SeaWorld Entertainment, Inc.
Form 10-Q
November 14, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

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 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	¨	Accelerated filer	¨
Non-accelerated filer	x (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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

The registrant had outstanding 93,285,743 shares of Common Stock, par value $0.01 per share as of November 12, 2013.

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 included in this Quarterly Report on Form 10-Q, 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 estimates, expects, contemplates, anticipates, projects, plans, intends, believes, may, should 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 Risk Factors in the Company s prospectus, filed with the Securities and Exchange Commission (the SEC) on April 18, 2013 pursuant to Rule 424(b)(4) under the Securities Act, and in this report, as such risk factors may be updated from time to time in our periodic filings with the SEC, 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;

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

incidents or adverse publicity concerning our theme parks;

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;

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;

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- cyber security risks;
- suspension or termination of any of our business licenses;
- our limited operating history as a standalone company; and
- The Blackstone Group L.P. and its affiliates control of us.

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 subsidia and affiliates.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	September 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 210,516	$ 45,675
Accounts receivable, net	52,505	41,149
Inventories	37,886	36,587
Prepaid expenses and other current assets	14,170	17,817
Deferred tax assets, net	1,315	17,405
Total current assets	316,392	158,633
Property and equipment, at cost	2,452,229	2,343,561
Accumulated depreciation	(680,922)	(568,918)
Property and equipment, net	1,771,307	1,774,643
Goodwill	335,610	335,610
Trade names, net	163,783	164,608
Other intangible assets, net	28,673	31,120
Deferred tax assets, net		6,356
Other assets	42,371	50,082
Total assets	$ 2,658,136	$ 2,521,052
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 105,871	$ 89,946
Current maturities on long-term debt	14,050	21,330
Accrued salaries, wages and benefits	21,300	33,088
Deferred revenue	99,527	82,567
Other accrued expenses	31,048	19,350
Total current liabilities	271,796	246,281
Long-term debt	1,629,489	1,802,644
Deferred tax liabilities, net	8,936	
Other liabilities	18,628	22,279
Total liabilities	1,928,849	2,071,204
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, 2013 and December 31, 2012		

Common stock, $0.01 par value authorized, 1,000,000,000 shares; issued and outstanding, 89,626,525 and 82,737,008 shares at September 30, 2013 and December 31, 2012, respectively	896	827
Additional paid-in capital	688,927	456,923
Accumulated other comprehensive gain (loss)	199	(1,254)
Retained earnings (accumulated deficit)	39,265	(6,648)
Total stockholders equity	729,287	449,848
Total liabilities and stockholders equity	$ 2,658,136	$ 2,521,052

See accompanying notes to unaudited condensed consolidated financial statements.

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SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND

COMPREHENSIVE INCOME (LOSS)

(In thousands, except per share amounts)

	For the Three Months Ended September 30, 2013	For the Three Months Ended September 30, 2012	For the Nine Months Ended September 30, 2013	For the Nine Months Ended September 30, 2012
Net revenues:				
Admissions	$ 340,183	$ 323,529	$ 747,610	$ 715,842
Food, merchandise and other	198,206	198,726	440,681	444,737
Total revenues	538,389	522,255	1,188,291	1,160,579
Costs and expenses:				
Cost of food, merchandise and other revenues	40,422	43,450	93,224	99,109
Operating expenses	202,625	191,399	570,559	560,145
Selling, general and administrative	47,426	58,807	149,581	150,571
Termination of advisory agreement			50,072	
Depreciation and amortization	42,322	44,737	124,154	122,085
Total costs and expenses	332,795	338,393	987,590	931,910
Operating income	205,594	183,862	200,701	228,669
Other income, net	13	237	193	2,110
Interest expense	21,018	29,545	72,550	86,263
Loss on early extinguishment of debt and write-off of discounts and deferred financing costs			32,429	
Income before income taxes	184,589	154,554	95,915	144,516
Provision for income taxes	64,390	62,297	31,930	58,273
Net income	$ 120,199	$ 92,257	$ 63,985	$ 86,243
Other comprehensive income:				
Unrealized (loss) gain on derivatives, net of tax	(1,127)	(1,172)	1,453	(1,172)
Comprehensive income	$ 119,072	$ 91,085	$ 65,438	$ 85,071
Earnings per share:				
Net income per share, basic	$ 1.34	$ 1.12	$ 0.74	$ 1.05
Net income per share, diluted	$ 1.33	$ 1.11	$ 0.73	$ 1.04
Weighted average commons shares outstanding:				
Basic	89,610	82,461	86,867	82,480
Diluted	90,206	83,374	87,531	83,301

Cash dividends declared per share:				
Cash dividends declared per share	$ 0.20	$	$ 0.40	$ 6.07

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, 2013

(In thousands, except share amounts)

	Shares of Common Stock	Common Stock	Additional Paid-In Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive (Loss) Gain	Total Stockholders Equity
Balance at December 31, 2012	82,737,008	$ 827	$ 456,923	$ (6,648)	$ (1,254)	$ 449,848
Equity-based compensation	74,561	1	4,703			4,704
Unrealized gain on derivatives, net of tax					1,453	1,453
Issuance of common stock in initial public offering, net of underwriter commissions and offering costs	10,000,000	100	245,341			245,441
Conversion of common stock into unvested restricted shares	(3,216,719)	(32)	32			
Vesting of restricted shares	31,675	0	0			
Dividends declared to stockholders			(18,072)	(18,072)		(36,144)
Net income				63,985		63,985
Balance at September 30, 2013	89,626,525	$ 896	$ 688,927	$ 39,265	$ 199	$ 729,287

See accompanying notes to unaudited condensed consolidated financial statements.

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SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the Nine Months Ended September 30, 2013	2012
Cash Flows From Operating Activities:		
Net income	$ 63,985	$ 86,243
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	124,154	122,085
Amortization of debt issuance costs and discounts	10,619	14,757
Loss on sale or disposal of property and equipment	8,129	6,139
Loss on early extinguishment of debt and write-off of discounts and deferred financing costs	32,429	
Deferred income tax provision	31,930	58,273
Equity-based compensation	4,704	887
Changes in assets and liabilities:		
Accounts receivable	(13,432)	(8,053)
Inventories	(1,299)	(4,215)
Prepaid expenses and other current assets	(67)	3,491
Accounts payable	(4,029)	(8,238)
Accrued salaries, wages and benefits	(11,788)	(8,014)
Deferred revenue	16,259	16,131
Other accrued expenses	15,168	20,161
Other assets and liabilities	(445)	3,001
Net cash provided by operating activities	276,317	302,648
Cash Flows From Investing Activities:		
Capital expenditures	(125,852)	(154,976)
Change in restricted cash	49	
Net cash used in investing activities	(125,803)	(154,976)
Cash Flows From Financing Activities:		
Repayment of long-term debt	(185,742)	(52,451)
Repayment of note payable	(3,000)	
Redemption premium payment	(15,400)	
Proceeds from the issuance of debt	1,455	487,163
Proceeds from issuance of common stock, net of underwriter commissions	253,800	
Repayment of revolving credit facility, net		(36,000)
Dividends paid to stockholders	(18,124)	(463,180)
Debt issuance costs	(13,968)	(7,024)
Offering costs	(4,694)	
Net cash provided by (used in) financing activities	14,327	(71,492)
Change in Cash and Cash Equivalents	164,841	76,180
Cash and Cash Equivalents Beginning of period	45,675	66,663
Cash and Cash Equivalents End of period	$ 210,516	$ 142,843

Supplemental Disclosures of Noncash Investing and Financing Activities				
Dividends declared, but unpaid	$	18,223	$	40,000
Capital expenditures in accounts payable	$	24,449	$	28,496

See accompanying notes to unaudited condensed consolidated financial statements.

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SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

1. DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION

Description of the Business

SeaWorld Entertainment, Inc., through its wholly-owned subsidiary, SeaWorld Parks & Entertainment, Inc. (SEA) (collectively, the Company), owns and operates eleven theme parks within the United States. The Company is majority owned by ten limited partnerships (the Partnerships), ultimately owned by affiliates of The Blackstone Group L.P. (Blackstone) and certain co-investors. On April 24, 2013, the Company completed an initial public offering in which it sold 10,000,000 shares of common stock and the selling stockholders of the Company sold 19,900,000 shares of common stock, including 3,900,000 shares pursuant to the exercise in full of the underwriters over-allotment option. The offering generated net proceeds of approximately $245,400 to the Company after deducting underwriting discounts and commissions, expenses and transaction costs. The Company did not receive any proceeds from shares sold by the selling stockholders. See further discussion in Note 12-Stockholders Equity.

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (the 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, 2012 included in the Company s prospectus as filed with the SEC on April 18, 2013, pursuant to Rule 424(b)(4) under the Securities Act of 1933, as amended (the Securities Act). The unaudited condensed consolidated balance sheet as of December 31, 2012 has been derived from the audited consolidated financial statements at that date.

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, 2013 or any future period due to the seasonal nature of the Company s operations. Based upon historical results, the Company typically generates its highest revenues in the second and third quarters of each year and incurs a net loss in the first and fourth quarters, in part because six of its theme parks are only open for a portion of the year.

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

Use of Estimates

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

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SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-02, Reporting Amounts Reclassified Out of Accumulated Other Comprehensive Income, which amends Accounting Standards Codification (ASC) 220, *Comprehensive Income*. The amended guidance requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. Additionally, entities are required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The amended guidance does not change the current requirements for reporting net income or other comprehensive income. The amendments are effective prospectively for reporting periods beginning after December 15, 2012. The adoption of ASU No. 2013-02 did not have a significant impact on the Company s condensed consolidated financial statements.

3. EARNINGS PER SHARE

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

	Three Months Ended September 30, 2013			2012			Nine Months Ended September 30, 2013			2012		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic earnings per share	$ 120,199	89,610	$ 1.34	$ 92,257	82,461	$ 1.12	$ 63,985	86,867	$ 0.74	$ 86,243	82,480	$ 1.05
Effect of dilutive incentive-based awards		596			913			664			821	
Diluted earnings per share	$ 120,199	90,206	$ 1.33	$ 92,257	83,374	$ 1.11	$ 63,985	87,531	$ 0.73	$ 86,243	83,301	$ 1.04

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is determined based on the dilutive effect of unvested restricted stock probable of vesting using the treasury stock method. During the three and nine months ended September 30, 2013 and 2012, there were no anti-dilutive shares of common stock excluded from the computation of diluted earnings per share.

4. INCOME TAXES

Income tax expense is recognized based on the Company s estimated annual effective tax rate which is based upon the tax rate expected for the full calendar year applied to the pre-tax income or loss of the interim period. The Company s consolidated effective tax rate for the three and nine months ended September 30, 2013 was 34.9% and 33.3%, respectively, and differs from the statutory federal income tax rate primarily due to certain tax credits and state income taxes. The Company s consolidated effective tax rate for both the three and nine months ended September 30, 2012 was 40.3% and differs from the statutory federal income tax rate primarily due to certain tax credits and state income taxes.

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

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SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

5. OTHER ACCRUED EXPENSES

Other accrued expenses at September 30, 2013 and December 31, 2012, consisted of the following:

	September 30, 2013	December 31, 2012
Accrued property taxes	$ 11,108	$ 1,974
Accrued interest	9,791	3,877
Note payable		3,000
Self-insurance reserve	7,800	7,800
Other	2,349	2,699
Total other accrued expenses	$ 31,048	$ 19,350

In the three months ended September 30, 2013, the Company paid $3,000 related to a note payable due on September 1, 2013 for the Company s November 2012 acquisition of Knott s Soak City, a standalone Southern California water park, from an affiliate of Cedar Fair L.P.

6. LONG-TERM DEBT

Long-term debt as of September 30, 2013 and December 31, 2012 consisted of the following:

	September 30, 2013	December 31, 2012
Term A Loan	$	$ 152,000
Term B Loan		1,293,774
Term B-2 Loans	1,401,487	
Revolving credit agreement		
Senior Notes	260,000	400,000
Total long-term debt	1,661,487	1,845,774
Less discounts	(17,948)	(21,800)
Less current maturities	(14,050)	(21,330)
Total long-term debt, net of current maturities	$ 1,629,489	$ 1,802,644

In conjunction with the Company s initial public offering completed on April 24, 2013, the Company used $37,000 of the net proceeds received from the offering to repay a portion of the outstanding indebtedness under the then existing Term B Loan and $140,000 to redeem a portion of its Senior Notes at a redemption price of 111.0%, plus accrued and unpaid interest thereon, pursuant to a provision in the indenture governing the Senior Notes that permitted the Company to redeem up to 35% of the aggregate principal amount of the Senior Notes with the net cash proceeds of certain equity offerings and pay estimated premiums and accrued interest thereon. The redemption premium of $15,400 along with a write-off of approximately $5,500 in related discounts and deferred financing costs is included in loss on early extinguishment of debt and write-off of discounts and deferred financing costs on the Company s unaudited condensed consolidated statements of operations and comprehensive income (loss) for the nine months ended September 30, 2013. See further discussion in Note 12-Stockholders Equity.

Senior Secured Credit Facilities

On March 30, 2012, April 5, 2013 and May 14, 2013, SEA entered into Amendments No. 3, 4 and 5, respectively, of the senior secured credit facilities (the Senior Secured Credit Facilities).

Amendment No. 3 increased the amount of Term B Loans (Additional Term B Loans) by $500,000 for the purposes of financing a dividend payment to the stockholders in the same amount during the three months ended March 31, 2012. The Additional Term B Loans were issued at a discount which was being amortized to interest expense using the weighted average interest method.

SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Amendment No. 4 amended the terms of the existing Senior Secured Credit Facilities to, among other things, permit SEA to pay certain distributions following an initial public offering and replace the then existing $172,500 senior secured revolving credit facility with a new $192,500 senior secured revolving credit facility. The new senior secured revolving credit facility will mature on the earlier of (a) April 24, 2018 or (b) the 91st day prior to the earlier of (1) the maturity date with respect to Term A Loans with an aggregate principal amount greater than $50,000 outstanding, (2) the maturity date with respect to the Term B Loans with an aggregate principal amount greater than $150,000 outstanding, (3) the maturity date of Senior Notes with an aggregate principal amount greater than $50,000 outstanding and (4) the maturity date of any indebtedness incurred to refinance any of the Term A or Term B Loans or the Senior Notes.

Amendment No. 5 amended the terms of the existing Senior Secured Credit Facilities to, among other things, refinance Term A Loan and Term B Loan into new Term B-2 Loans, extend the final maturity date of the term loan facilities, reduce future principal and interest payments, and provide for additional future borrowings.

The Term B-2 Loans were borrowed in an aggregate principal amount of $1,405,000. Borrowings under the Term B-2 Loans 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 Bank of America s prime lending 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 for the interest period relevant to such borrowing. The 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 certain leverage ratio. At September 30, 2013, the Company selected the LIBOR rate (interest rate of 3.00% at September 30, 2013).

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 the Amendment No. 5 effective date, with the first payment due and paid on September 30, 2013 and the balance due on the final maturity date. The Term B-2 Loans have a final maturity date of May 14, 2020. Amendment No. 5 also permits SEA to 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 net leverage ratio, as defined in the Senior Secured Credit Facility, is no greater than 3.50 to 1.00.

As a result of Amendment No. 5, approximately $11,500 of debt issuance costs were written off and included as loss on early extinguishment of debt and write-off of discounts and deferred financing costs on the Company s unaudited condensed consolidated statements of operations and comprehensive income (loss) for the nine months ended September 30, 2013. As a result of Amendments No. 4 and 5, the Company capitalized fees totaling approximately $14,000. Deferred financing costs, net of accumulated amortization, were $34,275 and $44,103 as of September 30, 2013 and December 31, 2012, respectively, are being amortized to interest expense using the weighted average interest method and are included in other assets in the accompanying unaudited condensed consolidated balance sheets.

SEA had no amounts outstanding at September 30, 2013 and December 31, 2012, relating to the Revolving Credit Facility. As of September 30, 2013, the Company had approximately $18,500 of outstanding letters of credit, leaving approximately $174,000 available for borrowing.

On August 9, 2013, SEA entered into Amendment No. 6 of the Senior Secured Credit Facilities. Amendment No. 6 amends the calculation of the Company s covenant Adjusted EBITDA to allow the add back of the termination fee paid in connection with the termination of the 2009 Advisory Agreement between the Company and affiliates of Blackstone. See Note 9-Related-Party Transactions for further discussion.

Senior Notes

In conjunction with the execution of Amendment No. 3 to the Senior Secured Credit Facilities, SEA also entered into the Second Supplemental Indenture (the Second Supplemental Indenture) dated March 30, 2012 relating to the Senior Notes. Among other matters, the Second Supplemental Indenture granted waivers to allow SEA to issue the additional $500,000 of Term B Loans to fund the dividend payment discussed above and decreased the interest rate on the Senior Notes from 13.5% per annum to 11% per annum. SEA can redeem the Senior Notes at any time and the Senior Notes are unsecured. Interest is paid semi-annually in arrears. Prior to

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December 1, 2014, the Company may redeem some or all of the Senior Notes at a price equal to 100% of the principal amount of the Senior Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest to, the redemption date, subject to the right of the holders of record on the relevant record date to receive interest due on the relevant interest payment date. The Applicable Premium is defined as the greater of (1) 1.0% of the principal amount of the Senior Notes and (2) the excess, if any, of (a) the present value at such redemption date of (i) the redemption price of the Senior Notes at December 1, 2014 plus (ii) all required interest payments due on the Senior Notes through December 1, 2014 (excluding accrued but unpaid interest to the redemption date), computed using a discount rate equal to the Treasury Rate plus 50 basis points over (b) the principal amount of the Senior Notes. On or after December 1, 2014, the Senior Notes may be redeemed at 105.5% and 102.75% of the principal balance beginning on December 1, 2014 and 2015, respectively. The Second Supplemental Indenture also increased the minimum covenant leverage ratio from 2.75 to 1.00 to 3.00 to 1.00.

In conjunction with the execution of Amendment No. 4 to the Senior Secured Credit Facilities, SEA also entered into the Fourth Supplemental Indenture, dated April 5, 2013 (the Fourth Supplemental Indenture). The Fourth Supplemental Indenture increased by $20,000 the amount of debt that the Company can incur and have outstanding at one time under the Senior Secured Credit Facilities and amended the transactions with affiliates covenant to allow for the payment of a termination fee, not to exceed $50,000, in connection with the termination of the advisory agreement between the Company and affiliates of Blackstone (see Note 9-Related-Party Transactions).

As of September 30, 2013, the Company was in compliance in all material respects with all covenants in the provisions contained in the documents governing the Senior Secured Credit Facilities and in the indenture governing the Senior Notes.

Interest Rate Swap Agreements

On August 23, 2012, SEA executed two interest rate swap agreements (the Interest Rate Swap Agreements) to effectively fix the interest rate on $550,000 of the Term B Loans. Each interest rate swap had a notional amount of $275,000; was scheduled to mature on September 30, 2016; required the Company to pay a fixed rate of interest of 1.247% per annum; paid swap counterparties a variable rate of interest based upon three month BBA LIBOR; and had interest settlement dates occurring on the last day of December, March, June and September through maturity. SEA had designated such interest rate swap agreements as qualifying cash flow hedge accounting relationships. As a result of Amendment No. 5, in May 2013, the Interest Rate Swap Agreements were restructured into two interest rate swaps totaling $550,000 to match the refinanced debt. Each restructured interest rate swap has a notional amount of $275,000; matures on September 30, 2016; requires the Company to pay a fixed rate of interest between 1.049% and 1.051% per annum; pays swap counterparties a variable rate of interest based upon the greater of three month BBA LIBOR; and has interest settlement dates occurring on the last day of December, March, June and September through maturity. SEA designated such interest rate swap agreements as qualifying cash flow hedge accounting relationships as further discussed in Note 7-Derivative Instruments and Hedging Activities which follows.

Cash paid for interest relating to the Senior Secured Credit Facilities, the Senior Notes and the Interest Rate Swap Agreements was $11,804 and $59,685 for the three and nine month periods ending September 30, 2013, respectively, and $15,026 and $66,201 for the three and nine month periods ending September 30, 2012, respectively.

Long-term debt at September 30, 2013, is repayable as follows, not including any possible prepayments:

Years Ending December 31,	
2013	$ 3,512
2014	14,050
2015	14,050
2016	274,050
2017	14,050
Thereafter	1,341,775

Total	$ 1,661,487

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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.

As of September 30, 2013 and December 31, 2012, 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 nine months ended September 30, 2013, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. As of September 30, 2013, the Company had two outstanding interest rate swaps with a combined notional value of $550,000 that were designated as cash flow hedges of interest rate risk. In connection with Amendment No. 5 to the Senior Secured Credit Facility on May 14, 2013, the Company restructured the interest rate swaps to match the refinanced debt. The restructuring of the interest rate swap required a re-designation of the hedge accounting relationship. The re-designation is expected to result in the recognition of a minimal amount of ineffectiveness throughout the remaining term of the interest rate swaps.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive loss and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three and nine months ended September 30, 2013, there was no ineffective portion recognized in earnings. 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 $1,567 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 sheet as of September 30, 2013:

	Asset Derivatives As of September 30, 2013		Liability Derivatives As of September 30, 2013	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate swaps	Other assets	$ 347	Other liabilities	$

Total derivatives designated as hedging instruments	$	347	$

The unrealized gain on derivatives is recorded net of a tax benefit of $675 and a tax expense of $741 for the three and nine months ended September 30, 2013, respectively, and is included within the unaudited condensed consolidated statements of operations and comprehensive income (loss).

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

The table below presents the pre-tax effect of the Company s derivative financial instruments on the unaudited condensed consolidated statements of operations and comprehensive income (loss) for the three and nine months ended September 30, 2013:

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Derivatives in Cash Flow Hedging Relationships:		
(Loss) gain related to effective portion of derivatives recognized in accumulated other comprehensive income	$ (1,380)	$ 3,338
Loss related to effective portion of derivatives reclassified from accumulated other comprehensive income to interest expense	$ (422)	$ (1,144)
Gain (loss) related to ineffective portion of derivatives recognized in other income (expense)	$	$

Credit Risk-Related Contingent Features

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

As of September 30, 2013, the termination value of derivatives in a net asset position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $348. As of September 30, 2013, the Company has posted no collateral related to these agreements. If the Company had breached any of these provisions at September 30, 2013, it could have been required to settle its obligations under the agreements at their termination value of $348.

8. FAIR VALUE MEASUREMENTS

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement is required to be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

The Company has determined that the majority of the inputs used to value its derivative financial instruments using the income approach fall within Level 2 of the fair value hierarchy. The Company uses readily available market data to value its derivatives, such as interest rate curves and discount factors. ASC 820, *Fair Value Measurements and Disclosures,* 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 are classified in Level 2 of the fair value hierarchy. The fair value of the term loans as of September 30, 2013 approximates their carrying value due to the variable nature of the underlying interest rates and the frequent intervals at which such interest rates are reset. The Senior Notes are classified in Level 3 of the fair value hierarchy and have been valued using significant inputs that are not observable in the market including a discount rate of 10.41% and projected cash flows of the underlying Senior Notes.

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The following table presents the Company s estimated fair value measurements and related classifications as of September 30, 2013:

	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 September 30, 2013
Assets:				
Derivative financial instruments (a)	$	$ 347	$	$ 347
Liabilities:				
Long-term obligations (b)	$	$ 1,401,487	$ 269,627	$ 1,671,114

(a) Reflected at fair value in the unaudited condensed consolidated balance sheet as other assets of $347. There were no transfers between Levels 1, 2 or 3 during the three or nine months ended September 30, 2013.

(b) Reflected at carrying value in the unaudited condensed consolidated balance sheet as current maturities on long-term debt of $14,050 and long-term debt of $1,629,489 as of September 30, 2013.

The Company did not have any assets measured at fair value at December 31, 2012. The following table presents the Company s estimated fair value measurements and related classifications as of December 31, 2012:

	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, 2012
Liabilities:				
Long-term obligations (a)	$	$ 1,445,774	$ 416,317	$ 1,862,091
Derivative financial instruments (b)	$	$ 1,880	$	$ 1,880

(a) Reflected at carrying value in the unaudited condensed consolidated balance sheet as current maturities on long-term debt of $21,330 and long-term debt of $1,802,644 as of December 31, 2012.

(b) Reflected at fair value in the unaudited condensed consolidated balance sheet as other liabilities of $1,880 at December 31, 2012.

9. RELATED-PARTY TRANSACTIONS

Certain affiliates of Blackstone provided monitoring, advisory, and consulting services to the Company under an advisory fee agreement (the 2009 Advisory Agreement), which was terminated on April 24, 2013 in connection with the completion of the initial public offering (see Note 12 Stockholders Equity). Fees related to these services, which were based upon a multiple of Adjusted EBITDA as defined in the 2009 Advisory Agreement, amounted to $2,799 for the nine months ended September 30, 2013, and $2,264 and $5,075 for the three and nine months ended September 30, 2012, respectively. These amounts are included in selling, general and administrative expenses in the accompanying unaudited condensed consolidated statements of operations and comprehensive income (loss). There were no fees related to these services in the three months ended September 30, 2013 due to the termination of the 2009 Advisory Agreement in April 2013 (see discussion which follows).

In connection with the completion of the initial public offering in April 2013 (see Note 12 Stockholders Equity), the 2009 Advisory Agreement between the Company and affiliates of Blackstone was terminated (except for certain provisions relating to indemnification and certain other provisions, which survived termination). In connection with such termination, the Company paid a termination fee of $46,300 to Blackstone using a portion of the net proceeds from the offering and wrote-off $3,772 of the 2013 prepaid advisory fee. The combined expense of $50,072 is recorded as termination of advisory agreement in the accompanying unaudited condensed consolidated statements of operations and comprehensive income (loss).

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On March 30, 2012, the Company declared and paid a $500,000 cash dividend to its stockholders. In June 2013, the Company s Board of Directors declared a cash dividend of $0.20 per share to all common stockholders of record at the close of business on June 20, 2013, which was paid on July 1, 2013. In September 2013, the Company s Board of Directors declared a cash dividend of $0.20 per share to all common stockholders of record at the close of business on September 20, 2013, which was paid on October 1, 2013. In connection with the dividend declarations described above, certain affiliates of Blackstone were paid dividends in the amount of $500,000, $11,749 and $11,749 on March 30, 2012, July 1, 2013 and October 1, 2013, respectively.

10. COMMITMENTS AND CONTINGENCIES

The Company is a party to various claims and legal proceedings arising in the normal course of business. 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. 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 is recognized over the requisite service period, which is generally the vesting period.

Employee Units Surrendered for Common Stock

Prior to April 18, 2013, the Company had an Employee Unit Incentive Plan (Employee Unit Plan). Under the Employee Unit Plan, the Partnerships granted Employee Units to certain key employees of SEA (Employee Units). The Employee Units which were granted were accounted for as equity awards and were divided into three tranches, Time-Vesting Units (TVUs), 2.25x Performance Vesting Units (PVUs) and 2.75x PVUs. Upon vesting of the Employee Units, the Company issued the corresponding number of shares of common stock of the Company to the Partnerships. There was no related cost to the employee upon vesting of the units. As of April 18, 2013, 669,293 Employee Units had been granted under the Employee Unit Plan, net of forfeitures. Separately, certain members of management in 2011 also purchased an aggregate of 29,240 Class D Units of the Partnerships (Class D Units).

Prior to the consummation of the Company s initial public offering, on April 18, 2013, the Employee Units and Class D Units held by certain of the Company s directors, officers, employees, and consultants were surrendered to the Partnerships and such individuals received an aggregate of 4,165,861 shares of the Company s issued and outstanding common stock from the Partnerships. The number of shares of the Company s common stock received by such individuals from the Partnerships was determined in a manner intended to replicate the economic value to each equity holder immediately prior to the transaction. The Class D Units and vested Employee Units were surrendered for an aggregate of 949,142 shares of common stock. The unvested Employee Units were surrendered for an aggregate of 3,216,719 unvested restricted shares of the Company s common stock, which are subject to vesting terms substantially similar to those applicable to the unvested Employee Units immediately prior to the transaction. These unvested restricted shares consist of Time Restricted shares, and 2.25x and 2.75x Performance Restricted shares (collectively the Performance Restricted shares), which, for accounting purposes, were removed from issued and outstanding shares until their restrictions are met, as shown on the accompanying unaudited condensed consolidated statement of changes in stockholders equity. The following table sets forth the number of Class D Units and Employee Units surrendered for shares of common stock prior to the consummation of the Company s initial public offering:

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	Units	Shares of Common Stock
	(not in thousands)	
Vested TVUs surrendered for shares of stock	121,206	727,852
Class D Units surrendered for shares of stock	29,240	221,290
Total Class D Units and vested TVUs surrendered for shares of stock	150,446	949,142
Unvested TVUs surrendered for unvested Time Restricted shares of stock	103,913	599,215
2.25x PVUs surrendered for 2.25x Performance Restricted shares of stock	222,087	1,308,752
2.75x PVUs surrendered for 2.75x Performance Restricted shares of stock	222,087	1,308,752
Total unvested TVUs and PVUs surrendered for shares of unvested restricted stock	548,087	3,216,719
Total units surrendered for shares of stock and unvested restricted stock	698,533	4,165,861

Time-Vesting Units (TVUs) and Time Restricted Shares

One-third of the Employee Units originally granted vested over five years (20% per year). Generally, the vesting began on the earlier of December 1, 2009, or the grant date. Vesting was contingent upon continued employment. In the event of a change of control (defined as a sale or disposition of the assets of the limited partnership to other than a Blackstone affiliated group or, if any group other than a Blackstone-affiliated entity, becomes the general partner or the beneficial owner of more than 50% interest), the TVUs immediately 100% vested. The TVUs were originally recorded at the fair market value at the date of grant and were being amortized to compensation expense over the vesting period.

The shares of stock received upon surrender of the Employee Units contain substantially identical terms, conditions and vesting schedules as the previously outstanding Employee Units. In accordance with the guidance in ASC 718-20, *Compensation-Stock Compensation,* the surrender of the Employee Units for shares of common stock and Time Restricted shares qualifies as a modification of an equity compensation plan. As such, the Company calculated the incremental fair value of the TVU awards immediately prior to and after their modification and determined that $282 of incremental equity compensation cost would be recorded upon surrender of the vested TVUs for vested shares of stock in the nine months ended September 30, 2013. The remaining incremental compensation cost of $220 which represents the incremental cost on the unvested TVUs which were surrendered for unvested Time Restricted shares of restricted stock, will be added to the original grant date fair value of the TVU awards and amortized to compensation expense over the remaining vesting period.

Total combined compensation expense related to these TVU and Time Restricted share awards was $606 and $1,537 for the three and nine months ended September 30, 2013 and $305 and $872 for the three and nine months ended September 30, 2012 and is included in selling, general, and administrative expenses in the accompanying unaudited condensed consolidated statement of operations and comprehensive income (loss) and as contributed capital in the accompanying unaudited condensed consolidated statements of stockholders equity. Total unrecognized compensation cost related to the unvested Time Restricted shares, expected to be recognized over the remaining vesting term was approximately $1,706 as of September 30, 2013.

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The activity related to the TVU and Time Restricted share awards for the nine months ended September 30, 2013, is as follows:

	Employee Units	Shares	Weighted Average Grant Date Fair Value per Unit/Share	Weighted Average Remaining Contractual Term
	(not in thousands)			
Outstanding unvested TVUs at December 31, 2012	112,701		$ 21.70	
Vested units	(8,788)		$ 22.71	
TVUs surrendered for unvested Time Restricted shares of stock	(103,913)	599,215	$ 4.06	
Vested shares		(31,675)	$ 3.82	
Forfeited		(2,025)	$ 3.82	
Outstanding unvested Time Restricted shares of stock at September 30, 2013		565,515	$ 4.07	17 months

2.25x and 2.75x Performance Vesting Units (PVUs) and Performance Restricted Shares

Two tranches of the Employee Units vested only if certain events occur. The 2.25x PVUs under the Employee Unit Plan vested if the employee is employed by the Company when and if Blackstone receives cash proceeds (not subject to any clawback, indemnity or similar contractual obligation) in respect of its Partnerships units equal to (x) a 20% annualized effective compounded return rate on Blackstone s investment and (y) a 2.25x on Blackstone s investment. The 2.75x PVUs under the Employee Unit Plan vested if the employee is employed by the Company when and if Blackstone received cash proceeds (not subject to any clawback, indemnity or similar contractual obligation) in respect of its Partnerships units equal to (x) a 15% annualized effective compounded return rate on Blackstone s investment and (y) a 2.75x multiple on Blackstone s investment. The PVUs had no termination date other than termination of employment from the Company and there were no service or period vesting conditions associated with the PVUs other than employment at the time the benchmark was reached; no compensation was recorded related to these PVUs prior to the modification since their exercise was not considered probable. The unvested Performance Restricted shares received upon surrender of the Employee Unit PVUs contain substantially the same terms and conditions as the previously outstanding PVUs. No compensation expense will be recorded related to the Performance Restricted shares until their vesting is probable, accordingly, no compensation expense has been recorded during the nine months ended September 30, 2013 or 2012 related to these PVUs or Performance Restricted share awards. In accordance with the guidance in ASC 718-20, *Compensation-Stock Compensation,* the surrender of the Employee Units for shares of common stock qualifies as a modification of an equity compensation plan. As the Performance Restricted shares were not considered probable of vesting before or after the modification, the Company will use the modification date fair value to record compensation expense related to these awards if the performance conditions become probable within a future reporting period. Total unrecognized compensation expense as of September 30, 2013, was approximately $28,125 and $18,846 for the 2.25x and 2.75x Performance Restricted shares, respectively.

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The activity related to the 2.25x Performance Restricted shares for the nine months ended September 30, 2013, is as follows:

	Employee Units	**Shares**
	(not in thousands)	
Outstanding 2.25x PVUs at December 31, 2012	225,051	
Forfeited	(2,964)	
2.25x PVUs surrendered for unvested 2.25x Performance Restricted shares of stock	(222,087)	1,308,752
Vested		
Outstanding unvested 2.25x Performance Restricted shares of stock at September 30, 2013		1,308,752

The activity related to the 2.75x Performance Restricted shares for the nine months ended September 30, 2013, is as follows:

	Employee Units	**Shares**
	(not in thousands)	
Outstanding 2.75x PVUs at December 31, 2012	225,051	
Forfeited	(2,964)	
2.75x PVUs surrendered for unvested 2.75x Performance Restricted shares of stock	(222,087)	1,308,752
Vested		
Outstanding unvested 2.75x Performance Restricted shares of stock at September 30, 2013		1,308,752

The fair value of each Employee Unit originally granted was estimated on the date of grant using a composite of the discounted cash flow model and the guideline public company approach to determine the underlying enterprise value. The discounted cash flow model was based upon significant inputs that are not observable in the market. Key assumptions included projected cash flows, a discount rate of 10.5%, and a terminal value. The guideline public company approach uses relevant public company valuation multiples to determine fair value. The value of the individual equity tranches was allocated based upon the Option-Pricing Method model. Significant assumptions included a holding period of 2.6 to 3.6 years, a risk free rate of 0.33% to 1.22%, volatility of approximately 49% to 57%, a discount for lack of marketability, depending upon the units, from 31% to 53% and a 0 dividend yield. Volatility for SEA s stock at the date of grant was estimated using the average volatility calculated for a peer group, which is based upon daily price observations over the estimated term of units granted.

In order to calculate the incremental fair value at the modification date, the Option-Pricing Method model was used to estimate the fair value prior to the modification. For the fair value after the modification, the initial public offering price of $27.00 per share was used to calculate the fair value of the TVUs while the fair value of the PVUs was estimated using an asset-or-nothing call option approach. Significant assumptions used in both the Option-Pricing Method model and the asset-or-nothing call option approach included a holding period of approximately 2 years from the initial public offering date, a risk free rate of 0.24%, a volatility of approximately 37.6% based on re-levered historical and implied equity volatility of comparable companies and a 0 dividend yield.

2013 Omnibus Incentive Plan

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

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On April 19, 2013, 494,557 shares of restricted stock were granted to the Company s directors, officers and employees under the 2013 Omnibus Incentive Plan (the 2013 Grant). The shares granted were in the form of time vesting restricted shares (Time Restricted 2013 shares), 2.25x performance restricted shares (2.25x Performance Restricted 2013 shares) and 2.75x performance restricted shares (2.75x Performance Restricted 2013 shares). The activity related to the 2013 Grant for the nine months ended September 30, 2013, is as follows:

	Shares	Weighted Average Grant Date Fair Value per Share	Weighted Average Remaining Contractual Term
	(not in thousands)		
2013 Grant			
Granted:			
Time Restricted 2013 shares vesting after initial public offering 180 day lock up period	85,647	$ 33.52	
Time Restricted 2013 shares vesting over remaining service period	82,290	$ 33.52	
2.25x Performance Restricted 2013 shares	163,310	$ 30.46	
2.75x Performance Restricted 2013 shares	163,310	$ 23.05	
Vested			
Forfeited	(267)	$ 33.52	
Outstanding 2013 Grant unvested restricted shares at September 30, 2013	494,290	$ 29.05	16 months

The vesting terms and conditions of the Time Restricted 2013 shares, the 2.25x Performance Restricted 2013 shares, and the 2.75x Performance Restricted 2013 shares included in the 2013 Grant are substantially the same as those of the previous Employee Unit Plan TVUs, 2.25x PVUs, and 2.75x PVUs, respectively, (see 2.25x and 2.75x Performance Vesting Units (PVUs) and Performance Restricted Shares section). For the Time Restricted 2013 shares, after an initial 180 day post initial public offering lock up period, the vesting schedule from the Employee Unit Plan carries over so that each recipient will vest in the 2013 Grant in the same proportion as they were vested in the previous Employee Unit Plan. The remaining unvested shares will vest over the remaining service period, subject to substantially the same vesting conditions which carried over from the previous Employee Unit Plan.

The grant date fair value for the Time Restricted 2013 shares awarded was determined based on the closing market price of the Company s stock at the date of grant applied to the total number of shares that are anticipated to fully vest. The fair value of the restricted shares will be recognized as equity compensation on a straight-line basis over the requisite service period as if the award was, in substance, multiple awards consisting of the Time Restricted 2013 shares which vest at the end of the initial public offering 180 day lock up period, and the remaining Time Restricted 2013 shares which vest over the requisite service period. As