COMFORT SYSTEMS USA INC
Form 10-K
March 02, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2009

Commission file number: 1-13011

Comfort Systems USA, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**76-0526487**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

**675 Bering Drive
Suite 400
Houston, Texas 77057
(713) 830-9600**
(Address and telephone number of Principal Executive Offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Common Stock, $.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

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 ý No o

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 o No ý

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

Form 10-K or any amendment to this Form 10-K. ý

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. (Check one):

Large accelerated filer o	Accelerated filer ý	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the voting stock held by non-affiliates of the registrant at June 30, 2009 was approximately $391.5 million, based on the $10.20 last sale price of the registrant's common stock on the New York Stock Exchange on June 30, 2009.

As of February 26, 2010, 37,915,511 shares of the registrant's common stock were outstanding (excluding treasury shares of 3,207,854).

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III (other than the required information regarding executive officers) is incorporated by reference from the registrant's definitive proxy statement, which will be filed with the Commission not later than 120 days following December 31, 2009.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on the current plans and expectations of future events of Comfort Systems USA, Inc. and involve risks and uncertainties that could cause actual future activities and results of operations to be materially different from those set forth in the forward-looking statements. Important factors that could cause actual results to differ include, among others, the use of incorrect estimates for bidding a fixed-price contract, undertaking contractual commitments that exceed our labor resources, failing to perform contractual obligations efficiently enough to maintain profitability, national or regional weakness in construction activity and economic conditions, financial difficulties affecting projects, vendors, customers, or subcontractors, our backlog failing to translate into actual revenue or profits, difficulty in obtaining or increased costs associated with bonding and insurance, impairment to goodwill, errors in our percentage-of-completion method of accounting, the result of competition in our markets, our decentralized management structure, shortages of labor and specialty building materials, retention of key management, seasonal fluctuations in the demand for HVAC systems, the imposition of past and future liability from environmental, safety, and health regulations including the inherent risk associated with self-insurance, adverse litigation results and other risks detailed in our reports filed with the Securities and Exchange Commission. A further list and description of these risks, uncertainties and other factors are discussed under "Item 1A. Company Risk Factors." These forward-looking statements speak only as of the date of this filing. Comfort Systems USA, Inc. expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in our expectations with regard thereto or any change in events, developments, conditions or circumstances on which any such statement is based.

PART I

The terms "Comfort Systems," "we," "us," or "the Company" refer to Comfort Systems USA, Inc. or Comfort Systems USA, Inc. and its consolidated subsidiaries, as appropriate in the context.

ITEM 1. *Business*

Comfort Systems USA, Inc., a Delaware corporation was established in 1997. We provide comprehensive heating, ventilation and air conditioning ("HVAC") installation, maintenance, repair and replacement services within the mechanical services industry. We have 43 operating units in 72 cities and 80 locations throughout the United States.

We operate primarily in the commercial, industrial and institutional HVAC markets, and perform most of our services within office buildings, retail centers, apartment complexes, manufacturing plants, and healthcare, education and government facilities. In addition to standard HVAC services, we provide specialized applications such as building automation control systems, fire protection, process cooling, electronic monitoring and process piping. Certain locations also perform related activities such as electrical service and plumbing. Approximately 99% of our consolidated 2009 revenues were derived from commercial, industrial and institutional customers and large multi-family residential projects. Approximately 52% of our revenues were attributable to installation services in newly constructed facilities and 48% were attributable to maintenance, repair and replacement services. Our consolidated

2009 revenues were derived from the following service activities, all of which are in the mechanical services industry, the single industry segment we serve:

Service Activity	Percentage of Revenue
HVAC	77%
Plumbing	15%
Building Automation Control Systems	3%
Other	5%
Total	100%

Our Internet address is *http://www.comfortsystemsusa.com*. We make available free of charge on or through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Our website also includes our code of ethics, titled "Corporate Compliance Policy: Standards and Procedures Regarding Business Practices," together with other governance materials including our corporate governance guidelines and our Board committee charters. Printed versions of our code of ethics and our corporate governance guidelines may be obtained upon written request to our Corporate Compliance Officer at our headquarters address.

Industry Overview

We believe that the commercial, industrial, and institutional HVAC industry has historically generated annual revenues in excess of $40 billion. HVAC systems are necessary to virtually all commercial, industrial and institutional buildings as well as homes. Because most buildings are sealed, HVAC systems provide the primary method of circulating fresh air in such buildings. In many instances, replacing an aging system with a modern, energy-efficient HVAC system significantly reduces a building's operating costs and improves air quality and HVAC system effectiveness. Older commercial, industrial and institutional facilities often have poor air quality as well as inadequate air conditioning, and older HVAC systems result in significantly higher energy costs than do modern systems. These factors cause many facility owners to consider replacing older systems before the end of their functioning lives.

Many factors positively affect HVAC industry growth, particularly (i) population growth, which has increased the need for commercial, industrial and institutional space, (ii) an aging installed base of buildings and HVAC environmental and energy efficiency equipment, (iii) increasing sophistication, complexity, and efficiency of HVAC systems, (iv) growing emphasis on environmental and energy efficiency, and (v) reduction or elimination of the refrigerants commonly used in older HVAC systems. We believe these factors should increase demand for the reconfiguration or replacement of existing HVAC systems and may also mitigate, to some extent, the effect on the HVAC industry of the cyclicality inherent in the traditional construction industry.

The HVAC industry can be broadly divided into two service functions:

- installation in newly constructed facilities, which provided approximately 52% of our revenues in 2009, and

- maintenance, repair and replacement in existing facilities, which provided the remaining 48% of our 2009 revenues.

Installation Services. Installation services consist of "design and build" and "plan and spec" projects. In "design and build" projects, the commercial HVAC company is responsible for designing, engineering and installing a cost-effective, energy-efficient system customized to the specific needs of the building owner. Costs and other project terms are normally negotiated between the building owner or its representative and the HVAC company. Companies that specialize in "design and build" projects generally have specially-trained HVAC engineers, CAD/CAM design systems and in-house sheet metal and prefabrication capabilities. These companies use a consultative approach with customers and tend to develop long-term relationships with building owners and developers, general contractors, architects, consulting engineers and property managers. "Plan and spec" installation refers to projects in which a third-party architect or consulting engineer designs the HVAC systems and the installation project is "put out for bid." We believe that "plan and spec" projects usually take longer to complete than "design and build" projects because the system design and installation process generally are not integrated, thus resulting in more frequent adjustments to the technical specifications of the project and corresponding changes in work requirements and schedules. These adjustments can occur during the bid process or during the project itself, in either case adding weeks or months to the project schedule. Furthermore, in "plan and spec" projects, the HVAC company is not responsible for project design and other parties must also approve any changes, thereby increasing overall project time and cost.

Maintenance, Repair and Replacement Services. These services include maintaining, repairing, replacing, reconfiguring and monitoring previously installed HVAC systems and building automation controls. The growth and aging of the installed base of HVAC systems and the demand for more efficient and sophisticated systems and building automation controls have fueled growth in this service line. The increasing complexity of these HVAC systems is leading many commercial, industrial and institutional building owners and property managers to increase attention to maintenance and to outsource maintenance and repair, often through service agreements with HVAC service providers. In addition, further restrictions have been placed on the use of certain types of refrigerants used in HVAC systems, which, along with indoor air quality concerns, may increase demand for the reconfiguration and replacement of existing HVAC systems. State-of-the-art control and monitoring systems feature electronic sensors and microprocessors. These systems require specialized training to install, maintain and repair, and the typical building engineer employed directly by a building owner or manager has not received this training. Increasingly, HVAC systems in commercial, industrial and institutional buildings are being remotely monitored through computer-based communications systems to improve energy efficiency and expedite problem diagnosis and correction, thereby allowing us to provide maintenance and repair services at a lower cost.

Strategy

We focus on strengthening operating competencies and on increasing profit margins. The key elements of our operating strategy are:

Achieve Excellence in Core Competencies. We have identified six core competencies, which we believe are critical to attracting and retaining customers, increasing operating income and cash flow and creating additional employment opportunities. The six core competencies are: (i) customer cultivation and intimacy, (ii) design and build expertise, (iii) estimating, (iv) job costing and job measurements, (v) safety, and (vi) service capability.

Achieve Operating Efficiencies. We think we can achieve operating efficiencies and cost savings through purchasing economies, adopting "best practices" operating programs, and focusing on job management to deliver services in a cost-effective and efficient manner. We have placed great emphasis on improving the "job loop" at our locations qualifying, estimating, pricing and executing projects effectively and efficiently, then promptly assessing project experience for applicability to current and future projects. We also use our combined purchasing to gain volume discounts on products and services such as HVAC components, raw materials, services, vehicles, bonding, insurance and employee benefits.

Attract, Retain and Invest in our Employees. We seek to attract and retain quality employees by providing them an enhanced career path from working for a larger company, the opportunity to realize a more stable income and attractive benefits packages. Over the past few years we have made substantial investments in training, including programs for project managers, field superintendents, service managers, sales managers, estimators, and more recently, leadership and development of key managers and leaders. We believe these programs can lead to significantly increased efficiency and growth.

Focus on Commercial, Industrial and Institutional Markets. We primarily focus on the commercial, industrial and institutional markets, with particular emphasis on "design and build" installation services, and on maintenance, repair and replacement services. We believe that the commercial, industrial, and institutional HVAC markets are attractive because of their growth opportunities, large and diverse customer base, reduced weather exposure as compared to residential markets, attractive margins and potential for long-term relationships with building owners, property managers, general contractors and architects. We believe that although the end-use is ultimately residential, large multi-family projects have many of the same characteristics as commercial construction. Although we plan to continue our involvement in multi-family work, we have decided to focus a portion of our resources away from this work and we expect that as a result, the portion of our work that is multi-family will diminish somewhat in the future. Approximately 99% of our consolidated 2009 revenues were derived from commercial, industrial, and institutional customers and large multi-family residential projects.

Leveraging Resources and Capabilities. We believe significant operating efficiencies can be achieved by leveraging resources among our operating locations. For example, we have shifted certain prefabrication activities into centralized locations thereby increasing asset utilization in these centralized locations and redirecting prefabrication employees into other operational areas. We also allocate our engineering, field and supervisory labor from one operation to another to more fully use our employee base, meet our customers' needs, and share expertise. We believe we have realized scale benefits from combining purchasing, insurance, benefits, bonding, and financing activities across our operations. We also believe larger regional and national commercial, industrial, and institutional entities can benefit from consolidating their HVAC needs with service companies that are capable of providing those services regionally or nationally. In response to this opportunity, we operate a national call center to dispatch technicians to regional and national sites requiring service and use web-based proprietary information systems to maintain information on the customer's sites and equipment.

Maintain a Diverse Customer, Geographic and Project Base. We have what we believe is a well-diversified distribution of revenues across end-use sectors that reduces our exposure to negative developments in any given sector. We also believe we have a reasonable degree of geographical diversification, again reducing our exposure to negative developments in any given region. Our distribution of revenues in 2009 by end-use sector was as follows:

Education	23%
Government	14%
Healthcare	12%
Manufacturing	12%
Office Buildings	11%
Multi-Family	9%
Retail/Restaurants	8%
Other	5%
Lodging and Entertainment	2%
Religious/Not for profit	2%
Distribution	1%
Residential	1%
Total	100%

Approximately 85% of our revenues are earned on a project basis for installation of HVAC systems in newly constructed facilities or for replacement of HVAC systems in existing facilities. As of December 31, 2009, we had 4,561 projects in process with an aggregate contract value of approximately $1,924.8 million. Our average project takes six to nine months to complete, with an average contract price of approximately $420,000. This relatively small average project size, when taken together with the approximately 15% of our revenues derived from maintenance and service, provides us with what we believe is a reasonably broad base of work for a company involved in the construction services sector. A stratification of projects in progress as of December 31, 2009, by contract price is as follows:

Contract Price of Project	**No. of Projects**	**Aggregate Contract Price Value (millions)**
Under $1 million	4,242	$ 638.8
$1 million - $5 million	241	555.3
$5 million - $10 million	53	372.5
$10 million - $15 million	19	225.9
$15 million - $31 million	6	132.3
Total	4,561	$ 1,924.8

Seek Growth Through Expansion and Acquisitions. We believe that we can increase our operating income by opportunistically entering new markets or service lines through expansion and acquisition. We have based such expansion on existing customers, relationships or expertise, and expect to selectively pursue such opportunities in the future. We continually seek opportunities to acquire businesses that have attractive valuations and meet other criteria involving financial, operational, management, and geographic considerations.

We are investing in initiatives to expand the proportion of our revenues that are service based. We are actively concentrating our existing managerial resources on training and hiring experienced employees to procure and profitably perform service work. In some locations we have added service capability, and we believe our investments and efforts will stimulate growth in all aspects of the commercial HVAC and service and repair business.

Operations and Services Provided

We provide a wide range of installation, maintenance, repair and replacement services for HVAC and related systems in commercial, industrial and institutional properties. We manage our locations on a decentralized basis, with local management maintaining responsibility for day-to-day operating decisions. Our local management is augmented by regional leadership that focuses on core business competencies, regional financial performance, cooperation and coordination between locations, implementing best practices, and on major corporate initiatives. In addition to senior management, local personnel generally include design engineers, sales personnel, customer service personnel, installation and service technicians, sheet metal and prefabrication technicians, estimators and administrative personnel. We have centralized certain administrative functions such as insurance, employee benefits, training, safety programs, marketing and cash management to enable our local operating management to focus on pursuing new business opportunities and improving operating efficiencies. We also combine certain back office and administrative functions at various locations.

Installation Services. Our installation business related to newly constructed facilities, which comprised approximately 52% of our consolidated 2009 revenues, involves the design, engineering, integration, installation and start-up of HVAC, building automation controls and related systems. We provide "design and build" and "plan and spec" installation services for office buildings, retail centers, apartment complexes, manufacturing plants, health care, education and government facilities and other commercial, industrial, and institutional facilities. In a "design and build" installation, working with the customer, we determine the needed capacity and energy efficiency of the HVAC system that best suits the proposed facility. We then estimate the amount of time, labor, materials and equipment needed to build the specified system. The final design, terms, price and timing of the project are then negotiated with the customer or its representatives, after which any necessary modifications are made to the system plan. In "plan and spec" installation, we participate in a bid process to provide labor, equipment, materials and installation based on plans and engineering specifications provided by a customer, general contractor or consulting engineer.

Once an agreement has been reached, we order the necessary materials and equipment for delivery to meet the project schedule. In many instances, we fabricate the ductwork and piping and assemble certain components for the system based on the mechanical drawing specifications, eliminating the need to subcontract ductwork or piping fabrication. Then we install the system at the project site, working closely with the general contractor. Our average project takes six to nine months to complete, with an average contract price of approximately $420,000. We also perform larger project work, with 319 contracts in progress at December 31, 2009 with contract prices in excess of $1 million. Our largest project currently in progress has a contract price of $31.4 million. Project contracts typically provide for periodic billings to the customer as we meet progress milestones or incur cost on the project. Project contracts in our industry also frequently allow for a small portion of progress billings or contract price to be withheld by the customer until after we have completed the work, typically for six months. Amounts withheld under this practice are known as retention or retainage.

We also install process cooling systems and building automation controls and monitoring systems. Process cooling systems are used primarily in industrial facilities to provide heating and/or cooling to precise temperature and climate standards for products being manufactured and for the manufacturing equipment. Building automation control systems are used in HVAC and process cooling systems to maintain pre-established temperature or climate standards for commercial or industrial facilities. Building automation control systems are capable not only of controlling a facility's entire HVAC system, often on a room-by-room basis, but can also be programmed to integrate energy management, and monitoring for purposes of security, fire, card key access, lighting and other building systems. This monitoring can be performed on-site or remotely through a computer-based communications system. The monitoring system communicates an exception when a system is operating outside pre-established parameters. Diagnosis of potential problems and remedial adjustments can often be performed remotely from system monitoring terminals.

Maintenance, Repair and Replacement Services. Our maintenance, repair and replacement services comprised approximately 48% of our consolidated 2009 revenues and include the maintenance, repair, replacement, reconfiguration and monitoring of HVAC systems and industrial process piping. Approximately two-thirds of our maintenance, repair and replacement revenues were derived from replacing and reconfiguring existing HVAC systems for commercial, industrial, and institutional customers. Replacement and reconfiguration are usually performed on a project basis and often use consultative expertise similar to that provided in the "design and build" installation market.

Maintenance and repair services are provided either in response to service calls or under a service agreement. Service calls are coordinated by customer service representatives or dispatchers that use computer and communication technology to process orders, arrange service calls, communicate with customers, dispatch technicians and invoice customers. Service technicians work from service vehicles equipped with commonly used parts, supplies and tools to complete a variety of jobs. Commercial, industrial and institutional service agreements usually have terms of one to three years, with automatic annual renewals, and typically with 30-60 day cancellation notice periods. We also provide remote monitoring of temperature, pressure, humidity and air flow for HVAC systems. If the system is not operating within the specifications set forth by the customer and cannot be remotely adjusted, a service crew is dispatched to analyze and repair the system.

Sources of Supply

The raw materials and components we use include HVAC system components, ductwork, steel, sheet metal and copper tubing and piping. These raw materials and components are generally available from a variety of domestic or foreign suppliers at competitive prices. Delivery times are typically short for most raw materials and standard components, but during periods of peak demand, may extend to one month or more. Over the last several years, many steel, iron and copper products, in particular, have experienced significant price fluctuation and some constrained availability. We estimate that direct purchase of these commodities comprises between 10% and 15% of our average project cost. We have procedures to reduce commodity cost exposure; early buying of commodities for particular projects, or for general inventory, as well as including escalation and escape provisions in project bids and contracts wherever possible. The negative effects of unrecovered commodity cost inflation in our project results have been modest, and are reviewed further in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" later in this report.

Chillers for large units typically have the longest delivery time and generally have lead times of up to six months. The major components of commercial HVAC systems are compressors and chillers that are manufactured primarily by Carrier, Lennox, McQuay, Trane and York. The major suppliers of building automation control systems are Honeywell, Johnson Controls, Siemens, York, Automated Logic, Novar and Andover Control Corporation. We do not have any significant contracts guaranteeing us a supply of raw materials or components.

We administer a portion of our procurement activities with Emcor Group, a larger publicly-held provider of electrical and mechanical services and facilities management. This coordination includes contractual arrangements with Emcor under which certain Emcor employees provide procurement management services to us.

Cyclicality and Seasonality

Historically, the construction industry has been highly cyclical. As a result, our volume of business may generally be adversely affected by declines in new installation and replacement projects in various geographic regions of the United States during periods of economic weakness.

The HVAC industry is subject to seasonal variations. Specifically, the demand for new installation and replacement is generally lower during the winter months (the first quarter of the year) due to reduced construction activity during inclement weather and less use of air conditioning during the colder months. Demand for HVAC services is generally higher in the second and third calendar quarters due to increased construction activity and increased use of air conditioning during the warmer months. Accordingly, we expect our revenues and operating results generally will be lower in the first and fourth calendar quarters.

Sales and Marketing

We have a diverse customer base, with no single customer accounting for more than 2% of consolidated 2009 revenues. Management and a dedicated sales force are responsible for developing and maintaining successful long-term relationships with key customers. Customers generally include building owners and developers and property managers, as well as general contractors, architects and consulting engineers. We intend to continue our emphasis on developing and maintaining long-term relationships with our customers by providing superior, high-quality service in a professional manner. We believe we can continue to leverage the diverse technical and marketing strengths at individual locations to expand the services offered in other local markets. With respect to multi-location service opportunities, we maintain a national sales force in our national accounts group.

Employees

As of December 31, 2009, we had 5,623 employees. We have collective bargaining agreements covering 4 employees. We have not experienced and do not expect any significant strikes or work stoppages and believe our relations with employees covered by collective bargaining agreements are good.

Recruiting, Training and Safety

Our continued success depends, in part, on our ability to continue to attract, retain and motivate qualified engineers, service technicians, field supervisors and project managers. We believe our success in retaining qualified employees will be based on the quality of our recruiting, training, compensation, employee benefits programs and opportunities for advancement. We provide on-the-job training, technical training, apprenticeship programs, attractive benefit packages and career advancement opportunities within our company.

We have established comprehensive safety programs throughout our operations to ensure that all technicians comply with safety standards we have established and that are established under federal, state and local laws and regulations. Additionally, we have implemented a "best practices" safety program throughout our operations, which provides employees with incentives to improve safety performance and decrease workplace accidents. Regional safety directors establish safety programs and benchmarking to improve safety within their region. Finally, our employment screening process seeks to determine that prospective employees have requisite skills, sufficient background references and acceptable driving records, if applicable. Our rate of incidents recordable under the standards of the Occupational Safety and Health Administration ("OSHA") per 100 employees per year, also known as the OSHA recordable rate, was 2.90 during 2009. This level was 49% better than the most recently published OSHA rate for our industry.

Risk Management, Insurance and Litigation

The primary risks in our operations are bodily injury, property damage and workers' compensation injuries. We retain the risk for worker's compensation, employer's liability, auto liability, general liability and employee group health claims resulting from uninsured deductibles per incident or occurrence. Because we have very large deductibles, the vast majority of our claims are paid by us, so as a practical matter we self-insure the great majority of these risks. Losses up to such per-incident deductible amounts are estimated and accrued based upon known facts, historical trends and industry averages utilizing the assistance of an actuary to project the extent of these obligations.

We are subject to certain claims and lawsuits arising in the normal course of business. We maintain various insurance coverages to minimize financial risk associated with these claims. We have estimated and provided accruals for probable losses and related legal fees associated with certain litigation in our consolidated financial statements. While we cannot predict the outcome of these proceedings, in our opinion and based on reports of counsel, any liability arising from these matters individually and in the aggregate will not have a material effect on our operating results or financial condition, after giving effect to provisions already recorded.

In addition to the matters described above, we have accrued $6.5 million as of December 31, 2009 for potential and asserted backcharges from several customers of our large multi-family operation based in Texas. The additions and reductions to the accrual were included in "Cost of Services." The accrual is included in "Other Current Liabilities". We believe these accruals reflect a probable outcome with respect to such backcharges and potential backcharges, however, if we are not successful in resolving these disputes, we may in the future experience a material adverse effect on our operating results.

The following table summarizes the backcharge activity for the years ended December 31, 2007, 2008 and 2009 (in thousands):

	December 31,		
	2007	**2008**	**2009**
Balance at beginning of year	$	$ 6,181	$ 5,838
Additions	6,181	4,133	2,350
Reductions			(650)
Settlements		(4,476)	(1,049)
Balance at end of year	$ 6,181	$ 5,838	$ 6,489

We typically warrant labor for the first year after installation on new HVAC systems and pass through to the customer manufacturers' warranties on equipment. We generally warrant labor for 30 days after servicing of existing HVAC systems. We do not expect warranty claims to have a material adverse effect on our financial position or results of operations.

Competition

The HVAC industry is highly competitive and consists of thousands of local and regional companies. We believe that purchasing decisions in the commercial, industrial and institutional markets are based on (i) competitive price, (ii) long-term customer relationships, (iii) quality, timeliness and reliability of services provided, (iv) an organization's perceived stability based on years in business, financial strength, and access to bonding, (v) range of services provided, and (vi) scale of operation. To improve our competitive position we focus on both the consultative "design and build" installation market and the maintenance, repair and replacement market to promote first the development and then the strengthening of long-term customer relationships. In addition, we believe our ability to provide multi-location coverage, access to project financing and specialized technical skills for facilities owners gives us a strategic advantage over smaller competitors who may be unable to provide these services to customers at a competitive price.

We believe that we are larger than most of our competitors, which are generally small, owner-operated companies that typically operate in a limited geographic area. However, there are divisions of larger contracting companies, utilities and HVAC equipment manufacturers that provide HVAC services in some of the same service lines and geographic areas we serve. Some of these competitors and potential competitors have greater financial resources than we do to finance development opportunities and support their operations. We believe our smaller competitors generally compete with us based on price and their long-term relationships with local customers. Our larger competitors compete with us on those factors but may also provide attractive financing and comprehensive service and product packages.

Vehicles

We operate a fleet of various owned or leased service trucks, vans and support vehicles. We believe these vehicles generally are well maintained and sufficient for our current operations.

Governmental Regulation and Environmental Matters

Our operations are subject to various federal, state and local laws and regulations, including: (i) licensing requirements applicable to engineering, construction and service technicians, (ii) building and HVAC codes and zoning ordinances, (iii) regulations relating to consumer protection, including those governing residential service agreements, and (iv) regulations relating to worker safety and protection of the environment. We believe we have all required licenses to conduct our operations and are in substantial compliance with applicable regulatory requirements. If we fail to comply with applicable regulations we could be subject to substantial fines or revocation of our operating licenses.

Many state and local regulations governing the HVAC services trades require individuals to hold permits and licenses. In some cases, a required permit or license held by a single individual may be sufficient to authorize specified activities for all of our service technicians who work in the state or county that issued the permit or license. We seek to ensure that, where possible, we have two employees who hold any such permits or licenses that may be material to our operations in a particular geographic region.

Our operations are subject to the federal Clean Air Act, as amended, which governs air emissions and imposes specific requirements on the use and handling of chlorofluorocarbons, or CFCs, and certain other refrigerants. Clean Air Act regulations require the certification of service technicians involved in the service or repair of equipment containing these refrigerants and also regulate the containment and recycling of these refrigerants. These requirements have increased our training expenses and expenditures for containment and recycling equipment. The Clean Air Act is intended ultimately to eliminate the use of CFCs in the United States and to require alternative refrigerants to be used in replacement HVAC systems. We do not believe these regulations involving CFCs will materially affect our business on the whole because, although they require us to incur modest ongoing training costs, our competitors also incur such costs, and the regulations may encourage our customers to update their HVAC systems.

Executive Officers

We have five executive officers.

William F. Murdy, age 68, has served as our Chairman of the Board and Chief Executive Officer since June 2000. Prior to this he was Interim President and Chief Executive Officer of Club Quarters, a privately-owned chain of membership hotels. From January 1998 through July 1999, Mr. Murdy served as President, Chief Executive Officer and Chairman of the Board of LandCare USA, a publicly-traded commercial landscape and tree services company. He was primarily responsible for organizing LandCare USA and its listing as a publicly-traded company on the New York Stock Exchange in July 1998. LandCare USA was acquired in July 1999 by another publicly-traded company specializing in services to homeowners and commercial facilities. From 1989 through December 1997, Mr. Murdy was President and Chief Executive Officer of General Investment and Development Company, a privately-held real estate operating company. From 1981 to 1989, Mr. Murdy served as the Managing General Partner of the Morgan Stanley Venture Capital Fund. From 1974 to 1981, Mr. Murdy served as the Senior Vice President, among other positions, of Pacific Resources, Inc., a publicly-traded company involved primarily in petroleum refining and marketing.

Brian Lane, age 52, has served as our Chief Operating Officer since January 2009, was our Vice President and then Senior Vice President for Region One of the Company from October 2003 to December 2008. Prior to joining the Company, Mr. Lane spent 15 years at Halliburton, a global provider of products and services to energy, industrial, and government customers, including employment by Brown and Root, an engineering and construction company. During his tenure, he held various positions in business development, strategy, and project activities, including the position of Regional Director of Europe and Africa. Additionally, he held the position of Vice President at Kvaerner, an international engineering and construction company.

William George, age 45, has served as our Executive Vice President and Chief Financial Officer since May 2005, was our Senior Vice President, General Counsel and Secretary from May 1998 to May 2005, and was our Vice President, General Counsel and Secretary from March 1997 to April 1998. From October 1995 to February 1997, Mr. George was Vice President and General Counsel of American Medical Response, Inc., a publicly-traded healthcare transportation company. From September 1992 to September 1995, Mr. George practiced corporate and antitrust law at Ropes & Gray, a Boston, Massachusetts law firm.

Julie S. Shaeff, age 44 has served as our Senior Vice President and Chief Accounting Officer since May 2005, was our Vice President and Corporate Controller from March 2002 to May 2005, and was our Assistant Corporate Controller from September 1999 to February 2002. From 1996 to August 1999, Ms. Shaeff was Financial Accounting Manager Corporate Controllers Group for Browning-Ferris Industries, Inc., a publicly-traded waste services company. From 1987 to 1995, she held various positions with Arthur Andersen LLP. Ms. Shaeff is a Certified Public Accountant.

Trent T. McKenna, age 37, has served as our Vice President, General Counsel and Secretary since May 2005 and was our Associate General Counsel from August 2004 to May 2005. From February 1999 to August 2004, Mr. McKenna was a practicing attorney in the area of complex commercial litigation in the Houston, TX office of Akin Gump Strauss Hauer & Feld LLP, an international law firm.

ITEM 1A. *Company Risk Factors*

Our business is subject to a variety of risks. You should carefully consider the risks described below, together with all the information included in this report. Our business, financial condition and results of operations could be adversely affected by the occurrence of any of these events, which could cause actual results to differ materially from expected and historical results, and the trading price of our common stock could decline.

Because we bear the risk of cost overruns in most of our contracts, we may experience reduced profits or, in some cases, losses under these contracts if costs increase above our estimates.

Our contract prices are established largely upon estimates and assumptions of our projected costs. These include assumptions about future economic conditions, prices, including commodities prices, and availability of labor, including the costs of providing labor, equipment, materials and other factors outside our control. If our estimates or assumptions prove to be inaccurate, if circumstances change in a way that renders our assumptions and estimates inaccurate or we fail to execute the work cost overruns may occur, and we could experience reduced profits or a loss for projects. For instance, unanticipated technical problems may arise, we could have difficulty obtaining permits or approvals, local laws or labor conditions could change, bad weather could delay construction, raw materials prices could increase, our suppliers' or subcontractors' may fail to perform as expected, or site conditions may be different than we expected. We are also exposed to increases in energy prices, particularly as they relate to gasoline prices. Additionally, in certain circumstances, we guarantee project completion or the achievement of certain acceptance and performance testing levels by a scheduled date. Failure to meet schedule or performance requirements typically results in additional costs to us, and in some cases we may also be liable for consequential and liquidated damages. Performance problems for existing and future projects could cause our actual results of operations to differ materially from those we anticipate as well as damaging our reputation within our industry and our customer base.

Many of the markets we do work in are currently experiencing an economic downturn that may materially and adversely affect our business because our business is dependent on levels of construction activity.

The demand for our services is dependent upon the existence of construction projects and service requirements within the markets in which we operate. Any period of economic recession affecting a market or industry in which we transact business is likely to adversely impact our business. Many of the projects we work on have long lifecycles from conception to completion, and the bulk of our performance generally occurs late in a construction project's lifecycle. We experience the results of economic trends well after an economic cycle begins, and therefore will continue to experience the results of an economic recession well after conditions in the general economy have improved. Accordingly, we believe that while our business has already experienced some of the adverse effects of the current economic recessionary cycle, we have yet to experience all of its adverse effects.

We cannot predict the severity or length of the current recession. We believe that the current uncertainty about economic conditions caused by the ongoing recession means that many of our customers are likely to postpone spending while credit markets remain, in large part, closed to funding commercial and industrial developments. The industries and markets we operate in have always been and will continue to be vulnerable to these general macroeconomic downturns because they are cyclical in nature. The current recession is causing a drop off in the demand for projects within our markets and industries, which will likely lead to greater price competition as well as decreased revenue and profit. The current recession is also likely to increase economic instability with our vendors, subcontractors, developers, and general contractors, which could cause us greater liability exposure and could result in us not being paid, as well as decreased revenue and profit. Further, to the extent our vendors, subcontractors, developers, or general contractors seek bankruptcy protection, the bankruptcy will likely force us to incur additional costs in attorneys' fees, as well as other professional consultants, and will result in decreased revenue and profit.

Our backlog is subject to unexpected adjustments and cancellations, which means that amounts included in our backlog may not result in actual revenue or translate into profits.

The revenue projected from our backlog may not be realized, or, if realized, may not result in profits. Projects may remain in our backlog for an extended period of time or project cancellations or scope adjustments may occur with respect to contracts reflected in our backlog. The revenue projected from our backlog may not be realized or, if realized, may not result in profits.

A significant portion of our business depends on our ability to provide surety bonds. Current difficulties in the financial and surety markets may adversely affect our bonding capacity and availability.

In the past we have expanded and it is possible we will continue to expand the number of total contract dollars that require an underlying bond. Surety market conditions are currently difficult as a result of significant losses incurred by many surety companies and the current recession. Consequently, less overall bonding capacity is available in the market and terms have become more expensive and restrictive. We may not be able to maintain a sufficient level of bonding capacity in the future, which could preclude our ability to bid for certain contracts or successfully contract with some customers. Additionally, even if we are able to access bonding capacity to sufficiently bond future work, we may be required to post collateral to secure bonds, which would decrease the liquidity we would have available for other purposes. Our surety providers are under no commitment to guarantee our access to new bonds in the future; thus, our ability to access or increase bonding capacity is at the sole discretion of our surety providers. If our surety companies were to limit or eliminate our access to bonds, our alternatives would include seeking bonding capacity from other surety companies, increasing business with clients that do not require bonds and posting other forms of collateral for project performance, such as letters of credit or cash. We may be unable to secure these alternatives in a timely manner, on acceptable terms, or at all. As such, if we were to experience an interruption or reduction in the availability of bonding capacity, it is likely we would be unable to compete for or work on certain projects.

Goodwill impairment charges have negatively impacted our earnings in the past. Earnings for future periods may be impacted by additional charges for goodwill and intangible assets.

Goodwill is the excess of purchase cost over the fair value of the net assets of acquired businesses. We carry a significant amount of goodwill and identifiable intangible assets on our consolidated balance sheets. Goodwill and other intangible assets with indefinite useful lives are required to be tested at least annually for impairment. We perform a goodwill impairment review in the fourth quarter of every fiscal year. Additionally, we perform a goodwill impairment review whenever events or changes in circumstances indicate that the carrying value of our assets may not be recoverable. The recent recession could potentially cause the carrying value of our assets to be lower than their fair value, resulting in an impairment to goodwill. We may determine at a future date that an additional significant impairment has occurred in the value of our unamortized intangible assets or fixed assets, which could require us to write off an additional portion of our assets and could adversely affect our financial condition or our reported results of operations.

Our use of the percentage-of-completion method of accounting could result in a reduction or reversal of previously recorded revenues or profits.

A material portion of our revenue is recognized using the percentage-of-completion method of accounting, which results in our recognizing contract revenues and earnings ratably over the contract term in the proportion that our actual costs bear to our estimated contract costs. The earnings or losses recognized on individual contracts are based on estimates of contract revenue, costs and profitability. We review our estimates of contract revenue, costs and profitability on an ongoing basis. Prior to contract completion, we may adjust our estimates on one or more occasions as a result of change orders to the original contract, collection disputes with the customer on amounts invoiced or claims against the customer for increased costs incurred by us due to customer-induced delays and other factors. Contract losses are recognized in the fiscal period when the loss is determined. Contract profit estimates are also adjusted in the fiscal period in which it is determined that an adjustment is required. As a result of the requirements of the percentage-of-completion method of accounting, the possibility exists, for example, that we could have estimated and reported a profit on a contract over several periods and later determined, usually near contract completion, that all or a portion of such previously estimated and reported profits were overstated. If this occurs, the full aggregate amount of the overstatement will be reported for the period in which such determination is made, thereby eliminating all or a portion of any profits from other contracts that would have otherwise been reported in such period or even resulting in a loss being reported for such period. On a historical basis, we believe that we have made reasonably reliable estimates of the progress towards completion on our long-term contracts. However, given the uncertainties associated with these types of contracts, it is possible for actual costs to vary from estimates previously made, which may result in reductions or reversals of previously recorded revenue and profits.

Intense competition in our industry could reduce our market share and our profit.

The markets we serve are highly competitive. Our industry is characterized by many small companies whose activities are geographically concentrated. We compete on the basis of our technical expertise and experience, financial and operational resources, nationwide presence, industry reputation and dependability. While we believe our customers consider a number of these factors in awarding available contracts, a large portion of our work is awarded through a bid process. Consequently, price is often the principal factor in determining which contractor is selected, especially on smaller, less complex projects. Smaller competitors are sometimes able to win bids for these projects based on price alone due to their lower cost and financial return requirements. We expect competition to intensify in our industry, presenting us with significant challenges in our ability to maintain strong growth rates and acceptable profit margins. We also expect increased competition from in-house service providers. Some of our customers have employees who perform service work similar to the services we provide. If we are unable to meet these competitive challenges, we will lose market share to our competitors and experience an overall reduction in our profits. In addition, our profitability would be impaired if we have to reduce our prices to remain competitive.

We are a decentralized company and place significant decision making powers with our subsidiaries' management, which presents certain risks.

We believe that our practice of placing significant decision making powers with local management is important to our successful growth and allows us to be responsive to opportunities and to our customers' needs. However, this practice presents certain risks, including the risk that we may be slower or less effective in our attempts to identify or react to problems affecting an important business than we would under a more centralized structure.

If we are unable to attract and retain qualified managers and employees, we will be unable to operate efficiently, which could reduce our profitability.

Our business is labor intensive, and many of our operations experience a high rate of employment turnover. At times of low unemployment rates in the United States, it will be more difficult for us to find qualified personnel at low cost in some geographic areas where we operate. Additionally, our business is managed by a small number of key executive and operational officers. We may be unable to hire and retain the sufficient skilled labor force necessary to operate efficiently and to support our growth strategy. Our labor expenses may increase as a result of a shortage in the supply of skilled personnel. Labor shortages, increased labor costs or the loss of key personnel could reduce our profitability and negatively impact our business.

Past and future environmental, safety and health regulations could impose significant additional costs on us that reduce our profits.

HVAC systems are subject to various environmental statutes and regulations, including the Clean Air Act and those regulating the production, servicing and disposal of certain ozone-depleting refrigerants used in HVAC systems. There can be no assurance that the regulatory environment in which we operate will not change significantly in the future. Various local, state and federal laws and regulations impose licensing standards on technicians who install and service HVAC systems. Our failure to comply with these laws and regulations could subject us to substantial fines and potentially the loss of our licenses. It is impossible to predict the full nature and effect of judicial, legislative or regulatory developments relating to health and safety regulations and environmental protection regulations applicable to our operations.

Our insurance policies against many potential liabilities require high deductibles, and our risk management policies and procedures may leave us exposed to unidentified or unanticipated risks. Additionally, current difficulties in the insurance markets may adversely affect our ability to obtain necessary insurance.

Although we maintain insurance policies with respect to our related exposures, these policies are subject to high deductibles; as such, we are, in effect, self-insured for substantially all of our claims. We hire an actuary to determine any liabilities for unpaid claims and associated expenses for the three major lines of coverage (worker's compensation, general liability and auto liability). The determination of these claims and expenses and the appropriateness of the estimated liability are reviewed and updated quarterly. However, insurance liabilities are difficult to assess and estimate due to the many relevant factors, the effects of which are often unknown, including the severity of an injury, the determination of our liability in proportion to other parties, the number of incidents that have occurred but are not reported and the effectiveness of our safety program. Our accruals are based upon known facts, historical trends (both internal trends and industry averages) and our reasonable estimate of our future expenses. We believe our accruals are adequate. However, our risk management strategies and techniques may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk. In January 2009 our company-wide risk manager left the company, and his former job responsibilities are being shared between several of our officers. If any of the variety of instruments, processes or strategies we utilize to manage our exposure to various types of risk are not effective, which could include a failed transition of the prior risk manager's work duties, we may incur losses that are not covered by our insurance policies or that exceed our accruals or coverage limits.

Additionally, we typically are contractually required to provide proof of insurance on projects we work on. Insurance market conditions are currently very difficult as a result of significant investment losses incurred by many insurance companies, as well as other effects of the current recession. Consequently, the insurance market is expected to become more expensive and restrictive. As such, we may not be able to maintain commercially reasonable levels of insurance coverage in the future, which could preclude our ability to work on many projects. Our insurance providers are under no commitment to renew our existing insurance policies in the future; thus, our ability to obtain necessary levels or kinds of insurance coverage is subject to market forces out of our control. If we were unable to obtain necessary levels of insurance, it is likely we would be unable to compete for or work on most projects.

If we experience delays and/or defaults in customer payments, we could be unable to recover all expenditures.

Because of the nature of our contracts, at times we commit resources to projects prior to receiving payments from the customer in amounts sufficient to cover expenditures on projects as they are incurred. Delays in customer payments may require us to make a working capital investment. If a customer defaults in making their payments on a project in which we have devoted resources, it could have a material negative effect on our results of operations.

Actual and potential claims, lawsuits and proceedings could ultimately reduce our profitability and liquidity and weaken our financial condition.

We are likely to continue to be named as a defendant in legal proceedings claiming damages from us in connection with the operation of our business. Most of the actions against us arise out of the normal course of our performing services on project sites. We also are and are likely to continue to be a plaintiff in legal proceedings against customers, in which we seek to recover payment of contractual amounts we are owed as well as claims for increased costs we incur. When appropriate, we establish provisions against possible exposures, and we adjust these provisions from time to time according to ongoing exposure. If our assumptions and estimates related to these exposures prove to be inadequate or wrong, we could experience a reduction in our profitability and liquidity and a weakening of our financial condition. In addition, claims, lawsuits and proceedings may harm our reputation or divert management resources away from operating our business.

Our recent and future acquisitions may not be successful.

We expect to continue pursuing selective acquisitions of businesses. We cannot assure you that we will be able to locate acquisitions or that we will be able to consummate transactions on terms and conditions acceptable to us, or that acquired businesses will be profitable. Acquisitions may expose us to additional business risks different than those we have traditionally experienced. We also may encounter difficulties integrating acquired businesses and successfully managing the growth we expect to experience from these acquisitions.

We may choose to finance future acquisitions with debt, equity, cash or a combination of the three. We can give no assurances that any future acquisitions will not dilute earnings or disrupt the payment of a stockholder dividend. To the extent we succeed in making acquisitions, a number of risks will result, including:

- the assumption of material liabilities (including for environmental-related costs);

- failure of due diligence to uncover situations that could result in legal exposure or to quantify the true liability exposure from known risks;

- the diversion of management's attention from the management of daily operations to the integration of operations;

- difficulties in the assimilation and retention of employees and difficulties in the assimilation of different cultures and practices, as well as in the assimilation of broad and geographically dispersed personnel and operations, as well as the retention of employees generally;

- the risk of additional financial and accounting challenges and complexities in areas such as tax planning, treasury management, financial reporting and internal controls; and

- we may not be able to realize the cost savings or other financial benefits we anticipated prior to the acquisition.

The failure to successfully integrate acquisitions could have an adverse effect on our business, financial condition and results of operations.

Our common stock, which is listed on the New York Stock Exchange, has from time-to-time experienced significant price and volume fluctuations. These fluctuations are likely to continue in the future, and our stockholders may suffer losses.

The market price of our common stock may change significantly in response to various factors and events beyond our control. A variety of events may cause the market price of our common stock to fluctuate significantly, including the following: (i) the risk factors described in this Report on Form 10-K; (ii) a shortfall in operating revenue or net income from that expected by securities analysts and investors; (iii) changes in securities analysts' estimates of our financial performance or that of our competitors or companies in our industry generally; (iv) general conditions in our customers' industries; (v) general conditions in the securities markets; (vi) our announcements of significant contracts, milestones, acquisitions; (vii) our relationship with other companies; (viii) our investors' view of the sectors and markets in which we operate; and (ix) additions or departures of key personnel. Some companies that have volatile market prices for their securities have been subject to security class action suits filed against them. If a suit were to be filed against us, regardless of the outcome, it could result in substantial costs and a diversion of our management's attention and resources. This could have a material adverse effect on our business, results of operations and financial condition.

If we do not effectively manage our growth, our existing infrastructure may become strained, and we may be unable to increase revenue growth.

Our past and any future growth that we have experienced, and in the future may experience, may provide challenges to our organization, requiring us to expand our personnel and our operations. Future growth may strain our infrastructure, operations and other managerial and operating resources. If our business resources become strained, our earnings may be adversely affected and we may be unable to increase revenue growth. Further, we may undertake contractual commitments that exceed our labor resources, which could also adversely affect our earnings and our ability to increase revenue growth.

Failure or circumvention of our disclosure controls and procedures or internal controls over financial reporting could seriously harm our financial condition, results of operations, and our business.

We plan to continue to maintain and strengthen internal controls and procedures to enhance the effectiveness of our disclosure controls and internal controls over financial reporting. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, and not absolute, assurances that the objectives of the system are met. Any failure of our disclosure controls and procedures or internal controls over financial reporting could harm our financial condition and results of operations.

Our charter contains certain anti-takeover provisions that may inhibit or delay a change in control.

Our certificate of incorporation authorizes our board of directors to issue, without stockholder approval, one or more series of preferred stock having such preferences, powers and relative, participating, optional and other rights (including preferences over the common stock respecting dividends and distributions and voting rights) as the board of directors may determine. The issuance of this "blank-check" preferred stock could render more difficult or discourage an attempt to obtain control by means of a tender offer, merger, proxy contest or otherwise. Additionally, certain provisions of the Delaware General Corporation Law may also discourage takeover attempts that have not been approved by the Board of Directors.

Failure to successfully comply with Section 404 of the Sarbanes-Oxley Act of 2002 on a timely basis could seriously harm our business.

Section 404 of the Sarbanes-Oxley Act of 2002 requires our management to report on our internal controls over financial reporting and also requires our independent registered public accountants to attest to this report. Although we have historically complied with Section 404, we may not successfully comply with Section 404 on a timely basis in the future. The failure to comply with Section 404 could harm our financial condition and results of operations.

ITEM 1B. *Unresolved Staff Comments*

None.

ITEM 2. ***Properties***

We own three properties; one of which we acquired through acquisition and two which we formerly leased. Other than these three properties, we lease the real property and buildings from which we operate. Our facilities are located in 28 states and Puerto Rico and consist of offices, shops, and fabrication, maintenance and warehouse facilities. Generally, leases range from three to ten years and are on terms we believe to be commercially reasonable. A majority of these premises are leased from individuals or entities with whom we have no other business relationship. In certain instances these leases are with current or former employees. To the extent we renew, enter into leases or otherwise change leases with current or former employees, we enter into such agreements on terms that reflect a fair market valuation for the properties. Leased premises range in size from approximately 1,000 square feet to 130,000 square feet. To maximize available capital, we generally intend to continue to lease our properties, but may consider further purchases of property where we believe ownership would be more economical. We believe that our facilities are sufficient for our current needs.

We lease our executive and administrative offices in Houston, Texas.

ITEM 3. ***Legal Proceedings***

We are subject to certain claims and lawsuits arising in the normal course of business. We maintain various insurance coverages to minimize financial risk associated with these claims. We have estimated and provided accruals for probable losses and related legal fees associated with certain litigation in our consolidated financial statements. While we cannot predict the outcome of these proceedings, in our opinion and based on reports of counsel, any liability arising from these matters individually and in the aggregate will not have a material effect on our operating results or financial condition, after giving effect to provisions already recorded.

ITEM 4. ***[Reserved]***

PART II

IT>

Net change in cash and cash equivalents

(24,526) (37,430)

Cash and cash equivalents - unrestricted, beginning of period

44,388 124,398

Cash and cash equivalents - unrestricted, end of period	**$19,862**	$86,968

The accompanying notes are an integral part of these condensed consolidated financial statements.

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GAYLORD ENTERTAINMENT COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. BASIS OF PRESENTATION:

The condensed consolidated financial statements include the accounts of Gaylord Entertainment Company and its subsidiaries (the Company) and have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the financial information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company s Annual Report on Form 10-K as of and for the year ended December 31, 2011. In the opinion of management, all adjustments necessary for a fair statement of the results of operations for the interim periods have been included. All adjustments are of a normal, recurring nature. The results of operations for such interim periods are not necessarily indicative of the results for the full year because of seasonal and short-term variations.

2. NEWLY ISSUED ACCOUNTING STANDARDS:

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, Topic 820, *Fair Value Measurements*, to clarify existing guidance and to require more detailed disclosures relating to Level 3 fair value measurements. In addition, this ASU requires that a reporting entity provide the hierarchy classification for items whose fair value is not recorded on the balance sheet but is disclosed in the footnotes. The Company adopted this ASU in the first quarter of 2012 and this adoption did not have a material impact on the Company s consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Topic 220, *Comprehensive Income*, to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In either instance, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. The amendments in this ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. Portions of this ASU were deferred, and the Company adopted the required portions of this ASU in the first quarter of 2012. This adoption did not have a material impact on the Company s consolidated financial statements.

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3. INCOME PER SHARE:

The weighted average number of common shares outstanding is calculated as follows (in thousands):

	Three Months Ended March 31,	
	2012	**2011**
Weighted average shares outstanding	**48,715**	48,221
Effect of dilutive stock-based compensation	**608**	
Effect of convertible notes	**814**	
Weighted average shares outstanding - assuming dilution	**50,137**	48,221

For the three months ended March 31, 2011, the effect of dilutive stock-based compensation awards was the equivalent of approximately 839,000 shares of common stock outstanding. Because the Company had a loss from continuing operations in the three months ended March 31, 2011, these incremental shares were excluded from the computation of diluted earnings per share for that period as the effect of their inclusion would have been anti-dilutive.

The Company had stock-based compensation awards outstanding with respect to approximately 1,576,000 and 884,000 shares of common stock as of March 31, 2012 and 2011, respectively, that could potentially dilute earnings per share in the future but were excluded from the computation of diluted earnings per share for the three months ended March 31, 2012 and 2011, respectively, as the effect of their inclusion would have been anti-dilutive.

As discussed more fully in the Company s Annual Report on Form 10-K as of and for the year ended December 31, 2011, in 2009 the Company issued 3.75% Convertible Senior Notes (the Convertible Notes) due 2014. It is the Company s intention to settle the face value of the Convertible Notes in cash upon conversion/maturity. Any conversion spread associated with the conversion/maturity of the Convertible Notes may be settled in cash or shares of the Company s common stock. The effect of potentially issuable shares under this conversion spread for the three months ended March 31, 2011 was the equivalent of approximately 3,079,000 shares of common stock outstanding. Because the Company had a loss from continuing operations in the three months ended March 31, 2011, these incremental shares were excluded from the computation of diluted earnings per share for that period as the effect of their inclusion would have been anti-dilutive.

In connection with the issuance of the Convertible Notes, the Company sold common stock purchase warrants to counterparties affiliated with the initial purchasers of the Convertible Notes whereby the warrant holder may purchase approximately 13.2 million shares of Company common stock at a price per share of $32.70, subject to anti-dilution adjustments. If the average closing price of the Company s stock during a reporting period exceeds this strike price, these warrants will be dilutive. The warrants may only be settled in shares of the Company s common stock. The effect of potentially issuable shares under these warrants for the three months ended March 31, 2012 and 2011 was the equivalent of approximately 0 and 1,052,000 shares, respectively, of common stock outstanding. Because the Company had a loss from continuing operations in the three months ended March 31, 2011, these incremental shares were excluded from the computation of diluted earnings per share for that period as the effect of their inclusion would have been anti-dilutive.

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4. PROPERTY AND EQUIPMENT:

Property and equipment of continuing operations at March 31, 2012 and December 31, 2011 is recorded at cost and summarized as follows (in thousands):

	March 31, 2012	December 31, 2011
Land and land improvements	**$ 218,805**	$ 217,811
Buildings	**2,279,585**	2,272,381
Furniture, fixtures and equipment	**545,297**	533,396
Construction in progress	**63,532**	59,822
	3,107,219	3,083,410
Accumulated depreciation	**(901,558)**	(874,283)
Property and equipment, net	**$ 2,205,661**	$ 2,209,127

5. NOTES RECEIVABLE:

In connection with the development of the Gaylord National Resort and Convention Center (Gaylord National), the Company is currently holding two issuances of bonds and receives the debt service thereon, which is payable from tax increments, hotel taxes and special hotel rental taxes generated from Gaylord National through the maturity date. The Company is recording the amortization of discount on these notes receivable as interest income over the life of the notes.

During each of the three months ended March 31, 2012 and 2011, the Company recorded interest income of $3.2 million on these bonds. The Company received payments of $6.6 million and $10.7 million during the three months ended March 31, 2012 and 2011, respectively, relating to these notes receivable.

6. DEBT:

The Company s debt and capital lease obligations related to continuing operations at March 31, 2012 and December 31, 2011 consisted of (in thousands):

	March 31, 2012	December 31, 2011
$925 Million Credit Facility, interest at LIBOR plus 2.25% or bank s base rate plus 1.25%, maturing August 1, 2015	**$ 585,000**	$ 600,000
Convertible Senior Notes, interest at 3.75%, maturing October 1, 2014, net of unamortized discount of $37,447 and $40,754	**322,553**	319,246
Senior Notes, interest at 6.75%, maturing November 15, 2014	**152,180**	152,180
Capital lease obligations	**2,212**	2,399
Total debt	**1,061,945**	1,073,825
Less amounts due within one year	**(763)**	(755)
Total long-term debt	**$ 1,061,182**	$ 1,073,070

As of March 31, 2012, the Company was in compliance with all of its covenants related to its debt.

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7. DERIVATIVE FINANCIAL INSTRUMENTS:

The Company is exposed to certain risks relating to its ongoing business operations. The primary risks managed by using derivative instruments are interest rate risk and commodity price risk. From time to time, interest rate swaps may be entered into to manage interest rate risk associated with portions of the Company s variable rate borrowings. From time to time, natural gas price swaps may be entered into to manage the price risk associated with forecasted purchases of natural gas and electricity used by the Company s hotels. The Company designates its interest rate swaps as cash flow hedges of variable rate borrowings and its natural gas price swaps as cash flow hedges of forecasted purchases of natural gas and electricity. All of the Company s derivatives are held for hedging purposes. The Company does not engage in speculative transactions, nor does it hold or issue financial instruments for trading purposes. All of the counterparties to the Company s derivative agreements are financial institutions with at least investment grade credit ratings.

Cash Flow Hedging Strategy

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss) (OCI) and reclassified into earnings in the same line item associated with the forecasted transaction and in the same period or periods during which the hedged transaction affects earnings (e.g., in interest expense when the hedged transactions are interest cash flows associated with variable rate debt). The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, or ineffectiveness, if any, is recognized in the statement of operations during the current period.

At March 31, 2012 and December 31, 2011, the Company had no variable to fixed interest rate swap contracts. The interest rate swap agreement previously utilized by the Company until its expiration on July 25, 2011 effectively modified the Company s exposure to interest rate risk by converting $500.0 million, or 71%, of the Company s variable rate debt outstanding under the term loan portion of the Company s $1.0 billion credit facility to a weighted average fixed rate of 3.94% plus the applicable margin on these borrowings, thus reducing the impact of interest rate changes on future interest expense. This agreement involved the receipt of variable rate amounts in exchange for fixed rate interest payments through July 25, 2011, without an exchange of the underlying principal amount. The critical terms of the swap agreements matched the critical terms of the borrowings under the term loan portion of the $1.0 billion credit facility. Therefore, the Company designated these interest rate swap agreements as cash flow hedges. As the terms of these derivatives matched the terms of the underlying hedged items, there was no gain (loss) from ineffectiveness recognized in income on derivatives.

At March 31, 2012 and December 31, 2011, the Company had no variable to fixed natural gas price swap contracts. The Company previously entered into natural gas price swap contracts to manage the price risk associated with a portion of the Company s forecasted purchases of natural gas and electricity used by the Company s hotels. The objective of the hedge was to reduce the variability of cash flows associated with the forecasted purchases of these commodities.

The effect of derivative instruments on the statement of operations for the respective periods is as follows (in thousands):

Derivatives in Cash Flow Hedging Relationships	Amount of Loss Recognized in OCI on Derivative (Effective Portion)		Location of Amount Reclassified from Accumulated OCI into Income	Amount Reclassified from Accumulated OCI into Income	
	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011		Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Interest rate swaps	**$**	$ (286)	Interest expense, net of amounts capitalized	**$**	$ 5,453
Natural gas swaps		(94)	Operating Costs		157
Total	**$**	$ (380)	**Total**	**$**	$ 5,610

8. STOCK PLANS:

In addition to grants of stock options to its directors and employees, the Company s 2006 Omnibus Incentive Plan (the Plan) permits the award of restricted stock and restricted stock units. The fair value of restricted stock and restricted stock units with time-based vesting or performance conditions is determined based on the market price of the Company s stock at the date of grant. The Company generally records compensation expense equal to the fair value of each Restricted Stock Award granted over the vesting period.

During the three months ended March 31, 2012, the Company granted 281,430 restricted stock units with time-based vesting and a weighted-average grant-date fair value of $29.75 per award. Additionally, the Company granted 104,500 restricted stock units to certain members of its management team which may vest in 2015 based on the level of performance during the performance period and subject to continued employment. The number of awards that will ultimately vest is based on the Company s total shareholder return over the three-year performance period ended December 31, 2014 relative to the total shareholder return of the Russell 2000 Index during the same period. The weighted-average grant date fair value of $39.88 per award was determined using a Monte Carlo simulation model, which assumed a risk-free rate of 0.54%, an expected life of 3.0 years and historical volatilities that ranged from 15% to 238%. As these awards include a market condition, the Company records compensation expense for these awards based on the grant date fair value of the award recognized ratably over the measurement period.

At March 31, 2012 and December 31, 2011, restricted stock units of 875,161 and restricted stock and restricted stock units of 633,647 shares, respectively, were outstanding.

The compensation cost that has been charged against pre-tax income for all of the Company s stock-based compensation plans was $2.4 million and $2.3 million for the three months ended March 31, 2012 and 2011, respectively.

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9. RETIREMENT AND POSTRETIREMENT BENEFITS OTHER THAN PENSION PLANS:

Net periodic pension expense reflected in the accompanying condensed consolidated statements of operations included the following components for the respective periods (in thousands):

	Three months ended March 31,	
	2012	**2011**
Interest cost	**$ 1,087**	$ 1,208
Expected return on plan assets	**(1,173)**	(1,333)
Amortization of net actuarial loss	**1,170**	619
Total net periodic pension expense	**$ 1,084**	$ 494

Net postretirement benefit expense reflected in the accompanying condensed consolidated statements of operations included the following components for the respective periods (in thousands):

	Three months ended March 31,	
	2012	**2011**
Service cost	**$ 14**	$ 14
Interest cost	**254**	258
Amortization of net actuarial loss	**176**	
Amortization of prior service credit	**(108)**	
Amortization of curtailment gain	**(22)**	(61)
Total net postretirement benefit expense	**$ 314**	$ 211

10. INCOME TAXES:

The Company s effective tax rate as applied to pre-tax income (loss) was 43% and 33% for the three months ended March 31, 2012 and 2011, respectively. The change in the Company s effective tax rate during the period was due primarily to increases in permanent tax adjustments and state tax expense and a decrease in federal tax credits, partially offset by a decrease in the federal valuation allowance.

As of March 31, 2012 and December 31, 2011, the Company had $13.9 million and $14.1 million of unrecognized tax benefits, respectively, of which $7.4 million would affect the Company s effective tax rate if recognized. These liabilities are recorded in other long-term liabilities in the accompanying condensed consolidated balance sheets. The Company estimates the overall decrease in unrecognized tax benefits in the next twelve months will be approximately $13.1 million, mainly due to the expiration of various statutes of limitations. As of March 31, 2012 and December 31, 2011, the Company had accrued $2.2 million and $2.1 million, respectively, of interest and $0.1 million of penalties related to uncertain tax positions.

11. COMMITMENTS AND CONTINGENCIES:

In June 2011, the Company announced its plans to develop a resort and convention hotel in Aurora, Colorado, located approximately 25 minutes from downtown Denver. The Aurora development, which is expected to feature 1,500 guest rooms and 400,000 square feet of exhibition and meeting space, will be located on 85 acres in LNR Property CPI Fund s High Point Master Plan Development. The project is expected to cost approximately $800 million and could be funded by the Company, potential joint venture partners and the tax incentives that are being provided as a result of an agreement between the Company and the city of Aurora, and is contingent on receiving required governmental approvals, incentives, and final approval by the Company s board of directors. The

Company expects to break ground on construction in 2013 and expects the resort to be open for business in early 2016. At this time, the Company has not made any material financial commitments in connection with this development.

In September 2008, the Company announced it had entered into a land purchase agreement with DMB Mesa Proving Grounds LLC, an affiliate of DMB Associates, Inc. (DMB), to create a resort and convention hotel at the Mesa Proving Grounds in Mesa, Arizona, which is located approximately 30 miles from downtown Phoenix. The DMB development is planned to host an urban environment that features a Gaylord resort property, a retail development, a golf course, office space, residential offerings and significant other mixed-use components. The Company s purchase agreement includes the purchase of 100 acres of real estate within the 3,200-acre Mesa Proving Grounds. The project is contingent on the finalization of entitlements and incentives, and final approval by the Company s board of directors. The Company made an initial deposit of a portion of the land purchase price upon execution of the agreement with DMB, and additional deposit amounts are due upon the occurrence of various development milestones, including required governmental approvals of the entitlements and incentives. These deposits are refundable to the Company upon a termination of the agreement with DMB during a specified due diligence period, except in the event of a breach of the agreement by the Company. The timing of this development is uncertain, and the Company has not made any financing plans or, except as described above, made any commitments in connection with the proposed development.

In January 2012, the Company announced that it had entered into a memorandum of understanding for a 50/50 joint venture with the Dollywood Company to develop a family entertainment zone adjacent to Gaylord Opryland on land that the Company currently owns. The Dollywood Company will operate the park, and the Company will contribute both land and cash to represent its 50 percent share of the venture. Phase one of the project is a yet unnamed approximately $50 million water and snow park, which the Company believes will be the first of its kind in the U.S. An early 2013 groundbreaking date is expected with the park opening slated for summer 2014. The project is contingent upon finalizing agreements with governmental authorities pertaining to the construction of the necessary infrastructure. At this time, the Company has not made any material financial commitments in connection with this development.

The Company is considering other potential hotel sites throughout the country. The timing and extent of any of these development projects is uncertain, and the Company has not made any commitments, received any government approvals or made any financing plans in connection with these development projects.

Through joint venture arrangements with two private real estate funds, the Company previously invested in two joint ventures which were formed to own and operate hotels in Hawaii. As part of the joint venture arrangements, the Company entered into contribution agreements with the majority owners, which owners had guaranteed certain recourse liabilities under third-party loans to the joint ventures. The guarantees of the joint venture loans guaranteed each of the subsidiaries obligations under its third party loans for as long as those loans remain outstanding (i) in the event of certain types of fraud, breaches of environmental representations or warranties, or breaches of certain special purpose entity covenants by the subsidiaries, or (ii) in the event of bankruptcy or reorganization proceedings of the subsidiaries. The Company agreed that, in the event a majority owner is required to make any payments pursuant to the terms of these guarantees of joint venture loans, it will contribute to the majority owner an amount based on its proportional commitment in the applicable joint venture. The Company estimates that the maximum potential amount for which the Company could be liable under the contribution agreements is $23.8 million, which represents its pro rata share of the $121.2 million of total debt that is subject to the guarantees. As of March 31, 2012, the Company had not recorded any liability in the condensed consolidated balance sheet associated with the contribution agreements.

The Company has purchased stop-loss coverage in order to limit its exposure to any significant levels of claims relating to workers compensation, employee medical benefits and general liability for which it is self-insured.

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The Company has entered into employment agreements with certain officers, which provide for severance payments upon certain events, including certain terminations in connection with a change of control.

The Company, in the ordinary course of business, is involved in certain legal actions and claims on a variety of matters. It is the opinion of management that such legal actions will not have a material effect on the results of operations, financial condition or liquidity of the Company.

12. FAIR VALUE MEASUREMENTS:

The Company uses a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of March 31, 2012 and December 31, 2011, the Company held certain assets and liabilities that are required to be measured at fair value on a recurring basis. These included investments held in conjunction with the Company s non-qualified contributory deferred compensation plan.

The investments held by the Company in connection with its deferred compensation plan consist of mutual funds traded in an active market. The Company determined the fair value of these mutual funds based on the net asset value per unit of the funds or the portfolio, which is based upon quoted market prices in an active market. Therefore, the Company has categorized these investments as Level 1. The Company has consistently applied these valuation techniques in all periods presented and believes it has obtained the most accurate information available for the types of investments it holds.

The Company had no liabilities required to be measured at fair value at March 31, 2012 and December 31, 2011. The Company s assets measured at fair value on a recurring basis at March 31, 2012 and December 31, 2011, were as follows (in thousands):

	March 31, 2012	Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Deferred compensation plan investments	$ 15,837	$ 15,837	$	$
Total assets measured at fair value	$ 15,837	$ 15,837	$	$

	December 31, 2011	Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Deferred compensation plan investments	$ 13,892	$ 13,892	$	$
Total assets measured at fair value	$ 13,892	$ 13,892	$	$

The remainder of the assets and liabilities held by the Company at March 31, 2012 are not required to be measured at fair value. The carrying value of certain of these assets and liabilities do not approximate fair value, as described below.

As further discussed in Note 5 and the Company s Annual Report on Form 10-K for the year ended December 31, 2011, in connection with the development of Gaylord National, the Company received two bonds (a Series A Bond and a Series B Bond) from Prince George s County, Maryland which had aggregate carrying values of $90.6 million and $58.7 million, respectively, as of March 31, 2012. The maturity dates of the Series A Bond and the Series B Bond are July 1, 2034 and September 1, 2037, respectively. Based upon current market interest rates of notes receivable with comparable market ratings and current expectations about the timing of debt service payments under the note, which the Company considers as Level 3, the fair value of the Series A Bond, which has the senior claim to the cash flows supporting these bonds, approximated carrying value as of March 31, 2012 and the fair value of the Series B Bond was approximately $37 million as of March 31, 2012. While the fair value of the Series B Bond decreased to less than its carrying value during 2011 due to a change in the timing of the debt service payments, the Company has the intent and ability to hold this bond to maturity and expects to receive all debt service payments due under the note. Therefore, the Company does not consider the Series B Bond to be other than temporarily impaired as of March 31, 2012.

The Company has outstanding $360.0 million in aggregate principal amount of Convertible Notes due 2014 that accrue interest at a fixed rate of 3.75%. The carrying value of these notes on March 31, 2012 was $322.6 million, net of discount. The fair value of the Convertible Notes, based upon the present value of cash flows discounted at current market interest rates, which the Company considers as Level 2, was approximately $332 million as of March 31, 2012.

The Company has outstanding $152.2 million in aggregate principal amount of senior notes due 2014 that accrue interest at a fixed rate of 6.75% (the Senior Notes). The fair value of these notes, based upon quoted market prices, which the Company considers as Level 1, was $149.9 million as of March 31, 2012.

The carrying amount of short-term financial instruments held by the Company (cash, short-term investments, trade receivables, accounts payable and accrued liabilities) approximates fair value due to the short maturity of those instruments. The concentration of credit risk on trade receivables is minimized by the large and diverse nature of the Company s customer base.

13. FINANCIAL REPORTING BY BUSINESS SEGMENTS:

The Company s continuing operations are organized into three principal business segments:

Hospitality, which includes the Gaylord Opryland Resort and Convention Center, the Gaylord Palms Resort and Convention Center, the Gaylord Texan Resort and Convention Center, the Gaylord National Resort and Convention Center and the Radisson Hotel at Opryland;

Opry and Attractions, which includes the Grand Ole Opry, WSM-AM, and the Company s Nashville-based attractions; and

Corporate and Other, which includes the Company s corporate expenses.

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The following information from continuing operations is derived directly from the segments internal financial reports used for corporate management purposes (amounts in thousands):

	Three Months Ended March 31, 2012	2011
Revenues:		
Hospitality	**$ 226,048**	$ 209,342
Opry and Attractions	**12,835**	11,367
Corporate and Other	**32**	29
Total	**$ 238,915**	$ 220,738
Depreciation and amortization:		
Hospitality	**$ 28,536**	$ 25,275
Opry and Attractions	**1,285**	1,332
Corporate and Other	**2,613**	2,450
Total	**$ 32,434**	$ 29,057
Operating income (loss):		
Hospitality	**$ 40,036**	$ 29,454
Opry and Attractions	**793**	(643)
Corporate and Other	**(18,640)**	(14,086)
Casualty loss	**(174)**	1
Preopening costs	**(331)**	
Total operating income	**21,684**	14,726
Interest expense, net of amounts capitalized	**(14,362)**	(20,809)
Interest income	**3,154**	3,173
Income from unconsolidated companies		173
Other gains and (losses), net		(191)
Income (loss) before income taxes and discontinued operations	**$ 10,476**	$ (2,928)

14. INFORMATION CONCERNING GUARANTOR AND NON-GUARANTOR SUBSIDIARIES:

Not all of the Company s subsidiaries have guaranteed the Company s Convertible Notes and the Senior Notes. The Company s Convertible Notes and Senior Notes are guaranteed on a senior unsecured basis by generally all of the Company s significant active domestic subsidiaries (the Guarantors). Certain discontinued operations and inactive subsidiaries (the Non-Guarantors) do not guarantee the Company s Convertible Notes and Senior Notes.

The following condensed consolidating financial information includes certain allocations of revenues and expenses based on management s best estimates, which are not necessarily indicative of financial position, results of operations and cash flows that these entities would have achieved on a stand alone basis.

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GAYLORD ENTERTAINMENT COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Operations

For the Three Months Ended March 31, 2012

(in thousands)	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues	$ 2,798	$ 239,011	$	$ (2,894)	$ 238,915
Operating expenses:					
Operating costs		134,983			134,983
Selling, general and administrative	8,030	41,382		(103)	49,309
Casualty loss	33	141			174
Preopening costs	13	318			331
Management fees		2,791		(2,791)	
Depreciation and amortization	769	31,665			32,434
Operating income (loss)	(6,047)	27,731			21,684
Interest expense, net of amounts capitalized	(14,634)	(29,828)	(104)	30,204	(14,362)
Interest income	25,329	3,949	4,080	(30,204)	3,154
Income (loss) before income taxes	4,648	1,852	3,976		10,476
Provision for income taxes	(1,951)	(849)	(1,669)		(4,469)
Equity in subsidiaries earnings, net	3,331			(3,331)	
Income from continuing operations	6,028	1,003	2,307	(3,331)	6,007
Income from discontinued operations, net of taxes			21		21
Net income	$ 6,028	$ 1,003	$ 2,328	$ (3,331)	$ 6,028
Comprehensive income	$ 6,028	$ 1,003	$ 2,328	$ (3,331)	$ 6,028

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GAYLORD ENTERTAINMENT COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Operations

For the Three Months Ended March 31, 2011

(in thousands)	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues	$ 1,475	$ 220,759	$	$ (1,496)	$ 220,738
Operating expenses:					
Operating costs		133,906		(28)	133,878
Selling, general and administrative	4,292	38,786			43,078
Casualty loss		(1)			(1)
Management fees		1,468		(1,468)	
Depreciation and amortization	1,027	28,030			29,057
Operating income (loss)	(3,844)	18,570			14,726
Interest expense, net of amounts capitalized	(21,074)	(29,984)	(99)	30,348	(20,809)
Interest income	25,827	3,865	3,829	(30,348)	3,173
Income from unconsolidated companies		173			173
Other gains and (losses), net		(191)			(191)
Income (loss) before income taxes	909	(7,567)	3,730		(2,928)
(Provision) benefit for income taxes	(475)	2,891	(1,449)		967
Equity in subsidiaries losses, net	(2,391)			2,391	
Income (loss) from continuing operations	(1,957)	(4,676)	2,281	2,391	(1,961)
Income (loss) from discontinued operations, net of taxes		22	(18)		4
Net income (loss)	$ (1,957)	$ (4,654)	$ 2,263	$ 2,391	$ (1,957)
Comprehensive income (loss)	$ 1,452	$ (4,654)	$ 2,263	$ 2,391	$ 1,452

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GAYLORD ENTERTAINMENT COMPANY AND SUBSIDIARIES

Condensed Consolidating Balance Sheet

March 31, 2012

(in thousands)	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents unrestricted	$ 16,100	$ 3,762	$	$	$ 19,862
Cash and cash equivalents restricted	1,150				1,150
Trade receivables, net		62,975			62,975
Deferred income taxes	164	6,257	23		6,444
Other current assets	(2,970)	43,997		(126)	40,901
Intercompany receivables, net	1,760,398		306,358	(2,066,756)	
Total current assets	1,774,842	116,991	306,381	(2,066,882)	131,332
Property and equipment, net of accumulated depreciation	46,993	2,158,668			2,205,661
Notes receivable, net of current portion		143,849			143,849
Long-term deferred financing costs	14,758				14,758
Other long-term assets	663,781	358,996		(970,084)	52,693
Long-term assets of discontinued operations			376		376
Total assets	$ 2,500,374	$ 2,778,504	$ 306,757	$ (3,036,966)	$ 2,548,669
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Current portion of long-term debt and capital lease obligations	$	$ 763	$	$	$ 763
Accounts payable and accrued liabilities	13,304	140,357		(417)	153,244
Intercompany payables, net		1,976,173	90,583	(2,066,756)	
Current liabilities of discontinued operations			165		165
Total current liabilities	13,304	2,117,293	90,748	(2,067,173)	154,172
Long-term debt and capital lease obligations, net of current portion	1,059,732	1,450			1,061,182
Deferred income taxes	(35,216)	145,642	(81)		110,345
Other long-term liabilities	84,709	84,668		291	169,668
Long-term liabilities of discontinued operations			451		451
Commitments and contingencies					
Stockholders equity:					
Preferred stock					
Common stock	489	2,388	1	(2,389)	489
Additional paid-in capital	931,213	1,081,067	(40,129)	(1,040,938)	931,213
Treasury stock	(4,599)				(4,599)
Retained earnings	486,799	(654,004)	255,767	73,243	161,805
Accumulated other comprehensive loss	(36,057)				(36,057)
Total stockholders equity	1,377,845	429,451	215,639	(970,084)	1,052,851
Total liabilities and stockholders equity	$ 2,500,374	$ 2,778,504	$ 306,757	$ (3,036,966)	$ 2,548,669

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GAYLORD ENTERTAINMENT COMPANY AND SUBSIDIARIES

Condensed Consolidating Balance Sheet

December 31, 2011

(in thousands)	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS:					
Current assets:					
Cash and cash equivalents unrestricted	$ 37,562	$ 6,826	$	$	$ 44,388
Cash and cash equivalents restricted	1,150				1,150
Trade receivables, net		41,939			41,939
Deferred income taxes	1,195	7,423	23		8,641
Other current assets	2,710	45,954		(126)	48,538
Intercompany receivables, net	1,745,197		302,368	(2,047,565)	
Total current assets	1,787,814	102,142	302,391	(2,047,691)	144,656
Property and equipment, net of accumulated depreciation	43,733	2,165,394			2,209,127
Notes receivable, net of current portion		142,567			142,567
Long-term deferred financing costs	15,947				15,947
Other long-term assets	658,167	359,297		(966,751)	50,713
Long-term assets of discontinued operations			390		390
Total assets	$ 2,505,661	$ 2,769,400	$ 302,781	$ (3,014,442)	$ 2,563,400
LIABILITIES AND STOCKHOLDERS EQUITY:					
Current liabilities:					
Current portion of long-term debt and capital lease obligations	$	$ 755	$	$	$ 755
Accounts payable and accrued liabilities	17,934	151,458		(417)	168,975
Intercompany payables, net		1,958,653	88,912	(2,047,565)	
Current liabilities of discontinued operations			186		186
Total current liabilities	17,934	2,110,866	89,098	(2,047,982)	169,916
Long-term debt and capital lease obligations, net of current portion	1,071,426	1,644			1,073,070
Deferred income taxes	(36,586)	144,886	(81)		108,219
Other long-term liabilities	82,358	83,560		291	166,209
Long-term liabilities of discontinued operations			451		451
Commitments and contingencies					
Stockholders equity:					
Preferred stock					
Common stock	484	2,388	1	(2,389)	484
Additional paid-in capital	929,904	1,081,063	(40,127)	(1,040,936)	929,904
Treasury stock	(4,599)				(4,599)
Retained earnings	480,771	(655,007)	253,439	76,574	155,777
Accumulated other comprehensive loss	(36,031)				(36,031)
Total stockholders equity	1,370,529	428,444	213,313	(966,751)	1,045,535
Total liabilities and stockholders equity	$ 2,505,661	$ 2,769,400	$ 302,781	$ (3,014,442)	$ 2,563,400

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GAYLORD ENTERTAINMENT COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Cash Flows

For the Three Months Ended March 31, 2012

(in thousands)	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net cash provided by (used in) continuing operating activities	$ (6,782)	$ 20,697	$ (13)	$	$ 13,902
Net cash provided by discontinued operating activities			13		13
Net cash provided by (used in) operating activities	(6,782)	20,697			13,915
Purchases of property and equipment	(2,912)	(26,822)			(29,734)
Collection of notes receivable		2,870			2,870
Other investing activities		378			378
Net cash used in investing activities continuing operations	(2,912)	(23,574)			(26,486)
Net cash used investing activities discontinued operations					
Net cash used in investing activities	(2,912)	(23,574)			(26,486)
Net repayments under credit facility	(15,000)				(15,000)
Proceeds from exercise of stock option and purchase plans	3,232				3,232
Other financing activities, net		(187)			(187)
Net cash used in financing activities continuing operations	(11,768)	(187)			(11,955)
Net cash provided by financing activities discontinued operations					
Net cash used in financing activities	(11,768)	(187)			(11,955)
Net change in cash and cash equivalents	(21,462)	(3,064)			(24,526)
Cash and cash equivalents at beginning of period	37,562	6,826			44,388
Cash and cash equivalents at end of period	$ 16,100	$ 3,762	$	$	$ 19,862

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GAYLORD ENTERTAINMENT COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Cash Flows

For the Three Months Ended March 31, 2011

(in thousands)	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net cash (used in) provided by continuing operating activities	$ (37,264)	$ 29,248	$ 64	$	$ (7,952)
Net cash provided by (used in) discontinued operating activities		38	(64)		(26)
Net cash (used in) provided by operating activities	(37,264)	29,286			(7,978)
Purchases of property and equipment	(1,588)	(35,909)			(37,497)
Collection of notes receivable		2,465			2,465
Other investing activities	4	1,566			1,570
Net cash used in investing activities continuing operations	(1,584)	(31,878)			(33,462)
Net cash used investing activities discontinued operations					
Net cash used in investing activities	(1,584)	(31,878)			(33,462)
Proceeds from exercise of stock option and purchase plans	4,052				4,052
Other financing activities, net		(42)			(42)
Net cash provided by (used in) financing activities continuing operations	4,052	(42)			4,010
Net cash provided by financing activities discontinued operations					
Net cash provided by (used in) financing activities	4,052	(42)			4,010
Net change in cash and cash equivalents	(34,796)	(2,634)			(37,430)
Cash and cash equivalents at beginning of period	117,913	6,485			124,398
Cash and cash equivalents at end of period	$ 83,117	$ 3,851	$	$	$ 86,968

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

The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this report and our audited consolidated financial statements and related notes for the year ended December 31, 2011, appearing in our Annual Report on Form 10-K that was filed with the Securities and Exchange Commission (SEC) on February 24, 2012.

This quarterly report on Form 10-Q contains forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. You can identify these statements by the fact that they do not relate strictly to historical or current facts. These statements contain words such as may, will, project, might, expect, believe, anticipate, intend, could, woul continue or pursue, or the negative or other variations thereof or comparable terminology. In particular, they include statements relating to, among other things, future actions, new projects, strategies, future performance, the outcome of contingencies such as legal proceedings and future financial results. We have based these forward-looking statements on our current expectations and projections about future events.

We caution the reader that forward-looking statements involve risks and uncertainties that cannot be predicted or quantified and, consequently, actual results may differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, but are not limited to, those factors described in our Annual Report on Form 10-K for the year ended December 31, 2011 or described from time to time in our other reports filed with the SEC. These include the risks and uncertainties associated with refinancing our indebtedness prior to its various maturities, risks associated with development, budgeting, financing and approvals for our Aurora, Colorado project and our water park project, economic conditions affecting the hospitality business generally, rising labor and benefits costs, the timing of any new development projects, increased costs and other risks associated with building and developing new hotel facilities and new attractions, the geographic concentration of our hotel properties, business levels at the Company s hotels, our ability to successfully operate our hotels and our ability to obtain financing for new developments. Any forward-looking statements are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, speak only as of the date made. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

Overall Outlook

Our concentration in the hospitality industry, and in particular the large group meetings sector of the hospitality industry, exposes us to certain risks outside of our control. Recessionary conditions in the national economy have resulted in economic pressures on the hospitality industry generally, and on our Company s operations and expansion plans. However, in 2010 and 2011, and thus far in 2012, we have begun to see stabilization in our industry and specifically in our business. During these periods, we have seen increases in group travel as compared to recessionary levels, as well as growth in outside-the-room revenue, indicating that not only are our group customers traveling again, they are spending more on food and beverage and entertainment during their stay at our properties.

Group customers typically book rooms and meeting space with significant lead times, sometimes several years in advance of guest arrival. During an economic recovery, group pricing tends to lag transient pricing due to the significant lead times for group bookings. Group business booked in earlier periods at lower rates continues to roll off, and with improving group demand, is being replaced with bookings reflecting generally higher rates. As a result of the higher levels of group business, we have experienced an increase in occupancy in recent quarters as well as increases in rates and future bookings, although there can be no assurance that we can continue to achieve further improvements in occupancy and revenue levels. Our attrition and cancellation levels have also decreased compared to recessionary levels. In conjunction with the improvements in our business, as well as our improved outlook on the hospitality industry generally, we are revisiting our future plans for growth. We cannot predict when, if, or for how long hospitality demand and spending will return to historical levels, but we anticipate that our future financial results and growth will be harmed if the economy does not continue to improve or becomes worse.

See Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2011, filed with the SEC on February 24, 2012, for important information regarding forward-looking statements made in this report and risks and uncertainties we face.

Development Update

In June 2011, we announced our plans to develop a resort and convention hotel in Aurora, Colorado, located approximately 25 minutes from downtown Denver. The Aurora development, which is expected to feature 1,500 guest rooms and 400,000 square feet of exhibition and meeting space, will be located on 85 acres in LNR Property CPI Fund s High Point Master Plan Development. The project is expected to cost approximately $800 million and could be funded by us, potential joint venture partners and the tax incentives that are being provided as a result of an agreement between us and the city of Aurora, and is contingent on receiving required governmental approvals, incentives, and final approval by our board of directors. We expect to break ground on construction in 2013 and expect the resort to be open for business in early 2016. At this time, we have not made any material financial commitments in connection with this development.

In January 2012, we announced that we had entered into a memorandum of understanding for a 50/50 joint venture with the Dollywood Company to develop a family entertainment zone adjacent to Gaylord Opryland on land that we currently own. The Dollywood Company will operate the park, and we will contribute both land and cash to represent our 50 percent share of the venture. Phase one of the project is a yet unnamed approximately $50 million water and snow park, which we believe will be the first of its kind in the U.S. We expect groundbreaking to occur in early 2013, and we expect to open the park for summer 2014. The project is contingent upon finalizing agreements with governmental authorities pertaining to the construction of the necessary infrastructure.

Our investments thus far in 2012 consisted primarily of the continuance of the renovation of the guestrooms and new resort pools and the completion of a new sports bar entertainment facility at Gaylord Palms and ongoing maintenance capital expenditures for our existing properties. Our investments in the remainder of 2012 are expected to consist primarily of ongoing maintenance capital expenditures for our existing properties, the completion of the rooms renovation and resort pools at Gaylord Palms, design and architectural plans for our planned resort and convention center in Aurora, Colorado, and potentially, development or acquisition projects that have not yet been determined.

As described in Note 11 to our condensed consolidated financial statements for the three months ended March 31, 2012 and 2011 included herewith, we are a party to a land purchase agreement with respect to a potential hotel development in Mesa, Arizona.

We are also considering other potential hotel sites throughout the country. We have made no material financial commitments to construct new facilities. We are closely monitoring the condition of the economy and the availability of attractive financing. We are unable to predict at this time when we might make such commitments or commence any new construction.

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Our Current Operations

Our ongoing operations are organized into three principal business segments:

Hospitality, consisting of our Gaylord Opryland Resort and Convention Center (Gaylord Opryland), our Gaylord Palms Resort and Convention Center (Gaylord Palms), our Gaylord Texan Resort and Convention Center (Gaylord Texan), our Gaylord National Resort and Convention Center (Gaylord National) and our Radisson Hotel at Opryland (Radisson Hotel).

Opry and Attractions, consisting of our Grand Ole Opry assets, WSM-AM and our Nashville-based attractions.

Corporate and Other, consisting of our corporate expenses.

For the three months ended March 31, 2012 and 2011, our total revenues were divided among these business segments as follows:

	Three months ended March 31,	
Segment	**2012**	**2011**
Hospitality	**94.6%**	94.8%
Opry and Attractions	**5.4%**	5.2%
Corporate and Other	**0.0%**	0.0%

We generate a significant portion of our revenues from our Hospitality segment. We believe that we are the only hospitality company whose stated primary focus is on the large group meetings and conventions sector of the lodging market. Our strategy is to continue this focus by concentrating on our All-in-One-Place self-contained service offerings and by emphasizing customer rotation among our convention properties, while also offering additional entertainment opportunities to guests and target customers.

In addition to our group meetings strategy, we are also focused on improving leisure demand in our hotels through special events (Country Christmas, summer-themed events, etc.), social media strategies, and unique content and entertainment partnerships. As part of this strategy, during 2011, we announced a multi-year strategic alliance with DreamWorks Animation SKG, Inc. to become the official hotel provider of DreamWorks vacation experiences. Through this strategic alliance, we are now offering leisure experiences featuring DreamWorks characters for our guests at all of our resort properties. In addition, as discussed above, we have entered into a memorandum of understanding for a 50/50 joint venture to develop a family entertainment zone adjacent to Gaylord Opryland that will include what we believe to be the first combined water and snow park in the U.S.

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Key Performance Indicators

The operating results of our Hospitality segment are highly dependent on the volume of customers at our hotels and the quality of the customer mix at our hotels. These factors impact the price we can charge for our hotel rooms and other amenities, such as food and beverage and meeting space. Key performance indicators related to revenue are:

- hotel occupancy (a volume indicator);
- average daily rate (ADR) (a price indicator);
- Revenue per Available Room (RevPAR) (a summary measure of hotel results calculated by dividing room sales by room nights available to guests for the period);
- Total Revenue per Available Room (Total RevPAR) (a summary measure of hotel results calculated by dividing the sum of room, food and beverage and other ancillary service revenue by room nights available to guests for the period); and
- Net Definite Room Nights Booked (a volume indicator which represents the total number of definite bookings for future room nights at Gaylord hotels confirmed during the applicable period, net of cancellations).

We recognize Hospitality segment revenue from our occupied hotel rooms as earned on the close of business each day and from concessions and food and beverage sales at the time of sale. Attrition fees, which are charged to groups when they do not fulfill the minimum number of room nights or minimum food and beverage spending requirements originally contracted for, as well as cancellation fees, are recognized as revenue in the period they are collected. Almost all of our Hospitality segment revenues are either cash-based or, for meeting and convention groups meeting our credit criteria, billed and collected on a short-term receivables basis. Our industry is capital intensive, and we rely on the ability of our hotels to generate operating cash flow to repay debt financing, fund maintenance capital expenditures and provide excess cash flow for future development.

The results of operations of our Hospitality segment are affected by the number and type of group meetings and conventions scheduled to attend our hotels in a given period. We attempt to offset any identified shortfalls in occupancy by creating special events at our hotels or offering incentives to groups in order to attract increased business during this period. A variety of factors can affect the results of any interim period, including the nature and quality of the group meetings and conventions attending our hotels during such period, which meetings and conventions have often been contracted for several years in advance, the level of attrition we experience, and the level of transient business at our hotels during such period.

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Selected Financial Information

The following table contains our unaudited selected summary financial data for the three months ended March 31, 2012 and 2011. The table also shows the percentage relationships to total revenues and, in the case of segment operating income (loss), its relationship to segment revenues (in thousands, except percentages).

	Unaudited Three Months ended March 31,			
	2012	**%**	**2011**	**%**
Income Statement Data:				
REVENUES:				
Hospitality	**$ 226,048**	**94.6%**	$ 209,342	94.8%
Opry and Attractions	**12,835**	**5.4%**	11,367	5.1%
Corporate and Other	**32**	**0.0%**	29	0.0%
Total revenues	**238,915**	**100.0%**	220,738	100.0%
OPERATING EXPENSES:				
Operating costs	**134,983**	**56.5%**	133,878	60.7%
Selling, general and administrative	**49,309**	**20.6%**	43,078	19.5%
Casualty loss	**174**	**0.1%**	(1)	0.0%
Preopening costs	**331**	**0.1%**		0.0%
Depreciation and amortization:				
Hospitality	**28,536**	**11.9%**	25,275	11.5%
Opry and Attractions	**1,285**	**0.5%**	1,332	0.6%
Corporate and Other	**2,613**	**1.1%**	2,450	1.1%
Total depreciation and amortization	**32,434**	**13.6%**	29,057	13.2%
Total operating expenses	**217,231**	**90.9%**	206,012	93.3%
OPERATING INCOME (LOSS):				
Hospitality	**40,036**	**17.7%**	29,454	14.1%
Opry and Attractions	**793**	**6.2%**	(643)	-5.7%
Corporate and Other	**(18,640)**	**(A)**	(14,086)	(A)
Casualty loss	**(174)**	**(B)**	1	(B)
Preopening costs	**(331)**	**(B)**		(B)
Total operating income	**21,684**	**9.1%**	14,726	6.7%
Interest expense, net of amounts capitalized	**(14,362)**	**(B)**	(20,809)	(B)
Interest income	**3,154**	**(B)**	3,173	(B)
Income from unconsolidated companies		**(B)**	173	(B)
Other gains and (losses), net		**(B)**	(191)	(B)
(Provision) benefit for income taxes	**(4,469)**	**(B)**	967	(B)
Income from discontinued operations, net	**21**	**(B)**	4	(B)
Net income (loss)	**$ 6,028**	**(B)**	$ (1,957)	(B)

(A) These amounts have not been shown as a percentage of segment revenue because the Corporate and Other segment generates only minimal revenue.

(B) These amounts have not been shown as a percentage of revenue because they have no relationship to revenue.

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Summary Financial Results

Results

The following table summarizes our financial results for the three months ended March 31, 2012 and 2011 (in thousands, except percentages and per share data):

	Three Months Ended March 31,		
	2012	**2011**	**% Change**
Total revenues	**$ 238,915**	$ 220,738	8.2%
Total operating expenses	**217,231**	206,012	5.4%
Operating income	**21,684**	14,726	47.2%
Net income (loss)	**6,028**	(1,957)	408.0%
Net income (loss) per share - fully diluted	**0.12**	(0.04)	400.0%

Total Revenues

The increase in our total revenues for the three months ended March 31, 2012, as compared to the same period in 2011, is attributable to an increase in our Hospitality segment revenues of $16.7 million for the 2012 period and an increase in our Opry and Attractions segment revenue of $1.5 million for the 2012 period, as discussed more fully below.

Total Operating Expenses

The increase in our total operating expenses for the three months ended March 31, 2012, as compared to the same period in 2011, is primarily due to an increase of $6.6 million in our Hospitality segment operating expenses associated with higher occupancy and increased depreciation expense, and an increase of $4.5 million in our Corporate and Other segment, as discussed more fully below.

Net Income (Loss)

Our net income of $6.0 million for the three months ended March 31, 2012, as compared to a net loss of $2.0 million for the same period in 2011, was due to the change in our operating income described above and the following factors, each as described more fully below:

A $6.4 million decrease in interest expense, net of amounts capitalized, during the 2012 period, as compared to the 2011 period.

A provision for income taxes of $4.5 million during the 2012 period, as compared to a benefit from income taxes of $1.0 million during the 2011 period.

Factors and Trends Contributing to Operating Performance

The most important factors and trends contributing to our operating performance during the periods described herein were:

Increased occupancy levels and ADR at Gaylord Palms (an increase of 4.8 percentage points of occupancy and an increase of 8.7% in ADR for the 2012 period, as compared to the 2011 period), primarily due to increased levels of group business. This increase in group business led to an increase in outside-the-room spending (an increase of 10.6% during the 2012 period, as compared to the 2011 period), primarily due to increases in banquets and conference services.

Increased ADR at Gaylord Opryland (an increase of 12.0% during the 2012 period, as compared to the 2011 period) due to an increase in both group and transient rates. Outside-the-room spending increased (an increase of 19.0% during the 2012 period, as compared to the 2011 period), as a result of increased banquet spending, increased food and beverage spending and increased conference services.

Decreased attrition and cancellation levels for the 2012 period, as compared to the 2011 period, which increased our operating income, RevPAR and Total RevPAR. Attrition for the 2012 period was 4.5% of bookings, compared to 6.1% for the 2011 period, and cancellations for the 2012 period were down 57.2% as compared to the 2011 period.

Operating Results   Detailed Segment Financial Information

Hospitality Segment

Total Segment Results. The following presents the financial results of our Hospitality segment for the three months ended March 31, 2012 and 2011 (in thousands, except percentages and performance metrics):

	Three Months Ended March 31, 2012	2011	% Change
Hospitality revenue (1)	**$ 226,048**	$ 209,342	8.0%
Hospitality operating expenses:			
Operating costs	**124,703**	123,765	0.8%
Selling, general and administrative	**32,773**	30,848	6.2%
Depreciation and amortization	**28,536**	25,275	12.9%
Total Hospitality operating expenses	**186,012**	179,888	3.4%
Hospitality operating income (2)	**$ 40,036**	$ 29,454	35.9%
Hospitality performance metrics:			
Occupancy	**69.9%**	69.6%	0.4%
ADR	**$ 169.89**	$ 164.43	3.3%
RevPAR (3)	**$ 118.82**	$ 114.45	3.8%
Total RevPAR (4)	**$ 306.99**	$ 292.61	4.9%
Net Definite Room Nights Booked	**306,000**	275,000	11.3%

(1) Hospitality results and performance metrics include the results of our Gaylord Hotels and our Radisson Hotel for all periods presented.
(2) Hospitality operating income does not include the effect of casualty loss and preopening costs. See the discussion of casualty loss and preopening costs set forth below.

(3) We calculate Hospitality RevPAR by dividing room sales by room nights available to guests for the period. Hospitality RevPAR is not comparable to similarly titled measures such as revenues.

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(4) We calculate Hospitality Total RevPAR by dividing the sum of room sales, food and beverage, and other ancillary services (which equals Hospitality segment revenue) by room nights available to guests for the period. Hospitality Total RevPAR is not comparable to similarly titled measures such as revenues.

The increase in total Hospitality segment revenue in the three months ended March 31, 2012, as compared to the same period in 2011, is primarily due to increases of $10.4 million and $6.0 million, respectively, at Gaylord Opryland and Gaylord Palms primarily as a result of increased ADR and increased outside-the-room spending during the 2012 period. These increases are partially offset by a decrease of $2.1 million at Gaylord Texan during the 2012 period, due primarily to the 2011 period benefitting from the impact of the Super Bowl in February 2011.

The percentage of group versus transient business based on rooms sold for our hospitality segment for the periods presented was approximately as follows:

	Three months ended March 31,	
	2012	**2011**
Group	**83.9%**	85.2%
Transient	**16.1%**	14.8%

The decrease in group business during the 2012 period as compared to the 2011 period is primarily the result of a decrease at Gaylord Texan as a result of the impact of the Super Bowl during the 2011 period.

Total Hospitality segment operating expenses consist of direct operating costs, selling, general and administrative expenses, and depreciation and amortization expense. The increase in Hospitality operating expenses in the three months ended March 31, 2012, as compared to the same period in 2011, is primarily attributable to increases at Gaylord Opryland and Gaylord Palms, as described below.

Total Hospitality segment operating costs, which consist of direct costs associated with the daily operations of our hotels (primarily room, food and beverage and convention costs), increased in the three months ended March 31, 2012, as compared to the same period in 2011, primarily as a result of a slight increase at Gaylord Palms, partially offset by a slight decrease at Gaylord Texan, as described below.

Total Hospitality segment selling, general and administrative expenses, consisting of administrative and overhead costs, increased in the three months ended March 31, 2012, as compared to the same period in 2011, primarily as a result of an increase at Gaylord Opryland, as described below.

Total Hospitality segment depreciation and amortization expense increased in the three months ended March 31, 2012, as compared to the same period in 2011, primarily related to the disposal of certain fixed assets associated with a corridor renovation at Gaylord Opryland.

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Property-Level Results. The following presents the property-level financial results of our Hospitality segment for the three months ended March 31, 2012 and 2011.

Gaylord Opryland Results. The results of Gaylord Opryland for the three months ended March 31, 2012 and 2011 are as follows (in thousands, except percentages and performance metrics):

	Three Months Ended March 31,		
	2012	**2011**	**% Change**
Total revenues	**$ 70,669**	$ 60,310	17.2%
Operating expense data:			
Operating costs	**38,401**	38,273	0.3%
Selling, general and administrative	**9,612**	8,256	16.4%
Hospitality performance metrics:			
Occupancy	**68.0%**	68.6%	-0.9%
ADR	**$ 153.67**	$ 137.26	12.0%
RevPAR	**$ 104.56**	$ 94.19	11.0%
Total RevPAR	**$ 269.46**	$ 232.76	15.8%

Total revenue, RevPAR and Total RevPAR increased at Gaylord Opryland in the three months ended March 31, 2012, as compared to the same period in 2011, primarily as a result of increased ADR, primarily due to increased group business from associations. While occupancy was relatively stable, we experienced an increase in outside-the-room spending at the hotel, which drove the hotel s increased Total RevPAR during the 2012 period. The increase in Total RevPAR was also impacted by higher collection of attrition and cancellation fees during the 2012 period.

Operating costs remained fairly stable at Gaylord Opryland in the three months ended March 31, 2012 as compared to the same period in 2011. Selling, general and administrative expenses increased during the three months ended March 31, 2012, as compared to the same period in 2011, primarily due to increased sales and marketing expenses and increased employee benefit costs.

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Gaylord Palms Results. The results of Gaylord Palms for the three months ended March 31, 2012 and 2011 are as follows (in thousands, except percentages and performance metrics):

	Three Months Ended March 31,		
	2012	**2011**	**% Change**
Total revenues	**$ 51,532**	$ 45,492	13.3%
Operating expense data:			
Operating costs	**24,546**	23,732	3.4%
Selling, general and administrative	**8,347**	8,049	3.7%
Hospitality performance metrics:			
Occupancy	**83.0%**	78.2%	6.1%
ADR	**$ 180.45**	$ 166.07	8.7%
RevPAR	**$ 149.84**	$ 129.93	15.3%
Total RevPAR	**$ 403.85**	$ 359.51	12.3%

Gaylord Palms revenue, RevPAR and Total RevPAR increased in the three months ended March 31, 2012, as compared to the same period in 2011, as a result of an increase in occupancy driven by an increase in corporate groups and an increase in ADR due to a shift to corporate groups from associations and other lower-rated groups. In addition, that shift resulted in an increase in outside-the-room spending, with contribution from the new sports bar, which opened on February 2, 2012, increasing revenue and Total RevPAR for the period.

Operating costs increased at Gaylord Palms in the three months ended March 31, 2012, as compared to the same period in 2011, primarily as a result of higher variable costs associated with the increase in occupancy and outside-the-room spending. Selling, general and administrative expenses increased during the three months ended March 31, 2012, as compared to the same period in 2011, primarily as a result of an increase in sales and marketing expenses.

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Gaylord Texan Results. The results of Gaylord Texan for the three months ended March 31, 2012 and 2011 are as follows (in thousands, except percentages and performance metrics):

	Three Months Ended March 31, 2012	2011	% Change
Total revenues	**$ 48,274**	$ 50,360	-4.1%
Operating expense data:			
Operating costs	**25,610**	26,246	-2.4%
Selling, general and administrative	**6,202**	6,240	-0.6%
Hospitality performance metrics:			
Occupancy	**70.0%**	72.3%	-3.2%
ADR	**$ 176.12**	$ 190.19	-7.4%
RevPAR	**$ 123.35**	$ 137.56	-10.3%
Total RevPAR	**$ 350.85**	$ 370.32	-5.3%

The decrease in Gaylord Texan revenue, RevPAR and Total RevPAR in the three months ended March 31, 2012, as compared to the same period in 2011, was primarily due to lower occupancy and ADR during the 2012 period, driven by a decrease in higher-rated business due to the impact of the 2011 Super Bowl being held in metropolitan Dallas in February 2011. In addition, revenue and Total RevPAR were impacted by lower collection of attrition and cancellation fees during the 2012 period.

Operating costs at Gaylord Texan decreased in the three months ended March 31, 2012, as compared to the same period in 2011, primarily due to decreased variable operating costs associated with the lower occupancy at the hotel. Selling, general and administrative expenses remained fairly stable during the three months ended March 31, 2012, as compared to the same period in 2011.

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Gaylord National Results. The results of Gaylord National for the three months ended March 31, 2012 and 2011 are as follows (in thousands, except percentages and performance metrics):

	Three Months Ended March 31,		
	2012	**2011**	**% Change**
Total revenues	**$ 53,413**	$ 52,354	2.0%
Operating expense data:			
Operating costs	**34,832**	34,806	0.1%
Selling, general and administrative	**8,181**	7,936	3.1%
Hospitality performance metrics:			
Occupancy	**65.5%**	64.2%	2.0%
ADR	**$ 188.58**	$ 187.91	0.4%
RevPAR	**$ 123.51**	$ 120.70	2.3%
Total RevPAR	**$ 294.06**	$ 291.44	0.9%

Gaylord National revenue and Total RevPAR increased in the three months ended March 31, 2012, as compared to the same period in 2011, primarily as a result of higher occupancy and increased outside-the-room spending during the 2012 period, driven by an increase in group room nights and stronger government group attendance. Revenue and Total RevPAR were partially offset by lower collection of attrition and cancellation fees during the 2012 period.

Operating costs at Gaylord National remained fairly stable in the three months ended March 31, 2012, as compared to the same period in 2011 even as revenue increased, due to margin management initiatives at the property level, including favorable food costs and reduced labor costs. Selling, general and administrative expenses increased during the three months ended March 31, 2012, as compared to the same period in 2011, primarily due to an increase in sales and marketing expenses.

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Opry and Attractions Segment

Total Segment Results. The following presents the financial results of our Opry and Attractions segment for the three months ended March 31, 2012 and 2011 (in thousands, except percentages):

	Three Months Ended March 31, 2012	2011	% Change
Total revenues	**$ 12,835**	$ 11,367	12.9%
Operating expense data:			
Operating costs	**7,251**	7,269	-0.2%
Selling, general and administrative	**3,506**	3,409	2.8%
Depreciation and amortization	**1,285**	1,332	-3.5%
Operating income (loss)	**$ 793**	$ (643)	223.3%

The increase in revenues in the Opry and Attractions segment for the three months ended March 31, 2012, as compared to the same period in 2011, was primarily due to increases at the Grand Ole Opry and the Ryman Auditorium.

Opry and Attractions operating costs and selling, general and administrative costs remained fairly stable in the three months ended March 31, 2012, as compared to the same period in 2011.

Opry and Attractions depreciation expense decreased slightly in the three months ended March 31, 2012, as compared to the same period in 2011.

Corporate and Other Segment

Total Segment Results. The following presents the financial results of our Corporate and Other segment for the three months ended March 31, 2012 and 2011 (in thousands, except percentages):

	Three Months Ended March 31, 2012	2011	% Change
Total revenues	**$ 32**	$ 29	10.3%
Operating expense data:			
Operating costs	**3,030**	2,844	6.5%
Selling, general and administrative	**13,029**	8,821	47.7%
Depreciation and amortization	**2,613**	2,450	6.7%
Operating loss	**$ (18,640)**	$ (14,086)	-32.3%

Corporate and Other segment revenue consists of rental income and corporate sponsorships.

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Corporate and Other operating costs, which consist primarily of costs associated with information technology, increased in the three months ended March 31, 2012, as compared to the same period in 2011, due primarily to higher maintenance costs.

Corporate and Other selling, general and administrative expenses, which consist of senior management salaries and benefits, legal, human resources, accounting, pension and other administrative costs, increased in the three months ended March 31, 2012, as compared to same period in 2011, due primarily to $3.1 million in non-recurring expenses in the 2012 period related to exploring opportunities for our company to unlock shareholder value.

Corporate and Other depreciation and amortization expense increased slightly in the three months ended March 31, 2012 as compared with the same period in 2011, primarily due to an increase in software placed into service.

Operating Results Casualty Loss

As a result of the Nashville flood (which occurred during May 2010 and is discussed more fully in our Annual Report on Form 10-K for the year ended December 31, 2011), the Company recognized approximately $0.2 million of casualty loss expense during the three months ended March 31, 2012, which primarily represents non-capitalized repairs of equipment within our Opry and Attractions segment.

Operating Results Preopening Costs

We expense the costs associated with start-up activities and organization costs as incurred. Our preopening costs for the three months ended March 31, 2012 primarily relate to our new sports bar entertainment facility at Gaylord Palms.

Non-Operating Results Affecting Net Income (Loss)

General

The following table summarizes the other factors which affected our net income (loss) for the three months ended March 31, 2012 and 2011 (in thousands, except percentages):

	Three Months Ended March 31,		
	2012	**2011**	**% Change**
Interest expense, net of amounts capitalized	**$ (14,362)**	$ (20,809)	31.0%
Interest income	**3,154**	3,173	-0.6%
Income from unconsolidated companies		173	-100.0%
Other gains and (losses), net		(191)	100.0%
(Provision) benefit for income taxes	**(4,469)**	967	-562.2%
Income from discontinued operations, net of taxes	**21**	4	425.0%

Interest Expense, Net of Amounts Capitalized

Interest expense, net of amounts capitalized, decreased $6.4 million to $14.4 million (net of capitalized interest of $0.3 million) during the three months ended March 31, 2012, as compared to the same period in 2011, due primarily to a decrease in interest expense associated with our refinanced credit facility.

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Cash interest expense decreased $6.5 million to $10.1 million in the three months ended March 31, 2012, as compared to the same period in 2011, and noncash interest expense, which includes amortization of deferred financing costs and debt discounts, as well as capitalized interest, remained stable at $4.3 million in the three months ended March 31, 2012 and 2011.

Our weighted average interest rate on our borrowings was 5.3% and 6.9% for the three months ended March 31, 2012 and 2011, respectively.

Interest Income

Interest income for the three months ended March 31, 2012 and 2011 primarily includes amounts earned on the notes that were received in connection with the development of Gaylord National.

Income from Unconsolidated Companies

We account for our minority investment in RHAC Holdings, LLC (the joint venture entity which invested in the Aston Waikiki Beach Hotel) under the equity method of accounting. Income from unconsolidated companies for the three months ended March 31, 2011 consisted of income from this investment.

Other Gains and (Losses)

Other gains and (losses), net for the three months ended March 31, 2011 primarily consisted of miscellaneous income and expense related to retirements of fixed assets.

(Provision) Benefit for Income Taxes

The effective tax rate as applied to pretax income (loss) from continuing operations differed from the statutory federal rate due to the following (in percentage points):

	Three Months Ended March 31,	
	2012	**2011**
U.S. Federal statutory rate	**35%**	35%
State taxes (net of federal tax benefit and change in valuation allowance)	**5**	2
Permanent items	**5**	(1)
Federal tax credits	**(2)**	(5)
Federal valuation allowance	**(1)**	2
Unrecognized tax benefits	**1**	
Effective tax rate	**43%**	33%

Liquidity and Capital Resources

Cash Flows From Operating Activities. Cash flow from operating activities is the principal source of cash used to fund our operating expenses, interest payments on debt, and maintenance capital expenditures. During the three months ended March 31, 2012, our net cash flows provided by operating activities - continuing operations were $13.9 million, reflecting primarily cash provided by our income from continuing operations before non-cash depreciation expense, amortization expense, income tax provision and stock-based compensation expense of approximately $49.8 million, partially offset by unfavorable changes in working capital of approximately $35.9 million. The unfavorable changes in working capital primarily resulted from an increase in trade receivables due to a seasonal change in the timing of payments received from corporate group customers at Gaylord Opryland, Gaylord Texan, Gaylord Palms and Gaylord National, and a decrease in accrued expenses primarily related to the payment of accrued property taxes, accrued compensation, and accrued expenses associated with our hotel holiday programs, partially offset by an increase in deferred revenues due to increased receipts of deposits on advanced bookings of hotel rooms at Gaylord National and Gaylord Opryland and an increase in accounts payable due to timing differences.

During the three months ended March 31, 2011, our net cash flows used in operating activities - continuing operations were $8.0 million, reflecting primarily cash provided by our loss from continuing operations before non-cash depreciation expense, amortization expense, income tax benefit, stock-based compensation expense, income from unconsolidated companies, and losses on the disposals of certain fixed assets of approximately $32.4 million, offset by unfavorable changes in working capital of approximately $40.4 million. The unfavorable changes in working capital primarily resulted from an increase in trade receivables due to a seasonal change in the timing of payments received from corporate group customers at Gaylord Opryland, Gaylord Texan, Gaylord National and Gaylord Palms, and a decrease in accrued expenses primarily related to the payment of accrued compensation, accrued property taxes, and accrued expenses associated with our hotel holiday programs, partially offset by an increase in deferred revenues due to increased receipts of deposits on advanced bookings of hotel rooms at Gaylord National and Gaylord Opryland, an increase in interest payable, attributable to interest accrued on our convertible senior notes and our 6.75% senior notes, and the receipt of a payment on the interest receivable related to the bonds that were received in connection with the development of Gaylord National.

Cash Flows From Investing Activities. During the three months ended March 31, 2012, our primary uses of funds for investing activities were purchases of property and equipment, which totaled $29.7 million, partially offset by the receipt of a $2.9 million principal payment on the bonds that were received in connection with the development of Gaylord National. Our capital expenditures during the three months ended March 31, 2012 consisted primarily of the continuance of the renovation of the guestrooms and new resort pools and the completion of a new sports bar entertainment facility at Gaylord Palms and ongoing maintenance capital expenditures for our existing properties.

During the three months ended March 31, 2011, our primary uses of funds for investing activities were purchases of property and equipment, which totaled $37.5 million, partially offset by the receipt of a $2.5 million principal payment on the bonds that were received in connection with the development of Gaylord National and $1.6 million in proceeds from the sale of certain fixed assets. Our capital expenditures during the three months ended March 31, 2011 primarily included remaining flood-related projects at Gaylord Opryland, the building of our new resort pool at Gaylord Texan and various information technology projects, as well as ongoing maintenance capital expenditures for our existing properties.

Cash Flows From Financing Activities. Our cash flows from financing activities reflect primarily the incurrence of debt and the repayment of long-term debt. During the three months ended March 31, 2012, our net cash flows used in financing activities were approximately $12.0 million, primarily reflecting $15.0 million in repayments under our credit facility, partially offset by $3.2 million in proceeds from the exercise of stock option and purchase plans.

During the three months ended March 31, 2011, our net cash flows provided by financing activities were approximately $4.0 million, primarily reflecting $4.1 million in proceeds from the exercise of stock option and purchase plans.

Working Capital

As of March 31, 2012 we had total current assets of $131.3 million and total current liabilities of $154.2 million, which resulted in a working capital deficit of $22.8 million. A significant portion of our current liabilities consist of deferred revenues ($53.6 million at March 31, 2012), which primarily represent deposits received on advance bookings of hotel rooms. While satisfaction of these deferred revenue liabilities will require the use of hotel resources and services, it does not require future cash payments by us. As a result, we believe our current assets, cash flows from operating activities and availability under our credit facility will be sufficient to repay our current liabilities as they become due.

Liquidity

As of March 31, 2012, we had $19.9 million in unrestricted cash and $332.0 million available for borrowing under our $925 million credit facility, which we refinanced in July 2011 and matures in 2015. During the three months ended March 31, 2012, we prepaid $15.0 million of the principal outstanding under our $925 million credit facility. This prepayment was the primary factor in the decrease in our cash balance from December 31, 2011 to March 31, 2012.

As described above, we anticipate investing in our operations during the remainder of 2012 through ongoing maintenance capital expenditures for our existing properties, the completion of the rooms renovation and resort pools at Gaylord Palms, and design and architectural plans for our planned resort and convention center in Aurora, Colorado. We believe that our cash on hand and cash from operations will be adequate to fund these short-term commitments, as well as: (i) normal operating expenses, (ii) interest expense on long-term debt obligations, and (iii) capital lease and operating lease obligations. If our existing cash and cash from operations were inadequate to fund such commitments, we could draw on our $925 million credit facility, subject to the satisfaction of debt incurrence tests. As of March 31, 2012, we believe that drawing on this credit facility will not be necessary for general working capital purposes or these 2012 commitments described herein. We may, however, draw on our credit facility for operational and capital needs in the future.

On an ongoing basis, we evaluate potential acquisition opportunities and future development opportunities for hotel properties. In June 2011, we announced our plans to develop a resort and convention hotel in Aurora, Colorado. The project is expected to cost approximately $800 million and could be funded by us, potential joint venture partners and the tax incentives that are being provided as a result of an agreement between us and the city of Aurora, and is contingent on receiving required governmental approvals, incentives, and final approval by our board of directors. We expect to break ground on construction in 2013 and expect the resort to be open for business in early 2016. At this time, we have not made any material financial commitments in connection with this development.

We will continue to evaluate additional acquisition or development opportunities in light of economic conditions and other factors. We are unable to predict at this time if or when additional development or acquisition opportunities may present themselves. In addition, we are unable to predict when we might make commitments or commence construction related to the proposed development in Mesa, Arizona. Furthermore, we do not anticipate making significant capital expenditures on the development in Mesa, Arizona or our water park development during 2012.

Our outstanding principal debt agreements, none of which mature prior to 2014, are described below. Based on current projections for compliance under our financial covenants contained in these agreements, we do not foresee a maturity issue prior to 2014.

Principal Debt Agreements

$925 Million Credit Facility. On August 1, 2011, we refinanced our previous $1.0 billion credit facility by entering into a $925 million senior secured credit facility by and among the Company, certain subsidiaries of the Company party thereto, as guarantors, the lenders party thereto and Bank of America, N.A., as administrative agent (the $925 Million Credit Facility). The $925 Million Credit Facility consists of the following components: (a) a $525.0 million senior secured revolving credit facility, of which $200.0 million was drawn at closing, and includes a $75.0 million letter of credit sublimit and a $50.0 million sublimit for swingline loans, and

(b) a $400.0 million senior secured term loan facility, which was fully funded at closing. The $925 Million Credit Facility also includes an accordion feature that will allow us to increase the facility by a total of up to $475.0 million, subject to securing additional commitments from existing lenders or new lending institutions. The $925 Million Credit Facility matures on August 1, 2015 and bears interest at an annual rate of LIBOR plus 2.25% or the bank s base rate plus 1.25%, subject to adjustment based on our implied debt service coverage ratio, as defined in the agreement. Interest on our borrowings is payable quarterly, in arrears, for base rate loans and at the end of each interest rate period for LIBOR-based loans. Principal is payable in full at maturity. We are required to pay a fee of 0.3% to 0.4% per year of the average unused portion of the $925 Million Credit Facility. The purpose of the $925 Million Credit Facility is for working capital, capital expenditures, and other corporate purposes.

The $925 Million Credit Facility is (i) secured by a first mortgage and lien on the real property and related personal and intellectual property of our Gaylord Opryland hotel, Gaylord Texan hotel, Gaylord Palms hotel and Gaylord National hotel, and pledges of equity interests in the entities that own such properties and (ii) guaranteed by each of the four wholly-owned subsidiaries that own the four hotels. Advances are subject to a 55% borrowing base, based on the appraisal value of the hotel properties (reduced to 50% in the event a hotel property is sold).

In addition, the $925 Million Credit Facility contains certain covenants which, among other things, limit the incurrence of additional indebtedness, investments, dividends, transactions with affiliates, asset sales, acquisitions, mergers and consolidations, liens and encumbrances and other matters customarily restricted in such agreements. The material financial covenants, ratios or tests contained in the $925 Million Credit Facility are as follows:

- We must maintain a consolidated funded indebtedness to total asset value ratio as of the end of each calendar quarter of not more than 65%.

- We must maintain a consolidated tangible net worth of not less than $850.0 million plus 75% of the proceeds received by us or any of our subsidiaries in connection with any equity issuance.

- We must maintain a minimum consolidated fixed charge coverage ratio, as defined in the agreement, of not less than 1.75 to 1.00.

- We must maintain an implied debt service coverage ratio (the ratio of adjusted net operating income to monthly principal and interest that would be required if the outstanding balance were amortized over 25 years at an assumed fixed rate) of not less than 1.60 to 1.00.

If an event of default were to occur and continue under the $925 Million Credit Facility, the commitments under the $925 Million Credit Facility may be terminated and the principal amount outstanding under the $925 Million Credit Facility, together with all accrued unpaid interest and other amounts owing in respect thereof, may be declared immediately due and payable. The $925 Million Credit Facility is cross-defaulted to our other indebtedness.

As of March 31, 2012, $585.0 million of borrowings were outstanding under the $925 Million Credit Facility, and the lending banks had issued $8.0 million of letters of credit under the facility, which left $332.0 million of availability under the credit facility (subject to the satisfaction of debt incurrence tests under the indentures governing our 6.75% senior notes due 2014).

3.75% Convertible Senior Notes. In 2009, we issued $360.0 million of 3.75% Convertible Senior Notes (the Convertible Notes). The Convertible Notes have a maturity date of October 1, 2014, and interest is payable semiannually in cash in arrears on April 1 and October 1. The Convertible Notes are convertible, under certain circumstances as described below, at the holder s option, into shares of our common stock, at an initial conversion rate of 36.6972 shares of common stock per $1,000 principal amount of the Convertible Notes, which is equivalent to an initial conversion price of approximately $27.25 per share. We may elect, at our option, to deliver

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shares of our common stock, cash or a combination of cash and shares of our common stock in satisfaction of our obligations upon conversion of the Convertible Notes. We intend to settle the face value of the Convertible Notes in cash.

The Convertible Notes are convertible under any of the following circumstances: (1) during any calendar quarter ending after September 30, 2009 (and only during such calendar quarter), if the closing price of our common stock for at least 20 trading days during the 30 consecutive trading day period ending on the last trading day of the immediately preceding calendar quarter exceeds 120% of the applicable conversion price per share of common stock on the last trading day of such preceding calendar quarter; (2) during the ten business day period after any five consecutive trading day period in which the Trading Price (as defined in the Indenture) per $1,000 principal amount of the Convertible Notes, as determined following a request by a Convertible Note holder, for each day in such five consecutive trading day period was less than 98% of the product of the last reported sale price of our common stock and the applicable conversion rate, subject to certain procedures; (3) if specified corporate transactions or events occur; or (4) at any time on or after July 1, 2014, until the second scheduled trading day immediately preceding October 1, 2014. At March 31, 2012, none of the conditions permitting conversion were satisfied and, thus, the Convertible Notes are not currently convertible.

The Convertible Notes are general unsecured and unsubordinated obligations and rank equal in right of payment with all of our existing and future senior unsecured indebtedness, including our 6.75% senior notes due 2014, and senior in right of payment to all of our future subordinated indebtedness, if any. The Convertible Notes will be effectively subordinated to any of our secured indebtedness to the extent of the value of the assets securing such indebtedness.

The Convertible Notes are guaranteed, jointly and severally, on an unsecured unsubordinated basis by generally all of our active domestic subsidiaries. Each guarantee will rank equally in right of payment with such subsidiary guarantor s existing and future senior unsecured indebtedness and senior in right of payment to all future subordinated indebtedness, if any, of such subsidiary guarantor. The Convertible Notes will be effectively subordinated to any secured indebtedness and effectively subordinated to all indebtedness and other obligations of our subsidiaries that do not guarantee the Convertible Notes.

Upon a Fundamental Change (as defined in the Indenture), holders may require us to repurchase all or a portion of their Convertible Notes at a purchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus any accrued and unpaid interest, if any, thereon to (but excluding) the Fundamental Change Repurchase Date (as defined in the Indenture). The Convertible Notes are not redeemable at our option prior to maturity.

6.75% Senior Notes. In 2004, we completed our offering of $225 million in aggregate principal amount of senior notes bearing an interest rate of 6.75% (the Senior Notes). The Senior Notes, which mature on November 15, 2014, bear interest semi-annually in cash in arrears on May 15 and November 15 of each year. The Senior Notes are redeemable, in whole or in part, at any time on or after November 15, 2009 at a designated redemption amount, plus accrued and unpaid interest. The Senior Notes rank equally in right of payment with our other unsecured unsubordinated debt, but are effectively subordinated to all of our secured debt to the extent of the assets securing such debt. The Senior Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by generally all of our active domestic subsidiaries. In addition, the Senior Notes indenture contains certain covenants which, among other things, limit the incurrence of additional indebtedness (including additional indebtedness under the term loan portion of our $925 Million Credit Facility), investments, dividends, transactions with affiliates, asset sales, capital expenditures, mergers and consolidations, liens and encumbrances and other matters customarily restricted in such agreements. The Senior Notes are cross-defaulted to our other indebtedness.

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Off-Balance Sheet Arrangements

As described in Note 11 to our condensed consolidated financial statements included herein, we previously invested in two unconsolidated entities that owned hotels located in Hawaii. Our joint venture partner in each of these unconsolidated entities guaranteed, under certain circumstances, certain loans made to wholly-owned subsidiaries of each of these entities, and we agreed to contribute to these joint venture partners our pro rata share of any payments under such guarantees required to be made by such joint venture partners. In addition, we enter into commitments under letters of credit, primarily for the purpose of securing our deductible obligations with our workers compensation insurers, and lending banks under our credit facility had issued $8.0 million of letters of credit as of March 31, 2012. Except as set forth in this paragraph, we do not have any off-balance sheet arrangements.

Commitments and Contractual Obligations

The following table summarizes our significant contractual obligations as of March 31, 2012, including long-term debt and operating and capital lease commitments (amounts in thousands):

Contractual obligations	Total amounts committed	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt (1)	$ 1,097,180	$	$ 512,180	$ 585,000	$
Capital leases	2,212	763	1,243	206	
Construction commitments	51,940	51,940			
Operating leases (2)	642,884	6,258	10,518	9,214	616,894
Other	15,747	6,093	9,654		
Total contractual obligations	$ 1,809,963	$ 65,054	$ 533,595	$ 594,420	$ 616,894

(1) Long-term debt commitments do not include approximately $109.3 million in interest payments projected to be due in future years ($38.4 million less than one year, $66.1 million between one and three years, and $4.9 million between three and five years) based on the stated interest rates on our fixed-rate debt and the rates in effect at March 31, 2012 for our variable-rate debt. Variable rates, as well as outstanding principal balances, could change in future periods. See Principal Debt Agreements above for a discussion of our outstanding long-term debt. See Supplemental Cash Flow Information in Note 1 to to our Annual Report on Form 10-K for the year ended December 31, 2011 for a discussion of the interest we paid during 2011, 2010 and 2009.

(2) The total operating lease commitments of $642.9 million above includes the 75-year operating lease agreement we entered into during 1999 for 65.3 acres of land located in Osceola County, Florida where Gaylord Palms is located.

Due to the uncertainty with respect to the timing of future cash payments associated with our defined benefit pension plan, our non-qualified retirement plan, our non-qualified contributory deferred compensation plan and our defined benefit postretirement health care and life insurance plan, we cannot make reasonably certain estimates of the period of cash settlement. Therefore, these obligations have been excluded from the contractual obligations table above. See Note 10 and Note 11 to our Annual Report on Form 10-K for the year ended December 31, 2011 for further discussion related to these obligations.

Critical Accounting Policies and Estimates

We prepare our condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States. Certain of our accounting policies, including those related to revenue recognition, impairment of long-lived assets and goodwill, stock-based compensation, derivative financial instruments, income taxes, retirement and postretirement benefits other than pension plans, and legal contingencies, require that we apply significant judgment in defining the appropriate assumptions for calculating financial estimates. By their

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nature, these judgments are subject to an inherent degree of uncertainty. Our judgments are based on our historical experience, our observance of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate. There can be no assurance that actual results will not differ from our estimates. For a discussion of our critical accounting policies and estimates, please refer to Management s Discussion and Analysis of Financial Condition and Results of Operations and Notes to Consolidated Financial Statements presented in our Annual Report on Form 10-K for the year ended December 31, 2011. There were no newly identified critical accounting policies in the first three months of 2012 nor were there any material changes to the critical accounting policies and estimates discussed in our Annual Report on Form 10-K for the year ended December 31, 2011.

Recently Issued Accounting Standards

For a discussion of recently issued accounting standards, see Note 2 to our condensed consolidated financial statements for the three months ended March 31, 2012 and 2011 included herewith.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and commodity prices. Our primary exposures to market risk are from changes in interest rates and equity prices and changes in asset values of investments that fund our pension plan.

Risk Related to Changes in Interest Rates

Borrowings outstanding under our $925 Million Credit Facility currently bear interest at an annual rate of LIBOR plus 2.25%, subject to adjustment as defined in the credit agreement. If LIBOR were to increase by 100 basis points, our annual interest cost on the $585.0 million in borrowings outstanding under our $925 Million Credit Facility as of Mach 31, 2012 would increase by approximately $5.9 million.

Certain of our outstanding cash balances are occasionally invested overnight with high credit quality financial institutions. We do not have significant exposure to changing interest rates on invested cash at March 31, 2012. As a result, the interest rate market risk implicit in these investments at March 31, 2012, if any, is low.

Risk Related to Changes in Equity Prices

The $360 million aggregate principal amount of Convertible Notes we issued in September 2009 may be converted prior to maturity, at the holder s option, into shares of our common stock under certain circumstances as described above under Principal Debt Agreements and in our Annual Report on Form 10-K as of and for the year ended December 31, 2011. The initial conversion price is approximately $27.25 per share. Upon conversion, we may elect, at our option, to deliver shares of our common stock, cash or a combination of cash and shares of our common stock in satisfaction of our obligations to the converting note holders. The fair value of the Convertible Notes will generally increase as our share price increases and decrease as our share price declines.

Concurrently with the issuance of the Convertible Notes, we entered into convertible note hedge transactions intended to reduce the potential dilution upon conversion of the Convertible Notes in the event that the market value per share of our common stock, as measured under the Convertible Notes, at the time of exercise is greater than the conversion price of the Convertible Notes. In connection with the convertible note hedge transactions, we purchased call options to purchase approximately 13.2 million shares of our common stock, subject to anti-dilution adjustments, at a price per share equal to $27.25, the initial conversion price of the Convertible Notes, from counterparties affiliated with the initial purchasers of the Convertible Notes. Separately we sold warrants to the counterparties to the call options whereby they may purchase approximately 13.2 million shares of our common stock at a price of $32.70 per share. As a result of our purchasing the call options and issuing the warrants, the Convertible Notes will not have a dilutive impact on shares outstanding if the share price of our common stock is below $32.70. For every $1 increase in the share price of our common stock above $32.70, we will be required to deliver, upon the exercise of the warrants, the equivalent of $13.2 million in shares of our common stock (at the relevant share price).

Risk Related to Changes in Asset Values that Fund our Pension Plans

The expected rates of return on the assets that fund our defined benefit pension plan are based on the asset allocation of the plan and the long-term projected return on those assets, which represent a diversified mix of equity securities, fixed income securities and cash. As of March 31, 2012, the value of the investments in the pension fund was $67.2 million, and an immediate 10% decrease in the value of the investments in the fund would have reduced the value of the fund by approximately $6.7 million.

ITEM 4. CONTROLS AND PROCEDURES.

The Company maintains disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the Exchange Act), that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. The Company carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

There has been no change in our internal control over financial reporting that occurred during the period covered by this report that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The Company is a party to certain litigation, as described in Note 11 to our condensed consolidated financial statements included herein and which is incorporated herein by reference.

ITEM 1A. RISK FACTORS.

There have been no material changes in our Risk Factors as previously set forth in our Annual Report on Form 10-K for the year ended December 31, 2011.

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

The following table sets forth information with respect to purchases of shares of the Company s common stock made during the three months ended March 31, 2012 by or on behalf of the Company or any affiliated purchaser, as defined by Rule 10b-18 of the Exchange Act:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 January 31, 2012				
February 1 February 29, 2012 (1)	307	$ 29.56		
March 1 March 31, 2012				
Total	307	$ 29.56		

(1) Represents shares withheld from vested restricted stock to satisfy the minimum withholding requirement for federal and state taxes.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Inapplicable.

ITEM 4. MINE SAFETY DISCLOSURES.

Inapplicable.

ITEM 5. OTHER INFORMATION.

Inapplicable.

ITEM 6. EXHIBITS.

See Index to Exhibits following the Signatures page.

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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.

GAYLORD ENTERTAINMENT COMPANY

Date: May 9, 2012

By: /s/ Colin V. Reed
Colin V. Reed
Chairman of the Board of Directors

and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Mark Fioravanti
Mark Fioravanti
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

By: /s/ Rod Connor
Rod Connor
Senior Vice President and Chief Administrative Officer
(Principal Accounting Officer)

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INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
3.1	Restated Certificate of Incorporation of the Company, as amended (restated for SEC filing purposes only) (incorporated by reference to Exhibit 3.1 to the Company s Annual Report on Form 10-K for the year ended December 31, 2007).
3.2	Second Amended and Restated Bylaws of the Company, as amended (restated for SEC filing purposes only) (incorporated by reference to Exhibit 4.4 to the Company s Registration Statement on Form S-3 filed on May 7, 2009).
3.3	Certificate of Designations of Series A Junior Participating Preferred Stock of Gaylord Entertainment Company (incorporated by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K dated August 13, 2008).
10.1	Letter Agreement dated January 13, 2012 by and among Gaylord Entertainment Company, TRT Holdings, Inc. and Robert Rowling (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on January 17, 2012).
10.2	Form of Restricted Stock Unit Agreement with respect to performance-based restricted stock units granted pursuant to the Company s 2006 Omnibus Incentive Plan.
31.1	Certification of Colin V. Reed pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
31.2	Certification of Mark Fioravanti pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
32.1	Certification of Colin V. Reed and Mark Fioravanti pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
101	The following materials from Gaylord Entertainment Company s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Operations and Comprehensive Income for the three months ended March 31, 2012 and 2011, (ii) Condensed Consolidated Balance Sheets at March 31, 2012 and December 31, 2011, (iii) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and 2011, and (iv) Notes to Condensed Consolidated Financial Statements.*
*	Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.