

SeaWorld Entertainment, Inc.  
Form 10-Q  
November 06, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

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

**or**

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

**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. (Check One:)

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 89,627,620 shares of Common Stock, par value \$0.01 per share as of November 2, 2015.

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**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, 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 that 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, 2014, 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:

a decline in discretionary consumer spending or consumer confidence;

various factors beyond our control adversely affecting attendance and guest spending at our theme parks;

changes in federal and state regulations governing the treatment of animals and claims and lawsuits by activist groups;

incidents or adverse publicity concerning our theme parks;

inability to protect our intellectual property or the infringement on intellectual property rights of others;

featuring animals at our theme parks;

the loss of licenses and permits required to exhibit animals;

significant portion of revenues generated in the States of Florida, California and Virginia and the Orlando market;

inability to compete effectively;

loss of key personnel;

increased labor costs and employee health and welfare benefits;

unionization activities or labor disputes;

inability to meet workforce needs;

inability to fund theme park capital expenditures;

high fixed cost structure of theme park operations;

inability to maintain certain commercial licenses;

changing consumer tastes and preferences;

restrictions in our debt agreements limiting flexibility in operating our business;

our substantial leverage;

seasonal fluctuations;

inability to realize the benefits of acquisitions or other strategic initiatives;

adverse litigation judgments or settlements;

inadequate insurance coverage;

inability to purchase or contract with third-party manufacturers for rides and attractions;

environmental regulations, expenditures and liabilities;

cyber security risks;

suspension or termination of any of our business licenses;

our limited operating history as a stand-alone company; and

the ability of affiliates of The Blackstone Group L.P to significantly influence our decisions.

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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 report apply only as of the date of this report or as of 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 website ([www.seaworldentertainment.com](http://www.seaworldentertainment.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 Email 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 report.

## **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 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.

**Table of Contents****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)*

|  | <b>September 30,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|--|-------------------------------|------------------------------|
| <b>Assets</b>  |                               |                              |
| <b>Current assets:</b>   |                               |                              |
| Cash and cash equivalents  | \$ 119,651                    | \$ 43,906                    |
| Accounts receivable, net   | 48,534                        | 37,002                       |
| Inventories  | 32,267                        | 33,134                       |
| Prepaid expenses and other current assets  | 18,078                        | 20,894                       |
| Deferred tax assets, net   | 7,268                         | 7,268                        |
| Total current assets   | 225,798                       | 142,204                      |
| Property and equipment, at cost  | 2,706,758                     | 2,612,052                    |
| Accumulated depreciation   | (993,668)                     | (867,421)                    |
| Property and equipment, net  | 1,713,090                     | 1,744,631                    |
| Goodwill   | 335,610                       | 335,610                      |
| Trade names/trademarks, net  | 163,091                       | 164,188                      |
| Other intangible assets, net   | 22,037                        | 24,525                       |
| Other assets   | 15,772                        | 11,313                       |
| <b>Total assets</b>  | <b>\$ 2,475,398</b>           | <b>\$ 2,422,471</b>          |
| <b>Liabilities and Stockholders Equity</b>   |                               |                              |
| <b>Current liabilities:</b>  |                               |                              |
| Accounts payable   | \$ 79,182                     | \$ 88,279                    |
| Current maturities on long-term debt   | 16,850                        | 14,050                       |
| Accrued salaries, wages and benefits   | 15,600                        | 19,068                       |
| Deferred revenue   | 98,101                        | 79,367                       |
| Dividends payable  | 18,396                        | 172                          |
| Other accrued expenses   | 20,669                        | 20,149                       |
| Total current liabilities  | 248,798                       | 221,085                      |
| Long-term debt, net of debt issuance costs of \$14,563 and \$20,003 as of September 30, 2015 and December 31, 2014, respectively | 1,581,309                     | 1,569,400                    |
| Deferred tax liabilities, net  | 57,423                        | 31,760                       |



|  |                     |                     |
|--|---------------------|---------------------|
| Other liabilities  | 47,163              | 20,691              |
| <b>Total liabilities</b>   | <b>1,934,693</b>    | <b>1,842,936</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 September 30, 2015 and December 31, 2014                      |                     |                     |
| Common stock, \$0.01 par value authorized, 1,000,000,000 shares; 90,305,888 and 90,191,100 shares issued at September 30, 2015 and December 31, 2014, respectively | 903                 | 902                 |
| Additional paid-in capital   | 623,044             | 655,471             |
| Accumulated other comprehensive loss   | (15,843)            | (483)               |
| Retained earnings  | 57,472              | 33,516              |
| Treasury stock, at cost; 4,941,938 and 4,105,970 shares at September 30, 2015 and December 31, 2014, respectively  | (124,871)           | (109,871)           |
| Total stockholders equity  | 540,705             | 579,535             |
| <b>Total liabilities and stockholders equity</b>   | <b>\$ 2,475,398</b> | <b>\$ 2,422,471</b> |

See accompanying notes to unaudited condensed consolidated financial statements.

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**SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF**  
**COMPREHENSIVE INCOME**

*(In thousands, except per share amounts)*

|   | For the Three Months Ended |                  | For the Nine Months |                  |
|---|----------------------------|------------------|---------------------|------------------|
|   | September 30,              |                  | Ended               |                  |
|   | 2015                       | 2014             | 2015                | 2014             |
| <b>Net revenues:</b>  |                            |                  |                     |                  |
| Admissions  | \$ 304,626                 | \$ 306,495       | \$ 679,917          | \$ 693,144       |
| Food, merchandise and other   | 192,313                    | 189,339          | 423,230             | 420,131          |
| Total revenues  | 496,939                    | 495,834          | 1,103,147           | 1,113,275        |
| <b>Costs and expenses:</b>  |                            |                  |                     |                  |
| Cost of food, merchandise and other revenues  | 36,959                     | 38,219           | 83,974              | 88,630           |
| Operating expenses (exclusive of depreciation and amortization shown separately below)  | 196,931                    | 200,891          | 541,944             | 557,993          |
| Selling, general and administrative   | 47,684                     | 49,242           | 172,082             | 152,882          |
| Restructuring and other related costs   |                            | 1,196            | 267                 | 1,196            |
| Secondary offering costs  |                            |                  |                     | 747              |
| Depreciation and amortization   | 44,505                     | 44,371           | 138,469             | 128,733          |
| Total costs and expenses  | 326,079                    | 333,919          | 936,736             | 930,181          |
| Operating income  | 170,860                    | 161,915          | 166,411             | 183,094          |
| Other expense (income), net   | 41                         | (56)             | 511                 | (84)             |
| Interest expense  | 15,019                     | 20,857           | 50,929              | 61,087           |
| Loss on early extinguishment of debt and write-off of discounts and debt issuance costs |                            | 461              | 20,348              | 461              |
| Income before income taxes  | 155,800                    | 140,653          | 94,623              | 121,630          |
| Provision for income taxes  | 57,850                     | 53,477           | 34,462              | 46,265           |
| <b>Net income</b>   | <b>\$ 97,950</b>           | <b>\$ 87,176</b> | <b>\$ 60,161</b>    | <b>\$ 75,365</b> |
| <b>Other comprehensive income:</b>  |                            |                  |                     |                  |
| Unrealized (loss) gain on derivatives, net of tax                                       | (10,740)                   | 1,087            | (15,360)            | 7                |
| <b>Comprehensive income</b>   | <b>\$ 87,210</b>           | <b>\$ 88,263</b> | <b>\$ 44,801</b>    | <b>\$ 75,372</b> |
| <b>Earnings per share:</b>  |                            |                  |                     |                  |

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|  |    |        |    |        |    |        |    |        |
|--|----|--------|----|--------|----|--------|----|--------|
| Net income per share, basic                        | \$ | 1.14   | \$ | 1.01   | \$ | 0.70   | \$ | 0.86   |
| Net income per share, diluted                      | \$ | 1.14   | \$ | 1.00   | \$ | 0.70   | \$ | 0.86   |
| <b>Weighted average common shares outstanding:</b> |    |        |    |        |    |        |    |        |
| Basic  |    | 86,006 |    | 86,715 |    | 86,096 |    | 87,329 |
| Diluted  |    | 86,100 |    | 87,024 |    | 86,207 |    | 87,648 |
| <b>Cash dividends declared per share:</b>          |    |        |    |        |    |        |    |        |
| Cash dividends declared per share                  | \$ | 0.21   | \$ | 0.21   | \$ | 0.84   | \$ | 0.62   |

See accompanying notes to unaudited condensed consolidated financial statements.

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## SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS  
EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015

*(In thousands, except share and per share amounts)*

|   | Shares of<br>Common<br>Stock<br>Issued | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Treasury<br>Stock, at<br>Cost | Total<br>Stockholders<br>Equity |
|---|--|-----------------|----------------------------------|----------------------|---|-------------------------------|---------------------------------|
| <b>Balance at<br/>December 31, 2014</b>                             | 90,191,100                             | \$ 902          | \$ 655,471                       | \$ 33,516            | \$ (483)                                      | \$ (109,871)                  | \$ 579,535                      |
| Equity-based<br>compensation  |  |                 | 4,800                            |                      |   |                               | 4,800                           |
| Unrealized loss on<br>derivatives, net of tax<br>benefit of \$8,799 |  |                 |                                  |                      | (15,360)                                      |                               | (15,360)                        |
| Vesting of restricted<br>shares                                     | 156,733                                | 1               | (1)                              |                      |   |                               |                                 |
| Shares withheld for tax<br>withholdings                             | (41,945)                               |                 | (838)                            |                      |   |                               | (838)                           |
| Cash dividends declared<br>to stockholders (\$0.84<br>per share)    |  |                 | (36,388)                         | (36,205)             |   |                               | (72,593)                        |
| Repurchase of 835,968<br>shares of treasury stock,<br>at cost       |  |                 |                                  |                      |   | (15,000)                      | (15,000)                        |
| Net income  |  |                 |                                  | 60,161               |   |                               | 60,161                          |
| <b>Balance at<br/>September 30, 2015</b>                            | 90,305,888                             | \$ 903          | \$ 623,044                       | \$ 57,472            | \$ (15,843)                                   | \$ (124,871)                  | \$ 540,705                      |

See accompanying notes to unaudited condensed consolidated financial statements.

**Table of Contents****SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS***(In thousands)*

|   | <b>For the Nine Months Ended<br/>September 30,</b> |             |
|---|--|-------------|
|   | <b>2015</b>  | <b>2014</b> |
| <b>Cash Flows From Operating Activities:</b>  |  |             |
| Net income  | \$ 60,161  | \$ 75,365   |
| Adjustments to reconcile net income to net cash provided by operating activities:       |  |             |
| Depreciation and amortization   | 138,469  | 128,733     |
| Amortization of debt issuance costs and discounts                                       | 5,170  | 7,068       |
| Loss on early extinguishment of debt and write-off of discounts and debt issuance costs | 20,348   | 461         |
| Loss on sale or disposal of assets  | 4,334  | 1,694       |
| Loss on derivatives   | 288  |             |
| Deferred income tax provision   | 34,462   | 45,356      |
| Equity-based compensation   | 4,800  | 1,905       |
| Changes in assets and liabilities:  |  |             |
| Accounts receivable   | (15,097)   | (3,091)     |
| Inventories   | 556  | (557)       |
| Prepaid expenses and other current assets   | 3,195  | 1,890       |
| Accounts payable  | (1,771)  | (3,746)     |
| Accrued salaries, wages and benefits  | (3,468)  | (11,595)    |
| Deferred revenue  | 22,608   | 9,191       |
| Other accrued expenses  | 6,510  | 14,162      |
| Other assets and liabilities  | (645)  | 3,103       |
| Net cash provided by operating activities   | 279,920  | 269,939     |
| <b>Cash Flows From Investing Activities:</b>  |  |             |
| Capital expenditures  | (117,129)  | (122,809)   |
| Change in restricted cash   | (379)  | (373)       |
| Acquisition of intangible assets  |  | (1,900)     |
| Net cash used in investing activities   | (117,508)  | (125,082)   |
| <b>Cash Flows From Financing Activities:</b>  |  |             |
| Proceeds from the issuance of debt  | 280,000  |             |
| Repayment of long-term debt   | (271,938)  | (42,025)    |
| Proceeds from draw on revolving credit facility   | 45,000   | 40,000      |
| Repayment of revolving credit facility  | (45,000)   | (40,000)    |
| Dividends paid to stockholders  | (54,370)   | (53,639)    |
| Debt issuance costs   | (4,571)  |             |

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|  |                   |                   |
|--|-------------------|-------------------|
| Redemption premium payment   | (14,300)          |                   |
| Purchase of treasury stock   | (20,650)          | (50,708)          |
| Payment of tax withholdings on equity-based compensation through shares withheld | (838)             | (134)             |
| Net cash used in financing activities  | (86,667)          | (146,506)         |
| <b>Change in Cash and Cash Equivalents</b>                                       | <b>75,745</b>     | <b>(1,649)</b>    |
| Cash and Cash Equivalents Beginning of period                                    | 43,906            | 116,841           |
| <b>Cash and Cash Equivalents End of period</b>                                   | <b>\$ 119,651</b> | <b>\$ 115,192</b> |
| <b>Supplemental Disclosures of Noncash Investing and Financing Activities</b>    |                   |                   |
| Capital expenditures in accounts payable   | \$ 18,404         | \$ 13,616         |
| Dividends declared, but unpaid   | \$ 18,396         | \$ 18,647         |

See accompanying notes to unaudited condensed consolidated financial statements.

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**SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(In thousands, except share and per share amounts)*

**1. DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION**

**Description of the Business**

SeaWorld Entertainment, Inc., through its wholly-owned subsidiary, SeaWorld Parks & Entertainment, Inc. ( SEA ) (collectively, the Company ), owns and operates eleven theme parks within the United States. Prior to December 1, 2009, the Company did not have any operations. Prior to its initial public offering in April 2013, the Company was owned by ten limited partnerships (the Partnerships or the selling stockholders ), ultimately owned by affiliates of The Blackstone Group L.P. ( Blackstone ) and certain co-investors.

The Company operates SeaWorld theme parks in Orlando, Florida; San Antonio, Texas; and San Diego, California, and Busch Gardens theme parks in Tampa, Florida, and Williamsburg, Virginia. The Company operates water park attractions in Orlando, Florida (Aquatica); San Diego, California (Aquatica); Tampa, Florida (Adventure Island); and Williamsburg, Virginia (Water Country USA). The Company also operates a reservations-only attraction offering interaction with marine animals (Discovery Cove) and a seasonal park in Langhorne, Pennsylvania (Sesame Place).

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) and applicable rules and regulations of the Securities and Exchange Commission ( SEC ) regarding interim financial reporting. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2014 included in the Company s Annual Report on Form 10-K filed with the SEC. The unaudited condensed consolidated balance sheet as of December 31, 2014 has been derived from the audited consolidated financial statements included in the Company s Annual Report on Form 10-K.

In the opinion of management, such unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, and cash flows for the interim periods, but are not necessarily indicative of the results of operations for the year ending December 31, 2015 or any future period due to the seasonal nature of the Company s operations. Based upon historical results, the Company typically generates its highest revenues in the second and third quarters of each year and incurs a net loss in the first and fourth quarters, in part because six of its theme parks are only open for a portion of the year.

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, including SEA. All intercompany accounts have been eliminated in consolidation.

**Use of Estimates**

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent

assets and liabilities at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions include, but are not limited to, the accounting for self-insurance, deferred tax assets, deferred revenue, equity compensation and the valuation of goodwill and other indefinite-lived intangible assets. Actual results could differ from those estimates.

### **Segment Reporting**

The Company maintains discrete financial information for each of its eleven theme parks, which is used by the Chief Operating Decision Maker ( CODM ), identified as the Chief Executive Officer, as a basis for allocating resources. Each theme park has been identified as an operating segment and meets the criteria for aggregation due to similar economic characteristics. In addition, all of the theme parks provide similar products and services and share similar processes for delivering services. The theme parks have a high degree of similarity in the workforces and target similar consumer groups. Accordingly, based on these economic and operational similarities and the way the CODM monitors and makes decisions affecting the operations, the Company has concluded that its operating segments may be aggregated and that it has one reportable segment.



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*(In thousands, except share and per share amounts)*

**Reclassifications**

Certain prior year amounts have been reclassified to conform to the 2015 presentation, in particular debt issuance costs, which were previously included in other assets in the unaudited condensed consolidated balance sheets, have been reclassified to long-term debt as a result of the adoption of a new Accounting Standards Update ( ASU ). See Note 2 Recently Issued Accounting Pronouncements for further details. In addition, \$1,196 of restructuring and other related costs, which were previously included in selling, general and administrative expenses during the three and nine month periods ended September 30, 2014, but were reclassified in the fourth quarter of 2014 to separately disclose such costs, are reflected in restructuring and other related costs in the accompanying unaudited condensed consolidated statement of comprehensive income to be consistent. These costs relate primarily to third party consulting costs associated with the development of the Company's cost savings plan.

**2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

The Company reviews new accounting pronouncements as they are issued or proposed by the Financial Accounting Standards Board ( FASB ).

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory*. This ASU simplifies the accounting for inventory by requiring inventory to be measured at the lower of cost and net realizable value and eliminates options that currently exist for measuring inventory at market value. The ASU defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. No other changes were made to the current guidance on inventory measurement. The ASU is effective for interim and annual periods beginning after December 15, 2016. Early application is permitted and should be applied prospectively. The Company does not expect a material impact to its consolidated financial statements upon adoption of this ASU.

In April 2015, the FASB issued ASU No. 2015-03, *Interest Imputation of Interest (Topic 835): Simplifying the Presentation of Debt Issuance Costs*. This ASU simplifies the accounting for debt issuance costs by requiring such costs to be presented as a direct deduction from the related debt liability rather than as an asset. Debt disclosures include the face amount of the debt liability and the effective interest rate. This ASU requires retrospective adoption and is effective for annual periods beginning on or after December 15, 2015, with early adoption permitted. The Company elected to early adopt this ASU as of June 30, 2015. The ASU has been applied retrospectively as a change in accounting principle for all periods presented in the accompanying unaudited condensed consolidated balance sheets. As a result of adopting this ASU, the Company reclassified \$20,003 of unamortized debt issuance costs at December 31, 2014, from other assets to long-term debt on the accompanying unaudited condensed consolidated balance sheet. The adoption of this ASU did not impact the Company's consolidated results of operations, stockholders equity or cash flows. Furthermore, in August 2015, the FASB issued ASU 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated With Line-of-Credit Arrangements: Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting*. This ASU expands on the guidance set forth in ASU 2015-03 and clarifies that an entity may elect to present debt issuance costs related to line-of-credit arrangements as an

asset which is subsequently amortized over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the arrangement. The Company has elected to record debt issuance costs related to its senior secured revolving credit facility as a deduction to long-term debt on the accompanying unaudited condensed consolidated balance sheets and to amortize the debt issuance costs over the term of the arrangement. See Note 6 Long-Term Debt for further details.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date to annual reporting periods beginning after December 15, 2017 using one of two retrospective application methods with earlier adoption permitted for annual periods beginning after December 15, 2016. The Company has not yet selected a transition method and is evaluating the accounting and disclosure requirements on its consolidated financial statements but does not currently anticipate a material impact upon adoption; however, the Company is in the process of evaluating the effect this ASU will have on the classification of revenue and related disclosures.

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## SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(In thousands, except share and per share amounts)***3. EARNINGS PER SHARE**

Earnings per share is computed as follows:

|   | Three Months Ended<br>September 30, |        |                        |               |        |                        | Nine Months Ended<br>September 30, |        |                        |               |        |                        |
|---|-------------------------------------|--------|------------------------|---------------|--------|------------------------|------------------------------------|--------|------------------------|---------------|--------|------------------------|
|   | 2015                                |        | 2014                   |               | 2015   |                        | 2014                               |        | 2015                   |               | 2014   |                        |
|   | Net<br>Income                       | Shares | Per<br>Share<br>Amount | Net<br>Income | Shares | Per<br>Share<br>Amount | Net<br>Income                      | Shares | Per<br>Share<br>Amount | Net<br>Income | Shares | Per<br>Share<br>Amount |
| Basic earnings per share                  | \$ 97,950                           | 86,006 | \$ 1.14                | \$ 87,176     | 86,715 | \$ 1.01                | \$ 60,161                          | 86,096 | \$ 0.70                | \$ 75,365     | 87,329 | \$ 0.86                |
| Effect of dilutive incentive-based awards |                                     | 94     |                        |               | 309    |                        |                                    | 111    |                        |               | 319    |                        |
| Diluted earnings per share                | \$ 97,950                           | 86,100 | \$ 1.14                | \$ 87,176     | 87,024 | \$ 1.00                | \$ 60,161                          | 86,207 | \$ 0.70                | \$ 75,365     | 87,648 | \$ 0.86                |

In accordance with the *Earnings Per Share* Topic of the ASC, basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period (excluding treasury stock and unvested restricted stock). The shares of unvested restricted stock are eligible to receive dividends; however, dividend rights will be forfeited if the award does not vest. Accordingly, only vested shares of outstanding restricted stock are included in the calculation of basic earnings per share. The weighted average number of repurchased shares during the period, if any, which are held as treasury stock are excluded from common stock outstanding.

Diluted earnings per share is determined using the treasury stock method based on the dilutive effect of unvested restricted stock and certain shares of common stock that are issuable upon exercise of stock options. There were approximately 2,463,000 and 27,000 anti-dilutive shares of common stock excluded from the computation of diluted earnings per share during the three months ended September 30, 2015 and 2014, respectively. During the nine months ended September 30, 2015 and 2014, there were approximately 1,599,000 and 21,000 anti-dilutive shares of common stock excluded from the computation of diluted earnings per share, respectively.

The Company's outstanding performance share awards are considered contingently issuable shares and are excluded from the calculation of diluted earnings per share as the performance criteria has not been met as of the end of the reporting period. See further discussion in Note 11 Equity-Based Compensation.

#### **4. INCOME TAXES**

Income tax expense or benefit is recognized based on the Company's estimated annual effective tax rate which is based upon the tax rate expected for the full calendar year applied to the pre-tax income or loss of the interim period. The Company's consolidated effective tax rate for the three and nine months ended September 30, 2015 was 37.1% and 36.4%, respectively, and differs from the statutory federal income tax rate primarily due to state income taxes and other permanent items. The Company's consolidated effective tax rate for the three and nine months ended September 30, 2014 was 38.0%, and differs from the statutory federal income tax rate primarily due to state income taxes and other permanent items.

The Company has determined that there are no positions currently taken that would rise to a level requiring an amount to be recorded or disclosed as an uncertain tax position. If such positions do arise, it is the Company's intent that any interest or penalty amount related to such positions will be recorded as a component of tax expense to the applicable period.

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## SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(In thousands, except share and per share amounts)***5. OTHER ACCRUED EXPENSES**

Other accrued expenses at September 30, 2015 and December 31, 2014, consisted of the following:

|                                     | September 30,<br>2015 | December 31,<br>2014 |
|-------------------------------------|-----------------------|----------------------|
| Accrued property taxes              | \$ 11,089             | \$ 2,039             |
| Accrued interest                    | 362                   | 2,604                |
| Self-insurance reserve              | 7,207                 | 7,800                |
| Other                               | 2,011                 | 7,706                |
| <b>Total other accrued expenses</b> | <b>\$ 20,669</b>      | <b>\$ 20,149</b>     |

**6. LONG-TERM DEBT**

Long-term debt as of September 30, 2015 and December 31, 2014 consisted of the following:

|   | September 30,<br>2015 | December 31,<br>2014 |
|---|-----------------------|----------------------|
| Term B-2 Loans (effective interest rate of 3.26% at September 30, 2015 and December 31, 2014) | \$ 1,341,900          | \$ 1,352,438         |
| Term B-3 Loans (effective interest rate of 4.33% at September 30, 2015)                       | 278,600               |                      |
| Revolving Credit Facility   |                       |                      |
| Senior Notes (effective interest rate of 12.07% at December 31, 2014)                         |                       | 260,000              |
| <b>Total long-term debt</b>   | <b>1,620,500</b>      | <b>1,612,438</b>     |
| Less discounts  | (7,778)               | (8,985)              |
| Less debt issuance costs  | (14,563)              | (20,003)             |
| Less current maturities   | (16,850)              | (14,050)             |
| <b>Total long-term debt, net</b>  | <b>\$ 1,581,309</b>   | <b>\$ 1,569,400</b>  |

SEA is the borrower under the senior secured credit facilities, as amended pursuant to a credit agreement dated as of December 1, 2009 (the Senior Secured Credit Facilities ). Also on December 1, 2009, SEA issued \$400,000 aggregate principal amount of unsecured senior notes due December 1, 2016 (the Senior Notes ).

On March 30, 2015, SEA entered into an incremental term loan amendment, Amendment No. 7 (the Incremental Amendment ), to its existing Senior Secured Credit Facilities. On April 7, 2015, SEA borrowed \$280,000 of additional term loans (the Term B-3 Loans ) pursuant to the Incremental Amendment. The proceeds, along with cash on hand, were used to redeem all of the \$260,000 outstanding principal of the Senior Notes at a redemption price of 105.5% plus accrued and unpaid interest and pay fees, costs and other expenses in connection with the Term B-3 Loans. The redemption premium of \$14,300 along with a write-off of approximately \$6,048 in related discounts and debt issuance costs is included in the loss on early extinguishment of debt and write-off of discounts and debt issuance costs on the accompanying unaudited condensed consolidated statements of comprehensive income for the nine months ended September 30, 2015.

In connection with the issuance of the Term B-3 Loans, SEA recorded a discount of \$1,400 and debt issuance costs of \$3,171 during the nine months ended September 30, 2015. Debt issuance costs and discounts are amortized to interest expense using the effective interest method over the term of the related debt and are included in long-term debt, net, in the accompanying unaudited condensed consolidated balance sheets. Unamortized debt issuance costs and discounts for the Term B-2 Loans, Term B-3 Loans and senior secured revolving credit facility (the Revolving Credit Facility ) were \$15,583, \$4,110 and \$2,648, respectively, at September 30, 2015. Unamortized debt issuance costs and discounts for the Term B-2 Loans, Senior Notes and Revolving Credit Facility were \$18,205, \$6,921 and \$3,862, respectively at December 31, 2014. See Note 2 Recently Issued Accounting Pronouncements for more details on the Company's adoption of ASU 2015-03 in the second quarter of 2015.

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**SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(In thousands, except share and per share amounts)*

As of September 30, 2015, SEA was in compliance with all covenants in the provisions contained in the documents governing the Senior Secured Credit Facilities.

**Senior Secured Credit Facilities**

As of September 30, 2015, the Senior Secured Credit Facilities consisted of \$1,341,900 in Term B-2 Loans and \$278,600 in Term B-3 Loans, which will mature on May 14, 2020, along with a \$192,500 Revolving Credit Facility, which was not drawn upon as of September 30, 2015. The Revolving Credit Facility will mature on the earlier of (a) April 24, 2018 and (b) the 91st day prior to the maturity date of any indebtedness incurred to refinance any of the term loans.

The Term B-2 Loans amortize in equal quarterly installments in an aggregate annual amount equal to 1.0% of the original principal amount of the Term B-2 Loans on May 14, 2013, with the balance due on the final maturity date, of May 14, 2020. The Term B-3 Loans amortize in equal quarterly installments in an aggregate annual amount equal to 1.0% of the original principal amount of the Term B-3 Loans on the date of effectiveness of the Incremental Amendment, with the balance due on the final maturity date of May 14, 2020. SEA may voluntarily repay amounts outstanding under the Senior Secured Credit Facilities at any time without premium or penalty, other than customary breakage costs with respect to LIBOR loans and other than a prepayment premium on voluntary prepayments of Term B-3 Loans in connection with certain repricing transactions on or prior to the date that is six months after the effectiveness of the Incremental Amendment.

SEA is required to prepay the outstanding Term B-2 and Term B-3 loans, subject to certain exceptions, with (i) 50% of SEA's annual excess cash flow (with step-downs to 25% and 0%, as applicable, based upon achievement by SEA of a certain total net leverage ratio), subject to certain exceptions; (ii) 100% of the net cash proceeds of certain non-ordinary course asset sales or other dispositions subject to reinvestment rights and certain exceptions; and (iii) 100% of the net cash proceeds of any incurrence of debt by SEA or any of its restricted subsidiaries, other than debt permitted to be incurred or issued under the Senior Secured Credit Facilities.

Notwithstanding any of the foregoing, each lender of term loans has the right to reject its pro rata share of mandatory prepayments described above, in which case SEA may retain the amounts so rejected. The foregoing mandatory prepayments will be applied pro rata to installments of term loans in direct order of maturity. There were no mandatory prepayments during the three or nine months ended September 30, 2015 or 2014 since none of the events indicated above occurred. On September 30, 2014, the Company made a voluntary principal repayment of approximately \$31,500 on the Term B-2 Loans with available cash on hand. Subsequent to September 30, 2015, the Company made a voluntary principal repayment of approximately \$30,000 on the Term B-3 Loans with available cash on hand.

SEA may also increase and/or add one or more incremental term loan facilities to the Senior Secured Credit Facilities and/or increase commitments under the Revolving Credit Facility in an aggregate principal amount of up to \$350,000. SEA may also incur additional incremental term loans provided that, among other things, on a pro forma basis after

giving effect to the incurrence of such incremental term loans, the First Lien Secured Leverage Ratio, as defined in the Senior Secured Credit Facilities, is no greater than 3.50 to 1.00.

***Term B-2 Loans***

The Term B-2 Loans were initially borrowed in an aggregate principal amount of \$1,405,000. Borrowings under the Senior Secured Credit Facilities bear interest, at SEA's option, at a rate equal to a margin over either (a) a base rate determined by reference to the higher of (1) the rate of interest in effect for such day as publicly announced from time to time by Bank of America, N.A. as its prime rate and (2) the federal funds effective rate plus 1/2 of 1% or (b) a LIBOR rate determined by reference to the British Bankers Association (BBA) LIBOR rate, or the successor thereto if the BBA is no longer making a LIBOR rate available, for the interest period relevant to such borrowing. The applicable margin for the Term B-2 Loans is 1.25%, in the case of base rate loans, and 2.25%, in the case of LIBOR rate loans, subject to a base rate floor of 1.75% and a LIBOR floor of 0.75%. The applicable margin for the Term B-2 Loans (under either a base rate or LIBOR rate) is subject to one 25 basis point step-down upon achievement by SEA of a total net leverage ratio equal to or less than 3.25 to 1.00. At September 30, 2015, SEA selected the LIBOR rate (interest rate of 3.00% at September 30, 2015).

***Term B-3 Loans***

Borrowings of Term B-3 Loans bear interest at a fluctuating rate per annum equal to, at SEA's option, (a) a base rate equal to the higher of (1) the federal funds rate plus 1/2 of 1% and (2) the rate of interest in effect for such day as publicly announced from time to time by Bank of America, N.A. as its prime rate or (b) a LIBOR rate determined by reference to the BBA LIBOR rate, or the successor thereto if the BBA is no longer making a LIBOR rate available, for the interest period relevant to such borrowing. The applicable margin for the Term B-3 Loans is 2.25%, in the case of base rate loans, and 3.25%, in the case of LIBOR rate loans, subject to a base rate floor of 1.75% and a LIBOR floor of 0.75%. At September 30, 2015, SEA selected the LIBOR rate (interest rate of 4.00% at September 30, 2015).



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**SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES**

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*(In thousands, except share and per share amounts)*

***Revolving Credit Facility***

Borrowings of loans under the Revolving Credit Facility bear interest at a fluctuating rate per annum equal to, at SEA's option, (a) a base rate equal to the higher of (1) the federal funds rate plus 1/2 of 1%, and (2) the rate of interest in effect for such day as publicly announced from time to time by Bank of America, N.A. as its prime rate or (b) a LIBOR rate determined by reference to the BBA LIBOR rate, or the successor thereto if the BBA is no longer making a LIBOR rate available, for the interest period relevant to such borrowing. The applicable margin for borrowings under the Revolving Credit Facility is 1.75%, in the case of base rate loans, and 2.75%, in the case of LIBOR rate loans. The applicable margin (under either a base rate or LIBOR rate) is subject to one 25 basis point step-down upon achievement by SEA of certain corporate credit ratings. At September 30, 2015, SEA selected the LIBOR rate and achieved the corporate credit ratings for an applicable LIBOR margin of 2.50%.

In addition to paying interest on outstanding principal under the Senior Secured Credit Facilities, SEA is required to pay a commitment fee to the lenders under the Revolving Credit Facility in respect of the unutilized commitments thereunder at a rate of 0.50% per annum. SEA is also required to pay customary letter of credit fees.

As of September 30, 2015, SEA had approximately \$18,000 of outstanding letters of credit, leaving approximately \$174,500 available for borrowing.

**Restrictive Covenants**

The Senior Secured Credit Facilities contain a number of customary negative covenants. Such covenants, among other things, restrict, subject to certain exceptions, the ability of SEA and its restricted subsidiaries to incur additional indebtedness; make guarantees; create liens on assets; enter into sale and leaseback transactions; engage in mergers or consolidations; sell assets; make fundamental changes; pay dividends and distributions or repurchase SEA's capital stock; make investments, loans and advances, including acquisitions; engage in certain transactions with affiliates; make changes in nature of the business; and make prepayments of junior debt. The Senior Secured Credit Facilities also contain covenants requiring SEA to maintain specified maximum annual capital expenditures, a maximum total net leverage ratio and a minimum interest coverage ratio. All of the net assets of SEA and its consolidated subsidiaries are restricted and there are no unconsolidated subsidiaries of SEA.

The Senior Secured Credit Facilities permit restricted payments in an aggregate amount per annum not to exceed the greater of (1) 6% of initial public offering net proceeds received by SEA or (2) (a) \$90,000, so long as, on a Pro Forma Basis (as defined in the Senior Secured Credit Facilities) after giving effect to the payment of any such restricted payment, the Total Leverage Ratio, (as defined in the Senior Secured Credit Facilities), is no greater than 5.00 to 1.00 and greater than 4.50 to 1.00, (b) \$120,000, so long as, on a Pro Forma Basis after giving effect to the payment of any such restricted payment, the Total Leverage Ratio is no greater than 4.50 to 1.00 and greater than 4.00 to 1.00, (c) the greater of (A) \$120,000 and (B) 7.5% of Market Capitalization (as defined in the Senior Secured Credit Facilities), so long as, on a Pro Forma Basis after giving effect to the payment of any such restricted payment, the Total Leverage Ratio is no greater than 4.00 to 1.00 and greater than 3.50 to 1.00 and (d) an unlimited amount, so

long as, on a Pro Forma Basis after giving effect to the payment of any such restricted payment, the Total Leverage Ratio is no greater than 3.50 to 1.00.

As of September 30, 2015, the Total Leverage Ratio as calculated under the Senior Secured Credit Facilities was 4.13 to 1.00, which results in the Company having a \$120,000 capacity for restricted payments in 2015. During the nine months ended September 30, 2015, the Company has used approximately \$87,700 of its available restricted payments capacity. As a result, under the Senior Secured Credit Facilities, the Company currently has the ability to declare dividends or make certain other restricted payments in an aggregate amount of up to approximately \$32,300 for the remainder of calendar year 2015. The amount available for dividend declarations, share repurchases and certain other restricted payments under the covenant restrictions in the debt agreements adjusts at the beginning of each quarter as set forth above.

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Long-term debt at September 30, 2015, is repayable as follows and does not include the impact of any future prepayments:

| <b>Years Ending December 31,</b> |                     |
|----------------------------------|---------------------|
| 2015                             | \$ 4,213            |
| 2016                             | 16,850              |
| 2017                             | 16,850              |
| 2018                             | 16,850              |
| 2019                             | 16,850              |
| Thereafter                       | 1,548,887           |
| <b>Total</b>                     | <b>\$ 1,620,500</b> |

**Interest Rate Swap Agreements**

As of September 30, 2015, SEA has four traditional interest rate swap agreements (collectively, the Interest Rate Swap Agreements). Three of the interest rate swap agreements have a combined notional amount of \$1,000,000; mature on September 30, 2016; require the Company to pay a fixed rate of interest between 1.049% and 1.051% per annum; pay swap counterparties a variable rate of interest based upon the greater of 0.75% or the three month BBA LIBOR; and have interest settlement dates occurring on the last day of March, June, September and December through maturity.

In April 2015, the Company executed the fourth traditional interest rate swap agreement to effectively fix the interest rate on \$250,000 of the Term B-3 Loans. The interest rate swap became effective on June 30, 2015; has a notional amount of \$250,000; is scheduled to mature on September 30, 2016; requires the Company to pay a fixed rate of interest of 0.901% per annum; pays swap counterparties a variable rate of interest based upon the greater of 0.75% or the three month BBA LIBOR; and has interest settlement dates occurring on the last day of September, December, March and June through maturity.

On June 10, 2015, the Company entered into five forward interest rate swap agreements (the Forward Swaps) to effectively fix the interest rate on the three month LIBOR-indexed interest payments associated with \$1,000,000 of SEA's outstanding long-term debt. The Forward Swaps have an effective date of September 30, 2016; have a total notional amount of \$1,000,000; mature on May 14, 2020; require the Company to pay a weighted-average fixed rate of 2.45% per annum; pay swap counterparties a variable rate of interest based upon the greater of 0.75% or the three month BBA LIBOR; and have interest settlement dates occurring on the last day of September, December, March and June through maturity.

SEA designated the Interest Rate Swap Agreements and the Forward Swaps above as qualifying cash flow hedge accounting relationships as further discussed in Note 7 Derivative Instruments and Hedging Activities which follows.

Cash paid for interest relating to the Senior Secured Credit Facilities, the Senior Notes and the Interest Rate Swap Agreements was \$49,681 and \$49,133 for the nine month period ended September 30, 2015 and 2014, respectively.

## **7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

### **Risk Management Objective of Using Derivatives**

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's borrowings. The Company does not speculate using derivative instruments.

As of September 30, 2015 and December 31, 2014, the Company did not have any derivatives outstanding that were not designated in hedge accounting relationships.

### **Cash Flow Hedges of Interest Rate Risk**

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy.

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During the three and nine months ended September 30, 2015 and 2014, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. As of September 30, 2015, the Company had four outstanding interest rate swap agreements with a combined notional value of \$1,250,000 and five forward interest rate swap agreements with a combined notional value of \$1,000,000 that were designated as cash flow hedges of interest rate risk. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive loss and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three and nine months ended September 30, 2015, a loss of \$1 and \$288, respectively, related to the ineffective portion was recognized in other expense (income), net on the accompanying unaudited condensed consolidated statements of comprehensive income. There was no ineffective portion during the three or nine months ended September 30, 2014. Amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. During the next 12 months, the Company estimates that an additional \$3,337 will be reclassified as an increase to interest expense.

**Tabular Disclosure of Fair Values of Derivative Instruments on the Balance Sheet**

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the unaudited condensed consolidated balance sheets as of September 30, 2015 and December 31, 2014:

|   | <b>As of September 30, 2015</b> |                   | <b>As of December 31, 2014</b> |                   |
|---|---------------------------------|-------------------|--------------------------------|-------------------|
|   | <b>Liability Derivatives</b>    |                   | <b>Liability Derivatives</b>   |                   |
|   | <b>Balance Sheet</b>            |                   | <b>Balance Sheet</b>           |                   |
|   | <b>Location</b>                 | <b>Fair Value</b> | <b>Location</b>                | <b>Fair Value</b> |
| Derivatives designated as hedging instruments:      |                                 |                   |                                |                   |
| Interest rate swaps                                 | Other liabilities               | \$ 2,844          | Other liabilities              | \$ 628            |
| Forward interest rate swaps                         | Other liabilities               | 22,167            |                                |                   |
| Total derivatives designated as hedging instruments |                                 | \$ 25,011         |                                | \$ 628            |

The unrealized loss on derivatives is recorded net of a tax benefit of \$8,799 for the nine months ended September 30, 2015, and is included within the unaudited condensed consolidated statements of changes in stockholders' equity and the unaudited condensed consolidated statements of comprehensive income.

**Tabular Disclosure of the Effect of Derivative Instruments on the Statements of Comprehensive Income**

The table below presents the pre-tax effect of the Company's derivative financial instruments on the unaudited condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2015 and 2014:

|   | <b>Three Months<br/>Ended<br/>September 30</b> |             | <b>Nine Months<br/>Ended<br/>September 30</b> |             |
|---|--|-------------|---|-------------|
|   | <b>2015</b>                                    | <b>2014</b> | <b>2015</b>                                   | <b>2014</b> |
| <b>Derivatives in Cash Flow Hedging Relationships:</b>  |  |             |   |             |
| (Loss) gain related to effective portion of derivatives recognized in accumulated other comprehensive loss                  | \$ (17,490)                                    | \$ 1,005    | \$ (26,471)                                   | \$ (1,868)  |
| Gain related to effective portion of derivatives reclassified from accumulated other comprehensive loss to interest expense | \$ 843   | \$ 746      | \$ 2,312                                      | \$ 1,879    |
| Loss related to ineffective portion of derivatives recognized in other expense (income), net                                | \$ (1)   | \$          | \$ (288)                                      | \$          |

**Table of Contents****SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(In thousands, except share and per share amounts)***Credit Risk-Related Contingent Features**

The Company has agreements with each of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations.

As of September 30, 2015, the termination value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$27,602. As of September 30, 2015, the Company has posted no collateral related to these agreements. If the Company had breached any of these provisions at September 30, 2015, it could have been required to settle its obligations under the agreements at their termination value of \$27,602.

**Changes in Accumulated Other Comprehensive Loss**

The following table reflects the changes in accumulated other comprehensive loss for the nine months ended September 30, 2015, net of tax:

|  | <b>(Losses)<br/>Gains on<br/>Cash Flow<br/>Hedges</b> |
|--|---|
| Accumulated other comprehensive loss:  |   |
| Balance at December 31, 2014   | \$ (483)  |
| Other comprehensive loss before reclassifications                                  | (16,830)  |
| Amounts reclassified from accumulated other comprehensive loss to interest expense | 1,470   |
| Unrealized loss on derivatives, net of tax   | (15,360)  |
| Balance at September 30, 2015  | \$ (15,843)   |

**8. FAIR VALUE MEASUREMENTS**

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement is required to be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2

of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

The Company has determined that the majority of the inputs used to value its derivative financial instruments using the income approach fall within Level 2 of the fair value hierarchy. The Company uses readily available market data to value its derivatives, such as interest rate curves and discount factors. ASC 820, *Fair Value Measurement*, also requires consideration of credit risk in the valuation. The Company uses a potential future exposure model to estimate this credit valuation adjustment (CVA). The inputs to the CVA are largely based on observable market data, with the exception of certain assumptions regarding credit worthiness which make the CVA a Level 3 input. Based on the magnitude of the CVA, it is not considered a significant input and the derivatives are classified as Level 2. Of the Company's long-term obligations, the Term B-2 Loans and Term B-3 Loans are classified in Level 2 of the fair value hierarchy. The fair value of the term loans as of September 30, 2015 approximates their carrying value, excluding unamortized debt issuance costs and discounts, due to the variable nature of the underlying interest rates and the frequent intervals at which such interest rates are reset. The Senior Notes were classified in Level 3 of the fair value hierarchy as of December 31, 2014 and were valued using significant inputs that are not observable in the market including a discount rate of 11.37% and projected cash flows of the underlying Senior Notes as of December 31, 2014. The Senior Notes were redeemed in full on April 7, 2015 as discussed in Note 6 Long-Term Debt.



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*(In thousands, except share and per share amounts)*

There were no transfers between Levels 1, 2 or 3 during the three or nine months ended September 30, 2015. The Company did not have any assets measured at fair value as of September 30, 2015. The following table presents the Company's estimated fair value measurements and related classifications as of September 30, 2015:

|   | <b>Quoted Prices in<br/>Active<br/>Markets<br/>for<br/>Identical<br/>Assets and<br/>Liabilities<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> | <b>Balance at<br/>September 30,<br/>2015</b> |
|---|---|--|--|--|
| <b>Liabilities:</b>                             |   |  |  |  |
| Derivative financial instruments <sup>(a)</sup> | \$  | \$ 25,011  | \$   | \$ 25,011                                    |
| Long-term obligations <sup>(b)</sup>            | \$  | \$ 1,620,500   | \$   | \$ 1,620,500                                 |

(a) Reflected at fair value in the unaudited condensed consolidated balance sheet as other liabilities of \$25,011.

(b) Reflected at carrying value, net of unamortized debt issuance costs and discounts, in the unaudited condensed consolidated balance sheet as current maturities on long-term debt of \$16,850 and long-term debt of \$1,581,309 as of September 30, 2015.

There were no transfers between Levels 1, 2 or 3 during the year ended December 31, 2014. The Company did not have any assets measured at fair value as of December 31, 2014. The following table presents the Company's estimated fair value measurements and related classifications as of December 31, 2014:

|   | <b>Quoted Prices in<br/>Active<br/>Markets<br/>for<br/>Identical<br/>Assets<br/>and<br/>Liabilities<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> | <b>Balance at<br/>December 31,<br/>2014</b> |
|---|---|--|--|---|
| <b>Liabilities:</b>                             |   |  |  |   |
| Derivative financial instruments <sup>(a)</sup> | \$  | \$ 628   | \$   | \$ 628                                      |

|                                      |    |              |            |              |
|--------------------------------------|----|--------------|------------|--------------|
| Long-term obligations <sup>(b)</sup> | \$ | \$ 1,352,438 | \$ 263,197 | \$ 1,615,635 |
|--------------------------------------|----|--------------|------------|--------------|

- (a) Reflected at fair value in the unaudited condensed consolidated balance sheet as other liabilities of \$628.
- (b) Reflected at carrying value, net of unamortized debt issuance costs and discounts, in the unaudited condensed consolidated balance sheet as current maturities on long-term debt of \$14,050 and long-term debt of \$1,569,400 as of December 31, 2014.

## 9. RELATED-PARTY TRANSACTIONS

On January 5, March 3, June 10, and September 16, 2015, the Board declared a cash dividend of \$0.21 per share to all common stockholders of record at the close of business on January 13, March 13, June 22, and September 29, 2015, respectively. In connection with these dividend declarations, certain affiliates of Blackstone were paid dividends in the amount of \$4,095 on January 22, April 1, July 1, and October 6, 2015 (see Note 12 Stockholders' Equity).

The Company repurchased shares of its common stock from the selling stockholders concurrently with the closing of the secondary offering in April 2014. See further discussion in Note 12 Stockholders' Equity.

As of September 30, 2015, approximately \$86,000 aggregate principal amount of Term B-2 Loans and \$18,000 aggregate principal amount of Term B-3 Loans were owned by affiliates of Blackstone. As of December 31, 2014, approximately \$65,000 aggregate principal amount of the Senior Notes and approximately \$87,000 aggregate principal amount of Term B-2 Loans were owned by affiliates of Blackstone. The Company makes periodic interest payments on such debt in accordance with its terms. On April 7, 2015, the Senior Notes were redeemed as discussed in Note 6 Long-Term Debt.

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**10. COMMITMENTS AND CONTINGENCIES**

**Securities Class Action Lawsuit**

On September 9, 2014, a purported stockholder class action lawsuit consisting of purchasers of the Company's common stock during the periods between April 18, 2013 to August 13, 2014, captioned Baker v. SeaWorld Entertainment, Inc., et al., Case No. 14-CV-02129-MMA (KSC), was filed in the U.S. District Court for the Southern District of California against the Company, the Chairman of the Company's Board of Directors, certain of its executive officers and Blackstone. On February 27, 2015, Court-appointed Lead Plaintiffs, Pensionskassen For Børne- Og Ungdomspædagoger and Arkansas Public Employees Retirement System, together with additional plaintiffs, Oklahoma City Employee Retirement System and Pembroke Pines Firefighters and Police Officers Pension Fund (collectively, Plaintiffs), filed an amended complaint against the Company, the Chairman of the Company's Board of Directors, certain of its executive officers, Blackstone, and underwriters of the initial public offering and secondary public offerings. The amended complaint alleges, among other things, that the prospectus and registration statements filed contained materially false and misleading information in violation of the federal securities laws and seeks unspecified compensatory damages and other relief. Plaintiffs contend that defendants knew or were reckless in not knowing that Blackfish was impacting SeaWorld's business at the time of each public statement. On May 29, 2015, the Company and the other defendants filed a motion to dismiss the amended complaint. The Plaintiffs filed an opposition to the motion to dismiss on July 31, 2015. The Company and the other defendants filed a reply in further support of their motion to dismiss on September 18, 2015. The Company believes that the class action lawsuit is without merit and intends to defend the lawsuit vigorously; however, there can be no assurance regarding the ultimate outcome of this lawsuit.

**Shareholder Derivative Lawsuit**

On December 8, 2014, a putative derivative lawsuit captioned Kistenmacher v. Atchison, et al., Civil Action No. 10437, was filed in the Court of Chancery of the State of Delaware against, among others, the Chairman of the Board of Directors, certain of the Company's executive officers, directors and shareholders, and Blackstone. The Company is a Nominal Defendant in the lawsuit. On March 30, 2015, the plaintiff filed an amended complaint against the same set of defendants. The amended complaint alleges, among other things, that the defendants breached their fiduciary duties, aided and abetted breaches of fiduciary duties, violated Florida Blue Sky laws and were unjustly enriched by (i) including materially false and misleading information in the prospectus and registration statements; and (ii) causing the Company to repurchase certain shares of its common stock from certain shareholders at an alleged artificially inflated price. The Company does not maintain any direct exposure to loss in connection with this shareholder derivative lawsuit as the lawsuit does not assert any claims against the Company. The Company's status as a Nominal Defendant in the action reflects the fact that the lawsuit is maintained by the named plaintiff on behalf of the Company and that the plaintiff seeks damages on the Company's behalf. On May 21, 2015, the defendants filed a motion to stay the lawsuit pending resolution of the Company's securities class action lawsuit. On September 21, 2015, the Court granted the motion and ordered that the derivative action to be stayed in favor of the securities class action captioned Baker v. SeaWorld Entertainment, Inc., et al., Case No. 14-CV-02129-MMA (KSC).

### **Consumer Class Action Lawsuits**

On March 25, 2015, a purported class action was filed in the United States District Court for the Southern District of California against the Company, captioned Holly Hall v. SeaWorld Entertainment, Inc., Case No. 3:15-cv-00600-CAB-RBB (the Hall Matter ). The complaint identifies three putative classes consisting of all consumers nationwide who at any time during the four-year period preceding the filing of the original complaint, purchased an admission ticket, a membership or a SeaWorld experience that includes an orca experience from the SeaWorld amusement park in San Diego, California, Orlando, Florida or San Antonio, Texas respectively. The complaint alleges causes of action under California Unfair Competition Law, California Consumers Legal Remedies Act, California False Advertising Law, California Deceit statute, Florida Unfair and Deceptive Trade Practices Act, Texas Deceptive Trade Practices Act, as well as claims for Unjust Enrichment. Plaintiffs' claims are based on their allegations that the Company misrepresented the physical living conditions and care and treatment of its killer whales, resulting in confusion or misunderstanding among ticket purchasers, and omitted material facts regarding its killer whales with intent to deceive and mislead the plaintiff and purported class members. The complaint further alleges that the specific misrepresentations heard and relied upon by Holly Hall in purchasing her SeaWorld tickets concerned the circumstances surrounding the death of a SeaWorld trainer. The complaint seeks actual damages, equitable relief, attorney's fees and costs. Plaintiffs claim that the amount in controversy exceeds \$5,000, but the liability exposure is speculative until the size of the class is determined (if certification is granted at all).

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In addition, four other purported class actions were filed against the Company and its affiliates. The first three actions were filed on April 9, 2015, April 16, 2015 and April 17, 2015, respectively, in the following federal courts: (i) the United States District Court for the Middle District of Florida, captioned Joyce Kuhl v. SeaWorld LLC et al., 6:15-cv-00574-ACC-GJK (the Kuhl Matter ), (ii) the United States District Court for the Southern District of California, captioned Jessica Gaab, et. al. v. SeaWorld Entertainment, Inc., Case No. 15:cv-842-CAB-RBB (the Gaab Matter ), and (iii) the United States District Court for the Western District of Texas, captioned Elaine Salazar Browne v. SeaWorld of Texas LLC et al., 5:15-cv-00301-XR (the Browne Matter ). On May 1, 2015, the Kuhl Matter and Browne Matter were voluntarily dismissed without prejudice by the respective plaintiffs. On May 7, 2015, plaintiffs Kuhl and Browne re-filed their claims, along with a new plaintiff Valerie Simo, in the United States District Court for the Southern District of California in an action captioned Valerie Simo et al. v. SeaWorld Entertainment, Inc., Case No. 15:cv-1022-CAB-RBB (the Simo Matter ). All four of these cases, in essence, reiterate the claims made and relief sought in the Hall Matter.

On August 7, 2015, the Gaab Matter and Simo Matter were consolidated with the Hall Matter, and the plaintiffs filed a First Consolidated Amended Complaint ( FAC ) on August 21, 2015. The FAC pursues the same seven causes of action as the original Hall complaint, and adds a request for punitive damages pursuant to California Consumers Legal Remedies Act. On October 5, 2015, the Company filed a motion to dismiss the FAC in its entirety. The motion will be fully briefed on November 23, 2015.

On April 13, 2015, a purported class action was filed in the Superior Court of the State of California for the City and County of San Francisco against SeaWorld Parks & Entertainment, Inc., captioned Marc Anderson, et. al., v. SeaWorld Parks & Entertainment, Inc., Case No. CGC-15-545292 (the Anderson Matter ). The putative class consists of all consumers within California who, within the past four years, purchased tickets to SeaWorld San Diego. On May 11, 2015, the plaintiffs filed a First Amended Class Action Complaint (the Amended Complaint ). The Amended Complaint alleges causes of action under the California False Advertising Law, California Unfair Competition Law and California Consumers Legal Remedies Act. Plaintiffs' claims are based on their allegations that the Company misrepresented the physical living conditions and care and treatment of its killer whales, resulting in confusion or misunderstanding among ticket purchasers, and omitted material facts regarding its killer whales with intent to deceive and mislead the plaintiff and purported class members. The Amended Complaint seeks actual damages, equitable relief, attorneys' fees and costs. Based on plaintiffs' definition of the class, the amount in controversy exceeds \$5,000, but the liability exposure is speculative until the size of the class is determined (if certification is granted at all). On May 14, 2015, the Company removed the case to the United States District Court for the Northern District of California, Case No. 15:cv-2172-SC. On May 19, 2015, the plaintiffs filed a motion to remand. On September 18, 2015, the Company filed a motion to dismiss the Amended Complaint in its entirety. The motion is fully briefed. On September 24, 2015, the Court denied plaintiffs' motion to remand. On October 5, 2015, plaintiffs filed a motion for leave to file a motion for reconsideration of this order, and contemporaneously filed a petition for permission to appeal to the Ninth Circuit. On October 14, 2015, the district court granted plaintiffs' motion for leave and set a deadline of October 29, 2015 for plaintiffs to file their motion for reconsideration, which plaintiffs filed on that date. The opposition to that motion is due on November 12, 2015. The petition for permission to appeal remains pending.

The Company believes that these consumer class action lawsuits are without merit and intends to defend these lawsuits vigorously; however, there can be no assurance regarding the ultimate outcome of these lawsuits.

### **Other Matters**

The Company is a party to other various claims and legal proceedings arising in the normal course of business. From time to time, third-party groups may also bring lawsuits against the Company. Matters where an unfavorable outcome to the Company is probable and which can be reasonably estimated are accrued. Such accruals, which are not material for any period presented, are based on information known about the matters, the Company's estimate of the outcomes of such matters, and the Company's experience in contesting, litigating and settling similar matters. Matters that are considered reasonably possible to result in a material loss are not accrued for, but an estimate of the possible loss or range of loss is disclosed, if such amount or range can be determined. At this time, management does not expect any known claims or legal proceedings to have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

### **11. EQUITY-BASED COMPENSATION**

In accordance with ASC 718, *Compensation-Stock Compensation*, the Company measures the cost of employee services rendered in exchange for share-based compensation based upon the grant date fair market value. The cost, net of estimated forfeitures, is recognized over the requisite service period, which is generally the vesting period unless service or performance conditions require otherwise. The Company has granted stock options, time-vesting restricted share awards and performance-vesting restricted share awards. The Company used the Black-Scholes Option Pricing Model to value its stock options and the closing stock price on the date of grant to value both its time-vesting and performance-vesting restricted share awards granted in 2015.

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The Company has reserved 15,000,000 shares of common stock for issuance under the Company's 2013 Omnibus Incentive Plan (the "Omnibus Incentive Plan"). The Omnibus Incentive Plan is administered by the Compensation Committee of the Board of Directors, and provides that the Company may grant equity incentive awards to eligible employees, directors, consultants or advisors in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, and other stock-based and performance compensation awards. If an award under the Omnibus Incentive Plan terminates, lapses, or is settled without the payment of the full number of shares subject to the award, the undelivered shares may be granted again under the Omnibus Incentive Plan.

As of September 30, 2015, there were 10,707,185 shares of common stock available for future issuance under the Company's Omnibus Incentive Plan. Total equity compensation expense was \$1,549 and \$4,800 for the three and nine months ended September 30, 2015, respectively, and \$570 and \$1,905 for the three and nine months ended September 30, 2014, respectively, and is included in selling, general and administrative expenses and in operating expenses in the accompanying unaudited condensed consolidated statements of comprehensive income. Total unrecognized equity compensation expense for all equity compensation awards probable of vesting as of September 30, 2015 was approximately \$24,000 which is expected to be recognized over the respective service periods.

The activity related to the Company's time-vesting and performance-vesting share awards during the nine months ended September 30, 2015 is as follows:

|                                  | Time-Vesting Restricted shares |  | Bonus Performance Restricted shares |  | Performance-Vesting Restricted shares<br>Long-Term Incentive |  | 2.25x Performance Restricted shares |  | 2.75x Performance Restricted shares |  |
|----------------------------------|--------------------------------|--|-------------------------------------|--|--|--|-------------------------------------|--|-------------------------------------|--|
|                                  | Shares                         | Weighted Average Grant Date Fair Value per Share | Shares                              | Weighted Average Grant Date Fair Value per Share | Shares   | Weighted Average Grant Date Fair Value per Share | Shares                              | Weighted Average Grant Date Fair Value per Share | Shares                              | Weighted Average Grant Date Fair Value per Share |
| Outstanding at December 31, 2014 | 164,545                        | \$ 11.68   |                                     |  |  |  | 1,451,453                           | \$ 20.96   | 1,451,453                           | \$ 12.61   |
| Granted                          | 941,994                        | \$ 18.60   | 462,895                             | \$ 18.99   | 79,279   | \$ 18.90   |                                     |  |                                     |  |
| Vested                           | (156,733)                      | \$ 14.46   |                                     |  |  |  |                                     |  |                                     |  |

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|                                   |          |          |          |          |          |          |           |          |           |          |
|-----------------------------------|----------|----------|----------|----------|----------|----------|-----------|----------|-----------|----------|
| Forfeited                         | (60,985) | \$ 12.78 | (28,955) | \$ 18.96 | (11,673) | \$ 18.96 | (80,632)  | \$ 22.90 | (80,632)  | \$ 15.76 |
| Outstanding at September 30, 2015 | 888,821  | \$ 18.49 | 433,940  | \$ 19.00 | 67,606   | \$ 18.89 | 1,370,821 | \$ 20.63 | 1,370,821 | \$ 11.81 |

The activity related to the Company's stock option awards during the nine months ended September 30, 2015 is as follows:

|                                   | Options   | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (in years) | Aggregate Intrinsic Value |
|-----------------------------------|-----------|---------------------------------|--|---------------------------|
| Outstanding at December 31, 2014  |           |                                 |  |                           |
| Granted                           | 2,409,282 | \$ 19.20                        |  |                           |
| Forfeited                         | (88,144)  | \$ 18.96                        |  |                           |
| Outstanding at September 30, 2015 | 2,321,138 | \$ 19.21                        | 9.56   | \$ 101                    |
| Exercisable at September 30, 2015 |           |                                 |  |                           |



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Key weighted-average assumptions utilized in the Black-Scholes Option Pricing Model for stock options granted during the nine months ended September 30, 2015 were:

|                          |         |
|--------------------------|---------|
| Grant date fair value    | \$ 4.39 |
| Risk- free interest rate | 1.66%   |
| Expected volatility      | 36.71%  |
| Expected dividend yield  | 4.37%   |
| Expected life (in years) | 6.25    |

The expected life was estimated using the simplified method, as the Company does not have sufficient historical exercise data due to the limited period of time its common stock has been publicly traded. In addition, due to the Company's limited history as a public company, the volatility for the Company's stock at the date of each grant was estimated using the average volatility calculated for a peer group, which is based upon daily price observations over the estimated term of options granted.

**2015 Bonus Plan Grant**

On March 3, 2015, the Board approved an annual bonus plan (the "2015 Bonus Plan") for the fiscal year ending December 31, 2015 (the "Fiscal 2015") under which certain employees are eligible to receive a bonus with respect to Fiscal 2015, payable 50% in cash and 50% in performance-vesting restricted shares (the "Bonus Performance Restricted shares") based upon the Company's achievement of pre-established performance goals with respect to Adjusted EBITDA. Once actual Adjusted EBITDA is finalized for Fiscal 2015, the Bonus Performance Restricted shares vest if the performance goal is met and forfeit immediately if the performance goal is not met or if the employee terminates prior to the last day of Fiscal 2015. Subsequent grants were made on July 1 and October 7, 2015 to newly hired bonus-eligible employees based on their hire date and/or to certain newly promoted employees.

In accordance with ASC 718, equity compensation expense is not recorded until the performance condition is probable of being achieved. Based on the Company's progress toward the Adjusted EBITDA performance goal, the Bonus Performance Restricted shares are not considered probable of vesting as of September 30, 2015; therefore, no equity compensation expense has been recorded related to these shares. If the performance condition is considered probable of being achieved in a subsequent period, all equity compensation expense that would have been recorded over the requisite service period had the condition been considered probable from inception, will be recorded as a cumulative catch-up at such subsequent date. Total unrecognized equity compensation expense related to the Bonus Performance Restricted shares not considered probable of vesting was approximately \$8,200 as of September 30, 2015.

**2015 Long-Term Incentive Plan Grant**

On March 3, 2015, the Board also approved a long-term incentive plan grant (the 2015 Long-Term Incentive Plan ) for Fiscal 2015 comprised of nonqualified stock options ( Long-Term Incentive Options ), time-vesting restricted shares ( Long-Term Incentive Time Restricted shares ) and performance-vesting restricted shares ( Long-Term Incentive Performance Restricted shares ) to certain of the Company s management and executive officers. Subsequent grants were made on July 1 and October 7, 2015 to newly hired employees based on their hire date and/or to certain promoted management and executive officers.

*Long-Term Incentive Options*

The Long-Term Incentive Options vest ratably over four years from the date of grant (25% per year), subject to continued employment through the applicable vesting date and will expire 10 years from the date of grant or earlier if the employee s service terminates. The options have an exercise price per share equal to the closing price of the Company s common stock on the date of grant. Equity compensation expense will be recognized using the straight line method for each tranche over the four year vesting period.

*Long-Term Incentive Time Restricted Shares*

The Long-Term Incentive Time Restricted shares vest ratably over four years from the date of grant (25% per year), subject to continued employment through the applicable vesting date. Equity compensation expense will be recognized using the straight line method over the four year vesting period.

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*Long-Term Incentive Performance Restricted Shares*

The Long-Term Incentive Performance Restricted shares vest following the end of a three-year performance period beginning on January 1, 2015 and ending on December 31, 2017 based upon the Company's achievement of certain performance goals with respect to Adjusted EBITDA for each fiscal year performance period. The total number of shares eligible to vest is based on the level of achievement of the Adjusted EBITDA target for each fiscal year in the performance period which ranges from 0% (if below threshold performance), to 50% (for threshold performance), to 100% (for target performance), and up to 200% (at or above maximum performance). For actual performance between the specified threshold, target, and maximum levels, the resulting vesting percentage will be adjusted on a linear basis. Total shares earned (approximately 33% are eligible to be earned per year) based on the actual performance percentage for each performance year will vest on the date the Company's Compensation Committee determines the actual performance percentage for fiscal year 2017 if the employee has not terminated prior to the last day of fiscal year 2017 and all unearned shares will forfeit immediately as of such date. The Adjusted EBITDA target for each fiscal year will be set in the first quarter of each respective year, at which time the grant date and the grant-date fair value for accounting purposes related to that performance year will be established based on the closing price of the Company's stock on such date. Equity compensation expense will be recognized ratably for each fiscal year, if the performance condition is probable of being achieved, beginning on the date of grant and through the end of the final performance period on December 31, 2017.

During the nine months ended September 30, 2015, the Company awarded 202,850 Long-Term Incentive Performance Restricted shares, net of forfeitures, under the 2015 Long-Term Incentive Plan, which represents the total shares that could be earned under the maximum performance level of achievement for all three performance periods combined, with approximately one-third related to each respective performance period. The performance goal for the first performance period was established as of the award date on March 3, 2015, as such, for accounting purposes, 67,606 of these shares have a grant date in 2015 and a grant-date fair value per share determined using the closing price of the Company's common stock on the date of grant. The performance targets for the second and third performance periods have not yet been set and will be determined by the Compensation Committee during the first quarter of each respective fiscal year, at which time, for accounting purposes, the grant date and respective grant-date fair value will be determined for those related shares. As the Long-Term Incentive Performance Restricted shares have both a service and a performance condition, the requisite service period over which equity compensation expense will be recognized once the performance condition is probable of achievement begins on the date of grant and extends through December 31, 2017. Based on the Company's progress toward the Adjusted EBITDA performance goal for the first performance period, a percentage of the target performance level for the first performance period is considered probable; as such 20,281 Long-Term Incentive Performance Restricted shares related to the 2015 performance year are considered probable of vesting as of September 30, 2015. Total unrecognized equity compensation expense related to the first performance period expected to be recognized over the remaining vesting term if performance conditions continue to be probable of vesting at the current percentage of the target performance level was approximately \$311 as of September 30, 2015. Unrecognized equity compensation expense related to the maximum performance level for the first performance period is an additional \$890 as of September 30, 2015. Total unrecognized equity compensation expense related to the second and third performance periods has not been determined as the grant date and grant-date

fair value for these awards have not yet occurred for accounting purposes, as such no expense has been recorded related to the second and third performance periods.

#### **Other 2015 Grants**

On September 8, 2015, the Company granted its new Chief Creative Officer 2,882 Bonus Performance Restricted shares, 126,689 time-vesting restricted shares and 254,452 nonqualified stock options. The time-vesting restricted shares and nonqualified stock options vest ratably over four years.

On September 1, 2015, in connection with the appointment of the Company's new Chief Financial Officer, the Company granted 4,364 Bonus Performance Restricted shares, 116,076 time-vesting restricted shares and 134,048 nonqualified stock options to the Company's Chief Financial Officer. Also on September 1, 2015, the Company granted 7,738 Long-Term Incentive Performance Restricted shares, 3,869 time-vesting restricted shares and 17,873 nonqualified stock options to the Company's Chief Accounting Officer as compensation for his service as Interim Chief Financial Officer from June 1 through September 1, 2015. The time-vesting restricted shares and the nonqualified stock options vest ratably over four years.

On April 7, 2015, in connection with the appointment of the Company's new President and Chief Executive Officer, the Company granted 27,623 Bonus Performance Restricted shares, 249,875 time-vesting restricted shares and 1,089,324 nonqualified stock options to the Company's President and Chief Executive Officer. The time-vesting restricted shares and the nonqualified stock options vest ratably over four years.

On January 15, 2015, the Company granted 100,000 time-vesting restricted shares to its Interim Chief Executive Officer (the Interim CEO) in accordance with his appointment to such role. The shares had a grant date fair value per share of \$16.50 and a vest date on the earlier of the start date of a new Chief Executive Officer or June 30, 2015. As a new Chief Executive Officer was appointed with a start date of April 7, 2015, these shares fully vested on such date accordingly.

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Also during the nine months ended September 30, 2015, the Company granted 49,284 of time-vesting restricted shares to certain Board members. These shares vest ratably over a three-year term.

**2.25x and 2.75x Performance Restricted Shares**

The Company has outstanding under both its Omnibus Incentive Plan and its previous incentive plan (the Pre-IPO Incentive Plan ) certain performance-vesting restricted shares consisting of 2.25x and 2.75x Performance Restricted shares. The 2.25x Performance Restricted shares will vest if the employee is employed by the Company when and if certain investment funds affiliated with Blackstone receive cash proceeds (not subject to any clawback, indemnity or similar contractual obligation) in respect of their Partnerships units equal to (x) a 20% annualized effective compounded return rate on such funds investment and (y) a 2.25x multiple on such funds investment. The 2.75x Performance Restricted shares will vest if the employee is employed by the Company when and if such funds receive cash proceeds (not subject to any clawback, indemnity or similar contractual obligation) in respect of their Partnerships units equal to (x) a 15% annualized effective compounded return rate on such funds investment and (y) a 2.75x multiple on such funds investment.

No equity compensation expense will be recorded related to the 2.25x and 2.75x Performance Restricted shares until their vesting is probable. Accordingly, no equity compensation expense has been recorded during the three and nine months ended September 30, 2015 or 2014 related to these 2.25x and 2.75x Performance Restricted shares. Total unrecognized equity compensation expense as of September 30, 2015, was approximately \$28,000 and \$16,000 for the 2.25x and 2.75x Performance Restricted shares, respectively.

Based on cash proceeds previously received by certain investment funds affiliated with Blackstone from the Company s initial public offering and subsequent secondary offerings of stock, the Company s repurchase of shares and the cumulative dividends paid by the Company through October 6, 2015, if such funds receive additional future cash proceeds of approximately \$4,100 and other vesting conditions are satisfied, the 2.25x Performance Restricted shares will vest. Similarly, if such funds receive additional future cash proceeds of approximately \$432,000 and other vesting conditions are satisfied, the 2.75x Performance Restricted shares will vest. As receipt of these future cash proceeds will be primarily related to liquidity events, such as secondary offerings of stock or additional dividends paid to such funds, the shares are not considered probable of vesting until such events are consummated. If the Company s current dividend policy remains in effect, the 2.25x Performance Restricted shares will become probable of vesting in early 2016; therefore, the accumulated dividends and equity compensation expense related to those shares will be recorded at such time accordingly.

**12. STOCKHOLDERS EQUITY**

As of September 30, 2015, 90,305,888 shares of common stock were issued on the accompanying unaudited condensed consolidated balance sheet, which excludes 4,267,253 unvested shares of common stock held by certain participants in the Company s equity compensation plans (see Note 11 Equity-Based Compensation) and includes 4,941,938 shares of treasury stock held by the Company.

## Dividends

The Board has adopted a policy to pay, subject to legally available funds, a regular quarterly dividend. The payment of cash dividends is within the discretion of the Board and depends on many factors, including, but not limited to, the Company's results of operations, financial condition, level of indebtedness, capital requirements, contractual restrictions, restrictions in its debt agreements and in any preferred stock, business prospects and other factors that the Board may deem relevant.

In the nine months ended September 30, 2015, the Board declared or paid quarterly cash dividends to all common stockholders of record as follows:

| <b>Record Date</b> | <b>Payment Date</b> | <b>Cash Dividend<br/>per<br/>Common<br/>Share</b> |
|--------------------|---------------------|---|
| January 13, 2015   | January 22, 2015    | \$ 0.21   |
| March 13, 2015     | April 1, 2015       | \$ 0.21   |
| June 22, 2015      | July 1, 2015        | \$ 0.21   |
| September 29, 2015 | October 6, 2015     | \$ 0.21   |

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**SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(In thousands, except share and per share amounts)*

As the Company had an accumulated deficit at the time the March 13 and June 22, 2015 dividends were declared, these dividends were accounted for as a return of capital and recorded as a reduction to additional paid-in capital on the accompanying unaudited condensed consolidated statement of changes in stockholders' equity. Dividends declared to common stockholders were \$72,593 in the nine months ended September 30, 2015. The Company expects that for tax purposes, a portion of these dividends will be treated as a return of capital to stockholders.

As of September 30, 2015, the Company had \$18,396 of cash dividends recorded as dividends payable in the accompanying unaudited condensed consolidated balance sheet, of which approximately \$17,900 was paid on October 6, 2015. The remainder of the dividends payable relates to unvested time restricted shares and unvested performance restricted shares with a performance condition considered probable of being achieved. These shares carry dividend rights and therefore the dividends will be paid as the shares vest in accordance with the underlying stock compensation grants. These dividend rights will be forfeited if the shares do not vest.

Dividends on the 2.25x and 2.75x Performance Restricted shares were approximately \$2,820 for each tranche and will accumulate and be paid only if and to the extent these 2.25x and 2.75x Performance Restricted shares vest in accordance with their terms. Dividends on the Bonus Performance Restricted shares were approximately \$261 and will accumulate and be paid only if these shares vest in accordance with their terms. Dividends on the Long-Term Incentive Performance Restricted shares related to the first performance period were approximately \$43, of which approximately \$12 was recorded related to the portion of the shares considered probable of vesting. The remainder will accumulate and be paid only if the respective shares vest in accordance with their terms. The Company does not record a dividend payable when the performance conditions on the related unvested shares are not considered probable of being achieved.

**Share Repurchase Program**

On August 12, 2014, the Board authorized the repurchase of up to \$250,000 of the Company's common stock (the Share Repurchase Program). Under the Share Repurchase Program, the Company is authorized to repurchase shares through open market purchases, privately-negotiated transactions or otherwise in accordance with applicable federal securities laws, including through Rule 10b5-1 trading plans and under Rule 10b-18 of the Exchange Act. The Share Repurchase Program has no time limit and may be suspended or discontinued completely at any time. The number of shares to be purchased and the timing of purchases will be based on the level of the Company's cash balances, general business and market conditions, and other factors, including legal requirements, debt covenant restrictions and alternative investment opportunities.

Pursuant to the Share Repurchase Program, during the fourth quarter of 2014, the Company repurchased a total of 855,970 shares of common stock at an average price of \$17.50 per share and a total cost of approximately \$15,000. The Company paid \$5,650 in January 2015 for settlement of shares repurchased in December 2014.

During the third quarter of 2015, the Company repurchased a total of 835,968 shares of common stock at an average price of \$17.92 per share and a total cost of approximately \$15,000, leaving \$220,000 available for future repurchases.

under the Share Repurchase Program as of September 30, 2015.

### **Secondary Offerings**

In April 2014, the selling stockholders completed an underwritten secondary offering of 17,250,000 shares of common stock. The selling stockholders received all of the net proceeds from the offering and no shares were sold by the Company. In the nine months ended September 30, 2014, the Company incurred fees and expenses of \$747, in connection with the secondary offering, which is shown as secondary offering expense on the accompanying unaudited condensed consolidated statements of comprehensive income.

Concurrently with the closing of the secondary offering in April 2014, the Company repurchased 1,750,000 shares of its common stock directly from the selling stockholders in a private, non-underwritten transaction at a price per share equal to the price per share paid to the selling stockholders by the underwriters in the secondary offering.

All of the repurchased shares from the Share Repurchase Program and shares repurchased directly from the selling stockholders during previous secondary offerings were recorded as treasury stock at a total cost of \$124,871 and \$109,871 as of September 30, 2015 and December 31, 2014, respectively, and are reflected as a reduction to stockholders' equity on the accompanying unaudited condensed consolidated balance sheets and unaudited condensed consolidated statement of changes in stockholders' equity.



Table of Contents**SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(In thousands, except share and per share amounts)***13. RESTRUCTURING PROGRAM**

In December 2014, the Company implemented a restructuring program in an effort to centralize certain functions and reduce duplication to increase efficiencies (the Restructuring Program). The Restructuring Program involved the elimination of approximately 300 positions across the Company's eleven theme parks and corporate headquarters. As a result, the Company has incurred total cumulative costs of \$11,834 in pre-tax restructuring and other related costs associated with this Restructuring Program, of which \$267 was incurred in the nine months ended September 30, 2015 and \$1,196 was incurred in the three and nine months ended September 30, 2014 on the accompanying unaudited condensed consolidated statements of comprehensive income. The costs incurred in the three and nine months ended September 30, 2014 relate primarily to third party consulting costs associated with development of the Company's cost savings plan and were previously included in selling, general and administrative expenses but were reclassified to restructuring and other related costs in the fourth quarter of 2014 to separately disclose such costs in the statement of comprehensive income. The Company will not incur any additional costs associated with the Restructuring Program as all continuing service obligations were completed as of June 30, 2015.

The Restructuring Program activity for the nine months ended September 30, 2015 was as follows:

|                                    | <b>Severance and<br/>Other<br/>Employment<br/>Expenses</b> |
|------------------------------------|--|
| Liability as of December 31, 2014  | \$ 7,691   |
| Costs incurred                     | 267  |
| Payments made                      | (7,958)  |
| Liability as of September 30, 2015 | \$   |

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**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion contains management's discussion and analysis of our financial condition and results of operations and should be read together with the unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements that reflect our plans, estimates and beliefs and involve numerous risks and uncertainties, including, but not limited to, those described in the Risk Factors section of our Annual Report on Form 10-K, as such risk factors may be updated from time to time in our periodic filings with the SEC. Actual results may differ materially from those contained in any forward-looking statements. You should carefully read Special Note Regarding Forward-Looking Statements in this Quarterly Report on Form 10-Q.*

**Business Overview**

We are a leading theme park and entertainment company delivering personal, interactive and educational experiences that blend imagination with nature and enable our customers to celebrate, connect with and care for the natural world we share. We own or license a portfolio of globally recognized brands, including SeaWorld, Shamu and Busch Gardens. Over our more than 50-year history, we have built a diversified portfolio of 11 destination and regional theme parks that are grouped in key markets across the United States, many of which showcase our one-of-a-kind zoological collection of approximately 89,000 marine and terrestrial animals. Our theme parks feature a diverse array of rides, shows and other attractions with broad demographic appeal which deliver memorable experiences and a strong value proposition for our guests. During the three months ended September 30, 2015, we hosted approximately 8.4 million guests in our theme parks, including approximately 1.2 million international guests. In the three months ended September 30, 2015, we generated total revenues of \$496.9 million and net income of \$98.0 million. During the nine months ended September 30, 2015, we hosted approximately 18.1 million guests in our theme parks, including approximately 2.6 million international guests. In the nine months ended September 30, 2015, we generated total revenues of \$1.10 billion and net income of \$60.2 million.

**Key Business Metrics Evaluated by Management*****Attendance***

We define attendance as the number of guest visits to our theme parks. Attendance drives admissions revenue as well as total in-park spending. The level of attendance at our theme parks is a function of many factors, including the opening of new attractions and shows, competitive offerings, weather, global and regional economic conditions, and overall consumer confidence in the economy.

***Total Revenue Per Capita***

Total revenue per capita, defined as total revenue divided by total attendance, consists of admission per capita and in-park per capita spending:

*Admission Per Capita.* We calculate admission per capita for any period as total admissions revenue divided by total attendance. Theme park admissions accounted for approximately 61% and 62% of our total revenue for the three and nine months ended September 30, 2015, respectively. For the third quarter of 2015, we reported \$36.39 in admission per capita, representing a slight decrease of 0.2% from the third quarter of 2014. For the nine months ended September 30, 2015, we reported \$37.64 in admission per capita, representing a decrease of 2.1% from the nine months ended September 30, 2014. Admission per capita is

driven by ticket pricing, the admissions product mix and the park attendance mix. The admissions product mix is defined as the mix of tickets purchased such as single day, multi-day and annual passes and the park attendance mix is defined as the mix of theme parks visited. The mix of theme parks visited can impact admission per capita based on the theme park's respective pricing.

*In-Park Per Capita Spending.* We calculate in-park per capita spending for any period as total food, merchandise and other revenue divided by total attendance. For the three and nine months ended September 30, 2015, food, merchandise and other revenue accounted for approximately 39% and 38% of our total revenue, respectively. For the third quarter of 2015, we reported \$22.97 of in-park per capita spending, an increase of 2.0% from the third quarter of 2014. For the nine months ended September 30, 2015, we reported \$23.43 of in-park per capita spending, an increase of 0.6% from the nine months ended September 30, 2014. In-park per capita spending is driven by pricing changes, penetration levels (percentage of guests purchasing), new product offerings, the mix of guests (such as local, passholders, domestic or international guests) and the mix of in-park spending.

### **Trends Affecting Our Results of Operations**

In 2014, we experienced negative attendance trends beginning in the second quarter which we believe resulted from a combination of factors affecting our destination parks, including negative media attention in California and a challenging competitive environment in Florida. To address our near term challenges, we adjusted our attraction and marketing plans, launched a new reputation campaign and executed a cost savings plan which is on track to deliver approximately \$50.0 million of annual cost savings by the end of 2015 (the Cost Savings Plan). The impact of these cost reductions have been offset by normal inflationary increases in labor and other expenses and an increase in marketing spending and legal costs.

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Our ability to attract and retain customers depends, in part, upon the external perceptions of our brands and reputation. Adverse publicity concerning our business generally could harm our brands, reputation and results of operations. The considerable expansion in the use of social media over recent years has amplified the impact of negative publicity. Recently, our SeaWorld-branded parks have been the target of negative media attention, particularly in the state of California, and we believe we have experienced demand pressures in California, due to such media attention. We have introduced a number of initiatives, including new marketing and reputation campaigns to address public perceptions, share facts and correct misinformation. We also introduced a number of promotions in an effort to increase demand.

In the first nine months of 2015, we experienced slight attendance growth when compared to the prior year period primarily resulting from an improvement in demand at all but two of our park locations, due to increased promotional offerings, strong passholder visitation and additional consumer event programs, and a favorable operating schedule due to the later timing of Labor Day in 2015. The impact of these factors was largely offset by reduced attendance in Texas and California.

The decline in Texas relates to a reduction in demand and the impact of record levels of rainfall during the second quarter. The decline in demand primarily relates to a reduction in passholder visitation and promotional offerings, along with a lack of significant competitive offerings at this location.

The decline in California primarily relates to continued SeaWorld brand challenges as discussed above. Looking ahead, we remain cautious as we recognize that fully resolving our brand challenges in California requires sustained focus. We expect our marketing and reputation campaigns will be long-term in nature. Both attendance and total revenue per capita at our theme parks are key drivers of our revenue and profitability, and reductions in either can materially adversely affect our business, financial condition, results of operations and cash flows.

## **Recent Developments**

On October 8, 2015, the California Coastal Commission approved the Company's previously disclosed whale habitat expansion (Blue World Project) in San Diego but with certain conditions. Those conditions may include, among other things, a prohibition against breeding whales or transporting whales to or from the facility. The Company has announced that it intends to file suit to challenge such potentially precedent setting conditions.

## **Seasonality**

The theme park industry is seasonal in nature. Based upon historical results, we generate the highest revenues in the second and third quarters of each year, in part because six of our theme parks are open for a portion of the year. Approximately two-thirds of our attendance and revenues are generated in the second and third quarters of the year and we typically incur a net loss in the first and fourth quarters. The mix of revenues by quarter is relatively constant, but revenues can shift between the first and second quarters due to the timing of Easter or between the first and fourth quarters due to the timing of Christmas and New Year's. Even for our five theme parks open year-round, attendance patterns have significant seasonality, driven by holidays, school vacations and weather conditions. One of our goals in managing our business is to continue to generate cash flow throughout the year and minimize the effects of seasonality. In recent years, we have begun to drive attendance during non-peak times by offering a variety of seasonal programs and events, such as shows for kids, special concert series, and Halloween and Christmas events. In addition, during seasonally slow times, operating costs are controlled by reducing operating hours and show schedules. Employment levels required for peak operations are met largely through part-time and seasonal hiring.

## **Principal Factors Affecting Our Results of Operations**

***Revenues***

Our revenues are driven primarily by attendance in our theme parks and the level of per capita spending for admission to the theme parks and per capita spending inside the theme parks for culinary, merchandise and other in-park experiences. The level of attendance in our theme parks is a function of many factors, including the opening of new attractions and shows, competitive offerings, weather, global and regional economic conditions, and consumer confidence. Admission per capita is driven by ticket pricing, the admissions product mix and the park attendance mix. In-park per capita spending is driven by pricing changes, penetration levels (percentage of guests purchasing), new product offerings, the mix of guests (such as local, domestic or international guests) and the mix of in-park spending. For other factors affecting our revenues, see the **Risk Factors** section of our Annual Report on Form 10-K, as such risk factors may be updated from time to time in our periodic filings with the SEC.

In addition to the theme parks, we are also involved in entertainment, media, and consumer product businesses that leverage our intellectual property. While these businesses currently do not represent a material percentage of our revenue, they are important strategic drivers in terms of consumer awareness and brand building. We aim to expand these businesses into a greater source of revenue in the future.

**Table of Contents****Costs and Expenses**

The principal costs of our operations are employee salaries and benefits, advertising, maintenance, animal care, utilities and insurance. Factors that affect our costs and expenses include commodity prices, costs for construction, repairs and maintenance, other inflationary pressures and attendance levels. A large portion of our expenses is relatively fixed because the costs for full-time employees, maintenance, animal care, utilities, advertising and insurance do not vary significantly with attendance. For factors affecting our costs and expenses, see the Risk Factors section of our Annual Report on Form 10-K, as such risk factors may be updated from time to time in our periodic filings with the SEC.

As part of the Cost Savings Plan, in December 2014, we implemented a restructuring program ( the Restructuring Program ) which involved the elimination of approximately 300 positions in an effort to centralize certain functions and reduce duplication to increase efficiencies. For further details, refer to Note 13 Restructuring Program in our notes to the unaudited condensed consolidated financial statements.

We barter theme park admission products for advertising and various other products and services. The fair value of the admission products is recognized into admissions revenue and related expenses at the time of the exchange and approximates the estimated fair value of the goods or services received or provided, whichever is more readily determinable.

**Results of Operations**

The following discussion provides an analysis of our operating results for the three and nine months ended September 30, 2015 and 2014. This data should be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

**Comparison of the Three Months Ended September 30, 2015 and 2014**

The following table presents key operating and financial information for the three months ended September 30, 2015 and 2014:

|  | <b>For the Three Months Ended<br/>September 30,</b>          |                |
|--|--|----------------|
|  | <b>2015</b>  | <b>2014</b>    |
|  | <i>(Unaudited, in thousands,<br/>except per capita data)</i> |                |
| <b>Summary financial data:</b>               |  |                |
| <b>Net revenues:</b>                         |  |                |
| Admissions                                   | \$ 304,626   | \$ 306,495     |
| Food, merchandise and other                  | 192,313  | 189,339        |
| <b>Total revenues</b>                        | <b>496,939</b>   | <b>495,834</b> |
| <b>Costs and expenses:</b>                   |  |                |
| Cost of food, merchandise and other revenues | 36,959   | 38,219         |
|  | 196,931  | 200,891        |

|   |                  |                  |
|---|------------------|------------------|
| Operating expenses (exclusive of depreciation and amortization shown separately below)  |                  |                  |
| Selling, general and administrative   | 47,684           | 49,242           |
| Restructuring and other related costs   |                  | 1,196            |
| Depreciation and amortization   | 44,505           | 44,371           |
| Total costs and expenses  | 326,079          | 333,919          |
| Operating income  | 170,860          | 161,915          |
| Other expense (income), net   | 41               | (56)             |
| Interest expense  | 15,019           | 20,857           |
| Loss on early extinguishment of debt and write-off of discounts and debt issuance costs |                  | 461              |
| Income before income taxes  | 155,800          | 140,653          |
| Provision for income taxes  | 57,850           | 53,477           |
| <b>Net income</b>   | <b>\$ 97,950</b> | <b>\$ 87,176</b> |
| <b>Other data:</b>  |                  |                  |
| Attendance  | 8,371            | 8,405            |
| Total revenue per capita  | \$ 59.36         | \$ 58.99         |

*Admissions revenue.* Admissions revenue for the three months ended September 30, 2015 decreased \$1.9 million (0.6%) to \$304.6 million as compared to \$306.5 million for the three months ended September 30, 2014. The decrease in admissions revenue was primarily a result of a decline in attendance of 0.4% when compared to the third quarter of 2014. Attendance decreased as a result of a decline in California and

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Texas, largely offset by an increase in demand at the Company's other park locations, related to an increase in promotional offerings, and a favorable operating schedule resulting from the later timing of Labor Day in 2015. The attendance decline in California primarily relates to continued SeaWorld brand challenges, while the decline in Texas primarily relates to a decrease in demand resulting from a reduction in promotional offerings and passholder visitation, along with a lack of significant competitive offerings at this location. Admission per capita decreased slightly by 0.2% to \$36.39 for the third quarter of 2015 compared to \$36.47 in the prior year quarter.

*Food, merchandise and other revenue.* Food, merchandise and other revenue for the three months ended September 30, 2015 increased by \$3.0 million (1.6%) to \$192.3 million as compared to \$189.3 million for the three months ended September 30, 2014. This increase was primarily a result of a 2.0% increase in in-park per capita spending to \$22.97 in the third quarter of 2015 compared to \$22.53 in the third quarter of 2014. In-park per capita spending improved primarily due to pricing increases in culinary offerings.

*Costs of food, merchandise and other revenues.* Costs of food, merchandise and other revenues for the three months ended September 30, 2015 decreased \$1.3 million (3.3%) to \$37.0 million as compared to \$38.2 million for the three months ended September 30, 2014. These costs represent 19.2% and 20.2% of the related revenue earned for the three months ended September 30, 2015 and 2014, respectively. The decrease as a percent of related revenue primarily resulted from the continued impact of cost reduction initiatives including leveraged buying efforts.

*Operating expenses.* Operating expenses for the three months ended September 30, 2015 decreased \$4.0 million (2.0%) to \$196.9 million as compared to \$200.9 million for the three months ended September 30, 2014. The decline was primarily a result of cost savings initiatives including a reduction in headcount resulting from the Restructuring Program implemented in December 2014. Operating expenses were 39.6% of total revenues for the three months ended September 30, 2015 compared to 40.5% for the three months ended September 30, 2014.

*Selling, general and administrative.* Selling, general and administrative expenses for the three months ended September 30, 2015 decreased \$1.6 million (3.2%) to \$47.7 million as compared to \$49.2 million for the three months ended September 30, 2014. The decrease was primarily related to a decline in barter related expenses due to fewer partnership arrangements and barter contracts in place compared to the prior year period, partially offset by incremental equity compensation expense due to new equity grants awarded in 2015 and increased legal costs. The decline in barter related expenses is offset by a comparable decline in admissions revenue. As a percentage of total revenue, selling, general and administrative expenses were 9.6% in the third quarter of 2015 compared to 9.9% in the third quarter of 2014.

*Restructuring and other related costs.* Restructuring and other related costs for the three months ended September 30, 2014 primarily represent third party consulting costs associated with the development of our Cost Savings Plan. These costs were previously reported as selling, general and administrative expenses but were reclassified to restructuring and other related costs in the fourth quarter of 2014 to separately disclose such costs.

*Depreciation and amortization.* Depreciation and amortization expense for the three months ended September 30, 2015 increased \$0.1 million (0.3%) to \$44.5 million as compared to \$44.4 million for the three months ended September 30, 2014.

*Interest expense.* Interest expense for the three months ended September 30, 2015 decreased \$5.8 million (28.0%) to \$15.0 million as compared to \$20.9 million for the three months ended September 30, 2014 due to the redemption of the 11.0% Senior Notes in April 2015 which were replaced with new Term B-3 loans at a lower interest rate (effective rate of 4.33% as of September 30, 2015). See Note 6 Long-Term Debt to our unaudited condensed consolidated financial statements and the *Our Indebtedness* section which follows for further details.



*Loss on early extinguishment of debt and write-off of discounts and debt issuance costs.* Loss on early extinguishment of debt and write-off of discounts and debt issuance costs of \$0.5 million for the three months ended September 30, 2014 relates to a write-off of discounts and debt issuance costs related to the voluntary prepayment of \$31.5 million on our Senior Secured Credit Facilities during the third quarter of 2014.

*Provision for income taxes.* The Company reported a provision for income taxes in the three months ended September 30, 2015 of \$57.9 million compared to a provision of \$53.5 million for the three months ended September 30, 2014. The increase primarily resulted from a higher pretax income in the third quarter of 2015 compared to the third quarter of 2014.

**Table of Contents****Comparison of the Nine Months Ended September 30, 2015 and 2014**

The following table presents key operating and financial information for the nine months ended September 30, 2015 and 2014:

|   | <b>For the Nine Months<br/>Ended<br/>September 30,<br/>2015                      2014</b> |                  |
|---|---|------------------|
|   | <i>(Unaudited, in thousands,<br/>except per capita data)</i>                              |                  |
| <b>Summary financial data:</b>  |   |                  |
| <b>Net revenues:</b>  |   |                  |
| Admissions  | \$ 679,917  | \$ 693,144       |
| Food, merchandise and other   | 423,230   | 420,131          |
| <b>Total revenues</b>   | <b>1,103,147</b>  | <b>1,113,275</b> |
| <b>Costs and expenses:</b>  |   |                  |
| Cost of food, merchandise and other revenues  | 83,974  | 88,630           |
| Operating expenses (exclusive of depreciation and amortization shown separately below)  | 541,944   | 557,993          |
| Selling, general and administrative   | 172,082   | 152,882          |
| Restructuring and other related costs   | 267   | 1,196            |
| Secondary offering costs  |   | 747              |
| Depreciation and amortization   | 138,469   | 128,733          |
| <b>Total costs and expenses</b>   | <b>936,736</b>  | <b>930,181</b>   |
| Operating income  | 166,411   | 183,094          |
| Other expense (income), net   | 511   | (84)             |
| Interest expense  | 50,929  | 61,087           |
| Loss on early extinguishment of debt and write-off of discounts and debt issuance costs | 20,348  | 461              |
| Income before income taxes  | 94,623  | 121,630          |
| Provision for income taxes  | 34,462  | 46,265           |
| <b>Net income</b>   | <b>\$ 60,161</b>  | <b>\$ 75,365</b> |
| <b>Other data:</b>  |   |                  |
| Attendance  | 18,063  | 18,034           |
| <b>Total revenue per capita</b>   | <b>\$ 61.07</b>   | <b>\$ 61.73</b>  |

*Admissions revenue.* Admissions revenue for the nine months ended September 30, 2015 decreased \$13.2 million (1.9%) to \$679.9 million as compared to \$693.1 million for the nine months ended September 30, 2014. The decrease in admissions revenue was a result of a 2.1% decrease in admission per capita to \$37.64 from \$38.44 in the prior year period, slightly offset by a 0.2% increase in attendance. The decline in admission per capita primarily relates to an increase in promotional offerings and passholder visitation along with an unfavorable change in the park attendance mix compared to the prior year period. Attendance for the first nine months of 2015 primarily benefited from an improvement in demand at all but two of our park locations, due to increased promotional offerings, strong passholder visitation and additional consumer event programs, and a favorable operating schedule due to the later timing of Labor Day in 2015. The impact of these factors was largely offset by reduced attendance in Texas and California. The decline in Texas relates to a reduction in demand and the impact of record levels of rainfall during the second quarter. The decline in demand primarily relates to a reduction in passholder visitation and promotional offerings, along with a lack of significant competitive offerings at this location. The decline in California primarily relates to continued SeaWorld brand challenges.

*Food, merchandise and other revenue.* Food, merchandise and other revenue for the nine months ended September 30, 2015 increased by \$3.1 million (0.7%) to \$423.2 million as compared to \$420.1 million for the nine months ended September 30, 2014. This increase was primarily a result of a 0.6% increase in in-park per capita spending to \$23.43 in the first nine months of 2015 from \$23.30 in the first nine months of 2014 along with a 0.2% increase in total attendance.

*Costs of food, merchandise and other revenues.* Costs of food, merchandise and other revenues for the nine months ended September 30, 2015 decreased \$4.7 million (5.3%) to \$84.0 million as compared to \$88.6 million for the nine months ended September 30, 2014. These costs represent 19.8% and 21.1% of the related revenue earned for the nine months ended September 30, 2015 and 2014, respectively. The decrease as a percent of related revenue primarily resulted from the impact of cost reduction initiatives including leveraged buying efforts.

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*Operating expenses.* Operating expenses for the nine months ended September 30, 2015 decreased \$16.0 million (2.9%) to \$541.9 million as compared to \$558.0 million for the nine months ended September 30, 2014. The decrease was primarily a result of cost savings initiatives including a reduction in headcount resulting from the Restructuring Program implemented in December 2014 and a decrease in entertainment-related costs due primarily to reduced show offerings in the first nine months of 2015. Operating expenses were 49.1% of total revenues for the nine months ended September 30, 2015 compared to 50.1% for the nine months ended September 30, 2014.

*Selling, general and administrative.* Selling, general and administrative expenses for the nine months ended September 30, 2015 increased \$19.2 million (12.6%) to \$172.1 million as compared to \$152.9 million for the nine months ended September 30, 2014. The increase was largely related to additional third party consulting costs, an increase in marketing costs associated with our reputation campaign, an increase in labor costs primarily related to new equity grants awarded in 2015 and an increase in legal fees when compared to the prior year period. As a percentage of total revenue, selling, general and administrative expenses were 15.6% in the nine months ended September 30, 2015 compared to 13.7% in the nine months ended September 30, 2014.

*Restructuring and other related costs.* Restructuring and other related costs for the nine months ended September 30, 2015 represent salaries and severance for individuals with continuing service obligations through June 2015, which were impacted by the Restructuring Program announced in December 2014. Restructuring and other related costs for the nine months ended September 30, 2014 primarily relate to third party consulting costs associated with development of our Cost Savings Plan. These costs were previously reported as selling, general and administrative expenses but were reclassified to restructuring and other related costs in the fourth quarter of 2014 to separately disclose such costs.

*Secondary offering costs.* On April 9, 2014, the selling stockholders completed an underwritten secondary offering of our common stock. Pursuant to the Registration Rights Agreement, we paid all expenses related to the offering, other than underwriting discounts and commissions. No shares were sold by us in the secondary offering and the selling stockholders received all of the net proceeds from the offering. In connection with this secondary offering, we incurred fees and expenses of \$0.7 million in the nine months ended September 30, 2014.

*Depreciation and amortization.* Depreciation and amortization expense for the nine months ended September 30, 2015 increased \$9.7 million (7.6%) to \$138.5 million as compared to \$128.7 million for the nine months ended September 30, 2014 due primarily to approximately \$5.0 million of accelerated depreciation related to the closure of the *Gwazi* wooden rollercoaster at our Busch Gardens Tampa park along with additional depreciation due to the impact of new asset additions, offset by fully depreciated assets and asset retirements.

*Interest expense.* Interest expense for the nine months ended September 30, 2015 decreased \$10.2 million (16.6%) to \$50.9 million as compared to \$61.1 million for the nine months ended September 30, 2014 due to the redemption of the 11.0% Senior Notes in April 2015 which were replaced with new Term B-3 loans at a lower interest rate (effective rate of 4.33% as of September 30, 2015). See Note 6 Long-Term Debt to our unaudited condensed consolidated financial statements and the *Our Indebtedness* section which follows for further details.

*Loss on early extinguishment of debt and write-off of discounts and debt issuance costs.* Loss on early extinguishment of debt and write-off of discounts and debt issuance costs of \$20.3 million for the nine months ended September 30, 2015 relates to a \$14.3 million premium paid for the early redemption of \$260.0 million of our Senior Notes, along with a write-off of approximately \$6.0 million in related discounts and debt issuance costs. See Note 6 Long-Term Debt to our unaudited condensed consolidated financial statements and the *Our Indebtedness* section which follows for further details. Loss on early extinguishment of debt and write-off of discounts and debt issuance costs of \$0.5 million for the nine months ended September 30, 2014 relates to a write-off in discounts and debt issuance costs

related to the voluntary prepayment of \$31.5 million on our Senior Secured Credit Facilities during the third quarter of 2014.

*Provision for income taxes.* The provision for income taxes for the nine months ended September 30, 2015 decreased \$11.8 million (25.5%) to \$34.5 million as compared to a provision for income taxes of \$46.3 million for the nine months ended September 30, 2014. The decrease resulted primarily from the impact of a lower pretax income in the first nine months of 2015 and to a lesser extent a decrease in our effective income tax rate from 38.0% to 36.4%. Our effective income tax rate decreased compared to 2014 primarily due to state income taxes and the impact of various permanent items.

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**Table of Contents****Liquidity and Capital Resources*****Overview***

Our principal sources of liquidity are cash generated from operations, funds from borrowings and existing cash on hand. Our principal uses of cash include the funding of working capital obligations, debt service, investments in theme parks (including capital projects), and common stock dividends. As of September 30, 2015, we had a working capital deficit of approximately \$23.0 million. We typically operate with a working capital deficit and we expect that we will continue to have working capital deficits in the future. The working capital deficits are due in part to a significant deferred revenue balance from revenues paid in advance for our theme park admissions products and high turnover of in-park products that results in a limited inventory balance. Our cash flow from operations, along with our revolving credit facilities, have allowed us to meet our liquidity needs while maintaining a working capital deficit.

As market conditions warrant and subject to our contractual restrictions and liquidity position, we, our affiliates and/or our major stockholders, including Blackstone and its affiliates, may from time to time repurchase our outstanding equity and/or debt securities, including our outstanding bank loans in privately negotiated or open market transactions, by tender offer or otherwise. Any such repurchases may be funded by incurring new debt, including additional borrowings under the Senior Secured Credit Facilities. Any new debt may also be secured debt. We may also use available cash on our balance sheet. The amounts involved in any such transactions, individually or in the aggregate, may be material. Further, since some of our debt may trade at a discount to the face amount among current or future syndicate members, any such purchases may result in our acquiring and retiring a substantial amount of any particular series, with the attendant reduction in the trading liquidity of any such series.

***Dividends***

The Company's Board of Directors (the Board) has adopted a policy to pay, subject to legally available funds, a regular quarterly dividend. Dividends paid to stockholders were \$54.4 million in the nine months ended September 30, 2015, related primarily to dividend declarations to stockholders of record as of January 13, March 13 and June 22, 2015. On October 6, 2015, an additional \$17.9 million in dividends were paid related to a dividend declaration to stockholders of record as of September 29, 2015. The amount and timing of any future dividends payable on our common stock is within the sole discretion of the Board. The Company expects that for tax purposes, a portion of the dividends paid in 2015 will be treated as a return of capital to stockholders.

Approximately \$0.5 million of dividends declared through September 30, 2015 relate to unvested time restricted shares and unvested performance restricted shares with a performance condition considered probable of being achieved and will be paid if the awards vest in accordance with their terms. Dividends on certain performance-vesting restricted share awards that are not considered probable of vesting were approximately \$5.9 million and will accumulate and be paid only if and to the extent the shares vest in accordance with their terms.

See Note 12 Stockholders' Equity to our unaudited condensed consolidated financial statements for further details on our dividend activity and the *Covenant Compliance* section which follows for further details on covenants that could restrict our ability to make certain restricted payments, including dividend payments and share repurchases.

***Share Repurchases***

On August 12, 2014, our Board authorized a share repurchase program of up to \$250.0 million of our common stock (the Share Repurchase Program). Under the Share Repurchase Program, the Company is authorized to repurchase shares through open market purchases, privately-negotiated transactions or otherwise in accordance with applicable

federal securities laws, including through Rule 10b5-1 trading plans and under Rule 10b-18 of the Exchange Act. The Share Repurchase Program has no time limit and may be suspended or discontinued completely at any time. The number of shares to be purchased and the timing of purchases will be based on the level of the Company's cash balances, general business and market conditions, and other factors, including legal requirements, debt covenant restrictions and alternative investment opportunities.

Pursuant to the Share Repurchase Program, during the fourth quarter of 2014, we repurchased a total of 855,970 shares of common stock at an average price of \$17.50 per share and a total cost of approximately \$15.0 million. In January 2015, we paid \$5.7 million for settlement of shares repurchased in December 2014. During the third quarter of 2015, we repurchased a total of 835,968 shares of common stock at an average price of \$17.92 per share and a total cost of approximately \$15.0 million, leaving \$220.0 million available for future repurchases under the Share Repurchase Program.

***Other***

In June 2015, we entered into five forward interest rate swap agreements ( the Forward Swaps ) to effectively fix the interest rate on the three month LIBOR-indexed interest payments associated with \$1.0 billion of our outstanding long-term debt. The Forward Swaps have an effective date of September 30, 2016, have a total notional amount of \$1.0 billion and mature on May 14, 2020.

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In April 2015, we executed a new interest rate swap agreement to effectively fix the interest rate on \$250.0 million of the Term B-3 Loans under the Senior Secured Credit Facilities, as defined below. The interest rate swap became effective on June 30, 2015, has a notional amount of \$250.0 million and is scheduled to mature on September 30, 2016. See Note 6 Long-Term Debt and Note 7 Derivative Instruments and Hedging Activities to our unaudited condensed consolidated financial statements for further details.

Subsequent to September 30, 2015, we made a voluntary principal repayment of approximately \$30.0 million on the Term B-3 Loans with available cash on hand. See Note 6 Long-Term Debt to our unaudited condensed consolidated financial statements for further details.

We believe that existing cash and cash equivalents, cash flow from operations, and available borrowings under the Revolving Credit Facility will be adequate to meet the capital expenditures, dividends and working capital requirements of our operations for at least the next 12 months.

The following table presents a summary of our cash flows provided by (used in) operating, investing, and financing activities for the periods indicated:

|  | <b>For the Nine Months<br/>Ended<br/>September 30,<br/>2015                      2014<br/>(Unaudited, in<br/>thousands)</b> |            |
|--|---|------------|
| Net cash provided by operating activities            | \$ 279,920  | \$ 269,939 |
| Net cash used in investing activities                | (117,508)   | (125,082)  |
| Net cash used in financing activities                | (86,667)  | (146,506)  |
| Net increase (decrease) in cash and cash equivalents | \$ 75,745   | \$ (1,649) |

***Cash Flows from Operating Activities***

Net cash provided by operating activities was \$279.9 million during the nine months ended September 30, 2015 as compared to \$269.9 million during the nine months ended September 30, 2014. The change in net cash provided by operating activities was primarily impacted by a reduction in costs, offset by a decrease in revenue when compared to the prior period.

***Cash Flows from Investing Activities***

Investing activities consist principally of capital investments we make in our theme parks for future attractions and infrastructure. Net cash used in investing activities during the nine months ended September 30, 2015 consisted primarily of capital expenditures of \$117.1 million largely related to future attractions. Net cash used in investing activities during the nine months ended September 30, 2014 consisted primarily of \$122.8 million of capital expenditures largely related to attractions that opened in 2015.

The amount of our capital expenditures may be affected by general economic and financial conditions, among other things, including restrictions imposed by our borrowing arrangements. We generally expect to fund our capital



expenditures through our operating cash flow.

### ***Cash Flows from Financing Activities***

Net cash used in financing activities during the nine months ended September 30, 2015 was primarily attributable to \$271.9 million in repayment of long-term debt, which included the early redemption of \$260.0 million of our Senior Notes, \$54.4 million in cash dividends paid to common stockholders, \$20.7 million used for treasury stock purchases of which \$5.7 million related to repurchases from December 2014 that settled in January 2015, \$14.3 million paid as a redemption premium related to the Senior Notes, and \$4.6 million paid in debt issuance costs related to the new Term B-3 Loans, offset by \$280.0 million in proceeds from the issuance of the Term B-3 Loans under the Senior Secured Credit Facilities, as defined below.

Net cash used in financing activities during the nine months ended September 30, 2014 was primarily attributable to \$53.6 million in cash dividends paid to common stockholders, \$50.7 million used to repurchase 1.75 million shares of our common stock and \$42.0 million paid on our Term B-2 Loan under the Senior Secured Credit Facilities, as defined below, which included a voluntary prepayment of \$31.5 million.

### **Our Indebtedness**

The Company is a holding company and conducts its operations through its subsidiaries, which have incurred or guaranteed indebtedness as described below.

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**Table of Contents*****Senior Secured Credit Facilities***

SeaWorld Parks & Entertainment, Inc. ( SEA ) is the borrower under our senior secured credit facilities (the Senior Secured Credit Facilities ) pursuant to a credit agreement dated as of December 1, 2009, by and among SEA, as borrower, Bank of America, N.A., as administrative agent, collateral agent, letter of credit issuer and swing line lender and the other agents and lenders party thereto, as the same may be amended, restated, supplemented or modified from time to time. Also on December 1, 2009, SEA issued \$400.0 million aggregate principal amount of unsecured senior notes which were due December 1, 2016 (the Senior Notes ).

On March 30, 2015, SEA entered into an incremental term loan amendment, Amendment No. 7 (the Incremental Amendment ) to its existing Senior Secured Credit Facilities. On April 7, 2015, SEA borrowed \$280.0 million of additional term loans (the Term B-3 Loans ) pursuant to the Incremental Amendment. The proceeds, along with cash on hand, were used to redeem all of the \$260.0 million outstanding principal of the Senior Notes at a redemption price of 105.5% plus accrued and unpaid interest and pay fees, costs and other expenses in connection with the Term B-3 Loans. The redemption premium of \$14.3 million along with a write-off of approximately \$6.0 million in related discounts and debt issuance costs is included in the loss on early extinguishment of debt and write-off of discounts and debt issuance costs on the accompanying unaudited condensed consolidated statements of comprehensive income for the nine months ended September 30, 2015.

As of September 30, 2015, our Senior Secured Credit Facilities consisted of a \$1,341.9 million senior secured term loan facility (the Term B-2 Loans ), and \$278.6 million in Term B-3 Loans which will mature on May 14, 2020 along with a \$192.5 million senior secured revolving credit facility (the Revolving Credit Facility ), which was not drawn upon as of September 30, 2015. The Revolving Credit Facility will mature on the earlier of (a) April 24, 2018 and (b) the 91st day prior to the maturity date of any indebtedness incurred to refinance any of the term loans, and includes borrowing capacity available for letters of credit and for short-term borrowings referred to as the swing line borrowings. As of September 30, 2015, SEA had approximately \$18.0 million of outstanding letters of credit, leaving approximately \$174.5 million available for borrowing.

The obligations under our Senior Secured Credit Facilities are fully, unconditionally and irrevocably guaranteed by each of the Company, any subsidiary of the Company that directly or indirectly owns 100% of the issued and outstanding equity interests of SEA, and, subject to certain exceptions, each of SEA 's existing and future material domestic wholly-owned subsidiaries (collectively, the Guarantors ). Our Senior Secured Credit Facilities are collateralized by first priority or equivalent security interests in (i) all the capital stock of, or other equity interests in, substantially all SEA 's direct or indirect material wholly-owned domestic subsidiaries (subject to certain exceptions and qualifications) and 65% of the capital stock of, or other equity interests in, any of SEA 's first tier foreign subsidiaries and (ii) certain tangible and intangible assets of SEA and those of the Guarantors (subject to certain exceptions and qualifications).

Our Senior Secured Credit Facilities contain a number of customary negative covenants. Such covenants, among other things, restrict, subject to certain exceptions, the ability of SEA and its restricted subsidiaries to incur additional indebtedness; make guarantees; create liens on assets; enter into sale and leaseback transactions; engage in mergers or consolidations; sell assets; make fundamental changes; pay dividends and distributions or repurchase SEA 's capital stock; make investments, loans and advances, including acquisitions; engage in certain transactions with affiliates; make changes in nature of the business; and make prepayments of junior debt. Our Senior Secured Credit Facilities also contain covenants requiring SEA to maintain specified maximum annual capital expenditures, a maximum total net leverage ratio and a minimum interest coverage ratio.

See Note 6 Long-Term Debt to our unaudited condensed consolidated financial statements for further details concerning our long-term debt.

### ***Covenant Compliance***

As of September 30, 2015, we were in compliance with all covenants in the credit agreement governing the Senior Secured Credit Facilities.

The credit agreement governing the Senior Secured Credit Facilities provide for certain events of default which, if any of them were to occur, would permit or require the principal of and accrued interest, if any, on the loans under the Senior Secured Credit Facilities to become or be declared due and payable (subject, in some cases, to specified grace periods).

Under the credit agreement governing the Senior Secured Credit Facilities, our ability to engage in activities such as incurring additional indebtedness, making investments, refinancing certain indebtedness, paying dividends and entering into certain merger transactions is governed, in part, by our ability to satisfy tests based on covenant Adjusted EBITDA.

The Senior Secured Credit Facilities generally defines Adjusted EBITDA as net income (loss) before interest expense, income tax expense (benefit), depreciation and amortization, as further adjusted to exclude certain unusual, non-cash, and other items permitted in calculating covenant compliance under the Senior Secured Credit Facilities. Adjusted EBITDA as defined in the Senior Secured Credit Facilities is consistent with our reported Adjusted EBITDA.

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The Senior Secured Credit Facilities contain a number of covenants that, among other things, restrict our ability and the ability of our restricted subsidiaries to, among other things, make certain restricted payments (as defined in the Senior Secured Credit Facilities), including dividend payments and share repurchases. See Note 6 Long-Term Debt to our unaudited condensed consolidated financial statements for further details concerning the calculation of the Total Leverage Ratio (as defined in the Senior Secured Credit Facilities). As of September 30, 2015, the Total Leverage Ratio as calculated under the Senior Secured Credit Facilities was 4.13 to 1.00, which results in a \$120.0 million capacity for restricted payments in 2015. During the nine months ended September 30, 2015, we have used approximately \$87.7 million of our available restricted payments capacity. As a result, we currently have the ability to declare dividends or make certain other restricted payments in an aggregate amount of up to approximately \$32.3 million for the remainder of calendar year 2015. The amount available for dividend declarations, share repurchases and certain other restricted payments under the covenant restrictions in the debt agreements adjusts at the beginning of each quarter as set forth in Note 6 Long-Term Debt to our unaudited condensed consolidated financial statements.

**Adjusted EBITDA**

We believe that the presentation of Adjusted EBITDA is appropriate to provide additional information to investors about the calculation of, and compliance with, certain financial covenants in the Senior Secured Credit Facilities. Adjusted EBITDA is a material component of these covenants. In addition, investors, lenders, financial analysts and rating agencies have historically used EBITDA related measures in our industry, along with other measures, to evaluate a company's ability to meet its debt service requirements, to estimate the value of a company and to make informed investment decisions. We also use Adjusted EBITDA in connection with certain components of our executive compensation program. Adjusted EBITDA eliminates the effect of certain non-cash depreciation of tangible assets and amortization of intangible assets, along with the effects of interest rates and changes in capitalization which management believes may not necessarily be indicative of a company's underlying operating performance.

Adjusted EBITDA is not a recognized term under accounting principles generally accepted in the United States of America (GAAP), and should not be considered in isolation or as a substitute for a measure of our liquidity or performance prepared in accordance with GAAP and is not indicative of income from operations as determined under GAAP. Adjusted EBITDA and other non-GAAP financial measures have limitations which should be considered before using these measures to evaluate our liquidity or financial performance. Adjusted EBITDA, as presented by us, may not be comparable to similarly titled measures of other companies due to varying methods of calculation.

The following table reconciles Adjusted EBITDA to net income for the periods indicated:

|  | <b>For the Three Months<br/>Ended September 30,</b> |             | <b>For the Nine Months<br/>Ended September 30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2015</b>   | <b>2014</b> | <b>2015</b>  | <b>2014</b> |
|  | <i>(Unaudited, in thousands)</i>                    |             |  |             |
| Net income   | \$ 97,950   | \$ 87,176   | \$ 60,161  | \$ 75,365   |
| Provision for income taxes   | 57,850  | 53,477      | 34,462   | 46,265      |
| Loss on early extinguishment of debt and write-off of discounts and debt issuance costs <sup>(a)</sup> |   | 461         | 20,348   | 461         |
| Interest expense   | 15,019  | 20,857      | 50,929   | 61,087      |
| Depreciation and amortization  | 44,505  | 44,371      | 138,469  | 128,733     |
| Secondary offering costs <sup>(b)</sup>  |   |             |  | 747         |
| Equity-based compensation expense <sup>(c)</sup>   | 1,549   | 570         | 4,800  | 1,905       |

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|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Other unusual items, net of tax of \$193 <sup>(d)</sup> | 307        |            | 307        |            |
| Other adjusting items <sup>(e)</sup>                    |            | 1,620      |            | 3,898      |
| Other non-cash expenses <sup>(f)</sup>                  | 280        | 602        | 4,310      | 1,695      |
| Adjusted EBITDA <sup>(g)</sup>                          | \$ 217,460 | \$ 209,134 | \$ 313,786 | \$ 320,156 |

- (a) Reflects a \$14.3 million premium paid for the early redemption in April 2015 of \$260.0 million of our Senior Notes, along with a write-off of approximately \$6.0 million in related discounts and debt issuance costs in the nine months ended September 30, 2015. For the three and nine months ended September 30, 2014, reflects the write-off of discounts and debt issuance costs relating to the voluntary prepayment of \$31.5 million on our Senior Secured Credit Facilities.

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- (b) Reflects fees and expenses incurred in connection with the secondary offering of our common stock in April 2014. Pursuant to the Registration Rights Agreement, we paid all expenses related to the offering, other than underwriting discounts and commissions. No shares were sold by us in the secondary offering and the selling stockholders received all of the net proceeds from the offering.
- (c) Reflects non-cash compensation expense associated with the grants of equity compensation.
- (d) Reflects the impact of certain items during the three and nine months ended September 30, 2015 which we are permitted to exclude, net of tax, under the credit agreement governing our senior secured credit facilities due to the unusual nature of the items.
- (e) Reflects certain non-recurring product and intellectual property development costs and certain restructuring and other related costs incurred in the three and nine months ended September 30, 2014. The restructuring and other related costs primarily represent third party consulting costs associated with the development of our Cost Savings Plan. The Adjusted EBITDA covenant calculations presented in the table above do not reflect certain other adjusting items incurred in the three and nine months ended September 30, 2015 as described in footnote (g) below.
- (f) Reflects non-cash expenses related to miscellaneous asset write-offs and non-cash losses on derivatives.
- (g) For covenant calculation purposes under our credit agreement, the amount which we are able to add back to Adjusted EBITDA for restructuring and other related costs and certain other adjusting items, including product and intellectual property development costs, is limited to \$10.0 million for any four consecutive quarters (with certain unused amounts carried over from the prior fiscal year). Due to these limitations, the Adjusted EBITDA covenant calculations presented in the table above do not reflect \$0.3 million related to restructuring and other related costs in the nine months ended September 30, 2015, and \$1.3 million and \$2.5 million of product and intellectual property development costs incurred in the three and nine months ended September 30, 2015, respectively.

**Contractual Obligations**

There have been no material changes to our contractual obligations from those previously disclosed in our Annual Report on Form 10-K other than the long-term debt and interest obligations due to our subsequent borrowings of Term B-3 Loans and redemption of our Senior Notes on April 7, 2015. As a result of these changes, our long-term debt obligations as of September 30, 2015, not including any possible prepayments are as follows for the less than one year, 1-3 year, and 3-5 year periods, respectively (in thousands): \$16,850; \$33,700; and \$1,569,950. Our estimated future interest payments for our Senior Secured Credit Facilities based on interest rates in effect at September 30, 2015 are as follows for the less than one year, 1-3 year, and 3-5 year periods, respectively (in thousands): \$55,139; \$135,634; and \$105,975. Interest obligations also include letter of credit and commitment fees for the used and unused portions of our Revolving Credit Facility. Subsequent to September 30, 2015, we made a voluntary principal repayment of approximately \$30.0 million on the Term B-3 Loans with available cash on hand. See Note 6-Long-Term Debt to our unaudited condensed consolidated financial statements therein for further discussion.

**Critical Accounting Policies**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities, revenues and expenses, and disclosure of contingencies during the reporting period. Significant estimates and assumptions include the valuation and useful lives of long-lived tangible and intangible assets, the valuation of goodwill and other indefinite-lived intangible assets, the accounting for income taxes, the accounting for self-insurance, revenue recognition and equity-based compensation. Actual results could differ from those estimates. The critical accounting estimates associated with these policies are described in our Annual Report on Form 10-K under Management's Discussion and Analysis of Financial Condition and Results of Operations. These critical accounting policies include property and equipment, impairment of long-lived assets, goodwill and other indefinite-lived intangible assets, accounting for income taxes, self-insurance

reserves, and revenue recognition. There have been no material changes to our significant accounting policies as compared to the significant accounting policies described in our Annual Report on Form 10-K.

**Off-Balance Sheet Arrangements**

We had no off-balance sheet arrangements as of September 30, 2015.

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### **Recently Issued Financial Accounting Standards**

Refer to Note 2 Recently Issued Accounting Pronouncements, in our notes to the unaudited condensed consolidated financial statements for further details.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk** **Inflation**

Historically, the impact of inflation has affected, and will continue to affect, our operations significantly. Our costs of food, merchandise and other revenues are influenced by inflation and fluctuations in global commodity prices. In addition, costs for construction, repairs and maintenance are all subject to inflationary pressures.

#### **Interest Rate Risk**

We are exposed to market risks from fluctuations in interest rates, and to a lesser extent on currency exchange rates, from time to time, on imported rides and equipment. The objective of our financial risk management is to reduce the potential negative impact of interest rate and foreign currency exchange rate fluctuations to acceptable levels. We do not acquire market risk sensitive instruments for trading purposes.

We manage interest rate risk through the use of a combination of fixed-rate long-term debt and interest rate swaps that fix a portion of our variable-rate long-term debt.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive loss and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. Amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on our variable-rate debt. During the next 12 months, our estimate is that an additional \$3.3 million will be reclassified as an increase to interest expense.

After considering the impact of interest rate swap agreements, at September 30, 2015, approximately \$1,250.0 million of our outstanding long-term debt represents fixed-rate debt and approximately \$370.5 million represents variable-rate debt. Assuming an average balance on our revolving credit borrowings of approximately \$40.0 million, a hypothetical 100 bps increase in 3 month LIBOR on our variable-rate debt would lead to an increase of approximately \$2.5 million in annual cash interest costs due to the impact of our fixed-rate swap agreements.

### **Item 4. Controls and Procedures** **Evaluation of Disclosure Controls and Procedures**

Regulations under the Securities Exchange Act of 1934, as amended (the Exchange Act), require public companies, including us, to maintain disclosure controls and procedures, which are defined in Rule 13a-15(e) and Rule 15d-15(e) to mean a company's controls and other procedures that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports



filed under the Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required or necessary disclosures. In designing and evaluating our disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. Our principal executive officer and principal financial officer have concluded, based on the evaluation of the effectiveness of the disclosure controls and procedures by our management as of the end of the fiscal quarter covered by this Quarterly Report, that our disclosure controls and procedures were effective to accomplish their objectives at a reasonable assurance level.

### **Changes in Internal Control over Financial Reporting**

Regulations under the Exchange Act require public companies, including our Company, to evaluate any change in our internal control over financial reporting as such term is defined in Rule 13a-15(f) and Rule 15d-15(f) of the Exchange Act. There have been no changes in our internal control over financial reporting during the fiscal quarter covered by this Quarterly Report that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

See Note 10 Commitments and Contingencies to our unaudited condensed consolidated financial statements for further details concerning our legal proceedings.

**Item 1A. Risk Factors**

There have been no material changes to the risk factors set forth in Item 1A. to Part I of our Annual Report on Form 10-K, as filed on February 27, 2015, except as noted below and except to the extent factual information disclosed elsewhere in this Quarterly Report on Form 10-Q relates to such risk factors.

*We are subject to complex federal and state regulations governing the treatment of animals, which can change, and to claims and lawsuits by activist groups before government regulators and in the courts.*

We operate in a complex and evolving regulatory environment and are subject to various federal and state statutes and regulations and international treaties implemented by federal law. The states in which we operate also regulate zoological activity involving the import and export of exotic and native wildlife, endangered and/or otherwise protected species, zoological display and anti-cruelty statutes. We incur significant compliance costs in connection with these regulations and violation of such regulations could subject us to fines and penalties and result in the loss of our licenses and permits, which, if occurred, could impact our ability to display certain animals. Future amendments to existing statutes, regulations and treaties or new statutes, regulations and treaties may potentially restrict our ability to maintain our animals, or to acquire new ones to supplement or sustain our breeding programs or otherwise adversely affect our business. For instance, in March of 2014 a bill was proposed by a California lawmaker that seeks to restrict our ability to display certain animals in that state. Also, on July 16, 2015, Senator Dianne Feinstein (D-CA) offered an amendment to the Fiscal Year 2016 Agriculture, Rural Development, Food and Drug Administration, and Related Agencies spending bill as passed by the full Committee on Appropriations. If enacted, the amendment would direct the Animal and Plant Health Inspection Service (APHIS) to issue updated regulations for the display of marine mammals in domestic zoos and aquaria within six months of enactment. It is unclear whether the language of the amendment may be further modified or if the underlying legislation will be enacted into law. On August 28, 2015, APHIS resubmitted to the Office of Management and Budget (OMB) previously submitted proposed rules entitled *Animal Welfare Marine Mammals; Nonconsensus Language and Interactive Programs* which could, in effect, revise or amend the existing APHIS rules for the display of and interaction with marine mammals at zoos and aquaria. It is uncertain what action will be taken by either OMB in commenting on such proposed rules or by APHIS after receiving comments from OMB on such proposed rules. In the event APHIS decides to proceed with such proposed rules (with such revisions as they may deem appropriate) APHIS would then publish such proposed rules for public comment by all stakeholders including the Company. Such rules could impact the way and manner the Company's marine mammals are displayed and its interaction programs.

More recently, on October 8, 2015, the California Coastal Commission approved our previously disclosed whale habitat expansion *Blue World Project* at SeaWorld San Diego but with certain conditions. Those conditions may include, among other things, a prohibition against breeding whales at or transporting whales to or from the SeaWorld San Diego facility. We have not yet received the California Coastal Commission's final regulations on this matter but we intend to pursue legal action and challenge these conditions on the grounds that animal welfare is governed by federal and state laws that do not fall within the jurisdiction of the California Coastal Commission. An unfavorable

decision in such action may establish a legal precedent for the California Coastal Commission to impose additional conditions when approving capital projects at SeaWorld San Diego, including the Blue World Project, which could create unexpected costs associated with such projects or cause us to delay or abandon such projects.

From time to time, animal activist and other third-party groups may make claims before government agencies, bring lawsuits against us, and/or attempt to generate negative publicity associated with our business. Such activities sometimes are based on allegations that we do not properly care for some of our featured animals. On other occasions, such activities are specifically designed to change existing law or enact new law in order to impede our ability to retain, exhibit, acquire or breed animals. While we seek to structure our operations to comply with all applicable federal and state laws and vigorously defend ourselves when sued, there are no assurances as to the outcome of future claims and lawsuits that could be brought against us. In addition, negative publicity associated with such activities could adversely affect our reputation and results of operations. At times, activists and other third-party groups have also attempted to generate negative publicity related to our relationships with our business partners, such as corporate sponsors, promotional partners, vendors, ticket resellers and others. For example, in 2014, we experienced demand pressures, particularly in California, which we believe were partly due to media attention relating to the recent legislation proposed in that state. In addition, we experienced increased media attention in 2014 extending to our relationships with some of our business partners.

**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The Company had no unregistered sales of equity securities during the third quarter of 2015. The following table sets forth information with respect to shares of our common stock purchased by the Company during the periods indicated:

| <b>Period Beginning</b> | <b>Period Ending</b> | <b>Total Number of Shares Purchased <sup>(1)</sup></b> | <b>Average Price Paid per Share</b> | <b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup></b> | <b>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup></b> |
|-------------------------|----------------------|--|-------------------------------------|--|--|
| July 1, 2015            | July 31, 2015        | 38   | \$ 18.09                            |  | \$ 235,000,000   |
| August 1, 2015          | August 31, 2015      | 38   | \$ 18.06                            |  | \$ 235,000,000   |
| September 1, 2015       | September 30, 2015   | 835,999  | \$ 17.94                            | 835,968  | \$ 220,000,016   |
|                         |                      | 836,075  |                                     | 835,968  | \$ 220,000,016   |

- (1) All purchases, except as noted in footnote (2) below, were made pursuant to the Company's Omnibus Incentive Plan, under which participants may satisfy tax withholding obligations incurred upon the vesting of restricted stock by requesting the Company to withhold shares with a value equal to the amount of the withholding obligation.
- (2) During the third quarter of 2015, the Company repurchased a total of 835,968 shares of common stock at an average price of \$17.92 per share and a total cost of approximately \$15.0 million, leaving \$220.0 million available for future repurchases under the Share Repurchase Program.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information****Rule 10b5-1 Plans**

Our policy governing transactions in our securities by our directors, officers and employees permits such persons to adopt stock trading plans pursuant to Rule 10b5-1 promulgated by the SEC under the Exchange Act. Our directors, officers and employees have in the past and may from time to time establish such stock trading plans. We do not

undertake any obligation to disclose, or to update or revise any disclosure regarding, any such plans and specifically do not undertake to disclose the adoption, amendment, termination or expiration of any such plans.

### **Iran Threat Reduction and Syria Human Rights Act of 2012**

Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13(r) of the Exchange Act, the Company hereby incorporates by reference herein Exhibit 99.1 of this report, which includes disclosures publicly filed and/or provided to Blackstone, an affiliate of our major stockholders, by Travelport Worldwide Limited and Hilton Worldwide Holdings, Inc., which may be considered the Company's affiliates.

### **Change in Title of Named Executive Officer**

On November 4, 2015, the Board of Directors of the Company approved a change in title for G. Anthony (Tony) Taylor, with such change becoming effective immediately. Mr. Taylor's title has been changed from Chief Legal and Corporate Affairs Officer, General Counsel and Corporate Secretary to Chief Legal Officer, General Counsel and Corporate Secretary to reflect that the Company's Senior Corporate Affairs Officer, Jill Kermes, will now report directly to the Company's Chief Executive Officer. No salary or other compensation changes were made in connection with Mr. Taylor's change in title and responsibilities.

### **Item 6. Exhibits**

See Exhibit Index immediately following signature page hereto, which is incorporated herein by reference.

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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.

**SEAWORLD ENTERTAINMENT, INC.**  
(Registrant)

Date: November 6, 2015

By: /s/ Peter J. Crage  
Peter J. Crage  
*Chief Financial Officer*  
(Principal Financial Officer)

Date: November 6, 2015

By: /s/ Marc G. Swanson  
Marc G. Swanson  
*Chief Accounting Officer*  
(Principal Accounting Officer)

**Table of Contents****EXHIBIT INDEX**

The following is a list of all exhibits filed or furnished as part of this report:

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 10.1 *             | Employment Agreement, dated August 16, 2015, by and between SeaWorld Entertainment, Inc. and Anthony Esparza  |
| 10.2               | Employment Agreement, dated August 17, 2015, between SeaWorld Entertainment, Inc. and Peter J. Cragge (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 17, 2015) (No. 001-35883) |
| 31.1*              | Certification of Periodic Report by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002   |
| 31.2*              | Certification of Periodic Report by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002   |
| 32.1*              | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 32.2*              | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 99.1*              | Section 13(r) Disclosure  |
| 101.INS*           | XBRL Instance Document.   |
| 101.SCH*           | XBRL Taxonomy Extension Schema Document.  |
| 101.CAL*           | XBRL Taxonomy Extension Calculation Linkbase Document.  |
| 101.DEF*           | XBRL Taxonomy Extension Definition Linkbase Document.   |
| 101.LAB*           | XBRL Taxonomy Extension Label Linkbase Document.  |
| 101.PRE*           | XBRL Taxonomy Extension Presentation Linkbase Document.   |

Identifies exhibits that consist of a management contract or compensatory plan or arrangement.

\* Filed herewith.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.