WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.
Form N-CSRS
May 29, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-07920

Western Asset High Income Opportunity Fund Inc.

(Exact name of registrant as specified in charter)

620 Eighth Avenue, 49th Floor, New York, NY 10018

(Address of principal executive offices) (Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

100 First Stamford Place

Stamford, CT 06902

(Name and address of agent for service)

Registrant s telephone number, including area code: 1-877-721-1926

Date of fiscal year end: September 30

Date of reporting period: March 31, 2018

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ITEM 1. REPORT TO STOCKHOLDERS.
The **Semi-Annual** Report to Stockholders is filed herewith.

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Semi-Annual Report March 31, 2018

WESTERN ASSET

HIGH INCOME

OPPORTUNITY FUND INC. (HIO)

INVESTMENT PRODUCTS: NOT FDIC INSURED NO BANK GUARANTEE MAY LOSE VALUE

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Fund objectives

The Fund seeks high current income. Capital appreciation is a secondary objective.

In seeking to fulfill its investment objectives, the Fund invests, under normal market conditions, at least 80% of its net assets in high-yield securities and up to 20% in common stock equivalents, including options, warrants and rights.

Letter from the chairman

Dear Shareholder,

We are pleased to provide the semi-annual report of Western Asset High Income Opportunity Fund Inc. for the six-month reporting period ended March 31, 2018. Please read on for Fund performance information and a detailed look at prevailing economic and market conditions during the Fund s reporting period.

As always, we remain committed to providing you with excellent service and a full spectrum of investment choices. We also remain committed to supplementing the support you receive from your financial advisor. One way we accomplish this is through our website, www.lmcef.com. Here you can gain immediate access to market and investment information, including:

- Fund prices and performance,
- Market insights and commentaries from our portfolio managers, and
- A host of educational resources.

We look forward to helping you meet your financial goals.

Sincerely,

Jane Trust, CFA

Chairman, President and Chief Executive Officer

April 27, 2018

Investment commentary

Economic review

Economic activity in the U.S. was somewhat mixed during the six months ended March 31, 2018 (the reporting period). Looking back, the U.S. Department of Commerce reported that third and fourth quarter 2017 U.S. gross domestic product (GDP) growth was 3.2% and 2.9%, respectively. Finally, the U.S. Department of Commerce s initial reading for first quarter 2018 GDP growth released after the reporting period ended was 2.3%. Moderating GDP growth in the first quarter reflected decelerations in personal consumption expenditures (PCE), residential fixed investment, exports and state and local government spending. These movements were partly offset by an upturn in private inventory investment.

Job growth in the U.S. was solid overall and supported the economy during the reporting period. When the reporting period ended on March 31, 2018, the unemployment rate was 4.1%, as reported by the U.S. Department of Labor. This equaled the lowest unemployment rate since December 2000. The percentage of longer-term unemployed declined during the reporting period. In March 2018, 20.3% of Americans looking for a job had been out of work for more than six months, versus 24.8% when the period began.

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Investment commentary (cont d)

Market review

Q. How did the Federal Reserve Board (the Fed[ii]) respond to the economic environment?

A. The Fed increased the federal funds rate[iii] twice during the reporting period. Looking back, at its meeting that concluded on September 20, 2017 before the reporting period began the Fed kept rates on hold, but reiterated its intention to begin reducing its balance sheet, saying, In October, the Committee will initiate the balance sheet normalization program . At its meeting that ended on December 13, 2017, the Fed raised rates to a range between 1.25% and 1.50%. As expected, the Fed kept rates on hold at its meeting that concluded on January 31, 2018. However, at its meeting that ended on March 21, 2018, the Fed again raised the federal funds rate, moving it to a range between 1.50% and 1.75%.

Q. Did Treasury yields trend higher or lower during the reporting period?

A. Both short-term and longer-term Treasury yields moved higher during the six-month reporting period ended March 31, 2018. The yield for the two-year Treasury note began the reporting period at 1.47% the low for the period and ended the period at 2.27%. The high for the period of 2.34% took place on March 20, 2018. The yield for the ten-year Treasury began the reporting period at 2.33% the low for the period and ended the period at 2.74%. The high for the period of 2.94% occurred on February 21, 2018.

Q. What factors impacted the spread sectors (non-Treasuries) during the reporting period?

A. The spread sectors posted mixed results during the reporting period. Performance fluctuated given changing expectations for global growth, uncertainties regarding future central bank monetary policy, the signing of the U.S. tax reform bill in December 2017 and concerns over a global trade war. The broad U.S. bond market, as measured by the Bloomberg Barclays U.S. Aggregate Index[iv], returned -1.08% during the six-month reporting period ended March 31, 2018.

Q. How did the high-yield bond market perform over the reporting period?

A. The U.S. high-yield bond market, as measured by the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Cap Index[v], returned -0.39% for the six months ended March 31, 2018. The high-yield market posted a modest gain during the first four months of the reporting period. Those gains were then erased over the last two months of the period. This turnaround was triggered by a number of factors, including fears that the Fed may take a more aggressive approach to rate hikes, trade war concerns and high-profile issues in the technology industry.

Q. How did the emerging market debt asset class perform over the reporting period?

A. The JPMorgan Emerging Markets Bond Index Global (EMBI Global[vi]) returned -1.25% during the six months ended March 31, 2018. The asset class produced choppy results during the reporting period. At times it was supported by solid investor demand, less concern over a significant shift in U.S. trade policy and a weakening U.S. dollar. However, at other times it was dragged down by rising U.S. interest rates, periods of investor risk aversion and geopolitical issues.

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Performance review

For the six months ended March 31, 2018, Western Asset High Income Opportunity Fund Inc. returned -0.43% based on its net asset value (NAV[vii]) and -3.05% based on its New York Stock Exchange (NYSE) market price per share. The Fund s unmanaged benchmark, the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Cap Index, returned -0.39% for the same period. The Lipper High Yield Closed-End Funds Category Average[viii] returned -0.03% over the same time frame. Please note that Lipper performance returns are based on each fund s NAV.

During this six-month period, the Fund made distributions to shareholders totaling $0.17 per share. As of March 31, 2018, the Fund estimates that 99% of the distributions were sourced from net investment income and 1% constituted a return of capital.* The performance table shows the Fund s six-month total return based on its NAV and market price as of March 31, 2018. **Past performance is no guarantee of future results.**

Performance Snapshot as of March 31, 2018
(unaudited)

Price Per Share	6-Month Total Return**
$5.46 (NAV)	-0.43%
$4.81 (Market Price)	-3.05%

All figures represent past performance and are not a guarantee of future results. Performance figures for periods shorter than one year represent cumulative figures and are not annualized.

**** Total returns are based on changes in NAV or market price, respectively. Returns reflect the deduction of all Fund expenses, including management fees, operating expenses, and other Fund expenses. Returns do not reflect the deduction of brokerage commissions or taxes that investors may pay on distributions or the sale of shares.**

Total return assumes the reinvestment of all distributions, including returns of capital, if any, at NAV.

Total return assumes the reinvestment of all distributions, including returns of capital, if any, in additional shares in accordance with the Fund s Dividend Reinvestment Plan.

Looking for additional information?

The Fund is traded under the symbol HIO and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol XHIOX on most financial websites. *Barron s* and the *Wall Street Journal s* Monday edition both carry closed-end fund tables that provide additional information. In addition, the Fund issues a quarterly press release that can be found on most major financial websites as well as www.lmcef.com (click on the name of the Fund).

In a continuing effort to provide information concerning the Fund, shareholders may call 1-888-777-0102 (toll free), Monday through Friday from 8:00 a.m. to 5:30 p.m. Eastern Time, for the Fund s current NAV, market price and other information.

* These estimates are not for tax purposes. The Fund will issue a Form 1099 with final composition of the distributions for tax purposes after year-end. A return of capital is not taxable and results in a reduction in the tax basis of a shareholder s investment. For more information about a distribution s composition, please refer to the Fund s distribution press release or, if applicable, the Section 19 notice located in the press release section of our website, www.lmcef.com (click on the name of the Fund).

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Investment commentary (cont d)

Thank you for your investment in Western Asset High Income Opportunity Fund Inc. As always, we appreciate that you have chosen us to manage your assets and we remain focused on achieving the Fund s investment goals.

Sincerely,

Jane Trust, CFA

Chairman, President and Chief Executive Officer

April 27, 2018

RISKS: The Fund is a diversified closed-end management investment company designed primarily as a long-term investment and not as a trading vehicle. The Fund is not intended to be a complete investment program and, due to the uncertainty inherent in all investments, there can be no assurance that the Fund will achieve its investment objectives. The Fund s common stock is traded on the New York Stock Exchange. Similar to stocks, the Fund s share price will fluctuate with market conditions and, at the time of sale, may be worth more or less than the original investment. Shares of closed-end funds often trade at a discount to their net asset value. Diversification does not assure against market loss. The Fund s investments are subject to a number of risks, such as credit risk, inflation risk and interest rate risk. The Fund may invest in lower-rated high-yield bonds, commonly known as junk bonds, which are subject to greater credit risk (risk of default) and liquidity risk than higher-rated obligations. The Fund is also permitted purchases of equity securities. Equity securities generally have greater price volatility than fixed-income securities. As interest rates rise, bond prices fall, reducing the value of the Fund s holdings. The Fund may use derivatives, such as options and futures, which can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance. In addition, the Fund may invest in foreign securities, which are subject to certain risks of overseas investing, including currency fluctuations and changes in political, social and economic conditions, which could result in significant fluctuations. These risks are magnified in emerging markets.

All investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results. All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

The information provided is not intended to be a forecast of future events, a guarantee of future results or investment advice. Views expressed may differ from those of the firm as a whole.

[i] Gross domestic product (GDP) is the market value of all final goods and services produced within a country in a given period of time.

[ii] The Federal Reserve Board (the Fed) is responsible for the formulation of U.S. policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.

[iii] The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.

[iv] The Bloomberg Barclays U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage- and asset-backed issues, rated investment grade or higher, and having at least one year to maturity.

[v] The Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Cap Index is an index of the 2% Issuer Cap component of the Bloomberg Barclays U.S. Corporate High Yield Index, which covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market.

[vi] The JPMorgan Emerging Markets Bond Index Global (EMBI Global) tracks total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds and local market instruments.

[vii] Net asset value (NAV) is calculated by subtracting total liabilities, including liabilities associated with financial leverage (if any), from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is the Fund s market price as determined by supply of and demand for the Fund s shares.

[viii] Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the six-month period ended March 31, 2018, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 13 funds in the Fund s Lipper category.

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Fund at a glance (unaudited)

Investment breakdown (%) as a percent of total investments

The bar graph above represents the composition of the Fund s investments as of March 31, 2018 and September 30, 2017 and does not include derivatives, such as forward foreign currency contracts. The Fund is actively managed. As a result, the composition of the Fund s investments is subject to change at any time.

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Spread duration (unaudited)

Economic exposure March 31, 2018

Total Spread Duration

HIO	4.26 years
Benchmark	4.10 years

Spread duration measures the sensitivity to changes in spreads. The spread over Treasuries is the annual risk-premium demanded by investors to hold non-Treasury securities. Spread duration is quantified as the % change in price resulting from a 100 basis points change in spreads. For a security with positive spread duration, an increase in spreads would result in a price decline and a decline in spreads would result in a price increase. This chart highlights the market sector exposure of the Fund s sectors relative to the selected benchmark sectors as of the end of the reporting period.

Benchmark	Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Cap Index
EM	Emerging Markets
HIO	Western Asset High Income Opportunity Fund Inc.
HY	High Yield
IG Credit	Investment Grade Credit

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Effective duration (unaudited)

Interest rate exposure March 31, 2018

Total Effective Duration

HIO	4.36 years
Benchmark	4.06 years

Effective duration measures the sensitivity to changes in relevant interest rates. Effective duration is quantified as the % change in price resulting from a 100 basis points change in interest rates. For a security with positive effective duration, an increase in interest rates would result in a price decline and a decline in interest rates would result in a price increase. This chart highlights the interest rate exposure of the Fund s sectors relative to the selected benchmark sectors as of the end of the reporting period.

Benchmark	Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Cap Index
EM	Emerging Markets
HIO	Western Asset High Income Opportunity Fund Inc.
HY	High Yield
IG Credit	Investment Grade Credit

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Schedule of investments (unaudited)

March 31, 2018

Western Asset High Income Opportunity Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
Corporate Bonds & Notes 80.2%				
Consumer Discretionary 15.0%				
Auto Components 1.1%				
Adient Global Holdings Ltd., Senior Notes	4.875%	8/15/26	3,900,000	$ 3,705,000 (a)
IHO Verwaltungs GmbH, Senior Secured Bonds (4.750% Cash or 5.500% PIK)	4.750%	9/15/26	1,310,000	1,265,788 (a)(b)
ZF North America Capital Inc., Senior Notes	4.750%	4/29/25	2,730,000	2,774,362 (a)
Total Auto Components				*7,745,150*
Diversified Consumer Services 1.5%				
Prime Security Services Borrower LLC/Prime Finance Inc., Secured Notes	9.250%	5/15/23	2,943,000	3,196,628 (a)
Service Corp. International, Senior Notes	7.500%	4/1/27	1,975,000	2,279,150
VOC Escrow Ltd., Senior Secured Notes	5.000%	2/15/28	5,450,000	5,204,750 (a)
Total Diversified Consumer Services				*10,680,528*
Hotels, Restaurants & Leisure 2.1%				
Bossier Casino Venture Holdco Inc., Senior Secured Bonds (14.000% PIK)	14.000%	2/9/23	2,052,998	2,052,998 (a)(b)(c)(d)
Boyne USA Inc., Secured Notes	7.250%	5/1/25	830,000	855,937 (a)(e)
Carrols Restaurant Group Inc., Secured Notes	8.000%	5/1/22	2,820,000	2,946,900
Downstream Development Authority of the Quapaw Tribe of Oklahoma, Senior Secured Notes	10.500%	2/15/23	1,050,000	1,081,500 (a)
Fontainebleau Las Vegas Holdings LLC, Senior Secured Notes	10.250%	6/15/15	715,000	72 *(a)(f)
Hilton Worldwide Finance LLC/Hilton Worldwide Finance Corp., Senior Notes	4.625%	4/1/25	3,120,000	3,123,900
Hilton Worldwide Finance LLC/Hilton Worldwide Finance Corp., Senior Notes	4.875%	4/1/27	3,210,000	3,181,912
Silversea Cruise Finance Ltd., Senior Secured Notes	7.250%	2/1/25	1,538,000	1,634,125 (a)
Total Hotels, Restaurants & Leisure				*14,877,344*
Household Durables 0.3%				
Lennar Corp., Senior Notes	4.500%	4/30/24	590,000	579,675
Lennar Corp., Senior Notes	4.750%	5/30/25	750,000	741,563
Lennar Corp., Senior Notes	4.750%	11/29/27	1,030,000	991,375 (a)
Total Household Durables				*2,312,613*
Media 8.6%				
Altice France SA, Senior Secured Bonds	6.000%	5/15/22	1,400,000	1,370,222 (a)
Altice France SA, Senior Secured Bonds	6.250%	5/15/24	930,000	880,013 (a)
Altice France SA, Senior Secured Notes	7.375%	5/1/26	15,182,000	14,517,787 (a)
Altice Luxembourg SA, Senior Secured Notes	7.750%	5/15/22	9,835,000	9,171,039 (a)
CCO Holdings LLC/CCO Holdings Capital Corp., Senior Notes	5.750%	2/15/26	1,170,000	1,167,087 (a)

See Notes to Financial Statements.

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Western Asset High Income Opportunity Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
Media — continued				
Charter Communications Operating LLC/Charter Communications Operating Capital Corp., Senior Secured Notes	4.200%	3/15/28	5,000,000	$ 4,795,736
DISH DBS Corp., Senior Notes	5.875%	7/15/22	780,000	748,800
DISH DBS Corp., Senior Notes	5.000%	3/15/23	966,000	871,815
DISH DBS Corp., Senior Notes	5.875%	11/15/24	9,418,000	8,429,110
DISH DBS Corp., Senior Notes	7.750%	7/1/26	3,650,000	3,436,475
Meredith Corp., Senior Notes	6.875%	2/1/26	1,500,000	1,543,125 [(a)]
Time Warner Cable LLC, Senior Notes	8.750%	2/14/19	2,311,000	2,420,460
Time Warner Cable LLC, Senior Notes	8.250%	4/1/19	1,039,000	1,090,636
UPC Holding BV, Senior Secured Notes	5.500%	1/15/28	4,530,000	4,190,250 [(a)]
Virgin Media Finance PLC, Senior Notes	6.375%	4/15/23	4,400,000	4,488,000 [(a)]
Virgin Media Finance PLC, Senior Notes	6.000%	10/15/24	1,530,000	1,520,437 [(a)]
Total Media				*60,640,992*
Specialty Retail — 0.9%				
American Greetings Corp., Senior Notes	7.875%	2/15/25	2,350,000	2,379,375 [(a)]
Hertz Corp., Senior Notes	5.875%	10/15/20	2,030,000	2,022,388
PetSmart Inc., Senior Secured Notes	5.875%	6/1/25	2,180,000	1,585,950 [(a)]
Total Specialty Retail				*5,987,713*
Textiles, Apparel & Luxury Goods — 0.5%				
Hanesbrands Inc., Senior Notes	4.625%	5/15/24	3,736,000	3,675,290 [(a)]
Hanesbrands Inc., Senior Notes	4.875%	5/15/26	136,000	132,600 [(a)]
Total Textiles, Apparel & Luxury Goods				*3,807,890*
Total Consumer Discretionary				**106,052,230**
Consumer Staples — 1.9%				
Beverages — 0.2%				
Carolina Beverage Group LLC/Carolina Beverage Group Finance Inc., Secured Notes	10.625%	8/1/18	1,500,000	*1,505,625* [(a)]
Food & Staples Retailing — 0.1%				
Beverages & More Inc., Senior Secured Notes	11.500%	6/15/22	760,000	*701,100* [(a)]
Food Products — 0.9%				
Lamb Weston Holdings Inc., Senior Notes	4.625%	11/1/24	1,400,000	1,394,750 [(a)]
Marfrig Holding Europe BV, Senior Notes	8.000%	6/8/23	3,775,000	3,812,750 [(a)]
Pilgrim s Pride Corp., Senior Notes	5.875%	9/30/27	920,000	869,216 [(a)]
Total Food Products				*6,076,716*
Household Products — 0.6%				
Central Garden & Pet Co., Senior Notes	6.125%	11/15/23	1,080,000	1,132,650
Spectrum Brands Inc., Senior Notes	6.625%	11/15/22	940,000	972,900

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Schedule of investments (unaudited) (cont d)

March 31, 2018

Western Asset High Income Opportunity Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
Household Products continued				
Spectrum Brands Inc., Senior Notes	6.125%	12/15/24	650,000	$ 672,750
Spectrum Brands Inc., Senior Notes	5.750%	7/15/25	1,220,000	1,250,500
Total Household Products				*4,028,800*
Tobacco 0.1%				
Alliance One International Inc., Secured Notes	9.875%	7/15/21	790,000	*769,263*
Total Consumer Staples				**13,081,504**
Energy 15.1%				
Energy Equipment & Services 1.0%				
KCA Deutag UK Finance PLC, Senior Secured Notes	9.875%	4/1/22	2,320,000	2,434,770 (a)
Precision Drilling Corp., Senior Notes	7.125%	1/15/26	1,220,000	1,210,850 (a)
Pride International Inc., Senior Notes	7.875%	8/15/40	1,000,000	852,500
Transocean Inc., Senior Notes	9.000%	7/15/23	830,000	886,025 (a)
Transocean Inc., Senior Notes	6.800%	3/15/38	1,770,000	1,389,450
Total Energy Equipment & Services				*6,773,595*
Oil, Gas & Consumable Fuels 14.1%				
Andeavor Logistics LP/Tesoro Logistics Finance Corp., Senior Notes	6.375%	5/1/24	650,000	691,438
Andeavor Logistics LP/Tesoro Logistics Finance Corp., Senior Notes	5.250%	1/15/25	1,530,000	1,557,387
Berry Petroleum Co. Escrow			1,230,000	0 *(c)(d)(g)
Berry Petroleum Co. Escrow			3,484,000	0 *(c)(d)(g)
Blue Racer Midstream LLC/Blue Racer Finance Corp., Senior Notes	6.125%	11/15/22	2,840,000	2,903,900 (a)
Calumet Specialty Products Partners LP/Calumet Finance Corp., Senior Secured Notes	11.500%	1/15/21	1,740,000	1,945,537 (a)
Cheniere Corpus Christi Holdings LLC, Senior Secured Notes	5.875%	3/31/25	2,120,000	2,226,000
Chesapeake Energy Corp., Senior Notes	6.875%	11/15/20	5,200,000	5,395,000
Chesapeake Energy Corp., Senior Notes	5.375%	6/15/21	1,655,000	1,617,762
Chesapeake Energy Corp., Senior Notes	5.750%	3/15/23	600,000	543,750
Chesapeake Energy Corp., Senior Notes	8.000%	6/15/27	680,000	651,100 (a)
Continental Resources Inc., Senior Notes	3.800%	6/1/24	5,560,000	5,372,350
Continental Resources Inc., Senior Notes	4.900%	6/1/44	2,640,000	2,541,000
Ecopetrol SA, Senior Notes	7.375%	9/18/43	1,900,000	2,234,875
Genesis Energy LP/Genesis Energy Finance Corp., Senior Bonds	5.625%	6/15/24	2,100,000	1,989,750
Genesis Energy LP/Genesis Energy Finance Corp., Senior Notes	6.750%	8/1/22	1,320,000	1,361,250
Kinder Morgan Inc., Medium-Term Notes	7.750%	1/15/32	6,920,000	8,862,385
Magnum Hunter Resources Corp. Escrow			6,700,000	0 *(c)(d)(g)

See Notes to Financial Statements.

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Western Asset High Income Opportunity Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
Oil, Gas & Consumable Fuels continued				
MEG Energy Corp., Senior Notes	7.000%	3/31/24	3,040,000	$ 2,523,200 (a)
NGPL PipeCo LLC, Senior Bonds	4.875%	8/15/27	1,510,000	1,493,012 (a)
NGPL PipeCo LLC, Senior Notes	4.375%	8/15/22	1,010,000	1,007,475 (a)
NGPL PipeCo LLC, Senior Secured Notes	7.768%	12/15/37	1,520,000	1,846,800 (a)
Oasis Petroleum Inc., Senior Notes	7.250%	2/1/19	1,910,000	1,924,325
Oasis Petroleum Inc., Senior Notes	6.500%	11/1/21	2,730,000	2,777,775
Oasis Petroleum Inc., Senior Notes	6.875%	1/15/23	1,420,000	1,443,075
Petrobras Global Finance BV, Senior Notes	7.375%	1/17/27	3,550,000	3,853,525
Petrobras Global Finance BV, Senior Notes	5.999%	1/27/28	3,650,000	3,618,062 (a)
Petrobras Global Finance BV, Senior Notes	6.750%	1/27/41	5,120,000	5,004,800
Rockies Express Pipeline LLC, Senior Notes	7.500%	7/15/38	1,080,000	1,298,700 (a)
Rockies Express Pipeline LLC, Senior Notes	6.875%	4/15/40	1,140,000	1,320,553 (a)
Sabine Pass Liquefaction LLC, Senior Secured Notes	5.750%	5/15/24	1,340,000	1,444,150
Sanchez Energy Corp., Senior Notes	7.750%	6/15/21	1,960,000	1,813,000
Sanchez Energy Corp., Senior Notes	6.125%	1/15/23	8,970,000	6,587,344
Shelf Drilling Holdings Ltd., Senior Notes	8.250%	2/15/25	1,540,000	1,549,625 (a)
Targa Resources Partners LP/Targa Resources Partners Finance Corp., Senior Bonds	5.125%	2/1/25	2,580,000	2,576,775
Targa Resources Partners LP/Targa Resources Partners Finance Corp., Senior Bonds	5.375%	2/1/27	5,060,000	5,060,000
Targa Resources Partners LP/Targa Resources Partners Finance Corp., Senior Notes	4.250%	11/15/23	600,000	578,250
Targa Resources Partners LP/Targa Resources Partners Finance Corp., Senior Notes	5.000%	1/15/28	2,120,000	2,029,900 (a)
Whiting Petroleum Corp., Senior Notes	6.250%	4/1/23	720,000	730,800
Williams Cos. Inc., Debentures	7.500%	1/15/31	620,000	757,563
Williams Cos. Inc., Senior Notes	3.700%	1/15/23	1,980,000	1,935,450
Williams Cos. Inc., Senior Notes	4.550%	6/24/24	1,770,000	1,791,187
Williams Cos. Inc., Senior Notes	5.750%	6/24/44	3,190,000	3,389,375
WPX Energy Inc., Senior Notes	7.500%	8/1/20	530,000	569,750
WPX Energy Inc., Senior Notes	8.250%	8/1/23	860,000	967,500
Total Oil, Gas & Consumable Fuels				*99,785,455*
Total Energy				**106,559,050**
Financials 13.2%				
Banks 6.0%				
Bank of America Corp., Junior Subordinated Notes (6.500% to 10/23/24 then 3 mo. USD LIBOR + 4.174%)	6.500%	10/23/24	2,160,000	2,324,916 (h)(i)
Barclays Bank PLC, Subordinated Notes	10.179%	6/12/21	2,990,000	3,512,094 (a)
Barclays Bank PLC, Subordinated Notes	7.625%	11/21/22	3,400,000	3,737,365

See Notes to Financial Statements.

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Schedule of investments (unaudited) (cont d)

March 31, 2018

Western Asset High Income Opportunity Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
Banks continued				
Barclays PLC, Junior Subordinated Bonds (8.250% to 12/15/18 then USD 5 year Swap Rate + 6.705%)	8.250%	12/15/18	650,000	$ 672,367 (h)(i)
BNP Paribas SA, Junior Subordinated Notes (7.375% to 8/19/25 then USD 5 year Swap Rate + 5.150%)	7.375%	8/19/25	1,470,000	1,602,300 (a)(h)(i)
CIT Group Inc., Senior Notes	5.375%	5/15/20	640,000	661,600
CIT Group Inc., Senior Notes	4.125%	3/9/21	760,000	765,700
CIT Group Inc., Senior Notes	5.000%	8/15/22	1,000,000	1,026,250
CIT Group Inc., Senior Notes	5.000%	8/1/23	3,470,000	3,560,046
CIT Group Inc., Senior Notes	5.250%	3/7/25	1,050,000	1,077,636
Citigroup Inc., Junior Subordinated Bonds (6.300% to 5/15/24 then 3 mo. USD LIBOR + 3.423%)	6.300%	5/15/24	2,060,000	2,152,700 (h)(i)
Credit Agricole SA, Junior Subordinated Notes (8.375% to 10/13/19 then 3 mo. USD LIBOR + 6.982%)	8.375%	10/13/19	2,100,000	2,257,500 (a)(h)(i)
Credit Agricole SA, Junior Subordinated Notes (8.125% to 12/23/25 then USD 5 year Swap Rate + 6.185%)	8.125%	12/23/25	2,290,000	2,614,914 (a)(h)(i)
Intesa Sanpaolo SpA, Junior Subordinated Notes (7.000% to 1/19/21 then EUR 5 year Swap Annual + 6.884%)	7.000%	1/19/21	750,000 EUR	1,007,441 (h)(i)(j)
Intesa Sanpaolo SpA, Senior Notes	3.875%	7/14/27	2,275,000	2,153,529 (a)
Intesa Sanpaolo SpA, Subordinated Notes	5.710%	1/15/26	5,120,000	5,146,256 (a)
JPMorgan Chase & Co., Junior Subordinated Bonds (6.000% to 8/1/23 then 3 mo. USD LIBOR + 3.300%)	6.000%	8/1/23	1,390,000	1,436,662 (h)(i)
JPMorgan Chase & Co., Junior Subordinated Notes (6.100% to 10/1/24 then 3 mo. USD LIBOR + 3.330%)	6.100%	10/1/24	1,170,000	1,229,963 (h)(i)
Lloyds Banking Group PLC, Subordinated Notes	4.500%	11/4/24	1,000,000	1,007,056
Royal Bank of Scotland Group PLC, Junior Subordinated Bonds (7.648% to 9/30/31 then 3 mo. USD LIBOR + 2.500%)	7.648%	9/30/31	1,880,000	2,359,400 (h)(i)
Royal Bank of Scotland Group PLC, Junior Subordinated Notes (8.625% to 8/15/21 then USD 5 year Swap Rate + 7.598%)	8.625%	8/15/21	1,220,000	1,328,275 (h)(i)
Royal Bank of Scotland NV, Subordinated Bonds	7.750%	5/15/23	620,000	711,208
Total Banks				*42,345,178*
Capital Markets 1.3%				
Credit Suisse Group AG, Junior Subordinated Notes (6.250% to 12/18/24 then USD 5 year Swap Rate + 3.455%)	6.250%	12/18/24	2,750,000	2,828,760 (a)(h)(i)
Donnelley Financial Solutions Inc., Senior Notes	8.250%	10/15/24	1,680,000	1,782,900
Goldman Sachs Group Inc., Subordinated Notes	6.750%	10/1/37	1,880,000	2,359,260
Goldman Sachs Group Inc., Subordinated Notes	5.150%	5/22/45	2,030,000	2,189,751
Total Capital Markets				*9,160,671*
Consumer Finance 1.3%				
Ally Financial Inc., Senior Notes	8.000%	3/15/20	1,744,000	1,879,160
FirstCash Inc., Senior Notes	5.375%	6/1/24	1,520,000	1,551,844 (a)

See Notes to Financial Statements.

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Western Asset High Income Opportunity Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
Consumer Finance continued				
Navient Corp., Medium-Term Notes, Senior Notes	8.450%	6/15/18	1,730,000	$ 1,749,030
Navient Corp., Medium-Term Notes, Senior Notes	8.000%	3/25/20	1,510,000	1,608,150
TMX Finance LLC/TitleMax Finance Corp., Senior Secured Notes	8.500%	9/15/18	2,160,000	2,068,200 (a)
Total Consumer Finance				*8,856,384*
Diversified Financial Services 4.1%				
AerCap Ireland Capital DAC/AerCap Global Aviation Trust, Senior Bonds	4.625%	7/1/22	1,210,000	1,241,612
AerCap Ireland Capital DAC/AerCap Global Aviation Trust, Senior Notes	4.625%	10/30/20	650,000	669,467
ASP AMC Merger Subordinated Inc., Senior Notes	8.000%	5/15/25	1,640,000	1,545,700 (a)
DAE Funding LLC, Senior Notes	5.000%	8/1/24	12,373,000	11,738,884 (a)
International Lease Finance Corp., Senior Notes	6.250%	5/15/19	250,000	258,651
International Lease Finance Corp., Senior Notes	8.250%	12/15/20	3,675,000	4,094,179
International Lease Finance Corp., Senior Notes	8.625%	1/15/22	170,000	198,429
International Lease Finance Corp., Senior Notes	5.875%	8/15/22	600,000	645,418
Lions Gate Capital Holdings LLC	5.875%	11/1/24	720,000	750,600 (a)
Park Aerospace Holdings Ltd., Senior Notes	5.500%	2/15/24	7,940,000	7,721,650 (a)
Total Diversified Financial Services				*28,864,590*
Insurance 0.5%				
Fidelity & Guaranty Life Holdings Inc., Senior Notes	6.375%	4/1/21	1,310,000	1,328,013 (a)
Genworth Holdings Inc., Senior Notes	4.900%	8/15/23	1,450,000	1,196,250
MetLife Capital Trust IV, Junior Subordinated Notes	7.875%	12/15/37	1,010,000	1,272,600 (a)
Total Insurance				*3,796,863*
Total Financials				**93,023,686**

Health Care 8.5%

Health Care Providers & Services 4.5%

Air Medical Group Holdings Inc., Senior Notes	6.375%	5/15/23	1,140,000	1,085,850 [a]		
BioScrip Inc., First Lien Notes (1 mo. USD LIBOR + 7.000%)	8.224%	6/30/22	2,575,000	2,690,875 [c][h][k]		
Centene Corp., Senior Notes	5.625%	2/15/21	1,160,000	1,194,800		
Centene Corp., Senior Notes	4.750%	5/15/22	790,000	803,825		
Centene Corp., Senior Notes	6.125%	2/15/24	710,000	740,672		
Centene Corp., Senior Notes	4.750%	1/15/25	5,320,000	5,200,300		
CHS/Community Health Systems Inc., Senior Notes	8.000%	11/15/19	6,320,000	5,703,800		
DaVita Inc., Senior Notes	5.750%	Total revenues	231,907	100.0%	207,951	100.0%

OPERATING EXPENSES:						
Operating costs	152,573	65.8%	141,993	68.3%	456,002	64.3%
Selling, general and administrative	47,251	20.4%	43,536	20.9%	141,535	20.0%
Preopening costs	2,432	1.0%	1,213	0.6%	4,997	0.7%
Impairment and other charges	832	0.4%		0.0%	832	0.1%
Depreciation and amortization:						
Hospitality	16,115	6.9%	15,861	7.6%	48,281	6.8%
Opry and Attractions	1,404	0.6%	1,375	0.7%	4,255	0.6%
ResortQuest	2,894	1.2%	2,677	1.3%	8,379	1.2%
Corporate and Other	1,273	0.5%	986	0.5%	3,372	0.5%
Total depreciation and amortization	21,686	9.4%	20,899	10.0%	64,287	9.1%
Total operating expenses	224,774	96.9%	207,641	99.9%	667,653	94.2%
OPERATING INCOME (LOSS):						
Hospitality	12,095	8.5%	4,123	3.4%	72,718	15.6%

Opry and Attractions	2,965	13.8%	1,577	8.0%	3,150	5.4%
ResortQuest	8,964	13.2%	4,850	7.4%	9,480	5.1%
Corporate and Other	(13,627)	(A)	(9,027)	(A)	(38,538)	(A)
Preopening costs	(2,432)	(B)	(1,213)	(B)	(4,997)	(B)
Impairment and other charges	(832)	(B)		(B)	(832)	(B)
Total operating income	7,133	3.1%	310	0.1%	40,981	5.8%
Interest expense, net of amounts capitalized	(17,761)	(C)	(18,474)	(C)	(53,613)	(C)
Interest income	853	(C)	662	(C)	2,295	(C)
Unrealized gain (loss) on Viacom stock and CBS stock and derivatives, net	7,852	(C)	75	(C)	14,550	(C)
Income from unconsolidated companies	2,571	(C)	2,098	(C)	8,374	(C)
Other gains and (losses), net	1,972	(C)	1,102	(C)	8,698	(C)
Benefit (provision) for income taxes	3,127	(C)	4,753	(C)	(9,937)	(C)
Gain (loss) on discontinued operations, net	564	(C)	(2,143)	(C)	2,961	(C)
Net income (loss)	$ 6,311	(C)	$ (11,617)	(C)	$ 14,309	(C)

(A) These amounts have not been shown as a percentage of segment revenue because the Corporate and Other segment generates only minimal revenue.

(B) These amounts have not been shown as a percentage of segment revenue because the Company does not associate them with any individual segment in managing the Company.

(C) These amounts have not been shown as a percentage of total revenue because they have no relationship to total revenue.

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Summary Financial Results

Results

The following table summarizes our financial results for the three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2006	**2005**	**% Change**	**2006**	**2005**	**% Change**
	(In thousands, except per share data)					
Total revenues	$231,907	$207,951	11.5%	$708,634	$645,893	9.7%
Total operating expenses	$224,774	$207,641	8.3%	$667,653	$620,723	7.6%
Operating income	$ 7,133	$ 310	2201.0%	$ 40,981	$ 25,170	62.8%
Net income (loss)	$ 6,311	$ (11,617)	154.3%	$ 14,309	$ (20,885)	168.5%
Net income (loss) per share fully diluted	$ 0.15	$ (0.29)	151.7%	$ 0.34	$ (0.52)	165.4%

Total Revenues

The increase in our total revenues for the three and nine months ended September 30, 2006, as compared to the three and nine months ended September 30, 2005, is primarily attributable to the increase in our Hospitality segment revenues (an increase of $19.7 million for the three months, and an increase of $52.1 million for the nine months, ended September 30, 2006, as compared to the same periods in 2005), described more fully below, as well as increases in our ResortQuest and our Opry and Attractions segments, each described more fully below. ResortQuest revenues for the applicable periods in 2006 were positively impacted by our receipt of proceeds from our business interruption claims related to Hurricanes Ivan, Dennis, and Charley, described more fully below.

Total Operating Expenses

The increase in our total operating expenses for the three and nine months ended September 30, 2006, as compared to the three and nine months ended September 30, 2005, is primarily due to increased Hospitality segment operating expenses (excluding preopening costs, an increase in total Hospitality operating expenses of $11.7 million for the three months, and an increase in total Hospitality operating expenses of $29.5 million for the nine months, ended September 30, 2006, as compared to the same periods in 2005), and Corporate and Other segment operating expenses (an increase of $4.5 million for the three months, and an increase of $9.4 million for the nine months, ended September 30, 2006, as compared to the same periods in 2005) described more fully below. In addition, as more fully described below, ResortQuest s operating expenses for the applicable periods in 2006, as compared to 2005, were impacted by ResortQuest s exit from certain markets.

Operating Income

The increase in our operating income for the three and nine months ended September 30, 2006, as compared to the three and nine months ended September 30, 2005, is due to the improvement in our Hospitality, ResortQuest, and Opry and Attractions segments operating income for the periods, more fully described below. The increase in our Corporate and Other segment operating expenses served to partially offset this improvement.

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Net Income (Loss)

Three Months Ended September 30, 2006. Our net income for the three months ended September 30, 2006 (as compared to our net loss for the same period in 2005) was impacted by our improved operating income, described above, as well as the following:

An unrealized gain on Viacom stock and CBS stock and derivatives, net, of $7.9 million for 2006, as compared to an unrealized gain on Viacom stock and CBS stock and derivatives, net of $0.1 million in 2005, described more fully below, which increased our net income.

A $0.6 million gain on discontinued operations, net for 2006, as compared to a $2.1 million loss on discontinued operations, net for 2005, primarily relating to the disposal of certain ResortQuest markets in 2005 and 2006 that were considered to be inconsistent with our long-term growth strategy, which increased our net income.

A benefit for income taxes of $3.1 million for the three months ended September 30, 2006, as compared to a benefit for income taxes of $4.8 million for the same period in 2005, described more fully below, which reduced our net income.

Nine Months Ended September 30, 2006. Our net income for the nine months ended September 30, 2006 (as compared to our net loss for same period in 2005) was impacted by the increase in our operating income for the period, described above, as well as the following:

An unrealized gain on Viacom stock and CBS stock and derivatives, net of $14.6 million for 2006, as compared to an unrealized loss on Viacom stock and CBS stock and derivatives, net of $7.8 million in 2005, described more fully below, which increased our net income.

Income from unconsolidated companies of $8.4 million for 2006, as compared to income from unconsolidated companies of $2.0 million for 2005, relating to minority investments in Bass Pro and two Hawaii hotels described more fully below, which increased our net income.

A gain on discontinued operations, net of $3.0 million for 2006, as compared to a loss from discontinued operations, net of $2.3 million for 2005, described more fully below, which increased our net income.

A provision for income taxes of $9.9 million for 2006, as compared to a benefit for income taxes of $8.7 million for 2005, described more fully below, which decreased our net income.

Factors and Trends Contributing to Operating Performance

The most important factors and trends contributing to our operating performance during the periods described herein have been:

Increased Hospitality segment revenues for the three and nine months ended September 30, 2006 resulting primarily from improved system-wide occupancy rates for these periods.

Increased levels of food and beverage, banquet and catering services at our hotels for the three and nine months ended September 30, 2006, which positively impacted Total RevPAR at our hotels during the first, second, and third quarters of 2006.

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Recently Adopted Accounting Standards

Prior to January 1, 2006, we accounted for stock options under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by FASB Statement No. 123, *Accounting for Stock-Based Compensation*. No stock-based employee compensation cost was recognized in the accompanying condensed consolidated statement of operations related to stock options for the three months and nine months ended September 30, 2005, as all options granted by us had an exercise price equal to the market value of the underlying common stock on the date of grant. Effective January 1, 2006, we adopted the fair value recognition provisions of FASB Statement No. 123(R), *Share-Based Payment*, using the modified-prospective-transition method. Results for prior periods have not been restated.

As a result of adopting Statement 123(R) on January 1, 2006, our net income for the three months and nine months ended September 30, 2006 are $1.0 million and $2.9 million lower, respectively, than if we had continued to account for share-based compensation under APB Opinion No. 25. Our diluted earnings per share for the three months and nine months ended September 30, 2006 are $0.02 and $0.07 lower, respectively, than if we had continued to account for share-based compensation under APB Opinion No. 25. As of September 30, 2006, there was $18.3 million of total unrecognized compensation cost related to stock options, restricted stock and restricted stock units granted by us. That cost is expected to be recognized over a weighted-average period of 2.3 years.

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Operating Results Detailed Segment Financial Information

Hospitality Segment

Total Segment Results. The following presents the financial results of our Hospitality segment for the three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2006	2005	% Change	2006	2005	% Change
	(In thousands, except percentages and performance metrics)					
Hospitality revenue(1)	$ 142,250	$ 122,623	16.0%	$ 464,903	$ 412,802	12.6%
Hospitality operating expenses:						
Operating costs	90,600	79,995	13.3%	274,598	247,475	11.0%
Selling, general and administrative	23,440	22,644	3.5%	69,306	68,227	1.6%
Depreciation and amortization	16,115	15,861	1.6%	48,281	47,040	2.6%
Total Hospitality operating expenses	130,155	118,500	9.8%	392,185	362,742	8.1%
Hospitality operating income(2)	$ 12,095	$ 4,123	193.4%	$ 72,718	$ 50,060	45.3%
Hospitality performance metrics:						
Occupancy(6)	77.1%	69.3%	11.3%	78.3%	73.7%	6.2%
ADR	$ 143.88	$ 143.69	0.1%	$ 152.76	$ 147.65	3.5%
RevPAR(3)(6)	$ 110.99	$ 99.59	11.4%	$ 119.55	$ 108.75	9.9%
Total RevPAR(4)(6)	$ 257.62	$ 224.95	14.5%	$ 280.89	$ 251.51	11.7%
Net Definite Room Nights Booked (5)	301,000	488,000	-38.3%	1,007,000	1,063,000	-5.3%

(1) Hospitality results and performance metrics include the results of our Radisson Hotel at Opryland.

(2) Hospitality operating income does not include preopening

costs. See the discussion of preopening costs set forth below.

(3) We calculate Hospitality RevPAR by dividing room sales by room nights available to guests for the period. Hospitality RevPAR is not comparable to similarly titled measures such as revenues.

(4) We calculate Hospitality Total RevPAR by dividing the sum of room sales, food and beverage, and other ancillary services (which equals Hospitality segment revenue) by room nights available to guests for the period. Hospitality Total RevPAR is not comparable to similarly titled measures such as revenues.

(5) Net Definite Room Nights Booked includes 81,000 and 135,000 room

nights for the three months ended September 30, 2006 and 2005, respectively, and includes 180,000 and 250,000 room nights for the nine months ended September 30, 2006 and 2005, respectively, related to the Gaylord National, which we expect to open in 2008.

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(6) Excludes 8,941 and 16,001 room nights that were taken out of service during the three months ended September 30, 2006 and 2005, respectively, and 9,866 and 23,941 room nights that were taken out of service during the nine months ended September 30, 2006 and 2005, respectively, as a result of a continued multi-year rooms renovation program at Gaylord Opryland.

The increase in total Hospitality segment revenue in the three and nine months ended September 30, 2006, as compared to the same periods in 2005, is primarily due to improved system-wide occupancy for the period, which positively impacted Hospitality segment RevPAR, and improved food and beverage and other outside the room revenues, which positively impacted Total RevPAR for the periods. Performance at the Gaylord Opryland and Gaylord Palms, described more fully below, were the primary drivers of this improvement. Hospitality performance metrics were impacted by the removal of room nights from inventory at Gaylord Opryland in connection with that hotel s rooms renovation project, described in footnote (6) above.

Hospitality segment operating expenses consist of direct operating costs, selling, general and administrative expenses, and depreciation and amortization expense. The increase in Hospitality operating expenses in the three and nine months ended September 30, 2006, as compared to the same periods in 2005, is primarily attributable to increased system-wide operating costs, described more fully below.

Hospitality segment operating costs, which consist of direct costs associated with the daily operations of our hotels (primarily room, food and beverage and convention costs), increased in the three and nine months ended September 30, 2006, as compared to the same periods in 2005, due primarily to the increased labor and other variable costs associated with the higher system-wide occupancy levels described above, as well as the additional cost of sales associated with increased food and beverage and other ancillary revenues. Total Hospitality segment selling, general and administrative expenses, consisting of administrative and overhead costs, remained relatively stable in the three and nine months ended September 30, 2006, as compared to the same periods in 2005, although individual variances at each hotel are described below. Total Hospitality depreciation and amortization expense also remained relatively stable in the three and nine months ended September 30, 2006, as compared to the same periods in 2005.

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Property-Level Results. The following presents the property-level financial results of our Hospitality segment for the three and nine months ended September 30, 2006 and 2005.

Gaylord Opryland Results. The results of Gaylord Opryland for the three and nine months ended September 30, 2006 and 2005 are as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2006	2005	% Change	2006	2005	% Change
	(In thousands, except percentages and performance metrics)					
Total revenues	$ 65,108	$ 53,028	22.8%	$ 197,740	$ 162,198	21.9%
Operating expense data:						
Operating costs	$ 40,684	$ 34,716	17.2%	$ 120,013	$ 101,402	18.4%
Selling, general and administrative	$ 9,152	$ 9,318	-1.8%	$ 27,252	$ 26,079	4.5%
Hospitality performance metrics:						
Occupancy(1)	82.1%	71.9%	14.2%	79.5%	73.8%	7.7%
ADR	$ 139.48	$ 140.18	-0.5%	$ 141.90	$ 135.36	4.8%
RevPAR(1)	$ 114.53	$ 100.85	13.6%	$ 112.84	$ 99.87	13.0%
Total RevPAR(1)	$ 254.40	$ 213.08	19.4%	$ 254.79	$ 212.80	19.7%

(1) Excludes 8,941 and 16,001 room nights that were taken out of service during the three months ended September 30, 2006 and 2005, respectively, and 9,866 and 23,941 room nights that were taken out of service during the nine months ended September 30, 2006 and 2005, respectively, as a result of a continued multi-year rooms renovation program at Gaylord

Opryland.

The increase in Gaylord Opryland revenue, RevPAR and Total RevPAR in the three months ended September 30, 2006, as compared to the same period in 2005, is primarily due to increased occupancy rates at the hotel. The increase in occupancy rates was due to larger meetings and convention business during the period. In addition, increased levels of food and beverage and other ancillary revenue at the hotel, resulting from the increased occupancy levels and increased banquet opportunities, supplemented the impact of the increased RevPAR upon the hotel s Total RevPAR during the period. The increase in Gaylord Opryland revenue, RevPAR and Total RevPAR in the nine months ended September 30, 2006, as compared to the same period in 2005, were all due to the increased occupancy rates, higher nightly room rates and additional food and beverage and other ancillary revenue at the hotel associated with higher levels of large group meetings and conventions during the period. Gaylord Opryland performance metrics were impacted by the removal of room nights from inventory in connection with the rooms renovation project described in footnote (1) above.

The increase in operating costs at Gaylord Opryland in the three and nine month periods ended September 30, 2006, as compared to the same periods in 2005, was due to the increased labor and other variable costs associated with the higher occupancy levels described above, as well as the additional cost of sales associated with increased food and beverage and other ancillary revenues. Selling, general and administrative expenses at Gaylord Opryland in the three months ended September 30, 2006 were stable compared to the same period in 2005. Selling, general and administrative expenses at Gaylord Opryland in the nine months ended September 30, 2006 increased from the same period in 2005 due to additional compensation expense and increased sales and marketing costs.

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Gaylord Palms Results. The results of Gaylord Palms for the three and nine months ended September 30, 2006 and 2005 are as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2006	2005	% Change	2006	2005	% Change
	(In thousands, except percentages and performance metrics)					
Total revenues	$37,483	$31,155	20.3%	$133,376	$125,790	6.0%
Operating expense data:						
Operating costs	$24,215	$20,524	18.0%	$ 74,198	$ 69,040	7.5%
Selling, general and administrative	$ 7,536	$ 7,697	-2.1%	$ 23,511	$ 24,834	-5.3%
Hospitality performance metrics:						
Occupancy	72.6%	61.0%	19.0%	80.4%	75.8%	6.1%
ADR	$154.15	$157.10	-1.9%	$ 175.15	$ 170.45	2.8%
RevPAR	$111.86	$ 95.79	16.8%	$ 140.87	$ 129.26	9.0%
Total RevPAR	$289.77	$240.85	20.3%	$ 347.48	$ 327.72	6.0%

The increase in Gaylord Palms revenue and RevPAR in the three months ended September 30, 2006, as compared to the same period in 2005, is primarily due to increased occupancy levels at the hotel during the period, driven primarily by increased group meeting and convention business. This increased occupancy also led to increased food and beverage and other outside the room revenues, which supplemented the impact of the increased occupancy levels upon the hotel s Total RevPAR for the period. The increase in occupancy at Gaylord Palms for the nine months ended September 30, 2006 combined with a slight increase in the nightly room rate paid by guests for the period, resulted in an increase in RevPAR for such period, as compared to 2005. Food and beverage and other ancillary service revenue also continued to positively impact Total RevPAR at the hotel for the nine months ended September 30, 2006, as compared to the same period in 2005.

Operating costs for the three and nine months ended September 30, 2006, increased from the same periods in 2005, due to the increased labor and other variable costs associated with the higher occupancy levels described above, as well as the additional cost of sales associated with increased food and beverage and other ancillary revenues. Gaylord Palms selling, general and administrative costs for the three and nine months ended September 30, 2006, as compared to the same periods in 2005, decreased due to lower administrative costs in 2006.

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Gaylord Texan Results. The results of the Gaylord Texan for the three and nine months ended September 30, 2006 and 2005 are as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2006	2005	% Change	2006	2005	% Change
	(In thousands, except percentages and performance metrics)					
Total revenues	$37,532	$36,413	3.1%	$127,301	$118,860	7.1%
Operating expense data:						
Operating costs	$24,494	$23,719	3.3%	$ 76,874	$ 73,988	3.9%
Selling, general and administrative	$ 6,317	$ 5,179	22.0%	$ 17,238	$ 15,874	8.6%
Hospitality performance metrics:						
Occupancy	73.5%	72.1%	1.9%	75.0%	72.4%	3.6%
ADR	$154.12	$150.58	2.4%	$ 164.31	$ 160.02	2.7%
RevPAR	$113.35	$108.51	4.5%	$ 123.17	$ 115.83	6.3%
Total RevPAR	$269.99	$261.94	3.1%	$ 308.61	$ 288.14	7.1%

The increase in Gaylord Texan revenue and RevPAR in the three and nine months ended September 30, 2006, as compared to the same periods in 2005, is due to increased occupancy at the hotel, as additional conventions and large group meetings held events at the hotel. Improved food and beverage and other ancillary revenues, attributable to both a larger number of conventions and large group meetings, as well as increased purchases of banquets and other food and beverage events by such groups, contributed to the increase in Total RevPAR for the three and nine months ended September 30, 2006, as compared to the same periods in 2005.

Operating costs for the three and nine months ended September 30, 2006, as compared to the same periods in 2005, increased due to the increased labor and other variable costs associated with the higher occupancy levels described above, the additional cost of sales from increased food and beverage and other ancillary revenues, increased property tax expense and increased costs relating to the hotel s summer promotional activities. Selling, general and administrative expense for the three and nine months ended September 30, 2006, as compared to the same periods in 2005, increased due to increases in compensation expense as certain management positions which were vacant during portions of 2005 were filled in 2006.

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ResortQuest Segment

Total Segment Results. The following presents the financial results of our ResortQuest segment for the three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2006	2005	% Change	2006	2005	% Change
	(In thousands, except percentages and performance metrics)					
Total revenues	$68,149	$65,464	4.1%	$185,482	$181,407	2.2%
Operating expense data:						
Operating costs	47,021	48,053	-2.1%	137,575	135,714	1.4%
Selling, general and administrative	9,270	9,884	-6.2%	30,048	31,881	-5.7%
Depreciation and amortization	2,894	2,677	8.1%	8,379	8,009	4.6%
Operating income (1)	$ 8,964	$ 4,850	84.8%	$ 9,480	$ 5,803	63.4%
Hospitality performance metrics:						
Occupancy	57.0%	57.8%	-1.4%	55.0%	56.9%	-3.3%
ADR	$194.70	$187.63	3.8%	$ 175.23	$ 163.78	7.0%
RevPAR(2)	$111.07	$108.51	2.4%	$ 96.35	$ 93.12	3.5%
Total Units Under Management	14,925	16,900	-11.7%	14,925	16,900	-11.7%

(1) ResortQuest operating income for the three months and nine months ended September 30, 2006 excludes the effects of an impairment charge of $0.8 million recorded during the third quarter of 2006. See the discussion of impairment and other charges set forth below.

(2) We calculate ResortQuest

RevPAR by dividing gross lodging revenue for properties under exclusive rental management contracts by net available unit nights available to guests for the period. Our ResortQuest segment revenue represents a percentage of the gross lodging revenues based on the services provided by ResortQuest. Net available unit nights (those available to guests) are equal to total available unit nights less owner, maintenance, and complimentary unit nights. ResortQuest RevPAR is not comparable to similarly titled measures such as revenues.

Revenues. Our ResortQuest segment earns revenues primarily as a result of property management fees and service fees recognized over the time during which our guests stay at our properties. Property management fees paid to us are generally a designated percentage of the rental price of the vacation property, plus certain incremental fees, all of which are based upon the type of services provided by us to the property owner and the type of rental units managed. We also recognize other revenues primarily related to real estate broker commissions. The increase in ResortQuest revenue in the three and nine months ended September 30, 2006, as compared to 2005, is due primarily to the net recovery, in the third quarter of 2006, of $4.9 million from our business interruption claim relating to Hurricanes Ivan, Dennis, and Charley. Additionally, ResortQuest s exit from certain markets in the third quarter of 2005 and second quarter of 2006 served to reduce revenues as a result of fewer units in inventory and fewer available and occupied room nights.

Operating Expenses. ResortQuest operating expenses primarily consist of operating costs, selling, general and administrative expenses and depreciation and amortization expense. Operating costs of

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ResortQuest, which are comprised of payroll expenses, credit card transaction fees, travel agency fees, advertising, payroll for managed entities and various other direct operating costs, decreased in the three months ended September 30, 2006 and increased only slightly in the nine months ended September 30, 2006, as compared to the same periods in 2005, due to the reduction of units in inventory described above and the related decrease in labor and other costs associated with servicing such units. Selling, general and administrative expenses of ResortQuest, which are comprised of payroll expenses, rent, utilities and various other general and administrative costs, decreased in the three and nine months ended September 30, 2006, as compared to the same periods in 2005, due to the non-recurring expenses related to our 2005 rebranding efforts incurred in 2005, as well as due to lower administrative employment costs in 2006.

Opry and Attractions Segment

Total Segment Results. The following presents the financial results of our Opry and Attractions segment for the three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2006	2005	% Change	2006	2005	% Change
	(In thousands, except percentages)					
Total revenues	$ 21,461	$ 19,727	8.8%	$ 58,045	$ 51,272	13.2%
Operating expense data:						
Operating costs	12,666	12,093	4.7%	37,006	32,590	13.6%
Selling, general and administrative	4,426	4,682	-5.5%	13,634	13,181	3.4%
Depreciation and amortization	1,404	1,375	2.1%	4,255	3,927	8.4%
Operating income	$ 2,965	$ 1,577	88.0%	$ 3,150	$ 1,574	100.1%

The increase in revenues in the Opry and Attractions segment for the three and nine months ended September 30, 2006, as compared to the same periods in 2005, is primarily due to increased revenues at the Grand Ole Opry caused by an increase in attendance and increased sales of Grand Ole Opry-related merchandise, as well as increased revenues from our Ryman Auditorium concert series and Corporate Magic event planning business.

The increase in Opry and Attractions operating costs in the three and nine months ended September 30, 2006, as compared to the same periods in 2005, was due primarily to additional labor and other variable costs, including cost of sales, related to the increased revenues described above. The decrease in Opry and Attractions selling, general and administrative expenses in the three months ended September 30, 2006, as compared to the same period in 2005, was due primarily to a property tax adjustment. Opry and Attractions selling, general and administrative expenses in the nine months ended September 30, 2006, as compared to the same period in 2005, remained relatively stable, as the decreased expense for the prior three months served to partially offset the increase in expense for the first six months of 2006.

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Corporate and Other Segment

Total Segment Results. The following presents the financial results of our Corporate and Other segment for the three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2006	2005	% Change	2006	2005	% Change
	(In thousands, except percentages)					
Total revenues	$ 47	$ 137	-65.7%	$ 204	$ 412	-50.5%
Operating expense data:						
Operating costs	2,286	1,852	23.4%	6,823	5,075	34.4%
Selling, general and administrative	10,115	6,326	59.9%	28,547	21,228	34.5%
Depreciation and amortization	1,273	986	29.1%	3,372	3,047	10.7%
Operating loss	$ (13,627)	$ (9,027)	-51.0%	$ (38,538)	$ (28,938)	-33.2%

Corporate and Other group revenue for the three months and nine months ended September 30, 2006, which consists of rental income and corporate sponsorships, decreased from the same periods in 2005 due to a decline in the amount of such revenue.

Corporate and Other operating expenses consist of operating costs, selling, general and administrative expenses, and depreciation and amortization expense. Corporate and Other operating costs, which consist primarily of costs associated with information technology, increased in the three and nine months ended September 30, 2006, as compared to the same periods in 2005, primarily due to an increase in contract service costs and consulting fees related to information technology initiatives. Corporate and Other selling, general and administrative expenses, which consist of the Gaylord Entertainment Center naming rights agreement (prior to its termination on February 22, 2005), senior management salaries and benefits, legal, human resources, accounting, pension and other administrative costs, increased in the three and nine months ended September 30, 2006, as compared to the same periods in 2005, due primarily to stock option expense that was recorded in the three and nine months ended September 30, 2006 that was not recorded in the three and nine months ended September 30, 2005 as a result of our adoption of Statement 123(R), *Share-Based Payment*, effective January 1, 2006, as well as increases in other employment-related expenses. Corporate and Other selling, general and administrative expenses during the nine months ended September 30, 2005 were also impacted by the net reversal of $2.4 million of expense previously accrued under the naming rights agreement as a result of the settlement of litigation in connection with that agreement, the effect of which was largely offset by the contribution by us of $2.3 million of Viacom stock to a newly formed Gaylord charitable foundation in the first quarter of 2005. Corporate and Other depreciation and amortization expense, which is primarily related to information technology equipment and capitalized electronic data processing software costs, for the three and nine months ended September 30, 2006 increased from the same periods in 2005 due to an increase in information technology equipment and capitalized electronic data processing software costs placed in service.

Operating Results Preopening costs

In accordance with AICPA SOP 98-5, Reporting on the Costs of Start-Up Activities , we expense the costs associated with start-up activities and organization costs as incurred. Preopening costs increased by $1.2 million to $2.4 million in the three months ended September 30, 2006 and increased by $1.7 million to $5.0 million in the nine months ended September 30, 2006. Preopening costs for the three months and nine months ended September 30, 2006 were comprised of $1.8 million and $4.3 million, respectively,

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related to the construction of the Gaylord National and $0.6 million and $0.7 million, respectively, related to the construction of the new Glass Cactus entertainment complex at the Gaylord Texan.

Operating Results Impairment and other charges

As a result of a significant adverse change in the business climate at one of the markets of our ResortQuest business, we assessed the recoverability of the carrying value of certain long lived assets in this market and recorded an impairment loss of $0.8 million related to goodwill and $0.1 million related to certain intangible assets during the third quarter of 2006. These losses reflect the amounts by which the carrying values of the related reporting unit or intangible asset exceed their estimated fair values determined by their estimated future discounted cash flows.

Non-Operating Results Affecting Net Income (Loss)

General

The following table summarizes the other factors which affected our net income (loss) for the three and nine months ended September 30, 2006 and 2005:

	Three months Ended September 30,			Nine months Ended September 30,		
	2006	2005	% Change	2006	2005	% Change
	(In thousands, except percentages)					
Interest expense, net of amounts capitalized	$(17,761)	$(18,474)	-3.9%	$(53,613)	$(54,449)	-1.5%
Interest income	$ 853	$ 662	28.9%	$ 2,295	$ 1,820	26.1%
Unrealized gain (loss) on Viacom stock and derivatives, net	$ 7,852	$ 75	10369.3%	$ 14,550	$ (7,837)	285.7%
Income from unconsolidated companies	$ 2,571	$ 2,098	22.5%	$ 8,374	$ 1,980	322.9%
Other gains and losses, net	$ 1,972	$ 1,102	78.9%	$ 8,698	$ 6,022	44.4%
(Benefit) provision for income taxes	$ (3,127)	$ (4,753)	34.2%	$ 9,937	$ (8,740)	213.7%
Income (loss) from discontinued operations, net of taxes	$ 564	$ (2,143)	126.3%	$ 2,961	$ (2,331)	227.0%

Interest Expense, Net of Amounts Capitalized

Interest expense, net of amounts capitalized, decreased during the three months ended September 30, 2006, as compared to the same period in 2005, due primarily to a $2.3 million increase in capitalized interest, the effect of which was partially offset by the impact of higher average debt balances during 2006. Capitalized interest increased from $0.7 million during the three months ended September 30, 2005 to $3.0 million during the three months ended September 30, 2006 due to the construction of the Gaylord National. Interest expense, net of amounts capitalized, decreased during the nine months ended September 30, 2006, as compared to the same period in 2005, due primarily to a $5.0 million increase in capitalized interest and the write-off of $0.5 million of deferred financing costs in the first quarter of 2005 in connection with the replacement of our $100.0 million credit facility, the effects of which were partially offset by the impact of higher average debt balances during 2006. Capitalized interest increased from $1.8 million during the nine months ended September 30, 2005 to $6.8 million during the nine months ended September 30, 2006 due to the construction of the Gaylord National. Our weighted average interest rate on our borrowings, including the interest expense associated with the secured forward exchange contract related to our Viacom stock investment and excluding the write-off of deferred financing costs during the period, was 6.4% for the three months ended September 30, 2006 and 2005 and was 6.5% and 6.3% for the nine months ended September 30, 2006 and 2005, respectively. As further discussed in Note 10 to our condensed consolidated financial statements for the three months and nine months ended September 30, 2006 and 2005 included herewith, the secured forward exchange contract related to our Viacom stock and CBS stock investment resulted in non-cash interest expense of $6.8 million for the three months ended September 30, 2006 and 2005 and $20.1 million for the nine months ended September 30, 2006 and 2005.

Interest Income

The increase in interest income during the three and nine months ended September 30, 2006, as compared to the same periods in 2005, is due to higher cash balances invested in interest-bearing accounts in 2006.

Unrealized Gain (Loss) on Viacom Stock and CBS Stock and Derivatives, Net

For the three months ended September 30, 2006, we recorded a net pretax gain of $13.5 million related to the increase in fair value of the Viacom stock and CBS stock. For the three months ended September 30, 2006, we recorded a net pretax loss of $5.6 million related to the decrease in fair value of the derivatives associated with the secured forward exchange contract. This resulted in a net pretax gain of $7.9 million relating to the unrealized gain (loss) on Viacom stock and CBS stock and derivatives, net, for the three months ended September 30, 2006.

For the nine months ended September 30, 2006, we recorded a net pretax gain of $0.8 million related to the increase in fair value of the Viacom stock and CBS stock. For the nine months ended September 30, 2006, we recorded a net pretax gain of $13.7 million related to the increase in fair value of the derivatives associated with the secured forward exchange contract. This resulted in a net pretax gain of $14.6 million relating to the unrealized gain (loss) on Viacom stock and CBS stock and derivatives, net, for the nine months ended September 30, 2006.

Income from Unconsolidated Companies

We account for our investments in Bass Pro, RHAC Holdings, LLC (the joint venture entity which owns the Aston Waikiki Beach Hotel), and Waipouli Holdings, LLC (the joint venture entity which owns the ResortQuest Kauai Beach at Makaiwa Hotel), under the equity method of accounting. Income from unconsolidated companies for the three and nine months ended September 30, 2006 and 2005 consisted of equity method income (loss) from these investments as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2006	2005	% Change	2006	2005	% Change
	(In thousands, except percentages)					
Bass Pro	$ 3,639	$ 1,974	84.3%	$ 9,444	$ 1,749	440.0%
RHAC Holdings, LLC	(694)	124	-659.7%	(688)	231	-397.8%
Waipouli Holdings, LLC	(374)			(382)		
Total:	$ 2,571	$ 2,098	22.5%	$ 8,374	$ 1,980	322.9%

Bass Pro. On December 14, 2005, the shareholders of Bass Pro, Inc. contributed their equity in Bass Pro, Inc. to a newly formed limited liability company, Bass Pro Group, LLC in exchange for ownership interests in Bass Pro Group, LLC. The majority owner of Bass Pro, Inc. also contributed (simultaneously with the contributions of the Bass Pro, Inc. stock) his equity interest in Tracker Marine, LLC and Big Cedar LLC to Bass Pro Group, LLC. As a result, Bass Pro, Inc., Tracker Marine, LLC and Big Cedar, LLC are all wholly-owned subsidiaries of Bass Pro Group, LLC. Because the new entity owns these additional businesses, our ownership interest in Bass Pro decreased from 26.6% to 13.0%. However, we will continue to account for our investment in Bass Pro under the equity method of accounting.
In the second quarter of 2005, Bass Pro restated its previously issued historical financial statements to reflect certain non-cash changes, which resulted primarily from a change in the manner in which Bass Pro accounts for its long term leases. This restatement resulted in a cumulative reduction in Bass Pro s net income of $8.6 million through December 31, 2004, which resulted in a pro-rata cumulative reduction in our income from unconsolidated companies of $1.7 million. We determined that the impact of the adjustments recorded by Bass Pro is immaterial to our consolidated financial statement in all prior periods. Therefore, we have reflected our $1.7 million share of the re-statement adjustments as a one-time adjustment to loss from unconsolidated companies during the second quarter of 2005.
RHAC Holdings, LLC (ResortQuest Waikiki Beach Hotel). On May 31, 2005, we, through a wholly-owned subsidiary, RHAC, LLC, entered into an agreement to purchase the 716-room Aston Waikiki Beach Hotel and related assets located in Honolulu, Hawaii (the Waikiki Hotel) for an aggregate purchase price of $107.0 million. Simultaneously with this purchase, G.O. IB-SIV US, a private real estate fund managed by DB Real Estate Opportunities Group (IB-SIV) acquired an 80.1% ownership interest in the parent company of RHAC, LLC, RHAC Holdings, LLC, in exchange for its capital contribution of $19.1 million to RHAC Holdings, LLC. As a part of this transaction, we entered into a joint venture arrangement with IB-SIV and retained a 19.9% ownership interest in RHAC Holdings, LLC in exchange for our $4.7 million capital contribution to RHAC Holdings, LLC. RHAC, LLC financed the purchase of the Waikiki Hotel by entering into a series of loan transactions with Greenwich Capital Financial Products, Inc. consisting of a $70.0 million loan secured by the Waikiki Hotel and a $16.3 million mezzanine loan secured by the ownership interest of RHAC, LLC. IB-SIV is the managing member of RHAC Holdings, LLC, but certain actions of RHAC Holdings, LLC initiated by IB-SIV require our approval as a member. In addition, under the joint venture arrangement, our ResortQuest subsidiary secured a 20-year hotel management agreement from RHAC, LLC. Pursuant to the terms of the hotel management agreement, ResortQuest is responsible for the day-to-day operations of the Waikiki Hotel in accordance with RHAC, LLC s business plan. Subsequent to its purchase by RHAC, LLC, the Aston Waikiki Beach Hotel was renamed the ResortQuest Waikiki Beach Hotel.
On September 29, 2006, RHAC, LLC refinanced the Waikiki Hotel loans described above with Greenwich Capital Financial Products, Inc., which resulted in the mezzanine loan increasing from $16.3 million to $34.9 million. RHAC, LLC used the proceeds from this refinancing primarily to fund a rooms renovation project at the Waikiki Hotel.
Waipouli Holdings, LLC (ResortQuest Kauai Beach at Makaiwa Hotel). On June 20, 2006, we entered into a joint venture with RREEF Global Opportunities Fund II, LLC, a private real estate fund managed by DB Real Estate Opportunities Group (RREEF) and acquired a 19.9% ownership interest in the joint venture, Waipouli Holdings, LLC, in exchange for our capital contribution of $3.8 million to Waipouli Holdings, LLC. On June 20, 2006, through a wholly-owned subsidiary named Waipouli Owner, LLC, Waipouli Holdings, LLC acquired the 311-room ResortQuest Kauai Beach at Makaiwa Hotel and related assets located in Kapaa, Hawaii (the Kauai Hotel) for an aggregate purchase price of $68.8 million. Waipouli Owner, LLC financed the purchase of the Kauai Hotel by entering into a series of loan transactions with Morgan Stanley Mortgage Capital, Inc. consisting of a $52.0 senior loan secured by the

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Kauai Hotel, and an $8.2 million junior mezzanine loan secured by the ownership interest of Waipouli Owner, LLC. RREEF is the managing member of Waipouli Holdings, LLC, but certain actions initiated by RREEF require our approval as a member. In addition, under the joint venture arrangement, our ResortQuest subsidiary secured a five-year hotel management agreement from Waipouli Owner, LLC. Pursuant to the terms of the hotel management agreement, ResortQuest is responsible for the day-to-day operations of the Kauai Hotel in accordance with Waipouli Owner LLC s business plan.

Other Gains and Losses, Net

Our other gains and losses for the three months ended September 30, 2006 primarily consisted of the receipt of a dividend distribution related to our investment in CBS stock, a $0.5 million gain which resulted from the settlement of a secured administrative claim related to the collection of a note receivable previously considered uncollectible as more fully described below, and other miscellaneous income and expenses. Our other gains and losses for the nine months ended September 30, 2006 primarily consisted of a gain related to the collection of a note receivable previously considered uncollectible and a related secured administrative claim as more fully described below, the receipt of dividend distributions related to our investment in CBS stock, a loss on the retirement of certain fixed assets, and other miscellaneous income and expenses.

During 1998, ResortQuest recorded a note receivable of $4.0 million as a result of cash advances made to a primary stockholder (Debtor) of the predecessor company who is no longer an affiliate of ResortQuest. The note was collateralized by a third mortgage on residential real estate owned by the Debtor. Due to the failure to make interest payments, the note receivable was in default. We accelerated the note and demanded payment in full. We also contracted an independent external third party to appraise the property by which the note was secured, confirm the outstanding senior claims on the property and assess the associated credit risk. Based on this assessment, we assigned no value to the note receivable in the purchase price allocation associated with the ResortQuest acquisition. On January 23, 2006, the bankruptcy court approved a plan to restructure the note receivable, and we received $5.7 million in cash and a secured administrative claim of $0.5 million in full settlement of the note receivable, accrued interest and other related amounts due to us. Because we assigned no value to this note receivable as part of the ResortQuest purchase price allocation, the recovery of this note receivable resulted in a gain of $5.4 million during the first quarter of 2006. In July 2006, we received $0.5 million in cash in full settlement of the secured administrative claim, which resulted in a gain of $0.5 million during the third quarter of 2006.

Our other gains and losses for the three months ended September 30, 2005 primarily consisted of a gain resulting from the settlement of certain litigation, a dividend distribution from our investment in Viacom stock, a loss on the retirement of certain fixed assets, and other miscellaneous income and expenses. Our other gains and losses for the nine months ended September 30, 2005 primarily consisted of a gain resulting from the settlement of certain litigation, the receipt of dividend distributions from our investment in Viacom stock, a gain on the sale of an internet domain name, a $2.1 million gain on the sale of the Ryman Auditorium parking lot, gains and losses on the sales of certain other fixed assets and other miscellaneous income and expenses.

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(Benefit) Provision for Income Taxes

The effective tax rate as applied to pretax income from continuing operations differed from the statutory federal rate due to the following (as of September 30):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
U.S. federal statutory rate	35%	35%	35%	35%
State taxes (net of federal tax benefit and change in valuation allowance)	20	3	2	3
Adjustment to deferred tax liabilities due to state tax rate adjustment	(70)	(6)	1	(6)
Other	(104)	1	9	0
Effective tax rate	(119)%	33%	47%	32%

The decrease in our effective tax rate for the three months ended September 30, 2006, as compared to our effective tax rate for the same period in 2005, was due primarily to the impact of permanent differences relative to pre-tax income for each of the respective periods coupled with the effect of adjustments to the state effective tax rate on existing deferred tax assets and liabilities. The amount designated as Other for the three months ended September 30, 2006 in the table above is a result of a change in the annualized effective tax rate and its corresponding year to date effect.

The increase in our effective tax rate for the nine months ended September 30, 2006, as compared to our effective tax rate for the same period in 2005, was due primarily to the impact of permanent differences relative to pre-tax income for each of the respective periods coupled with the effect of adjustments to the state effective tax rate on existing deferred tax assets and liabilities.

Income (Loss) from Discontinued Operations, Net of Taxes

We reflected the following businesses as discontinued operations in our financial results for the three and nine months ended September 30, 2006 and 2005, consistent with the provisions of SFAS No. 144 and APB Opinion No. 30. The results of operations, net of taxes (prior to their disposal where applicable), and the estimated fair value of the assets and liabilities of these businesses have been reflected in our condensed consolidated financial statements as discontinued operations in accordance with SFAS No. 144 for all periods presented.

ResortQuest Discontinued Markets. During the third quarter of 2005, we committed to a plan of disposal of certain markets of our ResortQuest business that were considered to be inconsistent with our long term growth strategy. In connection with this plan of disposal, we recorded pre-tax restructuring charges of $0 and $44,000 during the three months and nine months ended September 30, 2006, respectively, related to employee severance benefits in the discontinued markets. We completed the sale of four of these markets in the fourth quarter of 2005, two of these markets in the first quarter of 2006, and the remaining two markets in the second quarter of 2006.

During the second quarter of 2006, we completed the sale of one additional market of our ResortQuest business that was not included in the plan of disposal described above, but was later determined to be

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inconsistent with our long term growth strategy. We did not record any restructuring charges in connection with the sale of this market.

The following table reflects the results of operations of businesses accounted for as discontinued operations for the three months and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2006**	**2005**	**2006**	**2005**
Revenues:				
ResortQuest Discontinued Markets	$	$ 4,680	$ 2,320	$ 14,810
Operating loss:				
ResortQuest Discontinued Markets	$ (25)	$ (218)	$ (593)	$ (505)
International Cable Networks			6	
Impairment charges		(2,749)		(2,749)
Restructuring charges		(434)	(44)	(434)
Total operating loss	(25)	(3,401)	(631)	(3,688)
Interest income		7	11	22
Other gains and (losses):				
ResortQuest Discontinued Markets	(123)	(14)	(115)	(12)
Radio Operations		136		136
Word Entertainment			25	
International Cable Networks			(19)	
Loss before benefit for income taxes	(148)	(3,272)	(729)	(3,542)
Benefit for income taxes	(712)	(1,129)	(3,690)	(1,211)
Gain (loss) from discontinued operations, net of income taxes	$ 564	$ (2,143)	$ 2,961	$ (2,331)

Included in other gains and (losses) in the three months and nine months ended September 30, 2006 is a pre-tax loss of $0 and $17,000, respectively, on the sale of certain ResortQuest Discontinued Markets. The remaining gains and (losses) in the three months and nine months ended September 30, 2006 are primarily comprised of gains and losses recognized on the resolution of various contingent items subsequent to the sale of the ResortQuest Discontinued Markets, as well as miscellaneous income and expense. Other gains and (losses) in the three months and nine months ended September 30, 2005 are primarily comprised of the reversal of certain previously established indemnification reserves associated with the sale of businesses in prior periods and miscellaneous income and expense. The benefit for income taxes for the three months and nine months ended September 30, 2006 primarily results from our settling certain ResortQuest issues with the Internal Revenue Service related to periods prior to the acquisition of ResortQuest, as well as the writeoff of taxable goodwill associated with the ResortQuest Discontinued Markets sold in these periods.

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Liquidity and Capital Resources

Cash Flows Summary

Our cash flows consisted of the following during the nine months ended September 30 (in thousands):

	2006	2005
Operating Cash Flows:		
Net cash flows provided by operating activities continuing operations	$ 78,219	$ 55,700
Net cash flows (used in) provided by operating activities discontinued operations	(3,526)	1,800
Net cash flows provided by operating activities	74,693	57,500
Investing Cash Flows:		
Purchases of property and equipment	(172,908)	(87,280)
Acquisition of businesses, net of cash acquired		(20,223)
Investments in unconsolidated companies	(6,364)	(4,747)
Returns of investments in unconsolidated companies	1,592	
Proceeds from sales of assets	760	10,386
Purchases of short-term investments		(15,000)
Proceeds from sale of short-term investments		37,000
Other	(8,704)	(1,099)
Net cash flows used in investing activities continuing operations	(185,624)	(80,963)
Net cash flows provided by (used in) investing activities discontinued operations	541	(211)
Net cash flows used in investing activities	(185,083)	(81,174)
Financing Cash Flows:		
Repayment of long-term debt	(1,000)	
Borrowing under credit facility	70,000	
Deferred financing costs paid		(8,451)
Decrease in restricted cash and cash equivalents	6,869	14,119
Proceeds from exercise of stock options and purchase plans	11,087	8,195
Other	1,363	(509)
Net cash flows provided by financing activities continuing operations	88,319	13,354
Net cash flows provided by (used in) financing activities discontinued operations	4,271	(4,905)
Net cash flows provided by financing activities	92,590	8,449
Net change in cash and cash equivalents	$ (17,800)	$(15,225)

Cash Flows From Operating Activities. Cash flow from operating activities is the principal source of cash used to fund our operating expenses, interest payments on debt, and maintenance capital expenditures. During the nine months ended September 30, 2006, our net cash flows provided by operating activities continuing operations were $78.2 million, reflecting primarily our income from continuing operations before non-cash depreciation expense, amortization expense, impairment and other charges, income tax provision, interest expense, gain on the Viacom stock and CBS stock and related derivatives, stock-based compensation expense, excess tax benefits from stock-based compensation, income from unconsolidated companies, dividends received from unconsolidated companies and loss on sales of certain fixed assets of approximately $94.0 million, partially offset by unfavorable changes in working capital of approximately $15.8 million. The unfavorable changes in working capital primarily resulted from an increase in trade receivables due to the timing of guest lodging versus payments received at Gaylord Opryland, an increase in prepaid expenses due to the timing of payments made to renew our insurance contracts, and a significant decrease in receipts of deposits on advance bookings of vacation properties (primarily related to a seasonal decrease in advance bookings at ResortQuest ahead of

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the slower fall vacation months). These unfavorable changes in working capital were partially offset by the favorable timing of payment of accrued interest, as well as an increase in receipts of deposits on advance bookings of hotel rooms (primarily related to the timing of advance bookings and deposits received by the Gaylord Opryland and Gaylord Palms).

During the nine months ended September 30, 2005, our net cash flows provided by operating activities continuing operations were $55.7 million, reflecting primarily our loss from continuing operations before non-cash depreciation expense, amortization expense, income tax benefit, interest expense, loss on the Viacom stock and related derivatives, income from unconsolidated companies, and gains on sales of certain fixed assets of approximately $59.9 million, partially offset by unfavorable changes in working capital of approximately $4.2 million. The unfavorable changes in working capital primarily resulted from an increase in trade receivables due to the opening of the Gaylord Texan and the timing of guest lodging versus payments received at Gaylord Opryland, an increase in prepaid expenses due to the timing of payments made to renew our insurance contracts, and a significant decrease in receipts of deposits on advance bookings of vacation properties (primarily related to a seasonal decrease in advance bookings at ResortQuest ahead of the slower fall vacation months). These unfavorable changes in working capital were partially offset by the favorable timing of payment of various liabilities, including trade payables, accrued interest, and other accrued expenses, as well as an increase in receipts of deposits on advance bookings of hotel rooms (primarily related to the timing of advance bookings and deposits received by the Gaylord Opryland and Gaylord Texan).

Cash Flows From Investing Activities. During the nine months ended September 30, 2006, our primary uses of funds and investing activities were purchases of property and equipment, which totaled $172.9 million. Our capital expenditures during the nine months ended September 30, 2006 included construction at Gaylord National of $115.2 million, approximately $22.8 million at the Gaylord Texan, approximately $15.7 million at Gaylord Opryland and approximately $8.2 million related to ResortQuest.

During the nine months ended September 30, 2005, our primary uses of funds and investing activities were purchases of property and equipment, which totaled $87.3 million, and the purchases of two businesses (Whistler Lodging Company, Ltd. and East West Resorts), which totaled $20.2 million. Our capital expenditures during this period primarily consisted of construction at the new Gaylord National Resort & Convention Center of $32.3 million, continuing construction at the new Gaylord Texan of $15.7 million, approximately $21.5 million at Gaylord Opryland primarily related to the construction of a new spa facility and a room refurbishment project, and approximately $11.8 million related to ResortQuest.

We currently project capital expenditures for the twelve months of 2006 to total approximately $296 million, which includes approximately $193 million related to the construction of the new Gaylord National Resort & Convention Center, approximately $29 million at Gaylord Texan, approximately $27 million at Gaylord Opryland, and approximately $20 million related to ResortQuest.

Cash Flows From Financing Activities. Our cash flows from financing activities reflect primarily the issuance of debt and the repayment of long-term debt. During the nine months ended September 30, 2006, our net cash flows provided by financing activities continuing operations were approximately $88.3 million, reflecting $70.0 million of borrowings under the $600.0 million credit facility, $11.1 million in proceeds received from the exercise of stock options, and a $6.9 million decrease in restricted cash and cash equivalents.

During the nine months ended September 30, 2005, our net cash flows provided by financing activities continuing operations were approximately $13.4 million, reflecting a $14.1 million decrease in restricted cash and cash equivalents and $8.2 million in proceeds received from the exercise of stock options, partially offset by the payment of $8.5 million of deferred financing costs in connection with our entering into a new $600.0 million credit facility.

Working Capital. As of September 30, 2006, we had total current assets of $751.1 million and total current liabilities of $921.8 million, which resulted in a working capital deficit of $170.7 million. A significant portion of our current liabilities consist of deferred revenues, which primarily represent deposits received on advance bookings of hotel rooms and vacation properties and do not require future cash payments by us.

Also, the secured forward exchange contract relating to the Viacom stock and CBS stock owned by us matures in May 2007. We have classified the debt and derivative liability associated with the secured forward exchange contract as current liabilities and the investments in Viacom Stock and CBS Stock and the derivative asset associated with the secured forward exchange contract as current assets in the accompanying condensed consolidated balance sheet as of September 30, 2006. However, at expiration, we may elect to settle the obligation associated with the secured forward exchange contract by delivering all or a portion of the Viacom Stock and CBS Stock, so this obligation should also not require future cash payments by us. A complete description of the secured forward exchange contract is contained in Note 10 to our condensed consolidated financial statements for the three and nine months ended September 30, 2006 and 2005 included herewith.

At the expiration of the secured forward exchange contract, we will also be required to pay the deferred taxes relating thereto. This deferred tax liability, which is classified as a current liability in the accompanying condensed consolidated balance sheet as of September 30, 2006, is estimated to be $152 million, which we anticipate will be reduced by approximately one-third through the application of our federal and state income tax net operating loss carryforwards and federal income tax credit carryforwards. We intend to finance the payment of this obligation through the use of internally generated funds, corporate borrowings and/or the sale of non-core assets.

We believe our current assets, cash flows from operating activities, cash generated from the sale of non-core assets, and availability under our $600.0 million credit facility will be sufficient to repay our current liabilities as they become due.

Principal Debt Agreements

$600 Million Credit Facility. On March 10, 2005, we entered into a $600.0 million credit facility with Bank of America, N.A. acting as the administrative agent. Our new credit facility consists of the following components: (a) a $300.0 million senior secured revolving credit facility, which includes a $50.0 million letter of credit sublimit, and (b) a $300.0 million senior secured delayed draw term loan facility, which may be drawn on in one or more advances during its term. The credit facility also includes an accordion feature that will allow us, on a one-time basis, to increase the credit facilities by a total of up to $300.0 million, subject to securing additional commitments from existing lenders or new lending institutions. The revolving loan, letters of credit and term loan mature on March 9, 2010. At our election, the revolving loans and the term loans may have an interest rate of LIBOR plus 2% or the lending banks base rate plus 1%, subject to adjustments based on our financial performance. Interest on our borrowings is payable quarterly, in arrears, for base rate loans and at the end of each interest rate period for LIBOR rate-based loans. Principal is payable in full at maturity. We are required to pay a commitment fee ranging from 0.25% to 0.50% per year of the average unused portion of the credit facility.

The purpose of the credit facility is for working capital and capital expenditures and the financing of the costs and expenses related to the construction of the Gaylord National hotel. Construction of the Gaylord National hotel is required to be substantially completed by June 30, 2008 (subject to customary force majeure provisions).

The credit facility is (i) secured by a first mortgage and lien on the real property and related personal and intellectual property of our Gaylord Opryland hotel, Gaylord Texan hotel, Gaylord Palms hotel and Gaylord National hotel (to be constructed) and pledges of equity interests in the entities that own such properties and (ii) guaranteed by each of our four wholly owned subsidiaries that own the four hotels as well as ResortQuest International, Inc. Advances are subject to a 60% borrowing base, based on the appraisal values of the hotel properties (reducing to 50% in the event a hotel property is sold). Our former revolving credit facility has been paid in full and the related mortgages and liens have been released.

In addition, the credit facility contains certain covenants which, among other things, limit the incurrence of additional indebtedness, investments, dividends, transactions with affiliates, asset sales, acquisitions, mergers and consolidations, liens and encumbrances and other matters customarily restricted in such agreements. The material financial covenants, ratios or tests contained in the credit facility are as follows:

we must maintain a consolidated leverage ratio of not greater than (i) 7.00 to 1.00 for calendar quarters ending during calendar year 2007, and (ii) 6.25 to 1.00 for all other calendar quarters ending during the term of the credit facility, which levels are subject to increase to 7.25 to 1.00 and 7.00 to 1.00, respectively, for three (3) consecutive quarters at our option if we make a leverage ratio election.

we must maintain a consolidated tangible net worth of not less than the sum of $550.0 million, increased on a cumulative basis as of the end of each calendar quarter, commencing with the calendar quarter ending March 31, 2005, by an amount equal to (i) 75% of consolidated net income (to the extent positive) for the calendar quarter then ended, plus (ii) 75% of the proceeds received by us or any of our subsidiaries in connection with any equity issuance.

we must maintain a minimum consolidated fixed charge coverage ratio of not less than (i) 1.50 to 1.00 for any reporting calendar quarter during which the leverage ratio election is effective; and (ii) 2.00 to 1.00 for all other calendar quarters during the term hereof.

we must maintain an implied debt service coverage ratio (the ratio of adjusted net operating income to monthly principal and interest that would be required if the outstanding balance were amortized over 25 years at an assumed fixed rate) of not less than 1.60 to 1.00.

our investments in entities which are not wholly-owned subsidiaries may not exceed an amount equal to ten percent (10.0%) of our consolidated total assets.

As of September 30, 2006, we were in compliance with all covenants. As of September 30, 2006, $90.0 million of borrowings were outstanding under the $600.0 million credit facility, and the lending banks had issued $12.6 million of letters of credit under the facility for us. The credit facility is cross-defaulted to our other indebtedness.

8% Senior Notes. The interest rate of these notes (the 8% Senior Notes) is 8%, although we have entered into interest rate swaps with respect to $125 million principal amount of the 8% Senior Notes which results in an effective interest rate of LIBOR plus 2.95% with respect to that portion of the notes. The 8% Senior Notes, which mature on November 15, 2013, bear interest semi- annually in cash in arrears on May 15 and November 15 of each year, starting on May 15, 2004. The 8% Senior Notes are redeemable, in whole or in part, at any time on or after November 15, 2008 at a designated redemption amount, plus accrued and unpaid interest. In addition, we may redeem up to 35% of the 8% Senior Notes before November 15, 2006 with the net cash proceeds from certain equity offerings. The 8% Senior Notes rank equally in right of payment with our other unsecured unsubordinated debt, but are effectively subordinated to all of our secured debt to the extent of the assets securing such debt. The 8% Senior Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by generally all of our active domestic subsidiaries. In connection with the offering and subsequent registration of the 8% Senior Notes, we paid approximately $10.1 million in deferred financing costs. In addition, the 8% Senior Notes indenture contains certain covenants which, among other things, limit the incurrence of additional indebtedness, investments, dividends, transactions with affiliates, asset sales, capital expenditures, mergers and consolidations, liens and encumbrances and other matters customarily restricted in such agreements. The 8% Senior Notes are cross-defaulted to our other indebtedness.

6.75% Senior Notes. The interest rate of these notes (the 6.75% Senior Notes) is 6.75%. The 6.75% Senior Notes, which mature on November 15, 2014, bear interest semi-annually in cash in arrears on May 15 and November 15 of each year, starting on May 15, 2005. The 6.75% Senior Notes are redeemable, in whole or in part, at any time on or after November 15, 2009 at a designated redemption amount, plus accrued and unpaid interest. In addition, we may redeem up to 35% of the 6.75% Senior Notes before November 15, 2007 with the net cash proceeds from certain equity offerings. The 6.75% Senior Notes rank equally in right of payment with our other unsecured unsubordinated debt, but are effectively subordinated to all of our secured debt to the extent of the assets securing such debt. The

6.75% Senior

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Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by generally all of our active domestic subsidiaries. In connection with the offering of the 6.75% Senior Notes, we paid approximately $4.2 million in deferred financing costs. In addition, the 6.75% Senior Notes indenture contains certain covenants which, among other things, limit the incurrence of additional indebtedness, investments, dividends, transactions with affiliates, asset sales, capital expenditures, mergers and consolidations, liens and encumbrances and other matters customarily restricted in such agreements. The 6.75% Senior Notes are cross-defaulted to our other indebtedness.

Future Developments

As more fully described in Overall Outlook above, we are currently developing the Gaylord National Resort & Convention Center in Prince George s County, Maryland. Also, as described in Overall Outlook above, we are considering other potential hotel sites throughout the country, including Chula Vista, California.

Commitments and Contractual Obligations

The following table summarizes our significant contractual obligations as of September 30, 2006, including long-term debt and operating and capital lease commitments (amounts in thousands):

Contractual obligations	Total amounts committed	Less than 1 year	1-3 years	3-5 years	After 5 years
Long-term debt	$ 665,000	$	$	$ 90,000	$ 575,000
Capital leases	5,112	1,247	2,339	1,526	
Promissory note payable to Nashville Predators	4,000	1,000	2,000	1,000	
Construction commitments (1)	221,221	221,221			
Operating leases (2)	706,695	11,972	19,424	13,439	661,860
Other	525	175	350		
Total contractual obligations	$1,602,553	$235,615	$24,113	$105,965	$1,236,860

(1) Commencing in 2005 we entered into a series of agreements with a general contractor and other suppliers related to the construction of the Gaylord National. As of September 30, 2006, we had committed to pay $370.9 million under those agreements ($189.2 million of which was outstanding).

(2) The total operating lease commitments of $706.7 million above includes the 75-year operating lease agreement we entered into during 1999 for 65.3 acres of land located in Osceola County, Florida where Gaylord Palms is located.

The cash obligations in the table above do not include future cash obligations for interest associated with our outstanding long-term debt, capital lease obligations and promissory note payable to the Nashville Predators. See Note 12 to our condensed consolidated financial statements for the three and nine months ended September 30, 2006 and 2005 included herewith for a discussion of the interest we paid during the three and nine months ended September 30, 2006 and 2005.

The cash obligations in the table above also do not include obligations to pay deferred taxes on our secured forward exchange contract relating to the Viacom stock and CBS stock owned by us. At the expiration of the secured forward exchange contract relating to the Viacom stock and CBS stock owned by us, which is scheduled for May 2007, we will be required to pay the deferred taxes relating thereto. This deferred tax liability is estimated to be $152 million, which we anticipate will be reduced by approximately one third through the application of the Company s Federal and state income tax net operating loss carryforwards and Federal income tax credit carryforwards. We intend to finance the payment of this obligation through the use of internally generated funds, corporate borrowings and/or the sale of non-core assets. A complete description of the secured forward exchange contract is contained in Note 10 to our condensed consolidated financial statements for the three and nine months ended September 30, 2006 and 2005 included herewith.

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Critical Accounting Policies and Estimates

We prepare our condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States. Certain of our accounting policies, including those related to revenue recognition, impairment of long-lived assets and goodwill, restructuring charges, derivative financial instruments, income taxes, and retirement and postretirement benefits other than pension plans, require that we apply significant judgment in defining the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. Our judgments are based on our historical experience, our observance of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate. There can be no assurance that actual results will not differ from our estimates. For a discussion of our critical accounting policies and estimates, please refer to Management s Discussion and Analysis of Financial Condition and Results of Operations and Notes to Consolidated Financial Statements presented in our 2005 Annual Report on Form 10-K. There were no newly identified critical accounting policies in the first, second, or third quarters of 2006 nor were there any material changes to the critical accounting policies and estimates discussed in our 2005 Annual Report on Form 10-K.

Recently Issued Accounting Standards

For a discussion of recently issued accounting standards, see Note 17 to our condensed consolidated financial statements for the three and nine months ended September 30, 2006 and 2005 included herewith.

Private Securities Litigation Reform Act

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. You can identify these statements by the fact that they do not relate strictly to historical or current facts. These statements contain words such as may, will, project, might, expect, believe, anticipate, intend, could, would, estimate, continue or pursue, variations thereof or comparable terminology. 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. 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. Such risks and uncertainties include, but are not limited to, the following factors, as well as other factors described in our Annual Report on Form 10-K for the year ended December 31, 2005 or described from time to time in our other reports filed with the Securities and Exchange Commission:

- the potential adverse effect of our debt on our cash flow and our ability to fulfill our obligations under our indebtedness and maintain adequate cash to finance our business;

- the availability of debt and equity financing on terms that are favorable to us;

- the challenges associated with the integration of ResortQuest s operations into our operations;

- factors affecting the number of guests renting vacation properties managed by ResortQuest, including adverse weather conditions such as hurricanes, economic conditions in a particular region of the nation as a whole, or the perceived attractiveness of the destinations in which we operate and the units we manage;

- general economic and market conditions and economic and market conditions related to the hotel and large group meetings and convention industry; and

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the timing, budgeting and other factors and risks relating to new hotel development, including our ability to generate cash flow from the Gaylord Texan and to develop and construct the Gaylord National.

Any forward-looking statements are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, speak only as of the date made. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and commodity prices. Our primary exposure to market risk is from changes in the value of our investment in Viacom stock and CBS stock and changes in interest rates.

Risks Related to a Change in Value of Our Investment in Viacom Stock and CBS Stock

Prior to January 3, 2006, we held an investment of 10.9 million shares of Viacom Class B common stock, which was received as the result of the sale of television station KTVT to CBS in 1999 and the subsequent acquisition of CBS by Viacom in 2000.

We entered into a secured forward exchange contract related to 10.9 million shares of the Viacom stock in 2000. Effective January 3, 2006, Viacom completed a transaction to separate Viacom into two publicly traded companies named Viacom Inc. and CBS Corporation by converting (i) each outstanding share of Viacom Class A common stock into 0.5 shares of Viacom Inc. Class A common stock and 0.5 shares of CBS Corporation Class A common stock and (ii) each outstanding share of Viacom Class B common stock into 0.5 shares of Viacom Inc. Class B common stock and 0.5 shares of CBS Corporation Class B common stock. As a result of this transaction, we exchanged our 10,937,900 shares of Viacom Class B common stock for 5,468,950 shares of Viacom, Inc. Class B common stock and 5,468,950 shares of CBS Corporation Class B common stock effective January 3, 2006.

The secured forward exchange contract protects us against decreases in the combined fair market value of the Viacom stock and CBS stock, while providing for participation in increases in the combined fair market value. At September 30, 2006, the fair market value of our investment in the 5.5 million shares of Viacom stock was $203.3 million, or $37.18 per share, and the fair market value of our investment in the 5.5 million shares of CBS stock was $154.1 million, or $28.17 per share. The secured forward exchange contract protects us against decreases in the combined fair market value of the Viacom stock and CBS stock below $56.05 per share by way of a put option; the secured forward exchange contract also provides for participation in the increases in the combined fair market value of the Viacom stock and CBS stock in that we receive 100% of the appreciation between $56.05 and $64.45 per share and, by way of a call option, 25.93% of the appreciation above $64.45 per share, as of September 30, 2006.

Changes in the market price of the Viacom stock and CBS stock could have a significant impact on future earnings. For example, a 5% increase in the value of the Viacom stock and CBS stock at September 30, 2006 would have resulted in an increase of $7,000 in the net pre-tax gain on the investment in Viacom stock and CBS stock and related derivatives for the three months ended September 30, 2006. Likewise, a 5% decrease in the value of the Viacom stock and CBS stock at September 30, 2006 would have resulted in a decrease of $0.1 million in the net pre-tax gain on the investment in Viacom stock and CBS stock and related derivatives for the three months ended September 30, 2006.

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Risks Related to Changes in Interest Rates

Interest rate risk related to our indebtedness. We have exposure to interest rate changes primarily relating to outstanding indebtedness under our 8% Senior Notes and our $600 million credit facility.

In conjunction with our offering of the 8% Senior Notes, we entered into an interest rate swap with respect to $125 million aggregate principal amount of our 8% Senior Notes. This interest rate swap, which has a term of ten years, effectively adjusts the interest rate of that portion of the 8% Senior Notes to LIBOR plus 2.95%. The interest rate swap on the 8% Senior Notes is deemed effective and therefore the hedge has been treated as an effective fair value hedge under SFAS No. 133. If LIBOR were to increase by 100 basis points, our annual interest cost on the 8% Senior Notes would increase by approximately $1.3 million.

Borrowings outstanding under our $600 million credit facility bear interest at our election of either LIBOR plus 2% or the lending banks base rate plus 1%, subject to adjustments based on our financial performance. If LIBOR were to increase by 100 basis points, our annual interest cost on borrowings outstanding under our $600.0 million credit facility as of September 30, 2006 would increase by approximately $0.9 million.

Cash balances. Certain of our outstanding cash balances are occasionally invested overnight with high credit quality financial institutions. We do not have significant exposure to changing interest rates on invested cash at September 30, 2006. As a result, the interest rate market risk implicit in these investments at September 30, 2006, if any, is low.

Risks Related to Foreign Currency Exchange Rates

Substantially all of our revenues are realized in U.S. dollars and are from customers in the United States. Although we own certain subsidiaries who conduct business in foreign markets and whose transactions are settled in foreign currencies, these operations are not material to our overall operations. Therefore, we do not believe we have any significant foreign currency exchange rate risk. We do not hedge against foreign currency exchange rate changes and do not speculate on the future direction of foreign currencies.

Summary

Based upon our overall market risk exposures at September 30, 2006, we believe that the effects of changes in the stock price of our Viacom stock and CBS stock or interest rates could be material to our consolidated financial position, results of operations or cash flows. However, we believe that the effects of fluctuations in foreign currency exchange rates on our consolidated financial position, results of operations or cash flows would not be material.

ITEM 4. CONTROLS AND PROCEDURES.

The Company maintains disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the Exchange Act), that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as of the end of the period covered by this report. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report. There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that materially affected, or are likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The Company is a party to certain litigation, as described in Note 18 to our condensed consolidated financial statements for the three months and nine months ended September 30, 2006 and 2005 included herewith and which is incorporated herein by reference.

ITEM 1A. RISK FACTORS.

There have been no material changes in our Risk Factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2005.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Inapplicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Inapplicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Inapplicable.

ITEM 5. OTHER INFORMATION.

Inapplicable.

ITEM 6. EXHIBITS.

See Index to Exhibits following the Signatures page.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GAYLORD ENTERTAINMENT COMPANY

Date: November 8, 2006

By: /s/ Colin V. Reed

Colin V. Reed
Chairman of the Board of Directors,
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ David C. Kloeppel

David C. Kloeppel
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

By: /s/ Rod Connor

Rod Connor
Senior Vice President and
Chief Administrative Officer
(Principal Accounting Officer)

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INDEX TO EXHIBITS

10.1 GMP Amendment No. 8 to the Agreement between Gaylord National, LLC and Perini/Tompkins Joint Venture, dated June 29, 2006, (incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K dated July 5, 2006 (File No. 1-13079)).

31.1 Certification of Colin V. Reed pursuant to Section 302 of Sarbanes-Oxley Act of 2002.

31.2 Certification of David C. Kloeppel pursuant to Section 302 of Sarbanes-Oxley Act of 2002.

32.1 Certification of Colin V. Reed and David C. Kloeppel pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.

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