

Peak Resorts Inc  
Form 10-Q  
September 11, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended July 31, 2018.

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 001-35363

Peak Resorts, Inc.

(Exact name of registrant as specified in its charter)

Missouri (State or other jurisdiction of incorporation or organization)	43-1793922 (I.R.S. Employer Identification No.)
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17409 Hidden Valley Drive Wildwood, Missouri (Address of principal executive offices)	63025 (Zip Code)
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(636) 938-7474  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes    No

Indicate by check mark whether the registrant has submitted electronically 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 (§

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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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  
No

As of September 10, 2018, 13,982,400 shares of the registrant’s common stock were outstanding.

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## PART I: FINANCIAL INFORMATION

## Item 1. Financial Statements

## Peak Resorts Inc. and Subsidiaries

## Condensed Consolidated Balance Sheets

(dollars in thousands, except per share amounts)

Assets	July 31, 2018 (Unaudited)	April 30, 2018
Current assets:		
Cash and cash equivalents	\$ 10,085	\$ 23,091
Restricted cash	1,440	1,163
Income tax receivable	4,587	-
Accounts receivable	2,872	8,560
Inventory	2,097	1,971
Prepaid expenses and deposits	10,034	12,731
Total current assets	31,115	47,516
Property and equipment, net	209,102	204,095
Land held for development	37,640	37,634
Restricted cash, construction	8,589	12,175
Goodwill	4,382	4,382
Intangible assets, net	721	731
Other assets	2,513	1,797
Total assets	\$ 294,062	\$ 308,330
Liabilities and Stockholders' Equity		
Current liabilities:		
Revolving lines of credit	\$ 12,415	\$ 12,415
Current maturities of long-term debt	2,421	2,614
Accounts payable and accrued expenses	10,507	12,079
Accrued salaries, wages and related taxes and benefits	1,036	922
Unearned revenue	16,756	16,084
Current portion of deferred gain on sale/leaseback	333	333
Total current liabilities	43,468	44,447
Long-term debt, less current maturities	165,768	165,837
Deferred gain on sale/leaseback	2,429	2,512
Deferred income taxes	7,809	7,809

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Other liabilities	495	504
Total liabilities	219,969	221,109

Series A preferred stock, \$0.01 par value per share, \$1,000 liquidation preference per share, 40,000 shares authorized, 20,000 shares issued and outstanding	17,401	17,401
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Commitments and contingencies

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Stockholders' equity:

Common stock, \$0.01 par value per share, 40,000,000 shares authorized, 13,982,400 shares issued and outstanding	140	140
Additional paid-in capital	86,687	86,631
Accumulated deficit	(30,135)	(16,951)
Total stockholders' equity	56,692	69,820
Total liabilities and stockholders' equity	\$ 294,062	\$ 308,330

See accompanying notes to unaudited condensed consolidated financial statements.

## Peak Resorts, Inc. and Subsidiaries

## Condensed Consolidated Statements of Operations

(dollars in thousands, except per share amounts)

(Unaudited)

	Three months ended July 31,	
	2018	2017
Net revenue	\$ 7,007	\$ 7,520
Operating expenses:		
Resort operating costs	14,271	13,539
Depreciation and amortization	3,298	3,145
General and administrative	1,256	1,248
Real estate and other non-income taxes	687	684
Land and building rent	336	353
Restructuring charges	177	-
Loss from operations	(13,018)	(11,449)
Other (expense) income:		
Interest, net of amounts capitalized of \$173 and \$431 in 2018 and 2017, respectively	(3,479)	(3,011)
Gain on sale/leaseback	83	83
Other income	32	55
	(3,364)	(2,873)
Loss before income taxes	(16,382)	(14,322)
Income tax benefit	(4,587)	(5,727)
Net loss	\$ (11,795)	\$ (8,595)
Less declaration and accretion of Series A preferred stock dividends	(400)	(400)
Net loss attributable to common shareholders	\$ (12,195)	\$ (8,995)
Basic and diluted loss per common share	\$ (0.87)	\$ (0.64)
Cash dividends declared per common share	\$ 0.07	\$ 0.07
Cash dividends declared per preferred share	\$ 20.00	\$ -



See accompanying notes to unaudited condensed consolidated financial statements.

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## Peak Resorts, Inc. and Subsidiaries

## Condensed Consolidated Statements of Cash Flows

(dollars in thousands)

(Unaudited)

	Three months ended	
	July 31,	
	2018	2017
Cash flows from operating activities:		
Net loss	\$ (11,795)	\$ (8,595)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of property and equipment and intangibles	3,298	3,145
Amortization of deferred financing costs	271	236
Stock based compensation	56	63
Amortization of other liabilities	(9)	(9)
Gain on sale/leaseback	(83)	(83)
Changes in operating assets and liabilities:		
Income tax receivable	(4,587)	(5,727)
Accounts receivable	5,688	3,458
Inventory	(126)	(180)
Prepaid expenses and deposits	2,697	(358)
Other assets	(716)	(13)
Accounts payable and accrued expenses	(1,700)	1,431
Accrued salaries, wages and related taxes and benefits	114	57
Unearned revenue	672	670
Net cash used in operating activities	(6,220)	(5,905)
Cash flows from investing activities:		
Additions to property and equipment	(8,177)	(8,591)
Additions to land held for development	(6)	(9)
Net cash used in investing activities	(8,183)	(8,600)
Cash flows from financing activities:		
Payments on lines of credit	-	(1,750)
Payments on long-term debt and capital lease obligations	(533)	(610)
Distributions to stockholders	(1,379)	(979)
Payment of deferred financing costs	-	(30)
Release from EB-5 investor funds held in escrow	-	(500)
Net cash used in financing activities	(1,912)	(3,869)
Net decrease in cash, cash equivalents and restricted cash	(16,315)	(18,374)
Cash, cash equivalents, and restricted cash, beginning of period	36,429	78,478
Cash, cash equivalents, and restricted cash, end of period	\$ 20,114	\$ 60,104

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Supplemental cash flow information:

Cash paid interest	\$ 48	\$ 3,206
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Supplemental disclosure of noncash investing  
and financing activities:

Assets under construction included in accounts payable	\$ 353	\$ 583
Accretive dividends - Series A preferred stock	\$ -	\$ 400

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Accrued dividends, common and preferred \$ 1,379 \$ 979

See accompanying notes to unaudited condensed consolidated financial statements.

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PEAK RESORTS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

(Unaudited)

1. Basis of Presentation

Unaudited Interim Condensed Consolidated Financial Statements

The unaudited interim condensed consolidated financial statements of Peak Resorts, Inc. and its subsidiaries (the “Company”) reflect all adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of its financial position, results of operations and cash flows. The results for the three months ended July 31, 2018 are not necessarily indicative of the results expected for a full fiscal year. Due to the seasonality of the ski industry, the Company typically incurs significant operating losses during its first and second fiscal quarters. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s annual report on Form 10-K for the fiscal year ended April 30, 2018, filed with the Securities and Exchange Commission.

Nature of business

The Company is a leading owner and operator of high-quality, individually branded ski resorts in the U.S. and operates 14 ski resorts primarily located in the Northeast and Midwest, 13 of which are owned. The majority of the resorts are located within 100 miles of major metropolitan markets, including New York City, Boston, Philadelphia, Cleveland and St. Louis, enabling day and overnight drive accessibility. The Company’s resorts are comprised of nearly 1,859 acres of skiable terrain appropriate to a wide range of ages and abilities. The activities, services and amenities available at the Company’s resorts include skiing, snowboarding, terrain parks, tubing, dining, lodging, equipment rentals and sales, ski and snowboard instruction, zip lines, mountain coasters, mountain biking, hiking and other summer activities. The Company operates in a single business segment—ski resort operations.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Peak Resorts, Inc. and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Cash and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported in the condensed consolidated balance sheet to the total of the same such amounts shown in the consolidated statements of cash flow:

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	July 31,	
	2018	2017
Cash and cash equivalents	\$ 10,085	\$ 26,869
Restricted cash	1,440	7,079
Restricted cash, construction	8,589	26,156
Total cash, cash equivalents, and restricted cash, end of period	\$ 20,114	\$ 60,104

Note 2. Recently Issued Accounting Standards

The Company qualifies as an “emerging growth company” under the Jumpstart Our Business Startups Act of 2012, which provides that an emerging growth company may take advantage of an extended transition period for

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complying with new or revised accounting standards. As an emerging growth company, the Company may delay the adoption of certain accounting standards until those standards would otherwise apply to private companies.

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, “Leases (Topic 842),” which requires lessees to recognize most leases on the balance sheet. This ASU requires modified retrospective adoption and will be applicable for the Company as of April 30, 2020, with early adoption permitted. The Company is currently evaluating the impact the adoption of this ASU will have on its consolidated financial statements. While the Company expects the pattern of expense for leases it currently classifies as operating will be similar under the old and new guidance, it expects adoption of the new standard will result in a significant increase in assets and liabilities for right of use assets and lease obligations, respectively, for leases it currently classifies as operating. As of July 31, 2018, future minimum lease payments under operating leases was approximately \$14,000.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606),” which was subsequently modified by other ASUs from 2015 through 2017. This ASU, as amended, provides new guidance for the recognition of revenue and provides for a five-step analysis of transactions to determine when and how revenue is recognized. This ASU establishes a core principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It also requires additional disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This ASU may be adopted using either a full or modified retrospective approach and will be applicable for the Company as of April 30, 2020, with early adoption permitted. The Company expects to adopt this ASU using the full retrospective approach and does not expect the adoption of this ASU will have a material impact on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, “Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting,” which provides new guidance related to accounting for share-based payments. This ASU requires entities to record the income tax effect of share-based payments when the awards vest or are settled, and clarifies the cash flow statement presentation of excess tax benefits and withholding tax payments. In addition, the ASU allows for a policy election to account for forfeitures either upon occurrence or by estimating forfeitures. This ASU requires prospective adoption and will be applicable for the Company as of April 30, 2019, with early adoption permitted. The Company is currently evaluating the impact the adoption of this ASU will have on its consolidated financial statements.

### Note 3. Income Taxes

The Company’s effective income tax rates were 28.0% and 40.0% for the three months ended July 31, 2018 and 2017, respectively. The 2018 tax rate reflects the enactment of the Tax Cuts and Job Act of 2017, which permanently reduced the U.S. corporate statutory rate from 35.0% to 21.0% as of January 1, 2018. Deferred income tax assets and liabilities are measured at enacted tax rates in the respective jurisdictions where the Company operates. In assessing the ability to realize deferred tax assets, the Company considers whether it is more likely than not that some portion or all deferred tax assets will not be realized, and a valuation allowance would be provided if necessary.

Income tax receivable of \$4,587 as of July 31, 2018, is a result of the expected tax rate for the Company’s fiscal year ending April 30, 2019, applied to its loss before income tax for the three months ended July 31, 2018. Due to the seasonality of the ski industry, the Company typically incurs significant operating losses during its first and second

fiscal quarters.

The Company does not have any material uncertain tax positions.

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## Note 4. Fixed Assets

The composition of property and equipment is as follows:

	July 31, 2018	April 30, 2018
Land and improvements	\$ 54,795	\$ 54,785
Buildings and improvements	75,328	75,321
Equipment, furniture and fixtures	175,862	175,532
Construction in progress	24,735	16,787
	330,720	322,425
Less: accumulated depreciation and amortization	121,618	118,330
	\$ 209,102	\$ 204,095

## Note 5. Credit Facilities and Long term Debt

The composition of long-term debt is as follows:

	July 31, 2018	April 30, 2018
EPR Secured Notes due 2034	\$ 93,162	\$ 93,162
EPR Secured Notes due 2036	21,000	21,000
EB-5 Development Notes due 2021	52,000	52,000
Wildcat Mountain Note due 2020	3,182	3,231
Capital Leases	2,078	2,426
Other borrowings	1,048	1,184
Less: Unamortized debt issuance costs	(4,281)	(4,552)
	168,189	168,451
Less: Current maturities	(2,421)	(2,614)
	\$ 165,768	\$ 165,837

In addition to the credit facilities listed above, the Company maintains a \$10,000 working capital line of credit and a \$15,000 acquisition line of credit with Royal Banks of Missouri. As of July 31, 2018, \$12,415 was outstanding under the acquisition line of credit and nothing was outstanding under the working capital line of credit, and \$10,000 and

\$2,585 was unused and available under the lines of credit, respectively.

As of July 31, 2018, the Company was in compliance with all debt covenants under its various credit facility and debt agreements.

#### Note 6. Concentrations of Credit Risk and Fair Value Measures

##### Concentrations of Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, cash equivalents and restricted cash. The Company's cash, cash equivalents and restricted cash are on deposit with financial institutions where such balances will, at times, be in excess of federally insured limits. The Company has not experienced any losses associated with such deposits.

## Fair Value of Measurements

The Company measures the fair value of assets and liabilities using a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows: Level 1 - observable inputs such as quoted prices in active markets; Level 2 - inputs, other than quoted market prices in active markets, which are observable, either directly or indirectly; and Level 3 - valuations derived from valuation techniques in which one or more significant inputs are unobservable. In addition, the Company may use various valuation techniques, including the market approach, using comparable market prices; the income approach, using present value of future income or cash flow; and the cost approach, using the replacement cost of assets.

The Company's financial instruments consist of cash equivalents, restricted cash, accounts receivable, accounts payable, accrued liabilities, long-term debt and preferred stock. For cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, the carrying amounts approximate fair market value due to their short-term nature.

The estimated fair values of the Company's debt instruments and preferred stock as of July 31, 2018, is as follows:

	July 31, 2018		Balance Sheet Classification
	Fair Value	Carrying Amount	
EPR Secured Notes due 2034	\$ 90,681	\$ 93,162	Long-term debt, less current maturities
EPR Secured Notes due 2036	15,948	21,000	Long-term debt, less current maturities
EB-5 Development Notes due 2021	46,309	52,000	Long-term debt, less current maturities
Wildcat Mountain Note due 2020	3,139	3,182	Long-term debt, including current maturities
Capital leases and other borrowings	3,126	3,126	Long-term debt, less current maturities
Series A Preferred Stock	19,789	17,401	Series A preferred stock

The Company estimated the fair value of the EPR Secured Notes, EB-5 Development Notes and Wildcat Mountain Note using a discounted cash flow approach and Level 2 inputs, including market borrowing yields for instruments of similar maturities. The Company estimated the fair value of the Series A Preferred Stock and related warrants and other features using Level 2 inputs, including market yields for similar instruments. The Company estimated the fair value of capital leases and other borrowings to approximate their carrying value.

## Note 7. Commitments and Contingencies

## Loss contingencies

The Company is periodically involved in various claims and legal proceedings, many of which occur in the normal course of business. Management routinely assesses the likelihood of adverse judgments or outcomes, including

consideration of its insurance coverage and, in the opinion of the Company's management, the ultimate liabilities resulting from such claims and proceedings will not have a material adverse effect on its business, financial condition, results of operations or cash flows.

#### Leases

The Company leases certain land, land improvements, buildings and equipment under noncancelable operating leases. Certain of the leases contain escalation provisions based generally on changes in the consumer price index with maximum annual percentage increases capped at rates between 1.5% to 4.5%. Additionally, certain leases contain contingent rental provisions which are based on revenue. The Company paid no contingent rentals in the periods presented.

## Note 8. Stock-Based Compensation

Stock-based compensation expense was recognized in general and administrative expense in the accompanying consolidated condensed statements of operations for the three months ended July 31, 2018 and 2017 in the amounts of \$56 and \$63, respectively.

## Restricted Stock Units

Under the Company's 2014 Equity Incentive Plan, the Company granted 2,064 restricted stock units ("RSUs") during the three months ended July 31, 2018, with a weighted-average grant date fair value per unit of \$4.95; and granted 2,190 RSUs during the three months ended July 31, 2017, with a weighted-average grant date fair value per unit of \$5.64. As of July 31, 2018, 148,007 RSUs were outstanding, of which 103,203 were vested.

## Note 9. Loss Per share

The computation of basic and diluted loss per share for the three months ended July 31, 2018 and 2017 is as follows:

	Three Months Ended July 31,	
	2018	2017
Net loss attributable to common shareholders	\$ (12,195)	\$ (8,995)
Weighted number of shares:		
Common stock	13,982,400	13,982,400
Outstanding vested Restricted Stock Units	103,203	49,818
	14,085,603	14,032,218
Basic and diluted loss per share	\$ (0.87)	\$ (0.64)

The Company's 44,804 and 47,826 outstanding unvested RSUs as of July 31, 2018 and 2017, respectively, have been excluded from the calculations of diluted earnings per share because their impact would be anti-dilutive. In addition, warrants to purchase 2,719,018 shares of common stock and the effect of the Company's Series A preferred stock have been excluded from the calculation of diluted earnings per share for the three months ended July 31, 2018, because the impact would be antidilutive.

## Note 10. Restructuring and Impairment

As of April 30, 2018, the Company closed a restaurant and certain hotel-like amenities at a condominium building adjacent to its Attitash ski resort and terminated a related rental management agreement (the “Attitash Hotel Closure”). For the three months ended July 31, 2018, the Company incurred restructuring charges of \$177 in connection with the Attitash Hotel Closure, which included professional service fees and costs to maintain the facility pending its disposal, which the Company expects will occur during the second quarter of its 2019 fiscal year.

Total costs through July 31, 2018, associated with the Attitash Hotel Closure include \$1,586 of asset impairment charges, \$36 of severance expense and \$247 of other costs. As of July 31, 2018, no amounts were accrued for costs associated with the Attitash Hotel Closure, and the Company expects it may incur future additional charges in the range of \$50 to \$100 related to professional fees and other costs.

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

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in this Quarterly Report on Form 10-Q (the "Report") and with the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2018 filed with the Securities and Exchange Commission. In addition to historical financial information, the following discussion contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Unless the context suggests otherwise, references in this Report to the "Company", "Peak", "our", "us", or "we" refer to Peak Resorts, Inc. and its consolidated subsidiaries.

### Forward-Looking Statements

Except for any historical information contained herein, the matters discussed in this Report contain certain "forward-looking statements" within the meaning of the federal securities laws. This includes statements regarding our future financial position, economic performance, results of operations, business strategy, budgets, projected costs, plans and objectives of management for future operations, and the information referred to under "Management's Discussion and Analysis of Financial Condition and Results of Operations".

These forward-looking statements generally can be identified by the use of forward-looking terminology, such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe," "continue" or similar terminology, although not all forward-looking statements contain these words. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, you are cautioned that any such forward-looking statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Although we believe that the expectations reflected in such forward-looking statements are reasonable as of the date made, expectations may prove to have been materially different from the results expressed or implied by such forward-looking statements. Unless otherwise required by law, we also disclaim any obligation to update our view of any such risks or uncertainties or to announce publicly the result of any revisions to the forward-looking statements made in this Report. Important factors that could cause actual results to differ materially from our expectations include, among others:

- weather, including climate change;
- seasonality;
- availability of funds for capital expenditures and operations;
- competition with other indoor and outdoor winter leisure activities and ski resorts;
- the leases and permits for property underlying certain of our ski resorts;
- ability to integrate new acquisitions;
- environmental laws and regulations;
- our dependence on key personnel;
- the effect of declining revenues on margins;

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- the future development and continued success of our Mount Snow and Hunter Mountain ski resorts;
- our reliance on information technology;
- our current dependence on our primary lender and the lender's option to purchase certain of our ski resorts;
- our dependence on a seasonal workforce;
- our ability to avoid or recover from cyber and other security breaches and other disruptions; and
- the securities market.



You should also refer to Part I, Item 1A, “Risk Factors,” of our Annual Report on Form 10-K for a discussion of factors that may cause our actual results to differ materially from those expressed or implied by our forward-looking statements. As a result of these factors, we cannot assure you that the forward-looking statements in this Report will prove to be accurate. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may prove to be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time-frame, or at all.

## Company Overview

We are a leading owner and operator of high-quality, individually branded ski resorts in the U.S. We currently operate 14 ski resorts primarily located in the Northeast and Midwest, 13 of which we own. The majority of our resorts are located within 100 miles of major metropolitan markets, including New York City, Boston, Philadelphia, Cleveland and St. Louis, enabling day and overnight drive accessibility. Our resorts are comprised of nearly 1,859 acres of skiable terrain that appeal to a wide range of ages and abilities. We offer a breadth of activities, services and amenities, including skiing, snowboarding, terrain parks, tubing, dining, lodging, equipment rentals and sales, ski and snowboard instruction and mountain biking and other summer activities. We believe that both the day and overnight drive segments of the ski industry are appealing given their stable revenue base, high margins and attractive risk-adjusted returns. We have successfully acquired and integrated 11 ski resorts since our incorporation in 1997, and we expect to continue executing this strategy. We and our subsidiaries operate in a single business segment—resort operations.

## Business Overview

### Capital Projects

As part of our mission to build value by investing in our current properties through expansions, new products and amenities that will elevate our customers’ skiing and off-season experiences, during the first quarter of fiscal 2019 we continued to move forward with capital improvement projects at our Hunter Mountain, Mount Snow and Hidden Valley resorts.

- At Hunter Mountain, we continued the Hunter North expansion project to increase the resort’s skiable acreage by approximately 25% and add automated snowmaking, a six-passenger detachable high-speed chair lift and parking area. We expect to complete the project during the 2018/2019 ski season.
- At Mount Snow, we continued construction on the Carinthia Ski Lodge project. The Carinthia Ski Lodge project includes the construction of a new ski lodge at the resort’s Carinthia base, comprised of a three-story, 36,000-square foot skier service building which will include i) a restaurant, cafeteria and bars with seating for over 600 people, ii) retail facilities, and iii) a sales center for lift tickets and equipment rentals. We expect to complete the Carinthia Ski Lodge project prior to the 2018/2019 ski season.
- At Hidden Valley, we continued the permitting process and made preparations for the construction of a zip line tour which we anticipate will generate additional sales and diversify that resort’s revenue base. We anticipate completing

the project during calendar year 2019.

#### Seasonality of Business

Our resort operations are seasonal in nature and revenue and profits from operations are substantially lower and have historically resulted in losses from late spring to late fall, which occur during our first and second fiscal quarters. Revenue and profits generated by our summer operations have historically not been sufficient to fully offset our operating expenses during the same timeframe. Therefore, our operating results for any interim period are not necessarily indicative of the results that may be achieved for any subsequent quarter or for a full year.

#### Results of Operations

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Three Months Ended July 31, 2018, Compared with the Three Months ended July 31, 2017

The following table presents our condensed unaudited consolidated statements of operations for the three months ended July 31, 2018 and 2017 (dollars in thousands):

	Three months ended July 31,		\$ change	% change
	2018	2017		
<b>Revenues:</b>				
Food and beverage	2,745	2,830	(85)	-3.0%
Hotel/lodging	1,444	1,841	(397)	-21.6%
Retail	212	241	(29)	-12.0%
Summer activities	1,909	1,881	28	1.5%
Other	697	727	(30)	-4.1%
	7,007	7,520	(513)	-6.8%
<b>Costs and Expenses:</b>				
<b>Resort operating expenses:</b>				
Labor and labor related expenses	8,388	8,611	(223)	-2.6%
Retail and food and beverage cost of sales	894	752	142	18.9%
Power and utilities	967	789	178	22.6%
Other	4,022	3,387	635	18.7%
	14,271	13,539	732	5.4%
Depreciation and amortization	3,298	3,145	153	4.9%
General and administrative expenses	1,256	1,248	8	0.6%
Real estate and other non-income taxes	687	684	3	0.4%
Land and building rent	336	353	(17)	-4.8%
Restructuring and impairment loss	177	-	177	100.0%
	20,025	18,969	1,056	5.6%
Loss from operations	(13,018)	(11,449)	(1,569)	13.7%
<b>Other (expense) income:</b>				
Interest, net of interest capitalized of \$173 and \$431 in 2018 and 2017, respectively	(3,479)	(3,011)	(468)	15.5%
Gain on sale/leaseback	83	83	-	0.0%
Other income	32	55	(23)	-41.8%
	(3,364)	(2,873)	(491)	17.1%
Loss before income taxes	(16,382)	(14,322)	(2,060)	14.4%
Income tax benefit	(4,587)	(5,727)	1,140	-19.9%
Net loss	\$ (11,795)	\$ (8,595)	\$ (3,200)	37.2%
Reported EBITDA	\$ (9,543)	\$ (8,304)	\$ (1,239)	14.9%



Net Revenue. Net revenue decreased \$0.5 million, or 6.8%, for the three months ended July 31, 2018, compared with the three months ended July 31, 2017. The decrease is primarily attributable to reduced lodging and food and beverage sales at our Attitash resort following the April 30, 2018 termination of a hotel/condominium management agreement and closure of a restaurant facility adjacent to the Attitash resort (the “Attitash Hotel Closure”), partially offset by an increase in revenue from summer festivals, banquets and events.

Resort Operating Costs. Resort operating costs increased \$0.7 million, or 5.4%, for the three months ended July 31, 2018, compared with the same period in the prior year. A \$0.2 million decline in labor costs was more than offset by a \$0.1 million increase in cost of goods sold, a \$0.2 million increase in power and utility costs and a \$0.6 million increase in other operating costs.

A decline in labor costs associated with the Attitash Hotel Closure, was partially offset by increased labor costs at our resorts in New York and Vermont, as a result of increased state minimum wage rates and additional labor at our Hunter Mountain resort to support the expansion project there. Retail food and beverage cost of sales increased \$0.1 million during the season due to increased banquet, events and festival sales during the period, partially offset by decreased food and beverage sales as a result of the Attitash Hotel Closure. Power and Utility costs were up due to increased electric transmission charges associated with our Pennsylvania resorts. Other operating expenses increased due to i) increased information technology costs associated with a new customer marketing project, ii) costs associated with new snow groomer equipment leased prior to the 2017/2018 ski season and iii) pulled-forward supplies and repairs and maintenance projects.

General and Administrative Costs. General and administrative expenses of approximately \$1.3 million for the three months ended July 31, 2018, were unchanged as compared to the same period in the prior year.

Restructuring charges. For the three months ended July 31, 2018, we incurred restructuring charges of \$0.2 million in connection with the Attitash Hotel Closure, which included professional service fees and costs to maintain the facility pending its disposal, which we expect will occur during the second quarter of our 2019 fiscal year.

Total costs through July 31, 2018 associated with the Attitash Hotel Closure include \$1.6 million of asset impairment charges and \$0.3 million of other costs. As of July 31, 2018, no amounts were accrued for costs associated with the Attitash Hotel Closure, and we expect we may incur future additional charges in the range of approximately \$0.1 million related to professional fees and other costs.

Interest, net. Net interest expense of \$3.5 million for the three months ended July 31, 2018, increased by \$0.5 million, or 15.5%, as compared to the \$3.0 million of net interest expense for the three months ended July 31, 2017. The increase in net interest expense relates primarily to i) a \$0.3 million decrease in the amount of capitalized interest during the first quarter of fiscal 2019, as compared to the same quarter in fiscal 2018, as a result of the completion of the West Lake Water project in November 2017 and ii) an increase in interest rates on variable rate debt.

Income Taxes. Income tax benefit decreased \$1.1 million, or 19.9%, to \$4.6 million for the three months ended July 31, 2018 as compared with the three months ended July 31, 2017, as result of a decrease in our effective tax rate applied to a larger loss before income taxes. Our effective income tax rates were 28.0% and 40.0% for the three months ended July 31, 2018 and 2017, respectively. The 2018 tax rate reflects the enactment of the Tax Cuts and Job Act of 2017, which permanently reduced the U.S. corporate statutory rate from 35.0% to 21.0% as of January 1, 2018.

Reported EBITDA. We have specifically chosen to include “Reported EBITDA” (which we define as net income before interest, income taxes, depreciation, amortization, gain on sale/leaseback, other income and expense and other non-recurring items) as a measurement of our results of operations because we consider this measurement to be a significant indication of our financial performance and available capital resources. Because of large depreciation and other charges relating to our ski resorts operations, it is difficult for management to fully and accurately evaluate our financial results and available capital resources using net income alone. In addition,

the use of this non-U.S. GAAP measure provides an indication of our ability to service debt, and we consider it an appropriate measure to use because of our highly leveraged position.

We believe that by providing investors with Reported EBITDA, they will have a clearer understanding of our financial performance and cash flows because Reported EBITDA i) is widely used in the ski industry to measure a company's operating performance without regard to items excluded from the calculation of such measure; ii) helps investors to more meaningfully evaluate and compare the results of our operations from period to period by removing the effect of our capital structure and asset base from our operating results; and iii) is used by our board of directors, management and our lenders for various purposes, including as a measure of our operating performance and as a basis for planning.

The items we exclude from net income to arrive at Reported EBITDA are significant components for understanding and assessing our financial performance and liquidity. Reported EBITDA should not be considered in isolation or as an alternative to, or substitute for, net income, net change in cash and cash equivalents or other financial statement data presented in our condensed consolidated financial statements as indicators of financial performance or liquidity. Because Reported EBITDA is not a measurement determined in accordance with U. S. GAAP and is susceptible to varying calculations, Reported EBITDA, as presented, may not be comparable to other similarly titled measures of other companies, limiting its usefulness as a comparative measure.

Reconciliations of net loss to EBITDA for the three months ended July 31, 2018 and 2017, were as follows (dollars in thousands):

	Three months ended July 31,	
	2018	2017
Net loss	\$ (11,795)	\$ (8,595)
Income tax benefit	(4,587)	(5,727)
Interest expense, net	3,479	3,011
Depreciation and amortization	3,298	3,145
Restructuring charges	177	-
Other income	(32)	(55)
Gain on sale/leaseback	(83)	(83)
Reported EBITDA	\$ (9,543)	\$ (8,304)

Reported EBITDA decreased by \$1.2 million, or 14.9%, for the three months ended July 31, 2018, as compared with the same period in the prior year, primarily as a result of a higher operating loss.

## Liquidity and Capital Resources

### Significant Sources of Cash

Our available cash is consistently highest in our fourth quarter primarily due to the seasonality of our resort business. We had \$10.1 million of cash and cash equivalents as of July 31, 2018, compared with \$23.1 million at April 30, 2018. Cash of \$6.2 million and \$5.9 million was used by operating activities during the three months ended July 31, 2018 and 2017, respectively. We generate the majority of our cash from operations during the ski season, which occurs during our third and fourth quarters. We currently anticipate cash flow from operations will continue to provide a significant source of our future cash flows. We expect our liquidity needs for the near term and the next fiscal year will be met by operating cash flows (primarily those generated in our third and fourth fiscal quarters) and additional borrowings under our various credit agreements, as needed.



Long-term debt at July 31, 2018 and April 30, 2018 consisted primarily of borrowings pursuant to the loans and other credit facilities with EPR Properties, our primary lender, Royal Banks of Missouri, our primary banking partner, and our EB-5 partnerships. We have presented in the table below the composition of our long-term debt as of July 31, 2018 and April 30, 2018 (dollars in thousands):

	July 31, 2018	April 30, 2018
EPR Secured Notes due 2034	\$ 93,162	\$ 93,162
EPR Secured Notes due 2036	21,000	21,000
EB-5 Development Notes due 2021	52,000	52,000
Wildcat Mountain Note due 2020	3,182	3,231
Capital Leases	2,078	2,426
Other borrowings	1,048	1,184
Less: Unamortized debt issuance costs	(4,281)	(4,552)
	168,189	168,451
Less: Current maturities	(2,421)	(2,614)
	\$ 165,768	\$ 165,837

In addition to the credit facilities listed above, the Company maintains a \$10.0 million working capital line of credit and a \$15.0 million acquisition line of credit with Royal Banks of Missouri. As of July 31, 2018, \$12.4 million was outstanding under the acquisition line of credit and nothing was outstanding under the working capital line of credit, and \$10.0 million and \$2.6 million was unused and available under the lines of credit, respectively.

As of July 31, 2018, we were in compliance with all debt covenants under our various credit facilities and debt agreements.

#### Cash Flow

#### Three Months Ended July 31, 2018 Compared with the Three Months Ended July 31, 2017

Cash of \$6.2 million was used in operating activities in the first three months of fiscal 2019, a \$0.3 million increase when compared with the \$5.9 million of cash used in the first three months of fiscal 2018. A higher net loss for the first quarter of fiscal 2019 was partially offset by positive changes in working capital.

Cash of \$8.2 million was used by investing activities in the first three months of fiscal 2019, a decrease of \$0.4 million when compared with the \$8.6 million used in the first three months of fiscal 2018. Investing cash flows in fiscal 2019 related primarily to the construction of the Carinthia Ski Lodge and Hunter Mountain expansion projects, and investing cash flows in fiscal 2018 related primarily to the construction of the West Lake Water and Carinthia Ski

Lodge projects.

Cash of \$1.9 million was used in financing activities in the first three months of fiscal 2019, a decrease of \$2.0 million when compared with the \$3.9 million used in the first three months of fiscal 2018. Financing cash flows in fiscal 2019 included approximately \$1.4 million of distributions to shareholders and approximately \$0.5 million of debt payments. Financing cash flows in the fiscal 2018 period included i) the repayment of approximately \$2.4 million of credit facility and long-term debt; and ii) \$1.0 million of distributions to shareholders, partially offset by \$0.5 million in EB-5 investor funds released from escrow.

Significant Uses of Cash

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Our cash uses are currently expected to include i) operating expenditures, ii) capital expenditures, and iii) debt service. We have historically invested significant cash in capital expenditures for our resort operations and expect to continue to invest in the future.

Capital expenditures during the first three months of fiscal 2019 were \$8.2 million, and included \$4.1 million related to the Hunter Mountain expansion project, \$2.9 million on the Carinthia Ski Lodge project and \$1.2 million to maintain and enhance our resort properties. We currently anticipate we will spend between approximately \$28.0 to \$32.0 million on capital expenditures during fiscal 2019, which includes approximately \$11.5 million to \$12.5 million to complete the Carinthia Ski Lodge project, approximately \$1.5 million to \$2.5 million to finish construction of the zip tour at Hidden Valley, and approximately \$8.5 million to \$9.5 million on the expansion of Hunter North terrain. We also expect to spend approximately \$6.0 million to \$8.0 million on resort maintenance capital expenditures, which is consistent with our historical maintenance capital expenditures that are needed to maintain and improve the level of service and overall experiences we strive to provide our visitors. The Carinthia Ski Lodge project is being funded with proceeds raised pursuant to the Company's EB 5 program, which are reflected in Restricted cash, construction on our condensed consolidated balance sheet. We currently plan to use cash on hand, borrowings and cash generated from future operations to provide the cash necessary to execute our capital plans and believe that these sources of cash will be adequate to meet our needs.

Currently, 20,000 shares of our Series A Cumulative Convertible Preferred Stock, par value \$0.01 per share (the "Series A Preferred Stock"), are outstanding. The terms of the Series A Preferred Stock provide that cumulative dividends accrue on a daily basis in arrears at the rate of 8.0% per annum on the liquidation value of \$1,000 per share, beginning in August 2017. All accrued and accumulated dividends on the Series A Preferred Stock must be paid prior and in preference to any cash dividend on our common stock. In addition, until the earlier of i) such date as no Series A Preferred Stock remains outstanding and ii) January 1, 2027, we are prohibited from paying any dividend on capital stock when there are accrued or unpaid dividends with respect to the Series A Preferred Stock. We intend to pay the Series A Preferred Stock dividends of approximately \$1.6 million annually, or \$0.4 million quarterly.

Our board of directors declared a cash dividend of \$0.07 payable on August 10, 2018, to stockholders of record on July 26, 2018. The declaration and payment of future dividends will be at the sole discretion of our board of directors, and will depend on many factors, including our actual results of operations, financial condition, capital requirements, contractual restrictions, restrictions in our debt agreements, preference of our Series A Preferred Stock, economic conditions and other factors that could differ materially from our current expectations.

### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Interest Rate Risk

As of July 31, 2018, we had \$126.6 million of outstanding borrowings with variable interest rates, and we may have additional variable rate debt in the future. Accordingly, our earnings and cash flows could be affected by changes in interest rates in the future. Interest rates on \$93.2 million of our variable interest rate borrowings are capped such that they cannot increase by more than a factor of 1.015 annually, and interest rates on \$21.0 million of our variable interest rate borrowings are capped such that they cannot increase by more than a factor of 1.0175 annually. As a result, we do not believe a 10% movement in the reference rates applicable to our outstanding borrowings with variable interest rates would have a material effect on our financial condition, operating results or cash flows.

We do not perform any interest rate hedging activities related to our outstanding debt.

#### ITEM 4. CONTROLS AND PROCEDURES

##### Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act")), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, management, with the participation of the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures, as of the end of the period covered by this Quarterly Report on Form 10-Q, are functioning effectively to provide reasonable assurance that the information required to be disclosed by the Company in reports filed under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. A controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

##### Change in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the period covered by this Quarterly Report on Form 10-Q identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) under the Exchange Act that have materially affected, or that are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

We are not aware of any pending or threatened legal proceedings against us that could have a material adverse effect on our business, operating results or financial conditions. The ski industry is characterized by periodic litigation and as a result, we may be involved in various additional legal proceedings from time to time.

Item 1A. RISK FACTORS.

We have included in Part I, Item 1A of our Annual Report on Form 10-K for the year ended April 30, 2018, a description of certain risks and uncertainties that could have a material adverse effect on our business, financial condition, results of operations or cash flows. There have been no material changes to the risk factors during the period covered by this Report.

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

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES.

None.

Item 4. MINE SAFETY DISCLOSURES.

None.

Item 5. OTHER INFORMATION.

(a) None.

(b) There have been no material changes to the procedures by which stockholders may recommend nominees to the Company's board of directors implemented in the quarter ended July 31, 2018.

Item 6. EXHIBITS.

The exhibits filed or furnished are set forth in the Exhibit Index at the end of this Quarterly Report on Form 10-Q.

SIGNATURES

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

PEAK RESORTS, INC.

By: /s/ TIMOTHY D.  
BOYD

Date: September 11, 2018

Timothy D. Boyd  
Chief Executive  
Officer, President  
and  
Chairman of the  
Board

By: /s/ CHRISTOPHER  
J. BUB

Date: September 11, 2018

Christopher J. Bub  
Chief Financial  
Officer, Vice  
President and  
Secretary

## EXHIBIT INDEX

These exhibits are numbered in accordance with the Exhibit Table of Item 601 of Regulation S-K.

Exhibit Number	Description
31.1	<u>Certification of Principal Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.</u>
31.2	<u>Certification of Principal Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.</u>
32.1	<u>Certification of Chief Executive Officer and Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes Oxley Act of 2002 (18 USC. Section 1350).</u>
101.INS	XBRL Instance
101.SCH	XBRL Extension Schema
101.CAL	XBRL Extension Calculation



101.DEF XBRL Extension  
Definition

101.LAB XBRL Extension  
Label

101.PRE XBRL Extension  
Presentation