GAYLORD ENTERTAINMENT CO /DE
Form 10-Q
May 09, 2006

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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 March 31, 2006

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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one):

Large Accelerated Filer þ Accelerated Filer o Non-accelerated Filer 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, 2006
Common Stock, $.01 par value	40,624,881 shares

GAYLORD ENTERTAINMENT COMPANY
FORM 10-Q
For the Quarter Ended March 31, 2006
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Part I FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS.

GAYLORD ENTERTAINMENT COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three Months Ended March 31, 2006 and 2005
(Unaudited)
(In thousands, except per share data)

	2006	2005
Revenues	$ 242,155	$ 214,013
Operating expenses:		
Operating costs	152,227	136,106
Selling, general and administrative	45,866	45,140
Preopening costs	1,062	943
Depreciation	18,617	18,208
Amortization	2,685	2,729
Operating income	21,698	10,887
Interest expense, net of amounts capitalized	(17,830)	(18,091)
Interest income	707	579
Unrealized loss on Viacom stock and CBS stock	(13,235)	(17,163)
Unrealized gain on derivatives	15,392	5,637
Income from unconsolidated companies	2,756	1,472
Other gains and (losses), net	6,090	2,450
Income (loss) before provision (benefit) for income taxes	15,578	(14,229)
Provision (benefit) for income taxes	4,208	(5,183)
Income (loss) from continuing operations	11,370	(9,046)
Gain from discontinued operations, net of income taxes	1,789	189
Net income (loss)	$ 13,159	$ (8,857)
Basic income (loss) per share:		
Income (loss) from continuing operations	$ 0.28	$ (0.23)
Gain from discontinued operations, net of income taxes	0.05	0.01
Net income (loss)	$ 0.33	$ (0.22)

Fully diluted income (loss) per share:		
Income (loss) from continuing operations	$ 0.27	$ (0.23)
Gain from discontinued operations, net of income taxes	0.05	0.01
Net income (loss)	$ 0.32	$ (0.22)

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
March 31, 2006 and December 31, 2005
(Unaudited)
(In thousands)

	March 31, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents unrestricted	$ 36,975	$ 59,797
Cash and cash equivalents restricted	30,414	23,651
Short term investments		
Trade receivables, less allowance of $1,272 and $2,471, respectively	61,115	37,168
Deferred financing costs	26,865	26,865
Deferred income taxes	8,562	8,861
Other current assets	35,070	29,298
Current assets of discontinued operations	1,239	2,649
Total current assets	200,240	188,289
Property and equipment, net of accumulated depreciation	1,438,827	1,404,419
Intangible assets, net of accumulated amortization	26,520	27,828
Goodwill	174,442	178,088
Indefinite lived intangible assets	40,315	40,315
Investments	419,117	429,295
Estimated fair value of derivative assets	236,464	220,430
Long-term deferred financing costs	21,751	29,144
Other long-term assets	16,586	14,136
Long-term assets of discontinued operations	436	646
Total assets	$ 2,574,698	$ 2,532,590
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	$ 1,819	$ 1,825
Accounts payable and accrued liabilities	203,455	190,692
Current liabilities of discontinued operations	1,551	3,650
Total current liabilities	206,825	196,167
Secured forward exchange contract	613,054	613,054
Long-term debt and capital lease obligations, net of current portion	605,358	598,475
Deferred income taxes	179,749	177,652
Estimated fair value of derivative liabilities	4,500	1,994

Other long-term liabilities	91,975	96,564
Long-term liabilities of discontinued operations	108	117
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, 40,605 and 40,307 shares issued and outstanding, respectively	406	403
Additional paid-in capital	680,555	670,828
Retained earnings	211,479	198,320
Unearned compensation		(1,673)
Accumulated other comprehensive loss	(19,311)	(19,311)
Total stockholders equity	873,129	848,567
Total liabilities and stockholders equity	$ 2,574,698	$ 2,532,590

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, 2006 and 2005
(Unaudited)
(In thousands)

	2006	2005
Cash Flows from Operating Activities:		
Net income (loss)	$ 13,159	$ (8,857)
Amounts to reconcile net income (loss) to net cash flows provided by operating activities:		
Gain from discontinued operations, net of taxes	(1,789)	(189)
Income from unconsolidated companies	(2,756)	(1,472)
Unrealized (gain) loss on Viacom stock and CBS stock and related derivatives	(2,157)	11,526
Provision (benefit) for deferred income taxes	4,208	(5,152)
Depreciation and amortization	21,302	20,937
Amortization of deferred financing costs	7,393	7,163
Stock-based compensation expense	1,667	1,009
Excess tax benefit from stock-based compensation	(1,890)	
Loss (gain) on sales of assets	128	(1,607)
Dividends received from investment in RHAC Holdings, LLC	172	
Changes in (net of acquisitions and divestitures):		
Trade receivables	(23,947)	(20,474)
Accounts payable and accrued liabilities	11,732	18,270
Other assets and liabilities	(3,175)	669
Net cash flows provided by operating activities continuing operations	24,047	21,823
Net cash flows (used in) provided by operating activities discontinued operations	(1,534)	532
Net cash flows provided by operating activities	22,513	22,355
Cash Flows from Investing Activities:		
Purchases of property and equipment	(53,517)	(33,864)
Acquisition of businesses, net of cash acquired		(20,852)
Investment in RHAC Holdings, LLC	(473)	
Proceeds from sales of assets	310	2,938
Purchases of short-term investments		(10,000)
Proceeds from sale of short term investments		20,000
Other investing activities	(4,039)	(987)
Net cash flows used in investing activities continuing operations	(57,719)	(42,765)
Net cash flows used in investing activities discontinued operations	(816)	(105)
Net cash flows used in investing activities	(58,535)	(42,870)
Cash Flows from Financing Activities:		
Borrowings under credit facility	10,000	

Deferred financing costs paid		(8,282)
(Increase) decrease in restricted cash and cash equivalents	(6,763)	5,213
Proceeds from exercise of stock option and purchase plans	7,231	4,716
Excess tax benefit from stock-based compensation	1,890	
Other financing activities, net	(458)	(366)
Net cash flows provided by financing activities continuing operations	11,900	1,281
Net cash flows provided by (used in) financing activities discontinued operations	1,300	(431)
Net cash flows provided by financing activities	13,200	850
Net change in cash and cash equivalents	(22,822)	(19,665)
Cash and cash equivalents unrestricted, beginning of period	59,797	43,498
Cash and cash equivalents unrestricted, end of period	$ 36,975	$ 23,833

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 subsidiaries (the Company) and have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. 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 for the year ended December 31, 2005 filed with the Securities and Exchange Commission. In the opinion of management, all adjustments necessary for a fair statement of the results of operations for the interim period 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.
Certain amounts in the prior period financial statements have been reclassified to conform to the 2006 financial statement presentation.

2. INCOME (LOSS) PER SHARE:

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

(in thousands)	Three Months Ended March 31,	
	2006	**2005**
Weighted average shares outstanding	40,311	39,983
Effect of dilutive stock options	1,084	
Weighted average shares outstanding assuming dilution	41,395	39,983

For the three months ended March 31, 2005, the effect of dilutive stock options was the equivalent of approximately 1,050,000 shares of common stock outstanding, respectively. Because the Company had a loss from continuing operations in the three months ended March 31, 2005, 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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3. COMPREHENSIVE INCOME (LOSS):

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

(in thousands)	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Net income (loss)	$ 13,159	$ (8,857)
Unrealized gain on interest rate hedges		37
Foreign currency translation		(29)
Comprehensive income (loss)	$ 13,159	$ (8,849)

4. DISCONTINUED OPERATIONS:

The Company has reflected the following businesses 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* 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*. 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 No. 144 for all periods presented.

ResortQuest Discontinued Markets

During the third quarter of 2005, the Company committed to a plan of disposal of certain markets of its ResortQuest business that were considered to be inconsistent with the Company s long term growth strategy. In connection with this plan of disposal, the Company recorded pre-tax restructuring charges of $0.1 million during the three months ended March 31, 2006 for employee severance benefits related to the discontinued markets.

The Company completed the sale of four of these markets in the fourth quarter of 2005 and two more of these markets in the first quarter of 2006. In exchange for the assets associated with the two markets sold in the first quarter of 2006, the buyers of these markets assumed $0.9 million in liabilities associated with the markets and the Company paid the buyers $0.7 million in cash. The Company recognized a pretax loss of $0.3 million during the first quarter of 2006 related to these two sales, which is recorded in income from discontinued operations in the condensed consolidated statement of operations. The Company completed the sale of the remaining two markets in the second quarter of 2006.

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The following table reflects the results of operations of businesses accounted for as discontinued operations for the three months ended March 31, 2006 and 2005:

(in thousands)	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Revenues:		
ResortQuest Discontinued Markets	$ 1,347	$ 5,297
Operating (loss) income:		
ResortQuest Discontinued Markets	$ (240)	$ 292
Restructuring charges	(69)	
Total operating (loss) income	(309)	292
Interest income	5	6
Other gains and (losses):		
ResortQuest Discontinued Markets	(222)	
International Cable Networks	(19)	
(Loss) income before (benefit) provision for income taxes	(545)	298
(Benefit) provision for income taxes	(2,334)	109
Gain from discontinued operations	$ 1,789	$ 189

Included in other gains and (losses) in the three months ended March 31, 2006 is a pre-tax loss of $0.3 million on the sale of certain ResortQuest Discontinued Markets. The remaining gains and (losses) in the three months ended March 31, 2006 are primarily comprised of gains and losses on the sale of fixed assets and other assets. The benefit for income taxes for the three months ended March 31, 2006 primarily results from the Company settling certain issues with the Internal Revenue Service related to periods prior to the acquisition of ResortQuest.

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The assets and liabilities of the discontinued operations presented in the accompanying condensed consolidated balance sheets are comprised of:

(in thousands)	March 31, 2006	December 31, 2005
Current assets:		
Cash and cash equivalents unrestricted	$ 612	$ 298
Cash and cash equivalents restricted	227	1,527
Trade receivables, net	351	630
Prepaid expenses	32	74
Other current assets	17	120
Total current assets	1,239	2,649
Property and equipment, net of accumulated depreciation	428	565
Intangible assets, net of accumulated amortization	7	79
Other long-term assets	1	2
Total long-term assets	436	646
Total assets	$ 1,675	$ 3,295
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,551	$ 3,650
Total current liabilities	1,551	3,650
Other long-term liabilities	108	117
Total long-term liabilities	108	117
Total liabilities	$ 1,659	$ 3,767

5. ACQUISITIONS:

Whistler Lodging Company, Ltd.

On February 1, 2005, the Company acquired 100% of the outstanding common shares of Whistler Lodging Company, Ltd. (Whistler) from O Neill Hotels and Resorts Whistler, Ltd. for an aggregate purchase price of $0.1 million in cash plus the assumption of Whistler s liabilities as of February 1, 2005 of $4.9 million. Whistler manages approximately 600 vacation rental units located in Whistler, British Columbia. The results of operations of Whistler have been included in the Company s financial results beginning February 1, 2005. As of March 31, 2006 and December 31, 2005, goodwill related to the Whistler acquisition totaled $3.3 million.

East West Resorts

On January 1, 2005, the Company acquired 100% of the outstanding membership interests of East West Resorts at Summit County, LLC, Aspen Lodging Company, LLC, Great Beach Vacations, LLC, East West Realty Aspen, LLC, and Sand Dollar Management Investors, LLC (collectively, East West Resorts) from East West Resorts, LLC for an aggregate purchase price of $20.7 million in cash plus the assumption of East West Resort s liabilities as of January 1, 2005 of $7.8 million. East West Resorts manages approximately 2,000 vacation rental units located in Colorado ski destinations and South Carolina beach destinations. The results of operations of East West Resorts have been included in the Company s financial results beginning January 1, 2005. As of March 31, 2006 and December 31, 2005, goodwill related to the East West Resorts acquisition totaled $11.7 million.

ResortQuest International, Inc.

On November 20, 2003, pursuant to the Agreement and Plan of Merger dated as of August 4, 2003, the Company acquired 100% of the outstanding common shares of ResortQuest International, Inc. in a tax-free, stock-for-stock merger. Under the terms of the agreement, ResortQuest stockholders received 0.275 shares of the Company s common stock for each outstanding share of ResortQuest common stock, and the ResortQuest option holders received 0.275 options to purchase the Company s common stock for each outstanding option to purchase one share of ResortQuest common stock. Based on the number of shares of ResortQuest common stock outstanding as of November 20, 2003 (19,339,502) and the exchange ratio (0.275 of the Company common share for each ResortQuest common share), the Company issued 5,318,363 shares of the Company s common stock. In addition, based on the total number of ResortQuest options outstanding at November 20, 2003, the Company exchanged ResortQuest options for options to purchase 573,863 shares of the Company s common stock. Based on the average market price of the Company s common stock ($19.81, which was based on an average of the closing prices for two days before, the day of, and two days after the date of the definitive agreement, August 4, 2003), together with the direct merger costs, this resulted in an aggregate purchase price of approximately $114.7 million plus the assumption of ResortQuest s outstanding indebtedness as of November 20, 2003, which totaled $85.1 million.

During 1998, ResortQuest recorded a note receivable of $4.0 million as a result of cash advances made to a primary stockholder (Debtor) of the predecessor company who is no longer an affiliate of ResortQuest. The note was collateralized by a third mortgage on residential real estate owned by the Debtor. Due to the failure to make interest payments, the note receivable was in default. The Company accelerated the note and demanded payment in full. The Company also contracted an independent external third party to appraise the property by which the note was secured, confirm the outstanding senior claims on the property and assess the associated credit risk. Based on this assessment, the

Company assigned no value to the note receivable in the purchase price allocation associated with the ResortQuest acquisition. On January 23, 2006, the bankruptcy court approved a plan to restructure the note receivable, and the Company received $5.7 million in cash and a secured administrative claim of $0.5 million in full settlement of the note receivable, accrued interest, and other related amounts due to the Company. Because the Company assigned no value to this note receivable as part of the ResortQuest purchase price allocation, the collection of this note receivable resulted in the Company recording a gain of $5.4 million in other gains and losses in the accompanying condensed consolidated statement of operations for the three months ended March 31, 2006.

As of March 31, 2006 and December 31, 2005, goodwill related to the ResortQuest acquisition in continuing operations totaled $152.5 million and $156.1 million, respectively. During the three months ended March 31, 2006, the Company made adjustments to deferred taxes associated with the ResortQuest acquisition as a result of the Company settling certain issues with the Internal Revenue Service related to periods prior to the acquisition of ResortQuest. These adjustments resulted in a net decrease in goodwill of $3.6 million.

As of November 20, 2003, the Company recorded approximately $4.0 million of reserves and adjustments related to the Company s plans to consolidate certain support functions, to adjust for employee benefits and to account for outstanding legal claims filed against ResortQuest as an adjustment to the purchase price allocation. The following table summarizes the activity related to these reserves for the three months ended March 31, 2006 (amounts in thousands):

Balance at December 31, 2005	Charges and Adjustments	Payments	Balance at March 31, 2006
$242	$	$242	$

The Company has accounted for these acquisitions under the purchase method of accounting. Under the purchase method of accounting, the total purchase prices of each acquisition was allocated to the net tangible and identifiable intangible assets based upon their estimated fair value as of the date of completion of each of the acquisitions. The Company determined these fair values with the assistance of a third party valuation expert. The excesses of the purchases prices over the fair values of the net tangible and identifiable intangible assets were recorded as goodwill. Goodwill will not be amortized and will be tested for impairment on an annual basis and whenever events or circumstances occur indicating that the goodwill may be impaired. The final allocations of the purchase prices are subject to adjustments for a period not to exceed one year from the consummation date (the allocation period of each acquisition) in accordance with SFAS No. 141 Business Combinations and EITF Issue 95-3 Recognition of Liabilities in Connection with a Purchase Business Combination. The allocation period is intended to differentiate between amounts that are determined as a result of the identification and valuation process required by SFAS No. 141 for all assets acquired and liabilities assumed and amounts that are determined because information that was not previously obtainable becomes obtainable.

6. DEBT:

8% Senior Notes

On November 12, 2003, the Company completed its offering of $350 million in aggregate principal amount of senior notes due 2013 (the 8% Senior Notes) in an institutional private placement. The Company filed an exchange offer registration statement on Form S-4 with the Securities and Exchange

Commission (the SEC) with respect to the 8% Senior Notes and subsequently exchanged the existing senior notes for publicly registered senior notes with the same terms after the registration statement was declared effective in April 2004. The interest rate on these notes is 8%, although the Company has entered into fixed to variable interest rate swaps with respect to $125 million principal amount of the 8% Senior Notes, which swaps result in an effective interest rate of LIBOR plus 2.95% with respect to that portion of the 8% Senior Notes. The 8% Senior Notes, which mature on November 15, 2013, bear interest semi-annually in arrears on May 15 and November 15 of each year, starting on May 15, 2004. The 8% Senior Notes are redeemable, in whole or in part by the Company, at any time on or after November 15, 2008 at a designated redemption amount, plus accrued and unpaid interest. In addition, the Company may redeem up to 35% of the 8% Senior Notes before November 15, 2006 with the net cash proceeds from certain equity offerings. The 8% Senior Notes rank equally in right of payment with the Company s other unsecured unsubordinated debt, but are effectively subordinated to all the Company s secured debt to the extent of the assets securing such debt. The 8% Senior Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by generally all of the Company s active domestic subsidiaries. In connection with the offering and subsequent registration of the 8% Senior Notes, the Company paid approximately $10.1 million in deferred financing costs. The net proceeds from the offering of the 8% Senior Notes, together with $22.5 million of the Company s cash on hand, were used as follows:

- $275.5 million was used to repay the $150 million senior term loan portion and the $50 million subordinated term loan portion of a senior secured credit facility secured by the Company s Florida and Texas hotel properties, as well as the remaining $66 million of a mezzanine loan secured by the equity interest in a wholly-owned subsidiary that owned Gaylord Opryland and to pay certain fees and expenses related to the ResortQuest acquisition; and

- $79.2 million was placed in escrow pending consummation of the ResortQuest acquisition. As of November 20, 2003, the $79.2 million together with $8.2 million of the available cash, was used to repay (i) ResortQuest s senior notes and its credit facility, the principal amount of which aggregated $85.1 million at closing, and (ii) a related prepayment penalty.

The 8% Senior Notes indenture contains certain covenants which, among other things, limit the incurrence of additional indebtedness, investments, dividends, transactions with affiliates, asset sales, capital expenditures, mergers and consolidations, liens and encumbrances and other matters customarily restricted in such agreements. The 8% Senior Notes are cross-defaulted to the Company s other indebtedness.

6.75% Senior Notes

On November 30, 2004, the Company completed its offering of $225 million in aggregate principal amount of senior notes due 2014 (the 6.75% Senior Notes) in an institutional private placement. In April 2005, the Company filed an exchange offer registration statement on Form S-4 with the SEC with respect to the 6.75% Senior Notes and subsequently exchanged the existing senior notes for publicly registered senior notes with the same terms after the registration statement was declared effective in May 2005. The interest rate of these notes is 6.75%. The 6.75% 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, starting on May 15, 2005. The 6.75% Senior Notes are redeemable, in whole or in part by the Company, at any time on or after November 15, 2009 at a designated redemption amount, plus accrued and unpaid interest. In addition, the Company may redeem up to 35% of the 6.75% Senior Notes before November 15, 2007 with the net cash proceeds from certain equity offerings. The 6.75% Senior Notes rank equally in right of payment with the Company s other unsecured unsubordinated debt, but are effectively subordinated to all of the Company s secured debt to the extent of the assets securing such debt. The 6.75% Senior Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by generally all of the Company s active domestic subsidiaries. In connect