GAYLORD ENTERTAINMENT CO /DE
Form 10-Q
August 07, 2012
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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 June 30, 2012

or

¨ **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	**(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 July 31, 2012**
Common Stock, par value $.01	49,137,465 shares

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GAYLORD ENTERTAINMENT COMPANY

FORM 10-Q

For the Quarter Ended June 30, 2012

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Part I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

GAYLORD ENTERTAINMENT COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME

(Unaudited)

(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Revenues	**$ 253,229**	$ 236,775	**$ 492,144**	$ 457,513
Operating expenses:				
Operating costs	**139,216**	132,746	**274,199**	266,624
Selling, general and administrative	**51,771**	43,048	**101,080**	86,126
Casualty loss	**372**	469	**546**	468
Preopening costs	**8**	41	**339**	41
Depreciation and amortization	**30,254**	29,271	**62,688**	58,328
Operating income	**31,608**	31,200	**53,292**	45,926
Interest expense, net of amounts capitalized	**(14,451)**	(21,377)	**(28,813)**	(42,186)
Interest income	**3,021**	3,316	**6,175**	6,489
Income from unconsolidated companies	**109**	152	**109**	325
Other gains and (losses), net		141		(50)
Income before income taxes and discontinued operations	**20,287**	13,432	**30,763**	10,504
Provision for income taxes	**(11,314)**	(4,799)	**(15,783)**	(3,832)
Income from continuing operations	**8,973**	8,633	**14,980**	6,672
Income (loss) from discontinued operations, net of income taxes	**(19)**	4	**2**	8
Net income	**$ 8,954**	$ 8,637	**$ 14,982**	$ 6,680
Basic income per share:				
Income from continuing operations	**$ 0.18**	$ 0.18	**$ 0.31**	$ 0.14
Income from discontinued operations, net of income taxes				
Net income	**$ 0.18**	$ 0.18	**$ 0.31**	$ 0.14
Fully diluted income per share:				
Income from continuing operations	**$ 0.17**	$ 0.17	**$ 0.29**	$ 0.13
Income from discontinued operations, net of income taxes				
Net income	**$ 0.17**	$ 0.17	**$ 0.29**	$ 0.13

Comprehensive income, net of deferred taxes of $0, $1,962, $0 and $3,820, respectively	**$ 8,954**	$ 12,150	**$ 14,982**	$ 13,602

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)

	June 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents unrestricted	**$ 29,504**	$ 44,388
Cash and cash equivalents restricted	**1,150**	1,150
Trade receivables, less allowance of $540 and $719, respectively	**54,194**	41,939
Deferred income taxes	**4,993**	8,641
Other current assets	**44,397**	48,538
Total current assets	**134,238**	144,656
Property and equipment, net of accumulated depreciation	**2,200,616**	2,209,127
Notes receivable, net of current portion	**145,271**	142,567
Long-term deferred financing costs	**13,602**	15,947
Other long-term assets	**52,285**	50,713
Long-term assets of discontinued operations	**335**	390
Total assets	**$ 2,546,347**	$ 2,563,400
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	**$ 750**	$ 755
Accounts payable and accrued liabilities	**151,735**	168,975
Current liabilities of discontinued operations	**147**	186
Total current liabilities	**152,632**	169,916
Long-term debt and capital lease obligations, net of current portion	**1,034,456**	1,073,070
Deferred income taxes	**119,817**	108,219
Other long-term liabilities	**170,779**	166,209
Long-term liabilities of discontinued operations	**451**	451
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $.01 par value, 100,000 shares authorized, no shares issued or outstanding		
Common stock, $.01 par value, 150,000 shares authorized, 49,098 and 48,428 shares issued and outstanding, respectively	**491**	484
Additional paid-in capital	**937,592**	929,904
Treasury stock of 385 shares, at cost	**(4,599)**	(4,599)
Retained earnings	**170,759**	155,777
Accumulated other comprehensive loss	**(36,031)**	(36,031)
Total stockholders equity	**1,068,212**	1,045,535
Total liabilities and stockholders equity	**$ 2,546,347**	$ 2,563,400

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 Six Months Ended June 30, 2012 and 2011

(Unaudited)

(In thousands)

	2012	2011
Cash Flows from Operating Activities:		
Net income	**$ 14,982**	$ 6,680
Amounts to reconcile net income to net cash flows provided by operating activities:		
Income from discontinued operations, net of taxes	**(2)**	(8)
Income from unconsolidated companies	**(109)**	(325)
Loss on disposals of long-lived assets		40
Provision for deferred income taxes	**15,363**	3,076
Depreciation and amortization	**62,688**	58,328
Amortization of deferred financing costs	**2,423**	2,635
Amortization of discount on convertible notes	**6,754**	6,216
Stock-based compensation expense	**5,277**	4,826
Changes in:		
Trade receivables	**(12,255)**	(17,184)
Interest receivable	**(2,394)**	1,951
Accounts payable and accrued liabilities	**(16,228)**	(22,580)
Other assets and liabilities	**2,600**	(4,005)
Net cash flows provided by operating activities continuing operations	**79,099**	39,650
Net cash flows provided by (used in) operating activities discontinued operations	**51**	(28)
Net cash flows provided by operating activities	**79,150**	39,622
Cash Flows from Investing Activities:		
Purchases of property and equipment	**(58,788)**	(61,413)
Collection of notes receivable	**2,870**	2,465
Other investing activities	**424**	2,183
Net cash flows used in investing activities continuing operations	**(55,494)**	(56,765)
Net cash flows used in investing activities discontinued operations		
Net cash flows used in investing activities	**(55,494)**	(56,765)
Cash Flows from Financing Activities:		
Repayments under credit facility	**(45,000)**	
Proceeds from exercise of stock option and purchase plans	**6,833**	4,193
Other financing activities, net	**(373)**	(85)
Net cash flows provided by (used in) financing activities continuing operations	**(38,540)**	4,108
Net cash flows provided by financing activities discontinued operations		
Net cash flows provided by (used in) financing activities	**(38,540)**	4,108

Net change in cash and cash equivalents	**(14,884)**	(13,035)
Cash and cash equivalents unrestricted, beginning of period	**44,388**	124,398
Cash and cash equivalents unrestricted, end of period	**$ 29,504**	$ 111,363

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

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GAYLORD ENTERTAINMENT COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. BASIS OF PRESENTATION:

The condensed consolidated financial statements include the accounts of Gaylord Entertainment Company and its subsidiaries (the Company or Gaylord) 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 for the year ended December 31, 2011. In the opinion of management, all adjustments necessary for a fair statement of the results of operations for the interim periods have been included. All adjustments are of a normal, recurring nature. The results of operations for such interim periods are not necessarily indicative of the results for the full year because of seasonal and short-term variations.

As more fully described in Note 11, the Company and its newly formed, wholly-owned subsidiary, Granite Hotel Properties, Inc. (Granite) have filed a registration statement on Form S-4 with the SEC. The registration statement contains a preliminary proxy statement/prospectus that describes the Company s plans to qualify as a real estate investment trust (REIT) for federal income tax purposes following the consummation of the Company s previously announced transaction with Marriott International, Inc., and the contemplated merger between Granite and Gaylord to facilitate the REIT election expected to be effective January 1, 2013. The registration statement can be located, free of charge, at the SEC s website at www.sec.gov or on the Company s website at www.gaylordentertainment.com.

2. NEWLY ISSUED ACCOUNTING STANDARDS:

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

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

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3. INCOME PER SHARE:

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Weighted average shares outstanding	**48,974**	48,370	**48,844**	48,296
Effect of dilutive stock-based compensation	**675**	723	**654**	783
Effect of convertible notes	**2,803**	1,851	**1,904**	2,494
Effect of common stock warrants	**722**			350
Weighted average shares outstanding assuming dilution	**53,174**	50,944	**51,402**	51,923

The Company had stock-based compensation awards outstanding with respect to approximately 834,000 and 960,000 shares of common stock as of June 30, 2012 and 2011, respectively, that could potentially dilute earnings per share in the future but were excluded from the computation of diluted earnings per share for the three months ended June 30, 2012 and 2011, respectively, as the effect of their inclusion would have been anti-dilutive.

The Company had stock-based compensation awards outstanding with respect to approximately 903,000 and 955,000 shares of common stock as of June 30, 2012 and 2011, respectively, that could potentially dilute earnings per share in the future but were excluded from the computation of diluted earnings per share for the six months ended June 30, 2012 and 2011, respectively, as the effect of their inclusion would have been anti-dilutive.

As discussed more fully in the Company s Annual Report on Form 10-K for the year ended December 31, 2011, in 2009 the Company issued 3.75% Convertible Senior Notes (the Convertible Notes). It is the Company s intention to settle the face value of the Convertible Notes in cash upon conversion/maturity. Any conversion spread associated with the conversion/maturity of the Convertible Notes may be settled in cash or shares of the Company s common stock. The Convertible Notes are currently convertible through September 30, 2012; however, at this time, the Company has received no notices of note holders electing to convert their Convertible Notes.

In connection with the issuance of 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 approximately 13.2 million shares of Company common stock at a price per share of $32.70, subject to anti-dilution adjustments. If the average closing price of the Company s stock during a reporting period exceeds this strike price, these warrants will be dilutive. The warrants may only be settled in shares of the Company s common stock.

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4. PROPERTY AND EQUIPMENT:

Property and equipment of continuing operations at June 30, 2012 and December 31, 2011 is recorded at cost and summarized as follows (in thousands):

	June 30, 2012	December 31, 2011
Land and land improvements	**$ 234,307**	$ 217,811
Buildings	**2,288,767**	2,272,381
Furniture, fixtures and equipment	**552,468**	533,396
Construction in progress	**48,982**	59,822
	3,124,524	3,083,410
Accumulated depreciation	**(923,908)**	(874,283)
Property and equipment, net	**$ 2,200,616**	$ 2,209,127

5. NOTES RECEIVABLE:

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

During the three months ended June 30, 2012 and 2011, the Company recorded interest income of $2.9 million and $3.2 million, respectively, on these bonds. During the six months ended June 30, 2012 and 2011, the Company recorded interest income of $6.1 million and $6.3 million, respectively, on these bonds. The Company received payments of $6.6 million and $10.7 million during the six months ended June 30, 2012 and 2011, respectively, relating to these notes receivable.

6. DEBT:

The Company s debt and capital lease obligations related to continuing operations at June 30, 2012 and December 31, 2011 consisted of (in thousands):

	June 30, 2012	December 31, 2011
$925 Million Credit Facility, interest at LIBOR plus 2.25% or bank s base rate plus 1.25%, maturing August 1, 2015	**$ 555,000**	$ 600,000
Convertible Senior Notes, interest at 3.75%, maturing October 1, 2014, net of unamortized discount of $34,000 and $40,754	**326,000**	319,246
Senior Notes, interest at 6.75%, maturing November 15, 2014	**152,180**	152,180
Capital lease obligations	**2,026**	2,399
Total debt	**1,035,206**	1,073,825
Less amounts due within one year	**(750)**	(755)
Total long-term debt	**$ 1,034,456**	$ 1,073,070

As of June 30, 2012, the Company was in compliance with all of its covenants related to its debt.

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$925 Million Credit Facility

Prior to consummating the anticipated Marriott sale transaction, the Company must obtain waivers and consents of the required lenders pursuant to the $925 million credit facility to amend the facility to accommodate the Marriott sale transaction, the merger of Gaylord with and into Granite, and the REIT conversion. The Company anticipates that such amendment, among other things, will (i) permit dividends to the extent permitted by the indenture for the Company s 6.75% senior notes, and, if such indenture is terminated, to the extent necessary for the Company to maintain REIT status, (ii) allow the Company s taxable REIT subsidiaries to lease its hotel properties, and (iii) update the facility generally to permit the Company to restructure and operate its business as a REIT. The Company has engaged with its principal lender concerning the amendment, and it believes that it will be able to obtain such waivers and consents.

Convertible Senior Notes

In 2009, the Company issued $360 million of the Convertible Notes. The Convertible Notes are convertible, under certain circumstances as described in the Company s Annual Report on Form 10-K for the year ended December 31, 2011, at the holder s option, into shares of the Company s common stock, at an initial conversion rate of 36.6972 shares of common stock per $1,000 principal amount of the Convertible Notes, which is equivalent to an initial conversion price of approximately $27.25 per share. The Company may elect, at its option, to deliver shares of its common stock, cash or a combination of cash and shares of its common stock in satisfaction of its obligations upon conversion of the Convertible Notes.

Based on the Company s stock price during the three months ended June 30, 2012, 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 September 30, 2012. At this time, the Company has received no notices of note holders electing to convert their Convertible Notes. Based on the Company s borrowing capacity under its $925 million credit facility as of June 30, 2012, the Convertible Notes remain classified as long-term debt in the accompanying condensed consolidated balance sheet as of June 30, 2012.

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

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

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7. DERIVATIVE FINANCIAL INSTRUMENTS:

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

Cash Flow Hedging Strategy

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

At June 30, 2012 and December 31, 2011, the Company had no variable to fixed interest rate swap contracts. The interest rate swap agreement previously utilized by the Company until its expiration on July 25, 2011 effectively modified the Company s exposure to interest rate risk by converting $500.0 million, or 71%, of the Company s variable rate debt outstanding under the term loan portion of the Company s $1.0 billion credit facility to a weighted average fixed rate of 3.94% plus the applicable margin on these borrowings, thus reducing the impact of interest rate changes on future interest expense. This agreement involved the receipt of variable rate amounts in exchange for fixed rate interest payments through July 25, 2011, without an exchange of the underlying principal amount. The critical terms of the swap agreements matched the critical terms of the borrowings under the term loan portion of the $1.0 billion credit facility. Therefore, the Company designated these interest rate swap agreements as cash flow hedges. As the terms of these derivatives matched the terms of the underlying hedged items, there was no gain (loss) from ineffectiveness recognized in income on derivatives.

At June 30, 2012 and December 31, 2011, the Company had no variable to fixed natural gas price swap contracts. The Company previously entered into natural gas price swap contracts to manage the price risk associated with a portion of the Company s forecasted purchases of natural gas and electricity used by the Company s hotels. The objective of the hedge was to reduce the variability of cash flows associated with the forecasted purchases of these commodities.

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

Derivatives in Cash Flow Hedging Relationships	Amount of Loss Recognized in OCI on Derivative (Effective Portion) Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Location of Amount Reclassified from Accumulated OCI into Income	Amount Reclassified from Accumulated OCI into Income Three Months Ended June 30, 2012	Three Months Ended June 30, 2011
Interest rate swaps	$	$ (141)	Interest expense, net of amounts capitalized	$	$ 5,672
Natural gas swaps		(115)	Operating Costs		58
Total	$	$ (256)	**Total**	$	$ 5,730

Derivatives in Cash Flow Hedging Relationships	Amount of Loss Recognized in OCI on Derivative (Effective Portion) Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	Location of Amount Reclassified from Accumulated OCI into Income	Amount Reclassified from Accumulated OCI into Income Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Interest rate swaps	$	$ (427)	Interest expense, net of amounts capitalized	$	$ 11,125
Natural gas swaps		(209)	Operating Costs		215
Total	$	$ (636)	**Total**	$	$ 11,340

8. STOCK PLANS:

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

During the six months ended June 30, 2012, the Company granted 311,230 restricted stock units with time-based vesting and a weighted-average grant-date fair value of $30.23 per award. Additionally, the Company granted 104,500 restricted stock units to certain members of its management team which may vest in 2015 based on the level of performance during the performance period and subject to continued employment. The number of awards that will ultimately vest is based on the Company s total shareholder return over the three-year performance period ended December 31, 2014 relative to the total shareholder return of the Russell 2000 Index during the same period. The weighted-average grant date fair value of $39.88 per award was determined using a Monte Carlo simulation model, which assumed a risk-free rate of 0.54%, an expected life of 3.0 years and historical volatilities that ranged from 15% to 238%. As these awards include a market condition, the Company records compensation expense for these awards based on the grant date fair value of the award recognized ratably over the measurement period.

At June 30, 2012 and December 31, 2011, restricted stock units of 861,317 and restricted stock and restricted stock units of 633,647 shares, respectively, were outstanding.

The compensation cost that has been charged against pre-tax income for all of the Company s stock-based compensation plans was $2.9 million and $2.5 million for the three months ended June 30, 2012 and 2011, respectively, and $5.3 million and $4.8 million for the six months ended June 30, 2012 and 2011, respectively.

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9. RETIREMENT AND POSTRETIREMENT BENEFITS OTHER THAN PENSION PLANS:

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

	Three months ended June 30,		Six months ended June 30,	
	2012	**2011**	**2012**	**2011**
Interest cost	**$ 1,087**	$ 1,209	**$ 2,174**	$ 2,417
Expected return on plan assets	**(1,173)**	(1,334)	**(2,346)**	(2,667)
Amortization of net actuarial loss	**1,170**	619	**2,340**	1,238
Total net periodic pension expense	**$ 1,084**	$ 494	**$ 2,168**	$ 988

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 June 30,		Six months ended June 30,	
	2012	**2011**	**2012**	**2011**
Service cost	**$ 15**	$ 15	**$ 29**	$ 29
Interest cost	**253**	257	**507**	515
Amortization of net actuarial loss	**176**		**352**	
Amortization of prior service credit	**(109)**		**(217)**	
Amortization of curtailment gain	**(22)**	(61)	**(44)**	(122)
Total net postretirement benefit expense	**$ 313**	$ 211	**$ 627**	$ 422

10. INCOME TAXES:

The Company s effective tax rate as applied to pre-tax income was 56% and 36% for the three months ended June 30, 2012 and 2011, respectively, and 51% and 36% for the six months ended June 30, 2012 and 2011, respectively. The change in the Company s effective tax rate during both periods was due primarily to increases in permanent tax adjustments related to compensation and state tax expense.

As of June 30, 2012 and December 31, 2011, the Company had $13.9 million and $14.1 million of unrecognized tax benefits, respectively, of which $7.4 million would affect the Company s effective tax rate if recognized. These liabilities are recorded in other long-term liabilities in the accompanying condensed consolidated balance sheets. The Company estimates the overall decrease in unrecognized tax benefits in the next twelve months will be approximately $13.1 million, mainly due to the expiration of various statutes of limitations. As of June 30, 2012 and December 31, 2011, the Company had accrued $2.3 million and $2.1 million, respectively, of interest and $0.1 million of penalties related to uncertain tax positions.

11. COMMITMENTS AND CONTINGENCIES:

The Company and its newly formed, wholly-owned subsidiary, Granite, have filed a registration statement on Form S-4 with the SEC. The registration statement contains a preliminary proxy statement/prospectus of Gaylord that describes the Company s plans to qualify as a REIT for federal income tax purposes following the consummation of the Company s previously announced transaction with Marriott International, Inc., and the contemplated merger between Granite and Gaylord to facilitate the REIT election.

The Company s board of directors has approved a plan to restructure the Company s business operations to facilitate the qualification of Granite, as the successor to the Company s assets and business operations following the completion of the merger, as a REIT for federal income tax purposes. In connection therewith, on May 31, 2012, the Company announced its agreement to sell the Gaylord Hotels brand and rights to manage its Gaylord Hotels properties to Marriott for $210 million in cash. The closing of the Marriott sale transaction is subject to the satisfaction of certain conditions, including the Company s stockholders adoption of the merger agreement. The Company expects the consummation of the Marriott sale transaction to occur promptly after its stockholders adopt the merger agreement. Upon consummation of the Marriott sale transaction, Marriott will manage the day-to-day operations of the Gaylord Hotels properties pursuant to management agreements to be entered into upon the closing of the Marriott sales transaction, and the Company anticipates that this management transition will be complete by January 1, 2013, when the Company anticipates that its election to become a REIT will be effective. In addition, prior to the completion of the REIT conversion, the Company will identify and engage a third-party hotel manager to operate and manage the Radisson Hotel at Opryland.

The Company currently estimates that it will incur approximately $55 million in one-time costs related to the REIT conversion. These costs include investment banking fees, legal fees, consulting fees, severance and retention costs, and conversion costs. The Company also anticipates that it will incur federal income taxes associated with the receipt of the purchase price in the Marriott sale transaction and other transactions related to the REIT conversion, net of remaining net operating losses, of approximately $43 million to $53 million. In addition, the Company will be required to issue a special earnings and profits distribution (as more fully described in the Granite registration statement on Form S-4).

The merger, Marriott sales transaction, special earnings and profits distribution, and other restructuring transactions are designed to enable Granite, as the business successor of Gaylord, to hold its assets and business operations in a manner that will enable the Company to elect to be treated as a REIT for federal income tax purposes. If Granite qualifies as a REIT, it generally will not be subject to federal corporate income taxes on that portion of its capital gain or ordinary income from its 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. As explained more fully in the registration statement, to comply with certain REIT qualification requirements, the Company must engage third-party managers to operate and manage its hotel properties. 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, would continue to be subject, as applicable, to federal and state corporate income taxes.

Upon completion of the REIT conversion, the Company will no longer view independent, large-scale development of resort and convention hotels as a means of its growth. As a result, the Company will not proceed with its previously announced Aurora, Colorado, Mesa, Arizona, and other potential development projects in the form previously anticipated. The Company will reexamine how the Aurora or Mesa projects could be completed with minimal financial commitment, although it may not identify such opportunity.

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

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 June 30, 2012, the Company had not recorded any liability in the condensed consolidated balance sheet associated with the contribution agreements.

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

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

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

12. FAIR VALUE MEASUREMENTS:

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

As of June 30, 2012 and December 31, 2011, 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 June 30, 2012 and December 31, 2011. The Company s assets measured at fair value on a recurring basis at June 30, 2012 and December 31, 2011, were as follows (in thousands):

	June 30, 2012	Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Deferred compensation plan investments	$ 15,507	$ 15,507	$	$
Total assets measured at fair value	$ 15,507	$ 15,507	$	$

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

The remainder of the assets and liabilities held by the Company at June 30, 2012 are not required to be measured at fair value. The carrying value of certain of these assets and liabilities do not approximate fair value, as described below.

As further discussed in Note 5 and the Company s Annual Report on Form 10-K for the year ended December 31, 2011, in connection with the development of Gaylord National, the Company received two bonds (a Series A Bond and a Series B Bond) from Prince George s County, Maryland which had aggregate carrying values of $92.3 million and $60.0 million, respectively, as of June 30, 2012. The maturity dates of the Series A Bond and the Series B Bond are July 1, 2034 and September 1, 2037, respectively. Based upon current market interest rates of notes receivable with comparable market ratings and current expectations about the timing of debt service payments under the note, which the Company considers as Level 3, the fair value of the Series A Bond, which has the senior claim to the cash flows supporting these bonds, approximated carrying value as of June 30, 2012 and the fair value of the Series B Bond was approximately $39 million as of June 30, 2012. While the fair value of the Series B Bond decreased to less than its carrying value during 2011 due to a change in the timing of the debt service payments, the Company has the intent and ability to hold this bond to maturity and expects to receive all debt service payments due under the note. Therefore, the Company does not consider the Series B Bond to be other than temporarily impaired as of June 30, 2012.

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 June 30, 2012 was $326.0 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 $344 million as of June 30, 2012.

The Company has outstanding $152.2 million in aggregate principal amount of senior notes due 2014 that accrue interest at a fixed rate of 6.75% (the Senior Notes). The fair value of these notes, based upon quoted market prices, which the Company considers as Level 1, was $153.0 million as of June 30, 2012.

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

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13. FINANCIAL REPORTING BY BUSINESS SEGMENTS:

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

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

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

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

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 June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Revenues:				
Hospitality	**$ 233,047**	$ 218,173	**$ 459,095**	$ 427,515
Opry and Attractions	**20,153**	18,569	**32,988**	29,936
Corporate and Other	**29**	33	**61**	62
Total	**$ 253,229**	$ 236,775	**$ 492,144**	$ 457,513
Depreciation and amortization:				
Hospitality	**$ 26,346**	$ 25,291	**$ 54,882**	$ 50,566
Opry and Attractions	**1,278**	1,340	**2,563**	2,672
Corporate and Other	**2,630**	2,640	**5,243**	5,090
Total	**$ 30,254**	$ 29,271	**$ 62,688**	$ 58,328
Operating income (loss):				
Hospitality	**$ 46,423**	$ 41,713	**$ 86,459**	$ 71,167
Opry and Attractions	**4,800**	3,866	**5,593**	3,223
Corporate and Other	**(19,235)**	(13,869)	**(37,875)**	(27,955)
Casualty loss	**(372)**	(469)	**(546)**	(468)
Preopening costs	**(8)**	(41)	**(339)**	(41)
Total operating income	**31,608**	31,200	**53,292**	45,926
Interest expense, net of amounts capitalized	**(14,451)**	(21,377)	**(28,813)**	(42,186)
Interest income	**3,021**	3,316	**6,175**	6,489
Income from unconsolidated companies	**109**	152	**109**	325
Other gains and (losses), net		141		(50)
Income before income taxes and discontinued operations	**$ 20,287**	$ 13,432	**$ 30,763**	$ 10,504

14. SUBSEQUENT EVENTS:

In August 2012, the Company entered into an agreement with TRT Holdings, Inc. and its affiliates (TRT) pursuant to which the Company concurrently repurchased from TRT 5.0 million shares of the Company s common stock, at a total cost of $185.0 million. The Company plans to retire these common stock shares and funded the purchase price for the share repurchase with borrowings under its $925 million credit facility. The Company obtained waivers and consents of the required lenders pursuant to the $925 Million Credit Facility to amend the facility in order to accommodate this repurchase.

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15. INFORMATION CONCERNING GUARANTOR AND NON-GUARANTOR SUBSIDIARIES:

Not all of the Company s subsidiaries have guaranteed the Company s Convertible Notes and the Senior Notes. The Company s Convertible Notes and Senior Notes are guaranteed on a senior unsecured basis by generally all of the Company s significant active domestic subsidiaries (the Guarantors). Certain discontinued operations and inactive subsidiaries (the Non-Guarantors) do not guarantee the Company s Convertible Notes and Senior Notes. The Guarantors are 100% owned, and the guarantees are full and unconditional and joint and several.

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

GAYLORD ENTERTAINMENT COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Operations and Comprehensive Income

For the Three Months Ended June 30, 2012

(in thousands)	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues	$ 9,301	$ 253,222	$	$ (9,294)	$ 253,229
Operating expenses:					
Operating costs		139,216			139,216
Selling, general and administrative	8,387	43,384			51,771
Casualty loss	243	129			372
Preopening costs	9	(1)			8
Management fees		9,294		(9,294)	
Depreciation and amortization	757	29,497			30,254
Operating income (loss)	(95)	31,703			31,608
Interest expense, net of amounts capitalized	(14,660)	(29,645)	(105)	29,959	(14,451)
Interest income	25,132	3,716	4,132	(29,959)	3,021
Income from unconsolidated companies		109			109
Income before income taxes and discontinued operations	10,377	5,883	4,027		20,287
Provision for income taxes	(5,688)	(3,225)	(2,401)		(11,314)
Equity in subsidiaries earnings, net	4,265			(4,265)	
Income from continuing operations	8,954	2,658	1,626	(4,265)	8,973
Loss from discontinued operations, net of taxes			(19)		(19)
Net income	$ 8,954	$ 2,658	$ 1,607	$ (4,265)	$ 8,954
Comprehensive income	$ 8,954	$ 2,658	$ 1,607	$ (4,265)	$ 8,954

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GAYLORD ENTERTAINMENT COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Operations and Comprehensive Income

For the Three Months Ended June 30, 2011

(in thousands)	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues	$ 1,461	$ 236,770	$	$ (1,456)	$ 236,775
Operating expenses:					
Operating costs		132,746			132,746
Selling, general and administrative	4,050	38,998			43,048
Casualty loss	48	421			469
Preopening costs		41			41
Management fees		1,456		(1,456)	
Depreciation and amortization	1,002	28,269			29,271
Operating income (loss)	(3,639)	34,839			31,200
Interest expense, net of amounts capitalized	(21,447)	(30,542)	(101)	30,713	(21,377)
Interest income	26,247	3,860	3,922	(30,713)	3,316
Income from unconsolidated companies		152			152
Other gains and (losses), net		141			141
Income before income taxes and discontinued operations	1,161	8,450	3,821		13,432
Provision for income taxes	(365)	(3,290)	(1,144)		(4,799)
Equity in subsidiaries earnings, net	7,841			(7,841)	
Income from continuing operations	8,637	5,160	2,677	(7,841)	8,633
Income from discontinued operations, net of taxes			4		4
Net income	$ 8,637	$ 5,160	$ 2,681	$ (7,841)	$ 8,637
Comprehensive income	$ 12,150	$ 5,160	$ 2,681	$ (7,841)	$ 12,150

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GAYLORD ENTERTAINMENT COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Operations and Comprehensive Income

For the Six Months Ended June 30, 2012

(in thousands)	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues	$ 12,099	$ 492,233	$	$ (12,188)	$ 492,144
Operating expenses:					
Operating costs		274,199			274,199
Selling, general and administrative	16,417	84,766		(103)	101,080
Casualty loss	276	270			546
Preopening costs	22	317			339
Management fees		12,085		(12,085)	
Depreciation and amortization	1,526	61,162			62,688
Operating income (loss)	(6,142)	59,434			53,292
Interest expense, net of amounts capitalized	(29,294)	(59,473)	(209)	60,163	(28,813)
Interest income	50,461	7,665	8,212	(60,163)	6,175
Income from unconsolidated companies		109			109
Income before income taxes and discontinued operations	15,025	7,735	8,003		30,763
Provision for income taxes	(7,639)	(4,074)	(4,070)		(15,783)
Equity in subsidiaries earnings, net	7,596			(7,596)	
Income from continuing operations	14,982	3,661	3,933	(7,596)	14,980
Income from discontinued operations, net of taxes			2		2
Net income	$ 14,982	$ 3,661	$ 3,935	$ (7,596)	$ 14,982
Comprehensive income	$ 14,982	$ 3,661	$ 3,935	$ (7,596)	$ 14,982

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GAYLORD ENTERTAINMENT COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Operations and Comprehensive Income

For the Six Months Ended June 30, 2011

(in thousands)	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues	$ 2,936	$ 457,529	$	$ (2,952)	$ 457,513
Operating expenses:					
Operating costs		266,652		(28)	266,624
Selling, general and administrative	8,342	77,784			86,126
Casualty loss	48	420			468
Preopening costs		41			41
Management fees		2,924		(2,924)	
Depreciation and amortization	2,029	56,299			58,328
Operating income (loss)	(7,483)	53,409			45,926
Interest expense, net of amounts capitalized	(42,521)	(60,526)	(200)	61,061	(42,186)
Interest income	52,074	7,725	7,751	(61,061)	6,489
Income from unconsolidated companies		325			325
Other gains and (losses), net		(50)			(50)
Income before income taxes and discontinued operations	2,070	883	7,551		10,504
Provision for income taxes	(840)	(399)	(2,593)		(3,832)
Equity in subsidiaries earnings, net	5,450			(5,450)	
Income from continuing operations	6,680	484	4,958	(5,450)	6,672
Income (loss) from discontinued operations, net of taxes		22	(14)		8
Net income	$ 6,680	$ 506	$ 4,944	$ (5,450)	$ 6,680
Comprehensive income	$ 13,602	$ 506	$ 4,944	$ (5,450)	$ 13,602

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GAYLORD ENTERTAINMENT COMPANY AND SUBSIDIARIES

Condensed Consolidating Balance Sheet

June 30, 2012

(in thousands)	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents unrestricted	$ 25,844	$ 3,660	$	$	$ 29,504
Cash and cash equivalents restricted	1,150				1,150
Trade receivables, net		54,194			54,194
Deferred income taxes	88	4,882	23		4,993
Other current assets	1,746	42,777		(126)	44,397
Intercompany receivables, net	1,730,974		310,422	(2,041,396)	
Total current assets	1,759,802	105,513	310,445	(2,041,522)	134,238
Property and equipment, net of accumulated depreciation	48,481	2,152,135			2,200,616
Notes receivable, net of current portion		145,271			145,271
Long-term deferred financing costs	13,602				13,602
Other long-term assets	668,174	358,460		(974,349)	52,285
Long-term assets of discontinued operations			335		335
Total assets	$ 2,490,059	$ 2,761,379	$ 310,780	$ (3,015,871)	$ 2,546,347
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Current portion of long-term debt and capital lease obligations	$	$ 750	$	$	$ 750
Accounts payable and accrued liabilities	8,791	143,361		(417)	151,735
Intercompany payables, net		1,948,379	93,017	(2,041,396)	
Current liabilities of discontinued operations			147		147
Total current liabilities	8,791	2,092,490	93,164	(2,041,813)	152,632
Long-term debt and capital lease obligations, net of current portion	1,033,180	1,276			1,034,456
Deferred income taxes	(29,598)	149,496	(81)		119,817
Other long-term liabilities	84,480	86,008		291	170,779
Long-term liabilities of discontinued operations			451		451
Commitments and contingencies					
Stockholders equity:					
Preferred stock					
Common stock	491	2,388	1	(2,389)	491
Additional paid-in capital	937,592	1,081,067	(40,129)	(1,040,938)	937,592
Treasury stock	(4,599)				(4,599)
Retained earnings	495,753	(651,346)	257,374	68,978	170,759
Accumulated other comprehensive loss	(36,031)				(36,031)
Total stockholders equity	1,393,206	432,109	217,246	(974,349)	1,068,212
Total liabilities and stockholders equity	$ 2,490,059	$ 2,761,379	$ 310,780	$ (3,015,871)	$ 2,546,347

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GAYLORD ENTERTAINMENT COMPANY AND SUBSIDIARIES

Condensed Consolidating Balance Sheet

December 31, 2011

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

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GAYLORD ENTERTAINMENT COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Cash Flows

For the Six Months Ended June 30, 2012

(in thousands)	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net cash provided by (used in) continuing operating activities	$ 32,560	$ 46,590	$ (51)	$	$ 79,099
Net cash provided by discontinued operating activities			51		51
Net cash provided by operating activities	32,560	46,590			79,150
Purchases of property and equipment	(6,111)	(52,677)			(58,788)
Collection of notes receivable		2,870			2,870
Other investing activities		424			424
Net cash used in investing activities continuing operations	(6,111)	(49,383)			(55,494)
Net cash used investing activities discontinued operations					
Net cash used in investing activities	(6,111)	(49,383)			(55,494)
Net repayments under credit facility	(45,000)				(45,000)
Proceeds from exercise of stock option and purchase plans	6,833				6,833
Other financing activities, net		(373)			(373)
Net cash used in financing activities continuing operations	(38,167)	(373)			(38,540)
Net cash provided by financing activities discontinued operations					
Net cash used in financing activities	(38,167)	(373)			(38,540)
Net change in cash and cash equivalents	(11,718)	(3,166)			(14,884)
Cash and cash equivalents at beginning of period	37,562	6,826			44,388
Cash and cash equivalents at end of period	$ 25,844	$ 3,660	$	$	$ 29,504

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GAYLORD ENTERTAINMENT COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Cash Flows

For the Six Months Ended June 30, 2011

(in thousands)	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net cash provided by (used in) continuing operating activities	$ (12,553)	$ 52,137	$ 66	$	$ 39,650
Net cash provided by (used in) discontinued operating activities		38	(66)		(28)
Net cash provided by (used in) operating activities	(12,553)	52,175			39,622
Purchases of property and equipment	(2,247)	(59,166)			(61,413)
Collection of notes receivable		2,465			2,465
Other investing activities	4	2,179			2,183
Net cash used in investing activities continuing operations	(2,243)	(54,522)			(56,765)
Net cash used in investing activities discontinued operations					
Net cash used in investing activities	(2,243)	(54,522)			(56,765)
Proceeds from exercise of stock option and purchase plans	4,193				4,193
Other financing activities, net		(85)			(85)
Net cash provided by (used in) financing activities continuing operations	4,193	(85)			4,108
Net cash provided by financing activities discontinued operations					
Net cash provided by (used in) financing activities	4,193	(85)			4,108
Net change in cash and cash equivalents	(10,603)	(2,432)			(13,035)
Cash and cash equivalents at beginning of period	117,913	6,485			124,398
Cash and cash equivalents at end of period	$ 107,310	$ 4,053	$	$	$ 111,363

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

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

Cautionary Note Regarding Forward-Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements concern our goals, beliefs, expectations, strategies, objectives, plans, future operating results and underlying assumptions, and other statements that are not necessarily based on historical facts. Without limitation, you can identify these statements by the fact that they do not relate strictly to historical or current facts, and these statements may contain words such as may, will, could, might, projects, expects, believes, anticipates, intends, plans, continue, or pu other variations thereof or comparable terms. In particular, they include statements relating to, among other things, future actions, new projects, strategies, future performance, the outcome of contingencies such as legal proceedings and future financial results. These also include statements regarding (i) our expectation to effect restructuring transactions intended to facilitate our qualification as a real estate investment trust (REIT) for federal income tax purposes, including the consummation of the Marriott sale transaction and fulfillment of the conditions to the closing, including our obtaining consent and waivers of the lenders to our $925 million senior secured credit facility permitting us to amend the facility; (ii) our expectation to effect the REIT conversion and to elect REIT status, including the timing and effect(s) of such election; (iii) the expected form, timing and amount of the special distribution of our accumulated earnings and profits; (iv) the anticipated benefits of the REIT conversion, Marriott sale transaction and merger, including potential increases in revenue and anticipated annualized cost synergies, net of management fees, of approximately $33 million to $40 million; (v) estimated one-time costs related to the REIT conversion, including conversion, transaction, severance, and retention costs of $55 million, and anticipated federal income taxes associated with the receipt of the purchase price in the Marriott sale transaction and other transactions related to the REIT conversion net of remaining net operating losses of approximately $43 million to $53 million; (vi) the holding of our non-qualifying REIT assets in one or more taxable REIT subsidiaries; (vii) our expectation that our common stock will trade on the New York Stock Exchange after the REIT conversion; (viii) potential growth opportunities, including future expansion of the geographic diversity of our existing asset portfolio through acquisitions; (ix) the anticipated pace of recovery in demand for products and services provided by the lodging industry relative to general economic conditions; (x) the potential operating and financial restrictions imposed on our activities under existing and future financing agreements and other contractual arrangements with third-parties; (xi) any potential future adoption of a shareholder rights plan before or after the REIT conversion; and (xii) any other business or operational matters. We have based these forward-looking statements on our current expectations and projections about future events.

We caution the reader that forward-looking statements involve risks and uncertainties that cannot be predicted or quantified, and, consequently, actual results may differ materially from those expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, among other things, those factors described in our Annual Report on Form 10-K for the year ended December 31, 2011, in this Quarterly Report on Form 10-Q, or described from time to time in our other reports filed with the SEC, and the following risks and uncertainties: those associated with economic conditions affecting the hospitality business generally; the failure to receive, on a timely basis or otherwise, the required approvals of our stockholders or the private letter ruling from the IRS; our ability to elect and qualify for REIT status, and the timing and effect(s) of that election; our ability to remain qualified as a REIT; the form, timing and amount of the special distribution of our accumulated earnings and profits; our and Marriott s ability to consummate the Marriott sale transaction; operating costs and business disruption may be greater than expected; and our ability to realize cost savings and revenue enhancements from the proposed REIT conversion and the Marriott sale transaction.

Any forward-looking statement made in this quarterly report on Form 10-Q speaks only as of the date on which the statement is made. New risks and uncertainties arise from time to time, and it is impossible for us to predict these events or how they may affect us. We have no duty to, and do not intend to, update or revise the forward-looking statements we make in this quarterly report on Form 10-Q, except as may be required by law.

Additional Information on the REIT Conversion and Where to Find It; Interests of Participants

This quarterly report on Form 10-Q does not constitute an offer to sell or the solicitation of an offer to buy securities or a solicitation of any vote or approval. Granite Hotel Properties, Inc. (Granite) and Gaylord Entertainment Company (Gaylord) have filed with the SEC a registration statement on Form S-4 containing a preliminary proxy statement/prospectus which describes our plans to qualify as a REIT for federal income tax purposes following the consummation of our transaction with Marriott International, Inc., and the contemplated merger of Gaylord with and into Granite to facilitate the REIT election. The registration statement has not yet become effective. Notice of a special meeting and a definitive proxy statement/prospectus will be mailed to stockholders of Gaylord who hold shares of Gaylord common stock on the record date to be determined by the Company. **INVESTORS ARE URGED TO READ THE FORM S-4 AND PROXY STATEMENT (INCLUDING ALL AMENDMENTS AND SUPPLEMENTS THERETO) AND ANY OTHER RELEVANT DOCUMENTS THAT ARE FILED WITH THE SEC BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED MERGER AND REIT CONVERSION.** You may obtain copies of all documents filed with the SEC concerning the proposed transaction, free of charge, at the SEC s website at www.sec.gov or our website at www.gaylordentertainment.com. In addition, stockholders may obtain free copies of the documents by sending a written request to Gaylord s Secretary at Gaylord Entertainment Company, One Gaylord Drive, Nashville, Tennessee 37214, or by calling the Secretary at (615) 316-6000.

Gaylord and its directors and executive officers may be deemed to be participants in the solicitation of proxies from Gaylord s stockholders in connection with the proposed merger and REIT conversion. Information regarding Gaylord s directors and executive officers is set forth in Gaylord s proxy statement for its 2012 annual meeting of stockholders and its Annual Report on Form 10-K for the fiscal year ended December 31, 2011, which were filed with the SEC on April 3, 2012 and February 24, 2012, respectively. Additional information regarding persons who may be deemed to be participants in the solicitation of proxies in respect of the proposed merger and REIT conversion is contained in the proxy statement/prospectus filed with the SEC.

Overall Outlook

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

Group customers typically book rooms and meeting space with significant lead times, sometimes several years in advance of guest arrival. During an economic recovery, group pricing tends to lag transient pricing due to the significant lead times for group bookings. Group business booked in earlier periods at lower rates continues to roll off, and with improving group demand, is being replaced with bookings reflecting generally higher rates. As a result of the higher levels of group business, we have experienced an increase in occupancy in recent quarters as well as increases in rates and future bookings, although there can be no assurance that we can continue to achieve further improvements in occupancy and revenue levels. Our attrition and cancellation levels have also decreased compared to recessionary levels.