAP (other than guidance issued by the SEC), superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force (EITF), and related literature. After that date, only one level of authoritative U.S. GAAP will exist. All other literature will be considered non-authoritative. The Codification does not change U.S. GAAP; instead, it introduces a new structure that is organized in an easily accessible, user-friendly online research system. The Codification, which changes the referencing of financial standards, becomes effective for interim and annual periods ending on or after September 15, 2009. We will apply the Codification beginning in the third quarter of fiscal 2009. The adoption of SFAS 168 is not expected to have any substantive impact on our condensed consolidated financial statements or related footnotes.

Fair Value Measurements

In April 2009, the FASB issued FSP FAS No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4). FSP 157-4 provides additional guidance for estimating fair value when the market activity for an asset or liability has declined significantly. FSP 157-4 is effective for interim and annual periods ending after June 15, 2009 and will be applied prospectively. During the quarter ended June 26, 2009, we adopted FSP 157-4. The adoption of FSP 157-4 did not have a significant impact on our condensed consolidated financial statements or related footnotes. See Note 15 Fair Value Measurements to our condensed consolidated financial statements.

In April 2009, the FASB issued FSP FAS No. 107-1 and APB No. 28-1, *Interim Financial Disclosures about Fair Value of Financial Instruments* (FSP 107-1), which amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of - publicly traded companies as well as in annual financial statements. FSP 107-1 also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. This interpretation is effective for interim reporting periods ending after June 15, 2009. During the quarter ended June 26, 2009, we adopted FSP 107-1. The adoption of FSP 107-1 did not have a significant impact on our condensed consolidated financial statements or related footnotes. See Note 15 Fair Value Measurements to our condensed consolidated financial statements.

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In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods of those fiscal years. In February 2008, the FASB released a FASB Staff Position (FSP FAS 157-2 *Effective Date of FASB Statement No. 157*) which delayed, to fiscal years beginning after November 15, 2008, the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Effective December 29, 2007, we adopted SFAS 157 as it applies to our financial instruments. Effective January 1, 2009, we adopted SFAS 157 for our non-financial assets and non-financial liabilities, without impact to our condensed consolidated financial statements or related footnotes. See Note 15 Fair Value Measurements to our condensed consolidated financial statements.

Subsequent Events

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This statement sets forth the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements. SFAS 165 also requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date that is, whether that date represents the date the financial statements were issued or were available to be issued. This statement is effective for interim or annual reporting periods ending after June 15, 2009. During the quarter ended June 26, 2009, we adopted SFAS 165. The adoption of SFAS 165 did not have a significant impact on our condensed consolidated financial statements or related footnotes. See Note 16 Subsequent Event to our condensed consolidated financial statements.

Derivative Instruments and Hedging Activities

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (SFAS 161). This new standard requires enhanced disclosures for derivative instruments, including those used in hedging activities. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. Effective January 1, 2009, we adopted SFAS 161. The adoption of SFAS 161 did not have any impact on our condensed consolidated financial statements or related footnotes.

Note 3 Significant Customers

We sell our products to original equipment manufacturers, or OEMs, and to electronic components distributors who resell these products to OEMs, or their subcontract manufacturers. Our worldwide sales through distributors for subsequent resale to OEMs or their subcontract manufacturers accounted for 77% and 78% of net sales for the three and six months ended June 26, 2009, respectively, and 91% and 92% of net sales for the three and six months ended June 27, 2008, respectively. Arrow Electronics, Inc. including its affiliates (Arrow) continue to be our largest distributor. Arrow accounted for 42% of net sales for each of the three and six month periods ended June 26, 2009, respectively, and 47% of net sales for each of the three and six month periods ended June 27, 2008, respectively. Our second largest distributor, Macnica, Inc. including its affiliates (Macnica), accounted for 13% of net sales for each of the three and six month periods ended June 26, 2009, respectively and 11% and 12% of the net sales for the three months and six months ended June 27, 2008, respectively. No other distributor accounted for greater than 10% of net sales for the three and six months ended June 26, 2009 or June 27, 2008. Our direct

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sales to OEMs accounted for 23% and 22% of net sales for the three and six months ended June 26, 2009, respectively, and 9% and 8% for the three and six months ended June 27, 2008, respectively. Huawei Technologies Co., Ltd., an OEM, individually accounted for 12% and 13% of net sales for the three and six months ended June 26, 2009, respectively. No other individual OEM accounted for more than 10% of net sales for the three and six months ended June 26, 2009. For the three and six months ended June 27, 2008, no single OEM accounted for more than 10% of our net sales.

As of June 26, 2009, accounts receivable from Arrow and Macnica individually accounted for approximately 43% and 18%, respectively, of our total accounts receivable. As of December 31, 2008, accounts receivable from Arrow and Macnica individually accounted for approximately 20% and 31%, respectively, of our total accounts receivable. No other distributor or OEM accounted for more than 10% of our accounts receivable as of June 26, 2009 or December 31, 2008.

Note 4 Inventories

Inventories as of June 26, 2009 and December 31, 2008 were comprised of the following:

(In thousands)	June 26, 2009	December 31, 2008
Raw materials and work in process	$ 48,810	$ 56,764
Finished goods	17,409	27,873
Total inventories	$ 66,219	$ 84,637

Note 5 Property and Equipment

Property and equipment, net as of June 26, 2009 and December 31, 2008 was comprised of the following:

(In thousands)	June 26, 2009	December 31, 2008
Land and land rights	$ 23,108	$ 23,108
Buildings	152,939	125,323
Equipment and software	228,370	233,098
Office furniture and fixtures	21,765	21,840
Leasehold improvements	8,638	8,680
Construction in progress	1,165	25,310
Property and equipment, at cost	435,985	437,359
Accumulated depreciation and amortization	(250,678)	(245,097)
Property and equipment, net	$ 185,307	$ 192,262

Depreciation expense includes the amortization of assets recorded under capital leases. Depreciation expense was $7.1 million and $14.6 million for the three and six months ended June 26, 2009, respectively, and $7.1 million and $15.1 million for the three and six months ended June 27, 2008, respectively. Depreciation and amortization expense as presented in our condensed consolidated statements of cash flows includes the above amounts, together with amortization expense on our intangible assets. Intangible asset amortization expense was not significant for any period presented in our condensed consolidated statements of income.

Assets held under capital leases, included in Equipment and software as presented above, totaled $10.8 million (net of accumulated amortization of $4.7 million) as of June 26, 2009 and $13.0 million (net of accumulated amortization of $2.5 million) as of December 31, 2008.

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Note 6 Deferred Income and Allowances on Sales to Distributors

Deferred income and allowances on sales to distributors is comprised of the following components:

(In thousands)	June 26, 2009	December 31, 2008
Deferred revenue on shipments to distributors	$ 378,972	$ 370,098
Deferred cost of sales on shipments to distributors	(35,887)	(33,924)
Deferred income on shipments to distributors	343,085	336,174
Advances to distributors	(116,416)	(137,353)
Other deferred revenue [(1)]	6,165	6,853
Total	$ 232,834	$ 205,674

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(1) Principally represents revenue deferred on our software and intellectual property licenses.

The Deferred income and allowances on sales to distributor activity for the six months ended June 26, 2009 and June 27, 2008 was as follows:

	Six Months Ended	
(In thousands)	June 26, 2009	June 27, 2008
Balance at beginning of period	$ 205,674	$ 280,440
Deferred income on shipments to distributors	1,947,417	2,511,158
Net change in advances to distributors	20,937	(17,014)
Price concessions [(1)]	(1,556,115)	(1,962,534)
Returns	(109,511)	(57,906)
Income recognized on distributor shipments to end customers	(274,880)	(414,550)
Net changes in other deferred revenue	(688)	(3,953)
Balance at end of period	$ 232,834	$ 335,641

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(1) Average aggregate price concessions typically range from 65% to 75% of our list price on an annual basis, depending upon the composition of our sales, volumes and factors associated with timing of shipments to distributors or payment of price concessions.

Distributor advances, included in *Deferred income and allowances on sales to distributors* on our condensed consolidated balance sheets, totaled $116.4 million as of June 26, 2009 and $137.4 million as of December 31, 2008. On sales to distributors, our payment terms frequently require the distributor to settle amounts owed to us for an amount in excess of their ultimate cost. Our sales price to the distributor may be higher than the amount that the distributor will ultimately owe us because distributors often negotiate price discounts after purchasing the product from us and such discounts are often significant. Often, under these circumstances, we remit or credit back to the distributor the price discount after the resale transaction is completed and we validate the distributor s resale information, including end customer, device, quantity and price, against the approved distributor price concession. It is our practice to apply these negotiated price discounts to future purchases, requiring the distributor to settle receivable balances, on a current basis, generally within 30 days, for amounts originally invoiced. This practice has an adverse impact on the working capital of our distributors. As such, we have entered into agreements with certain distributors whereby we advance cash to the distributors to reduce the distributor s working capital requirements. These advances are settled in cash at least on a quarterly basis and are estimated

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based on the amount of ending inventory as reported by the distributor multiplied by a negotiated percentage. Such advances have no impact on revenue recognition or our condensed consolidated statements of income and are a component of *Deferred income and allowances on sales to distributors* on our condensed consolidated balance sheets. We continuously process discounts taken by distributors against our *Deferred income and allowances on sales to distributors*. We adjust the recorded amount of the distributor advances based on cash settlements at the end of each quarter. These advances are set forth in binding legal agreements and are unsecured, bear no interest on unsettled balances and are due upon demand. The agreements governing these advances can be cancelled by us at any time.

We also enter into arrangements that, in substance, finance distributors accounts receivable and inventory. The amounts advanced are classified as *Other current assets* in our condensed consolidated balance sheets and totaled $43.5 million as of June 26, 2009 and $63.4 million as of December 31, 2008. These arrangements are set forth in binding legal agreements and are unsecured, bear no interest on unsettled balances and are due upon demand.

Distributor advances included in *Deferred income and allowance on sales to distributors* and in *Other current assets* in our condensed consolidated balance sheets decreased by an aggregate amount of $40.9 million during the six months ended June 26, 2009. This decrease represents repayments to Altera of funds previously advanced to distributors and primarily results from changes in distributor working capital requirements. The decrease also partially relates to the termination of advance-related agreements with certain distributors during 2009.

Note 7 Comprehensive Income

The components of comprehensive income were as follows:

	Three Months Ended		Six Months Ended	
(In thousands)	**June 26, 2009**	**June 27, 2008**	**June 26, 2009**	**June 27, 2008**
Net income	$ 47,423	$ 97,982	$ 91,384	$ 181,906
Unrealized gain on investments		(258)		(187)
Income tax expense on unrealized gain on investments		96		70
Amortization of accumulated unrecognized loss on retiree medical plan, net of tax effect		12		25
Reversal of accumulated unrecognized loss on retiree medical plan, net of tax effect(1)			1,118	
Comprehensive income	$ 47,423	$ 97,832	$ 92,502	$ 181,814

(1) See Note 13 Employee Benefit Plans to our condensed consolidated financial statements for a detailed discussion of the substantive termination of our retiree medical plan.

Accumulated other comprehensive loss presented in the accompanying condensed consolidated balance sheet as of December 31, 2008 consisted of unrecognized actuarial losses on our retiree medical plan, net of tax. As a result of the maturities of available-for-sale investments in 2008 and the substantive termination of our retiree medical plan in January 2009, we had no remaining balance in *Accumulated other comprehensive loss* as of June 26, 2009.

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Note 8 Income Per Share

A reconciliation of basic and diluted income per share is presented below:

(In thousands, except per share amounts)	Three Months Ended June 26, 2009	Three Months Ended June 27, 2008	Six Months Ended June 26, 2009	Six Months Ended June 27, 2008
Basic:				
Net income	$ 47,423	$ 97,982	$ 91,384	$ 181,906
Basic weighted shares outstanding	293,895	300,535	293,511	304,000
Net income per share	$ 0.16	$ 0.33	$ 0.31	$ 0.60
Diluted:				
Net income	$ 47,423	$ 97,982	$ 91,384	$ 181,906
Weighted shares outstanding	293,895	300,535	293,511	304,000
Effect of dilutive securities:				
Stock options, ESPP, and restricted stock unit shares	1,608	5,333	1,646	3,950
Diluted weighted shares outstanding	295,503	305,868	295,157	307,950
Net income per share	$ 0.16	$ 0.32	$ 0.31	$ 0.59

In applying the treasury stock method, we excluded 32.8 million and 33.3 million stock option shares for the three and six months ended June 26, 2009, respectively, and 19.4 million and 26.6 million stock option shares for the three and six months ended June 27, 2008, respectively, because their effect was anti-dilutive. While these stock option shares are currently anti-dilutive, they could be dilutive in the future. All restricted stock units outstanding as of June 26, 2009 and June 27, 2008 were included in our treasury stock method calculation.

Note 9 Long-term Credit Facility

Our total borrowings under our $750 million unsecured revolving credit facility (the Facility) as of June 26, 2009 and December 31, 2008 were $500 million. Borrowings under the Facility bear interest at either a Eurodollar rate (LIBOR) or a Prime rate, at our option, plus an applicable margin based upon certain financial ratios, determined and payable quarterly. The interest rate as of June 26, 2009 was LIBOR plus 0.425%. In addition, we pay a facility fee on the entire Facility. This facility fee varies with certain financial ratios and was 0.125% as of June 26, 2009. The principal amount of borrowings, together with accrued interest, is due on the maturity date in August 2012. As of June 26, 2009, $250 million is available under the Facility.

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The terms of the Facility require compliance with certain financial covenants that require us to maintain specified financial ratios related to interest coverage and financial leverage. As of June 26, 2009, we were in compliance with all such covenants.

Note 10 Commitments and Contingencies

Indemnification and Product Warranty

We indemnify certain customers, distributors, suppliers, and subcontractors for attorney fees, and damages and costs awarded against these parties in certain circumstances in which our products are alleged to infringe third party intellectual property rights including patents, trade secrets, trademarks, or copyrights. We cannot estimate the amount of potential future payments, if any, that we might be required to make as a result of these agreements. To date, we have not paid any claim or been required to defend any action related to our indemnification obligations, and accordingly, we have not accrued any amounts for such indemnification obligations. However, we may record charges in the future as a result of these indemnification obligations.

We generally warrant our devices for one year, against defects in materials, workmanship and non-conformance to our specifications. We accrue for known warranty issues if a loss is probable and can be reasonably estimated, and accrue for estimated but unidentified issues based on historical activity. If there is a material increase in customer claims compared with our historical experience or if the costs of servicing warranty claims are greater than expected, we may record a charge against cost of sales.

The following table summarizes the activity related to our product warranty liability for the six months ended June 26, 2009 and June 27, 2008, which is included in *Accrued liabilities* in our condensed consolidated balance sheets.

	Six Months Ended	
(In thousands)	**June 26, 2009**	**June 27, 2008**
Balance at beginning of period	$ 860	$ 18
Addition to estimated reserve		935
Payments		(88)
Balance at end of period	$ 860	$ 865

Purchase Obligations

We depend entirely upon subcontractors to manufacture our silicon wafers and provide assembly and test services. Due to lengthy subcontractor lead times, we must order these materials and services from these subcontractors well in advance, and we are obligated to pay for the materials and services once they are completed. As of June 26, 2009, we had approximately $110.1 million of outstanding purchase commitments to such subcontractors. We expect to receive and pay for these materials and services within the next four to six months.

Legal Proceedings

We have been named as a party to several lawsuits concerning our historical stock option practices and related accounting and reporting.

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In May and July 2006, we were notified that three shareholder derivative lawsuits had been filed in the Superior Court of the State of California, County of Santa Clara, by persons identifying themselves as Altera shareholders and purporting to act on behalf of Altera, naming Altera Corporation as a nominal defendant and naming some of our current and former officers and directors as defendants. On July 12, 2006, one of these derivative actions was voluntarily dismissed by the plaintiff shareholder. The remaining two derivative lawsuits pending in Santa Clara Superior Court were consolidated into a single action on September 5, 2006. Plaintiffs filed a second amended consolidated complaint on December 15, 2006. On January 30, 2007, Altera and the defendants filed a motion to stay this action pending resolution of the federal derivative action (discussed below). On February 11, 2009, one of the remaining derivative plaintiffs voluntarily dismissed his derivative claims and, on March 20, 2009, the other remaining derivative plaintiff filed a third amended complaint. In June 2009, Altera and the defendants demurred to the third amended complaint. The motion is currently pending.

The consolidated California state court action names Altera Corporation as a nominal defendant and the following current and former Altera officers and directors as defendants: John P. Daane, Nathan M. Sarkisian, Denis M. Berlan, Robert W. Reed, Robert J. Finocchio, Jr., Kevin McGarity, Paul Newhagen, William E. Terry, Susan Wang, Charles M. Clough, Rodney Smith, Michael B. Jacobs, Erik Cleage, Deborah Reiman, Michael J. Ellison, C. Wendell Bergere, Clive McCarthy, and Peter Smyth. Plaintiffs assert claims against these individual defendants for breach of fiduciary duty, waste of corporate assets, unjust enrichment, violations of California Corporation Code section 25402, breach of fiduciary duty for insider selling and misappropriation of information, and deceit. Plaintiff s claims concern the granting of stock options by Altera between 1994 and 2001 and the alleged filing of false and misleading financial statements between 1994 and 2006. All of these claims are asserted derivatively on behalf of Altera. Plaintiff seeks, among other relief, an indeterminate amount of damages from the individual defendants and a judgment directing Altera to reform its corporate governance practices.

During the months of May, June, and July 2006, four other derivative lawsuits were filed by purported Altera shareholders, on behalf of Altera, in the United States District Court for the Northern District of California. On August 8, 2006, these actions were consolidated, and the plaintiffs filed a consolidated complaint on November 30, 2006. On September 15, 2008, the plaintiffs voluntarily agreed to dismiss the case. On September 18, 2008, the court entered an order dismissing the case.

Among the defendants that were named in these derivative actions were Altera Corporation as a nominal defendant and the following current and former officers and directors of Altera: John P. Daane, Nathan M. Sarkisian, Denis M. Berlan, Robert W. Reed, Robert J. Finocchio, Jr., Kevin McGarity, Paul Newhagen, William E. Terry, Susan Wang, Charles M. Clough, Rodney Smith, Michael B. Jacobs, Katherine E. Schuelke, John R. Fitzhenry, Deborah Reiman, Michael J. Ellison, C. Wendell Bergere, Clive McCarthy, and Peter Smyth. The first amended consolidated complaint included claims for violations of Sections 10(b), 14(a), and 20(a) of the Securities Exchange Act of 1934, breach of fiduciary duty, corporate waste, gross mismanagement, unjust enrichment, abuse of control, insider selling and misappropriation of information, rescission, accounting, and violations of California Corporation Code sections 25402 and 25502.5. Plaintiffs claims concerned the granting of stock options by Altera between 1995 and 2001 and the alleged filing of false and misleading financial statements between 1996 and 2005.

Note 11 Stock-Based Compensation

2005 Equity Incentive Plan

Our equity incentive program is a broad-based, long-term retention program intended to attract, motivate, and retain talented employees as well as align stockholder and employee interests. On May 10, 2005, our stockholders approved Altera s 2005 Equity Incentive Plan (the 2005 Plan). The 2005 Plan replaced our 1996 Stock Option Plan (the 1996 Plan) and our 1998 Director Stock Option Plan (the 1998 Plan) (together, the 1996 Plan and the 1998 Plan are referred to as Prior Plans) and is now Altera s only plan for providing stock-based incentive compensation (awards) to both our eligible employees and non-employee directors. Awards that may be granted under the 2005 Plan include non-qualified and incentive stock options, restricted stock units (RSUs), restricted stock awards, stock appreciation rights, stock bonus awards and performance-based awards. To date, we have granted both options and RSUs under the 2005 Plan. The majority of awards of stock options and RSUs granted under the 2005 Plan vests over four years. Stock options granted under the 2005 Plan have a maximum contractual term of ten years. On May 12, 2009, our stockholders approved an amendment to the 2005 Plan to increase the shares authorized for future issuance by 5 million. As of June 26, 2009, the 2005 Plan had a total of 30.3 million shares reserved for future issuance, of which 19.2 million shares were available for future grants.

A summary of our RSU activity for the six months ended June 26, 2009 and information regarding RSUs outstanding and expected to vest as of June 26, 2009 is as follows:

(In thousands, except per share amounts and terms)	Number of Shares	Weighted-Average Grant-Date Fair Market Value	Weighted-Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (1)
Outstanding, December 31, 2008	6,289	$ 20.54		
Grants	1,037	$ 14.83		
Vested	(906)	$ 19.81		
Forfeited	(372)	$ 18.75		
Outstanding, June 26, 2009	6,048	$ 19.78	1.5	$ 99,001
Outstanding and expected to vest, June 26, 2009	5,182	$ 19.86	1.4	$ 84,837

(1) Aggregate intrinsic value for RSUs represents the closing price per share of our stock on June 26, 2009, multiplied by the number of RSUs outstanding or expected to vest as of June 26, 2009.

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A summary of stock option activity for the six months ended June 26, 2009 and information regarding stock options outstanding, exercisable, and vested and expected to vest as of June 26, 2009 is as follows:

(In thousands, except per share amounts and terms)	Number of Shares	Weighted- Average Exercise Price	Weighted-Average Remaining Contractual Term (in Years)	Agregate Intrinsic Value [(1)]
Outstanding, December 31, 2008	37,680	$ 21.72		
Grants	9	$ 15.99		
Exercises	(244)	$ 13.72		
Forfeited/Cancelled/Expired	(1,640)	$ 22.24		
Outstanding, June 26, 2009	35,805	$ 21.76	3.6	$ 10,230
Exercisable, June 26, 2009	34,563	$ 21.82	3.5	$ 10,227
Vested and expected to vest, June 26, 2009	35,683	$ 21.76	3.6	$ 10,230

(1) Aggregate intrinsic value for stock options represents the difference between the exercise price and the closing price per share of our common stock on June 26, 2009, multiplied by the number of stock options outstanding, exercisable, or vested and expected to vest as of June 26, 2009.

For the three and six months ended June 26, 2009, 74,121 and 243,906 non-qualified stock option shares were exercised, respectively. The intrinsic value of the stock options exercised during the three and six months ended June 26, 2009 was $0.2 million and $0.8 million, respectively. The intrinsic value represents the total pre-tax value received by option holders upon the exercise of stock options during the period.

1987 Employee Stock Purchase Plan (the ESPP)

On May 12, 2009, our stockholders approved an amendment to the ESPP to increase the shares available for future issuance by 1 million. As of June 26, 2009, 2.8 million shares were available for future issuance under the ESPP. We sold 619,363 shares of common stock under the ESPP at a price of $13.86 for the six months ended June 26, 2009 and 532,634 shares of common stock at a price of $16.39 for the six months ended June 27, 2008.

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Valuation and Expense Information Under SFAS 123(R)

We estimate the fair value of RSUs, stock options and ESPP shares on the date of grant using the Black-Scholes option-pricing model. There were no stock options granted during the three months ended June 26, 2009. The assumptions used to estimate the fair value of RSUs, stock options and ESPP shares granted during the three and six months ended June 26, 2009 and June 27, 2008 were as follows:

	Three Months Ended		Six Months Ended	
	June 26, 2009	June 27, 2008	June 26, 2009	June 27, 2008
Stock options:				
Expected term (in years)		5.0	5.0	5.0
Expected stock price volatility		36.1%	40.9%	35.9%
Risk-free interest rate		3.2%	1.7%	3.0%
Dividend yield		0.9%	1.3%	0.9%
Weighted-average estimated fair value		$ 7.35	$ 5.41	**5. Acquisition**

On October 25, 2010, the Company acquired for cash 100% of the capital stock of BCRP Inc. and the membership interest of Northstar Group Commercial Properties LLC (together, with their subsidiaries Northstar-at-Tahoe) that operate the Northstar-at-Tahoe mountain resort in North Lake Tahoe, California from Booth Creek Resort Properties LLC and other sellers for a total consideration of $60.5 million, net of cash acquired. Northstar-at-Tahoe is a year round mountain resort providing a comprehensive offering of recreational activities including both snow sports and summer activities. Additionally, Northstar-at-Tahoe operates a base area village at the resort, including the subleasing of commercial retail space.

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The following summarizes the preliminary estimated fair values of the identifiable assets acquired and liabilities assumed at the acquisition date (in thousands). The preliminary estimate of fair value of identifiable assets acquired and liabilities assumed are subject to revisions, which may result in adjustments to the preliminary values presented below.

	Preliminary Estimates of Acquisition Date Fair Value	
Accounts receivable, net	$	3,007
Inventory, net		1,799
Other assets		1,488
Property, plant and equipment		9,469
Deferred income tax assets		16,936
Intangible assets		1,200
Goodwill		90,020
Total identifiable assets acquired	$	123,919
Accounts payable and accrued liabilities	$	6,599
Deferred revenue		5,281
Capital lease obligations		8,111
Unfavorable lease obligations, net		43,400
Total liabilities assumed	$	63,391
Total purchase price	$	60,528

The operations of Northstar-at-Tahoe are conducted on land and with operating assets owned by CNL Lifestyle Properties, Inc. under long-term lease agreements which were assumed by the Company. Under the terms of the leases, the Company estimates that it will be required to pay above market rates in the aggregate through the remainder of the initial lease term expiring in fiscal 2027. The Company has recorded a net unfavorable lease obligation for these leases that will be amortized as an adjustment to lease expense over the remaining initial lease term. Future minimum lease payments under the remaining initial term of these leases reflected by fiscal year as of January 31, 2011 are as follows (in thousands):

2011	$	8,326
2012		9,568
2013		9,979
2014		11,514
2015		11,831
Thereafter		152,036
Total	$	203,254

The excess of the purchase price over the aggregate fair values of assumed assets and liabilities was recorded as goodwill. The goodwill recognized is attributable primarily to expected synergies, the assembled workforce of Northstar-at-Tahoe and other factors. None of the goodwill is expected to be deductible for income tax purposes. The operating results of Northstar-at-Tahoe have contributed $31.3 million of net revenue for the three months ended January 31, 2011. Additionally, the Company has recognized $3.8 million of acquisition related expenses in the Consolidated Condensed Statement of Operations during the six months ended January 31, 2011.

The following presents the unaudited pro forma consolidated financial information as if the acquisition of Northstar-at-Tahoe was completed on August 1, 2009. The following pro forma financial information includes adjustments for (i) depreciation and interest expense for capital leases on acquired property, plant and equipment recorded at the date of acquisition; (ii) straight-line expense recognition of minimum future lease payments from the date of acquisition, including the amortization of the net unfavorable lease obligations; and (iii) acquisition related costs. This 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 acquisition taken place on August 1, 2009 (in thousands, except per share amounts).

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	Three Months Ended January 31, 2010	
Pro forma net revenue	$	325,353
Pro forma net income attributable to Vail Resorts, Inc.	$	44,307
Pro forma basic net income per share attributable to Vail Resorts, Inc.	$	1.22
Pro forma diluted net income per share attributable to Vail Resorts, Inc.	$	1.21

	Six Months Ended January 31, 2011		2010	
Pro forma net revenue	$	626,975	$	410,384
Pro forma net income (loss) attributable to Vail Resorts, Inc.	$	10,072	$	(78)
Pro forma basic net income per share attributable to Vail Resorts, Inc.	$	0.28	$	
Pro forma diluted net income per share attributable to Vail Resorts, Inc.	$	0.27	$	

6. Supplementary Balance Sheet Information

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

	January 31, 2011	July 31, 2010	January 31, 2010
Land and land improvements	$ 270,629	$ 270,382	$ 269,248
Buildings and building improvements	788,378	769,382	738,165
Machinery and equipment	541,512	512,144	513,874
Furniture and fixtures	210,626	198,566	189,742
Software	61,173	56,498	52,942
Vehicles	41,623	35,447	35,208
Construction in progress	29,574	31,197	36,970
Gross property, plant and equipment	1,943,515	1,873,616	1,836,149
Accumulated depreciation	(899,017)	(846,226)	(796,594)
Property, plant and equipment, net	$ 1,044,498	$ 1,027,390	$ 1,039,555

The changes in the net carrying amount of goodwill allocated between the Company s segments as of July 31, 2010 and January 31, 2011 are as follows (in thousands):

	Mountain	Lodging	Goodwill, net
Balance at July 31, 2010	$ 120,615	$ 60,470	$ 181,085
Northstar-at-Tahoe acquisition	90,020		90,020
Balance at January 31, 2011	$ 210,635	$ 60,470	$ 271,105

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

	January 31, 2011	July 31, 2010	January 31, 2010
Trade payables	$ 71,289	$ 47,554	$ 55,677
Real estate development payables	9,702	31,203	42,635
Deferred revenue	100,614	53,298	83,363
Deferred real estate and other deposits	23,850	42,891	64,279
Accrued salaries, wages and deferred compensation	26,871	21,425	21,404
Accrued benefits	25,356	23,547	24,974
Accrued interest	13,828	13,939	13,788
Other accruals	39,729	21,469	33,136
Total accounts payable and accrued liabilities	$ 311,239	$ 255,326	$ 339,256

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

	January 31, 2011	July 31, 2010	January 31, 2010
Private club deferred initiation fee revenue and deposits	$ 147,196	$ 148,184	$ 150,980
Unfavorable lease obligation, net	40,073		
Other long-term liabilities	51,507	48,976	46,779
Total other long-term liabilities	$ 238,776	$ 197,160	$ 197,759

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 has consolidated them in its Consolidated Condensed Financial Statements. As a group, as of January 31, 2011 the Employee Housing Entities had total assets of $34.0 million (primarily recorded in property, plant and equipment, net) and total liabilities of $62.0 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 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 currently leases substantially all of that space. APII had total assets of $5.3 million (primarily recorded in property, plant and equipment, net) and no debt as of January 31, 2011.

The Company, through various lodging subsidiaries, manages hotels in which the Company has no ownership interest in the entities that own such hotels. The Company has extended a $2.0 million note receivable to one of these entities. This entity was formed by unrelated third parties to acquire, own, operate and realize the value in resort hotel properties. The Company managed the day-to-day operations of this hotel property as of January 31, 2011. The Company has determined that this entity is a VIE, and the management contract along with the note receivable are significant variable interests in this VIE. The Company has also determined that it is not the primary beneficiary of this entity and, accordingly, is not required to consolidate this entity. Based upon the latest information provided by this third party entity, this VIE had estimated total assets of approximately $62.7 million and total liabilities of approximately $71.9 million. The Company s maximum exposure to loss as a result of its involvement with this VIE is limited to a $2.6 million note receivable, including accrued interest from the third party and the net book value of the intangible asset associated with a management agreement in the amount of $0.5 million as of January 31, 2011.

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8. Fair Value Measurements

The FASB 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 measured at fair value (all other assets and liabilities measured at fair value are immaterial) (in thousands):

	Fair Value Measurement as of January 31, 2011			
Description	Balance at January 31, 2011	Level 1	Level 2	Level 3
Money Market	$ 402	$ 402	$	$
US Treasury	$ 8,297	$ 8,297	$	$
Certification of Deposit	$ 300	$	$ 300	$

	Fair Value Measurement as of July 31, 2010			
Description	Balance at July 31, 2010	Level 1	Level 2	Level 3
Money Market	$ 399	$ 399	$	$
US Treasury	$ 8,297	$ 8,297	$	$
Certification of Deposit	$ 300	$	$ 300	$

	Fair Value Measurement as of January 31, 2010			
Description	Balance at January 31, 2010	Level 1	Level 2	Level 3
Money Market	$ 8,698	$ 8,698	$	$
US Treasury	$	$	$	$
Certification of Deposit	$ 300	$	$ 300	$

9. Commitments and Contingencies

Metropolitan Districts

The Company credit-enhances $8.0 million of bonds issued by Holland Creek Metropolitan District (HCMD) through an $8.1 million letter of credit issued under the Credit Agreement. HCMD s bonds were issued and used to build infrastructure associated with the Company s Red Sky Ranch residential development. The Company has agreed to pay capital improvement fees to Red Sky Ranch Metropolitan District (RSRMD) until RSRMD s revenue streams from property taxes are sufficient to meet debt service requirements under HCMD s bonds, and the

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Company has recorded a liability of $1.8 million, $1.9 million and $1.8 million, primarily within other long-term liabilities in the accompanying Consolidated Condensed Balance Sheets, as of January 31, 2011, July 31, 2010 and January 31, 2010, respectively, with respect to the estimated present value of future RSRMD capital improvement fees. The Company estimates that it will make capital improvement fee payments under this arrangement through the year ending July 31, 2028.

Guarantees/ Indemnifications

As of January 31, 2011, the Company had various other letters of credit in the amount of $73.3 million, consisting primarily of $53.4 million in support of the Employee Housing Bonds, $13.4 million of construction and development related guarantees and $5.4 million for workers compensation and general liability deductibles related to construction and development activities.

In addition to the guarantees noted above, the Company has entered into contracts in the normal course of business which include certain indemnifications under which it could be required to make payments to third parties upon the occurrence or non-occurrence of certain future events. These indemnities include indemnities to licensees in connection with the licensees use of the Company s trademarks and logos, indemnities for liabilities associated with the infringement of other parties technology and software products, indemnities related to liabilities associated with the use of easements, indemnities related to employment of contract workers, the Company s use of trustees, indemnities related to the Company s use of public lands and environmental indemnifications. The duration of these indemnities generally is indefinite and generally do not limit the future payments the Company could be obligated to make.

As permitted under applicable law, the Company and certain of its subsidiaries indemnify their directors and officers over their lifetimes for certain events or occurrences while the officer or director is, or was, serving the Company or its subsidiaries in such a capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has a director and officer insurance policy that should enable the Company to recover a portion of any future amounts paid.

Unless otherwise noted, the Company has not recorded any significant liabilities for the letters of credit, indemnities and other guarantees noted above in the accompanying Consolidated Condensed Financial Statements, either because the Company has recorded on its Consolidated Condensed Balance Sheets the underlying liability associated with the guarantee, the guarantee is with respect to the Company s own performance and is therefore not subject to the measurement requirements as prescribed by GAAP, or because the Company has calculated the fair value of the indemnification or guarantee to be immaterial based upon the current facts and circumstances that would trigger a payment under the indemnification clause. In addition, with respect to certain indemnifications it is not possible to determine the maximum potential amount of liability under these guarantees due to the unique set of facts and circumstances that are likely to be involved in each particular claim and indemnification provision. Historically, payments made by the Company under these obligations have not been material.

As noted above, the Company makes certain indemnifications to licensees in connection with their use of the Company s trademarks and logos. The Company does not record any liabilities with respect to these indemnifications.

Self Insurance

The Company is self-insured for claims under its health benefit plans and for the majority of workers compensation claims, subject to a stop loss policy. The self-insurance liability related to workers compensation is determined actuarially based on claims filed. The self-insurance liability related to claims under the Company s health benefit plans is determined based on analysis of actual claims. The amounts related to these claims are included as a component of accrued benefits in accounts payable and accrued liabilities (see Note 6, Supplementary Balance Sheet Information).

Legal

The Company is a party to various lawsuits arising in the ordinary course of business. Management believes the Company has adequate insurance coverage or has accrued for loss contingencies for all known matters that are deemed to be probable losses and estimable. As of January 31, 2011, July 31, 2010 and January 31, 2010 the accrual for the loss contingencies related to these matters was not material individually and in the aggregate.

10. Segment Information

The Company has three reportable segments: Mountain, Lodging and Real Estate. The Mountain segment includes the operations of the Company s ski resorts and related ancillary services. The Lodging segment includes the operations of all of the Company s owned hotels, RockResorts, GTLC, condominium management, CME and golf operations. The Real Estate segment owns and develops real estate in and around the Company s resort communities. The Company s reportable segments, although integral to the success of the others, offer distinctly different products and services and require different types of management focus. As such, these segments are managed separately.

The Company reports its segment results using Reported EBITDA (defined as segment net revenue less segment operating expenses, plus or minus segment equity investment income or loss and for the Real Estate segment plus gain on sale of real property), which is a non-GAAP financial measure. The Company reports segment results in a manner consistent with management s internal reporting of operating results to the chief operating decision maker (Chief Executive Officer) for purposes of evaluating segment performance.

Reported EBITDA is not a measure of financial performance under GAAP. Items excluded from Reported EBITDA are significant components in understanding and assessing financial performance. Reported EBITDA should not be considered in isolation or as an alternative to, or substitute for, net income (loss), net change in cash and cash equivalents or other financial statement data presented in the Consolidated Condensed Financial Statements as indicators of financial performance or liquidity. Because Reported EBITDA is not a measurement determined in accordance with GAAP and thus is susceptible to varying calculations, Reported EBITDA as presented may not be comparable to other similarly titled measures of other companies.

The Company utilizes Reported EBITDA in evaluating performance of the Company and in allocating resources to its segments. Mountain Reported EBITDA consists of Mountain net revenue less Mountain operating expense plus or minus Mountain equity investment income or loss. Lodging Reported EBITDA consists of Lodging net revenue less Lodging operating expense. Real Estate Reported EBITDA consists of Real Estate net revenue less Real Estate operating expense plus gain on sale of real property. All segment expenses include an allocation of corporate administrative expense. Assets are not allocated between segments, or used to evaluate performance, except as shown in the table below.

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Following is key financial information by reportable segment which is used by management in evaluating performance and allocating resources (in thousands):

	Three Months Ended January 31,		Six Months Ended January 31,	
	2011	2010	2011	2010
Net revenue:				
Lift tickets	$ 155,173	$ 129,517	$ 155,173	$ 129,517
Ski school	37,296	30,069	37,296	30,069
Dining	26,405	19,789	30,512	23,257
Retail/rental	74,320	61,026	96,373	82,564
Other	25,083	20,577	39,702	34,775
Total Mountain net revenue	318,277	260,978	359,056	300,182
Lodging	44,720	38,676	89,098	80,031
Total Resort net revenue	362,997	299,654	448,154	380,213
Real Estate	25,147	870	174,408	1,075
Total net revenue	$ 388,144	$ 300,524	$ 622,562	$ 381,288
Operating expense:				
Mountain	$ 191,224	$ 154,018	$ 274,360	$ 230,486
Lodging	43,839	37,788	86,674	80,411
Total Resort operating expense	235,063	191,806	361,034	310,897
Real estate	25,344	7,417	170,407	12,594
Total segment operating expense	$ 260,407	$ 199,223	$ 531,441	$ 323,491
Gain on sale of real property	$	$	$	$ 6,087
Mountain equity investment income, net	$ 138	$ 207	$ 918	$ 461
Reported EBITDA:				
Mountain	$ 127,191	$ 107,167	$ 85,614	$ 70,157
Lodging	881	888	2,424	(380)
Resort	128,072	108,055	88,038	69,777
Real Estate	(197)	(6,547)	4,001	(5,432)
Total Reported EBITDA	$ 127,875	$ 101,508	$ 92,039	$ 64,345
Real estate held for sale and investment	$ 281,699	$ 414,501	$ 281,699	$ 414,501
Reconciliation to net income (loss) attributable to Vail Resorts, Inc:				
Total Reported EBITDA	$ 127,875	$ 101,508	$ 92,039	$ 64,345
Depreciation and amortization	(30,276)	(27,772)	(58,008)	(54,956)
(Loss) gain on disposal of fixed assets, net	(400)	12	(308)	(101)
Investment income	226	192	464	422
Interest expense, net	(8,659)	(4,148)	(16,595)	(8,983)
Income before (provision) benefit for income taxes	88,766	69,792	17,592	727
(Provision) benefit for income taxes	(34,209)	(24,713)	(6,095)	841

Net income	$ 54,557	$ 45,079	$ 11,497	$ 1,568
Net (income) loss attributable to noncontrolling interests	(6)	(4,389)	31	(2,051)
Net income (loss) attributable to Vail Resorts, Inc.	$ 54,551	$ 40,690	$ 11,528	$ (483)

11. Stock Repurchase Plan

On March 9, 2006, the Company s Board of Directors approved the repurchase of up to 3,000,000 shares of common stock and on July 16, 2008 approved an increase of the Company s common stock repurchase authorization by an additional 3,000,000 shares. Since inception of its stock repurchase plan through January 31, 2011, the Company has repurchased 4,264,804 shares at a cost of approximately $162.8 million. As of January 31, 2011, 1,735,196 shares remained available under the existing repurchase authorization. Shares of common stock purchased pursuant to the repurchase program will be held as treasury shares and may be used for the issuance of shares under the Company s employee share award plans.

12. Guarantor Subsidiaries and Non-Guarantor Subsidiaries

The Company s payment obligations under the 6.75% Notes (see Note 4, Long-Term Debt) are fully and unconditionally guaranteed on a joint and several, senior subordinated basis by substantially all of the Company s consolidated subsidiaries (collectively, and excluding Non-Guarantor Subsidiaries (as defined below), the Guarantor Subsidiaries), except for VR Acquisition, Inc., BCRP, Inc., Booth Creek Ski Holdings, Inc., Trimont Land Company, Northstar Commercial Properties LLC, Northstar Group Restaurant Properties LLC, Eagle Park Reservoir Company, Gros Ventre Utility Company, Mountain Thunder, Inc., Larkspur Restaurant & Bar, LLC, Gore Creek Place, LLC and certain other insignificant entities (together, the Non-Guarantor Subsidiaries). APII and the Employee Housing Entities are included with the Non-Guarantor Subsidiaries for purposes of the consolidated financial information, but are not considered subsidiaries under the indenture governing the 6.75% Notes.

Presented below is the consolidated financial information of the Parent Company, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries. Financial information for the Non-Guarantor Subsidiaries is presented in the column titled Other Subsidiaries. On April 30, 2010, the Company acquired GSSI s remaining noncontrolling interest in SSV (see Note 2, Summary of Significant Accounting Policies). Subsequent to this transaction, SSV became a Guarantor Subsidiary under the 6.75% Notes. As such, the Company has included SSV under Guarantor Subsidiaries in the accompanying supplemental condensed financial statements. Reclassifications for SSV have been made to the financial information as of and for the three and six months ended January 31, 2010 to conform to the current year presentation. Balance sheets are presented as of January 31, 2011, July 31, 2010 and January 31, 2010. Statements of operations are presented for the three and six months ended January 31, 2011 and 2010. Statement of cash flows are presented for the six months ended January 31, 2011 and 2010.

Investments in subsidiaries are accounted for by the Parent Company and Guarantor Subsidiaries using the equity method of accounting. Net income (loss) of Guarantor and Non-Guarantor Subsidiaries is, therefore, reflected in the Parent Company s and Guarantor Subsidiaries investments in and advances to (from) subsidiaries. Net income (loss) of the Guarantor and Non-Guarantor Subsidiaries is reflected in Guarantor Subsidiaries and Parent Company as equity in consolidated subsidiaries. The elimination entries eliminate investments in Other Subsidiaries and intercompany balances and transactions for consolidated reporting purposes.

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Supplemental Condensed Consolidating Balance Sheet

As of January 31, 2011

(in thousands)

(Unaudited)

	Parent Company	100% Owned Guarantor Subsidiaries	Other Subsidiaries	Eliminating Entries	Consolidated
Current assets:					
Cash and cash equivalents	$	$ 90,186	$ 7,065	$	$ 97,251
Restricted cash		15,142	758		15,900
Trade receivables, net	450	49,320	5,353		55,123
Inventories, net		52,780	1,806		54,586
Other current assets	25,759	19,669	1,771		47,199
Total current assets	26,209	227,097	16,753		270,059
Property, plant and equipment, net		987,254	57,244		1,044,498
Real estate held for sale and investment		281,699			281,699
Goodwill, net		181,085	90,020		271,105
Intangible assets, net		71,000	19,269		90,269
Other assets	2,160	34,194	7,809		44,163
Investments in subsidiaries	1,663,467	65,894		(1,729,361)	
Advances	(320,369)	297,678	22,691		
Total assets	$ 1,371,467	$ 2,145,901	$ 213,786	$ (1,729,361)	$ 2,001,793
Current liabilities:					
Accounts payable and accrued liabilities	$ 12,507	$ 273,923	$ 24,809	$	$ 311,239
Income taxes payable	23,355				23,355
Long-term debt due within one year		133	2,575		2,708
Total current liabilities	35,862	274,056	27,384		337,302
Long-term debt	390,000	41,405	63,644		495,049
Other long-term liabilities	29,203	166,973	42,600		238,776
Deferred income taxes	109,963				109,963
Total Vail Resorts, Inc. stockholders equity	806,439	1,663,467	65,894	(1,729,361)	806,439
Noncontrolling interests			14,264		14,264
Total stockholders equity	806,439	1,663,467	80,158	(1,729,361)	820,703
Total liabilities and stockholders equity	$ 1,371,467	$ 2,145,901	$ 213,786	$ (1,729,361)	$ 2,001,793

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Supplemental Condensed Consolidating Balance Sheet

As of July 31, 2010

(in thousands)

	Parent Company	100% Owned Guarantor Subsidiaries	Other Subsidiaries	Eliminating Entries	Consolidated
Current assets:					
Cash and cash equivalents	$	$ 11,315	$ 3,430	$	$ 14,745
Restricted cash		11,443	391		11,834
Trade receivables, net		53,013	609		53,622
Inventories, net		48,081	214		48,295
Other current assets	21,448	20,570	231		42,249
Total current assets	21,448	144,422	4,875		170,745
Property, plant and equipment, net		990,904	36,486		1,027,390
Real estate held for sale and investment		422,164			422,164
Goodwill, net		181,085			181,085
Intangible assets, net		71,118	18,155		89,273
Other assets	2,515	24,776	4,861		32,152
Investments in subsidiaries	1,631,824	(16,258)		(1,615,566)	
Advances	(294,189)	298,798	(4,609)		
Total assets	$ 1,361,598	$ 2,117,009	$ 59,768	$ (1,615,566)	$ 1,922,809
Current liabilities:					
Accounts payable and accrued liabilities	$ 12,400	$ 240,823	$ 2,103	$	$ 255,326
Income taxes payable	32,729				32,729
Long-term debt due within one year		1,682	187		1,869
Total current liabilities	45,129	242,505	2,290		289,924
Long-term debt	390,000	76,479	58,363		524,842
Other long-term liabilities	29,203	166,201	1,756		197,160
Deferred income taxes	108,496				108,496
Total Vail Resorts, Inc. stockholders equity (deficit)	788,770	1,631,824	(16,258)	(1,615,566)	788,770
Noncontrolling interests			13,617		13,617
Total stockholders equity (deficit)	788,770	1,631,824	(2,641)	(1,615,566)	802,387
Total liabilities and stockholders equity	$ 1,361,598	$ 2,117,009	$ 59,768	$ (1,615,566)	$ 1,922,809

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Supplemental Condensed Consolidating Balance Sheet

As of January 31, 2010

(in thousands)

(Unaudited)

	Parent Company	100% Owned Guarantor Subsidiaries	Other Subsidiaries	Eliminating Entries	Consolidated
Current assets:					
Cash and cash equivalents	$	$ 54,891	$ 3,117	$	$ 58,008
Restricted cash		14,916	616		15,532
Trade receivables, net		44,762	604		45,366
Inventories, net		51,430	211		51,641
Other current assets	23,754	27,691	239		51,684
Total current assets	23,754	193,690	4,787		222,231
Property, plant and equipment, net		1,002,641	36,914		1,039,555
Real estate held for sale and investment		414,501			414,501
Goodwill, net		167,950			167,950
Intangible assets, net		68,613	10,554		79,167
Other assets	2,871	24,894	4,896		32,661
Investments in subsidiaries	1,571,356	(17,253)		(1,554,103)	
Advances	(271,409)	276,194	(4,785)		
Total assets	$ 1,326,572	$ 2,131,230	$ 52,366	$ (1,554,103)	$ 1,956,065
Current liabilities:					
Accounts payable and accrued liabilities	$ 12,404	$ 324,710	$ 2,142	$	$ 339,256
Income taxes payable	10,482				10,482
Long-term debt due within one year		1,683	187		1,870
Total current liabilities	22,886	326,393	2,329		351,608
Long-term debt	390,000	41,502	58,363		489,865
Other long-term liabilities	29,690	167,851	218		197,759
Deferred income taxes	113,808				113,808
Redeemable noncontrolling interest		21,318			21,318
Total Vail Resorts, Inc. stockholders equity (deficit)	770,188	1,571,356	(17,253)	(1,554,103)	770,188
Noncontrolling interests		2,810	8,709		11,519
Total stockholders equity (deficit)	770,188	1,574,166	(8,544)	(1,554,103)	781,707
Total liabilities and stockholders equity	$ 1,326,572	$ 2,131,230	$ 52,366	$ (1,554,103)	$ 1,956,065

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Supplemental Condensed Consolidating Statement of Operations

For the three months ended January 31, 2011

(in thousands)

(Unaudited)

	Parent Company	100% Owned Guarantor Subsidiaries	Other Subsidiaries	Eliminating Entries	Consolidated
Total net revenue	$	$ 356,716	$ 34,857	$ (3,429)	$ 388,144
Total operating expense	161	269,684	24,629	(3,391)	291,083
(Loss) income from operations	(161)	87,032	10,228	(38)	97,061
Other (expense) income, net	(6,759)	(1,192)	(520)	38	(8,433)
Equity investment income, net		138			138
(Loss) income before benefit (provision) for income taxes	(6,920)	85,978	9,708		88,766
Benefit (provision) for income taxes	2,682	(33,266)	(3,625)		(34,209)
Net (loss) income before equity in income (loss) of consolidated subsidiaries	(4,238)	52,712	6,083		54,557
Equity in income of consolidated subsidiaries	58,789	6,077		(64,866)	
Net income	54,551	58,789	6,083	(64,866)	54,557
Net income attributable to noncontrolling interests			(6)		(6)
Net income attributable to Vail Resorts, Inc.	$ 54,551	$ 58,789	$ 6,077	$ (64,866)	$ 54,551

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Supplemental Condensed Consolidating Statement of Operations

For the three months ended January 31, 2010

(in thousands)

(Unaudited)

	Parent Company	100% Owned Guarantor Subsidiaries	Other Subsidiaries	Eliminating Entries	Consolidated
Total net revenue	$	$ 299,784	$ 3,300	$ (2,560)	$ 300,524
Total operating expense	158	226,089	3,258	(2,522)	226,983
(Loss) income from operations	(158)	73,695	42	(38)	73,541
Other (expense) income, net	(6,760)	2,857	(91)	38	(3,956)
Equity investment income, net		207			207
(Loss) income before benefit (provision) for income taxes	(6,918)	76,759	(49)		69,792
Benefit (provision) for income taxes	3,033	(27,746)			(24,713)
Net (loss) income before equity in income (loss) of consolidated subsidiaries	(3,885)	49,013	(49)		45,079
Equity in income (loss) of consolidated subsidiaries, net	44,575	(37)		(44,538)	
Net income (loss)	40,690	48,976	(49)	(44,538)	45,079
Net (income) loss attributable to noncontrolling interests		(4,401)	12		(4,389)
Net income (loss) attributable to Vail Resorts, Inc.	$ 40,690	$ 44,575	$ (37)	$ (44,538)	$ 40,690

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Supplemental Condensed Consolidating Statement of Operations

For the six months ended January 31, 2011

(in thousands)

(Unaudited)

	Parent Company	100% Owned Guarantor Subsidiaries	Other Subsidiaries	Eliminating Entries	Consolidated
Total net revenue	$	$ 591,572	$ 36,916	$ (5,926)	$ 622,562
Total operating expense	325	567,286	27,996	(5,850)	589,757
(Loss) income from operations	(325)	24,286	8,920	(76)	32,805
Other expense, net	(13,518)	(1,880)	(809)	76	(16,131)
Equity investment income, net		918			918
(Loss) income before benefit (provision) for income taxes	(13,843)	23,324	8,111		17,592
Benefit (provision) for income taxes	6,006	(8,476)	(3,625)		(6,095)
Net (loss) income before equity in income of consolidated subsidiaries	(7,837)	14,848	4,486		11,497
Equity in income of consolidated subsidiaries	19,365	4,517		(23,882)	
Net income	11,528	19,365	4,486	(23,882)	11,497
Net loss attributable to noncontrolling interests			31		31
Net income attributable to Vail Resorts, Inc.	$ 11,528	$ 19,365	$ 4,517	$ (23,882)	$ 11,528

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Supplemental Condensed Consolidating Statement of Operations

For the six months ended January 31, 2010

(in thousands)

(Unaudited)

	Parent Company	100% Owned Guarantor Subsidiaries	Other Subsidiaries	Eliminating Entries	Consolidated
Total net revenue	$	$ 381,141	$ 4,738	$ (4,591)	$ 381,288
Total operating expense	320	370,891	5,765	(4,515)	372,461
(Loss) income from operations	(320)	10,250	(1,027)	(76)	8,827
Other (expense) income, net	(13,518)	5,349	(468)	76	(8,561)
Equity investment income, net		461			461
(Loss) income before benefit (provision) for income taxes	(13,838)	16,060	(1,495)		727
Benefit (provision) for income taxes	5,594	(4,753)			841
Net (loss) income before equity in income (loss) of consolidated subsidiaries	(8,244)	11,307	(1,495)		1,568
Equity in income (loss) of consolidated subsidiaries, net	7,761	(1,464)		(6,297)	
Net income (loss)	(483)	9,843	(1,495)	(6,297)	1,568
Net (income) loss attributable to noncontrolling interests		(2,082)	31		(2,051)
Net (loss) income attributable to Vail Resorts, Inc.	$ (483)	$ 7,761	$ (1,464)	$ (6,297)	$ (483)

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Supplemental Condensed Consolidating Statement of Cash Flows

For the six months ended January 31, 2011

(in thousands)

(Unaudited)

	Parent Company	100% Owned Guarantor Subsidiaries	Other Subsidiaries	Consolidated
Net cash provided by operating activities	$ 35,263	$ 206,708	$ 1,734	$ 243,705
Cash flows from investing activities:				
Capital expenditures		(60,119)	(1,768)	(61,887)
Acquisition of a business		(60,528)		(60,528)
Other investing activities, net		(194)	(62)	(256)
Net cash used in investing activities		(120,841)	(1,830)	(122,671)
Cash flows from financing activities:				
Proceeds from borrowings under long-term debt		189,000		189,000
Payments of long-term debt		(225,625)	(442)	(226,067)
Other financing activities, net	687	(3,022)	874	(1,461)
Advances	(35,950)	32,651	3,299	
Net cash (used in) provided by financing activities	(35,263)	(6,996)	3,731	(38,528)
Net increase in cash and cash equivalents		78,871	3,635	82,506
Cash and cash equivalents:				
Beginning of period		11,315	3,430	14,745
End of period	$	$ 90,186	$ 7,065	$ 97,251

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Supplemental Condensed Consolidating Statement of Cash Flows

For the six months ended January 31, 2010

(in thousands)

(Unaudited)

	Parent Company	100% Owned Guarantor Subsidiaries	Other Subsidiaries	Consolidated
Net cash (used in) provided by operating activities	$ (4,108)	$ 18,475	$ (236)	$ 14,131
Cash flows from investing activities:				
Capital expenditures		(36,031)	(214)	(36,245)
Cash received from sale of real property		8,920		8,920
Other investing activities, net		(234)		(234)
Net cash used in investing activities		(27,345)	(214)	(27,559)
Cash flows from financing activities:				
Proceeds from borrowings under long-term debt		85,962		85,962
Payments of long-term debt		(86,011)	(177)	(86,188)
Other financing activities, net	294	940	1,130	2,364
Advances	3,814	(3,814)		
Net cash provided by (used in) financing activities	4,108	(2,923)	953	2,138
Net (decrease) increase in cash and cash equivalents		(11,793)	503	(11,290)
Cash and cash equivalents:				
Beginning of period		66,684	2,614	69,298
End of period	$	$ 54,891	$ 3,117	$ 58,008

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our Annual Report on Form 10-K for the year ended July 31, 2010 (Form 10-K) and the Consolidated Condensed Financial Statements as of January 31, 2011 and 2010 and for the three and six months then ended, included in Part I, Item 1 of this Quarterly Report on Form 10-Q, which provide additional information regarding the financial position, results of operations and cash flows. To the extent that the following Management s Discussion and Analysis contains statements which are not of a historical nature, such statements are forward-looking statements which involve risks and uncertainties. These risks include, but are not limited to those discussed in this Form 10-Q and in our other filings with the Securities and Exchange Commission (SEC), including the risks described in Item 1A Risk Factors of Part I of the Form 10-K. See also Forward-Looking Statements below for more information on these risks and other important factors that could cause actual results to differ materially from our forward looking statements.

Management s Discussion and Analysis includes discussion of financial performance within each of our segments. We have chosen to specifically include Reported EBITDA (defined as segment net revenue less segment operating expense, plus or minus segment equity investment income or loss and for the Real Estate segment plus gain on sale of real property) and Net Debt (defined as long-term debt plus long-term debt due within one year less cash and cash equivalents), in the following discussion because we consider these measurements to be significant indications of our financial performance and available capital resources. Reported EBITDA and Net Debt are not measures of financial performance or liquidity under accounting principles generally accepted in the United States of America (GAAP). We utilize Reported EBITDA in evaluating our performance and in allocating resources to our segments. Refer to the end of the Results of Operations section below for a reconciliation of Reported EBITDA to net income or loss attributable to Vail Resorts, Inc. We also believe that Net Debt is an important measurement as it is an indicator of our ability to obtain additional capital resources for our future cash needs. Refer to the end of the Results of Operations section for a reconciliation of Net Debt.

Items excluded from Reported EBITDA and Net Debt are significant components in understanding and assessing financial performance or liquidity. Reported EBITDA and Net Debt should not be considered in isolation or as an alternative to, or substitute for, net income (loss), net change in cash and cash equivalents or other financial statement data presented in the Consolidated Condensed Financial Statements as indicators of financial performance or liquidity. Because Reported EBITDA and Net Debt are not measurements determined in accordance with GAAP and are thus susceptible to varying calculations, Reported EBITDA and Net Debt as presented may not be comparable to other similarly titled measures of other companies.

Overview

Our operations are grouped into three integrated and interdependent segments: Mountain, Lodging and Real Estate. Resort is the combination of the Mountain and Lodging segments.

Mountain Segment

The Mountain segment is comprised of the operations of six ski resort properties as well as ancillary services, primarily including ski school, dining and retail/rental operations. Our six ski resorts are typically open for business from mid-November through mid-April, which is the peak operating season for the Mountain segment. Our single largest source of Mountain segment revenue is the sale of lift tickets (including season passes), which represented approximately 49% and 50% of Mountain segment net revenue for the three months ended January 31, 2011 and 2010, respectively.

Lift ticket revenue is driven by volume and pricing. Pricing is impacted by both absolute pricing as well as the demographic mix of guests, which impacts the price points at which various products are purchased. The demographic mix of guests is divided into two primary categories: (i) Destination guests and (ii) In-State guests. For the three months ended January 31, 2011, Destination guests comprised approximately 53% of our skier visits, while In-State guests comprised approximately 47% of our skier visits, which compares to approximately 54% and 46%, respectively, for the three months ended January 31, 2010.

Destination guests generally purchase our higher-priced lift ticket products and utilize more ancillary services such as ski school, dining and retail/rental, as well as the lodging at or around our resorts. Destination guest visitation is less likely to be impacted by changes in the weather, but can be more impacted by adverse economic conditions or the global geopolitical climate. In-State guests tend to be more value-oriented and weather sensitive. We market season passes to both Destination and In-State guests in an effort to offer a value option in turn for a commitment predominately prior to the beginning of the ski season by guests to ski at our resorts. This in turn has developed a loyal customer base that generally skis multiple days each season at our resorts and provides a more stabilized stream of lift revenue to us. Season pass revenue, although primarily collected prior to the ski season, is recognized in the Consolidated Condensed Statement of Operations ratably over the ski season. For the three months ended January 31, 2011 and 2010, approximately 39.3% and 40.0%, respectively, of the total lift revenue recognized was comprised of season pass revenue (of which revenue recognized represents approximately 51% and 52% of total season pass sales for the 2010/2011 and 2009/2010 ski seasons, respectively, with the remaining season pass sales recognized as lift ticket revenue in our third fiscal quarter).

The cost structure of our ski resort operations has a significant fixed component with variable expenses including, but not limited to, USDA Forest Service (Forest Service) fees, credit card fees, retail/rental cost of sales and labor, ski school labor and dining operations; as such, profit margins can fluctuate greatly based on the level of revenues.

Lodging Segment

Operations within the Lodging segment include (i) ownership/management of a group of luxury hotels through the RockResorts brand, including several proximate to our ski resorts; (ii) ownership/management of non-RockResorts branded hotels and condominiums proximate to our ski resorts; (iii) Grand Teton Lodge Company (GTLC) which operates three destination resorts at Grand Teton National Park; (iv) Colorado Mountain Express (CME), a resort ground transportation company; and (v) golf courses.

Lodging properties (including managed condominium rooms) at or around our ski resorts, and CME, are closely aligned with the performance of the Mountain segment and experience similar seasonal trends as the Mountain segment, particularly with respect to visitation by Destination guests. Lodging revenue from properties (including managed condominium rooms) at or around our ski resorts, and CME, represented approximately 90% and 92% of Lodging segment revenue for the three months ended January 31, 2011 and 2010, respectively. Lodging segment revenue during our first and fourth fiscal quarters is generated primarily by the operations of GTLC (as GTLC s operating season generally occurs from mid-May to mid-October), golf operations and seasonally low operations from our other owned and managed properties.

Real Estate Segment

The Real Estate segment owns and develops real estate in and around our resort communities and primarily engages in the vertical development of projects, as well as, occasionally the sale of land to third-party developers. Revenue from vertical development projects is not recognized until the closing of individual units within a project which occurs after substantial completion of the project. Contingent future profits from land sales, if any, are recognized only when received. We attempt to mitigate the risk of vertical development by often utilizing guaranteed maximum price construction contracts (although certain construction costs may not be covered by contractual limitations), pre-selling a portion of the project, requiring significant non-refundable deposits, and potentially obtaining non-recourse financing for certain projects. Our real estate development projects also may result in the creation of certain resort assets that provide additional benefit to the Mountain and Lodging segments. Our revenue from the Real Estate segment, and associated expense, fluctuate based upon the timing of closings and the type of real estate being sold, causing volatility in the Real Estate segment s operating results from period to period.

Recent Trends, Risks and Uncertainties

Together with those risk factors identified in our Form 10-K, our management has identified the following important factors (as well as risks and uncertainties associated with such factors) that could impact our future financial performance or condition:

Our season pass products provide a value option to our guests, which in turn creates a guest commitment predominantly prior to the start of the ski season resulting in a more stabilized stream of lift revenue. For the 2009/2010 ski season pass revenue represented 35% of total lift revenue for the entire season. Total season pass sales (excluding Northstar-at-Tahoe) increased by $9.1 million, or approximately 9.1%, as of January 31, 2011 for the 2010/2011 ski season over total season pass sales for the entire 2009/2010 ski season. Including Northstar-at-Tahoe (which was acquired on October 25, 2010) season pass sales, our season pass sales have increased by $19.0 million, or approximately 18.9%. Deferred revenue related to season pass sales (including Northstar-at-Tahoe pass sales) was $58.7 million as of January 31, 2011 (compared to $48.4 million as of January 31, 2010) which will be recognized as lift revenue during our third fiscal quarter ending April 30, 2011.

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In response to the economic downturn in 2008 and 2009, we implemented cost reduction initiatives in fiscal 2009, including a company-wide wage reduction and suspension of our 401(k) plan matching contributions. We reinstated some of the prior year s wage and benefit reduction with a 2% interim wage increase for year round employees effective April 1, 2010 and seasonal employees for the 2010/2011 ski season along with a partial reinstatement of our matching component of the 401(k) plan. We currently plan to fully reinstate the previous level of 401(k) matching ratably over a three year period. We also have returned to a more normal level of wage increases for fiscal 2011; however, we cannot predict whether any increases in labor costs and other employee benefit costs coupled with other increases in operating costs will continue to be offset by increased revenues.

On October 25, 2010, we acquired Northstar-at-Tahoe, a destination mountain resort in North Lake Tahoe, California for total consideration of $63.0 million, less cash assumed. We cannot predict whether we will realize all of the synergies estimated to arise subsequent to the acquisition of Northstar-at-Tahoe nor can we predict the amount of effort it will take to integrate its operations and the ultimate impact it will have on our future results of operations.

Real estate Reported EBITDA is highly dependent on, among other things, the timing of closings on real estate under contract, which determines when revenue and associated cost of sales is recognized. Changes to the anticipated timing or mix of closing on one or more real estate projects, or unit closings within a real estate project, could materially impact Real Estate Reported EBITDA for a particular quarter or fiscal year. During the first quarter of fiscal 2011, we received a certificate of occupancy for The Ritz-Carlton Residences, Vail and we have closed on 63 units through January 31, 2011 (with an additional two units having closed subsequent to January 31, 2011). Additionally, we have closed on one unit at One Ski Hill Place (which was completed in the fourth quarter of fiscal 2010) in fiscal 2011 through January 31, 2011 (with one additional unit having closed subsequent to January 31, 2011). We currently have on a combined basis 104 units available for sale at The Ritz-Carlton Residences, Vail, One Ski Hill Place in Breckenridge and Crystal Peak Lodge at Breckenridge. We have increased risk associated with selling and closing units in these projects as a result of the continued instability in the credit markets and a slowdown in the overall real estate market. Buyers have been or may be unable to close on units in part due to a reduction in funds available to buyers and/or decreases in mortgage availability. We cannot predict the ultimate number of units that we will sell, the ultimate price we will receive, or when the units will sell, although we currently believe the selling process will take multiple years. Additionally, if a prolonged weakness in the real estate market or general economic conditions were to occur we may have to adjust our selling prices more than currently anticipated in an effort to sell and close on units available for sale.

Over the past several years our Real Estate segment results have reflected the completion of several real estate projects, including The Ritz-Carlton Residences, Vail, One Ski Hill Place in Breckenridge, the Arrabelle at Vail Square, Vail s Front Door, Crystal Peak Lodge at Breckenridge, Gore Creek Place in Vail s Lionshead Village and Mountain Thunder in Breckenridge. Although we continue to undertake planning and design work on future projects, we currently do not plan to undertake significant development activities on new projects until the current economic environment for real estate improves. We believe that, due to our low carrying cost of real estate land investments combined with the absence of third party debt associated with our real estate investments, we are well situated to time the launch of future projects with a more favorable economic environment.

In addition to our $97.3 million of cash and cash equivalents at January 31, 2011, we have $319.4 million available under our senior credit facility (Credit Facility) (which represents the total commitment of $400.0 million less certain letters of credit outstanding of $80.6 million), which was amended and restated on January 25, 2011. Key modifications to the Credit Facility included, among other things, the extension of the maturity on the revolving credit facility from February 2012 to January 2016 (subject to the repayment or refinancing of the 6.75% Senior Subordinated Notes (6.75% Notes) by November 15, 2013); increased grid pricing for interest rate margins (currently, under the Credit Facility, at LIBOR plus 1.75%) and commitment fees (currently, under the Credit Facility, at 0.35%); the expansion of baskets for improved flexibility in our ability to incur debt and make acquisitions, investments and distributions; and the elimination of certain financial covenants. Additionally, we have reached an inflection point on our real estate projects where the proceeds from future real estate closings on The Ritz-Carlton Residences, Vail, One Ski Hill Place in Breckenridge and Crystal Peak Lodge at Breckenridge are expected to significantly exceed remaining completion costs or carrying costs.

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We currently carry a $2.6 million note receivable from the owner of one of our managed hotel properties. The owner has defaulted on third party debt related to this property in which the creditor may proceed with foreclosure on the property. If the owner is unable to reach an agreement to restructure the debt with its creditor, or the creditor proceeds with foreclosure, or if we are unable to reach acceptable terms with the owner or the creditor for the repayment of our note receivable, we may be required to impair or write-off the balance of the note receivable.

Under GAAP, we are required to test goodwill for impairment annually, which we do during the fourth quarter of each fiscal year. We evaluate the recoverability of our goodwill by estimating the future discounted cash flows of our reporting units and terminal values of the businesses using projected future levels of income as well as business trends, prospects and market and economic conditions. We evaluate the recoverability of indefinite-lived intangible assets using the income approach based upon estimated future revenue streams. Our fiscal 2010 annual impairment test did not result in a goodwill or indefinite-lived intangible asset impairment. However, if a more severe prolonged weakness in general economic conditions were to occur it could cause less than expected growth and/or reduction in terminal values of our reporting units which may result in a goodwill and/or indefinite-lived intangible assets impairment charge attributable to certain goodwill and/or indefinite-lived intangible assets, particularly related to certain of our lodging operations.

RESULTS OF OPERATIONS

Summary

Shown below is a summary of operating results for both the three and six months ended January 31, 2011, compared to the three and six months ended January 31, 2010 (in thousands):

	Three Months Ended January 31,		Six Months Ended January 31,	
	2011	2010	2011	2010
Mountain Reported EBITDA	$ 127,191	$ 107,167	$ 85,614	$ 70,157
Lodging Reported EBITDA	881	888	2,424	(380)
Resort Reported EBITDA	128,072	108,055	88,038	69,777
Real Estate Reported EBITDA	(197)	(6,547)	4,001	(5,432)
Income before (provision) benefit for income taxes	88,766	69,792	17,592	727
Net income (loss) attributable to Vail Resorts, Inc.	$ 54,551	$ 40,690	$ 11,528	$ (483)

A discussion of the segment results and other items can be found below.

Mountain Segment

Three months ended January 31, 2011 compared to the three months ended January 31, 2010

Mountain segment operating results for the three months ended January 31, 2011 and 2010 are presented by category as follows (in thousands, except effective ticket price (ETP)):

	Three Months Ended January 31,		Percentage Increase (Decrease)
	2011	2010	
Net Mountain revenue:			
Lift tickets	$ 155,173	$ 129,517	19.8%
Ski school	37,296	30,069	24.0%
Dining	26,405	19,789	33.4%
Retail/rental	74,320	61,026	21.8%
Other	25,083	20,577	21.9%

Total Mountain net revenue	$ 318,277	$ 260,978	22.0%
Mountain operating expense:			
Labor and labor-related benefits	$ 72,438	$ 57,859	25.2%
Retail cost of sales	28,983	23,731	22.1%
Resort related fees	16,812	14,381	16.9%
General and administrative	31,657	26,043	21.6%
Other	41,334	32,004	29.2%
Total Mountain operating expense	$ 191,224	$ 154,018	24.2%
Mountain equity investment income, net	138	207	(33.3)%
Total Mountain Reported EBITDA	$ 127,191	$ 107,167	18.7%
Total skier visits	3,395	2,782	22.0%
ETP	$ 45.71	$ 46.56	(1.8)%

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Total Mountain Reported EBITDA includes $1.8 million and $1.3 million of stock-based compensation expense for the three months ended January 31, 2011 and 2010, respectively.

Total Mountain net revenue increased $57.3 million, or 22.0%, for the three months ended January 31, 2011 compared to the three months ended January 31, 2010, which increase includes $30.1 million of revenue from Northstar-at-Tahoe, acquired in October 2010, in the current fiscal year. Lift revenue increased $25.7 million, or 19.8%, for the three months ended January 31, 2011 compared to the same period in the prior year, due to a $16.9 million, or 21.9%, increase in paid lift revenue and a $8.7 million, or 16.7%, increase in season pass revenue. A large portion of this increase is attributable to the acquisition of Northstar-at-Tahoe since comparable results for Northstar-at-Tahoe are not included in the same period for the prior year. Excluding Northstar-at-Tahoe, lift revenue increased $10.7 million, or 8.2%, compared to the same period in the prior year, due to a $6.9 million, or 8.9%, increase in paid lift revenue and a $3.8 million, or 7.3%, increase in season pass revenue. Total skier visitation was up 22.0% and excluding Northstar-at-Tahoe, skier visitation was up 8.7% as both the Colorado resorts and the Heavenly resort benefited from significantly above average early season snowfall, which in particular caused increased pass visits. ETP, excluding season pass holders and Northstar-at-Tahoe, increased $4.56, or 7.3%, due primarily to price increases implemented during the current fiscal year. Total ETP, excluding Northstar-at-Tahoe, declined slightly as the average visitation per season pass holder increased by approximately 11.0% or approximately one half day per season pass holder.

Ski school revenue increased $7.2 million, or 24.0%, for the three months ended January 31, 2011 compared to the same period in the prior year with the current year benefiting from the acquisition of Northstar-at-Tahoe. Excluding Northstar-at-Tahoe, ski school revenue increased $3.5 million, or 11.7%, which benefited from the 8.7% increase in skier visitation and a 2.7% increase in yield per skier visit due to higher guest spend. Dining revenue increased $6.6 million, or 33.4%, which also benefited from the acquisition of Northstar-at-Tahoe in the current fiscal year. Excluding Northstar-at-Tahoe, dining revenues increased $2.9 million, or 14.4%, driven by increased skier visitation and a 5.3% increase in yield per skier visit, as well as, the addition of two new on-mountain dining venues.

Retail/rental revenue increased $13.3 million, or 21.8%, for the three months ended January 31, 2011 compared to the same period in the prior year which includes $4.5 million of incremental revenue from Northstar-at-Tahoe in the current fiscal year. Excluding Northstar-at-Tahoe, retail/rental increased $8.8 million, or 14.4%, which was driven primarily by retail sales which were up $8.5 million, or 19.3%. Included in the overall retail/rental increase were higher revenue at our Colorado front range stores and Any Mountain stores (in the San Francisco bay area) which combined increased by 21.0% as compared to the prior year. Additionally, our mountain resort stores experienced increased revenues across all resorts due primarily to increased retail sales driven by higher skier visitation.

Other revenue mainly consists of private club revenue (which includes both club dues and amortization of initiation fees), summer visitation and other mountain activities revenue, marketing and internet advertising revenue, commercial leasing revenue, employee housing revenue, municipal services revenue and other recreation activity revenue. For the three months ended January 31, 2011, other revenue increased $4.5 million, or 21.9%, compared to the three months ended January 31, 2010, which includes $3.2 million of incremental revenue from Northstar-at-Tahoe. Excluding Northstar-at-Tahoe, other revenue increased $1.3 million, or 6.5%, primarily due to an increase in internet advertising and marketing revenue due to the acquisition of Mountain News Corporation in May 2010, partially offset by a decrease in municipal services revenue (primarily transportation services provided on behalf of certain municipalities).

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Operating expense increased $37.2 million, or 24.2%, for the three months ended January 31, 2011 compared to the three months ended January 31, 2010, which includes $20.0 million of expenses in the current fiscal quarter associated with Northstar-at-Tahoe. Excluding Northstar-at-Tahoe, operating expense increased $17.2 million, or 11.2%, for the three months ended January 31, 2011 compared to the three months ended January 31, 2010 due in part to higher labor and labor-related benefits which increased $7.5 million, or 13.0%, during the three months ended January 31, 2011 compared to the three months ended January 31, 2010. Labor and labor-related benefits in the current year were impacted by the partial reinstatement of the prior year s wage reduction and our matching component of the 401(k) plan and a more normal level of wage increases, as well as higher employee medical and wellness costs. Additionally, labor costs were impacted by an increase in staffing levels driven by opening ski terrain earlier due to above average early season snowfall, as well as an increase in demand for ancillary services primarily in ski school, dining and retail/rental operations. Retail cost of sales increased $3.7 million, or 15.4%, excluding Northstar-at-Tahoe, mostly due to an increase in sales volume partially offset by improved gross margins. Additionally, resort related fees (including Forest Service fees, other resort-related fees, credit card fees and commissions) increased $1.8 million, or 12.3%, excluding Northstar-at-Tahoe, compared to the three months ended January 31, 2010, due to overall increases in revenue upon which those fees are based on and general and administrative expenses increased $2.5 million, or 9.7%, excluding Northstar-at-Tahoe, primarily due to expenses associated with the operations of Mountain News Corporation acquired in May 2010. Other expense increased $1.8 million, or 5.5%, excluding Northstar-at-Tahoe, primarily due to increased food and beverage cost of sales due to an increase in dining revenue and higher fuel and supplies expense.

Six months ended January 31, 2011 compared to the six months ended January 31, 2010

Mountain segment operating results for the six months ended January 31, 2011 and 2010 are presented by category as follows (in thousands, except ETP):

	Six Months Ended January 31, 2011	Six Months Ended January 31, 2010	Percentage Increase (Decrease)
Net Mountain revenue:			
Lift tickets	$ 155,173	$ 129,517	19.8%
Ski school	37,296	30,069	24.0%
Dining	30,512	23,257	31.2%
Retail/rental	96,373	82,564	16.7%
Other	39,702	34,775	14.2%
Total Mountain net revenue	$ 359,056	$ 300,182	19.6%
Mountain operating expense:			
Labor and labor-related benefits	$ 97,120	$ 81,243	19.5%
Retail cost of sales	41,641	36,294	14.7%
Resort related fees	17,636	15,106	16.7%
General and administrative	55,846	46,570	19.9%
Other	62,117	51,273	21.1%
Total Mountain operating expense	$ 274,360	$ 230,486	19.0%
Mountain equity investment income, net	918	461	99.1%
Total Mountain Reported EBITDA	$ 85,614	$ 70,157	22.0%
Total skier visits	3,395	2,782	22.0%
ETP	$ 45.71	$ 46.56	(1.8)%

Total Mountain Reported EBITDA includes $3.8 million and $2.9 million of stock-based compensation expense for the six months ended January 31, 2011 and 2010, respectively.

As our six ski resorts opened during our second fiscal quarter, the results of the six months ended January 31, 2011 and 2010 for lift ticket revenue and ski school revenue are the same as the three months ended January 31, 2011 and 2010.

Dining revenue for the six months ended January 31, 2011 compared to the six months ended January 31, 2010, increased $7.3 million, or 31.2%, which benefited from the acquisition of Northstar-at-Tahoe in the current fiscal year. Excluding Northstar-at-Tahoe, dining revenues increased $3.5 million, or 14.9%, which benefited from the 8.7% increase in skier visitation and a 5.3% increase in yield per skier visit, as well as the addition of two new on- mountain dining venues. Additionally, dining revenue increased for the three months ended October 31, 2010 compared to the same period in the prior year due to an increase in group and wedding business at our mountain resorts.

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Retail/rental revenue increased $13.8 million, or 16.7%, in the six months ended January 31, 2011 compared to the same period in the prior year which includes $4.5 million of incremental revenue from Northstar-at-Tahoe in the current fiscal year. Excluding Northstar-at-Tahoe, retail/rental increased $9.3 million, or 11.3%, which was driven primarily by retail sales which were up $9.0 million, or 14.1%. Included in the overall retail/rental increase were higher revenues at our Colorado front range stores and Any Mountain stores (in the San Francisco bay area) which increased by 14.2% as compared to the prior year. Additionally, our mountain resort stores experienced increased revenues across all resorts due primarily to increases retail sales driven by higher skier visitation.

Other revenue mainly consists of private club revenue (which includes both club dues and amortization of initiation fees), summer visitation and other mountain activities revenue, marketing and internet advertising revenue, commercial leasing revenue, employee housing revenue, municipal services revenue and other recreation activity revenue. For the six months ended January 31, 2011, other revenue increased $4.9 million, or 14.2%, compared to the six months ended January 31, 2010, which includes $3.2 million of incremental revenue from Northstar-at-Tahoe. Excluding Northstar-at-Tahoe, other revenue increased $1.7 million, or 4.8%, primarily due to an increase in internet advertising and marketing revenue due to the acquisition of Mountain News Corporation in May 2010, partially offset by a decrease in municipal services revenue (primarily transportation services provided on behalf of certain municipalities).

Operating expense increased $43.9 million, or 19.0%, during the six months ended January 31, 2011 compared to the six months ended January 31, 2010, which includes $23.5 million of expenses (including $3.8 million of acquisition related costs included in other expense) in the current fiscal year associated with Northstar-at-Tahoe and $0.9 million (included in other expense) in assessments for extensive renovations to a commercial property in Breckenridge in which we are a tenant. Excluding these expenses, operating expense increased $19.4 million, or 8.4%, for the six months ended January 31, 2011 compared to the six months ended January 31, 2010. Labor and labor-related benefits increased $8.6 million, or 10.6%, excluding Northstar-at-Tahoe, in the current fiscal year and were impacted by the partial reinstatement of the prior year s wage reduction and our matching component of the 401(k) plan and a more normal level of wage increases, as well as higher employee medical and wellness costs. Additionally, labor costs were impacted by an increase in staffing levels driven by opening ski terrain earlier due to above average early season snowfall, as well as an increase in demand for ancillary services primarily in ski school, dining and retail/rental operations. Retail cost of sales increased $3.7 million, or 10.3%, excluding Northstar-at-Tahoe, mostly due to an increase in sales volume, partially offset by improved gross margins. Additionally, resort related fees (including Forest Service fees, other resort-related fees, credit card fees and commissions) increased $1.9 million, or 12.4%, excluding Northstar-at-Tahoe, compared to the six months ended January 31, 2010, due to overall increases in revenue upon which those fees are based on and general and administrative expenses increased $3.1 million, or 6.6%, excluding Northstar-at-Tahoe, primarily due to expenses associated with the operations of Mountain News Corporation acquired in May 2010. Other expense increased $2.2 million, or 4.2%, excluding the above mentioned expenses, primarily due to increased food and beverage cost of sales due to an increase in dining revenue and higher fuel and supplies expense.

Mountain equity investment income, net which primarily represents our share of income from our real estate brokerage joint venture, was favorably impacted for the six months ended January 31, 2011 compared to the six months ended January 31, 2010 by an overall increase in real estate closing primarily from multi-unit projects.

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Lodging Segment

Three months ended January 31, 2011 compared to the three months ended January 31, 2010

Lodging segment operating results for the three months ended January 31, 2011 and 2010 are presented by category as follows (in thousands, except average daily rates (ADR) and revenue per available room (RevPAR)):

	Three months ended January 31, 2011	2010	Percentage Increase (Decrease)
Lodging net revenue:			
Owned hotel rooms	$ 9,188	$ 8,286	10.9%
Managed condominium rooms	13,421	10,819	24.1%
Dining	5,560	4,522	23.0%
Transportation	7,570	7,341	3.1%
Other	8,981	7,708	16.5%
Total Lodging net revenue	$ 44,720	$ 38,676	15.6%
Lodging operating expense:			
Labor and labor-related benefits	$ 21,745	$ 18,449	17.9%
General and administrative	8,158	7,653	6.6%
Other	13,936	11,686	19.3%
Total Lodging operating expense	$ 43,839	$ 37,788	16.0%
Total Lodging Reported EBITDA	$ 881	$ 888	(0.8)%
Owned hotel statistics:			
ADR	$ 201.96	$ 205.85	(1.9)%
RevPar	$ 119.75	$ 103.50	15.7%
Managed condominium statistics:			
ADR	$ 333.07	$ 336.13	(0.9)%
RevPar	$ 129.22	$ 113.13	14.2%
Owned hotel and managed condominium statistics (combined):			
ADR	$ 277.75	$ 280.84	(1.1)%
RevPar	$ 126.16	$ 109.95	14.7%

Total Lodging Reported EBITDA includes $0.5 million of stock-based compensation expense for both the three months ended January 31, 2011 and 2010.

Revenue from owned hotel rooms increased $0.9 million, or 10.9%, for the three months ended January 31, 2011 compared to the three months ended January 31, 2010, which was driven by an increase in occupancy of 9.0 percentage points primarily due an increase in transient guest visitation as our Colorado lodging resort properties benefited from an increase in skier visitation at our Colorado ski resorts as discussed in the Mountain segment above. Revenue from managed condominium rooms increased $2.6 million, or 24.1%, for the three months ended January 31, 2011 compared to the three months ended January 31, 2010, primarily due to the addition of managed condominium rooms in the Lake Tahoe region which generated $1.5 million in revenue and an increase in occupancy from our other managed condominiums of 5.1 percentage points due to higher transient and group guest visitation in conjunction with increased skier visitation.

Dining revenue for the three months ended January 31, 2011 increased $1.0 million, or 23.0%, as compared to the three months ended January 31, 2010, mainly due to increased occupancy and a restaurant that was closed for renovation in the prior year. Transportation revenue for the three months ended January 31, 2011 increased $0.2 million, or 3.1%, as compared to the three months ended January 31, 2010 primarily due to an increase in passengers driven by higher skier visitation. Other revenue increased $1.3 million, or 16.5% during the three months ended

January 31, 2011 compared to the same period in the prior year primarily due to an increase in revenue from managed hotel properties, higher commissions earned from reservations booked through our central reservation system and conference services for our group business.

Operating expense increased $6.1 million, or 16.0%, for the three months ended January 31, 2011 compared to the three months ended January 31, 2010, primarily due to an increase in labor and labor-related benefits of $3.3 million, or 17.9%, primarily due to higher staffing levels associated with increased occupancy and the partial reinstatement of the prior year s wage reduction and our matching component of the 401(k) plan and a more normal level of wage increases for fiscal 2011. Other expense increased $2.3 million, or 19.3%, primarily due to increased variable operating costs associated with increased occupancy and revenue including higher food and beverage cost of sales and other operating expense and an increase in reimbursable costs associated with managed hotel properties.

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Six months ended January 31, 2011 compared to the six months ended January 31, 2010

Lodging segment operating results for the six months ended January 31, 2011 and 2010 are presented by category as follows (in thousands, except ADR and RevPAR):

	Six months ended January 31, 2011	Six months ended January 31, 2010	Percentage Increase (Decrease)
Lodging net revenue:			
Owned hotel rooms	$ 20,940	$ 19,282	8.6%
Managed condominium rooms	18,177	15,229	19.4%
Dining	15,516	13,468	15.2%
Transportation	9,213	8,974	2.7%
Golf	7,090	6,823	3.9%
Other	18,162	16,255	11.7%
Total Lodging net revenue	$ 89,098	$ 80,031	11.3%
Lodging operating expense:			
Labor and labor-related benefits	$ 43,611	$ 38,824	12.3%
General and administrative	15,230	14,631	4.1%
Other	27,833	26,956	3.2%
Total Lodging operating expense	$ 86,674	$ 80,411	7.8%
Total Lodging Reported EBITDA	$ 2,424	$ (380)	737.9%
Owned hotel statistics:			
ADR	$ 188.85	$ 187.90	0.5%
RevPar	$ 112.62	$ 94.98	18.6%
Managed condominium statistics:			
ADR	$ 284.49	$ 286.90	(0.8)%
RevPar	$ 83.08	$ 69.91	18.8%
Owned hotel and managed condominium statistics (combined):			
ADR	$ 232.10	$ 231.42	0.3%
RevPar	$ 94.08	$ 79.45	18.4%

Total Lodging Reported EBITDA includes $1.1 million and $1.0 million of stock-based compensation expense for the six months ended January 31, 2011 and 2010, respectively.

Revenue from owned hotel rooms and managed condominium rooms increased $4.6 million, or 13.4%, for the six months ended January 31, 2011 compared to the six months ended January 31, 2010, which was driven by a increase in occupancy of 6.2 percentage points due to higher group business and transient guest visitation primarily as a result of increased skier visitation as discussed in the Mountain segment above. Managed condominium room revenue was also favorably impacted by $1.5 million related to the addition of managed condominium rooms in the Lake Tahoe region.

Dining revenue for the six months ended January 31, 2011 increased $2.0 million, or 15.2%, as compared to the six months ended January 31, 2010, due to an increase in occupancy, including an increase in group visitation primarily at our Keystone lodging properties ($0.8 million increase in revenue), an increase in transient visitation at GTLC ($0.4 million increase in revenue) and a restaurant that was closed for renovation in the prior year. Other revenue increased $1.9 million, or 11.7%, during the six months ended January 31, 2011 compared to the same period in the prior year primarily due to an increase in revenue from managed hotel properties, higher commissions earned from reservations booked through our central reservation system and an increase in conference services provided to our group business.

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Operating expense increased $6.3 million, or 7.8%, for the six months ended January 31, 2011 compared to the six months ended January 31, 2010. Operating expense in the current year benefitted from the receipt of $2.9 million, net of legal expenses, (included as a credit in other expense) for the settlement of alleged damages related to the CME acquisition partially offset by $0.4 million (included in other expense) in assessments for extensive renovations to a commercial property in Breckenridge in which we are a tenant. Excluding the impact of these items, operating expense increased $8.8 million, or 10.9%, during the six months ended January 31, 2011, compared to the same period in the prior year. Labor and labor-related benefits increased $4.8 million, or 12.3%, primarily due to higher staffing levels associated with increased occupancy and the partial reinstatement of the prior year s wage reduction and our matching component of the 401(k) plan and a more normal level of wage increases for fiscal 2011. Other expense increased $3.4 million, or 12.5%, primarily due to increased variable operating costs associated with increased occupancy and revenue including higher food and beverage cost of sales and other operating expense and an increase in reimbursable costs associated with managed hotel properties.

Real Estate Segment

Three months ended January 31, 2011 compared to the three months ended January 31, 2010

Real Estate segment operating results for the three months ended January 31, 2011 and 2010 are presented by category as follows (in thousands):

	Three Months Ended January 31, 2011	2010	Percentage Increase (Decrease)
Total Real Estate net revenue	$ 25,147	$ 870	2,790.5%
Real Estate operating expense:			
Cost of sales (including sales commission)	18,515		
Other	6,829	7,417	(7.9)%
Total Real Estate operating expense	25,344	7,417	241.7%
Total Real Estate Reported EBITDA	$ (197)	$ (6,547)	97.0%

Real Estate Reported EBITDA includes $0.8 million and $1.1 million of stock-based compensation expense for the three months ended January 31, 2011 and 2010, respectively.

Our Real Estate operating revenue is primarily determined by the timing of closings and the mix of real estate sold in any given period. Different types of projects have different revenue and expense volumes and margins; therefore, as the real estate inventory mix changes it can greatly impact Real Estate segment net revenue, operating expense and Real Estate Reported EBITDA.

Three months ended January 31, 2011

Real Estate segment net revenue for the three months ended January 31, 2011 was driven primarily by the closing of six condominium units at The Ritz-Carlton Residences, Vail ($17.4 million of revenue with an average selling price per unit of $2.9 million and an average price per square foot of $1,314). The Ritz-Carlton Residences, Vail average price per square foot is driven by The Ritz-Carlton brand, its premier Lionshead location at the base of Vail, its proximity to the Eagle Bahn gondola and the comprehensive and exclusive amenities related to the project. Additionally, during the three months ended January 31, 2011, we recognized $6.2 million of revenue related to deposits from buyers who defaulted on units under contract at The Ritz-Carlton Residences, Vail and we closed on one condominium unit at One Ski Hill Place ($0.9 million of revenue and an average price per square foot of $1,018).

Operating expense for the three months ended January 31, 2011 included cost of sales of $15.6 million primarily resulting from the closing of six condominium units at The Ritz-Carlton Residences, Vail (average cost per square foot of $1,117) and from the closing of one condominium unit at One Ski Hill Place (average cost per square foot of $837). The cost per square foot for The Ritz-Carlton Residences, Vail is reflective of the high-end features and amenities associated with a Ritz-Carlton project compared to other Vail properties and high construction costs associated with mountain resort development. Additionally, sales commissions of approximately $2.7 million were incurred commensurate with revenue recognized. Other operating expense of $6.8 million (including $0.8 million of stock-based compensation expense) was primarily comprised of general and administrative costs which include marketing expense for the real estate available for sale (including those units that have not yet closed), carrying costs for units available for sale and overhead costs, such as labor and labor-related benefits and allocated corporate costs.

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Three months ended January 31, 2010

Real Estate segment net revenue for the three months ended January 31, 2010 primarily included allocated corporate revenue. Operating expense of $7.4 million (including $1.1 million of stock-based compensation expense) was primarily comprised of general and administrative costs which include marketing expense for the real estate projects under development, overhead costs such as labor and labor-related benefits and allocated corporate costs.

Six months ended January 31, 2011 compared to the six months ended January 31, 2010

Real Estate segment operating results for the six months ended January 31, 2011 and 2010 are presented by category as follows (in thousands):

	Six Months Ended January 31, 2011	2010	Percentage Increase (Decrease)
Total Real Estate net revenue	$ 174,408	$ 1,075	16,124.0%
Real Estate operating expense:			
Cost of sales (including sales commission)	157,063		
Other	13,344	12,594	6.0%
Total Real Estate operating expense	170,407	12,594	1,253.1%
Gain on sale of real property		6,087	(100.0)%
Total Real Estate Reported EBITDA	$ 4,001	$ (5,432)	173.7%

Real Estate Reported EBITDA includes $1.6 million and $2.5 million of stock-based compensation expense for the six months ended January 31, 2011 and 2010, respectively.

Six months ended January 31, 2011

Real Estate segment net revenue for the six months ended January 31, 2011 was driven primarily by the closing of 63 condominium units (45 units sold to The Ritz-Carlton Development Company and 18 units sold to individuals) at The Ritz-Carlton Residences, Vail ($166.8 million of revenue with an average selling price per unit of $2.6 million and an average price per square foot of $1,225). The Ritz-Carlton Residences, Vail average price per square foot is driven by The Ritz-Carlton brand, its premier Lionshead location at the base of Vail, its proximity to the Eagle Bahn gondola and the comprehensive and exclusive amenities related to the project. Additionally, during the six months ended January 31, 2011, we recognized $6.2 million of revenue related to deposits from buyers who defaulted on units under contract at The Ritz-Carlton Residences, Vail and we closed on one condominium unit at One Ski Hill Place ($0.9 million of revenue and an average price per square foot of $1,018).

Operating expense for the six months ended January 31, 2011 included cost of sales of $151.1 million primarily resulting from the closing of 63 condominium units at The Ritz-Carlton Residences, Vail (average cost per square foot of $1,104) and from the closing of one condominium unit at One Ski Hill Place (average cost per square foot of $837). The cost per square foot for The Ritz-Carlton Residences, Vail is reflective of the high-end features and amenities associated with a Ritz-Carlton project compared to other Vail properties and high construction costs associated with mountain resort development. Additionally, sales commissions of approximately $5.8 million were incurred commensurate with revenue recognized. Other operating expense of $13.3 million (including $1.6 million of stock-based compensation expense) was primarily comprised of general and administrative costs which include marketing expense for the real estate available for sale (including those units that have not yet closed), carrying costs for units available for sale and overhead costs, such as labor and labor-related benefits and allocated corporate costs.

Six months ended January 31, 2010

Real Estate segment net revenue for the six months ended January 31, 2010 primarily included allocated corporate revenue. In addition, during the six months ended January 31, 2010 we sold a land parcel located at the Arrowhead base area of the Beaver Creek Resort for $8.5 million and recorded a gain on sale of real property of $6.1 million (net of $2.4 million in related cost of sales).

Operating expense of $12.6 million (including $2.5 million of stock-based compensation expense) was primarily comprised of general and administrative costs which include marketing expense for the real estate projects under development, overhead costs such as labor and labor-related benefits and allocated corporate costs.

Other Items

In addition to segment operating results, the following material items contributed to our overall financial position.

Depreciation and amortization. Depreciation and amortization expense for the three and six months ended January 31, 2011 increased $2.5 million and $3.1 million, respectively, compared to the same periods in the prior year, primarily due to an increase in the fixed asset base due to incremental capital expenditures.

Interest expense, net. For the three and six months ended January 31, 2011, interest expense, net increased $4.5 million and $7.6 million, respectively, compared to the same periods in the prior year primarily due to the significant reduction in the capitalization of interest on self-funded real estate projects in the current fiscal year, as all real estate projects under development have reached substantial completion.

Net (income) loss attributable to noncontrolling interests, net. Net (income) loss attributable to noncontrolling interests for the three and six months ended January 31, 2011 decreased $4.4 million and $2.1 million compared to the same periods in the prior year due to our acquisition of the remaining 30.7% noncontrolling interest in SSI Ventures, LLC (SSV) on April 30, 2010.

Income taxes. The effective tax rate for the three and six months ended January 31, 2011 was 38.5% and 34.7%, respectively, compared to the effective tax rate for the three and six months ended January 31, 2010 of 35.4% and 115.7%, respectively. The interim period effective tax rate is primarily driven by the amount of anticipated pre-tax book income for the full fiscal year adjusted for items that are deductible/non-deductible for tax purposes only (i.e. permanent items) and the amount of net income attributable to noncontrolling interest recorded during the period. Additionally, we recorded a $0.7 million income tax benefit in the six months ended January 31, 2011 due to a reversal of an income tax contingency resulting from the expiration of the statute of limitations.

In 2005, we amended previously filed tax returns (for the tax years from 1997 through 2002) in an effort to remove restrictions under Section 382 of the Internal Revenue Code on approximately $73.8 million of net operating losses (NOLs) relating to fresh start accounting from our reorganization in 1992. As a result, we requested a refund related to the amended returns in the amount of $6.2 million and have reduced our Federal tax liability in the amount of $19.6 million in subsequent tax returns. In 2006, the Internal Revenue Service (IRS) completed its examination of our filing position in our amended returns and disallowed our request for a refund and our position to remove the restriction on the NOLs. We appealed the examiner s disallowance of the NOLs to the Office of Appeals. In December 2008, the Office of Appeals denied our appeal, as well as a request for mediation. We disagreed with the IRS interpretation disallowing the utilization of the NOLs and in August 2009, filed a complaint in the United States District Court for the District of Colorado seeking recovery of $6.2 million in over payments that were previously denied by the IRS, plus interest. Due to the uncertainty surrounding the utilization of the NOLs, we have not reflected any of the benefits of the utilization of the NOLs within our financial statements; thus if we are unsuccessful in our action regarding this matter it will not negatively impact our results of operations.

Reconciliation of Non-GAAP Measures

The following table reconciles from segment Reported EBITDA to net income (loss) attributable to Vail Resorts, Inc. (in thousands):

	Three Months Ended January 31,		Six Months Ended January 31,	
	2011	2010	2011	2010
Mountain Reported EBITDA	$ 127,191	$ 107,167	$ 85,614	$ 70,157
Lodging Reported EBITDA	881	888	2,424	(380)
Resort Reported EBITDA	128,072	108,055	88,038	69,777
Real Estate Reported EBITDA	(197)	(6,547)	4,001	(5,432)
Total Reported EBITDA	127,875	101,508	92,039	64,345

Depreciation and amortization	(30,276)	(27,772)	(58,008)	(54,956)
(Loss) gain on disposal of fixed assets, net	(400)	12	(308)	(101)
Investment income	226	192	464	422
Interest expense, net	(8,659)	(4,148)	(16,595)	(8,983)
Income before (provision) benefit for income taxes	88,766	69,792	17,592	727
(Provision) benefit for income taxes	(34,209)	(24,713)	(6,095)	841
Net income	54,557	45,079	11,497	1,568
Net (income) loss attributable to noncontrolling interests	(6)	(4,389)	31	(2,051)
Net income (loss) attributable to Vail Resorts, Inc.	$ 54,551	$ 40,690	$ 11,528	$ (483)

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The following table reconciles Net Debt (in thousands):

	January 31, 2011	January 31, 2010
Long-term debt	$ 495,049	$ 489,865
Long-term debt due within one year	2,708	1,870
Total debt	497,757	491,735
Less: cash and cash equivalents	97,251	58,008
Net debt	$ 400,506	$ 433,727

LIQUIDITY AND CAPITAL RESOURCES

Significant Sources of Cash

Our second and third fiscal quarters historically result in seasonally high cash on hand as our ski resorts are generally open for ski operations from mid-November to mid-April, from which we have historically generated a significant portion of our operating cash flows for the fiscal year. Additionally, cash provided by operating activities can be significantly impacted by the timing or mix of closings on and investment in real estate development projects.

In addition to our $97.3 million of cash and cash equivalents at January 31, 2011, we have $319.4 million available under our Credit Facility (which represents the total commitment of $400.0 million less certain letters of credit outstanding of $80.6 million), which was amended and restated on January 25, 2011. Key modifications to the Credit Facility included, among other things, the extension of the maturity on the revolving credit facility from February 2012 to January 2016 (subject to the repayment or refinancing of the 6.75% Notes by November 15, 2013); increased grid pricing for interest rate margins (currently, under the Credit Facility, at LIBOR plus 1.75%) and commitment fees (currently, under the Credit Facility, at 0.35%); the expansion of baskets for improved flexibility in our ability to incur debt and make acquisitions, investments and distributions; and the elimination of certain financial covenants.

Six months ended January 31, 2011 compared to the six months ended January 31, 2010

We generated $243.7 million of cash from operating activities during the six months ended January 31, 2011, an increase of $229.6 million compared to $14.1 million of cash generated during the six months ended January 31, 2010. The increase in operating cash flows was primarily a result of real estate closings that occurred in the six months ended January 31, 2011 which generated $144.6 million in proceeds compared to no real estate closings that occurred in the six months ended January 31, 2010. Additionally, investments in real estate decreased $97.9 million during the six months ended January 31, 2011 compared to the six months ended January 31, 2010 as our real estate projects under development have reached substantial completion. Additionally, an improvement in resort operations, including from Northstar-at-Tahoe which was acquired in October 2010, have increased Resort EBITDA $18.3 million for the six months ended January 31, 2011 compared to the six months ended January 31, 2010. Partially offsetting the above items was an increase in accounts receivable and other assets and liabilities, net of $10.5 million, and $9.4 million, respectively.

Cash used in investing activities for the six months ended January 31, 2011 increased by $95.1 million compared to the six months ended January 31, 2010, due to the acquisition of Northstar-at-Tahoe in October 2010 for $60.5 million (net of cash assumed), an increase in resort capital expenditures of $25.6 million during the six months ended January 31, 2011, and the prior year cash receipt of $8.9 million primarily related to a land parcel we sold during the six months ended January 31, 2010.

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Cash used in financing activities increased $40.7 million during the six months ended January 31, 2011, compared to the six months ended January 31, 2011, primarily resulting from a reduction in net borrowings under the Credit Facility of $35.0 million during the six months ended January 31, 2011 and costs associated with the amended and restated Credit Facility.

Significant Uses of Cash

Our cash uses currently include providing for operating expenditures and capital expenditures for assets to be used in operations and to a substantially lesser degree remaining expenditures on substantially completed real estate projects and future development projects.

We expect to spend approximately $25 million to $30 million in calendar year 2011 on substantially completed real estate projects, including the completion of associated resort-related depreciable assets, and on future development projects of which approximately $2 million was spent as of January 31, 2011.

We have historically invested significant cash in capital expenditures for our resort operations, and we expect to continue to invest in the future. Current capital expenditure levels will primarily include investments that allow us to maintain our high quality standards, as well as certain incremental discretionary improvements at our six ski resorts and throughout our owned hotels. Additionally, with the acquisition of Northstar-at-Tahoe to our ski resort portfolio, we expect to significantly invest in this resort property to enhance the guest experience. We evaluate additional discretionary capital improvements based on an expected level of return on investment. We currently anticipate we will spend approximately $83 million to $93 million of resort capital expenditures for calendar year 2011 excluding Northstar-at-Tahoe and an additional $28 million to $32 million related to Northstar-at-Tahoe, excluding resort depreciable assets arising from real estate activities noted above. Included in these capital expenditures are approximately $40 million to $44 million excluding Northstar-at-Tahoe and an additional $4 million to $6 million related to Northstar-at-Tahoe, which are necessary to maintain appearance and level of service appropriate to our resort operations, including routine replacement of snow grooming equipment and rental fleet equipment. Discretionary expenditures for calendar 2011 are expected to include a new high speed chairlift to serve Beaver Creek mountain; a new on-mountain fine dining restaurant at Vail; renovation at certain owned lodging properties; expansion of terrain at Northstar-at-Tahoe, including a new high speed chairlift; a new on-mountain dining venue at Northstar-at-Tahoe and renovation of the commercial village at Northstar-at-Tahoe to bring in a new tenant mix. We currently plan to utilize cash on hand, borrowings available under our Credit Facility and/or cash flow generated from future operations to provide the cash necessary to execute our capital plans. Additionally, we do not expect to make any significant income tax payments throughout the year ending July 31, 2011 due to accelerated tax deductions, subject to a settlement of the dispute with the IRS over the utilization of NOLs previously discussed.

Principal payments on the vast majority of our long-term debt are not due until fiscal 2014 and beyond. As of January 31, 2011 and 2010, total long-term debt (including long-term debt due within one year) was $497.8 million and $491.7 million, respectively. Net Debt (defined as long-term debt plus long-term debt due within one year less cash and cash equivalents) decreased from $433.7 million as of January 31, 2010 to $400.5 million as of January 31, 2011 due primarily to an increase in cash and cash equivalents.

Our debt service requirements can be impacted by changing interest rates as we had $52.6 million of variable-rate debt outstanding as of January 31, 2011. A 100-basis point change in LIBOR would cause our annual interest payments to change by approximately $0.5 million. The fluctuation in our debt service requirements, in addition to interest rate changes, may be impacted by future borrowings under our Credit Facility or other alternative financing arrangements we may enter into. Our long term liquidity needs are dependent upon operating results that impact the borrowing capacity under the Credit Facility, which can be mitigated by adjustments to capital expenditures, flexibility of investment activities and the ability to obtain favorable future financing. We can respond to liquidity impacts of changes in the business and economic environment by managing our capital expenditures and the timing of new real estate development activity.

Our 6.75% Notes are due in fiscal 2014. In the fiscal year ending July 31, 2011, we may consider re-financing this debt depending on many factors, including current credit markets and terms available to us.

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On March 9, 2006, our Board of Directors approved the repurchase of up to 3,000,000 shares of common stock and on July 16, 2008 approved an increase of our common stock repurchase authorization by an additional 3,000,000 shares. We did not repurchase any shares of common stock during the six months ended January 31, 2011. Since inception of our stock repurchase plan, we have repurchased 4,262,804 shares at a cost of approximately $162.8 million, through January 31, 2011. As of January 31, 2011, 1,735,196 shares remained available under the existing repurchase authorization. Shares of common stock purchased pursuant to the repurchase program will be held as treasury shares and may be used for the issuance of shares under our employee share award plans. Acquisitions under the stock repurchase program may be made from time to time at prevailing prices as permitted by applicable laws, and subject to market conditions and other factors. The timing as well as the number of shares that may be repurchased under the program will depend on a number of factors, including our future financial performance, our available cash resources and competing uses for cash that may arise in the future, the restrictions in our Fifth Amended and Restated Credit Agreement, dated as of January 25, 2011, between The Vail Corporation (a wholly-owned subsidiary), Bank of America, N.A. as administrative agent and the Lenders party thereto (the Credit Agreement) governing our Credit Facility and the Indenture, dated as of January 29, 2004, between the Company, the guarantors therein and The Bank of New York Mellon Trust Company, N.A. as Trustee (the Indenture), governing the 6.75% Notes due 2014, prevailing prices of our common stock and the number of shares that become available for sale at prices that we believe are attractive. The stock repurchase program may be discontinued at any time and is not expected to have a significant impact on the Company s capitalization.

Covenants and Limitations

We must abide by certain restrictive financial covenants under the Credit Agreement and the Indenture. The most restrictive of those covenants include the following Credit Agreement covenants: Net Funded Debt to Adjusted EBITDA ratio and the Interest Coverage ratio (each as defined in the Credit Agreement). In addition, our financing arrangements, including the Indenture, limit our ability to incur certain indebtedness, make certain restricted payments, enter into certain investments, make certain affiliate transfers and may limit our ability to enter into certain mergers, consolidations or sales of assets. Our borrowing availability under the Credit Agreement is primarily determined by the Net Funded Debt to Adjusted EBITDA ratio, which is based on our segment operating performance, as defined in the Credit Agreement.

We were in compliance with all restrictive financial covenants in our debt instruments as of January 31, 2011. We expect we will meet all applicable financial maintenance covenants in our Credit Agreement, including the Net Funded Debt to Adjusted EBITDA ratio throughout the year ending July 31, 2011. However, there can be no assurance that we will continue to meet such financial covenants. If such covenants are not met, we would be required to seek a waiver or amendment from the banks who are parties to the Credit Agreement. While we anticipate that we would obtain such waiver or amendment, if any were necessary, there can be no assurance that such waiver or amendment would be granted, which could have a material adverse impact on our liquidity.

OFF BALANCE SHEET ARRANGEMENTS

We do not have off balance sheet transactions that are expected to have a material effect on our financial condition, revenue, expenses, results of operations, liquidity, capital expenditures or capital resources.

FORWARD-LOOKING STATEMENTS

Except for any historical information contained herein, the matters discussed in this Form 10-Q 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 available as of the date hereof, which are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our contemplated 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, inten may, plan, predict, project, will and similar terms and phrases, including references to assumptions. Although we believe that our plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, we cannot assure you that such plans, intentions or expectations will be achieved. Important factors that could cause actual results to differ materially from our forward-looking statements include, but are not limited to:

prolonged weakness in general economic conditions, including adverse effects on the overall travel and leisure related industries;

unfavorable weather conditions or natural disasters;

- *adverse events that occur during our peak operating periods combined with the seasonality of our business;*
- *competition in our mountain and lodging businesses;*
- *our ability to grow our resort and real estate operations;*
- *our ability to successfully complete real estate development projects and achieve the anticipated financial benefits from such projects;*
- *further adverse changes in real estate markets;*
- *continued volatility in credit markets;*
- *our ability to obtain financing on terms acceptable to us to finance our real estate development, capital expenditures and growth strategy;*
- *our reliance on government permits or approvals for our use of Federal land or to make operational improvements;*
- *adverse consequences of current or future legal claims;*
- *our ability to hire and retain a sufficient seasonal workforce;*
- *willingness of our guests to travel due to terrorism, the uncertainty of military conflicts or outbreaks of contagious diseases, and the cost and availability of travel options;*
- *negative publicity which diminishes the value of our brands;*
- *our ability to integrate and successfully realize anticipated benefits of future acquisitions; and*
- *implications arising from new Financial Accounting Standards Board (FASB)/governmental legislation, rulings or interpretations.*

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

If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those expected, estimated or projected. Given these uncertainties, users of the information included in this Form 10-Q, 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 this Form 10-Q and in Part I, Item 1A Risk Factors of the 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Risk. Our exposure to market risk is limited primarily to the fluctuating interest rates associated with variable rate indebtedness. At January 31, 2011, we had $52.6 million of variable rate indebtedness, representing 10.6% of our total debt outstanding, at an average interest rate during the three and six months ended January 31, 2011 of 0.7% and 0.8%, respectively. Based on variable-rate borrowings outstanding as of January 31, 2011, a 100-basis point (or 1.0%) change in LIBOR would have caused our annual interest payments to change by $0.5 million. Our market risk exposure fluctuates based on changes in underlying interest rates.

ITEM 4. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

Management of the Company, under the supervision and with participation of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), have evaluated the effectiveness of the Company s disclosure controls and procedures as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Act) as of the end of the period covered by this report on Form 10-Q.

Based upon their evaluation of the Company s disclosure controls and procedures, the CEO and the CFO concluded that the disclosure controls are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Act is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified by the SEC s rules and forms.

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The Company, including its CEO and CFO, does not expect that the Company s internal controls and procedures will prevent or detect all error and all fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Changes in Internal Control over Financial Reporting

There were no changes in the Company s internal control over financial reporting during the period covered by this Form 10-Q that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The Canyons Ski Resort Litigation

During the fourth quarter of the year ended July 31, 2007, we entered into an agreement with Peninsula Advisors, LLC (Peninsula) for the negotiation and mutual acquisition of The Canyons and the land underlying The Canyons. On July 15, 2007, American Skiing Company (ASC) entered into an agreement to sell The Canyons to Talisker Corporation and Talisker Canyons Finance Company, LLC (together Talisker). On July 27, 2007, we filed a complaint in the District Court in Colorado against Peninsula and Talisker claiming, among other things, breach of contract by Peninsula and intentional interference with contractual relations and prospective business relations. We have moved to dismiss with prejudice our claims against Talisker, who similarly has moved to dismiss its counterclaims against us. We also dismissed our claims against Peninsula without prejudice. The Court accepted these dismissals on March 2, 2011, so we no longer are a party to any remaining litigation stemming from this dispute.

Internal Revenue Service Litigation

On August 24, 2009, we filed a complaint in the United States District Court for the District of Colorado against the United States of America seeking a refund of approximately $6.2 million in Federal income taxes paid for the tax years ended December 31, 2000 and December 31, 2001. Our amended tax returns for those years included calculations of NOLs carried forward from prior years to reduce our tax years 2000 and 2001 tax liabilities. The IRS has disallowed refunds associated with those NOL carry forwards and we disagree with the IRS action disallowing the utilization of the NOLs. The IRS filed its answer on November 6, 2009 denying liability for our claimed refunds. The parties completed discovery on August 31, 2010, and completed the briefing of their respective summary judgment motions on October 25, 2010. It is unknown when the Court will issue its summary judgment rulings and we are unable to predict the ultimate outcome of this matter.

The Ritz-Carlton Residences, Vail Litigation

The holders of contracts to purchase 14 Ritz-Carlton Residences, Vail units commenced actions seeking rescission of their contracts based on, among other things, a disputed delivery date included in their respective purchase and sale agreements. We have resolved all but one of the cases, leaving only one unit still subject to litigation.

Specifically, we are a defendant in a case filed in United States District, District of Colorado: *John M. Johnson Revocable Trust and Milford Holding Inv. Inc. v. RCR Vail, LLC*, filed on November 8, 2010. The *John M. Johnson Revocable Trust* complaint also alleges breach of contract, for failure to complete the common elements of the project by a certain specific date. Plaintiffs seek termination of the contract and return of the deposit. We contend that legitimate delays, provided for in the contract, extended the deadline for completion of the common elements and therefore we are not in breach of any obligation.

ITEM 1A. RISK FACTORS.

There have been no material changes from risk factors previously disclosed in Item 1A to Part I of the Company s Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. REMOVED AND RESERVED.

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

The following exhibits are either filed herewith or, if so indicated, incorporated by reference to the documents indicated in parentheses, which have previously been filed with the Securities and Exchange Commission.

Exhibit Number	Description	Sequentially Numbered Page
3.1	Amended and Restated Certificate of Incorporation of Vail Resorts, Inc., dated January 5, 2005. (Incorporated by reference to Exhibit 3.1 on Form 10-Q of Vail Resorts, Inc. for the quarter ended January 31, 2005.)	
3.2	Amended and Restated By-Laws. (Incorporated by reference to Exhibit 3.1 on Form 8-K of Vail Resorts, Inc. filed February 6, 2009.)	
4.1	Supplemental Indenture, dated as of November 15, 2010 to Indenture dated as of January 29, 2004 among Vail Resorts, Inc., as Issuer, the Guarantors named therein, as Guarantors, and The Bank of New York Mellon Trust Company, N.A., as Trustee. (Incorporated by reference to Exhibit 4.1(j) on Form 10-Q of Vail Resorts, Inc. filed December 7, 2010.)	
10.1	Fifth Amended and Restated Credit Agreement dated as of January 25, 2011 among The Vail Corporation (d/b/a Vail Associates, Inc.), as borrower, Bank of America, N.A., as Administrative Agent, U.S. Bank National Association and Wells Fargo Bank, National Association as co-syndication agents, JPMorgan Chase Bank, N.A. and Deutsche Bank Securities Inc. as Co-Documentation Agents and the Lenders party thereto. (Incorporated by reference to Exhibit 10.1 on Form 8-K of Vail Resorts, Inc. filed January 28, 2011.)	
31.1	Certifications of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	20
31.2	Certifications of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	21
32	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	22
101	The following information from the Company s Quarterly Report on Form 10-Q for the three and six months ended January 31, 2011 formatted in eXtensible Business Reporting Language: (i) Consolidated Condensed Balance Sheets as of January 31, 2011 (unaudited), July 31, 2010, and January 31, 2010 (unaudited); (ii) Unaudited Consolidated Condensed Statements of Operations for the three and six months ended January 31, 2011 and January 31, 2010; (iii) Unaudited Consolidated Condensed Statements of Cash Flows for the six months ended January 31, 2011 and January 31, 2010; and (iv) Notes to the Consolidated Condensed Financial Statements (tagged as blocks of text).	

* Management contracts and compensatory plans and arrangements.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: March 10, 2011		Vail Resorts, Inc.
	By:	/s/ Jeffrey W. Jones Jeffrey W. Jones Co-President and Chief Financial Officer (Duly Authorized Officer)
Date: March 10, 2011		Vail Resorts, Inc.
	By:	/s/ Mark L. Schoppet Mark L. Schoppet Senior Vice President, Controller and Chief Accounting Officer

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