

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

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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, 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) 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. 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)*

	September 30, 2015	December 31, 2014
Assets		
Current assets:		
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
Total assets	\$ 2,475,398	\$ 2,422,471
Liabilities and Stockholders Equity		
Current liabilities:		
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
Total liabilities	1,934,693	1,842,936
Commitments and contingencies (Note 10)		
Stockholders Equity:		
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
Total liabilities and stockholders equity	\$ 2,475,398	\$ 2,422,471

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
Net revenues:				
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
Costs and expenses:				
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
Net income	\$ 97,950	\$ 87,176	\$ 60,161	\$ 75,365
Other comprehensive income:				
Unrealized (loss) gain on derivatives, net of tax	(10,740)	1,087	(15,360)	7
Comprehensive income	\$ 87,210	\$ 88,263	\$ 44,801	\$ 75,372
Earnings per share:				

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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
Weighted average common shares outstanding:								
Basic		86,006		86,715		86,096		87,329
Diluted		86,100		87,024		86,207		87,648
Cash dividends declared per share:								
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 Common Stock Issued	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock, at Cost	Total Stockholders Equity
Balance at December 31, 2014	90,191,100	\$ 902	\$ 655,471	\$ 33,516	\$ (483)	\$ (109,871)	\$ 579,535
Equity-based compensation			4,800				4,800
Unrealized loss on derivatives, net of tax benefit of \$8,799					(15,360)		(15,360)
Vesting of restricted shares	156,733	1	(1)				
Shares withheld for tax withholdings	(41,945)		(838)				(838)
Cash dividends declared to stockholders (\$0.84 per share)			(36,388)	(36,205)			(72,593)
Repurchase of 835,968 shares of treasury stock, at cost						(15,000)	(15,000)
Net income				60,161			60,161
Balance at September 30, 2015	90,305,888	\$ 903	\$ 623,044	\$ 57,472	\$ (15,843)	\$ (124,871)	\$ 540,705