SeaWorld Entertainment, Inc.
Form 10-Q
August 05, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016

or

o 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 incorporation or organization) | (I.R.S. Employer 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 x 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 x No ¨

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

| | |
|---|---|
| Large accelerated filer x | Accelerated filer ¨ |
| Non-accelerated filer ¨ (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 x

The registrant had outstanding 88,856,649 shares of Common Stock, par value $0.01 per share as of August 1, 2016.

SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES

FORM 10-Q

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

Website and Social Media Disclosure

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

Trademarks, Service Marks and Tradenames

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

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

PART I — FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $29,234 | $18,971 |
| Accounts receivable, net | 58,116 | 39,538 |
| Inventories | 42,034 | 31,213 |
| Prepaid expenses and other current assets | 15,934 | 16,360 |
| Total current assets | 145,318 | 106,082 |
| Property and equipment, at cost | 2,788,705 | 2,748,161 |
| Accumulated depreciation | (1,088,268) | (1,029,165) |
| Property and equipment, net | 1,700,437 | 1,718,996 |
| Goodwill | 335,610 | 335,610 |
| Trade names/trademarks, net | 161,995 | 162,726 |
| Other intangible assets, net | 19,668 | 21,327 |
| Deferred tax assets, net | 36,739 | 23,994 |
| Other assets | 19,607 | 19,927 |
| Total assets | $2,419,374 | $2,388,662 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | $109,554 | $93,743 |
| Current maturities on long-term debt | 81,850 | 31,850 |
| Accrued salaries, wages and benefits | 11,691 | 12,330 |
| Deferred revenue | 152,783 | 79,818 |
| Dividends payable | 18,849 | 430 |
| Other accrued expenses | 17,651 | 11,143 |
| Total current liabilities | 392,378 | 229,314 |
| Long-term debt, net of debt issuance costs of $11,514 and $13,333 as of June 30, 2016 and December 31, 2015, respectively | 1,543,137 | 1,548,893 |
| Deferred tax liabilities, net | 22,562 | 65,689 |
| Other liabilities | 63,569 | 40,646 |
| Total liabilities | 2,021,646 | 1,884,542 |
| Commitments and contingencies (Note 10) | | |
| Stockholders' Equity: | | |
| Preferred stock, $0.01 par value—authorized, 100,000,000 shares, no shares issued or outstanding at June 30, 2016 and December 31, 2015 | — | — |

| | | |
|---|---|---|
| Common stock, $0.01 par value—authorized, 1,000,000,000 shares; 91,792,095 and 90,320,374 shares issued at June 30, 2016 and December 31, 2015, respectively | 918 | 903 |
| Additional paid-in capital | 616,149 | 624,765 |
| Accumulated other comprehensive loss | (26,858 ) | (13,137 ) |
| (Accumulated deficit) retained earnings | (37,610 ) | 46,460 |
| Treasury stock, at cost (6,519,773 shares at June 30, 2016 and December 31, 2015) | (154,871 ) | (154,871 ) |
| Total stockholders' equity | 397,728 | 504,120 |
| Total liabilities and stockholders' equity | $2,419,374 | $2,388,662 |

See accompanying notes to unaudited condensed consolidated financial statements.

SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands, except per share amounts)

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net revenues: | | | | |
| Admissions | $223,979 | $238,451 | $360,905 | $375,291 |
| Food, merchandise and other | 147,157 | 153,165 | 230,472 | 230,917 |
| Total revenues | 371,136 | 391,616 | 591,377 | 606,208 |
| Costs and expenses: | | | | |
| Cost of food, merchandise and other revenues | 28,913 | 31,112 | 45,914 | 47,015 |
| Operating expenses (exclusive of depreciation and amortization shown separately below and includes equity compensation of $526 and $259 for the three months ended June 30, 2016 and 2015, respectively, and $9,866 and $328 for the six months ended June 30, 2016 and 2015, respectively) | 191,433 | 191,202 | 371,726 | 345,013 |
| Selling, general and administrative (includes equity compensation of $1,935 and $1,139 for the three months ended June 30, 2016 and 2015, respectively and $22,185 and $2,923 for the six months ended June 30, 2016 and 2015, respectively) | 72,032 | 73,320 | 139,386 | 124,398 |
| Restructuring and other related costs | — | 122 | 112 | 267 |
| Depreciation and amortization | 40,708 | 50,110 | 115,756 | 93,964 |
| Total costs and expenses | 333,086 | 345,866 | 672,894 | 610,657 |
| Operating income (loss) | 38,050 | 45,750 | (81,517) | (4,449) |
| Other expense (income), net | 118 | 209 | (24) | 470 |
| Interest expense | 14,579 | 15,732 | 29,160 | 35,910 |
| Loss on early extinguishment of debt and write-off of discounts and debt issuance costs | — | 20,348 | — | 20,348 |
| Income (loss) before income taxes | 23,353 | 9,461 | (110,653) | (61,177) |
| Provision for (benefit from) income taxes | 5,585 | 3,652 | (44,372) | (23,388) |
| Net income (loss) | $17,768 | $5,809 | $(66,281) | $(37,789) |
| Other comprehensive income (loss): | | | | |
| Unrealized loss on derivatives, net of tax | (4,471) | (3,747) | (13,721) | (4,620) |
| Comprehensive income (loss) | $13,297 | $2,062 | $(80,002) | $(42,409) |
| Income (Loss) per share: | | | | |
| Net income (loss) per share, basic | $0.21 | $0.07 | $(0.78) | $(0.44) |
| Net income (loss) per share, diluted | $0.21 | $0.07 | $(0.78) | $(0.44) |
| Weighted average common shares outstanding: | | | | |
| Basic | 85,226 | 86,186 | 84,533 | 86,142 |
| Diluted | 85,358 | 86,291 | 84,533 | 86,142 |
| Cash dividends declared per share: | | | | |
| Cash dividends declared per share | $0.21 | $0.21 | $0.63 | $0.63 |

See accompanying notes to unaudited condensed consolidated financial statements.

SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2016

(In thousands, except per share and share amounts)

| | Shares of Common Stock Issued | Common Stock | Additional Paid-In Capital | Retained Earnings (Accumulated Deficit) | Accumulated Other Comprehensive Loss | Treasury Stock, at Cost | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 2015 | 90,320,374 | $ 903 | $ 624,765 | $ 46,460 | $ (13,137) | $ (154,871) | $ 504,120 |
| Equity-based compensation | — | — | 32,051 | — | — | — | 32,051 |
| Unrealized loss on derivatives, net of tax benefit of $11,500 | — | — | — | — | (13,721) | — | (13,721) |
| Vesting of restricted shares | 1,533,015 | 15 | (15) | — | — | — | — |
| Shares withheld for tax withholdings | (65,625) | — | (1,324) | — | — | — | (1,324) |
| Exercise of stock options | 4,331 | — | 82 | — | — | — | 82 |
| Accumulated cash dividends related to performance shares which vested during the period | — | — | (3,400) | — | — | — | (3,400) |
| Cash dividends declared to stockholders ($0.63 per share), net of forfeitures | — | — | (36,010) | (17,789) | — | — | (53,799) |
| Net loss | — | — | — | (66,281) | — | — | (66,281) |
| Balance at June 30, 2016 | 91,792,095 | $ 918 | $ 616,149 | $ (37,610) | $ (26,858) | $ (154,871) | $ 397,728 |

See accompanying notes to unaudited condensed consolidated financial statements.

SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

| | For the Six Months Ended June 30, | |
|---|---|---|
| | 2016 | 2015 |
| Cash Flows From Operating Activities: | | |
| Net loss | $(66,281) | $(37,789) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 115,756 | 93,964 |
| Amortization of debt issuance costs and discounts | 2,668 | 4,013 |
| Loss on early extinguishment of debt and write-off of discounts and debt issuance costs | — | 20,348 |
| Loss on sale or disposal of assets | 6,719 | 3,744 |
| Loss on derivatives | 1 | 287 |
| Deferred income tax benefit | (44,372) | (24,268) |
| Equity-based compensation | 32,051 | 3,251 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (23,460) | (22,608) |
| Inventories | (10,821) | (5,615) |
| Prepaid expenses and other current assets | 228 | 511 |
| Accounts payable | 18,179 | 26,780 |
| Accrued salaries, wages and benefits | (639) | 4,610 |
| Deferred revenue | 76,991 | 71,485 |
| Other accrued expenses | 4,301 | 3,057 |
| Other assets and liabilities | 416 | 312 |
| Net cash provided by operating activities | 111,737 | 142,082 |
| Cash Flows From Investing Activities: | | |
| Capital expenditures | (103,224) | (83,534) |
| Change in restricted cash | 198 | (179) |
| Net cash used in investing activities | (103,026) | (83,713) |
| Cash Flows From Financing Activities: | | |
| Proceeds from the issuance of debt | — | 280,000 |
| Repayment of long-term debt | (8,425) | (267,725) |
| Proceeds from draw on revolving credit facility | 70,000 | 45,000 |
| Repayment of revolving credit facility | (20,000) | (45,000) |
| Dividends paid to stockholders | (38,781) | (36,262) |
| Debt issuance costs | — | (4,571) |
| Redemption premium payment | — | (14,300) |
| Payment of tax withholdings on equity-based compensation through shares withheld | (1,324) | (836) |
| Exercise of stock options | 82 | — |
| Purchase of treasury stock | — | (5,650) |
| Net cash provided by (used in) financing activities | 1,552 | (49,344) |
| Change in Cash and Cash Equivalents | 10,263 | 9,025 |
| Cash and Cash Equivalents—Beginning of period | 18,971 | 43,906 |
| Cash and Cash Equivalents—End of period | $29,234 | $52,931 |
| Supplemental Disclosures of Noncash Investing and Financing Activities | | |

| | | |
|---|---|---|
| Capital expenditures in accounts payable | $26,375 | $18,984 |
| Dividends declared, but unpaid | $18,849 | $18,391 |

See accompanying notes to unaudited condensed consolidated financial statements.

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 twelve theme parks within the United States. 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 Antonio, Texas (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 in Orlando, Florida (Discovery Cove) and a seasonal park in Langhorne, Pennsylvania (Sesame Place). In March 2016, Aquatica San Antonio was converted into a stand-alone, separate admission park that guests can access through an independent gate without the need to purchase admission to SeaWorld San Antonio.

### 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, 2015 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, 2015 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, 2016 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 seven 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.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2016 presentation, in particular, $2,975 previously included in deferred tax assets, net, in the accompanying unaudited condensed consolidated balance sheet as of December 31, 2015 was reclassified to noncurrent deferred tax assets, net, and noncurrent deferred tax liabilities, net, in the amounts of $503 and $2,472, respectively. The reclassification is as a result of the adoption of a new Accounting Standards Update (“ASU”). See Note 2–Recently Issued Accounting Pronouncements for further details.

SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share amounts)

Segment Reporting

The Company maintains discrete financial information for each of its twelve 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.

Property and Equipment—Net

Property and equipment are recorded at cost. The cost of ordinary or routine maintenance, repairs, spare parts and minor renewals is expensed as incurred. Development costs associated with new attractions and products are generally capitalized after necessary feasibility studies have been completed and final concept or contracts have been approved. The cost of assets is depreciated using the straight-line method based on the following estimated lives:

| | |
|---|---|
| Land improvements | 10-40 years |
| Buildings | 5-40 years |
| Rides, attractions and equipment | 3-20 years |
| Animals | 1-50 years |

Material costs to purchase animals are capitalized and amortized over their estimated lives (1-50 years). Construction in process assets consist primarily of new rides, attractions and infrastructure improvements that have not yet been placed in service. These assets are stated at cost and are not depreciated. Once construction of an asset is completed and placed into service, the asset is reclassified to the appropriate asset class based on its nature and depreciated in accordance with its useful life above.

During the first quarter of 2016, the Company removed deep-water lifting floors from the orca habitats at each of its three SeaWorld theme parks. As a result, during the six months ended June 30, 2016, the Company recorded approximately $33,700 of accelerated depreciation related to the disposal of these lifting floors, which is included in depreciation and amortization expense in the unaudited condensed consolidated statements of comprehensive income (loss). During the six months ended June 30, 2016, the Company also recorded approximately $6,400 in asset write-offs associated with its previously disclosed orca habitat expansion (the "Blue World Project") as the Company made a decision to not move forward with the Blue World Project as originally designed and planned.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

On March 30, 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. This ASU simplifies several aspects of the accounting for share-based payment transactions (Topic 718) including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as the classification of related amounts within the statement of cash flows and the classification of awards as either equity or liabilities. The ASU will be effective for annual periods beginning after December 15, 2016, and interim periods therein, with early adoption permitted. The Company is currently evaluating the impact of this ASU on its condensed consolidated financial statements.

On February 25, 2016, the FASB issued ASU 2016-02, Leases. This ASU establishes a new lease accounting model that, for many companies, eliminates the concept of operating leases and requires entities to record lease assets and lease liabilities on the balance sheet for certain types of leases. The ASU will be effective for annual periods beginning after December 15, 2018, and interim periods therein. Early adoption will be permitted for all entities. The provisions of the ASU are to be applied using a modified retrospective approach. The Company is currently evaluating the impact of this ASU on its condensed consolidated financial statements.

SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share amounts)

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes. This ASU simplifies the accounting for deferred taxes by requiring an entity to classify all deferred taxes as noncurrent assets or noncurrent liabilities. No other changes were made to the current guidance on deferred taxes. The ASU is effective for annual periods beginning after December 15, 2016 with early adoption permitted and may be applied as a change in accounting principle either retrospectively or prospectively. The Company elected to early adopt this ASU retrospectively as of March 31, 2016. As a result of adopting this ASU, the Company reclassified $2,975 of current deferred tax assets, net, in the accompanying unaudited condensed consolidated balance sheet as of December 31, 2015, to noncurrent deferred tax assets, net, and noncurrent deferred tax liabilities, net, in the amounts of $503 and $2,472, respectively. The adoption of this ASU did not impact the Company's condensed consolidated results of operations, stockholders' equity or cash flows.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in 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 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. During 2016, the FASB issued three updates to the revenue recognition guidance (Topic 606), ASU 2016-08, Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net), ASU 2016-10, Identifying Performance Obligations and Licensing and ASU 2016-12, Narrow-Scope Improvements and Practical Expedients. The Company has not yet selected a transition method and is evaluating the accounting and disclosure requirements on its condensed 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.

## 3. EARNINGS (LOSS) PER SHARE

Earnings (loss) per share is computed as follows (in thousands, except per share data):

| For the Three Months Ended June 30, | | | | | | For the Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2016 | | | 2015 | | | 2016 | | | 2015 | | |
| Net Income | Shares | Per Share | Net Income | Shares | Per Share | Net Loss | Shares | Per Share | Net Loss | Shares | Per Share |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Amount | | | Amount | | | Amount | | | Amount |
| Basic earnings (loss) per share | $17,768 | 85,226 | $0.21 | $5,809 | 86,186 | $0.07 | $(66,281) | 84,533 | $(0.78) | $(37,789) | 86,142 | $(0.44) |
| Effect of dilutive incentive-based awards | | 132 | | | 105 | | | — | | | — | |
| Diluted earnings (loss) per share | $17,768 | 85,358 | $0.21 | $5,809 | 86,291 | $0.07 | $(66,281) | 84,533 | $(0.78) | $(37,789) | 86,142 | $(0.44) |

In accordance with the Earnings Per Share Topic of the Accounting Standards Codification ("ASC"), basic earnings (loss) per share is computed by dividing net income (loss) 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 (loss) per share. The weighted average number of repurchased shares during the period, if any, which are held as treasury stock, are excluded from shares of common stock outstanding.

Diluted earnings (loss) 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. The Company's outstanding performance-vesting restricted share awards are considered contingently issuable shares and are excluded from the calculation of diluted earnings (loss) per share until the performance measure criteria is met as of the end of the reporting period. There were approximately 3,942,000 and 1,933,000 anti-dilutive shares of common stock excluded from the computation of diluted earnings per share during the three months ended June 30, 2016 and 2015, respectively. During the six months ended June 30, 2016 and 2015, the Company excluded potentially dilutive shares of approximately 4,841,000 and 1,583,000, respectively, as their effect would have been anti-dilutive due to the Company's net loss in those periods.

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## 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 pretax income or loss of the interim period. The Company's consolidated effective tax rate for the three and six months ended June 30, 2016 was 23.9% and 40.1%, respectively, and differs from the statutory federal income tax rate primarily due to state income taxes and other permanent items, primarily related to equity-based compensation. The Company's consolidated effective tax rate for the three and six months ended June 30, 2015 was 38.6% and 38.2%, respectively, 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 unrecognized tax benefit. 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 the income tax provision (benefit) in the applicable period.

## 5. OTHER ACCRUED EXPENSES

Other accrued expenses at June 30, 2016 and December 31, 2015, consisted of the following:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Accrued property taxes | $7,396 | $ 2,250 |
| Accrued interest | 648 | 441 |
| Self-insurance reserve | 8,981 | 6,973 |
| Other | 626 | 1,479 |
| Total other accrued expenses | $17,651 | $ 11,143 |

## 6. LONG-TERM DEBT

Long-term debt as of June 30, 2016 and December 31, 2015 consisted of the following:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Term B-2 Loans (effective interest rate of 3.26% at June 30, 2016 and December 31, 2015) | $1,331,363 | $1,338,387 |
| Term B-3 Loans (effective interest rate of 4.33% at June 30, 2016 and December 31, 2015) | 246,500 | 247,900 |
| Revolving Credit Facility | 65,000 | 15,000 |
| Total long-term debt | 1,642,863 | 1,601,287 |
| Less discounts | (6,362 ) | (7,211 ) |
| Less debt issuance costs | (11,514 ) | (13,333 ) |
| Less current maturities | (81,850 ) | (31,850 ) |
| Total long-term debt, net | $1,543,137 | $1,548,893 |

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.

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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 $12,980, $3,042 and $1,854, respectively, at June 30, 2016. Unamortized debt issuance costs and discounts for the Term B-2 Loans, Term B-3 Loans and Revolving Credit Facility were $14,713, $3,448 and $2,383, respectively, at December 31, 2015.

Senior Secured Credit Facilities

As of June 30, 2016, the Senior Secured Credit Facilities consisted of $1,331,363 in Term B-2 Loans and $246,500 in Term B-3 Loans, which will mature on May 14, 2020, along with a $192,500 Revolving Credit Facility, of which $65,000 was outstanding at June 30, 2016 (at an interest rate of 2.93%). 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 outstanding balance under the Revolving Credit Facility fluctuates each quarter based on working capital needs and is included in current maturities on long-term debt on the accompanying unaudited condensed consolidated balance sheet as of June 30, 2016.

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 April 7, 2015, 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.

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 2016 or 2015 since none of the events indicated above occurred.

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.

The obligations under the Senior Secured Credit Facilities are fully, unconditionally and irrevocably guaranteed by 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. The Senior Secured Credit Facilities are collateralized by first priority or equivalent security interests, subject to certain exceptions, in (i) all the capital stock of, or other equity interests in, SEA and substantially all of SEA's direct or indirect material wholly-owned domestic subsidiaries and 65% of the capital stock of, or other equity interests in, any "first tier" foreign subsidiaries and (ii) certain tangible and intangible assets of SEA and the Company.

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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 June 30, 2016, SEA selected the LIBOR rate (interest rate of 3.00% at June 30, 2016).

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 June 30, 2016, SEA selected the LIBOR rate (interest rate of 4.00% at June 30, 2016).

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 June 30, 2016, SEA selected the LIBOR rate and achieved the corporate credit ratings for an applicable LIBOR margin of 2.50%. Subsequent to June 30, 2016, SEA borrowed an additional $15,000 under the Revolving Credit Facility for general working capital purposes and repaid $80,000.

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 June 30, 2016, SEA had approximately $17,200 of outstanding letters of credit and $65,000 outstanding under the Revolving Credit Facility, leaving approximately $110,300 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 the 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.

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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 June 30, 2016, the Total Leverage Ratio as calculated under the Senior Secured Credit Facilities was 4.71 to 1.00, which results in the Company having a $90,000 capacity for restricted payments in 2016. During the six months ended June 30, 2016, the Company used approximately $57,000 of its available restricted payments capacity leaving an aggregate amount of approximately $33,000 for the remainder of calendar year 2016 to declare dividends or make certain other restricted payments under the Senior Secured Credit Facilities, provided that the Total Leverage Ratio does not exceed 5.00 to 1.00, measured quarterly on a Pro Forma Basis after giving effect to any such restricted payment. However, 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.

As of June 30, 2016, SEA was in compliance with all covenants contained in the documents governing the Senior Secured Credit Facilities.

Interest Rate Swap Agreements

As of June 30, 2016, 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. The fourth traditional interest rate swap was executed in April 2015 to effectively fix the interest rate on $250,000 of the Term B-3 Loans and 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.

In June 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 that follows.

Cash paid for interest relating to the Senior Secured Credit Facilities and the Interest Rate Swap Agreements was $28,301 in the six months ended June 30, 2016. Cash paid for interest relating to the Senior Secured Credit Facilities, Interest Rate Swap Agreements and the then-existing Senior Notes was $35,201 in the six months ended June 30, 2015.

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## 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 June 30, 2016 and December 31, 2015, 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. During the three and six months ended June 30, 2016 and 2015, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. As of June 30, 2016, the Company had four outstanding Interest Rate Swap Agreements with a combined notional value of $1,250,000 and five Forward Swaps 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 six months ended June 30, 2016, an immaterial loss related to the ineffective portion was recognized in other expense (income), net, on the accompanying unaudited condensed consolidated statements of comprehensive income (loss). During the three and six months ended June 30, 2015, a loss of $1 and $287, respectively, related to the ineffective portion was recognized in other expense (income), net, on the accompanying unaudited condensed consolidated statements of comprehensive income (loss). 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 $13,474 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 June 30, 2016 and December 31, 2015:

| | Liability Derivatives As of June 30, 2016 Balance Sheet | | Liability Derivatives As of December 31, 2015 Balance Sheet | |
|---|---|---|---|---|
| | Location | Fair Value | Location | Fair Value |
| Derivatives designated as hedging instruments: | | | | |
| Interest rate swaps | Other liabilities | $ 847 | Other liabilities | $ 1,673 |
| Forward interest rate swaps | Other liabilities | 43,932 | Other liabilities | 17,927 |
| Total derivatives designated as hedging instruments | | $ 44,779 | | $ 19,600 |

The unrealized loss on derivatives is recorded net of a tax benefit of $11,500 for the six months ended June 30, 2016, and is included in the unaudited condensed consolidated statement of changes in stockholders’ equity and the unaudited condensed consolidated statements of comprehensive income (loss).

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Tabular Disclosure of the Effect of Derivative Instruments on the Statements of Comprehensive Income (Loss)

The table below presents the pretax effect of the Company's derivative financial instruments on the unaudited condensed consolidated statements of comprehensive income (loss) for the three and six months ended June 30, 2016 and 2015:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Derivatives in Cash Flow Hedging Relationships: | | | | |
| Loss related to effective portion of derivatives recognized in accumulated other comprehensive loss | $(8,267) | $(6,832) | $(26,888) | $(8,981) |
| Gain related to effective portion of derivatives reclassified from accumulated other comprehensive loss to interest expense | $834 | $739 | $1,667 | $1,469 |
| Loss related to ineffective portion of derivatives recognized in other expense (income), net | $— | $(1) | $(1) | $(287) |

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 June 30, 2016, 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 $47,809. As of June 30, 2016, the Company has posted no collateral related to these agreements. If the Company had breached any of these provisions at June 30, 2016, it could have been required to settle its obligations under the agreements at their termination value of $47,809.

Changes in Accumulated Other Comprehensive Loss

The following table reflects the changes in accumulated other comprehensive loss for the six months ended June 30, 2016, net of tax:

| | (Losses) Gains on Cash Flow Hedges |
|---|---|
| Accumulated other comprehensive loss: | |
| Accumulated other comprehensive loss at December 31, 2015 | $ (13,137) |
| Other comprehensive loss before reclassifications | (14,628) |
| Amounts reclassified from accumulated other comprehensive loss to interest expense | 907 |

| | | |
|---|---|---|
| Unrealized loss on derivatives, net of tax | | (13,721) |
| Accumulated other comprehensive loss at June 30, 2016 | $ | (26,858) |

## 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).

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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 June 30, 2016 approximate 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. See Note 6–Long-Term Debt.

There were no transfers between Levels 1, 2 or 3 during the three and six months ended June 30, 2016. The Company did not have any assets measured at fair value as of June 30, 2016. The following table presents the Company’s estimated fair value measurements and related classifications as of June 30, 2016:

| | Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance at June 30, 2016 |
|---|---|---|---|---|
| Liabilities: | | | | |
| Derivative financial instruments [(a)] | $ — | $44,779 | $ — | $44,779 |
| Long-term obligations [(b)] | $ — | $1,642,863 | $ — | $1,642,863 |

(a) Reflected at fair value in the unaudited condensed consolidated balance sheet as other liabilities of $44,779.

(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 $81,850 and long-term debt of $1,543,137 as of June 30, 2016.

There were no transfers between Levels 1, 2 or 3 during the year ended December 31, 2015. The Company did not have any assets measured at fair value as of December 31, 2015. The following table presents the Company’s estimated fair value measurements and related classifications as of December 31, 2015:

Quoted Prices in

| | Active Markets for Identical Assets and Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance at December 31, 2015 |
|---|---|---|---|---|
| Liabilities: | | | | |
| Derivative financial instruments [(a)] | $ — | $19,600 | $ — | $19,600 |
| Long-term obligations [(b)] | $ — | $1,601,287 | $ — | $1,601,287 |

(a) Reflected at fair value in the unaudited condensed consolidated balance sheet as other liabilities of $19,600.
(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 $31,850 and long-term debt of $1,548,893 as of December 31, 2015.

9. RELATED-PARTY TRANSACTIONS

As of June 30, 2016, approximately $58,000 aggregate principal amount of Term B-2 Loans were owned by affiliates of Blackstone. As of December 31, 2015, approximately $77,000 aggregate principal amount of Term B-2 Loans and $9,000 aggregate principal amount of Term B-3 Loans were owned by affiliates of Blackstone. The Company makes voluntary principal repayments as well as periodic principal and interest payments on such debt in accordance with its terms.

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Dividend Payments

On January 5, February 22 and June 8, 2016, the Board of Directors of the Company (the "Board") declared a cash dividend of $0.21 per share to all common stockholders of record at the close of business on January 15, March 14 and June 20, 2016, 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 and July 1, 2016 (see Note 12–Stockholders' Equity).

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, 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 Company's Board, 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. On March 31, 2016, the Court granted the motion to dismiss the amended complaint, in its entirety, without prejudice. On May 31, 2016, Plaintiffs filed a second amended consolidated class action complaint, which, among other things, no longer names the Company's Board or underwriters as defendants. On June 29, 2016, the remaining defendants filed a motion to dismiss the complaint. Plaintiffs filed an opposition to the motion to dismiss on July 27, 2016 and defendants' reply in further support of their motion to dismiss is due on August 10, 2016. 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, 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).

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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 ("CLRA"), 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 orcas, resulting in confusion or misunderstanding among ticket purchasers, and omitted material facts regarding its orcas 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).

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 pursued the same seven causes of action as the original Hall complaint, and added a request for punitive damages pursuant to the California CLRA.

The Company moved to dismiss the FAC in its entirety, and its motion was granted on December 24, 2015. The Court granted dismissal with prejudice as to the California CLRA claim, the portion of California Unfair Competition Law claim premised on the CLRA claim, all claims for injunctive relief, and on all California claims premised solely on alleged omissions by the Company. The Court granted leave to amend as to the remainder of the complaint. On January 25, 2016, plaintiffs filed their Second Consolidated Amended Complaint ("SAC"). The SAC pursues the same causes of action as the FAC, except for the California CLRA, which, as noted above, was dismissed with prejudice. The Company filed a motion to dismiss the entirety of the SAC with prejudice on February 25, 2016. The

Court granted the Company's motion to dismiss the entire SAC with prejudice and entered judgment for the Company on May 13, 2016. Plaintiffs filed their notice of appeal to the United States Court of Appeals for the Ninth Circuit (the "Ninth Circuit") on June 10, 2016. The Ninth Circuit briefing is scheduled to occur from September-November 2016.

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 "First Amended Complaint"). The First Amended Complaint alleges causes of action under the California False Advertising Law, California Unfair Competition Law and California CLRA. Plaintiffs' claims are based on their allegations that the Company misrepresented the physical living conditions and care and treatment of its orcas, resulting in confusion or misunderstanding among ticket purchasers, and omitted material facts regarding its orcas with intent to deceive and mislead the plaintiff and purported class members. The First 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.

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On May 19, 2015, the plaintiffs filed a motion to remand.  On September 18, 2015, the Company filed a motion to dismiss the First Amended Complaint in its entirety.  The motion is fully briefed.  On September 24, 2015, the district 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, which the Company opposed.  On October 14, 2015, the district court granted plaintiffs' motion for leave.  Plaintiffs' motion for reconsideration was fully briefed.  On January 12, 2016 the district court granted in part and denied in part the motion for reconsideration, and refused to remand the case.  On January 22, 2016, plaintiffs filed a petition for permission to appeal the January 12, 2016 order to the Ninth Circuit, which the Company opposed.  On April 7, 2016, the Ninth Circuit denied both of plaintiffs' petitions for permission to appeal and the plaintiffs filed a motion for leave to file a Second Amended Class Action Complaint ("Second Amended Complaint"), seeking to add two additional plaintiffs and make various pleading adjustments.  The Company opposed the motion.  On August 1, 2016, the district court issued an order granting in part the Company's motion to dismiss and granting plaintiffs leave to file an amended complaint by August 22, 2016.

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 various other 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 its time-vesting restricted share awards granted in 2013 and subsequent years and its performance-vesting restricted share awards granted in 2015 and subsequent years.

Total equity compensation expense was $2,461 and $32,051 for the three and six months ended June 30, 2016 and includes $27,516 recorded in the first quarter related to certain of the Company's performance-vesting restricted shares (the "2.25x Performance Restricted shares") which became probable of vesting during the first quarter and vested on April 1, 2016. See 2.25x and 2.75x Performance Restricted Shares and Equity Plan Modifications section which follows for further details. Total equity compensation expense was $1,398 and $3,251 for the three and six months ended June 30, 2015. Equity compensation expense is included in selling, general and administrative expenses and in operating expenses in the accompanying unaudited condensed consolidated statements of comprehensive income (loss). Total unrecognized equity compensation expense for all equity compensation awards probable of vesting as of June 30, 2016 was approximately $30,630 which is expected to be recognized over the respective service periods.

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(In thousands, except share and per share amounts)

The activity related to the Company's time-vesting and performance-vesting share awards during the six months ended June 30, 2016 is as follows:

| | | | Performance-Vesting Restricted shares | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Time-Vesting Restricted shares | | Bonus Performance Restricted shares | | Long-Term Incentive Performance Restricted shares | | 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, 2015 | 883,270 | $18.66 | 415,995 | $19.00 | 62,365 | $18.88 | 1,370,821 | $20.35 | 1,370,821 | $10.93 |
| Granted | 527,007 | $17.29 | 466,677 | $18.17 | 187,578 | $18.74 | — | — | — | — |
| Vested | (162,194) | $18.51 | — | — | — | — | (1,370,821) | $20.07 | — | — |
| Forfeited | (42,983) | $17.77 | (435,197) | $18.96 | (30,374) | $19.39 | — | — | (29,200) | $15.40 |
| Outstanding at June 30, 2016 | 1,205,100 | $18.10 | 447,475 | $18.17 | 219,569 | $18.69 | — | $— | 1,341,621 | $8.90 |

The activity related to the Company's stock option awards during the six months ended June 30, 2016 is as follows:

| | Options | Weighted | Weighted | Aggregate |
|---|---|---|---|---|

| | | Average Exercise Price | Average Remaining Contractual Life (in years) | Intrinsic Value |
|---|---|---|---|---|
| Outstanding at December 31, 2015 | 2,274,385 | $ 19.21 | | |
| Granted | &nb | | | |