Ryman Hospitality Properties, Inc.
Form 10-Q
May 09, 2014
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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, 2014

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 incorporation or organization)	**(I.R.S. Employer Identification No.)**

One Gaylord Drive

Nashville, Tennessee 37214

(Address of principal executive offices)

(Zip Code)

(615) 316-6000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
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, 2014
Common Stock, par value $.01	**50,799,277 shares**

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RYMAN HOSPITALITY PROPERTIES, INC.

FORM 10-Q

For the Quarter Ended March 31, 2014

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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, 2014	December 31, 2013
ASSETS:		
Property and equipment, net of accumulated depreciation	$ 2,057,927	$ 2,067,997
Cash and cash equivalents - unrestricted	55,417	61,579
Cash and cash equivalents - restricted	10,660	20,169
Notes receivable	147,928	148,350
Trade receivables, less allowance of $737 and $717, respectively	67,155	51,782
Deferred financing costs	17,890	19,306
Prepaid expenses and other assets	49,484	55,446
Total assets	$ 2,406,461	$ 2,424,629
LIABILITIES AND STOCKHOLDERS EQUITY:		
Debt and capital lease obligations	$ 1,154,046	$ 1,154,420
Accounts payable and accrued liabilities	147,170	157,339
Deferred income tax liabilities, net	22,322	23,117
Deferred management rights proceeds	185,615	186,346
Dividends payable	28,412	25,780
Other liabilities	119,755	119,932
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, 50,783 and 50,528 shares issued and outstanding, respectively	508	505
Additional paid-in capital	1,227,912	1,228,845
Treasury stock of 477 and 472 shares, at cost	(8,002)	(7,766)
Accumulated deficit	(462,105)	(454,770)
Accumulated other comprehensive loss	(9,172)	(9,119)
Total stockholders equity	749,141	757,695
Total liabilities and stockholders equity	$ 2,406,461	$ 2,424,629

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, 2014	Three Months Ended March 31, 2013
Revenues:		
Rooms	$ 91,082	$ 85,509
Food and beverage	110,071	98,188
Other hotel revenue	31,050	25,884
Opry and Attractions	14,248	12,532
Total revenues	246,451	222,113
Operating expenses:		
Rooms	28,550	25,087
Food and beverage	63,182	61,248
Other hotel expenses	71,030	69,568
Management fees	3,911	3,469
Total hotel operating expenses	166,673	159,372
Opry and Attractions	12,271	11,286
Corporate	6,707	6,666
REIT conversion costs		14,992
Casualty loss		32
Depreciation and amortization	28,003	32,009
Total operating expenses	213,654	224,357
Operating income (loss)	32,797	(2,244)
Interest expense	(15,670)	(13,323)
Interest income	3,031	3,051
Other gains and (losses), net		(6)
Income (loss) before income taxes and discontinued operations	20,158	(12,522)
Benefit for income taxes	484	66,292
Income from continuing operations	20,642	53,770
Income from discontinued operations, net of income taxes	11	10

Net income	$ 20,653	$ 53,780
Basic income per share available to common shareholders:		
Income from continuing operations	$ 0.41	$ 1.03
Income from discontinued operations, net of income taxes		
Net income	$ 0.41	$ 1.03
Fully diluted income per share available to common shareholders:		
Income from continuing operations	$ 0.32	$ 0.81
Income from discontinued operations, net of income taxes		
Net income	$ 0.32	$ 0.81
Dividends declared per common share	$ 0.55	$ 0.50
Comprehensive income, net of deferred taxes	$ 20,600	$ 54,942

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, 2014 and 2013

(Unaudited)

(In thousands)

	2014	2013
Cash Flows from Operating Activities:		
Net income	$ 20,653	$ 53,780
Amounts to reconcile net income to net cash flows provided by operating activities:		
Income from discontinued operations, net of taxes	(11)	(10)
Impairment and other charges		132
Benefit for deferred income taxes	(1,070)	(67,107)
Depreciation and amortization	28,003	32,009
Amortization of deferred financing costs	1,421	1,165
Amortization of discount on convertible notes	3,274	3,593
Write-off of deferred financing costs		544
Stock-based compensation expense	1,281	2,680
Excess tax benefit from stock-based compensation	(10)	(212)
Changes in:		
Trade receivables	(15,373)	(5,402)
Interest receivable	422	475
Accounts payable and accrued liabilities	(13,299)	(74,405)
Other assets and liabilities	4,770	5,847
Net cash flows provided by (used in) operating activities - continuing operations	30,061	(46,911)
Net cash flows provided by (used in) operating activities - discontinued operations	(230)	49
Net cash flows provided by (used in) operating activities	29,831	(46,862)
Cash Flows from Investing Activities:		
Purchases of property and equipment	(17,484)	(10,139)
(Increase) decrease in restricted cash and cash equivalents	9,509	(724)
Other investing activities		9
Net cash flows used in investing activities - continuing operations	(7,975)	(10,854)
Net cash flows used in investing activities - discontinued operations		
Net cash flows used in investing activities	(7,975)	(10,854)
Cash Flows from Financing Activities:		
Net borrowings (repayments) under credit facility	(3,500)	209,000

Early redemption of senior notes		(152,180)
Deferred financing costs paid		(22)
Repurchase of Company stock for retirement		(55,676)
Payment of dividend	(25,459)	
Proceeds from exercise of stock option and purchase plans	1,078	4,255
Excess tax benefit from stock-based compensation	10	212
Other financing activities, net	(147)	(195)
Net cash flows provided by (used in) financing activities - continuing operations	(28,018)	5,394
Net cash flows provided by financing activities - discontinued operations		
Net cash flows provided by (used in) financing activities	(28,018)	5,394
Net change in cash and cash equivalents	(6,162)	(52,322)
Cash and cash equivalents - unrestricted, beginning of period	61,579	97,170
Cash and cash equivalents - unrestricted, end of period	$ 55,417	$ 44,848

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:

The condensed consolidated financial statements include the accounts of Ryman Hospitality Properties, Inc. (Ryman) and its subsidiaries (the Company) and have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (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, 2013. 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.

The Company conducts its business through an umbrella partnership REIT, in which all of its assets are held by, and all of its 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. Ryman is the sole limited partner of the Operating Partnership and currently owns, either directly or indirectly, all of the partnership units of the Operating Partnership. RHP Finance Corporation, a Delaware corporation (Finco), was formed as a wholly-owned subsidiary of the Operating Partnership for the sole purpose of being an issuer of debt securities with the Operating Partnership. Neither Ryman nor Finco has any material assets, other than Ryman s investment in the Operating Partnership and its 100%-owned subsidiaries. As 100%-owned subsidiaries of Ryman, neither the Operating Partnership nor Finco has any business, operations, financial results or other material information, other than the business, operations, financial results and other material information described in this Quarterly Report on Form 10-Q and Ryman s other Exchange Act reports.

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.

2. 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 is electing to be taxed as a REIT commencing with the year ended December 31, 2013.

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 properties , 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 properties pursuant to a management agreement for each Gaylord Hotel property.

On October 1, 2012, the Company received $210.0 million in cash from Marriott in exchange for rights to manage the Gaylord Hotels properties (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.

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 statements of operations. During the three months ended March 31, 2013, the Company incurred $15.0 million of various costs associated with these transactions, including employment and severance costs ($11.2 million), professional fees ($1.1 million), and various other transition costs ($2.7 million). No REIT conversion costs were incurred during the three months ended March 31, 2014.

The REIT conversion, including the Marriott sale transaction and other restructuring transactions, are designed to enable the Company to hold its assets and business operations in a manner that enables 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 substantially eliminates 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 manage the day-to-day operations of its Gaylord Hotels properties 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 act as lessees of the Company s hotels, as well as the businesses within the Company s Opry and Attractions segment, continue to be subject, as applicable, to federal corporate and state income taxes following the REIT conversion.

3. INCOME PER SHARE:

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

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Weighted average shares outstanding - basic	50,623	52,427
Effect of dilutive stock-based compensation	573	589
Effect of convertible notes	7,152	7,702
Effect of common stock warrants	5,725	6,002
Weighted average shares outstanding - diluted	64,073	66,720

The Company had stock-based compensation awards outstanding with respect to approximately zero and 0.2 million shares of common stock for the three months ended March 31, 2014 and 2013, respectively, that could potentially dilute earnings per share in the future but were excluded from the computation of diluted earnings per share for the respective periods 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, 2013, in 2009 the Company issued 3.75% Convertible Senior Notes due 2014 (the Convertible Notes). The Company intends to settle the outstanding 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, 2014 and thereafter will be convertible through the close of business on September 29, 2014 pursuant to the indenture for the Convertible Notes. See Note 15 for further disclosure.

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 shares of the Company s stock. At March 31, 2014, approximately 14.5 million shares of the Company s common stock were issuable pursuant to the warrants, with an adjusted strike price of $25.31 per share, which reflects the adjustments made in connection with the cash dividend paid by the Company to stockholders on April 14, 2014. The number of shares underlying the warrants and the strike price thereof are subject to 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 in shares of the Company s common stock. See Note 15 for further disclosure.

4. 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, 2014 and 2013, the Company recorded no other comprehensive income and reclassified ($0.1) million and $0.1 million, respectively, from accumulated other comprehensive (income) loss into operating expenses in the Company s condensed consolidated statements of operations included herein. In the three months ended March 31, 2013, the Company also recorded $1.0 million in tax benefits for accumulated other comprehensive loss, primarily related to a change in tax rate on the items included in accumulated other comprehensive loss due to the Company s REIT conversion.

5. PROPERTY AND EQUIPMENT:

Property and equipment at March 31, 2014 and December 31, 2013 is recorded at cost and summarized as follows (in thousands):

	March 31, 2014	**December 31, 2013**