GAYLORD ENTERTAINMENT CO /DE
Form 10-Q
November 07, 2008

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

(Mark One)

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

For the quarterly period ended September 30, 2008

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 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. (Check one):

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 November 1, 2008
Common Stock, $.01 par value	40,906,810 shares

GAYLORD ENTERTAINMENT COMPANY
FORM 10-Q
For the Quarter Ended September 30, 2008
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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 September 30,		**Nine Months Ended September 30,**	
	2008	**2007**	**2008**	**2007**
Revenues	**$ 226,733**	$ 166,920	**$ 680,237**	$ 538,659
Operating expenses:				
Operating costs	**147,388**	105,581	**409,919**	322,905
Selling, general and administrative	**42,563**	35,819	**130,219**	115,310
Preopening costs	**369**	3,926	**19,190**	10,101
Impairment and other charges			**12,031**	
Depreciation and amortization	**29,619**	19,024	**79,828**	57,787
Operating income	**6,794**	2,570	**29,050**	32,556
Interest expense, net of amounts capitalized	**(21,918)**	(3,125)	**(44,045)**	(35,513)
Interest income	**4,486**	620	**8,583**	2,767
Unrealized gain on Viacom stock and CBS stock				6,358
Unrealized loss on derivatives				3,121
(Loss) income from unconsolidated companies	**(75)**	(2)	**(293)**	1,011
Other gains and (losses), net	**904**	622	**954**	146,697
(Loss) income before (benefit) provision for income taxes	**(9,809)**	685	**(5,751)**	156,997
(Benefit) provision for income taxes	**(3,303)**	(1,511)	**(945)**	60,528
(Loss) income from continuing operations	**(6,506)**	2,196	**(4,806)**	96,469
Income (loss) from discontinued operations, net of income taxes	**986**	(4,349)	**767**	11,684
Net (loss) income	**$ (5,520)**	$ (2,153)	**$ (4,039)**	$ 108,153
Basic (loss) income per share:				
(Loss) income from continuing operations	**$ (0.16)**	$ 0.05	**$ (0.12)**	$ 2.36
Income (loss) from discontinued operations, net of income taxes	**0.02**	(0.10)	**0.02**	0.28

Net (loss) income	**$**	**(0.14)**	$	(0.05)	**$**	**(0.10)**	$	2.64
Fully diluted (loss) income per share:								
(Loss) income from continuing operations	**$**	**(0.16)**	$	0.05	**$**	**(0.12)**	$	2.28
Income (loss) from discontinued operations, net of income taxes		**0.02**		(0.10)		**0.02**		0.28
Net (loss) income	**$**	**(0.14)**	$	(0.05)	**$**	**(0.10)**	$	2.56

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)

	September 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents unrestricted	**$ 47,041**	$ 23,592
Cash and cash equivalents restricted	**1,179**	1,216
Trade receivables, less allowance of $1,661 and $468, respectively	**60,615**	31,371
Deferred income taxes	**7,689**	7,689
Other current assets	**59,015**	30,180
Current assets of discontinued operations		797
Total current assets	**175,539**	94,845
Property and equipment, net of accumulated depreciation	**2,258,952**	2,196,264
Notes receivable	**143,057**	
Intangible assets, net of accumulated amortization	**135**	174
Goodwill	**6,915**	6,915
Indefinite lived intangible assets	**1,480**	1,480
Investments	**3,880**	4,143
Estimated fair value of derivative assets	**1,503**	2,043
Long-term deferred financing costs	**20,694**	14,621
Other long-term assets	**36,159**	16,382
Total assets	**$ 2,648,314**	$ 2,336,867
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	**$ 2,006**	$ 2,058
Accounts payable and accrued liabilities	**259,091**	240,827
Estimated fair value of derivative liabilities	**1,323**	
Current liabilities of discontinued operations	**1,538**	2,760
Total current liabilities	**263,958**	245,645
Long-term debt and capital lease obligations, net of current portion	**1,280,779**	979,042
Deferred income taxes	**77,821**	73,662
Estimated fair value of derivative liabilities	**4,808**	
Other long-term liabilities	**98,708**	96,484
Long-term liabilities of discontinued operations	**451**	542
Commitments and contingencies		

Stockholders equity:		
Preferred stock, $.01 par value, 100,000 shares authorized, no shares issued or outstanding		
Common stock, $.01 par value, 150,000 shares authorized, 40,900 and 41,236 shares issued and outstanding, respectively	**409**	413
Additional paid-in capital	**709,334**	721,196
Retained earnings	**226,719**	230,758
Accumulated other comprehensive loss	**(14,673)**	(10,875)
Total stockholders equity	**921,789**	941,492
Total liabilities and stockholders equity	**$ 2,648,314**	$ 2,336,867

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 Nine Months Ended September 30, 2008 and 2007
(Unaudited)
(In thousands)

	2008	2007
Cash Flows from Operating Activities:		
Net (loss) income	**$ (4,039)**	$ 108,153
Amounts to reconcile net (loss) income to net cash flows provided by operating activities:		
Income from discontinued operations, net of taxes	**(767)**	(11,684)
Loss (income) from unconsolidated companies	**293**	(1,011)
Impairment and other charges	**12,031**	
Unrealized gain on Viacom stock and CBS stock and related derivatives, net		(9,479)
Provision (benefit) for deferred income taxes	**5,049**	(47,587)
Depreciation and amortization	**79,828**	57,787
Amortization of deferred financing costs	**3,204**	13,260
Write-off of deferred financing costs	**1,476**	1,192
Stock-based compensation expense	**8,990**	7,635
Excess tax benefit from stock-based compensation	**(842)**	(1,974)
Gain on sale of investment in Bass Pro		(140,313)
Loss (gain) on sales of assets	**276**	(4,281)
Changes in (net of acquisitions and divestitures):		
Trade receivables	**(29,244)**	(12,117)
Accounts payable and accrued liabilities	**47,909**	10,336
Income taxes payable	**(810)**	23,655
Other assets and liabilities	**(24,865)**	(8,505)
Net cash flows provided by (used in) operating activities continuing operations	**98,489**	(14,933)
Net cash flows (used in) provided by operating activities discontinued operations	**(482)**	17,250
Net cash flows provided by operating activities	**98,007**	2,317
Cash Flows from Investing Activities:		
Purchases of property and equipment	**(331,371)**	(454,501)
Investment in unconsolidated companies	**(30)**	(191)
Proceeds from sale of investment in Bass Pro		221,527
Proceeds from sales of assets	**36**	5,071
Other investing activities	**(16,692)**	(1,311)
Net cash flows used in investing activities continuing operations	**(348,057)**	(229,405)
Net cash flows provided by investing activities discontinued operations	**756**	115,240
Net cash flows used in investing activities	**(347,301)**	(114,165)
Cash Flows from Financing Activities:		

Net borrowings under credit facility	**302,000**	125,000
Purchases of Company s common stock	**(19,999)**	
Deferred financing costs paid	**(10,753)**	(3,883)
Decrease in restricted cash and cash equivalents	**37**	116
Proceeds from exercise of stock option and purchase plans	**1,632**	12,047
Excess tax benefit from stock-based compensation	**842**	1,974
Other financing activities, net	**(1,016)**	(762)
Net cash flows provided by financing activities continuing operations	**272,743**	134,492
Net cash flows used in financing activities discontinued operations		(19,365)
Net cash flows provided by financing activities	**272,743**	115,127
Net change in cash and cash equivalents	**23,449**	3,279
Cash and cash equivalents unrestricted, beginning of period	**23,592**	35,356
Cash and cash equivalents unrestricted, end of period	**$ 47,041**	$ 38,635

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

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, 2007 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.

2. NEWLY ISSUED ACCOUNTING STANDARDS:

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The Company adopted the provisions of SFAS 157 during the first quarter of 2008. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157,* which provides a one year deferral of the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Therefore, the Company has adopted the provisions of SFAS 157 with respect to its financial assets and liabilities only. The adoption of this statement did not have a material impact on the Company s consolidated results of operations and financial condition. See Note 16 for additional disclosures.

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No 87, 88, 106, and 132(R)* (SFAS 158). SFAS 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, postretirement benefit plans) to recognize the funded status of their postretirement benefit plans in the statement of financial position, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end statement of financial position, and provide additional disclosures. On December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS 158. The effect of adopting SFAS 158 on the Company s financial condition at December 31, 2006 has been included in the accompanying consolidated financial statements. SFAS 158 s provisions regarding the change in the measurement date of postretirement benefit plans is effective for fiscal years ending after December 15, 2008. The Company will adopt the measurement date provision in the fiscal year ending December 31, 2008. The Company does not expect the adoption of SFAS 158 to have a material impact on its consolidated financial position and results of operations.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (SFAS 160). This statement establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, SFAS 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It

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also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. This statement is effective prospectively, except for certain retrospective disclosure requirements, for fiscal years beginning after December 15, 2008. The Company will adopt the provisions of this statement in the first quarter of 2009. The Company is assessing the potential impact of this statement on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)). SFAS 141(R) replaces SFAS No. 141, *Business Combinations* (SFAS 141), and applies to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141(R) requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. SFAS 141(R) requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under SFAS 141. Under SFAS 141(R), the requirements of SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, no amounts should be recognized in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria of SFAS No. 5, *Accounting for Contingencies*. This statement is effective prospectively, except for certain retrospective adjustments to deferred tax balances, for fiscal years beginning after December 15, 2008. The Company will adopt the provisions of this statement in the first quarter of 2009. The Company is assessing the potential impact of this statement on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years beginning after November 15, 2008. The Company will adopt the provisions of this statement in the first quarter of 2009. The Company is currently assessing the impact that the adoption of SFAS 161 may have on the financial statements.

3. INCOME PER SHARE:

The weighted average number of common shares outstanding is calculated as follows:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(in thousands)	**2008**	**2007**	**2008**	**2007**
Weighted average shares outstanding	**40,833**	41,086	**40,963**	40,951
Effect of dilutive stock options		1,300		1,332
Weighted average shares outstanding assuming dilution	**40,833**	42,386	**40,963**	42,283

For the three months and nine months ended September 30, 2008, the effect of dilutive stock options was the equivalent of approximately 443,000 and 473,000 shares, respectively, of common stock outstanding. Because the Company had a loss from continuing operations in the three months and nine months ended September 30, 2008, 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.

In addition, the Company has excluded approximately 2,350,000 and 2,274,000 shares from the computation of diluted earnings per share for the three months and nine months ended September 30, 2008, respectively, and approximately 463,000 and 426,000 shares for the three months and nine months ended September 30, 2007, respectively, as the effect of their inclusion would be anti-dilutive.

4. COMPREHENSIVE (LOSS) INCOME:

Comprehensive (loss) income is as follows for the three months and nine months of the respective periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2008**	**2007**	**2008**	**2007**
Net (loss) income	**$ (5,520)**	$ (2,153)	**$ (4,039)**	$ 108,153
Minimum pension liability, net of deferred income taxes				(95)
Unrealized (loss) gain on natural gas swaps, net of deferred income taxes	**(1,051)**	(1)	**(771)**	174
Unrealized loss on interest rate swaps, net of deferred income taxes	**(4,580)**		**(3,027)**	
Comprehensive (loss) income	**$ (11,151)**	$ (2,154)	**$ (7,837)**	$ 108,232

5. PROPERTY AND EQUIPMENT:

Property and equipment of continuing operations at September 30, 2008 and December 31, 2007 is recorded at cost and summarized as follows:

(in thousands)	**September 30, 2008**	December 31, 2007
Land and land improvements	**$ 197,564**	$ 167,745
Buildings	**2,199,064**	1,284,432
Furniture, fixtures and equipment	**513,099**	408,379
Construction in progress	**38,410**	949,776
	2,948,137	2,810,332
Accumulated depreciation	**(689,185)**	(614,068)
Property and equipment, net	**$ 2,258,952**	$ 2,196,264

Depreciation expense, including amortization of assets under capital lease obligations, of continuing operations was $28.1 million and $18.1 million for the three months ended September 30, 2008 and 2007, respectively, and was $76.0 million and $55.0 million for the nine months ended September 30, 2008 and 2007, respectively.

6. NOTES RECEIVABLE:

In connection with the development of Gaylord National, Prince George s County, Maryland issued three series of bonds. The first bond issuance, with a face value of $65 million, was issued by Prince George s County, Maryland (the County) in April 2005 to support the cost of infrastructure being constructed by the project developer, such as roads, water and sewer lines. The second bond issuance, with a face value of $95 million (Series A Bond), was issued by the County in April 2005 and placed into escrow until substantial completion of the convention center and 1,500 rooms within the hotel. The Series A Bond and the third bond issuance, with a face value of $50 million (Series B Bond), were delivered to the Company upon substantial completion and opening of the Gaylord National on April 2, 2008. The Company is currently holding the Series A Bond and Series B Bond and receiving the debt service thereon, which is payable from tax increments, hotel taxes and special hotel rental taxes generated from the development.

Accordingly, during the second quarter of 2008, the Company calculated the present value of the

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future debt service payments from the Series A Bond and Series B Bond based on prevailing market interest rates at the time the bonds were delivered to the Company and recorded a note receivable and offset to property and equipment in the amounts of $93.8 million and $38.3 million, respectively, in the accompanying condensed consolidated balance sheet. The Company also calculated the present value of the interest that had accrued on the Series A Bond between its date of issuance and delivery to the Company based on prevailing market interest rates at the time the bond was delivered to the Company and recorded a note receivable and offset to property and equipment in the amount of $18.3 million in the accompanying condensed consolidated balance sheet. 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 and nine months ended September 30, 2008, the Company recorded interest income of $4.1 million and $7.5 million, respectively, on these bonds, which included $3.2 million and $6.2 million, respectively, of interest that accrued on the bonds subsequent to their delivery to the Company and $0.9 million and $1.3 million, respectively, related to amortization of the discount on the bonds.

7. IMPAIRMENT AND OTHER CHARGES:

The Company entered into an Agreement of Purchase and Sale dated as of November 19, 2007 (the Purchase Agreement) with LCWW Partners, a Texas joint venture, and La Cantera Development Company, a Delaware corporation (collectively, Sellers), to acquire the assets related to the Westin La Cantera Resort, located in San Antonio, Texas (the La Cantera Resort). The Purchase Agreement also provided for the Company s purchase of approximately 90 acres of undeveloped land adjacent to the resort property.

On January 21, 2008, the Company entered into an amendment (the Amendment) with Sellers to the Purchase Agreement. The Amendment extended the closing date under the Purchase Agreement to April 30, 2008 (prior to the Amendment, the closing date was scheduled to occur no later than January 31, 2008). The Amendment also provided that the $10.0 million deposit (the Deposit) previously paid by the Company to an escrow agent under the Purchase Agreement, which was recorded in property and equipment in the accompanying consolidated balance sheet as of December 31, 2007, would be released to Sellers, and that the Deposit would be non-refundable to the Company except in connection with the voluntary and intentional default by Sellers in their obligations to be performed on the closing date.

The Amendment conditioned the closing of the transactions under the Purchase Agreement on the Company arranging financing satisfactory to the Company in its sole discretion in order to fund the transaction. On April 15, 2008, as permitted by the Amendment, the Company terminated the Purchase Agreement on the basis that the Company did not obtain satisfactory financing. Pursuant to the terms of the Purchase Agreement and the Amendment, the Company forfeited the $10.0 million deposit previously paid to Sellers. As a result, the Company recorded an impairment charge of $12.0 million during the nine months ended September 30, 2008 to write off the deposit, as well as certain transaction-related expenses that were also capitalized in connection with the potential acquisition.

8. DISCONTINUED OPERATIONS:

The Company has reflected the following business as discontinued operations, consistent with the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144) and Accounting Principles Board (APB) Opinion No. 30, *Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, and Unusual and Infrequently Occurring Events and Transactions* (APB 30). The results of operations, net of taxes, and the carrying value of the assets and liabilities of these businesses have been reflected in the accompanying condensed consolidated financial statements as discontinued operations in accordance with SFAS 144 for all periods presented.

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ResortQuest

During the second quarter of 2007, the Company committed to a plan of disposal of its ResortQuest business. On May 31, 2007, the Company completed the sale of its ResortQuest Hawaii operations through the transfer of all of its equity interests in its ResortQuest Hawaii subsidiaries (ResortQuest Hawaii) to Vacation Holdings Hawaii, Inc., an affiliated company of Interval International, for $109.1 million in cash, prior to giving effect to a purchase price adjustment based on the working capital of ResortQuest Hawaii as of the closing. The Company retained its 19.9% ownership interest in RHAC Holdings, LLC and its 18.1% ownership interest in Waipouli Holdings LLC, which ownership interests were excluded from this transaction. The Company recognized a pretax gain of $50.0 million related to the sale of ResortQuest Hawaii during 2007.

On June 1, 2007, the Company completed the sale of the remainder of the operations of its ResortQuest subsidiary through the transfer of all of its capital stock in its ResortQuest Mainland subsidiary (ResortQuest Mainland) to BEI-RZT Corporation, a subsidiary of Leucadia National Corporation, for $35.0 million, prior to giving effect to certain purchase price adjustments, including a purchase price adjustment based on the working capital of ResortQuest Mainland as of the closing. The Company recognized a pretax loss of $59.5 million related to the sale of ResortQuest Mainland in 2007.

The following table reflects the results of operations of businesses accounted for as discontinued operations for the three months and nine months ended September 30, 2008 and 2007:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(in thousands)	**2008**	**2007**	**2008**	**2007**
Revenues:				
ResortQuest	**$**	$	**$**	$ 91,228

Operating income (loss):