Six Flags Entertainment Corp: 
A Successful Chapter 11 Reorganization

Tyler Berry
Ian Pottash

Corporate Bankruptcy and Reorganization
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Introduction

On June 13, 2009, Six Flags Inc. entered into bankruptcy protection under Chapter 11 of United States Bankruptcy Code. The company, which had pioneered the concept of the chain theme park and established itself as a market leader, had succumbed to a combination of long-term indebtedness and mounting losses from operations.

A Brief History

Six Flags is the largest regional theme park operator in the world with 16 parks in the domestic United States, one park in Mexico City and one park in Montreal. Six Flags has locations near the top 10 designated market areas (DMAs) that serve an aggregate population of approximately 100 million people and 160 million people within a radius of 50 miles and 100 miles, respectively with some of the highest per capita gross domestic product in the United States. Six Flags parks occupy approximately 4,500 acres of land and have approximately 800 rides with 120 roller coasters while hosting over 25 million customers annually. The company estimates it would cost $300 million, including the real estate and zoning, and two years to construct a new park similar to a Six Flags.

Six Flags began its history in 1961 as a single park in suburban Dallas, Texas. At the time it was a new entrant in a relatively new industry, the theme park. These early parks were in many ways imitators of the category’s founder, Disneyland in Anaheim, California, which opened its gates in 1955. In the wake of Disneyland’s commercial success, several high profile attempts were made to imitate the themed amusement park model. These early imitators, built with significant up-front capital investments, failed to draw the requisite crowds to provide an adequate return for investors.

It was in this early firmament that Angus Wynne founded Six Flags Over Texas in 1961. Unlike previous attempts to imitate Disneyland’s “destination” appeal (itself largely the result of Disney’s clout in filmmaking), Six Flags was a decidedly regional concept, built with a comparatively small up-front investment (approximately 20% of Disneyland’s cost) and catering primarily to the Dallas-Fort Worth area. Wynne’s use of theme was relatively simple and cost-effective, serving mainly to divide the park into manageable “themed” sections with names that reflected the six sovereign nations that had ruled Texas (the “six flags”): Spain, France, Mexico, the Republic of Texas, the Confederate States of America, and the United States.

The commercial success of Six Flags Over Texas would lead management to pursue expansion, first in the south, and later across the country. In the mid 1960s control of the company passed to the Pennsylvania Railroad, and in 1967 the company established Six Flags Over Georgia, thus becoming the first chain operator of theme parks. The 1970s and early 1980s saw the company embark on an ambitious expansion program, constructing – and later acquiring existing – theme parks and outfitting them with similar rides and amenities.

In 1982 the company was acquired by Bally Manufacturing, setting off nearly two decades of continued expansion combined with corporate tumult resulting from changing ownership. The
1982 purchase was followed by a 1987 leveraged buyout of the company by Wesray Capital Corporation. Within a few years of this purchase, the management of the company again shifted as Time Warner acquired an increasing stake in the company, ultimately taking control in 1991.\textsuperscript{v} Time Warner’s control of the company, however, would last for barely seven years before it, too, elected to sell the Six Flags assets. In February 1998, Time Warner agreed to sell Six Flags to rival Premier Parks, which would retain the name Six Flags for both itself and the assets it acquired.\textsuperscript{vi} The $1.9 billion deal\textsuperscript{vii} created a global theme park operator with a potential audience of over 40 million, as well as exclusive rights to significant intellectual property franchises, including the Looney Tunes franchise and DC Comics characters such as Superman and Batman. More worryingly, however, the deal firmly established two trends that would ultimately feature prominently in its path to Chapter 11: overexpansion and long-term debt. With $890 million in existing debt assumed by the new company\textsuperscript{viii} and the potential for geographic overreach firmly established, Six Flags began a decade-long slide toward unprofitability, debt and, ultimately, bankruptcy.

\textit{The Six Flags Business Model}

Six Flags mainly generates revenue through two sources: (1) park admissions at the gate; and (2) through in-park spending. Admissions revenue is made up of season pass sales and one-time entry passes. Six Flags has historically offered discounts by partnering with other companies (Coca-Cola) or by selling group passes at a discount. Six Flags admission pricing has grown more advanced in 2013; the company offers a recurring, monthly billed, season pass and dynamic pricing for each individual park. The number of pricing options for admission allows Six Flags to increase attendance while increasing ticket prices. Six Flags has pursued a marketing strategy to push customers toward purchasing season passes as their research shows each season pass, while only slightly more expensive than a single-day pass, yields higher revenue over the course of the year. In-park spending is characterized by each customer’s spending on food, beverages, games and other merchandise within the park itself. Partnerships with recognizable names like Papa John’s and Cold Stone Creamery help drive in-park spending. Like admissions, in-park spending is evolving over time and the company is currently experimenting with an ‘all-you-can-eat’ yearly pass. Six Flags also receives minor revenue from its Corporate Alliances group that is mostly comprised of other company’s partnering with Six Flags to advertise their own products.

Six Flags marketing has changed over time. In the early 2000s, the company was focused on developing ‘thrill rides’ to appeal to a younger, teenage oriented crowd. In 2006 Six Flags began marketing directly to families, utilizing a partnership with Warner Brothers and DC Comics to leverage their characters to provide family entertainment at each park. Six Flags also focused on developing more family oriented rides. Six Flags focuses on its “News In Every Park” campaign which dictates the company will develop a new ride or attraction in every park, every year. Advertising has also changed over time; going into 2009/2010, the company was focused on its “Mr. Six” campaign, exhorting people to visit the park with a national, well-known, character.

\textit{The Approach to Bankruptcy}
From the time the modern iteration of Six Flags was formed, the company’s balance sheet was defined by long-term debt in excess of shareholders’ equity – a 1.11 debt-to-equity ratio as of 31 December 1998. As noted below in our Z’’-Score analysis of Six Flags, long-term debt was a defining feature of the company on its approach to bankruptcy, though it was hardly the only cause. Six Flags’ approach to bankruptcy was instead a decade-long combination of mounting debt, persistent losses, and corporate infighting.

Long-Term Debt: A Description

As described above, debt was a defining feature of Six Flags’ balance sheet long before the firm’s bankruptcy. Premier Parks’ $1.9 billion acquisition of the original Six Flags brought $890 million of the acquired firm’s debt into the merged venture, resulting in long-term debt of over $1.8 billion, 1.1 times the book equity value of the firm. A large component of this debt was Six Flags’ revolving credit line and term credit facility. Due to the seasonal nature of the business, in which revenue is primarily generated in a short period between April and September, Six Flags required significant short-term credit in order to make payments to creditors over the offseason. An analysis of the firm’s financials at the time of its filing shows revolver and term loan debt of $1.125 billion, in the form on a $275 million revolver at 2.5% interest and a $850 million term loan facility at 2.25%.

In addition to the short-term facilities, Six Flags issued and redeemed numerous Senior Notes over the period analyzed. A substantial restructuring of debt in early 2002 resulted in $855 in new Senior Notes ($375 million at 9\(\frac{1}{2}\)% and $480 million at 8\(\frac{7}{8}\)%) and much of the firm’s existing, higher interest debt being redeemed. Retirement of existing notes was further supplemented with the 2004 issue of $299 million in Convertible Notes. These notes would remain on the balance sheet as liabilities through the bankruptcy. Despite refinancing its debt through redemptions, Six Flags’ capital structure remained highly leveraged; at the time of its filing, liabilities associated with the Senior Notes amounted to approximately $1 billion. Six Flags’ substantial indebtedness further limited the company by placing “significant operating and financial restrictions”, e.g. covenants, on the firm. These included restrictions on accruing additional debt or incurring liens on assets, divesting of assets, and investment activities. The company’s credit agreement further limited the firm by obliging the company’s Operations subsidiary to comply with specified financial ratios relating to interest expense, fixed charges, debt service and total debt.

In 2001, Six Flags incurred the additional liability of a preferred stock issuance. The Preferred Income Equity Redeemable Shares (PIERS) provided Six Flags with net proceeds of $277 million to finance the acquisition of Sea World of Ohio. The 11.5 million shares were redeemable at a liquidation preference of $25 per PIERS on August 15, 2009. The PIERS were issued at a conversion price of $20.85 per share, with each PIERS convertible into 1.1990 shares of Six Flags common stock on or after February 15, 2004. The PIERS issue contained an automatic conversion provision if the common stock price exceeded the conversion price by 20% for 20 days of a 30-consecutive trading day period.

Poor Financial Performance and Proxy Battle
The post-acquisition entity commenced operations with significant debt, as noted above, but positive net income. Between 1998 and 2004, the company’s profits began a precipitous decline. Retained earnings, measured at $133,000 in the firm’s 1998 10-K, fell to an accumulated deficit of $53.7 million in 1999. The deficit continued to grow over the next six annual filings, growing in each year to reach over $909 million in 2004. The firm’s financial troubles could be traced in part to the substantial debt accrued by the company (over $2 billion) and the interest payments associated with such debt. By late 2004, the firm’s long-term debt to equity ratio had grown from 1.11 to 2.57, with growth in the ratio attributable to both increasing debt and falling shareholders’ equity. Additional losses resulted from the company’s large depreciation expense, which resulted from both Six Flags’ significant asset base and its sizeable annual investments in its theme parks. Our analysis of the company’s Z’-Score (below) analyzes the impact of depreciation in greater detail.

Management’s explanation of the losses, according to the firm’s 2004 10-K, attributed its past and expected future losses to “insufficient revenue to cover our relatively high percentage of fixed costs, the interest costs on our debt and our depreciation expense.” The filing further noted that “continued losses could reduce our cash available from operations to service our indebtedness, as well as limit our ability to implement our strategy of achieving growth and otherwise finance our operations in the future.”

The continuing losses would ultimately lead shareholders to demand change in the company’s management. In August 2005 shareholder Red Zone, LLC, owned by media mogul and Washington Redskins owner Daniel Snyder, began a proxy battle to replace three members of the Six Flags board, including CEO Kieran Burke and CFO James Dannhauser, with nominees provided by Red Zone. At the time the proxy battle began, Red Zone owned approximately 11.7% of Six Flags Inc., making it the largest shareholder. The initial solicitation did not seek to take a majority position due to substantial poison pill provisions in Six Flags’ $2.6 billion debt and PIERS, which would allow noteholders to accelerate repayment of debt or to repurchase securities should a new party take control of the board.

Red Zone’s cash tender offer would allow it to increase its stake to 34.9% by purchasing outstanding shares at a price of $6.50 per share (Six Flags stock closed at $5.45 per share the day prior to the tender offer); this level of ownership would allow Red Zone to avoid the aforementioned poison pill debt provisions. On November 22, 2005 Red Zone announced that it had successfully secured consent from 57% of shareholders. The three aforementioned directors were removed from the board, allowing Snyder appointee Mark Shapiro to take the role of CEO.

As outlined by the solicitation documents, Red Zone embarked on a program of increasing revenues and cutting costs. The company began extensive efforts to modernize Six Flags’ marketing and generate synergies with major brands. This included outsourcing concessions (bringing in brand names such as Johnny Rockets burgers and Coldstone ice cream) as well as cleaning parks and enhancing the patron experience to encourage greater per capita spending. Additional measures proposed by Red Zone in its tender offer included an aggressive program to disinvest from underperforming properties – a process which commenced following Shapiro’s nomination as CEO.
Despite Red Zone’s control of the board and Shapiro’s appointment as CEO, financial troubles continued to plague Six Flags. Although the firm managed to divest of several underperforming assets and implement an aggressive new marketing strategy, financial losses continued unabated. Accumulated deficits maintained their steady growth, leading to the elimination of shareholders’ equity, a ballooning long-term debt-to-equity ratio, and a drop in Z’’-Score. Within 5 quarters of Red Zone gaining control, debt-to-equity had grown from 3x to over 10x; 8 quarters after the transaction, shareholders’ equity had been eliminated and the Z’’-Score had fallen by over 1.5 points, to -2 (see following section for Z’’-Score details).

By November of 2008, three years after Red Zone gained control of the board and began implementing its turnaround program, Six Flags publicly acknowledged its troubled balance sheet and formally engaged restructuring professionals to evaluate alternatives for the company. At this time bondholders began holding discussions – and completed due diligence – regarding an out-of-court restructuring of the company. The main concern for Six Flags, however, was the impending maturity of the PIERS in August 2009. Given the firm’s balance sheet issues and precarious financial position (see Z’’-Score), it was highly unlikely that the company would be able to repay the $277 million face value or accrued dividends on the preferred shares. In early 2009, Six Flags management attempted to negotiate an out-of-court deal to restructure both the PIERS and outstanding notes with a debt-to-equity swap: $868.3 million of notes and $313 million of PIERS would be retired, with the creditors receiving 85% (noteholders) and 10% (PIERS) of Six Flags common equity. 5% would be retained for existing equity holders. This plan was put before stakeholders in April 2009 and failed to meet the minimum tender threshold. Further complicating issues – and squeezing liquidity – Six Flags’ annual required contribution to partnership parks (Six Flags over Texas/Georgia, in which Six Flags was a partial owner) was declared in April at a level – $66 million – that far exceeded typical contributions. These liquidity fears were compounded the following month when early season sales, sponsorships and licensing revenues were reported at lower-than-expected levels. This led to a downgrade of both 2009 and long-term financial projections, further placing into doubt the firm’s ability to meet near-term liquidity requirements as well as its ability to meet the covenants set forth in its existing notes. With those issues unresolved, Six Flags filed for Chapter 11 on June 13, 2009.xvi

A Z’’-Score Analysis of Six Flags

The long-term financial decline of Six Flags becomes especially evident when its probability of financial distress is analyzed using the Altman Z-Score. For our analysis, we have selected the Z’’-Score, given the model’s appropriateness for a non-manufacturing firm such as Six Flags. The Z’’-Score model is defined by the equation: 6.56(X₁) + 3.26(X₂) + 6.72(X₃) + 1.05(X₄), where X₁ is the difference between current assets and current liabilities divided by the total assets of the firm; X₂ is retained earnings divided by total assets; X₃ is earnings before interest and taxes (EBIT) divided by total assets; and X₄ is the book value of the firm’s equity divided by total liabilities. To this equation is appended a constant of 3.25 to allow a comparison of bond rating equivalents (BREs) with the traditional Z-Score model. We analyzed consolidated 10-K and 10-Q filings, obtained through the Securities and Exchange Commission’s EDGAR service, from the acquisition by Premier Parks to March 31, 2009, the company’s final quarterly filing prior to its Chapter 11 motion in June of the same year. Quarterly results (10-Q and quarterly
results derived from annual 10-K filing) were used from 2003 through 2009 to provide sufficient detail for our \(Z''\)-Score analysis; annual filings were used for calendar years 1998-2002 in order to provide additional data and context. Our calculation of the \(Z''\)-Score required two significant assumptions with respect to the mandatory redeemable preferred stock (PIERS) issued in January 2001 and Redeemable Non-Controlling Interests. Given the debt-like characteristics of the PIERS – redeemable stock with an accruing dividend payable in full in August 2009 – as well as Six Flags’ placement of the PIERS in the liabilities portion of its balance sheet in all consolidated filings, we have treated the PIERS as a liability for the purpose of calculating the \(Z''\)-Score. Redeemable Non-Controlling Interests (RNCI), a balance sheet item which accounts for the company’s liabilities resulting from minority interests or joint ventures, is explicitly described by Six Flags in its 2007 10-K filing as a balance sheet item between liabilities and shareholders’ equity. In keeping with this interpretation of the RNCI, we have calculated the \(Z''\)-Score by subtracting the value of the RNCI from the total book value of shareholders’ equity. We note that this method results in a slightly lower \(Z''\)-Score than the alternative method, which would have added the RNCI to the liabilities. We further note that prior to December 2007, minority interests were reflected in a smaller line item in the liabilities portion of the balance sheet. This liability ceased to be reported as of December 2007.

**Table 1: Six Flags Inc. \(Z''\) Score**

![Graph showing the \(Z''\)-Score of Six Flags Inc. from 12/1/98 to 12/1/08.]

Analysis of the \(Z''\)-Score (Table 1) highlights several key points about Six Flags between the time of its acquisition by Premier Parks in 1998 (when the modern form of Six Flags was essentially created) and its bankruptcy in 2009. First is the presence of a persistently low \(Z''\)-Score over a long period of time preceding the firm’s Chapter 11 filing. Under the \(Z''\)-Score
Model for Manufacturers, Non-Manufacturer Industrials, Developed and Emerging Market Credits, at no point during the period analyzed did Six Flags register a Z''-Score that indicated a complete absence of financial distress. Our Z''-Score analysis matched the firm’s score to bond rating equivalents derived by In-Depth Data Corp. The firm’s highest score and bond equivalent for the period studied occurred in 1998: a Z''-Score of 4.88, with a corresponding BRE between BB and BB-. This indicates that even at its healthiest point, Six Flags’ debt should have been rated below investment grade, though at this point the Z''-Score did not suggest immediate financial distress. Six Flags’ final Z''-Score and BRE which registered above “Distressed” (CCC) under this model – a rating of 3.67, or a BRE of B- – was recorded in December 2003, nearly 22 quarters before the company filed for bankruptcy. Our analysis of the Z''-Score inputs reveals several key factors that contributed to both the company’s low overall score and its declining Z''-Score as it approached bankruptcy.

A significant feature of the company’s balance sheet from 1998 onward is the presence of long-term debt, the value of which moves in a narrow range in excess of $2 billion. The reason for this debt, as described in more detail above, was twofold: the need for revolving credit facilities to accommodate the highly seasonal nature of the business (virtually all revenue occurs between April and September); and notes issued to fund acquisitions. As a result, Six Flags maintained a level of long-term debt that amounted to approximately 52% of book assets between 1998 and 2001 and rose to more than 65% of asset value by the time of the bankruptcy filing. In addition, the persistently high level of long-term debt resulted in the similarly high levels of current liabilities (current portion of the long-term debt) on the company’s balance sheet. Taken together, the debt had the effect of lowering both the X_1 and X_4 inputs to the Z''-Score model. The impact on X_1 can also be seen by analyzing the company’s current ratio over the same period: the firm’s average ratio between January 2002 and March 2009 was 0.78 (and 0.5 over the final six quarters before bankruptcy), reflecting a current asset/liability mismatch and potential for financial distress. Effects on the X_4 portion of the score are the result of persistently high levels of total liabilities relative to the firm’s equity. In this case, the debt’s effect is twofold: not only does it increase the total liabilities, thereby reducing X_4 and lowering the Z''-Score, it also results in shrinking equity as Six Flags’ asset base diminishes, largely due to the sale of underperforming parks.

Six Flags’ inability to generate positive net income over the period studied had the most significant impact on the firm’s Z''-Score. Between 1998 and 2009, the company’s retained earnings fell from $133,000 to an accumulated deficit of over $1.9 billion. The growth of this deficit was steady and persistent, with deficit figures only showing some positive quarterly variations in conjunction with the peak season. Part of this deterioration is due to the capital intensity of Six Flags’ business model; due to the significant amount of capital that was invested each year, the firm booked a depreciation charge in excess of $30 million quarterly throughout the period studied. We note that over this same period, however, the firm’s earnings before interest and taxes was typically positive, implying that the non-cash depreciation charge was not “artificially” lowering the Z''-Score. Instead, it points to the firm’s significant debt servicing costs as a primary culprit in its persistent losses. We have completed a calculation of an alternative Z''-Score, utilizing EBITDA instead of EBIT, to test the effects of removing the depreciation and amortization accounting charges from Six Flags’ Z''-Score. Our results demonstrate that, while the depreciation charge did lower the score, removing it from the
function would not have had a material impact on whether scores indicated financial distress, nor the overall trend leading to bankruptcy. Further complicating this increase in deficits was Six Flags’ gradual reduction in its total asset base due to divestments. The combined effect of these two balance sheet changes was a gradual deterioration of the $Z''$-Score. As the deconstructed $Z''$-Score (Table 2) shows, Six Flags’ retained earnings to total assets ratio ($X_2$) was the single greatest factor in the firm’s low – and deteriorating – score.

### Table 2: Six Flags Inc. Deconstructed $Z''$-Score

Our analysis of Six Flags’ $Z''$-Score prior to bankruptcy contains two noteworthy features. First, due to the firm’s relatively thin coverage of current liabilities, lack of retained earnings, and relatively small earnings relative to its large asset base, Six Flags began its post acquisition-incarnation already near a state of financial distress, according to the $Z$'-Score. This first score – 4.88 in December 1998 – indicates a below-investment grade BRE and is also the highest $Z''$-Score achieved by Six Flags prior to its 2009 filing. This calls into question (addressed later in our analysis) whether the $Z''$-Score was an effective tool for predicting the bankruptcy. It also, assuming the $Z''$-Score was an effective tool, leads us to ask why the firm did not enter bankruptcy much sooner, given its poor overall score throughout the life of the merged company prior to bankruptcy. On this measure, we posit that the $Z''$-Score must be read in the context of the proxy fight in late 2005 which placed Mark Shapiro at the head of the company. At the time the firm showed both persistent historical and expected future losses and registered a $Z''$-Score below zero. Red Zone’s effective takeover of the board entailed a major turnaround program aimed at boosting revenues and substantially cutting costs as well as divesting underperforming assets. Given this expectation of future growth (assuming that the program would succeed), we
believe investors would take a more positive view of the firm’s future prospects, and lenders would be more inclined to provide credit on reasonable terms than the firm’s Z''-Score would suggest. As a result, the probability of insolvency may have fallen in the late 2005-early 2006 period if market expectations significantly altered in light of new management and its proposed cost cutting and divestment programs. However, the firm’s continued underperformance and corresponding decline in Z’’-Score in 2006 and beyond demonstrate that a change in management was unable to turn around the firm’s financial fortunes, leading instead to continued – and growing – financial difficulty. This suggests that reorganization provided a temporary reprieve from the probability of default in the eyes of investors, allowing the company to continue receiving credit to fund operations instead of being forced into bankruptcy sooner. We also have provided a comparison of the firm’s Z’’-Score with another common metric of a firm’s financial health, the current ratio (Table 3). We call out the current ratio specifically because, unlike the Z’’-Score, it does not experience as precipitous a decline and regularly remains at or near a ratio of 1. The firm’s retained earnings (accounting losses) fell and debt mounted, but it did not experience a crisis of liquidity until very near to its demise, a time at which the current ratio falls below its historical norms. We believe that this may provide some additional explanation as to why Six Flags remained a going concern for years despite its low Z’’-Scores. Without a liquidity crisis, Six Flags was essentially a zombie firm: it generated positive earnings from operations and enough operating cash flow to service its debt obligations, but little more. As a result, it may have been more profitable for noteholders to collect interest payments from Six Flags – and in some cases even to refinance existing debt obligations – than to be obstructionist and force a crisis that would likely have resulted in bankruptcy. This would have been particularly true for the firm’s unsecured noteholders, who would see significant risk in entering bankruptcy proceedings given the book value of liabilities.

### Table 3: Six Flags Inc. Z’’-Score Compared to Current Ratio

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<th>Year</th>
<th>Z’’-Score</th>
<th>Current Ratio</th>
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<td>12/1/08</td>
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Despite the questions raised by the firm’s persistently low scores, Six Flags’ Z’’-Score demonstrates a clear trend toward financial distress from its acquisition by Premier Parks to its Chapter 11 filing. As noted above, and seen in the downward trend of the X₂ input of the deconstructed Z’’-Score, continuous losses and the corresponding growth in accumulated deficits had an overwhelming impact on indicators of the firm’s financial health. In this respect, the Z’’-Score is a valuable tool for clearly demonstrating the firm’s inability to stem its losses and return to profitability. Analysis of the scores also shows a clear trend, though less pronounced than that of X₂, in the firm’s ability to pay for current liabilities (X₁). Though the firm shows a score indicating an elevated probability of financial distress as early as 1998, this figure shows a marked downward trend in the first several years following the acquisition, particularly from 2003 onward. Furthermore, it shows a sharp decline in the quarters immediately before bankruptcy, indicating a significant deterioration of financial health in the period immediately preceding entry into Chapter 11. The firm’s equity to total liabilities (X₄) shows a similar trend. Over the period studied, the score component shows a gradual deterioration. This is important not only because it shows the firm’s inability to stem losses even as its asset base shrunk by over $1 billion from its peak (as retained earnings are chiefly responsible for the decline in equity) but also because it shows the declining value of equity ownership in Six Flags – a fact that could have made bankruptcy more likely. With total liabilities exceeding total assets, debt holders, namely the unsecured creditors, would have preferred to file and preserve the asset base so as to maximize the value of claims. Like X₁, the deterioration of X₄ is a two-speed affair: it declines gradually through late 2007, then falls precipitously into negative territory, from which it never recovers.

Our analysis of the deconstructed score (Table 2) and the trends noted above leads us to believe that the Z’’-Score was indeed a valid predictor of Six Flags’ filing despite the firm’s low initial scores. The scores in the first several years following the acquisition indicate that the firm had significant (though not overwhelming) debt and was struggling to turn the combined company into a profitable venture. However, the fact that these scores are relatively high when compared to later years show that the distress was of a more “mild” variety; given a short-term return to profitability and a reduction in debt service costs (a significant portion of the current liabilities), the firm could have significantly improved its Z’’-Score and reduced its probability of financial distress. Bond rating equivalents over this period, which show ratings below investment grade but above distressed, support this notion. Taken on a relative basis, the Z’’-Score clearly indicates increasing probability of financial distress in 2006 and onward, with probability growing greater (Z’’-Score deteriorating) as the filing date approaches.

<table>
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<tr>
<th>Mortality Rates by Original Rating</th>
<th>Below Investment Grade Rated Corporate Bonds, 1971 – 2012</th>
<th>Years After Issuance (% Mortality)</th>
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<tr>
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<td>1</td>
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<td>19.77</td>
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Source: Edward Altman

11
An analysis of mortality rates based on the BREs further suggests that Six Flags’ ability to survive as long as it did was not entirely unexpected according to the Z’’-Score model. The firm first entered a “Distressed” state, as defined by the BREs (CCC), after its December 2003 10-K filing. Based on mortality rates for bonds originally issued at the BB, B and CCC classifications, the cumulative mortality rate of CCC-rated debt within five years of issue is 47.7%, and approximately 53.8% within 6 years. By comparison, mortality rates within two years of issue are less than 20%. This appears to validate the scoring model as a predictor of bankruptcy several years after the firm entered the Distressed zone, but not immediately thereafter. This suggests that a firm with Z’’-Score characteristics such as Six Flags’ would have reached a point at which default was exceedingly likely (cumulative mortality rates in excess of 50%) during the time that Six Flags experienced its greatest decline in Z’’-Score and ultimately declared bankruptcy. As noted above, three of the four components of the Z’’-Score dip into negative territory prior to the June 2009 filing, and two show marked declines in the periods immediately preceding bankruptcy. The Z’’-Score therefore provides a clear indication that Six Flags had reached a point at which it could no longer cover its current liabilities and at which noteholders would potentially prefer bankruptcy. Although the maturity of the PIERS was ultimately the reason Six Flags filed for bankruptcy, a Z’’-Score analysis shows how vulnerable the firm was to a significant liquidity crisis in mid 2009.
Six Flags entered into bankruptcy with total debt + preferred stock of $2.64 billion dollars and net debt (excluding preferred) of $2.27 billion dollars. Almost immediately after filing, a plan of action was put forward with, “unanimous support of the lenders’ Steering Committee and the Administrative Agent for the Company’s $1.1 billion senior secured credit facility xxix. The banks owning the outstanding operating company (SFO) secured debt submitted a plan that turned their $1.125 million in outstanding debt into a $600 million loan and 92% of the reorganized company’s equity, leaving 7% of the equity for the operating company’s unsecured debt holders. The plan valued the company at $1.25 billion Total Enterprise Value, which had declined 25% from the April 2009 debt-for-equity exchange offer xxx. The holding company (SFI) owners would receive 1% of new equity for $869 million in notes. The PIERS and common holders would be wiped out and the Time Warner loans would be reinstated. See below for Houlihan Lokey’s breakdown of the implications acceptance of the plan:
This plan was addressed in a meeting of unsecured creditors on June 26th where Houlihan Lokey led a meeting to discuss the initial plan. Insight gleaned from some of the notes used in the meeting showed that expectations of business performance were extremely low. Swine flu caused Six Flags Mexico to shut down and adversely affected the two Texas parks. Adverse weather conditions hurt attendance at the Northeast parks. Decline in Sponsorship and Licensing Revenue, cost increases, poor attendance trends from the recession and lower group sales were all being blamed for poor performance. Houlihan Lokey estimated 2009 adjusted EBITDA at $200 million (a 27% decline YoY). At this point, with the banks pushing their plan favoring secured SFO holders and business outlook being poor, the unsecured holders were in trouble.

On July 22nd, 2009 Six Flags filed its official disclosure statement for the plan of reorganization. In addition to providing clarity behind the initial offer, investor gained a fuller picture of what was going behind the scenes. In March of 2009, Six Flags had tried to engage Avenue Capital Management, “the largest holder of 2016 Notes, a significant holder of other unsecured notes, and one of the Company’s lenders under the Prepetition Credit Agreementxxiii.” While negotiating a deal that would have allowed the SFO 2016 debt holders to receive a majority of the equity in a reorganized Six Flagsxxiv, the talks broke down when Six Flags deemed Avenue Capital Management’s liquidity as, “inadequate to provide a viable financial restructuring for the Debtors’ businesses — especially when coupled with an ongoing decline in the Debtors’ financial performance — because, among other things, the proposed transaction failed to provide sufficient liquidity for future business needs, and failed to address the Debtors future ability to maintain continuing financial covenant compliance under the Prepetition Credit Agreementxxiv.”

After failing to engage Avenue Capital Management, Six Flags turned to the lenders of the secured debt. JPMorgan Chase Bank, NA (JPMorgan) led the restructuring decisions for 50% of secured debt. Six Flags determined that making a deal with the secured lenders and engaging in a pre-negotiated bankruptcy was the best way to pursue Chapter 11. Six Flags endorsed the plan of reorganization from the secured lenders in court documents and waited to see if the deal would pass. The entire plan would be scrapped shortly.
By November, the capital markets environment was changing. The stock market had recovered from its March lows and liquidity had begun to open up. The S&P 500 index had risen 20% since Six Flag’s bankruptcy filing. Theme parks were beginning to see interest from investors. In October, Blackstone had purchased Sea World and Busch Gardens at 4.1x EBITDA and two weeks after, Universal Orlando had issued high yield debt at 5.9x EBITDA.

On November 7th, Six Flags filed a new plan of reorganization with the bankruptcy court. The plan was put forth by the SFO holders, led by Avenue Capital Management and valued Six Flags at $1.4 billion total enterprise value. As part of the reorganization, the SFO bond holders reached out to multiple banks including JPMorgan, Barclays and Bank of America in order to secure a credit facility of $830 million. This facility, combined with a rights offering of $450 million to the SFO unsecured holders, would be used to pay off the bank lenders in full. In paying off the bank lenders fully, they would be deemed “Unimpaired,” and thus unable to vote on the plan of reorganization. The plan also called for 95% (25% equity ownership plus 70% in rights offering) of the new equity to be awarded to SFO holders and 5% to the SFI holders. The PIERS owners and common stock owners would be both be wiped out. Again, senior management at Six Flags, including Mark Shapiro, fully endorsed the plan.

The second plan of reorganization was upsetting to the SFI holders. With claims exceeding $800 million dollars, only getting 5% of the reorganized value was deemed as unacceptable. The real issue, which was argued in bankruptcy court, was how to value the company. At this point, there were four investment banks that had offered valuation ranges on the company including Lazard, Chanin, Peter J. Solomon and Houlihan Lokey. Their valuations were as follows:

Peter J. Solomon and Chanin offered valuations significantly higher than the SFO holders were offering the SFI holders. SFO bond holders pegged the midpoint of the valuation around $1.5 billion where SFI bond holders pegged the value around $2 billion. In choosing the valuations by Lazard and Houlihan Lokey, the SFI bond holders felt the Six Flags was being significantly undervalued and decided to propose a new offer.
On November 25th, the SFI bond holders proposed a third plan that essentially followed the blueprint from the SFO bond holders and took it one step further. The SFI plan called for the bank lenders to be paid in full, the SFO bond holders to be paid in full and the SFI bond holders to receive 19% of the new equity with a rights offering of $420 million that would give the SFI bond holders an additional 81% of the company, essentially giving the SFI holders 100% of the company. Much like the plan before it, the bank lenders and now the SFO bond holders would be deemed “Unimpaired,” and unable to vote on the new plan. This plan was endorsed by, “holders or advisors to holders of over $500 million of the approximately $870 million of unsecured notes.” The SFI bond holders had combined forces and proposed a plan giving them complete control of the reorganized company. New debt of $1.1 billion was to be reinstated, with lending from Goldman Sachs and UBS, and that, combined with the rights offering, would be enough to pay off the bank lenders and SFO holders.

The SFO bond holders were now unhappy and took the company to court. On March 8, 2010 the trial began. Six Flags defended its proposed Chapter 11 reorganization plan. Arguments about valuation dominated court proceedings with experts from each bank being called in to defend and explain their findings. However, on April 28th, “Peace has broken out,” according one of the attorneys representing the SFI bond holders. The solution was simple: the SFI bond holders would pay the SFO bond holders an additional $50 million, bringing their total to $470 million. While the PIERS holders raised last minute objections, their objections were rejected by Judge Christopher Sontchi. Judge Sontchi stated that the PIERS holders had waited too long to raise their arguments and no rational argument would be made that could increase the value of Six Flags enough to warrant any residual value left for the PIERS holders and common stock owners. The final dispersion of cash would look as follows:

<table>
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<th>Source of Cash</th>
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<th>Adjusted</th>
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<td>Pay SFO Claims in Full</td>
<td>470</td>
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<td>Pay Time Warner Loan</td>
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<tr>
<td>Total Sources of Cash</td>
<td>$1,820</td>
<td></td>
<td>Total Uses of Cash</td>
<td>$1,820</td>
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</tbody>
</table>
After 4 different plans of reorganization with bank lenders, SFO bond holders and SFI bond holders all jockeying for position, Six Flags was ready to emerge from bankruptcy.

**Emergence**

Six Flags emerged from bankruptcy on May 3, 2010 with slightly less than $1 billion in debt and interest payments reduced to $75 million annually. Three days before, on April 30th, the company named nine new directors (as part of plan of reorganization); none of which included Dan Snyder. According to the plan of reorganization, Snyder could not have been reappointed to the board without the consent of the junior bondholders. Mark Shapiro, however, was included as one of the nine directors and remained the company President and Chief Executive Officer. However, a mere eight days later, Shapiro was removed as President and President and Chief Executive Officer and notified that as of June 10th, he would no longer be with the company. Alexander Weber, an industry veteran, was appointed interim President and Chief Executive Officer. Also noteworthy was Usman Nabi, Managing Partner at H Partners (a large investor in the junior notes and subsequent owner of 23% of the common stock float) as Chairman of the board.

After the management shakeout, the search for a new Chief Executive Officer and rebuilding the business began. After several more senior management changes, mostly removal of senior officers from the pre-bankruptcy state, Six Flags executed the rights offering as per the plan of reorganization. $750 million, 62.73% of the Common Stock of Six Flags, was offered to the unsecured holders and began trading on May 11th. SIX opened at 42 and finished its first trading of trading at 39. Eventually, Six Flags would be approved to list its common stock on the New York Stock Exchange on June 21st. The stock meandered lower, closing at its post-bankruptcy low of $32 on August 13th. That day, Six Flags issued an 8-K naming James Reid-Anderson as President and Chief Executive Officer. This hire (while causing a +5.4% stock move the next day) would set the tone for years to come.

**James Reid-Anderson and Dade Behring**

James Reid-Anderson came from Siemens AG where he served as Chief Executive Officer of Siemens Healthcare Sector and was a member of the Siemens Managing Board. Reid-Anderson was acquired by Siemens when Siemens bought Dade Behring in 2007. The noteworthy part of appointing James Chief Executive Officer of Six Flags, however, was the performance of Reid-Anderson when he served as President and Chief Executive Officer of Dade Behring. Reid-Anderson joined Dade Behring in 1996 and took presidency in 2000. In 2002, Dade Behring had substantial debt, and even though the sales and operating profits had improved the prior two years, Dade had to file a pre-packaged bankruptcy. Despite objections from a small preferred stock holder, Dade swapped $700 million debt for equity, currently owned by over 50 banks and bondholders and kept $800 million debt outstanding. Dade Behring was able to emerge quickly from bankruptcy in 2002 and began fresh, with $700 million less debt.

Under Reid-Anderson’s leadership and without the severe debt burden, Dade Behring began to grow rapidly. In 2003, Dade Behring EBITDA was $255 million and traded at a multiple of 5.7x
EBITDA. By 2007, EBITDA had grown to $450 million and the multiple had expanded to 15.1x. When Siemens agreed to buy Dade Behring in 2007, the stock had returned almost 800%, almost 700% more than its direct competitors and the S&P. CAGR on Dade stock was 50% and was heavily influenced by the aggressive share repurchases and dividends authorized by Reid-Anderson. Reid-Anderson was given much of the credit for the turnaround in Dade Behring’s operating units and subsequently performed well at Siemens. Similar to joining Dade Behring in 1996, Reid-Anderson was entering a new industry in regional theme parks.

Six Flags New Management Executes

Coming off a year in which adjusted EBITDA had fallen from $275 million in 2008 to $194 million in 2009, the new management team believed it was time to start issuing a long-term incentive plan. On August 18th, 2010 the company issued the first of its two long-term incentive plans called Project 350. Project 350 was an adjusted EBITDA target for 2011 calendar year. It rewarded executives for hitting $350 million adjusted EBITDA with an award of 1.25% of outstanding common stock, given as restricted stock units. If the company achieved between $330 and $349 million adjusted EBITDA, executives at Six Flags would receive only 50% of their award. Project 350 was also influenced by the performance of the company in 2010: the $350 million target was predicated on achieving $275 million of adjusted EBITDA in 2010. If the company achieved more or less, Project 350 was adjusted up or down (Six Flags earned $295 million EBITDA in 2010, moving Project 350 to Project 330. Additionally, the company had to be 97.5% of the lesser of: (i) adjusted EBITDA achieved for 2011 or (ii) $350 adjusted EBITDA or else 50% of the award would be immediately forfeited xxxvii. While there were other restrictions around executives sticking around the company, none were triggered.

On September 7, Six Flags terminated current Chief Financial Officer Jeff Speed and hired new Chief Financial Officer John Duffey and new General Counsel Lance Balk. Both of these new officers worked with Reid-Anderson at Dade Behring. Six Flags also Nancy Krejsa as Senior Vice President, Investor Relations; another player in the Dade Behring turnaround.

With the stock having moved up from $32 to and a successful year almost completed, Six Flags was sitting on net debt of close to $800 million. The company was executing its marketing strategy of ring-fencing discounts and it was seeing much heavier traffic at all its parks. Utilizing the company’s stronger financials and overly liquid credit markets, Six Flags paid off its $250 million second lien term loan and amended the first lien loan by expanding the amount from $770 million to $950 million (all with JPMorgan) and lowered the interest rate to LIBOR + 400bps with a 1.5% floor xxxviii. The economic recovery was starting to pay dividends for Six Flags, so it issued its first post-bankruptcy dividend ($0.06/quarter) on December 16th.

Six Flags ended 2010 earning $295 million in adjusted EBITDA a stock price of $54. Reid-Anderson notes in the 2010 annual letter and 10-K that, “Our improving financial metrics in the second half of the year, along with the appreciation in our stock price, indicate we are clearly on the right path.” Main drivers of the rapid increase in adjusted EBITDA (52% YoY) are the +1 million in attendance per-cap spending increases of 4.01%. Six Flags ended the year with net debt of $784 million, which was 2.7x leverage multiple. It is the strongest fiscal position Six Flags has achieved in over a decade.
On February 4th, 2011 Six Flags announced its first buyback of $60 million over three years. This purchase mimics Reid-Anderson’s strategy of starting buybacks and dividends quickly after establishing fiscal discipline post-bankruptcy at Dade Behring. Six Flags also announced its first stock split on May 5th with the stock trading at $73.80, a 52 week high.

With the company performing extremely well and Project 350 (having turned into Project 330 based on performance), Six Flags decided to take a more aggressive step and issued Project 500. While the basic terms of the deal remain the same, there were a few things different about the plan. Firstly, the hurdle rate was changed from adjusted EBITDA to modified EBITDA. Secondly, this plan had a 35% early achievement bonus of 1,890,000 shares if modified EBITDA hit $500 million in 2013 and a 15% bonus of 1,610,000 shares if modified EBITDA was $500 million for 2014. This deal was also shared by most of senior management and had some modifiers for partial awards between $475 and $500 million modified EBITDA.

Towards the end of 2011, Six Flags was at a crossroads. It continued to perform fiscally, its management team was being credited with a turnaround and its stock price was still accelerating upwards after a brief dip in November. It had issued its first repurchase program and the dividend had doubled to $.06 (factoring for the split). Standard and Poor’s Rating Services had just upgrading the credit to BB. Management decided it was time to act in order to unlock shareholder value. On December 20th, 2011 the company entered into a new credit agreement with multiple banks comprised of a revolver of $200 million (5 year term), a $75 million tranche A (5 year) term facility and an $860 million dollar tranche B (7 year) term loan facility. The revolver and A loan were priced at LIBOR +225 and the B loan was LIBOR+325 with a floor of 1%. After paying off the existing $950 million dollar facility with JPMorgan, Six Flags saved $13 million a year in interest payments and eased covenants for payouts to shareholders via dividends and share repurchases. Two months after this agreement, Six Flags increased the dividend 10x to $.30 ($0.60 pre-split).

Six Flags ended 2011 earning $350 million in adjusted EBITDA, 20% higher YoY. Higher admissions prices paired with higher per-cap spending and expanding margins led the way for Six Fags to achieve over $1 billion in revenue. As James Reid-Anderson notes in his letter to shareholders, “In a little more than a year, we have lifted Six Flags from the depths of bankruptcy and reached a new peak in performance… as we look to the future, our opportunity for growth continues to be significant.” Net debt is at $726 million implying an adjusted EBITDA multiple of 2.06, a new Reid-Anderson best. The stock closed at $81.88 (or $41.24 factoring the split). The company was firing on all cylinders and had set itself up for more of the same in 2012.

2012 was ‘par-for-the-course’ for Six Flags. Six Flags doubled its dividend to $.45 in November and, as per tradition since 2010, renegotiated its credit terms around the winter solstice. In December, Six Flags issued $800 million unsecure notes via private placement. The proceeds were used to prepay the existing $72 million left in tranche A and prepay approximately $278 million of tranche B. The rest of the money was to be used as per the following, “The remaining proceeds would be available for a combination of debt reduction, repurchases of the Company’s common stock, working capital and strategic initiatives as permitted by the amended
In addition, the First Amendment (i) permits the Company to repurchase least an additional $350 million of its common stock over the course of 18 months from the proceeds of any unsecured senior notes; (ii) increases the general Restricted Payments basket from $30 million to $80 million; and (iii) reduces the minimum liquidity requirement with respect to certain permitted Restricted Payments to $75 million. Right on schedule, approximately two weeks after the debt offering, Six Flags announced a new repurchase program of $250 million, more than quadrupling the $60 million repurchase program it had executed in only a weeks earlier in 2012. Adjusted EBITDA hit a new record of $383 million and net debt was $776 million, a multiple of 2.02x.

2013 was much of the same song for Six Flags. Dividend was increased 4.4% to $.47, repurchase program was expanded by $500 million dollars and, of course, Six Flags, “announced that it has initiated a process to potentially amend, by late December 2013, certain covenants of its current bank credit facility. In addition, the Company is seeking to reduce the borrowing rates on its existing term loan.” Adjusted EBITDA is estimated to be ~$404 million and margins are expected to finish at all-time records. As of 12/18/13, and factoring for the second split, the stock is trading at $35.69 (or $142.76 from its return to the New York Stock Exchange). It has also paid out $3.30 in dividends (or $13.2 from original, emergence, cost basis).

Over this period, we also saw Six Flags’ Z”-Score return to positive territory. Several factors have contributed to this improved picture of financial stability: long term debt and its associated interest charges has been slashed dramatically, yielding a healthier debt-to-equity ratio, an improved current asset to current liability proportion, and positive earnings for the company. All have contributed to lift the Z”-Score well into positive territory. For the year ended December 31, 2012, the firm’s score was higher than at any point since the Premier acquisition and approaching non-distressed territory.
Reflections on the future

Going forward, with the company continuing to operate efficiently and effectively with a proven management team, we expect Six Flags to perform more of the same going forward. We find it interesting that a proven bankruptcy management team at Dade Behring can use those same skills to turn Six Flags into a just-as-successful turnaround. Perhaps when looking at Dade and Six Flags over the same time period, one can glean a potentially idea of what is to come.
Six Flags Common Stock Performance Since Emergence From Bankruptcy

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iii California State University Sacramento, “Six Flags Timeline,”


v California State University, Sacramento, “Six Flags Timeline.”


viii Ibid.


x Ibid.


xiii Six Flags, Inc. 2004 10-K.


xv Press Release, “Red Zone’s Solicitation is Successful,” November 22, 2005,


xviii Ibid.