GAYLORD ENTERTAINMENT CO /DE
Form 10-Q
May 06, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

or

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

Commission file number 1-13079

GAYLORD ENTERTAINMENT COMPANY

(Exact name of registrant as specified in its charter)

Delaware	73-0664379
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Gaylord Drive
Nashville, Tennessee 37214
(Address of principal executive offices)
(Zip Code)
(615) 316-6000
(Registrant s telephone number, including area code)

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

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

Large accelerated filer þ	Accelerated filer o	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 Rule 12b-2 of the Exchange Act). Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	**Outstanding as of April 30, 2011**

Common Stock, $.01 par value	48,360,210 shares

GAYLORD ENTERTAINMENT COMPANY
FORM 10-Q
For the Quarter Ended March 31, 2011
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Part I FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS.

GAYLORD ENTERTAINMENT COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Revenues	**$ 220,738**	$ 214,481
Operating expenses:		
Operating costs	**133,878**	130,555
Selling, general and administrative	**43,078**	41,902
Casualty loss	**(1)**	
Depreciation and amortization	**29,057**	27,071
Operating income	**14,726**	14,953
Interest expense, net of amounts capitalized	**(20,809)**	(20,115)
Interest income	**3,173**	3,222
Income (loss) from unconsolidated companies	**173**	(73)
Net gain on extinguishment of debt		1,199
Other gains and (losses), net	**(191)**	(13)
Loss before income taxes and discontinued operations	**(2,928)**	(827)
(Benefit) provision for income taxes	**(967)**	975
Loss from continuing operations	**(1,961)**	(1,802)
Income (loss) from discontinued operations, net of income taxes	**4**	(48)
Net loss	**$ (1,957)**	$ (1,850)
Basic loss per share:		
Loss from continuing operations	**$ (0.04)**	$ (0.04)
Income from discontinued operations, net of income taxes		
Net loss	**$ (0.04)**	$ (0.04)
Fully diluted loss per share:		

Loss from continuing operations	**$**	**(0.04)**	$	(0.04)
Income from discontinued operations, net of income taxes				
Net loss	**$**	**(0.04)**	$	(0.04)

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

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GAYLORD ENTERTAINMENT COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands)

	March 31, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents unrestricted	$ 86,968	$ 124,398
Cash and cash equivalents restricted	1,150	1,150
Trade receivables, less allowance of $806 and $882, respectively	63,927	31,793
Estimated fair value of derivative assets	11	22
Deferred income taxes	6,719	6,495
Other current assets	43,739	48,992
Total current assets	202,514	212,850
Property and equipment, net of accumulated depreciation	2,203,681	2,201,445
Notes receivable, net of current portion	142,457	142,651
Long-term deferred financing costs	11,240	12,521
Other long-term assets	50,077	51,065
Long-term assets of discontinued operations	416	401
Total assets	$ 2,610,385	$ 2,620,933
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	$ 58,805	$ 58,574
Accounts payable and accrued liabilities	158,226	175,343
Estimated fair value of derivative liabilities	7,235	12,475
Current liabilities of discontinued operations	342	357
Total current liabilities	224,608	246,749
Long-term debt and capital lease obligations, net of current portion	1,103,411	1,100,641
Deferred income taxes	104,630	101,140
Other long-term liabilities	140,502	142,200
Long-term liabilities of discontinued operations	451	451
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $.01 par value, 100,000 shares authorized, no shares issued or outstanding		
	484	481

Common stock, $.01 par value, 150,000 shares authorized, 48,357 and 48,144 shares issued and outstanding, respectively		
Additional paid-in capital	921,936	916,359
Treasury stock of 385 shares, at cost	(4,599)	(4,599)
Retained earnings	143,643	145,600
Accumulated other comprehensive loss	(24,681)	(28,089)
Total stockholders equity	1,036,783	1,029,752
Total liabilities and stockholders equity	$ 2,610,385	$ 2,620,933

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

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GAYLORD ENTERTAINMENT COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2011 and 2010
(Unaudited)
(In thousands)

	2011	2010
Cash Flows from Operating Activities:		
Net loss	$ (1,957)	$ (1,850)
Amounts to reconcile net loss to net cash flows (used in) provided by operating activities:		
(Income) loss from discontinued operations, net of taxes	(4)	48
(Income) loss from unconsolidated companies	(173)	73
Loss on disposals of long-lived assets	201	13
(Benefit) provision for deferred income taxes	(1,346)	1,458
Depreciation and amortization	29,057	27,071
Amortization of deferred financing costs	1,309	1,314
Amortization of discount on convertible notes	3,043	2,802
Stock-based compensation expense	2,323	1,668
Excess tax benefit from stock-based compensation		(134)
Net gain on extinguishment of debt		(1,199)
Changes in:		
Trade receivables	(32,134)	(9,321)
Interest receivable	5,089	4,866
Accounts payable and accrued liabilities	(11,478)	(322)
Other assets and liabilities	(1,882)	1,116
Net cash flows (used in) provided by operating activities continuing operations	(7,952)	27,603
Net cash flows (used in) provided by operating activities discontinued operations	(26)	71
Net cash flows (used in) provided by operating activities	(7,978)	27,674
Cash Flows from Investing Activities:		
Purchases of property and equipment	(37,497)	(7,733)
Collection of notes receivable	2,465	4,025
Other investing activities	1,570	245
Net cash flows used in investing activities continuing operations	(33,462)	(3,463)
Net cash flows used in investing activities discontinued operations		
Net cash flows used in investing activities	(33,462)	(3,463)
Cash Flows from Financing Activities:		
Repurchases of senior notes		(25,082)
Proceeds from exercise of stock option and purchase plans	4,052	381
Excess tax benefit from stock-based compensation		134
Other financing activities, net	(42)	(186)

Net cash flows provided by (used in) financing activities continuing operations	4,010	(24,753)
Net cash flows provided by financing activities discontinued operations		
Net cash flows provided by (used in) financing activities	4,010	(24,753)
Net change in cash and cash equivalents	(37,430)	(542)
Cash and cash equivalents unrestricted, beginning of period	124,398	180,029
Cash and cash equivalents unrestricted, end of period	$ 86,968	$ 179,487

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, 2010 filed with the SEC. 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 January 2010, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2010-06, Topic 820, *Fair Value Measurements and Disclosures*, to require more detailed disclosures regarding transfers in and out of Level 1 and Level 2 fair value measurements, including the amounts and reasons for the transfers. Level 3 fair value measurements should present separate information about purchases, sales, issuances and settlements. In addition, this ASU requires that a reporting entity should provide fair value measurement disclosures for each class of assets and liabilities, defined as a subset of assets or liabilities within a line item in the statement of financial position, as well as disclosures about the valuation techniques and inputs used to measure fair value in either Level 2 or Level 3. The Company adopted the remaining disclosure requirements of this ASU in the first quarter of 2011, and the adoption did not have a material impact on the Company s consolidated financial statements.

3. NASHVILLE FLOOD:

As more fully discussed in the Company s Annual Report on Form 10-K as of and for the year ended December 31, 2010 filed with the SEC, on May 3, 2010, Gaylord Opryland, the Grand Ole Opry, certain of the Company s Nashville-based attractions, and certain of the Company s corporate offices experienced significant flood damage as a result of the historic flooding of the Cumberland River (collectively, the Nashville Flood). Each of the affected properties reopened in 2010; however, the Company will continue to have various flood-related expenses during 2011 as it completes the remaining flood-related projects. These expenses have been segregated from normal operations and are reported as casualty loss in the accompanying condensed consolidated statements of operations.

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Casualty Loss

During the three months ended March 31, 2011, casualty loss in the accompanying condensed consolidated statement of operations was comprised of the following (in thousands):

	Three Months Ended March 31, 2011			
	Hospitality	Opry and Attractions	Corporate and Other	Total
Site remediation	$ (179)	$ 8	$ (41)	$ (212)
Non-capitalized repairs of buildings and equipment		2	13	15
Other	6	21	169	196
Net casualty loss	$ (173)	$ 31	$ 141	$ (1)

4. INCOME PER SHARE:

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

	Three Months Ended March 31,	
	2011	**2010**
Weighted average shares outstanding	**48,221**	47,011
Effect of dilutive stock options		
Weighted average shares outstanding assuming dilution	**48,221**	47,011

For the three months ended March 31, 2011 and 2010, the effect of dilutive stock-based compensation awards was the equivalent of approximately 839,000 and 434,000 shares, respectively, of common stock outstanding. Because the Company had a loss from continuing operations in the three months ended March 31, 2011 and 2010, these incremental shares were excluded from the computation of dilutive earnings per share for those periods as the effect of their inclusion would have been anti-dilutive.

The Company had stock-based compensation awards outstanding with respect to approximately 884,000 and 3,047,000 shares of common stock as of March 31, 2011 and 2010, 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, 2011 and 2010, respectively, as the effect of their inclusion would have been anti-dilutive.

As discussed in Note 8, and more fully in the Company s Annual Report on Form 10-K as of and for the year ended December 31, 2010, 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 dilutive earnings per share for that period as the effect of their inclusion would have been anti-dilutive. The Convertible Notes are currently convertible through June 30, 2011; however, at this time, the Company has received no notices of note holders electing to convert their Convertible Notes.

In connection with the issuance of these notes, the Company sold common stock purchase warrants to counterparties affiliated with the initial purchasers of the Convertible Notes. The initial strike price of these warrants is $32.70 per share of the Company s common stock and the warrants cover an aggregate of approximately 13.2 million shares of the Company s common stock, 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, 2011 was the equivalent of approximately 1,052,000 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 dilutive earnings per share for that period as the effect of their inclusion would have been anti-dilutive.

5. COMPREHENSIVE INCOME (LOSS):

Comprehensive income (loss) is as follows for the respective periods (in thousands):

	Three Months Ended March 31,	
	2011	**2010**
Net loss	**$(1,957)**	$(1,850)
Unrealized gain (loss) on natural gas swaps, net of deferred taxes of $22 and $(105)	**40**	(166)
Unrealized gain on interest rate swaps, net of deferred taxes of $1,836 and $452	**3,331**	812
Other	**38**	(12)
Comprehensive income (loss)	**$ 1,452**	$(1,216)

A rollforward of the amounts included in accumulated other comprehensive loss related to the fair value of financial derivative instruments that qualify for hedge accounting, net of taxes, for the three months ended March 31, 2011 is as follows (in thousands):

	Interest Rate Derivatives	Natural Gas Derivatives	Total Derivatives
Balance at December 31, 2010	$ (7,860)	$ (145)	$ (8,005)
2011 changes in fair value, net of deferred taxes	**3,331**	**40**	**3,371**
Reclassification to earnings			
Balance at March 31, 2011	**$ (4,529)**	**$ (105)**	**$ (4,634)**

6. PROPERTY AND EQUIPMENT:

Property and equipment of continuing operations at March 31, 2011 and December 31, 2010 is recorded at cost and summarized as follows (in thousands):

	March 31, 2011	**December 31, 2010**
Land and land improvements	**$ 215,121**	$ 214,989
Buildings	**2,247,512**	2,241,813
Furniture, fixtures and equipment	**497,229**	482,011
Construction in progress	**59,174**	51,843
	3,019,036	2,990,656

Accumulated depreciation	**(815,355)**	(789,211)
Property and equipment, net	**$ 2,203,681**	$ 2,201,445

7. 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 the development of the Gaylord National. The Company is recording the amortization of discount on these notes receivable as interest income over the life of the notes.

During the three months ended March 31, 2011 and 2010, the Company recorded interest income of $3.2 million on these bonds, which each included $3.1 million of interest that accrued on the bonds and $0.1 million related to amortization of the discount on the bonds. The Company received payments of $10.7 million and $11.8 million during the three months ended March 31, 2011 and 2010, respectively, relating to these notes receivable.

8. DEBT:

The Company s debt and capital lease obligations related to continuing operations at March 31, 2011 and December 31, 2010 consisted of (in thousands):

	March 31, 2011	**December 31, 2010**
$1.0 Billion Credit Facility, interest at 3-month LIBOR plus 2.50% or bank s base rate plus 0.50%, maturing July 25, 2012	**$ 700,000**	$ 700,000
Convertible Senior Notes, interest at 3.75%, maturing October 1, 2014, net of unamortized discount of $50,406 and $53,449	**309,594**	306,551
Senior Notes, interest at 6.75%, maturing November 15, 2014	**152,180**	152,180
Capital lease obligations	**442**	484
Total debt	**1,162,216**	1,159,215
Less amounts due within one year	**(58,805)**	(58,574)
Total long-term debt	**$ 1,103,411**	$ 1,100,641

As of March 31, 2011, the Company was in compliance with all of its covenants related to its debt.

Convertible Senior Notes

In 2009, the Company issued $360 million of the Convertible Notes. The Convertible Notes are convertible, under certain circumstances as described in the Company s Annual Report on Form 10-K as of and for the year ended December 31, 2010 filed with the SEC, at the holder s option, into shares of the Company s 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. The Company may elect, at its option, to deliver shares of its common stock, cash or a combination of cash and shares of its common stock in satisfaction of its obligations upon conversion of the Convertible Notes.

Based on the Company s stock price during the three months ended March 31, 2011, one of the conditions permitting conversion (as defined in the indenture governing the Convertible Notes) had been satisfied, and thus the Convertible Notes are currently convertible through June 30, 2011. At this time, the Company has received no notices of note holders electing to convert their Convertible Notes. Based on the Company s borrowing capacity under its $1.0 billion credit facility as of March 31, 2011, $251.0 million of the Convertible Notes has been classified as long-term debt in the accompanying condensed consolidated balance sheet as of March 31, 2011. Based on the Company s March 31, 2011 closing stock price of $34.68, the if-converted value of the Convertible Notes exceeds the face amount by $98.2 million; however, after giving effect to the exercise of the call options and warrants discussed below, the incremental cash or share settlement in excess of the face amount would result in either a cash payment of $26.2 million or a 0.8 million net share issuance by the Company, or a combination of cash and stock, at the Company s option.

Concurrently with the offering of the Convertible Notes, the Company entered into convertible note hedge transactions with respect to its common stock (the Purchased Options) with counterparties affiliated with the initial purchasers of the Convertible Notes, for purposes of reducing the potential dilutive effect upon conversion of the Convertible Notes. The initial strike price of the Purchased Options is $27.25 per share of the Company s common stock (the same as the initial conversion price of the Convertible Notes) and is subject to certain customary adjustments. The Purchased Options entitle the Company to purchase, subject to anti-dilution adjustments substantially similar to the Convertible Notes, approximately 13.2 million shares of common stock. The Company may settle the Purchased Options in shares, cash or a combination of cash and shares, at the Company s option.

Separately and concurrently with entering into the Purchased Options, the Company also entered into warrant transactions whereby it sold warrants to each of the hedge counterparties entitling them to acquire, subject to anti-dilution adjustments, up to approximately 13.2 million shares of common stock at an initial exercise price of $32.70 per share. The warrants may only be settled in shares of the Company s common stock.

9. 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. Interest rate swaps are entered into to manage interest rate risk associated with portions of the Company s variable rate borrowings. Natural gas price swaps are 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.

The interest rate swap agreement currently utilized by the Company effectively modifies 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 involves 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 match the critical terms of the borrowings under the term loan portion of the $1.0 billion credit facility. Therefore, the Company has designated these interest rate swap agreements as cash flow hedges. As the terms of these derivatives match the terms of the underlying hedged items, there should be no gain (loss) from ineffectiveness recognized in income on derivatives unless there is a termination of the derivative or the forecasted transaction is determined to be unlikely to occur.

The Company has 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 is to reduce the variability of cash flows associated with the forecasted purchases of these commodities. At March 31, 2011, the Company had 27 variable to fixed natural gas price swap contracts that mature from April 2011 to December 2011 with an aggregate notional amount of approximately 751,565 dekatherms. The Company has designated these natural gas price swap contracts as cash flow hedges. The Company assesses the correlation of the terms of these derivatives with the terms of the underlying hedged items on a quarterly basis.

The fair value of the Company s derivative instruments based upon quotes, with