

SeaWorld Entertainment, Inc.  
Form 10-Q  
May 06, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-35883

SeaWorld Entertainment, Inc.

(Exact name of registrant as specified in its charter)

Delaware 27-1220297  
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

9205 South Park Center Loop, Suite 400

Orlando, Florida 32819

(Address of principal executive offices)(Zip Code)

(407) 226-5011

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

The registrant had outstanding 88,658,170 shares of Common Stock, par value \$0.01 per share as of May 2, 2016.

SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES

FORM 10-Q

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

In addition to historical information, this Quarterly Report on Form 10-Q may contain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which are subject to the “safe harbor” created by those sections. All statements, other than statements of historical facts, including statements concerning our plans, objectives, goals, beliefs, business strategies, future events, business conditions, our results of operations, financial position and our business outlook, business trends and other information, may be forward-looking statements. Words such as “might,” “will,” “may,” “should,” “estimates,” “expects,” “continues,” “contemplates,” “anticipates,” “projects,” “plans,” “predicts,” “intends,” “believes,” “forecasts,” “future” and variations of such words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not historical facts, and are based upon our current expectations, beliefs, estimates and projections, and various assumptions, many of which, by their nature, are inherently uncertain and beyond our control. Our expectations, beliefs, estimates and projections are expressed in good faith and we believe there is a reasonable basis for them. However, there can be no assurance that management’s expectations, beliefs, estimates and projections will result or be achieved and actual results may vary materially from what is expressed in or indicated by the forward-looking statements.

There are a number of risks, uncertainties and other important factors, many of which are beyond our control, that could cause our actual results to differ materially from the forward-looking statements contained in this Quarterly Report on Form 10-Q. Such risks, uncertainties and other important factors that could cause actual results to differ include, among others, the risks, uncertainties and factors set forth under “Item 1A. Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission (the “SEC”), as such risk factors may be updated from time to time in our periodic filings with the SEC, including this report, and are accessible on the SEC’s website at [www.sec.gov](http://www.sec.gov), including the following:

- changes in federal and state regulations governing the treatment of animals and claims and lawsuits by activist groups;
- various factors beyond our control adversely affecting attendance and guest spending at our theme parks;
- incidents or adverse publicity concerning our theme parks;
- a decline in discretionary consumer spending or consumer confidence;
- significant portion of revenues generated in the States of Florida, California and Virginia and the Orlando market;
- seasonal fluctuations;
- inability to compete effectively;
- interactions between animals and our employees and our guests at attractions at our theme parks;
- animal exposure to infectious disease;
- high fixed cost structure of theme park operations;
- changing consumer tastes and preferences;
- cyber security risks and failure to maintain the integrity of internal or guest data;
- increased labor costs;
- inability to grow our business or fund theme park capital expenditures;
- adverse litigation judgments or settlements;
- inability to protect our intellectual property or the infringement on intellectual property rights of others;
- the loss of licenses and permits required to exhibit animals;
- loss of key personnel;
- unionization activities or labor disputes;
- inability to meet workforce needs;
- inability to maintain certain commercial licenses;
- restrictions in our debt agreements limiting flexibility in operating our business;
- our substantial leverage;
- inability to realize the benefits of acquisitions or other strategic initiatives;



- inadequate insurance coverage;
- inability to purchase or contract with third party manufacturers for rides and attractions;
- environmental regulations, expenditures and liabilities;
- suspension or termination of any of our business licenses; and
- the ability of affiliates of The Blackstone Group L.P. to significantly influence our decisions.

We caution you that the risks, uncertainties and other factors referenced above may not contain all of the risks, uncertainties and other factors that are important to you. In addition, we cannot assure you that we will realize the results, benefits or developments that we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our business in the way expected. There can be no assurance that (i) we have correctly measured or identified all of the factors affecting our business or the extent of these factors' likely impact, (ii) the available information with respect to these factors on which such analysis is based is complete or accurate, (iii) such analysis is correct or (iv) our strategy, which is based in part on this analysis, will be successful. All forward-looking statements in this Quarterly Report on Form 10-Q apply only as of the date of this Quarterly Report on Form 10-Q or as the date they were made and, except as required by applicable law, we undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise.

All references to “we,” “us,” “our,” “Company” or “SeaWorld” in this Quarterly Report on Form 10-Q mean SeaWorld Entertainment, Inc., its subsidiaries and affiliates.

#### Website and Social Media Disclosure

We use our websites ([www.seaworldentertainment.com](http://www.seaworldentertainment.com) and [www.seaworldinvestors.com](http://www.seaworldinvestors.com)) and our corporate Twitter account (@Seaworld) as channels of distribution of Company information. The information we post through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following our press releases, SEC filings and public conference calls and webcasts. In addition, you may automatically receive e-mail alerts and other information about SeaWorld when you enroll your e-mail address by visiting the “E-mail Alerts” section of our website at [www.seaworldinvestors.com](http://www.seaworldinvestors.com). The contents of our website and social media channels are not, however, a part of this Quarterly Report on Form 10-Q.

#### Trademarks, Service Marks and Tradenames

We own or have rights to use a number of registered and common law trademarks, service marks and trade names in connection with our business in the United States and in certain foreign jurisdictions, including SeaWorld Entertainment, SeaWorld Parks & Entertainment, SeaWorld®, Shamu®, Busch Gardens®, Aquatica®, Discovery Cove®, Sea Rescue® and other names and marks that identify our theme parks, characters, rides, attractions and other businesses. In addition, we have certain rights to use Sesame Street® marks, characters and related indicia through certain license agreements with Sesame Workshop (f/k/a Children’s Television Workshop).

Solely for convenience, the trademarks, service marks, and trade names referred to hereafter in this Quarterly Report on Form 10-Q are without the ® and ™ symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensors to these trademarks, service marks, and trade names. This Quarterly Report on Form 10-Q may contain additional trademarks, service marks and trade names of others, which are the property of their respective owners. All trademarks, service marks and trade names appearing in this Quarterly Report on Form 10-Q are, to our knowledge, the property of their respective owners.





## PART I — FINANCIAL INFORMATION

## Item 1. Unaudited Condensed Consolidated Financial Statements

## SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	March 31, 2016	December 31, 2015
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$41,492	\$18,971
Accounts receivable, net	44,531	39,538
Inventories	38,664	31,213
Prepaid expenses and other current assets	18,900	16,360
<b>Total current assets</b>	<b>143,587</b>	<b>106,082</b>
Property and equipment, at cost	2,751,939	2,748,161
Accumulated depreciation	(1,052,907)	(1,029,165)
Property and equipment, net	1,699,032	1,718,996
Goodwill	335,610	335,610
Trade names/trademarks, net	162,360	162,726
Other intangible assets, net	20,497	21,327
Deferred tax assets, net	35,520	23,994
Other assets	20,219	19,927
<b>Total assets</b>	<b>\$2,416,825</b>	<b>\$2,388,662</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$115,327	\$93,743
Current maturities on long-term debt	91,850	31,850
Accrued salaries, wages and benefits	17,354	12,330
Deferred revenue	134,200	79,818
Dividends payable	21,807	430
Other accrued expenses	12,748	11,143
<b>Total current liabilities</b>	<b>393,286</b>	<b>229,314</b>
Long-term debt, net of debt issuance costs of \$12,423 and \$13,333 as of		
March 31, 2016 and December 31, 2015, respectively	1,546,016	1,548,893
Deferred tax liabilities, net	18,721	65,689
Other liabilities	57,750	40,646
<b>Total liabilities</b>	<b>2,015,773</b>	<b>1,884,542</b>
<b>Commitments and contingencies (Note 10)</b>		
<b>Stockholders' Equity:</b>		
Preferred stock, \$0.01 par value—authorized, 100,000,000 shares, no shares issued		
or outstanding at March 31, 2016 and December 31, 2015	—	—

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Common stock, \$0.01 par value—authorized, 1,000,000,000 shares; 90,375,377 and 90,320,374 shares issued at March 31, 2016 and December 31, 2015, respectively	904	903
Additional paid-in capital	632,775	624,765
Accumulated other comprehensive loss	(22,387 )	(13,137 )
(Accumulated deficit) retained earnings	(55,369 )	46,460
Treasury stock, at cost (6,519,773 shares at March 31, 2016 and December 31, 2015)	(154,871 )	(154,871 )
Total stockholders' equity	401,052	504,120
Total liabilities and stockholders' equity	\$2,416,825	\$2,388,662

See accompanying notes to unaudited condensed consolidated financial statements.

## SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF  
COMPREHENSIVE LOSS

(In thousands, except per share amounts)

	For the Three Months Ended March 31,	
	2016	2015
Net revenues:		
Admissions	\$ 136,926	\$ 136,840
Food, merchandise and other	83,315	77,752
Total revenues	220,241	214,592
Costs and expenses:		
Cost of food, merchandise and other revenues	17,001	15,903
Operating expenses (exclusive of depreciation and amortization shown separately below and includes equity-based compensation expense of \$9,340 and \$69 for the three months ended March 31, 2016 and 2015, respectively)	180,293	153,811
Selling, general and administrative (includes equity-based compensation expense of \$20,250 and \$1,784 for the three months ended March 31, 2016 and 2015, respectively)	67,354	51,078
Restructuring and other related costs	112	145
Depreciation and amortization	75,048	43,854
Total costs and expenses	339,808	264,791
Operating loss	(119,567)	(50,199)
Other (income) expense, net	(142)	261
Interest expense	14,581	20,178
Loss before income taxes	(134,006)	(70,638)
Benefit from income taxes	(49,957)	(27,040)
Net loss	\$(84,049)	\$(43,598)
Other comprehensive loss:		
Unrealized loss on derivatives, net of tax	(9,250)	(873)
Comprehensive loss	\$(93,299)	\$(44,471)
Loss per share:		
Net loss per share, basic	\$(1.00)	\$(0.51)
Net loss per share, diluted	\$(1.00)	\$(0.51)
Weighted average common shares outstanding:		
Basic	83,824	86,097
Diluted	83,824	86,097
Cash dividends declared per share:		
Cash dividends declared per share	\$0.42	\$0.42

See accompanying notes to unaudited condensed consolidated financial statements.



## SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE THREE MONTHS ENDED MARCH 31, 2016

(In thousands, except per share and share amounts)

	Shares of		Accumulated				Total Stockholders' Equity
	Common Stock Issued	Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Other Comprehensive Loss	Treasury Stock, at Cost	
Balance at December 31, 2015	90,320,374	\$ 903	\$ 624,765	\$ 46,460	\$ (13,137 )	\$(154,871)	\$ 504,120
Equity-based compensation	—	—	29,590	—	—	—	29,590
Unrealized loss on derivatives, net of tax benefit of \$8,537	—	—	—	—	(9,250 )	—	(9,250 )
Vesting of restricted shares	72,343	1	(1 )	—	—	—	—
Shares withheld for tax withholdings	(18,701 )	—	(334 )	—	—	—	(334 )
Exercise of stock options	1,361	—	26	—	—	—	26
Cash dividends declared to stockholders (\$0.42 per share), net of forfeitures	—	—	(21,271 )	(17,780 )	—	—	(39,051 )
Net loss	—	—	—	(84,049 )	—	—	(84,049 )
Balance at March 31, 2016	90,375,377	\$ 904	\$ 632,775	\$ (55,369 )	\$ (22,387 )	\$(154,871)	\$ 401,052

See accompanying notes to unaudited condensed consolidated financial statements.

## SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the Three Months Ended March 31,	
	2016	2015
<b>Cash Flows From Operating Activities:</b>		
Net loss	\$(84,049)	\$(43,598)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	75,048	43,854
Amortization of debt issuance costs and discounts	1,335	2,328
Loss on sale or disposal of assets	6,502	624
Loss on derivatives	1	286
Deferred income tax benefit	(49,957)	(27,040)
Equity-based compensation	29,590	1,853
Changes in assets and liabilities:		
Accounts receivable	(5,443 )	(1,892 )
Inventories	(7,451 )	