

Ryman Hospitality Properties, Inc.

Form 10-Q

November 05, 2015

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2015**

**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**  
**(State or Other Jurisdiction of**  
**Incorporation or Organization)**

**73-0664379**  
**(I.R.S. Employer**  
**Identification No.)**

**One Gaylord Drive**

**Nashville, Tennessee 37214**

**(Address of Principal Executive Offices)**

**(Zip Code)**

**(615) 316-6000**

**(Registrant's Telephone Number, Including Area Code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  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).  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  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  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

**Class**  
Common Stock, par value \$.01

**Outstanding as of October 30, 2015**  
51,285,263 shares



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**RYMAN HOSPITALITY PROPERTIES, INC.**

**FORM 10-Q**

**For the Quarter Ended September 30, 2015**

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**Table of Contents****Part I FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS.****RYMAN HOSPITALITY PROPERTIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)****(In thousands)**

	<b>September 30, 2015</b>	<b>December 31, 2014</b>
<b>ASSETS:</b>		
Property and equipment, net of accumulated depreciation	\$ 2,011,381	\$ 2,036,261
Cash and cash equivalents - unrestricted	40,340	76,408
Cash and cash equivalents - restricted	21,854	17,410
Notes receivable	149,569	149,612
Trade receivables, less allowance of \$675 and \$704, respectively	63,807	45,188
Deferred financing costs	26,688	21,646
Prepaid expenses and other assets	67,677	66,621
<b>Total assets</b>	<b>\$ 2,381,316</b>	<b>\$ 2,413,146</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY:</b>		
Debt and capital lease obligations	\$ 1,469,582	\$ 1,341,555
Accounts payable and accrued liabilities	163,498	166,848
Deferred income tax liabilities, net	8,876	14,284
Deferred management rights proceeds	183,877	183,423
Dividends payable	36,616	29,133
Derivative liabilities		134,477
Other liabilities	145,473	142,019
Commitments and contingencies		
<b>Stockholders equity:</b>		
Preferred stock, \$.01 par value, 100,000 shares authorized, no shares issued or outstanding		
Common stock, \$.01 par value, 400,000 shares authorized, 51,283 and 51,044 shares issued and outstanding, respectively	513	510
Additional paid-in capital	885,351	882,193
Treasury stock of 505 and 477 shares, at cost	(9,647)	(8,002)
Accumulated deficit	(476,261)	(446,963)
Accumulated other comprehensive loss	(26,562)	(26,331)
<b>Total stockholders equity</b>	<b>373,394</b>	<b>401,407</b>

Total liabilities and stockholders equity	\$ 2,381,316	\$ 2,413,146
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The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**RYMAN HOSPITALITY PROPERTIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****AND COMPREHENSIVE INCOME****(Unaudited)****(In thousands, except per share data)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Revenues:</b>				
Rooms	\$ 92,828	\$ 92,378	\$ 292,089	\$ 282,836
Food and beverage	108,558	104,175	345,931	331,378
Other hotel revenue	23,456	22,549	69,111	70,021
Entertainment (previously Opry and Attractions)	27,978	25,913	72,873	65,144
<b>Total revenues</b>	<b>252,820</b>	<b>245,015</b>	<b>780,004</b>	<b>749,379</b>
<b>Operating expenses:</b>				
Rooms	27,347	28,397	80,216	82,778
Food and beverage	63,797	60,508	193,661	184,748
Other hotel expenses	70,108	71,863	210,513	212,788
Management fees	3,213	3,622	10,516	11,485
<b>Total hotel operating expenses</b>	<b>164,465</b>	<b>164,390</b>	<b>494,906</b>	<b>491,799</b>
Entertainment (previously Opry and Attractions)	18,954	16,557	48,775	44,239
Corporate	8,017	6,952	21,384	19,707
Preopening costs	118		909	
Impairment and other charges			2,890	
Depreciation and amortization	28,498	28,033	85,467	84,268
<b>Total operating expenses</b>	<b>220,052</b>	<b>215,932</b>	<b>654,331</b>	<b>640,013</b>
<b>Operating income</b>	<b>32,768</b>	<b>29,083</b>	<b>125,673</b>	<b>109,366</b>
Interest expense	(16,138)	(17,135)	(47,765)	(48,277)
Interest income	2,982	3,001	9,383	9,070
Loss on extinguishment of debt				(2,148)
Other gains and (losses), net	2,467	(282)	(18,104)	(4,608)
<b>Income before income taxes</b>	<b>22,079</b>	<b>14,667</b>	<b>69,187</b>	<b>63,403</b>
Benefit for income taxes	4,612	463	3,425	371
<b>Net income</b>	<b>26,691</b>	<b>15,130</b>	<b>72,612</b>	<b>63,774</b>
				(4,952)

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Loss on call spread and warrant modifications related to convertible notes

Net income available to common shareholders	\$ 26,691	\$ 15,130	\$ 72,612	\$ 58,822
Basic income per share available to common shareholders	\$ 0.52	\$ 0.30	\$ 1.42	\$ 1.16
Fully diluted income per share available to common shareholders	\$ 0.52	\$ 0.25	\$ 1.41	\$ 0.97
Dividends declared per common share	\$ 0.70	\$ 0.55	\$ 2.00	\$ 1.65
Comprehensive income, net of deferred taxes	\$ 26,364	\$ 15,079	\$ 72,381	\$ 63,623

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 Nine Months Ended September 30, 2015 and 2014**

**(Unaudited)**

**(In thousands)**

	<b>2015</b>	<b>2014</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 72,612	\$ 63,774
<b>Amounts to reconcile net income to net cash flows provided by operating activities:</b>		
Benefit for deferred income taxes	(5,303)	(2,261)
Depreciation and amortization	85,467	84,268
Amortization of deferred financing costs	4,177	4,532
Amortization of discount on convertible notes		8,735
Impairment and other charges	2,890	
Loss on extinguishment of debt		2,148
Loss on repurchase of warrants	20,246	6,065
Write-off of deferred financing costs	1,926	
Stock-based compensation expense	4,582	4,217
<b>Changes in:</b>		
Trade receivables	(18,619)	(7,637)
Interest receivable	(1,987)	(144)
Accounts payable and accrued liabilities	(6,901)	(2,543)
Other assets and liabilities	(8,122)	(3,940)
<b>Net cash flows provided by operating activities</b>	<b>150,968</b>	<b>157,214</b>
<b>Cash Flows from Investing Activities:</b>		
Purchases of property and equipment	(63,352)	(50,728)
Proceeds from sale of Peterson LOI	10,000	
(Increase) decrease in restricted cash and cash equivalents	(4,444)	5,936
Other investing activities	2,533	8,011
<b>Net cash flows used in investing activities</b>	<b>(55,263)</b>	<b>(36,781)</b>
<b>Cash Flows from Financing Activities:</b>		
Net borrowings (repayments) under credit facility	(268,600)	17,500
Net borrowings (repayments) under term loan B	(3,000)	399,000
Issuance of senior notes	400,000	
Repurchase and conversion of convertible notes		(126,542)
Repurchase of common stock warrants	(154,681)	(108,331)
Deferred financing costs paid	(11,145)	(8,428)

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Payment of dividend	(95,404)	(81,352)
Proceeds from exercise of stock option and purchase plans	1,430	6,119
Other financing activities	(373)	(445)
Net cash flows provided by (used in) financing activities	(131,773)	97,521
Net change in cash and cash equivalents	(36,068)	217,954
Cash and cash equivalents - unrestricted, beginning of period	76,408	61,579
Cash and cash equivalents - unrestricted, end of period	\$ 40,340	\$ 279,533

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 (collectively with Ryman, the Company ) and have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC ). Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. 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, 2014. 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 real estate investment trust ( 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 its REIT conversion discussed in Note 2. 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 reports filed with the SEC pursuant to the Securities Exchange Act of 1934, as amended.

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

***Acquisition***

In December 2014, the Company purchased from an affiliate of The Peterson Companies (the developer of the National Harbor, Maryland development in which Gaylord National Resort and Convention Center ( Gaylord National ) is located) the AC Hotel, a 192-room hotel previously operated as the Aloft Hotel at National Harbor for a purchase price of \$21.8 million (the AC Hotel ). The transaction required that the property be transferred to the Company unencumbered by any existing hotel franchise or management agreements. The Company has rebranded the hotel and Marriott is now operating the property in conjunction with the Gaylord National pursuant to a separate management agreement. The hotel opened in April 2015. Simultaneously with the purchase of this hotel, the Company also acquired from an affiliate of The Peterson Companies a vacant one-half acre parcel of land located in close

proximity to Gaylord National, suitable for development of a hotel or other permitted uses. In December 2014, the Company paid \$21.2 million of the combined purchase price, including transaction costs, in cash and issued a \$6.0 million note payable to an affiliate of The Peterson Companies, which is due in January 2016 and bears interest at an Applicable Federal Rate as determined by the Internal Revenue Service and is shown in Note 7.

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In January 2015, the hospitality industry's *Uniform System of Accounts for the Lodging Industry, Eleventh Revised Edition* became effective. This revised edition contains updates to the classifications of certain hotel financial information, including the reclassification of technology-related revenue from other hotel revenue to food and beverage revenue and the reclassification of revenue management expense from rooms expense to other hotel expense. In order to be more aligned with its peers in the hospitality REIT industry, the Company adopted the updates in its 2015 presentation. As a result, \$5.9 million and \$19.7 million, respectively, of other hotel revenue has been reclassified as food and beverage revenue and \$1.1 million and \$3.1 million, respectively, of rooms expense has been reclassified as other hotel expense in the accompanying condensed consolidated statement of operations for the three months and nine months ended September 30, 2014.

***Newly Issued Accounting Standards***

In May 2014, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, the core principle of which is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Under this guidance, companies will need to use more judgment and make more estimates than under today's guidance. These judgments may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The ASU is currently effective for the Company in the first quarter of 2018. The Company is currently evaluating the effects of this ASU on its financial statements, and such effects have not yet been determined.

In April 2015, the FASB issued ASU No. 2015-03, *Interest Imputation of Interest*, which changes the presentation of debt issuance costs in financial statements. Under the ASU, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. The Company expects to adopt this ASU in the fourth quarter of 2015 and, other than the movement of deferred financing costs from an asset to an offset to a liability, does not expect this adoption to have a material impact on the Company's consolidated financial statements.

**2. DEFERRED MANAGEMENT RIGHTS PROCEEDS:**

The Company restructured its business operations to facilitate its qualification as a REIT for federal income tax purposes (the REIT conversion) during 2012 and has elected 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 Gaylord National, which the Company refers to collectively as the Gaylord Hotels properties, to Marriott International, Inc. (Marriott) for \$210.0 million in cash. 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.

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For financial accounting purposes, 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. 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, Marriott manages the day-to-day operations of the Inn at Opryland, the AC Hotel, General Jackson Showboat, Gaylord Springs Golf Links and the Wildhorse Saloon. To comply with certain REIT qualification requirements, the Company 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 Entertainment segment (previously referred to as the 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):

	<b>Three Months Ended</b>		<b>Nine Months</b>	
	<b>September 30,</b>		<b>Ended</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Weighted average shares outstanding - basic	51,283	50,975	51,226	50,805
Effect of dilutive stock-based compensation	347	442	361	495
Effect of convertible notes		6,307		5,946
Effect of common stock warrants		3,435		3,156
Weighted average shares outstanding - diluted	51,630	61,159	51,587	60,402