Ryman Hospitality Properties, Inc.
Form 10-Q
May 10, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

or

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

Commission file number 1-13079

RYMAN HOSPITALITY PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**73-0664379**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**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. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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). x Yes ¨ No

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	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

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, 2013**
Common Stock, par value $.01	51,657,152 shares

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RYMAN HOSPITALITY PROPERTIES, INC.

FORM 10-Q

For the Quarter Ended March 31, 2013

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Part I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

RYMAN HOSPITALITY PROPERTIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands)

	March 31, 2013	December 31, 2012
ASSETS:		
Property and equipment, net of accumulated depreciation	$ 2,128,451	$ 2,148,999
Cash and cash equivalents - unrestricted	44,848	97,170
Cash and cash equivalents - restricted	6,934	6,210
Notes receivable	148,925	149,400
Trade receivables, less allowance of $594 and $623, respectively	60,745	55,343
Deferred financing costs	9,660	11,347
Prepaid expenses and other assets	55,879	63,982
Total assets	$ 2,455,442	$ 2,532,451
LIABILITIES AND STOCKHOLDERS EQUITY:		
Debt and capital lease obligations	$ 1,092,081	$ 1,031,863
Accounts payable and accrued liabilities	145,042	218,461
Deferred income tax liabilities, net	35,026	88,938
Deferred management rights proceeds	185,615	186,346
Dividends payable	25,971	
Other liabilities	139,071	153,245
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $.01 par value, 100,000 shares authorized, no shares issued or outstanding		
Common stock, $.01 par value, 400,000 shares authorized, 51,646 and 52,596 shares issued and outstanding, respectively	516	526
Additional paid-in capital	1,256,852	1,250,975
Treasury stock of 456 shares, at cost	(7,234)	(7,234)
Accumulated deficit	(394,057)	(366,066)
Accumulated other comprehensive loss	(23,441)	(24,603)
Total stockholders equity	832,636	853,598
Total liabilities and stockholders equity	$ 2,455,442	$ 2,532,451

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

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RYMAN HOSPITALITY PROPERTIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME

(Unaudited)

(In thousands, except per share data)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Revenues:		
Rooms	$ 85,509	$ 87,534
Food and beverage	98,188	108,076
Other hotel revenue	25,884	30,438
Opry and Attractions	12,532	12,867
Total revenues	222,113	238,915
Operating expenses:		
Rooms	25,087	22,968
Food and beverage	61,248	61,614
Other hotel expenses	69,568	72,894
Management fees	3,469	
Total hotel operating expenses	159,372	157,476
Opry and Attractions	11,286	10,757
Corporate	6,666	13,006
REIT conversion costs	14,992	3,053
Casualty loss	32	174
Preopening costs		331
Depreciation and amortization	32,009	32,434
Total operating expenses	224,357	217,231
Operating income (loss)	(2,244)	21,684
Interest expense, net of amounts capitalized	(13,323)	(14,362)
Interest income	3,051	3,154
Other gains and (losses), net	(6)	
Income (loss) before income taxes and discontinued operations	(12,522)	10,476
(Provision) benefit for income taxes	66,292	(4,469)
Income from continuing operations	53,770	6,007
Income from discontinued operations, net of income taxes	10	21
Net income	$ 53,780	$ 6,028
Basic income per share:		
Income from continuing operations	$ 1.03	$ 0.12
Income from discontinued operations, net of income taxes		

Net income	$	1.03	$	0.12
Fully diluted income per share:				
Income from continuing operations	$	0.81	$	0.12
Income from discontinued operations, net of income taxes				
Net income	$	0.81	$	0.12
Dividends declared per common share	$	0.50	$	
Comprehensive income, net of deferred taxes	$	54,942	$	6,028

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

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RYMAN HOSPITALITY PROPERTIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2013 and 2012

(Unaudited)

(In thousands)

	2013	2012
Cash Flows from Operating Activities:		
Net income	$ 53,780	$ 6,028
Amounts to reconcile net income to net cash flows provided by operating activities:		
Income from discontinued operations, net of taxes	(10)	(21)
Impairment and other charges	132	
Provision (benefit) for deferred income taxes	(67,107)	4,479
Depreciation and amortization	32,009	32,434
Amortization of deferred financing costs	1,165	1,212
Amortization of discount on convertible notes	3,593	3,307
Write-off of deferred financing costs related to senior notes	544	
Stock-based compensation expense	2,680	2,356
Excess tax benefit from stock-based compensation	(212)	
Changes in:		
Trade receivables	(5,402)	(21,036)
Interest receivable	475	551
Accounts payable and accrued liabilities	(74,405)	(18,728)
Other assets and liabilities	5,847	3,320
Net cash flows provided by (used in) operating activities - continuing operations	(46,911)	13,902
Net cash flows provided by operating activities - discontinued operations	49	13
Net cash flows provided by (used in) operating activities	(46,862)	13,915
Cash Flows from Investing Activities:		
Purchases of property and equipment	(10,139)	(29,734)
Collection of notes receivable		2,870
Other investing activities	(715)	378
Net cash flows used in investing activities - continuing operations	(10,854)	(26,486)
Net cash flows used in investing activities - discontinued operations		
Net cash flows used in investing activities	(10,854)	(26,486)
Cash Flows from Financing Activities:		
Net borrowings (repayments) under credit facility	209,000	(15,000)
Early redemption of senior notes	(152,180)	
Deferred financing costs paid	(22)	
Repurchase of Company stock for retirement	(55,676)	
Proceeds from exercise of stock option and purchase plans	4,255	3,232
Excess tax benefit from stock-based compensation	212	
Other financing activities, net	(195)	(187)

Net cash flows provided by (used in) financing activities - continuing operations	5,394	(11,955)
Net cash flows provided by financing activities - discontinued operations		
Net cash flows provided by (used in) financing activities	5,394	(11,955)
Net change in cash and cash equivalents	(52,322)	(24,526)
Cash and cash equivalents - unrestricted, beginning of period	97,170	44,388
Cash and cash equivalents - unrestricted, end of period	$ 44,848	$ 19,862

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

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RYMAN HOSPITALITY PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. BASIS OF PRESENTATION:

For financial statement presentation and reporting purposes, the Company is the successor to Gaylord Entertainment Company, formerly a Delaware corporation (Gaylord). As more fully described in Note 3, as part of the plan to restructure the business operations of Gaylord to facilitate its qualification as a real estate investment trust (REIT) for federal income tax purposes, Gaylord merged with and into its wholly-owned subsidiary, Ryman Hospitality Properties, Inc., a Delaware corporation (Ryman), on October 1, 2012, with Ryman as the surviving corporation (the Merger). At 12:01 a.m. on October 1, 2012, the effective time of the Merger, Ryman succeeded to and began conducting, directly or indirectly, all of the business conducted by Gaylord immediately prior to the Merger. The Company refers to Ryman and to Gaylord.

The Company conducts its business through an umbrella partnership REIT, in which its assets are held by, and operations are conducted through, RHP Hotel Properties, LP, a subsidiary operating partnership (the Operating Partnership) that the Company formed in connection with the REIT conversion. The Company is the sole general partner of the Operating Partnership and currently owns, either directly or indirectly, all of the limited partnership units of the Operating Partnership.

The Company principally operates, through its subsidiaries and its property managers, as applicable, in the following business segments: Hospitality, Opry and Attractions, and Corporate and Other.

The condensed consolidated financial statements include the accounts of the Company and its subsidiaries 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, 2012. 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.

Reclassifications

The Company is electing REIT status for the year ended December 31, 2013. In connection with the Company s conversion to a REIT and the restructuring of the Company s business operations as further discussed in Note 3, the Company has revised the presentation of its condensed consolidated balance sheets and condensed consolidated statements of operations and comprehensive income to be more consistent with its peers within the hospitality REIT industry. For the condensed consolidated balance sheets, these changes consisted of presenting an unclassified balance sheet. For the condensed consolidated statements of operations and comprehensive income, the changes consist of providing revenues and operating expenses as Rooms, Food and Beverage, Other Hotel Revenues/Expenses, Opry and Attractions, and Corporate. As a result, certain amounts in previously issued financial statements have been reclassified to conform to the 2013 presentation as follows:

- a reduction of $10.7 million in total assets and $10.7 million in total liabilities in the Company s consolidated balance sheet as of December 31, 2012, as a result of the change in presentation for deferred income taxes under an unclassified balance sheet;

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a reclassification of $135.0 million of operating costs for the three months ended March 31, 2012 as hotel operating expenses ($124.7 million), Opry and Attractions operating expenses ($7.3 million) and Corporate operating expenses ($3.0 million); and

a reclassification of $49.3 million of selling, general and administrative expense for the three months ended March 31, 2012 as hotel operating expenses ($32.8 million), Opry and Attractions operating expenses ($3.5 million), Corporate operating expenses ($9.9 million) and REIT conversion costs ($3.1 million).

The Company believes the 2013 presentation is more aligned with its peers in the hospitality REIT industry.

2. NEWLY ISSUED ACCOUNTING STANDARDS:

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-02, Topic 220, *Comprehensive Income*, which adds new disclosure requirements for items reclassified out of accumulated other comprehensive income. The ASU is intended to help entities improve the transparency of changes in other comprehensive income and items reclassified out of accumulated other comprehensive income in their financial statements. It does not amend any existing requirements for reporting net income or other comprehensive income in the financial statements. The Company adopted this ASU in the first quarter of 2013 and this adoption did not have a material impact on the Company s consolidated financial statements.

3. REIT CONVERSION:

The Company completed a plan to restructure the Company s business operations to facilitate the Company s qualification as a REIT for federal income tax purposes (the REIT conversion) during 2012 and will elect to be taxed as a REIT for the year ended December 31, 2013. In connection with the REIT conversion, the Company completed the Merger and made a one-time earnings and profits distribution to distribute all of the Company s C corporation earnings and profits attributable to taxable periods ending prior to January 1, 2013 as a special dividend to stockholders. The special dividend was paid on December 21, 2012 to shareholders of record as of November 13, 2012, as discussed more fully in the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

On October 1, 2012, the Company consummated its agreement to sell the Gaylord Hotels brand and rights to manage the Gaylord Opryland Resort and Convention Center (Gaylord Opryland), the Gaylord Palms Resort and Convention Center (Gaylord Palms), the Gaylord Texan Resort and Convention Center (Gaylord Texan) and the Gaylord National Resort and Convention Center (Gaylord National), which the Company refers to collectively as the Gaylord Hotels , to Marriott International, Inc. (Marriott) for $210.0 million in cash (the Marriott sale transaction). Effective October 1, 2012, Marriott assumed responsibility for managing the day-to-day operations of the Gaylord Hotels pursuant to a management agreement for each Gaylord Hotel.

On October 1, 2012, the Company received $210.0 million in cash from Marriott in exchange for rights to manage the Gaylord Hotels (the Management Rights) and certain intellectual property (the IP Rights). The Company allocated $190.0 million of the purchase price to the Management Rights and $20.0 million to the IP Rights. The allocation was based on the Company s estimates of the fair values for the respective components. The Company estimated the fair value of each component by constructing distinct discounted cash flow models.

The amount related to the Management Rights was deferred and is amortized on a straight line basis over the 65-year term of the hotel management agreements, including extensions, as a reduction in management fee expense for financial accounting purposes. The amount related to the IP Rights was recognized into income as other gains and losses during the fourth quarter of 2012.

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In addition, pursuant to additional management agreements entered into on October 1, 2012, Marriott assumed responsibility for managing the day-to-day operations of the General Jackson Showboat, Gaylord Springs Golf Links and the Wildhorse Saloon on October 1, 2012. Further, on December 1, 2012, the Company entered into a management agreement pursuant to which Marriott began managing the day-to-day operations of the Inn at Opryland effective December 1, 2012.

The Company has segregated all costs related to the REIT conversion from normal operations and reported these amounts as REIT conversion costs in the accompanying condensed consolidated statement of operations. During the three months ended March 31, 2013 and 2012, the Company incurred $15.0 million and $3.1 million, respectively, of various costs associated with these transactions. REIT conversion costs incurred during the three months ended March 31, 2013 include employment and severance costs ($11.2 million), professional fees ($1.1 million), and various other transition costs ($2.7 million). REIT conversion costs incurred during the three months ended March 31, 2012 were almost exclusively professional fees.

Including the costs noted above, the Company currently estimates that it will incur approximately $24.9 million in one-time costs during 2013 related to the REIT conversion. The Company also anticipates that it has incurred federal income taxes, including those associated with the receipt of the purchase price in the Marriott sale transaction and other transactions related to the REIT conversion, net of the effect of remaining net operating losses, of approximately $5 million to $7 million, which will be paid in 2013.

The Merger, Marriott sale transaction, and other restructuring transactions are designed to enable the Company to hold its assets and business operations in a manner that will enable it to elect to be treated as a REIT for federal income tax purposes. As a REIT, the Company generally will not be subject to federal corporate income taxes on that portion of its capital gain or ordinary income from the Company s REIT operations that is distributed to its stockholders. This treatment would substantially eliminate the federal double taxation on earnings from REIT operations, or taxation once at the corporate level and again at the stockholder level, that generally results from investment in a regular C corporation. To comply with certain REIT qualification requirements, the Company engaged Marriott to operate and manage its Gaylord Hotels and the Inn at Opryland and will be required to engage third-party managers to operate and manage its future hotel properties, if any. Additionally, non-REIT operations, which consist of the activities of taxable REIT subsidiaries that will act as lessees of the Company s hotels, as well as the businesses within the Company s Opry and Attractions segment, will continue to be subject, as applicable, to federal corporate and state income taxes following the REIT conversion.

4. INCOME PER SHARE:

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

	Three Months Ended March 31,	
	2013	**2012**
Weighted average shares outstanding - basic	52,427	48,715
Effect of dilutive stock-based compensation	589	608
Effect of convertible notes	7,702	814
Effect of common stock warrants	6,002	
Weighted average shares outstanding - diluted	66,720	50,137

The Company had stock-based compensation awards outstanding with respect to approximately 0.2 million and 1.6 million shares of common stock for the three months ended March 31, 2013 and 2012, 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, 2013 and 2012, respectively, as the effect of their inclusion would have been anti-dilutive.

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As discussed more fully in the Company s Annual Report on Form 10-K for the year ended December 31, 2012, in 2009 the Company issued 3.75% Convertible Senior Notes due 2014 (the Convertible Notes). The Company intends 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 Convertible Notes are currently convertible through June 30, 2013; however, at this time, the Company has not settled the conversion of any of the Convertible Notes.

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 holders may purchase, as adjusted for dividends paid by the Company, approximately 16.2 million shares of the Company s common stock at an adjusted strike price per share of $26.68, subject to any further anti-dilution adjustments, including for quarterly cash dividends paid by the Company. 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 at maturity in shares of the Company s common stock, net of the strike price.

5. ACCUMULATED OTHER COMPREHENSIVE LOSS:

The Company s balance in accumulated other comprehensive loss is composed of amounts related to the Company s minimum pension liability. During the three months ended March 31, 2013, the Company recorded no other comprehensive income and reclassified $0.1 million from accumulated other comprehensive loss into operating expenses in the Company s condensed consolidated statements of operations included herein. During the three months ended March 31, 2013, the Company also recorded a $1.0 million tax benefit for accumulated other comprehensive income related to a change in tax rate on the items included in accumulated other comprehensive income due to the Company s REIT conversion.

6. PROPERTY AND EQUIPMENT:

Property and equipment of continuing operations at March 31, 2013 and December 31, 2012 is recorded at cost and summarized as follows (in thousands):

	March 31, 2013	December 31, 2012
Land and land improvements	$ 241,839	$ 241,292
Buildings	2,301,401	2,297,343
Furniture, fixtures and equipment	571,770	563,622
Construction-in-progress	23,084	27,534
	3,138,094	3,129,791
Accumulated depreciation	(1,009,643)	(980,792)
Property and equipment, net	$ 2,128,451	$ 2,148,999

7. NOTES RECEIVABLE:

In connection with the development of 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 the three months ended March 31, 2013 and 2012, the Company recorded interest income of $3.0 million and $3.2 million, respectively, on these bonds. The Company received payments of $3.5 million and $6.6 million during the three months ended March 31, 2013 and 2012, respectively, relating to these notes receivable.

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8. DEBT:

The Company s debt and capital lease obligations related to continuing operations at March 31, 2013 and December 31, 2012 consisted of (in thousands):

	March 31, 2013	December 31, 2012
$925 Million Credit Facility, interest at LIBOR plus 2.0% or bank s base rate plus 1.25%, maturing August 1, 2015	$ 754,000	$ 545,000
Convertible Senior Notes, interest at 3.75%, maturing October 1, 2014, net of unamortized discount of $23,369 and $26,961	336,631	333,039
Senior Notes, interest at 6.75%, originally maturing November 15, 2014		152,180
Capital lease obligations	1,450	1,644
Total debt	1,092,081	1,031,863
Less amounts due within one year	(640)	(130,358)
Total long-term debt	$ 1,091,441	$ 901,505

The above decrease in amounts due within one year results from the Company s intent and ability to refinance all of its convertible senior notes on a long-term basis if the notes were to be converted at March 31, 2013. At December 31, 2012, because of lower availability to borrow additional funds under its revolving credit facility, the Company had the ability to refinance only a portion of any conversions on a long-term basis.

As of March 31, 2013, the Company was in compliance with all of its covenants related to its debt.

$925 Million Credit Facility

At March 31, 2013, the Company had outstanding a $925 million credit facility. On April 18, 2013, the Company refinanced its $925 million credit facility by entering into a $1 billion senior secured credit facility by and among the Operating Partnership, the Company, and certain subsidiaries of the Company party thereto, as guarantors, the lenders party thereto, and Wells Fargo Bank, N.A., as administrative agent (the $1 billion credit facility). See Note 16 for further disclosure related to this refinancing of the $925 million credit facility.

3.75% Convertible Senior Notes

In 2009, the Company issued $360.0 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 for the year ended December 31, 2012, at the holder s option, into shares of the Company s common stock, at an adjusted conversion rate of 44.9815 shares of common stock per $1,000 principal amount of the Convertible Notes, which is equivalent to an adjusted conversion price of approximately $22.23 per share. Additional adjustments will be made for quarterly cash dividends paid by the Company pursuant to customary anti-dilution adjustments. 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 or at their maturity.

Based on the Company s stock price during the three months ended March 31, 2013, a condition 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, 2013. At this time, the Company has not settled the conversion of any of the Convertible Notes. Based on the Company s borrowing capacity under its $925 million credit facility as of March 31, 2013, and considering the Company s repayment of a portion of the revolving credit facility in connection with its refinancing in April 2013, as further described in Note 16, the Convertible Notes have been classified as long-term debt in the above table as of March 31, 2013.

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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 adjusted strike price of the Purchased Options is $22.23 per share of the Company s common stock (the same as the adjusted conversion price of the Convertible Notes). The Purchased Options entitle the Company to purchase, subject to anti-dilution adjustments substantially similar to the Convertible Notes, approximately 16.2 million shares of Company common stock. Additional adjustments to the strike price and number of shares underlying the Purchased Options will be made pursuant to customary anti-dilution provisions, including for quarterly cash dividends. 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 to acquire, after anti-dilution adjustments similar to the adjustments of the Convertible Notes and Purchased Options, up to approximately 16.2 million shares of common stock at an exercise price of $26.68 per share. Additional adjustments to the exercise price and number of shares underlying the warrants will be made pursuant to customary anti-dilution provisions, including for cash dividends. The warrants may only be settled at maturity in shares of the Company s common stock, net of the exercise price.

6.75% Senior Notes

On January 17, 2013, the Company redeemed all of its outstanding 6.75% senior notes at par, which was funded using borrowings under the revolving credit line of the $925 million credit facility. As a result of this redemption, the Company wrote off $0.5 million of deferred financing costs during the three months ended March 31, 2013, which are included in interest expense in the accompanying condensed consolidated statements of operations.

9. STOCK PLANS:

In addition to grants of stock options to its directors and employees, the Company s Amended and Restated 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, 2013, the Company granted 37,000 restricted stock units to certain members of its management team which may vest in 2016 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, 2015 relative to the total shareholder return of a competitor group of companies during the same period. The weighted-average grant date fair value of $45.01 per award was determined using a Monte Carlo simulation model, which assumed a risk-free rate of 0.4%, an expected life of 3.0 years and historical volatilities that ranged from 23% to 64%. 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 vesting period.

During 2011, the Company granted 67,400 restricted stock units to certain members of its management team which may vest in 2014. The number of awards that will ultimately vest will be based on Company performance relative to the annual budgets approved by the Company s board of directors. The Company began recognizing compensation expense related to the weighted-average grant-date fair value of $44.39 for these awards in the first quarter of 2013 when the 2013 budget was approved and the key terms and conditions of the awards was deemed to be established and a grant date had occurred.

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At March 31, 2013 and December 31, 2012, 575,659 and 574,933 restricted stock units were outstanding.

The compensation expense that has been charged against pre-tax income (loss) for all of the Company s stock-based compensation plans was $2.7 million and $2.4 million for the three months ended March 31, 2013 and 2012, respectively.

10. 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, 2013	Three Months Ended March 31, 2012
Interest cost	$ 993	$ 1,087
Expected return on plan assets	(1,291)	(1,173)
Recognized net actuarial loss	318	1,170
Total net periodic pension expense	$ 20	$ 1,084

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, 2013	Three Months Ended March 31, 2012
Service cost	$	$ 14
Interest cost	64	254
Amortization of net actuarial loss	96	176
Amortization of prior service credit	(285)	(130)
Total net postretirement benefit expense	$ (125)	$ 314

11. INCOME TAXES:

As a REIT, generally the Company will not be subject to federal corporate income taxes on ordinary taxable income and capital gains income from real estate investments that it distributes to its stockholders. The Company will, however, be subject to corporate income taxes on built-in gains (the excess of fair market value over tax basis at January 1, 2013) on the sale of property held by the REIT during the first ten years following the REIT conversion. In addition, the Company will continue to be required to pay federal corporate income taxes on earnings of its taxable REIT subsidiaries (TRSs).

For the three months ended March 31, 2013, the Company recorded an income tax benefit of $66.3 million. This benefit was primarily due to the reversal of $137.4 million in net deferred tax liabilities that are no longer applicable as a result of the Company s REIT conversion, partially offset by a valuation allowance of $76.1 million on the net deferred tax assets of the TRSs, as further described below. In addition, the Company recorded $6.7 million in tax benefit related primarily to the reversal of liabilities associated with unrecognized tax positions during the three months ended March 31, 2013, as described below. The Company recorded income tax expense of $1.8 million related to the current period operations of the Company.

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As a result of the Company s conversion to a REIT, certain net deferred tax liabilities related to the real estate of the Company were reversed, as the REIT will generally not pay federal corporate income tax related to those deferred tax liabilities. In addition, the Company assessed the need for a valuation allowance on the net deferred tax assets of the TRSs. Based on the evidence available at March 31, 2013, the Company determined that a valuation allowance of $76.1 million was necessary on certain of its deferred tax assets for federal and state purposes.

The Internal Revenue Service (IRS) has completed its examination of the Company s federal income tax returns for fiscal years 2008, 2009 and 2010. As a result, issues related to 2010 and earlier years have been effectively settled. The Company has not been notified of any other federal or state audits. Due to the favorable resolution of the federal examination, the Company s reserve for unrecognized tax benefits decreased $12.4 million during the three months ended March 31, 2013, of which $4.8 million was recorded as an income tax benefit. In addition, the Company recorded a reduction to the related accrued interest of $2.1 million as an income tax benefit in the three months ended March 31, 2013.

As of March 31, 2013 and December 31, 2012, the Company had $0.8 million and $13.2 million of unrecognized tax benefits, respectively, of which $0.8 million and $6.7 million, respectively, would affect the Company s effective tax rate if recognized. These liabilities are recorded in other 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 $0.8 million, mainly due to the expiration of various statutes of limitations. As of March 31, 2013 and December 31, 2012, the Company had accrued $0.1 million and $2.2 million, respectively, of interest and no penalties related to uncertain tax positions.

12. COMMITMENTS AND CONTINGENCIES:

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 $16.9 million, which represents its pro rata share of the $86.4 million of total debt that is subject to the guarantees. As of March 31, 2013, the Company had not recorded any liability in the condensed consolidated balance sheet associated with the contribution agreements.

The Company is self-insured up to a stop loss for certain losses related to workers compensation claims and general liability claims through September 30, 2012, and for certain losses related to employee medical benefits through December 31, 2012. The Company s insurance program has subsequently transitioned to a low or no deductible program. 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.

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.

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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.

13. STOCKHOLDERS EQUITY:

Stock Repurchases

On December 17, 2012, the Company announced that its board of directors authorized a share repurchase program for up to $100 million of the Company s common stock using cash on hand and borrowings under its revolving credit line. The repurchases are intended to be implemented through open market transactions on U.S. exchanges or in privately negotiated transactions, in accordance with applicable securities laws, and any market purchases will be made during open trading window periods or pursuant to any applicable Securities and Exchange Commission Rule 10b5-1 trading plans. The timing, prices, and size of repurchases will depend upon prevailing market prices, general economic and market conditions and other considerations. The repurchase program does not obligate the Company to acquire any particular amount of stock.

During the three months ended March 31, 2013, the Company repurchased approximately 1.3 million shares of its common stock for an aggregate purchase price of $55.7 million, which the Company funded using cash on hand and borrowings under the revolving credit line of the $925 million credit facility. The repurchased stock was cancelled by the Company and has been reflected as a reduction of retained earnings in the accompanying condensed consolidated financial statements.

Dividends

On February 14, 2013, the Company s board of directors declared the Company s first quarterly cash dividend in the amount of $0.50 per share of common stock, or an aggregate of approximately $26.1 million, which was paid on April 12, 2013 to stockholders of record as of the close of business on March 28, 2013.

14. 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, 2013 and December 31, 2012, the Company held certain assets 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.

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The Company had no liabilities required to be measured at fair value at March 31, 2013 and December 31, 2012. The Company s assets measured at fair value on a recurring basis at March 31, 2013 and December 31, 2012, were as follows (in thousands):

	March 31, 2013	Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Deferred compensation plan investments	$ 17,591	$ 17,591	$	$
Total assets measured at fair value	$ 17,591	$ 17,591	$	$

	December 31, 2012	Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Deferred compensation plan investments	$ 15,580	$ 15,580	$	$
Total assets measured at fair value	$ 15,580	$ 15,580	$	$

The remainder of the assets and liabilities held by the Company at March 31, 2013 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 7 and the Company s Annual Report on Form 10-K for the year ended December 31, 2012, 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 $88.9 million and $60.0 million, respectively, as of March 31, 2013. 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 notes, 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, 2013 and the fair value of the Series B Bond was approximately $41 million as of March 31, 2013. 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, 2013.

The Company has outstanding $360.0 million in aggregate principal amount of Convertible Notes that accrue interest at a fixed rate of 3.75%. The carrying value of these notes on March 31, 2013 was $336.6 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 $354 million as of March 31, 2013.

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.

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15. FINANCIAL REPORTING BY BUSINESS SEGMENTS:

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

Hospitality, which includes Gaylord Opryland, Gaylord Palms, Gaylord Texan, Gaylord National and the Inn 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.

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, 2013	2012
Revenues:		
Hospitality	$ 209,581	$ 226,048
Opry and Attractions	12,532	12,867
Corporate and Other		
Total	$ 222,113	$ 238,915
Depreciation and amortization:		
Hospitality	$ 26,801	$ 28,536
Opry and Attractions	1,366	1,285
Corporate and Other	3,842	2,613
Total	$ 32,009	$ 32,434
Operating income (loss):		
Hospitality	$ 23,408	$ 40,036
Opry and Attractions	(120)	825
Corporate and Other	(10,508)	(15,619)
REIT conversion costs	(14,992)	(3,053)
Casualty loss	(32)	(174)
Preopening costs		(331)
Total operating income (loss)	(2,244)	21,684
Interest expense, net of amounts capitalized		