



Moody's Investors Service

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Opinion

Company Profile

Six Flags, Inc. ("Six Flags"), headquartered in New York City, is a regional theme park company that operates 21 parks spread across North America. The park portfolio includes 17 wholly-owned facilities (including parks near New York City, Chicago and Los Angeles) as well as four parks - Six Flags over Texas ("SFOT"), Six Flags over Georgia ("SFOG"), Hurricane Harbor and the Great Escape Lodge - in which Six Flags owns partial interests (currently less than 50%) but consolidates due to significant operational control and residual economic interest. Annual revenue approximates \$970 million.

Recent Events

On May 14, 2008, we affirmed Six Flags' Caa1 Corporate Family rating (CFR), downgraded Six Flags' Probability of Default Rating (PDR) to Ca from Caa1 and downgraded the ratings on Six Flags' 2013 and 2014 notes to Caa3 from Caa1. We also assigned a Caa2 rating and LGD4-59% assessment to Six Flags Operations, Inc.'s ("SFO") proposed \$400 million of senior unsecured exchange notes maturing in 2016. The rating actions follow Six Flags' announced offer to exchange its notes due in 2010 (at 90% of the original principal amount if tendered by the Early Tender Date) and in 2013 and 2014 (at 70% of the original principal amount if tendered by the Early Tender Date), in some combination although not fully, for the \$400 million of proposed notes. The exchange involves no significant net cash proceeds to Six Flags or bondholders and is scheduled to expire on June 11, 2008.

We believe the exchange offer reduces the near term potential for a payment default on the non-exchanged securities (however, Moody's will classify the exchange as a default due to the distressed nature of the same), but it does not materially alter the credit profile reflected in the Caa1 CFR. In particular, the exchange offer alleviates some of the refinancing risk associated with the looming \$280 million February 2010 bond maturity, but will likely affect the company's cash interest requirements only moderately (could increase or decrease depending on the mix of bonds tendered) and does not improve the company's weak cash flow generation or materially reduce the very high leverage. The exchange offer also does not address the August 2009 PIERS redemption date, although the company's negative equity position may preclude a redemption of the PIERS under Delaware law.

Rating Rationale

Six Flags' Caa1 CFR reflects uneven and weak operating performance resulting from shifts in strategy for the portfolio of regional theme parks. Significant expense growth without accompanying improvements in attendance and revenue and heavy capital expenditures have translated into operating margins below that of other regional theme park operators, consistently negative cash flow generation and very high leverage and financial risk. Six Flags has covered cash flow deficits with new borrowings and asset sale proceeds but a decline in the number of parks in the portfolio (to 21 at present from 39 five years ago) has reduced the asset base without easing the leverage burden. Debt-to-EBITDA (14.6x for FY 2007 incorporating Moody's standard adjustments) has in fact increased in the last few years and is at a level Moody's views as unsustainable.

Despite limited financial flexibility, the new management team installed after the Dan Snyder-led proxy takeover at the end of 2005 increased costs as part of a turnaround strategy to create an appealing experience for both families and teenage clients, expecting increased revenue and cash flow to follow. Two plus years into this transition, EBITDA and attendance for Six Flags remain below the levels of 2004 and 2005 (pro forma for park sales), although there is progress in making the parks more family-friendly and in licensing/sponsorship. Six Flags is adjusting its strategy in 2008 with a focus on reducing expenses and capital spending to lower the cash burn. In our view, 2008 is a critical year for the company as covenant step-downs in the credit facility, and dependency on capital markets to refinance upcoming maturities in 2009 and 2010 create pressure for a quick turnaround. We believe the prospect of a consumer-led economic slowdown in the U.S. will create challenges to executing the turnaround notwithstanding the potential benefit from the opening of seven new roller coasters in 2008 as well as households substituting regional entertainment options for higher-priced out-of-market vacations.

We expect to characterize the transaction proposed on May 14th as a distressed exchange. The Ca PDR reflects the likelihood of this default occurring in the near term. We expect to change the PDR to Caa1/LD upon completion of the exchange offer to indicate a "limited default", with the PDR reverting to Caa1 approximately three days thereafter.

DETAILED RATING CONSIDERATIONS

The key drivers of Six Flags' ratings are:

Execution Risk, Unproven Strategy

Operational improvement remains uncertain for Six Flags, with almost no evidence of EBITDA progress since the new management team was established at the end of 2005. The company's financial condition has deteriorated throughout the transition, as illustrated by the successive EBITDA margin (including partnership parks on a fully consolidated basis) declines of approximately 710 bp in 2006 and 50 bp in 2007. Management's strategy of transforming the parks to attract more families improved per capita revenue, but at higher operating costs. The increased per capita revenue has not offset the decline in attendance, which along with higher operating costs has compressed margins. Six Flags now plans to reduce advertising and park-level operating expenses, as well as corporate overhead. The ability to execute a turnaround remains unproven, and there is significant pressure to improve performance in 2008 due to covenant step-downs in the credit facility, and dependency on capital markets to refinance upcoming maturities (\$288 million PIERS due August 2009 and \$280 million notes due February 2010). As noted, Six Flags offered to exchange the February 2010 notes into a new series of bonds issued by SFO maturing in 2016 and the negative equity position may preclude the company from redeeming the PIERS under Delaware law.

Management is demonstrating an ability to capitalize on the Six Flags brand and sizable attendance by boosting revenue from sponsorship, third party licenses, and in-park advertising. We believe this high margin revenue could offset the lower margin on more branded food offerings such as Papa Johns and Cold Stone Creamery. Executing the company's strategy for 2008 will require the tactical challenge of catering to teenagers/thrill-ride enthusiasts and families with young children. The operational challenges are most acute in Los Angeles, where a number of other theme park competitors exist.

Six Flags' organic revenue decreased by a moderate 0.9% in 2002 in the last economic downturn. Regional theme park operators tend to get a lift from higher income households substituting regional entertainment options for higher-priced out-of-market vacations in times of economic stress. However, the effect on theme park revenue also depends on the magnitude of reduction in spending due to weaker disposable income as well as strategic initiatives that can affect attendance such as new rides and attractions. We believe the prospect of a consumer-led economic slowdown in the U.S. will create challenges to executing a turnaround in 2008 notwithstanding the potential benefits from the aforementioned substitution effect and Six Flags' opening of seven new roller coasters.

High Financial Risk

We consider Six Flags' negative free cash flow and high debt-to-EBITDA (14.6x FY 2007 incorporating Moody's standard adjustments) to be unsustainable. The company is using proceeds from asset sales to cover cash flow shortfalls and fund new investments (investments in 2007 included the buyout of the remaining 20% cash flow interest in Six Flags Discovery Kingdom for \$53 million and a 40% interest in Dick Clark Productions for \$40 million). Attempts to reduce debt through asset sales have had very little effect on leverage. Further, the transition to management's new strategy required increased expenses prior to any revenue benefits and challenged the company's already weak financial position.

Six Flags has consumed cash after capital expenditures and debt service (including dividends on the preferred stock) since 2004. Absent a restructuring of the liabilities or material growth in EBITDA generation, we anticipate continued cash consumption in 2008 and 2009. Six Flags projects it can generate break even free cash flow in 2008 with existing initiatives coupled with an additional 1% growth in either attendance or per capita spending, but we believe meaningful debt reduction is necessary to achieve a more sustainable capital structure.

High capital expenditures contribute to weak fixed charge coverage, which we estimate at below 0.5x (measured as EBITDA less capital expenditures-to-interest expense, incorporating Moody's standard adjustments) for 2007. We anticipate this ratio will improve somewhat but will likely remain weak (less than 1x) for the next several years. Six Flags could reduce capital expenditures to conserve cash in a given year, but continued investment is necessary to sustain desirable amusements and entertainment, and the customer satisfaction (pleasing environment, minimal wait times, etc.) that drives attendance long-term.

Weather Sensitive, Mature Industry, but Benefits from High Barriers to Entry

Six Flags operates in a mature industry and competes for consumer leisure time from a wide variety of entertainment options. Furthermore, the parks require warm, dry weather to drive attendance, providing potential for volatility of operations. The limited operating season for most parks intensifies this risk.

The limited supply of affordable real estate, zoning requirements and high capital spending reduce the likelihood of new regional competitors. Furthermore, geographic diversity (including operations on both the east and west coasts) somewhat mitigates the negative impact of poor weather.

Structural Considerations

Six Flags Theme Parks, Inc. ("SFTP") is the borrower under the credit facility and operates the wholly-owned parks and Six Flags Great Escape Lodge through its subsidiaries. Six Flags, Inc. is the issuer of the publicly traded stock, the unsecured bonds maturing from 2010-2015 and the preferred stock and is the indirect parent of SFTP. The proposed exchange notes will be issued by SFO, which is a subsidiary of Six Flags, Inc. and an intermediate holding company of SFTP.

Six Flags, Inc. holds the partnership interests in Six Flags over Georgia (26% at the end of 2007) and Six Flags over Texas (38% at the end of 2007). The minority interest holders have had a right to put back annually up to 5% of the interest in the SFOT and SFOG partnerships since the 1998 acquisition of the former Six Flags. Only a modest amount of these puts have been exercised to date, but the put right is cumulative. The company expects to purchase \$1 million of partnership interests in 2008 and estimates the potential put obligation in 2009 approximates \$335.2 million if all of the puts were exercised. The minority interest holders receive minimum annual cash distributions (subject to increases based on the consumer price index) that have helped alleviate the incidence of puts.

The credit facility lenders do not have a direct claim on the partnership parks, although a failure by Six Flags to meet its obligation under the partnership puts would constitute a default under the credit agreement. We believe Six Flags would seek to fund any put obligation with new financing as there would be a cash benefit to Six Flags in that it would receive the annual cash distribution on any partnership interest in which Six Flags purchased pursuant to the put. Time Warner has guaranteed the put obligation in the event Six Flags cannot meet its obligation under the put, but this would not cure any default under the credit agreement. Failure to satisfy the partnership puts would not

constitute a default on the unsecured notes or preferred stock issued by Six Flags, Inc., but a default under the credit agreement would trigger a default on the notes.

Ratings on the credit facility, new SFO exchange notes and the PIERS reflect the probability of a subsequent default on the non-exchanged securities and the projected loss given default of these securities, the latter of which is governed by Moody's loss given default methodology and the anticipated debt mix upon completion of the proposed exchange offer. Accordingly, we anticipate the ratings and LGD assessments for these specific instruments will not change if the exchange offer is completed.

The B1 rating and LGD2-20% assessment on the \$1.1 billion guaranteed senior secured credit facility issued by SFTP reflects the benefit of the first priority claim on the assets and cash flow of the wholly-owned parks. The credit facility represents less than half of Six Flags' total debt and we believe is cushioned by the sizable amount of unsecured bonds.

The Caa2 rating and LGD4-59% assessment on SFO's proposed \$400 million exchange notes reflect the structural seniority with respect to the wholly-owned parks to the existing \$1.4 billion of senior unsecured notes and \$288 million of mandatory redeemable preferred stock (PIERS) issued by Six Flags, Inc.. The SFO exchange notes and Six Flags, Inc. notes have the same senior unsecured claim on the Texas and Georgia partnership park interests by virtue of Six Flags, Inc.'s downstream senior unsecured guarantee of the SFO bonds. The notes are effectively and structurally subordinate to the \$1.1 billion senior secured credit facility issued by SFTP with respect to the wholly-owned parks and would likely absorb some loss in a restructuring.

The Caa2 rating and LGD2-10% assessment on the 2010 notes and the Caa3 rating and LGD3-30% assessment on the 2013 and 2014 notes will remain in place until the exchange offer closes and are based on our estimate of the expected near term loss on the original principal in the exchange offer given the likelihood of the transaction closing as outlined in the company's May 14, 2008 press release. We expect the ratings on any 2010, 2013 and 2014 notes that remain outstanding following the exchange offer to be Caa3 with a LGD5-85% assessment, although the LGD point estimates could change slightly depending on the mix of bonds exchanged. The ratings expected upon completion of the exchange offer reflect the effective and structural subordination to the material amount of credit facility debt with respect to the wholly-owned parks, which represent a majority of revenue and EBITDA. The notes are not guaranteed. We do not rate the \$280 million convertible notes due in 2015. The current Caa2 rating on the 2010 notes remains on review for downgrade based on the expectation that the rating will be lowered to Caa3 upon closing of the exchange offer.

The Caa3 rating and LGD6-98% assessment on the \$288 million PIERS reflects the residual equity claim on the assets and cash flow of Six Flags, Inc. after the credit facility and senior unsecured notes and our view that this instrument would experience significant loss in a restructuring scenario.

Liquidity

Six Flags' SGL-4 speculative-grade liquidity rating reflects its limited cash balance, negative free cash flow generation, and reliance on the revolver and asset sales to meet its potential cash obligations and manage the highly seasonal operational needs. Access to the credit facility is contingent upon compliance with a maximum debt-to-EBITDA covenant (the calculation is defined in the credit agreement and differs from that of Moody's) and certification that no Material Adverse Effect (as defined) has occurred.

We do not believe internally generated cash flow can fund the company's debt service, capital expenditures and dividends through June 2009, but consider the unused revolver commitment adequate to fund the shortfall. Balance sheet cash as of 3/31/08 (\$12.7 million) is not readily available for operational needs as it was less than the \$42.7 million of accrued interest. Annual debt service consists of approximately \$160 - \$180 million of cash interest and \$8.5 million of required term loan amortization. Other potential cash needs include capital expenditures of approximately \$100 million and the approximate \$336 million of partnership puts through May 2009.

Continuation of the credit facility (and revolver usage) is contingent upon compliance with the credit facility covenants. Six Flags had ample cushion under the 5.75x senior secured debt-to-EBITDA covenant at 3/31/08 but prospective compliance is less certain given the significant step down to 5.25x as of 3/31/09. The senior secured covenant is measured based on the obligations of SFO and SFTP and covenant debt consists currently of the term loan and the average revolver borrowings for the trailing four quarters to smooth seasonal fluctuations (and excludes the unsecured notes issued by Six Flags, Inc. and SFO and the PIERS). Because of the four quarter average, increased revolver borrowings only factor into the covenant calculation with a lag.

Six Flags could likely monetize some of its real estate, but we anticipate the process would require extensive time and negotiations, compounded by the necessity of ensuring any purchasers develop land in a manner that is not detrimental to operations of the adjacent park.

The liquidity position could weaken once the \$288 million of redeemable preferred stock (redeemable August 2009) and any remaining principal balance (after the proposed exchange offer) on the \$280 million of notes due February 2010 fall within the 12 month liquidity window.

Rating Outlook

The negative rating outlook reflects the increased potential for default if Six Flags does not execute an operational turnaround in 2008 and the refinancing risk posed by the upcoming maturities in 2009 and 2010. As noted, the current Caa2 rating on the 2010 notes remains on review for downgrade based on our expectation that the rating will be lowered to Caa3 upon closing of the exchange offer.

What Could Change the Rating - Down

Evidence of deteriorating liquidity including diminishing covenant cushion or revolver access could result in a downgrade. An inability to execute meaningful operational and cash flow improvements in 2008 and refinance the 2009 and 2010 maturities could also lead to downward rating pressure.

What Could Change the Rating - Up

We would consider a return to a stable rating outlook if liquidity improves (including a refinancing of the 2009 and 2010 maturities and sustained adequate cushion under the credit facility financial covenants), and clear evidence of meaningful operational and cash flow improvement exists. To be considered for an upgrade, Six Flags would need to sustain positive free cash flow and debt-to-EBITDA below 10x in addition to a comfortable liquidity position.

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