

MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our Common Stock is listed on the New York Stock Exchange (the "NYSE") under the symbol "PKS." Set forth below are the high and low sales prices for the Common Stock as reported by the NYSE since January 1, 2000.

<u>Year</u>	<u>Quarter</u>	<u>High</u>	<u>Low</u>
2002	First (through March 1, 2002)	16 ¹ / ₂	12 ¹ / ₂
2001	Fourth	16	11 ¹ / ₂
	Third	23 ⁵ / ₈	10 ⁵ / ₁₆
	Second	23 ³ / ₄	17 ¹³ / ₁₆
	First	23 ¹ / ₁₆	16 ³ / ₈
2000	Fourth	17 ³ / ₁₆	14 ³ / ₁₆
	Third	24	13 ¹ / ₂
	Second	28 ¹ / ₈	20
	First	28 ⁵ / ₁₆	19 ¹ / ₂

As of March 1, 2002, there were 790 holders of record of our Common Stock. We paid no cash dividends on our Common Stock during the three years ended December 31, 2001. We do not anticipate paying any cash dividends on our Common Stock during the foreseeable future. The indentures relating to our 8⁷/₈% Senior Notes due 2010, 9¹/₂% Senior Notes Due 2009, 10% Senior Discount Notes Due 2008 and 9³/₄% Senior Notes due 2007 limit the payment of cash dividends to common stockholders. See Note 6 to Notes to Consolidated Financial Statements.

SELECTED FINANCIAL DATA

In February and November 1997, respectively, we acquired Six Flags New England (formerly Riverside Park) and Six Flags Kentucky Kingdom (formerly Kentucky Kingdom). In 1998, we acquired the former Six Flags and substantially all of the capital stock of Walibi. In May 1999, we acquired Six Flags Mexico (formerly Reino Aventura) and two water parks, one of which is owned by a Partnership Park and not consolidated. In November 1999, we acquired Warner Bros. Movie World Germany, the operating season of which ended prior to the acquisition. In December 2000, we acquired Enchanted Village. In February and May 2001, respectively, we acquired the former Sea World of Ohio and La Ronde. In each case the operations of acquired parks are reflected only for the periods subsequent to their respective acquisition dates. See Note 2 to Notes to Consolidated Financial Statements.

	2001	2000	1999	1998(1)	1997
	(In thousands, except per share data)				
Revenue	\$1,045,964	\$1,006,981	\$ 926,984	\$ 792,703	\$ 193,904
Depreciation and amortization	199,800	179,989	154,264	109,841	19,792
Equity in operations of theme park partnerships	21,512	11,833	26,180	24,054	—
Interest expense, net	223,394	224,767	169,441	115,849	17,775
Income tax expense (benefit)	(7,195)	5,622	24,460	40,716	9,615
Income (loss) before extraordinary loss	(49,573)	(51,959)	(19,230)	35,628	14,099
Extraordinary loss on extinguishment of debt, net of tax effect	(8,529)	—	(11,296)	(788)	—
Net income (loss)	(58,102)	(51,959)	(30,526)	34,840	14,099
Net loss — pro forma	N/A	N/A	N/A	(51,160)	N/A
Net income (loss) applicable to common stock	(84,617)	(75,247)	(53,814)	17,374	14,099(2)
Per Share(3):					
Income (loss) before extraordinary loss:					
Basic	(.85)	(.96)	(.55)	.27	.39
Diluted	(.85)	(.96)	(.55)	.26	.38
Pro forma(4)	N/A	N/A	N/A	(.98)	N/A
Extraordinary loss, net of tax effect:					
Basic	(.10)	—	(.14)	(.01)	—
Diluted	(.10)	—	(.14)	(.01)	—
Pro forma(4)	N/A	N/A	N/A	(.01)	N/A
Net income (loss):					
Basic	(.95)	(.96)	(.69)	.26	.39
Diluted	(.95)	(.96)	(.69)	.25	.38
Pro forma(4)	N/A	N/A	N/A	(.99)	N/A
Cash Dividends — Common Stock	—	—	—	—	—
Net cash provided by operating activities	183,291	176,161	197,349	119,010	47,150
Net cash used in investing activities	(284,041)	(337,063)	(506,178)	(1,664,883)	(217,070)
Net cash provided by financing activities	111,415	66,949	49,488	1,861,098	250,165
Total assets	4,246,142	4,191,339	4,161,572	4,052,465	611,321
Long-term debt(5)	2,247,069	2,322,313	2,204,988	2,064,189	217,026
EBITDA(6)	358,132	369,289	319,031	235,240	54,101
Adjusted EBITDA(7)	402,521	402,496	363,219	258,943	N/A

(1) Our reported results in 1998 were materially affected by two significant acquisitions. In March 1998, we acquired a controlling interest in Walibi S.A. and on April 1 of that year we acquired former Six Flags. The timing of these acquisitions, when coupled with the seasonality of our business, resulted in our recognizing substantially all of the revenues of the acquired parks (which represented 61.2% of our revenues for the year ended December 31, 1998) while excluding almost all of their pre-season expenses. Had the Walibi and Six Flags acquisitions and the related financings occurred on January 1, 1998, pro forma revenues for 1998 would have been \$817,049,000; pro forma income from operations would have been \$91,754,000; pro forma loss before extraordinary loss would have been \$51,160,000; and pro forma Adjusted EBITDA would have been \$258,943,000. Reported results for 1999 were also affected by the

acquisition of three parks in May of that year. See Note 2 to our Notes to Consolidated Financial Statements. In December 2000, we acquired Enchanted Village, which was not material to our 1999 or 2000 results of operations. In February 2001 and May 2001, we acquired the former Sea World of Ohio and La Ronde, respectively, which were not material to our 2001 results of operations.

- (2) Included in determining net income for 1997 is an \$8.4 million (\$5.1 million after tax effect) termination fee, net of expenses.
- (3) All per share data has been retroactively adjusted to give effect to a two-for-one stock split consummated in July 1998.
- (4) Includes results of operations of the former Six Flags and Walibi as if the acquisitions and associated financings had occurred on January 1, 1998. See Note 1.
- (5) Includes current portion. Does not give effect at December 31, 2001 to the February 2002 debt offering and the use of proceeds.
- (6) EBITDA is defined as income before extraordinary loss, before interest expense, net, income tax expense (benefit), noncash compensation, depreciation and amortization and other expenses, including minority interest and gain or loss on sale of assets. We have included information concerning EBITDA because it is used by certain investors as a measure of a company's ability to service and/or incur debt. EBITDA is not required by GAAP and should not be considered in isolation or as an alternative to net income (loss), net cash provided by operating, investing and financing activities or other financial data prepared in accordance with GAAP or as an indicator of our operating performance. This information should be read in conjunction with the Statements of Cash Flows contained in the Consolidated Financial Statements. For 1998 only, EBITDA is shown on a pro forma basis as if the former Six Flags and Walibi had been acquired on January 1, 1998.
- (7) Adjusted EBITDA is defined as our EBITDA plus our share (based on our ownership interests) of the EBITDA of the Partnership Parks. This is calculated by adding the interest and depreciation and amortization expense associated with those parks to our equity in operations of theme park partnerships. For 1998 only Adjusted EBITDA is determined on a pro forma basis as if the former Six Flags, Walibi and our interests in the Partnership Parks had been acquired on January 1, 1998.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Our revenue is derived from the sale of tickets for entrance to our parks (approximately 54.6%, 54.1% and 54.0% in 2001, 2000 and 1999, respectively) and the sale of food, merchandise, games and attractions inside our parks, as well as sponsorship and other income (approximately 45.4%, 45.9% and 46.0% in 2001, 2000 and 1999, respectively). Our principal costs of operations include salaries and wages, employee benefits, advertising, outside services, maintenance, utilities and insurance. Our expenses are relatively fixed. Costs for full-time employees, maintenance, utilities, advertising and insurance do not vary significantly with attendance, thereby providing us with a significant degree of operating leverage as attendance increases and fixed costs per visitor decrease.

The comparability of our results between periods is impacted by the timing of the acquisitions we make. Results of operations for 2001 include the results of the former Sea World of Ohio from February 9, 2001, and of La Ronde from May 2, 2001, their respective acquisition dates. Results of operations for 2000 include the results of Enchanted Village and Wild Waves from December 2000, its acquisition date. Results of operations for 1999 include the results of Six Flags Mexico, White Water Atlanta and Splashtown from May 1999, their acquisition date, and include the results of Warner Bros. Movie World Germany from November 1999, its acquisition date.

We believe that significant opportunities exist to acquire additional theme parks. We also intend to continue the addition of the rides and attractions and overall improvement of our parks to maintain and enhance their appeal, although the level of our expenditure in this respect is expected to be lower in the next several years than had previously been the case. We believe this strategy has contributed to increased attendance, lengths of stay and in-park spending and, therefore, profitability.

Critical Accounting Policies

In the ordinary course of business, we make a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States. Results could differ significantly from those estimates under different assumptions and conditions. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our consolidated financial condition and

results and require management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Property and Equipment

Property and equipment is recorded at cost and is depreciated on a straight-line basis over the estimated useful lives of those assets. Changes in circumstances such as technological advances, changes to our business model or changes in our capital strategy could result in the actual useful lives differing from our estimates. In those cases in which we determine that the useful life of property and equipment should be shortened, we would depreciate the net book value in excess of the salvage value, over the revised remaining useful life, thereby increasing depreciation expense. A reduction in the useful life of the property and equipment utilized in the operations of our theme park partnerships would similarly increase depreciation expense related to such investments and thereby reduce equity in operations of theme park partnerships.

Accounting for income taxes

As part of the process of preparing our consolidated financial statements we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves us estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as differing depreciation periods for our property and equipment and deferred revenue, for tax and financial accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income. To the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the consolidated statement of operations.

Significant management judgment is required in determining our provision or benefit for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We have recorded a valuation allowance of \$1.2 million as of December 31, 2001, due to uncertainties related to our ability to utilize some of our deferred tax assets, primarily consisting of certain net operating

losses carried forward and tax credits, before they expire. The valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable. In the event that actual results differ from these estimates or we adjust these estimates in future periods we may need to establish an additional valuation allowance which could materially impact our consolidated financial position and results of operations.

Valuation of long-lived and intangible assets and goodwill

Through December 31, 2001, we assessed the impairment of long-lived assets and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business;
- significant negative industry or economic trends;
- significant decline in our stock price for a sustained period; and
- our market capitalization relative to net book value.

When we determine that the carrying value of long-lived assets and related goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. Long-lived assets amounted to \$2,741.6 million and goodwill amounted to \$1,196.1 million as of December 31, 2001.

In 2002, Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" became effective and as a result, as of January 1, 2002, we will cease to amortize approximately \$1.2 billion of goodwill. We recorded approximately \$56.7 million of amortization on these amounts during 2001 and would have recorded a comparable amount of amortization during 2002. In lieu of amortization, we are required to perform an initial impairment review of our goodwill in 2002 and an annual impairment review thereafter. We expect to complete our initial review during the first six months of 2002. Because of the extensive effort needed to comply with adopting Statement 142, it is not practicable to reasonably estimate the impact of adopting this Statement on our consolidated financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle.

Results of Operations

Years Ended December 31, 2001 and 2000

Revenue. Revenue in 2001 totaled \$1,046.0 million compared to \$1,007.0 million for 2000. This 3.9% increase resulted from the inclusion of the performance of three parks acquired after the 2000 season. One of the acquired parks, the former Sea World of Ohio, operated in 2001 together with our previously owned adjacent facility as a single gate, Six Flags Worlds of Adventure. Excluding the results of the acquired parks in Montreal and Seattle and excluding the increase in revenues at the combined Ohio facility, revenues in 2001 on a constant currency basis decreased approximately 1.1% over the prior year. Domestic revenues from consolidated parks in 2001 increased by 4.6% over 2000 and increased by 0.1% on a same park basis. Growth in domestic revenues was constrained by a lower than expected increase in per capita spending reflecting the impact of difficult economic conditions (per capita spending grew by 3.6%), and by a sharp drop-off in performance in the weekend operations immediately following the September 11, 2001 terrorist activities. International park revenues were down approximately 7.8% from 2000 on a same park basis in constant currencies, reflecting particularly the performance of our European parks. The performance of those parks was adversely affected by a number of factors, including difficult economic conditions and challenging weather in a number of markets.

Operating expenses. Operating expenses for 2001 increased \$32.3 million compared to expenses for 2000. Excluding the acquired parks in Montreal and Seattle and excluding the increase in expenses at the combined Ohio facility, operating expenses in 2001 decreased \$1.1 million (or 0.3%) as compared to the prior-year.

Selling, general and administrative; noncash compensation. Selling, general and administrative expenses for 2001 increased \$22.5 million compared to comparable expenses for 2000. Excluding the acquired parks in Montreal and Seattle and excluding the increase in expenses at the combined Ohio facility, selling, general and administrative expenses increased \$11.2 million (or 6.8%) as compared to the prior-year, primarily due to increases in advertising and insurance expenses and increased real estate and other taxes. Noncash compensation expense was \$4.0 million less than the prior-year period, reflecting the decreased amortization associated with prior year restricted stock awards and conditional option grants.

Costs of products sold. Costs of products sold in 2001 decreased \$4.6 million compared to costs for 2000, and decreased \$7.6 million excluding the acquired parks in Montreal and Seattle and excluding the

increases in expenses at the combined Ohio facility. As a percentage of theme park food, merchandise and other revenue, costs of products sold in 2001 were 19.2%, compared to 20.7% in the prior-year period, reflecting in part our increased use of games and other concession arrangements in which we receive revenues from third party operators without incurring the associated costs, as well as increased efficiencies.

Depreciation and amortization; interest expense, net; other income (expense). Depreciation and amortization expense for 2001 increased \$19.8 million compared to 2000. The increase compared to the prior-year level was attributable to additional expense associated with the acquired parks, including the former Sea World of Ohio and our on-going capital program. Interest expense, net decreased \$1.4 million compared to 2000. The decrease compared to interest expense, net for the prior-year resulted from lower average interest rates and lower average debt balances. Other expense decreased in 2001 by \$5.5 million compared to 2000 due to a reduced level of asset dispositions in 2001.

Equity in operations of theme parks. Equity in operations of theme park partnerships reflects our share of the income or loss of Six Flags Over Texas (we have a 36% effective ownership) and Six Flags Over Georgia, including White Water Atlanta (we have a 25% effective ownership), and the lease of Six Flags Marine World. During 2001, equity in operations of theme park partnerships increased \$9.7 million compared to 2000, primarily as a result of improved attendance and revenue performance at Six Flags Over Texas and Six Flags Marine World over the prior year.

Income tax benefit (expense). Income tax benefit was \$7.2 million for 2001 compared to a \$5.6 million expense for 2000. Our effective tax rate is adversely affected from the result of permanent differences associated with goodwill amortization for financial purposes, the lesser amount of amortization that is deductible for tax purposes and from nondeductible compensation expense associated with conditional stock options and restricted stock grants. Additionally during 2001, we reorganized our European organizational structure which reduced the effective tax rate in Europe.

At December 31, 2001, we estimated that we had approximately \$903.5 million of net operating losses ("NOLs") carryforwards for Federal income tax purposes. The NOLs are subject to review and potential disallowance by the Internal Revenue Service upon audit of our Federal income tax returns and those of our subsidiaries. In addition, the use of such NOLs is

subject to limitations on the amount of taxable income that can be offset with such NOLs. Some of such NOLs also are subject to a limitation as to which of the subsidiaries' income such NOLs are permitted to offset. Although no assurance can be given as to the timing or amount of the availability of such NOLs to us and our subsidiaries, we anticipate that it is more likely than not that virtually all of the NOLs will be utilized prior to their expiration. See Note 8 to Notes to Consolidated Financial Statements.

Years Ended December 31, 2000 and 1999

Revenue. Revenue in 2000 totaled \$1,007.0 million compared to \$927.0 million for 1999, representing an 8.6% increase. The increase over the prior year was primarily due to increased per capita spending at our domestic parks and the inclusion for the entire 2000 year of the revenues of Movie World Germany acquired in November 1999. We believe that revenues in 2000 were adversely affected by unusually difficult weather, particularly in June and July, in a large number of our major markets. Reported revenues from our European parks as translated into U.S. dollars were adversely impacted by a decline in European currencies during 2000. Revenue growth in 2000 would have been approximately \$20.0 million higher had European currency exchange rates remained at 1999 levels.

Operating expenses. Operating expenses for 2000 increased \$22.3 million compared to actual expenses for 1999 but decreased \$14.0 million from the prior year on a same park basis (including the pre-acquisition results for 1999 of the parks acquired in that year). The 6.3% increase in actual expenses is exclusively attributable to the inclusion for the entire year ended December 31, 2000 of the two parks we acquired in May 1999 and the one park we acquired in November 1999 (the "1999 Acquired Parks"). If the full year results of the 1999 Acquired Parks were included in both periods, as a percentage of revenues operating expenses would have been 37.4% in 2000 and 39.5% in 1999.

Selling, general and administrative; noncash compensation. Selling, general and administrative expenses (excluding noncash compensation) for 2000 increased \$2.5 million compared to expenses for 1999 but decreased \$12.6 million from the prior year on a same park basis. As a percentage of revenue (including the 1999 Acquired Parks for both years), selling, general and administrative expenses (excluding non-cash compensation) would have been 16.5% in 2000 and 18.1% in 1999. Noncash compensation was essentially level in both years.

Costs of products sold. Costs of products sold in 2000 increased \$5.0 million compared to 1999 actual but decreased \$3.8 million on a same park basis. As a

percentage of theme park food, merchandise and other revenues, including the 1999 Acquired Parks in both years, costs of products sold would have been 20.7% in 2000 compared to 21.8% in 1999.

Depreciation and amortization expense; interest expense, net; other income (expense). Depreciation and amortization expense for 2000 increased \$25.7 million compared to 1999. The increase compared to the 1999 level was attributable to our on-going capital program at the previously owned parks and from the additional expense associated with the 1999 Acquired Parks. Exclusive of the 1999 Acquired Parks, 2000 depreciation and amortization expense increased \$14.8 million compared to 1999. Interest expense, net increased \$55.3 million compared to the 1999 level. The increase resulted from higher average interest rates on a higher average debt and reduced interest income from lower average cash and cash equivalent balances during 2000. The \$6.6 million increase in other expense in 2000 was related to the removal and disposal of rides, buildings and other assets at two parks that were substantially improved and rebranded as "Six Flags" theme parks.

Equity in operations of theme parks. Equity in operations of theme park partnerships reflects our share of the income or loss of Six Flags Over Texas and Six Flags Over Georgia (including Six Flags White Water Atlanta) and the lease of Six Flags Marine World. Our ownership interests in Six Flags Over Texas (we had a 35% effective ownership) and Six Flags Over Georgia (we had a 25% effective ownership) commenced on April 1, 1998, the date of the acquisition of the former Six Flags. We became entitled to a share of the cash flows from the lease and management of Six Flags Marine World in 1998. Our interests in Six Flags White Water Atlanta commenced with its acquisition in May 1999. The \$14.3 million decrease in 2000 in the equity in operations of theme park partnerships compared to 1999 was attributable to weakened performance at certain of these parks in 2000 and the absence in the 1999 results of Six Flags White Water Atlanta's pre-acquisition off-season operating expenses for the first four months of that year. See Notes 2 and 4 to Notes to our Consolidated Financial Statements.

Income tax expense. Income tax expense was \$5.6 million for 2000 compared to a \$24.5 million expense for 1999. Our effective tax rate is adversely affected from permanent differences associated with goodwill amortization for financial purposes and the lesser amount of amortization that is deductible for tax purposes and from nondeductible compensation expense associated with conditional stock options and restricted stock grants.

Liquidity, Capital Commitments and Resources

At December 31, 2001, our total debt aggregated \$2,247.1 million, of which approximately \$24.6 million was scheduled to mature prior to December 31, 2002. After giving effect to the February 2002 debt offering and the use of proceeds therefrom, total debt at December 31, 2001 would have been \$2,275.4 million. Based on interest rates at December 31, 2001 for floating rate debt and after giving effect to the 2002 offering and the use of proceeds and the interest rate swaps described below, annual cash interest payments for 2002 on total debt at December 31, 2001 will aggregate approximately \$170.2 million. In addition, annual dividend payments on our outstanding preferred stock are \$20.8 million, payable at our option in cash or shares of Common Stock.

After giving effect to the 2002 debt refinancing, our debt at December 31, 2001 included \$1,643.6 million of fixed-rate senior notes, with staggered maturities ranging from 2007 to 2010, \$613.5 million under our credit facility and \$18.5 million of other indebtedness. Our credit facility includes a \$600.0 million term loan (\$598.5 million outstanding at December 31, 2001); a \$292.5 million multicurrency reducing revolver facility (none outstanding at that date) and a \$300.0 million working capital revolver (\$15.0 million outstanding at that date). The working capital revolving credit facility must be repaid in full for 30 consecutive days during each year and this facility terminates on November 4, 2004. The multicurrency reducing revolving credit facility, which permits optional prepayments and reborrowings, requires quarterly mandatory reductions in the initial commitment (together with repayments, to the extent that the outstanding borrowings thereunder would exceed the reduced commitment) of 2.5% of the committed amount thereof commencing on December 31, 2001, 5.0% commencing on December 31, 2002, 7.5% commencing on December 31, 2003 and 20.0% commencing on December 31, 2004 and this facility terminates on May 4, 2005. The term loan facility requires quarterly repayments of 0.25% of the outstanding amount thereof commencing on December 31, 2001 and 24.25% commencing on December 31, 2004. All of our outstanding preferred stock (\$287.5 million liquidation preference) must be redeemed on August 15, 2009 (to the extent not previously converted into common stock). See Notes 6 and 9 to Notes to Consolidated Financial Statements for additional information regarding our indebtedness and preferred stock.

At December 31, 2001, we had approximately \$53.5 million of unrestricted cash, \$75.2 million of restricted cash (available to fund obligations relating to the Partnership Parks described below) and \$577.5 million available under our credit facility.

Due to the seasonal nature of our business, we are largely dependent upon our \$300.0 million working capital revolving credit portion of our credit agreement in order to fund off season expenses. Our ability to borrow under the working capital revolver is dependent upon compliance with certain conditions, including financial ratios and the absence of any material adverse change. We are currently in compliance with all of these conditions. If we were to become unable to borrow under the facility, we would likely be unable to pay in full our off season obligations. The working capital facility expires in November 2004. The terms and availability of our credit facility and other indebtedness would not be affected by a change in the ratings issued by rating agencies in respect of our indebtedness.

During the year ended December 31, 2001, net cash provided by operating activities was \$183.3 million. Net cash used in investing activities in 2001 totaled \$284.0 million, consisting primarily of our acquisitions of the former Sea World of Ohio and La Ronde and capital expenditures for the 2001 and 2002 seasons. Net cash provided by financing activities in 2001 was \$111.4 million, representing proceeds of the 2001 offerings of preferred stock and senior notes, offset in part by the related retirement of senior notes and repayment of borrowings under our credit agreement.

In connection with our 1998 acquisition of the former Six Flags, we guaranteed certain obligations relating to Six Flags Over Georgia and Six Flags Over Texas. These obligations continue until 2026, in the case of the Georgia park and 2027, in the case of the Texas park. Among such obligations are (i) minimum annual distributions (including rent) of approximately \$51.0 million in 2002 (subject to cost of living adjustments in subsequent years) to partners in these two Partnerships Parks (of which we will be entitled to receive in 2002 approximately \$16.1 million based on our present ownership of 25.3% of the Georgia partnership and 35.7% of the Texas partnership), (ii) minimum capital expenditures at each park during rolling five-year periods based generally on 6% of park revenues, and (iii) an annual offer to purchase a maximum number of 5% per year (accumulating to the extent not purchased in any given year) of limited partnership units at specified prices.

We plan to make approximately \$19.8 million of capital expenditures at these parks for the 2002 season, an amount in excess of the minimum required expenditure. Because we have not been required since 1998 to purchase a material amount of units, our maximum unit purchase obligation for both parks in 2002 is an aggregate of approximately \$128.9 million, representing approximately 25.0% of the outstanding units of the Georgia park and 17.9% of the outstanding

units of the Texas park. The annual unit purchase obligation (without taking into account accumulation from prior years) aggregates approximately \$30.1 million for both parks based on current purchase prices. As we purchase additional units, we are entitled to a proportionate increase in our share of the minimum annual distributions.

Cash flows from operations at the partnership parks will be used to satisfy the annual distribution and capital expenditure requirements, before any funds are required from us. The two partnerships generated approximately \$69.5 million of aggregate EBITDA during 2001. In addition, we had \$75.2 million in a dedicated escrow account at December 31, 2001 (classified as a restricted-use investment) available to fund these obligations and the obligation to purchase units. At December 31, 2001, we had total loans outstanding of \$92.1 million to the partnerships that own these parks, primarily to fund the acquisition of Six Flags White Water Atlanta and to make capital improvements, which loans are included in our investment in theme park partnerships. The balance of these loans at December 31, 2000 was \$91.1 million.

By virtue of its acting as the managing general partner of the partnerships that own Six Flags Over Texas

and Six Flags Over Georgia, one of our subsidiaries is legally liable for the obligations of each of those parks, including their indebtedness. Because we are required to account for our interests in those parks by the equity method of accounting, the obligations of the partnerships are not reflected as liabilities on our consolidated balance sheet. At December 31, 2001, these partnerships had outstanding \$35.7 million of third-party indebtedness (including \$10.5 million of borrowings under working capital revolving facilities at that date), of which \$17.2 million (including the working capital facilities' borrowings) matures prior to December 31, 2002. We expect that cash flow from operations at each of the partnership parks will be adequate to satisfy its debt obligations.

Our current property and liability insurance policies expire in September and November 2002, respectively. Due in large part to the effects of the September 11, 2001 terrorist attack upon the insurance industry, we cannot predict the level of the premiums that we may be required to pay for subsequent insurance coverage, the level of any self insurance retention applicable thereto, the level of aggregate coverage available or the availability of coverage for specific risks, such as terrorism.

Set forth below is certain information regarding our debt, preferred stock and lease obligations at December 31, 2001 (in thousands and after consideration of the February 2002 debt issuance and the use of proceeds):

	Payment Due by Period				
	2002	2003-2005	2006-2008	2009 and beyond	Total
Contractual Obligation					
Long term debt ⁽¹⁾	\$ 9,627	\$606,840	\$840,437	\$ 855,088	\$2,311,992
PIERS ⁽²⁾	20,844	62,531	62,531	303,133	449,039
Real estate and operating leases ⁽³⁾	5,414	15,169	14,442	99,029	134,054
Total	<u>\$35,885</u>	<u>\$684,540</u>	<u>\$917,410</u>	<u>\$1,257,250</u>	<u>\$2,895,085</u>

(1) Includes capital lease obligations. Payments shown at face amount. Payments shown do not include payments on our working capital revolver, borrowings under which aggregated \$15.0 million at December 31, 2001. The \$300.0 million working capital revolver must be repaid in full each year to the extent drawn.

(2) Amount shown includes dividends, which we are permitted to pay in either cash or common stock and the 2009 cash redemption obligations (assuming no conversion of PIERS prior thereto).

(3) Assumes for lease payments based on a percentage of revenues, future payments at 2001 revenue levels. Also does not give effect to cost of living adjustments.

In addition to the debt, preferred stock and lease obligations set forth above and our commitments to the partnerships that own Six Flags Over Texas and Six Flags Over Georgia discussed above, our contractual commitments include commitments for license fees to Warner Bros. and commitments relating to capital expenditures. License fees to Warner Bros. for our domestic parks aggregate \$2.5 million annually through

2005. After that season, the license fee is payable based upon the number of domestic parks utilizing the licensed characters. The license fee relating to our international parks is based on percentages of the revenues of the international parks utilizing the characters. For 2001, license fees for our international parks aggregated \$1.8 million. We have prepaid approximately \$8.0 million of the international license fees.

Although we are contractually committed to make specified levels of capital expenditures at selected parks for the next several years, the vast majority of our capital expenditures in 2002 and beyond will be made on a discretionary basis. We plan on spending approximately \$140.0 million on capital expenditures for the 2002 season, including the expenditures at the Partnership Parks and Six Flags Marine World.

The degree to which we are leveraged could adversely affect our liquidity. Our liquidity could also be adversely affected by unfavorable weather, accidents or the occurrence of an event or condition, including negative publicity or significant local competitive events, that significantly reduces paid attendance and, therefore, revenue at any of our theme parks.

We believe that, based on historical and anticipated operating results, cash flows from operations, available cash and available amounts under the credit agreement will be adequate to meet our future liquidity needs, including anticipated requirements for working capital, capital expenditures, scheduled debt and preferred stock requirements and obligations under arrangements relating to the Partnership Parks, for at least the next several years. We may, however, need to refinance all or a portion of our existing debt on or prior to maturity or to seek additional financing. In addition, our anticipated cash flows could be materially adversely affected by the occurrence of certain of the risks described in the risk factors incorporated by reference herein from our report on Form 8-K, dated January 31, 2002. In that case, we would need to seek additional financing.

Market Risks and Sensitivity Analyses

Like other global companies, we are exposed to market risks relating to fluctuations in interest rates and currency exchange rates. The objective of our financial risk management is to minimize the negative impact of interest rate and foreign currency exchange rate fluctuations on our operations, cash flows and equity. We do not acquire market risk sensitive instruments for trading purposes.

To manage foreign currency exchange rate risks, on a limited basis we have used derivative financial instruments, exclusively foreign exchange forward contracts. These derivative financial instruments have been held to maturity and we have used non-leveraged instruments. These contracts have been entered into with major financial institutions, thereby minimizing the risk of credit loss. We have used forward contracts to "lock-in" the U.S. dollar cost of equipment to be purchased from foreign vendors or manufacturers where the contracts related thereto are denominated in foreign currency. At December 31, 2001, no such contracts were outstanding. See Note 5 to Notes to

Consolidated Financial Statements for a more complete description of our accounting policies and use of such instruments.

We are party to three interest rate swap agreements that for the term of the applicable agreements (ranging from March 2003 to December 2003) effectively convert our \$600.0 million term loan into a fixed rate obligation. Our term loan borrowings bear interest at 3.00% above the LIBOR rate. Our interest rate swap agreements effectively "lock-in" the LIBOR component at rates ranging from 5.13% to 6.07% and average 5.46%. The counterparties to these agreements are major financial institutions, which minimizes the credit risk.

Interest Rate and Debt Sensitivity Analysis

The following analysis presents the sensitivity of the market value, operations and cash flows of our market-risk financial instruments to hypothetical changes in interest rates as if these changes occurred at December 31, 2001. The range of changes chosen for this analysis reflect our view of changes which are reasonably possible over a one-year period. Market values are the present values of projected future cash flows based on the interest rate assumptions. These forward looking disclosures are selective in nature and only address the potential impacts from financial instruments. They do not include other potential effects which could impact our business as a result of these changes in interest and exchange rates.

At December 31, 2001, we had debt totaling \$2,247.1 million, of which \$1,630.1 million represents fixed-rate debt and the balance represents floating-rate debt. After giving effect to the February 2002 debt offering and the use of proceeds therefrom, total debt at that date would have been \$2,275.4 million, of which \$1,658.4 million would have represented fixed-rate debt. For fixed-rate debt, interest rate changes affect the fair market value but do not impact book value, operations or cash flows. Conversely, for floating-rate debt, interest rate changes generally do not affect the fair market value but do impact future operations and cash flows, assuming other factors remain constant.

Additionally, increases and decreases in interest rates impact the fair value of the interest rate swap agreements. A decrease in thirty and ninety-day LIBOR interest rates increases the fair value liability of the interest rate swap agreements. However, over the term of the interest rate swap agreements, the economic effect of changes in interest rates is fixed as we will pay a fixed amount and are not subject to changes in interest rates.

Assuming other variables remain constant (such as foreign exchange rates and debt levels), after giving

effect to our interest rate swap agreements and the 2002 debt offering and assuming an average annual balance on our working capital revolver, the pre-tax operations and cash flows impact resulting from a one percentage point increase in interest rates would be less than \$5.0 million.

Impact of Recently Issued Accounting Standards Not Yet Adopted

In August 2001, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While Statement No. 144 supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," it retains many of the fundamental provisions of that Statement. Statement No. 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business. However, it retains the requirement in Opinion No. 30 to report separately discontinued operations and extends that reporting to a component of an entity that either has been disposed of by sale, abandonment, or in a distribution to owners or is classified as held for sale. Statement No. 144 is effective for fiscal years beginning after December 15, 2001 and was adopted by us on January 1, 2002. The adoption of Statement 144 will not have a material impact on our consolidated financial statements.

In June 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement Obligations." This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Statement No. 143 requires an enterprise to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of a tangible long-lived asset. Statement No. 143 also requires the enterprise to record the initial obligation as an increase to the carrying amount of the related long-lived asset and to depreciate that cost over the remaining useful life of the asset. The liability is changed at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the initial fair value measurement. Statement No. 143 is effective for fiscal years beginning after June 15, 2002. Management believes that the impact of Statement 143 on January 1, 2002 did not have a

material impact on our consolidated financial statements.

In June 2001, the FASB issued Statement No. 141, "Business Combinations," and Statement No. 142, "Goodwill and Other Intangible Assets." Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. Statement 141 also specifies criteria which intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. Statement 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" or Statement 144 upon adoption.

We were required to adopt the provisions of Statement 141 in 2001 and Statement 142 effective January 1, 2002. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 were required to be amortized until the adoption of Statement 142.

Statement 141 requires that we evaluate our existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in Statement 141 for recognition apart from goodwill. Upon adoption of Statement 142, we are required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of June 2002. In addition, to the extent an intangible asset is identified as having an indefinite useful life, we are required to test the intangible asset for impairment in accordance with the provisions of Statement 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first six months of 2002.

In connection with the transitional goodwill impairment evaluation, Statement 142 will require us to perform an assessment of whether there is an indication that goodwill, including goodwill included in our investment in theme park partnerships, is impaired as of the date of adoption. To accomplish this we must identify our reporting units and determine the carrying value of each reporting unit by assigning the assets and liabili-

ties, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. We will then have up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and we must perform the second step of the transitional impairment test. In the second step, we must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of our assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with Statement 141, to its carrying amount, both of which would be measured as of the date of adoption. This second step is required to be completed as soon as possible, but no later than the end of 2002. Any transitional impairment loss will be

recognized as the cumulative effect of a change in accounting principle in our consolidated statement of operations.

As of the date of adoption, we had unamortized goodwill of approximately \$1.2 billion and unamortized identifiable intangible assets of less than \$20.0 million, all of which will be subject to the transition provisions of Statements 141 and 142. Amortization expense related to goodwill was \$56.7 million and \$53.7 million for each of the years ended December 31, 2001 and 2000, respectively. Because of the extensive effort needed to comply with adopting Statements 141 and 142, it is not practicable to reasonably estimate the impact of adopting these Statements on our consolidated financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle.

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Annual Report constitute forward-looking statements, as this term is defined in federal securities law. The words "anticipates," "believes," "estimates," "expects," "plans," "intends" and similar expressions are intended to identify these forward-looking statements, but are not the exclusive means of identifying them. These forward-looking statements reflect the current views of our management; however, various risks, uncertainties and contingencies could cause our actual results, performance or achievements to differ materially from those expressed in, or implied by, these statements. Reference is made to the Company's filings with the Securities and Exchange Commission for more detailed discussion of these risks. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Six Flags, Inc.:

We have audited the accompanying consolidated balance sheets of Six Flags, Inc. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and other comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Six Flags, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 5 to the consolidated financial statements, the Company changed its method of accounting for derivative instruments and hedging activities in 2001.

KPMG LLP

Oklahoma City, Oklahoma
March 5, 2002

SIX FLAGS, INC.

Consolidated Balance Sheets

December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 53,534,000	\$ 42,978,000
Accounts receivable	35,470,000	40,771,000
Inventories	26,275,000	28,588,000
Prepaid expenses and other current assets	40,455,000	35,855,000
Restricted-use investment securities	—	12,773,000
Total current assets	<u>155,734,000</u>	<u>160,965,000</u>
Other assets:		
Debt issuance costs	45,490,000	46,967,000
Restricted-use investment securities	75,169,000	75,376,000
Deposits and other assets	32,110,000	56,884,000
Total other assets	<u>152,769,000</u>	<u>179,227,000</u>
Property and equipment, at cost	2,801,356,000	2,585,927,000
Less accumulated depreciation	465,656,000	328,027,000
	<u>2,335,700,000</u>	<u>2,257,900,000</u>
Investment in theme park partnerships	388,273,000	386,638,000
Intangible assets, principally goodwill	1,418,889,000	1,354,289,000
Less accumulated amortization	205,223,000	147,680,000
	<u>1,213,666,000</u>	<u>1,206,609,000</u>
Total assets	<u>\$4,246,142,000</u>	<u>\$4,191,339,000</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 33,056,000	\$ 45,315,000
Accrued interest payable	30,674,000	24,353,000
Deferred revenue	15,237,000	19,014,000
Accrued compensation, payroll taxes and benefits	12,647,000	6,963,000
Other accrued liabilities	38,548,000	45,538,000
Current portion of long-term debt	24,627,000	2,401,000
Total current liabilities	<u>154,789,000</u>	<u>143,584,000</u>
Long-term debt	2,222,442,000	2,319,912,000
Other long-term liabilities	33,496,000	37,937,000
Deferred income taxes	109,926,000	144,919,000
Mandatorily redeemable preferred stock (redemption value of \$287,500,000)	278,867,000	—
Stockholders' equity:		
Preferred stock, \$1.00 par value, 5,000,000 shares authorized; 11,500 shares issued and outstanding at December 31, 2000	—	12,000
Common stock, \$.025 par value, 150,000,000 shares authorized; 92,417,713 and 80,068,826 shares issued and outstanding at December 31, 2001 and 2000, respectively	2,310,000	2,001,000
Capital in excess of par value	1,744,134,000	1,725,890,000
Accumulated deficit	(211,006,000)	(128,928,000)
Deferred compensation	(6,950,000)	(5,399,000)
Accumulated other comprehensive income (loss)	(81,866,000)	(48,589,000)
Total stockholders' equity	<u>1,446,622,000</u>	<u>1,544,987,000</u>
Total liabilities and stockholders' equity	<u>\$4,246,142,000</u>	<u>\$4,191,339,000</u>

See accompanying notes to consolidated financial statements.

SIX FLAGS, INC.

Consolidated Statements of Operations

Years ended December 31, 2001, 2000 and 1999

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Revenues:			
Theme park admissions	\$ 571,008,000	\$ 544,809,000	\$ 500,417,000
Theme park food, merchandise and other.....	474,956,000	462,172,000	426,567,000
Total revenue.....	<u>1,045,964,000</u>	<u>1,006,981,000</u>	<u>926,984,000</u>
Operating costs and expenses:			
Operating expenses.....	408,324,000	376,060,000	353,728,000
Selling, general and administrative	188,504,000	165,980,000	163,526,000
Noncash compensation (primarily selling, general and administrative)	8,616,000	12,584,000	12,725,000
Costs of products sold	91,004,000	95,652,000	90,699,000
Depreciation and amortization	199,800,000	179,989,000	154,264,000
Total operating costs and expenses	<u>896,248,000</u>	<u>830,265,000</u>	<u>774,942,000</u>
Income from operations	<u>149,716,000</u>	<u>176,716,000</u>	<u>152,042,000</u>
Other income (expense):			
Interest expense	(230,033,000)	(232,336,000)	(193,965,000)
Interest income	6,639,000	7,569,000	24,524,000
Equity in operations of theme park partnerships.....	21,512,000	11,833,000	26,180,000
Other expense.....	(4,602,000)	(10,119,000)	(3,551,000)
Total other income (expense)	<u>(206,484,000)</u>	<u>(223,053,000)</u>	<u>(146,812,000)</u>
Income (loss) before income taxes	(56,768,000)	(46,337,000)	5,230,000
Income tax expense (benefit)	(7,195,000)	5,622,000	24,460,000
Loss before extraordinary loss	(49,573,000)	(51,959,000)	(19,230,000)
Extraordinary loss on extinguishment of debt, net of income tax benefit of \$5,227,000 in 2001 and \$7,530,000 in 1999	(8,529,000)	—	(11,296,000)
Net loss.....	<u>\$ (58,102,000)</u>	<u>\$ (51,959,000)</u>	<u>\$ (30,526,000)</u>
Net loss applicable to common stock	<u>\$ (84,617,000)</u>	<u>\$ (75,247,000)</u>	<u>\$ (53,814,000)</u>
Weighted average number of common shares outstanding — basic and diluted			
	<u>89,221,000</u>	<u>78,735,000</u>	<u>77,656,000</u>
Net income (loss) per average common share outstanding — basic and diluted			
Loss before extraordinary loss	\$ (0.85)	\$ (0.96)	\$ (0.55)
Extraordinary loss	(0.10)	—	(0.14)
Net loss.....	<u>\$ (0.95)</u>	<u>\$ (0.96)</u>	<u>\$ (0.69)</u>

See accompanying notes to consolidated financial statements.

SIX FLAGS, INC.

**Consolidated Statements of Stockholders' Equity and
Other Comprehensive Income (Loss)**

Years ended December 31, 2001, 2000 and 1999

	Preferred Stock		Common Stock		Capital in Excess of Par Value	Retained Earnings (Accumulated Deficit)	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Total
	Shares Issued	Amount	Shares Issued	Amount					
Balances at December 31, 1998	11,500	\$ 12,000	76,488,661	\$1,912,000	\$1,640,532,000	\$ 133,000	\$(25,111,000)	\$ 9,087,000	\$1,626,565,000
Issuance of common stock	—	—	1,862,110	46,000	53,853,000	—	—	—	53,899,000
Amortization of deferred compensation	—	—	—	—	—	—	9,856,000	—	9,856,000
Stock option compensation	—	—	—	—	4,742,000	—	—	—	4,742,000
Tax benefit from stock options and warrants	—	—	—	—	1,178,000	—	—	—	1,178,000
Net loss	—	—	—	—	—	(30,526,000)	—	—	(30,526,000)
Other comprehensive loss — foreign currency translation adjustment	—	—	—	—	—	—	—	(26,810,000)	(26,810,000)
Comprehensive loss	—	—	—	—	—	(23,288,000)	—	—	(57,336,000)
Preferred stock dividends	—	—	—	—	—	(23,288,000)	—	—	(23,288,000)
Balances at December 31, 1999	11,500	12,000	78,350,771	1,958,000	1,700,305,000	(53,681,000)	(15,255,000)	(17,723,000)	1,615,616,000
Issuance of common stock	—	—	1,718,055	43,000	22,857,000	—	—	—	22,900,000
Amortization of deferred compensation	—	—	—	—	—	—	9,856,000	—	9,856,000
Stock option compensation	—	—	—	—	2,728,000	—	—	—	2,728,000
Net loss	—	—	—	—	—	(51,959,000)	—	—	(51,959,000)
Other comprehensive loss — foreign currency translation adjustment	—	—	—	—	—	—	—	(30,866,000)	(30,866,000)
Comprehensive loss	—	—	—	—	—	(23,288,000)	—	—	(82,825,000)
Preferred stock dividends	—	—	—	—	—	(23,288,000)	—	—	(23,288,000)
Balances at December 31, 2000	11,500	12,000	80,068,826	2,001,000	1,725,890,000	(128,928,000)	(5,399,000)	(48,589,000)	1,544,987,000
Issuance of common stock	—	—	12,069,975	302,000	9,547,000	—	(7,439,000)	—	2,410,000
Amortization of deferred compensation	—	—	—	—	—	—	5,888,000	—	5,888,000
Retirement of preferred stock	(11,500)	(12,000)	—	—	12,000	—	—	—	—
Stock option compensation	—	—	—	—	2,772,000	—	—	—	2,772,000
Net loss	—	—	—	—	—	(58,102,000)	—	—	(58,102,000)
Other comprehensive loss — foreign currency translation adjustment	—	—	—	—	—	—	—	(19,062,000)	(19,062,000)
Cash flow hedging derivatives, net of tax	—	—	—	—	—	—	—	(14,215,000)	(14,215,000)
Comprehensive loss	—	—	—	—	—	—	—	—	(91,379,000)
Preferred stock dividends	—	—	278,912	7,000	5,913,000	(23,976,000)	—	—	(18,056,000)
Balances at December 31, 2001	—	\$ —	92,417,713	\$2,310,000	\$1,744,134,000	\$(211,006,000)	\$(6,950,000)	\$(81,866,000)	\$1,446,622,000

See accompanying notes to consolidated financial statements.

SIX FLAGS, INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2001, 2000 and 1999

	2001	2000	1999
Cash flows from operating activities:			
Net loss.....	\$ (58,102,000)	\$ (51,959,000)	\$ (30,526,000)
Adjustments to reconcile net loss to net cash provided by operating activities (net of effects of acquisitions):			
Depreciation and amortization	199,800,000	179,989,000	154,264,000
Equity in operations of theme park partnerships	(21,512,000)	(11,833,000)	(26,180,000)
Cash received from theme park partnerships	26,973,000	33,531,000	17,656,000
Minority interest in (earnings) loss	—	132,000	(6,000)
Noncash compensation	8,616,000	12,584,000	12,725,000
Interest accretion on notes payable	34,168,000	30,733,000	34,402,000
Interest accretion on restricted-use investments	—	—	(6,182,000)
Extraordinary loss on early extinguishment of debt	13,756,000	—	18,826,000
Amortization of debt issuance costs	9,370,000	8,573,000	6,755,000
Loss on disposal of assets	4,203,000	9,987,000	3,557,000
Deferred income tax expense (benefit)	(14,667,000)	2,217,000	17,146,000
(Increase) decrease in accounts receivable	5,350,000	(11,558,000)	5,359,000
Increase in inventories and prepaid expenses and other current assets	(1,596,000)	(8,011,000)	(2,191,000)
Decrease in deposits and other assets	3,912,000	7,588,000	9,416,000
Decrease in accounts payable, accrued expenses and other liabilities	(33,301,000)	(26,599,000)	(7,966,000)
Increase (decrease) in accrued interest payable	6,321,000	787,000	(9,706,000)
Total adjustments	241,393,000	228,120,000	227,875,000
Net cash provided by operating activities	183,291,000	176,161,000	197,349,000
Cash flows from investing activities:			
Additions to property and equipment	(160,265,000)	(334,226,000)	(391,655,000)
Investment in theme park partnerships	(7,096,000)	(23,699,000)	(51,931,000)
Acquisition of theme park assets	(132,165,000)	—	(34,578,000)
Acquisition of theme park companies, net of cash acquired	—	117,000	(242,954,000)
Purchase of restricted-use investments	(7,120,000)	(18,214,000)	—
Maturities of restricted-use investments	20,100,000	38,959,000	214,940,000
Proceeds from sale of assets	2,505,000	—	—
Net cash used in investing activities	(284,041,000)	(337,063,000)	(506,178,000)
Cash flows from financing activities:			
Repayment of long-term debt	(708,684,000)	(316,408,000)	(1,291,910,000)
Proceeds from borrowings	574,426,000	403,000,000	1,391,024,000
Net cash proceeds from issuance of preferred stock	277,834,000	—	—
Net cash proceeds from issuance of common stock	1,348,000	3,645,000	2,801,000
Payment of cash dividends	(22,845,000)	(23,288,000)	(23,288,000)
Payment of debt issuance costs	(10,664,000)	—	(29,139,000)
Net cash provided by financing activities	111,415,000	66,949,000	49,488,000
Effect of exchange rate changes on cash and cash equivalents	\$ (109,000)	\$ (1,200,000)	\$ (3,106,000)
Increase (decrease) in cash and cash equivalents	10,556,000	(95,153,000)	(262,447,000)
Cash and cash equivalents at beginning of year	42,978,000	138,131,000	400,578,000
Cash and cash equivalents at end of year	\$ 53,534,000	\$ 42,978,000	\$ 138,131,000
Supplementary cash flow information:			
Cash paid for interest	\$ 180,174,000	\$ 192,247,000	\$ 162,511,000
Cash paid for income taxes	\$ 2,546,000	\$ 66,000	\$ 220,000

SIX FLAGS, INC.

Consolidated Statements of Cash Flows, Continued
Years ended December 31, 2001, 2000 and 1999

Supplemental disclosure of noncash investing and financing activities:

2001

- Issued \$1,062,000 of common stock (86,824 shares) as additional consideration for a theme park acquisition.
- Converted 5,750,000 shares of PIES into 11,500,000 shares of common stock.
- Acquired approximately \$13,861,000 of assets through capital leases.
- Issued 278,912 shares of common stock as PIES dividends.

2000

- Issued \$19,255,000 of common stock (1,339,223 shares) as consideration for a water and children's ride park acquisition.

1999

- Issued a \$40,700,000 note convertible into 1,080,000 common shares as consideration for a theme park acquisition made by a limited partnership for which we are the managing general partner.
- Issued \$10,435,000 of common stock (337,467 shares) as additional consideration for a theme park acquisition.

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 2001, 2000 and 1999

(1) Summary of Significant Accounting Policies

(a) Description of Business

We own and operate regional theme amusement and water parks. As of December 31, 2001, we own or operate 37 parks, including 28 domestic parks, one park in Mexico, seven parks in Europe and one in Canada. We are also managing the construction and development of a theme park in Europe.

Unless otherwise indicated, references herein to "we" or "Six Flags" means Six Flags, Inc. (or its predecessor) and our subsidiaries, and references to "Holdings" only to Six Flags, Inc., without regard to our subsidiaries.

In February 2001, we purchased substantially all of the assets used in the operation of Sea World of Ohio, a marine wildlife park located adjacent to our Six Flags Ohio theme park. In May 2001, we acquired substantially all of the assets of La Ronde, a theme park located in Montreal, Canada. See Note 2.

During December 2000, we purchased 100% of the capital stock of the company that owns Enchanted Village and Wild Waves, a water and rides park located near Seattle, Washington. See Note 2.

During May 1999, in separate transactions, we purchased 100% of the capital stock of the companies that own Reino Aventura, a theme park located in Mexico City, and purchased the assets used in the operation of Splashtown, a water park near Houston. In addition, during May 1999, the limited partnership that owns Six Flags Over Georgia purchased the assets used in the operation of White Water Atlanta, a water park and related entertainment facility near Atlanta. The consideration for this purchase was advanced to the partnership by Six Flags through a convertible promissory note. We are the managing general partner of the limited partnership and own approximately 25% of the limited partnership units. On November 15, 1999, we purchased the partnership that owns Warner Bros. Movie World Germany, near Dusseldorf, Germany, and entered into a joint venture with Warner Bros. to develop and manage a new Warner Bros. Movie World theme park scheduled to open in Madrid, Spain in 2002. See Note 2.

The accompanying consolidated financial statements for the year ended December 31, 2001, reflect the results of the former Sea World of Ohio and La Ronde only from their acquisition dates of February 2001 and

May 2001, respectively. The accompanying consolidated financial statements for the year ended December 31, 2000, reflect the results of Enchanted Village and Wild Waves only from its acquisition date, December 6, 2000. The accompanying consolidated financial statements for the year ended December 31, 1999 reflect the results of Reino Aventura, Splashtown, White Water Atlanta, and Movie World Germany only from their acquisition dates, May 4, 1999, May 13, 1999, May 25, 1999 and November 15, 1999, respectively.

(b) Basis of Presentation

Our accounting policies reflect industry practices and conform to accounting principles generally accepted in the United States of America.

The consolidated financial statements include our accounts, our majority and wholly owned subsidiaries, and limited partnerships and limited liability companies in which we beneficially own 100% of the interests. Intercompany transactions and balances have been eliminated in consolidation.

Our investments in partnerships and joint ventures in which we do not own controlling interests are accounted for using the equity method.

(c) Cash Equivalents

Cash equivalents of \$9,553,000 and \$17,347,000 at December 31, 2001 and 2000, respectively, consist of short-term highly liquid investments with a remaining maturity as of purchase date of three months or less, which are readily convertible into cash. For purposes of the consolidated statements of cash flows, we consider all highly liquid debt instruments with remaining maturities as of their purchase date of three months or less to be cash equivalents.

(d) Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market value and primarily consist of products for resale including merchandise and food and miscellaneous supplies.

(e) Advertising Costs

Production costs of commercials and programming are charged to operations in the year first aired. The costs of other advertising, promotion, and marketing programs are charged to operations when incurred.

The amounts capitalized at year end are included in prepaid expenses.

Advertising and promotions expense was \$115,124,000, \$105,640,000 and \$100,175,000 during the years ended December 31, 2001, 2000 and 1999, respectively.

(f) Debt Issuance Costs

We capitalize costs related to the issuance of debt. The amortization of such costs is recognized as interest expense under a method approximating the interest method over the term of the respective debt issue.

(g) Property and Equipment

Rides and attractions are depreciated using the straight-line method over 5-25 years. Land improvements are depreciated using the straight-line method over 10-15 years. Buildings and improvements are depreciated over their estimated useful lives of approximately 30 years by use of the straight-line method. Furniture and equipment are depreciated using the straight-line method over 5-10 years.

Maintenance and repairs are charged directly to expense as incurred, while betterments and renewals are generally capitalized as property and equipment. When an item is retired or otherwise disposed of, the cost and applicable accumulated depreciation are removed and the resulting gain or loss is recognized.

(h) Investment in Theme Park Partnerships

We manage five parks in which we do not currently own a controlling interest. We account for our investment in four of the parks using the equity method of accounting. The equity method of accounting recognizes our share of the activity of Six Flags Over Texas, Six Flags Over Georgia, Six Flags White Water Atlanta, and Six Flags Marine World in the accompanying consolidated statements of operations in the caption "equity in operations of theme park partnerships." The equity method of accounting differs from the consolidation method of accounting used for the theme parks in which we own a controlling interest. In the consolidation method of accounting, the activities of the controlled parks are reflected in each revenue and expense caption rather than aggregated into one caption. The Warner Bros. Movie World theme park being constructed in Spain is not yet in operation. We account for our investment in this park at cost.

(i) Intangible Assets

For periods through December 31, 2001, goodwill, which represents the excess of purchase price over fair value of net assets acquired, has been amortized on a straight-line basis over the expected period to be

benefited, generally 18 to 25 years. Other intangible assets have been amortized over the period to be benefited, generally up to 25 years. We assess the recoverability of intangible assets by determining whether the amortization of the intangible asset balance over its remaining life can be recovered through undiscounted future operating cash flows from the acquisition. The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting our average borrowing rate. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved.

For periods beginning on January 1, 2002, we adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." As a result, goodwill and intangible assets with indefinite useful lives no longer will be amortized, but instead will be tested for impairment at least annually.

In connection with SFAS No. 142's transitional goodwill impairment evaluation, we will perform an assessment of whether there is an indication that goodwill (including goodwill included in our investment in theme park partnerships) is impaired as of the date of adoption. To accomplish this, we must identify our reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of January 1, 2002. We will then have up to six months from January 1, 2002 to determine the fair value of each reporting unit and compare it to the carrying amount of the reporting unit. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit, an indication exists that the reporting unit goodwill may be impaired and we must perform the second step of the transitional impairment test. The second step is required to be completed as soon as possible, but no later than the end of 2002. In the second step, we must compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill, both of which would be measured as of the date of adoption. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in our consolidated statements of operations.

As of the date of adoption of SFAS No. 142, our unamortized goodwill was \$1,196,139,000. Amortization expense related to goodwill was \$56,712,000 and

\$53,749,000 for the years ended December 31, 2001, and 2000, respectively. Because of the extensive effort needed to comply with adopting SFAS No. 142, it is not practicable to reasonably estimate the impact of adopting SFAS No. 142 on our consolidated financial statements at the date of these consolidated financial statements, including whether we will be required to recognize any transitional impairment losses as the cumulative effect of a change in accounting principle.

(j) Long-Lived Assets

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset or group of assets to future net cash flows expected to be generated by the asset or group of assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

In August 2001, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While Statement No. 144 supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," it retains many of the fundamental provisions of that Statement. Statement No. 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business. However, it retains the requirement in Opinion No. 30 to report separately discontinued operations and extends that reporting to a component of an entity that either has been disposed of by sale, abandonment, or in a distribution to owners or is classified as held for sale. Statement No. 144 is effective for fiscal years beginning after December 15, 2001 and was adopted by us on January 1, 2002. The adoption of Statement 144 will not have a material impact on our consolidated financial statements.

(k) Revenue Recognition

We recognize revenue upon admission into our parks, provision of our services, or when products are

delivered to our customer. For season pass and other multi-use admissions, we recognize a pro-rata portion of the revenue as the customer attends our parks.

(l) Interest Expense

Interest on notes payable is generally recognized as expense on the basis of stated interest rates. Notes payable assumed in an acquisition are carried at amounts adjusted to impute a market rate of interest cost (when the obligations were assumed).

(m) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. United States deferred income taxes have not been provided on foreign earnings which are being permanently reinvested.

(n) Loss Per Common Share

Basic loss per share is computed by dividing net loss applicable to common stock by the weighted average number of common shares outstanding for the period. No adjustments for stock options were included in the 2001, 2000 and 1999 computations of diluted loss per share because the effect would have been antidilutive. Additionally, the weighted average number of shares for each of the years ended December 31, 2001, 2000 and 1999 does not include the impact of the conversion of outstanding convertible preferred stock into shares of common stock as the effect of the conversion and resulting decrease in preferred stock dividends would be antidilutive. Our Preferred Income Equity Redeemable Shares (PIERS), which are shown as mandatorily redeemable preferred stock on our balance sheet, were issued in January 2001 and are convertible into 13,789,000 shares of common stock. On April 2, 2001, our Premium Income Equity Securities (PIES) automatically converted into a total of 11,500,000 common shares.

Preferred stock dividends of \$26,515,000, \$23,288,000 and \$23,288,000 were considered in determining net loss applicable to common stock in 2001, 2000 and 1999, respectively.

(o) Stock Options

For unconditional employee stock options, we recognize compensation expense over the service period, only if the current market price of the underlying stock exceeds the exercise price on the date of the grant. For employee stock options that are conditioned upon the achievement of performance goals, compensation expense, as determined by the extent that the quoted market price of the underlying stock at the time that the condition for exercise is achieved exceeds the stock option exercise price, is recognized over the service period. For stock options issued to nonemployees, we recognize compensation expense at the time of issuance based upon the fair value of the options issued.

Pro forma net loss and net loss per share for employee stock option grants as if the fair-value-based method had been applied are provided in Note 9(b).

(p) Investment Securities

Restricted-use investment securities at December 31, 2001 and 2000 consist of U.S. Treasury securities. The securities are restricted to provide funds to satisfy our obligations under certain guarantees of partnership arrangements described in Note 12 and, prior to April 1, 2001, to provide for interest payments on certain debt issued in 1998. We classify our investment securities in one of two categories: available-for-sale or held-to-maturity. Held-to-maturity securities are those securities in which we have the ability and intent to hold the security until maturity. All other securities held by us are classified as available-for-sale. We do not purchase investment securities principally for the purpose of selling them in the near term and thus have no securities classified as trading.

Available-for-sale securities are recorded at fair value. As of December 31, 2001 and 2000, the fair value of the restricted-use investments classified as available-for-sale was \$75,169,000 and \$75,376,000 which approximated the amortized cost of the securities. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from operations and are reported as a separate component of other comprehensive income (loss) until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. As of December 31, 2001 and 2000, all of our restricted-use investment securities classified as available-for-sale had remaining maturities of less than one year; however, these securities are reflected as noncurrent assets as they are restricted for future use.

As of December 31, 2000, \$12,773,000 of restricted-use investment securities classified as held-to-maturity had maturities and restrictions of less than one year and were reflected as current assets.

Premiums and discounts are amortized or accreted over the life of the related held-to-maturity security as an adjustment to yield using the effective interest method. Interest income is recognized when earned.

(q) Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss), changes in the foreign currency translation adjustment and changes in the fair value of derivatives that are designated as hedges, and is presented in the 2001, 2000 and 1999 consolidated statements of stockholders' equity and other comprehensive income (loss) as accumulated other comprehensive income (loss).

(r) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(s) Reclassifications

Reclassifications have been made to certain amounts reported in 2000 and 1999 to conform with the 2001 presentation.

(2) Acquisition of Theme Parks

On February 9, 2001, we acquired substantially all of the assets used in the operation of Sea World of Ohio, a marine wildlife park located adjacent to the Company's Six Flags Ohio theme park, for a cash purchase price of \$110,000,000. We funded the acquisition from a portion of the proceeds of the PIERS offering. See Note 9. Approximately \$57,834,000 of costs in excess of the fair value of the net assets acquired were recorded as goodwill. The transaction was accounted for as a purchase.

On May 2, 2001, we acquired substantially all of the assets of La Ronde, a theme park located in the City of Montreal for a cash purchase price of Can. \$30,000,000 (approximately U.S. \$19,600,000 at the exchange rate on such date). We have agreed to invest in the park Can. \$90,000,000 (approximately U.S. \$58,700,000 at that exchange rate) over four seasons commencing in 2002. We lease the land on which the park is located on a long-term basis. Approximately U.S. \$7,378,000 of costs in

excess of the fair value of the net assets acquired were recorded as goodwill. The transaction was accounted for as a purchase.

On December 6, 2000, we acquired all of the capital stock of the company operating as Enchanted Village and Wild Waves (Enchanted Village), a water and rides park located near Seattle, Washington, for a purchase price of \$19,255,000 paid through issuance of 1,339,223 shares of our common stock. As of the acquisition date, \$4,471,000 of deferred tax liabilities were recognized for the tax consequences attributable to the differences between the financial carrying amounts and the tax basis of Enchanted Village's assets and liabilities. Approximately \$4,296,000 of costs in excess of the fair value of the net assets acquired were recorded as goodwill. The transaction was accounted for as a purchase.

On May 4, 1999, we acquired all of the capital stock of the companies that own and operate Reino Aventura (subsequently renamed Six Flags Mexico), a theme park located in Mexico City, for a cash purchase price of approximately \$59,600,000. We funded the acquisition from existing cash. Approximately \$14,575,000 of costs in excess of the fair value of the net assets acquired were recorded as goodwill. The transaction was accounted for as a purchase.

On May 13, 1999, we acquired the assets of Splashtown water park located in Houston, Texas for a cash purchase price of approximately \$20,400,000. We funded the acquisition from existing cash. Approximately \$10,530,000 of costs in excess of the fair value

of the net assets acquired were recorded as goodwill. The transaction was accounted for as a purchase.

On May 25, 1999, the limited partnership that owns Six Flags Over Georgia acquired the assets of White Water Atlanta water park, and adjacent American Adventures entertainment facility located near Atlanta, Georgia. In connection with the acquisition, Six Flags issued a \$40,700,000 note that was converted into 1,080,000 shares of common stock. The transaction was accounted for by the limited partnership as a purchase. We have reflected the additional investment in the limited partnership as an investment in theme park partnerships.

On November 15, 1999, we purchased the partnership that owns Warner Bros. Movie World Germany, near Dusseldorf, Germany, and entered into a joint venture with Warner Bros. to design, develop and manage a new Warner Bros. Movie World theme park scheduled to open in Madrid, Spain in 2002. At the same time, we entered into a long-term license agreement for exclusive theme park usage in Europe, Mexico, South America and Central America of the Looney Tunes, Hanna-Barbera, Cartoon Network and D.C. Comics characters. The aggregate cost of the transactions was \$180,269,000, which was funded by borrowings under our 1999 credit facility (the Credit Facility). See Note 6(d). Approximately \$42,800,000 of the aggregate costs were allocated to goodwill and intangible assets. The transaction was accounted for as a purchase.

The 2000 and 2001 acquisitions did not materially impact our 2000 and 2001 results of operations. As such, no proforma information has been presented.

(3) Property and Equipment

Property and equipment, at cost, are classified as follows:

	<u>2001</u>	<u>2000</u>
Land	\$ 300,353,000	\$ 294,215,000
Land improvements	326,821,000	299,261,000
Buildings and improvements	583,156,000	540,349,000
Rides and attractions	1,283,467,000	1,202,149,000
Equipment	307,559,000	249,953,000
Total	<u>2,801,356,000</u>	<u>2,585,927,000</u>
Less accumulated depreciation	465,656,000	328,027,000
	<u>\$2,335,700,000</u>	<u>\$2,257,900,000</u>

(4) Investment in Theme Park Partnerships

The following reflects the summarized assets, liabilities, and equity as of December 31, 2001 and 2000, and the results of the four parks managed by us for the years ended December 31, 2001, 2000 and 1999. Results for 1999 include results of Six Flags White Water Atlanta only subsequent to May 25, 1999 (the date of its acquisition).

	<u>2001</u>	<u>2000</u>
Assets:		
Current assets	\$ 25,139,000	\$ 26,530,000
Property and equipment, net.....	270,081,000	254,263,000
Other assets	<u>33,052,000</u>	<u>35,676,000</u>
Total assets.....	<u>\$328,272,000</u>	<u>\$316,469,000</u>
Liabilities and equity:		
Current liabilities	\$ 50,953,000	\$ 47,685,000
Affiliate loans	92,107,000	91,107,000
Long-term debt	78,826,000	66,305,000
Equity	<u>106,386,000</u>	<u>111,372,000</u>
Total liabilities and equity.....	<u>\$328,272,000</u>	<u>\$316,469,000</u>

Pursuant to the applicable partnership agreements, we, as managing general partner of the Six Flags Over Texas and Six Flags Over Georgia (the Partnership Parks), can make affiliate loans to the Partnership Parks. These loans are reflected in our consolidated balance sheets as an investment in theme park partnerships. We provided the consideration for the Georgia Partnership Park to acquire White Water Atlanta. The resulting note from the Georgia Partnership Park to us is in the form of an affiliate loan. Included in long-term debt above as of December 31, 2001 and 2000 is \$60,340,000 and \$61,185,000, respectively, of long-term debt that is not guaranteed by us. That long-term debt is an obligation of the other parties that have an interest in Six Flags Marine World. The remaining long-term debt shown above consists primarily of term loan debt and capitalized lease obligations associated with rides and equipment.

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Revenue	\$217,949,000	\$208,196,000	\$225,274,000
Expenses:			
Operating expenses	81,529,000	84,379,000	88,901,000
Selling, general and administrative	31,040,000	29,911,000	27,957,000
Costs of products sold	15,660,000	17,921,000	21,241,000
Depreciation and amortization	21,516,000	20,145,000	16,724,000
Interest expense, net	13,234,000	14,259,000	11,545,000
Other expense	<u>819,000</u>	<u>841,000</u>	<u>532,000</u>
Total	<u>163,798,000</u>	<u>167,456,000</u>	<u>166,900,000</u>
Net income	<u>\$ 54,151,000</u>	<u>\$ 40,740,000</u>	<u>\$ 58,374,000</u>

Our share of operations of the four theme parks for the years ended December 31, 2001, 2000 and 1999 was \$44,389,000, \$33,205,000 and \$44,187,000, prior to depreciation and amortization charges of \$20,989,000, \$20,370,000 and \$15,826,000, and third-party interest expense and other non-operating expenses of \$1,888,000, \$1,002,000 and \$2,181,000, respectively.

The following information reflects the reconciliation between the results of the four theme parks and our share of the results:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Theme park partnership net income	\$ 54,151,000	\$ 40,740,000	\$ 58,374,000
Third party share of net income	(29,021,000)	(23,675,000)	(28,279,000)
Amortization of Company's investment in theme park partnerships in excess of share of net assets	<u>(3,618,000)</u>	<u>(5,232,000)</u>	<u>(3,915,000)</u>
Equity in operations of theme park partnerships	<u>\$ 21,512,000</u>	<u>\$ 11,833,000</u>	<u>\$ 26,180,000</u>

A substantial difference exists between the carrying value of our investment in the theme parks and our share of the net book value of the theme parks. Through December 31, 2001, the difference is being amortized over 20 years for the Partnership Parks and over the expected useful life of the rides and equipment installed by us at Six Flags Marine World.

The following information reconciles our share of the net assets of the theme parks partnerships and our investment in the partnerships.

	<u>December 31, 2001</u>	<u>December 31, 2000</u>
Our share of net assets of theme park partnerships . . .	\$107,322,000	\$107,717,000
Our investment in theme park partnerships in excess of share of net assets	188,844,000	187,814,000
Advances made to theme park partnerships	<u>92,107,000</u>	<u>91,107,000</u>
Investments in theme park partnerships	<u>\$388,273,000</u>	<u>\$386,638,000</u>

See Note 12 for a discussion of certain obligations relating to the Partnership Parks. In April 1997, we became manager of Marine World (subsequently renamed Six Flags Marine World), then a marine and exotic wildlife park located in Vallejo, California, pursuant to a contract with an agency of the City of Vallejo under which we are entitled to receive an annual base management fee of \$250,000 and up to \$250,000 annually in additional management fees based on park revenues. In November 1997, we exercised our option to lease approximately 40 acres of land within the site for nominal rent and an initial term of 55 years (plus four ten-year and one four-year renewal options). We have added theme park rides and attractions on the leased land, which is located within the existing park, in order to create one fully-integrated regional theme park at the site. We are entitled to receive, in addition to the management fee, 80% of the cash flow generated by the combined operations at the park, after combined operating expenses and debt service on outstanding debt obligations relating to the park. We also have an option to purchase the entire site commencing in February 2002 at a purchase price equal to the greater of the then principal amount of certain debt obligations of the seller (expected to aggregate \$52,000,000) or the then fair market value of the seller's interest in the park (based on a formula relating to the seller's 20% share of Marine World's cash flow).

(5) Derivative Financial Instruments

Prior to 2000, we had only limited involvement with derivative financial instruments, entering into contracts to manage the variability of foreign-currency exchange rates in connection with the purchase of rides from foreign vendors. No such contracts were in effect at December 31, 2001 or December 31, 2000.

In February 2000, we entered into three interest rate swap agreements that effectively convert our \$600,000,000 term loan component of the Credit Facility (see Note 6(d)) into a fixed rate obligation. The terms of the agreements, as subsequently extended, each of which has a notional amount of \$200,000,000,

began in March 2000 and expire from March 2003 to December 2003. Our term loan borrowings bear interest based upon LIBOR plus a fixed margin. Our interest rate swap arrangements were designed to "lock-in" the LIBOR component at rates, prior to a February 2001 amendment, ranging from 6.615% to 6.780% and, subsequent to that date, 5.13% to 6.07% (with an average of 5.46%). The counterparties to these transactions are major financial institutions, which minimizes the credit risk.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133, as amended by SFAS No. 138, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires an entity to recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge for accounting purposes. The accounting for changes in the fair value of a derivative (that is gains and losses) depends on the intended use of the derivative and the resulting designation. We adopted the provisions of SFAS No. 133 as of January 1, 2001. As a result of the adoption, we recognized a liability of approximately \$4,996,000 and recorded in other comprehensive income (loss) \$3,098,000 (net of tax effect) as a cumulative effect of a change in accounting principle, which is being amortized into operations over the original term of the interest rate swap agreements. See Note 9(e).

As of January 1, 2001, two of the three interest rate swap agreements contained "knock-out" provisions that did not meet the definition of a derivative instrument that could be designated as a hedge under SFAS No. 133. From January 1, 2001 to February 23, 2001, we recognized in other income (expense) a \$3,200,000 expense related to the change in fair value of these two hedges. As of February 23, 2001, the interest rate swap agreements were amended and the

knock-out provisions were removed. As of that date and through December 31, 2001, we have designated all of the interest rate swap agreements as cash-flow hedges.

We formally document all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash-flow hedges to forecasted transactions. We also assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Changes in the fair value of a derivative that is effective and that is designated and qualifies as a cash-flow hedge are recorded in other comprehensive income (loss), until operations are affected by the variability in cash flows of the designated hedged item. Changes in fair value of a derivative that is not designated as a hedge are recorded in operations on a current basis.

During 2001, there were no gains or losses reclassified into operations as a result of the discontinuance of hedge accounting treatment for any of our derivatives.

By using derivative instruments to hedge exposures to changes in interest rates, we are exposed to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. To mitigate this risk, the hedging instruments are placed with counterparties that we believe are minimal credit risks.

(6) Long-Term Debt

At December 31, 2001 and 2000, long-term debt consists of:

	<u>2001</u>	<u>2000</u>
Long-term debt:		
9 ³ / ₄ % Notes due 2007 (a)	\$ 269,000	\$ 125,000,000
10% Senior Discount Notes due 2008 (b)	363,026,000	329,275,000
9 ¹ / ₄ % Senior Notes due 2006 (b)	280,000,000	280,000,000
8 ⁷ / ₈ % Notes due 2006 of Six Flags Operations (c)	170,000,000	170,000,000
Credit Facility (d)	613,500,000	981,000,000
9 ³ / ₄ % Senior Notes due 2007 (e)	429,329,000	429,207,000
9 ¹ / ₂ % Senior Notes due 2009 (f)	372,722,000	—
Other	18,223,000	7,831,000
	<u>2,247,069,000</u>	<u>2,322,313,000</u>
Less current portion	<u>24,627,000</u>	<u>2,401,000</u>
	<u>\$2,222,442,000</u>	<u>\$2,319,912,000</u>

(a) Represents senior notes of our principal subsidiary, Six Flags Operations Inc. (Six Flags Operations) which were redeemed in full in

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates, commodity prices, or currency exchange rates. The market risk associated with interest rate swap agreements is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

We do not hold or issue derivative instruments for trading purposes. Changes in the fair value of derivatives that are designated as hedges are reported on the consolidated balance sheet in "Accumulated other comprehensive income (loss)" (AOCL). These amounts are reclassified to interest expense when the forecasted transaction takes place.

From February 2001 through December 2001, the critical terms, such as the index, settlement dates, and notional amounts, of the derivative instruments were the same as the provisions of our hedged borrowings under the Credit Facility. As a result, no ineffectiveness of the cash-flow hedges was recorded in the consolidated statements of operations.

As of December 31, 2001, approximately \$8,500,000 of net deferred losses on derivative instruments, including the transition adjustment, accumulated in AOCL are expected to be reclassified to operations during the next 12 months. Transactions and events expected to occur over the next twelve months that will necessitate reclassifying these derivatives' losses to operations are the periodic payments that are required to be made on outstanding borrowings. The maximum term over which we are hedging exposures to the variability of cash flows for commodity price risk is 18 months.

January 2002. In 2001, we purchased 99.8% of the notes pursuant to a tender offer. As a result of the early extinguishment of debt in 2001, we

recognized an extraordinary loss of \$8,529,000, net of tax benefit of \$5,227,000.

- (b) On April 1, 1998, Holdings issued at a discount \$410,000,000 principal amount at maturity (\$363,026,000 and \$329,275,000 carrying value as of December 31, 2001 and 2000, respectively) of 10% Senior Discount Notes due 2008 (the Senior Discount Notes) and \$280,000,000 principal amount of 9¹/₄% Senior Notes due 2006 (the 1998 Senior Notes). In February 2002, we called the 1998 Senior Notes for redemption in full on April 1, 2002. The redemption price will be funded from a portion of the net proceeds of an offering by Holdings of \$480,000,000 principal amount of 8⁷/₈% Senior Notes due 2010 (the 2002 Senior Notes). An extraordinary loss of \$11,809,000, net of a tax benefit of \$7,238,000, will be recognized from this early extinguishment.

The notes are senior unsecured obligations of Holdings and are not guaranteed by Holdings' subsidiaries. The Senior Discount Notes do not require any interest payments prior to October 1, 2003 and, except in the event of a change of control of Holdings and certain other circumstances, any principal payments prior to their maturity in 2008. The Senior Discount Notes have an interest rate of 10% per annum. The Senior Discount Notes are redeemable, at our option, in whole or in part, at any time on or after April 1, 2003, at varying redemption prices beginning at 105% and reducing annually until maturity.

Approximately \$75,000,000 of the net proceeds of the Senior Discount Notes were invested in restricted-use securities, until April 1, 2003, to provide funds to pay certain of our obligations to the limited partners of the Partnership Parks. See Note 12.

The indenture under which the Senior Discount Notes were issued limits our ability to dispose of assets; incur additional indebtedness or liens; pay dividends; engage in mergers or consolidations; and engage in certain transactions with affiliates.

- (c) Represents senior notes of Six Flags Operations which we have called for redemption in full on April 1, 2002. The redemption price will be funded from a portion of the proceeds of the offering of the 2002 Senior Notes. An extraordinary loss of \$6,726,000 net of tax benefit of \$4,123,000, will be recognized for this early extinguishment.
- (d) On November 5, 1999, Six Flags Theme Parks Inc., a direct wholly owned subsidiary of Six Flags Operations ("SFTP") entered into the Credit Facility. The Credit Facility includes a \$300,000,000 five-year revolving credit facility (\$15,000,000 was outstanding on December 31, 2001 and

\$90,000,000 was outstanding at December 31, 2000), a \$300,000,000 five-and-one-half-year multicurrency reducing revolver facility (of which none and \$291,000,000 was outstanding at December 31, 2001 and 2000, respectively) and a \$600,000,000 six-year term loan (\$598,500,000 of which was outstanding at December 31, 2001 and all of which was outstanding at December 31, 2000). Borrowings under the five-year revolving credit facility (US Revolver) must be repaid in full for thirty consecutive days each year. The interest rate on borrowings under the Credit Facility can be fixed for periods ranging from one to six months. At our option the interest rate is based upon specified levels in excess of the applicable base rate or LIBOR. At December 31, 2001, the weighted average interest rates for borrowings under the US Revolver and term loan were 3.9% and 8.47%, respectively. At December 31, 2000, the weighted average interest rates for borrowings under the US Revolver, multicurrency revolver, and term loan were 9.22%, 9.19% and 9.97%, respectively. The multicurrency facility permits optional prepayments and reborrowings. The committed amount reduces quarterly by 2.5% commencing on December 31, 2001, by 5.0% commencing on December 31, 2002, by 7.5% commencing on December 31, 2003 and by 20.0% commencing on December 31, 2004. Mandatory repayments are required if amounts outstanding exceed the reduced commitment amount. The term loan facility requires quarterly repayments of 0.25% of the outstanding amount thereof commencing on December 31, 2001 and 24.25% commencing on December 31, 2004. A commitment fee of .50% of the unused credit of the facility is due quarterly in arrears. The principal borrower under the facility is SFTP, and borrowings under the Credit Facility are guaranteed by Holdings, Six Flags Operations and all of Six Flags Operations' domestic subsidiaries and are secured by substantially all of Six Flags Operations' domestic assets and a pledge of Six Flags Operations capital stock. See Note 5 regarding interest rate hedging activities.

The Credit Facility contains restrictive covenants that, among other things, limit the ability of Six Flags Operations and its subsidiaries to dispose of assets; incur additional indebtedness or liens; repurchase stock; make investments; engage in mergers or consolidations; pay dividends (except that, subject to covenant compliance, dividends will be permitted to allow Holdings to meet cash interest obligations with respect to its Senior Notes, cash dividend payments on our PIERS and our obligations to the limited partners in the Part-

nership Parks) and engage in certain transactions with subsidiaries and affiliates. In addition, the Credit Facility requires that Six Flags Operations comply with certain specified financial ratios and tests.

On November 5, 1999, we borrowed \$892,000,000 under the Credit Facility principally to repay all amounts outstanding under previously existing credit facilities and to provide funds to consummate the November 1999 transactions with Warner Bros. described in Note 2. The termination of previously existing credit facilities resulted in an extraordinary loss in respect of the debt issuance costs related thereto of \$5,214,000, net of tax benefit of \$3,476,000.

- (e) On June 30, 1999, Holdings issued \$430,000,000 principal amount of 9³/₄% Senior Notes due 2007 (the 1999 Senior Notes). The 1999 Senior Notes are senior unsecured obligations of Holdings, are not guaranteed by subsidiaries and rank equal to the other Senior Notes of Holdings. The 1999 Senior Notes require annual interest payments of approximately \$41,925,000 (9³/₄% per annum) and, except in the event of a change in control of Holdings and certain other circumstances, do not require any principal payments prior to their maturity in 2007. The 1999 Senior Notes are redeemable, at Holdings' option, in whole or in part, at any time on or after June 15, 2003, at varying redemption prices beginning at 104.875% and reducing annually until maturity. The indenture under which the 1999 Senior Notes were issued contains covenants substantially similar to those relating to the Senior Discount Notes.

The net proceeds of the 1999 Senior Notes were used to fund the purchase in a tender offer of \$87,500,000 of previously outstanding Six Flags Operations' 1995 Senior Notes and the entire \$285,000,000 principal amount of SFTP Senior Subordinated Notes. The remaining \$2,500,000 balance of the 1995 Senior Notes was redeemed in August 1999. An extraordinary loss of

\$6,082,000, net of tax benefit of \$4,054,000 was recognized from these early extinguishments.

- (f) On February 2, 2001, Holdings issued \$375,000,000 principal amount of 9¹/₂% Senior Notes due 2009 (the 2001 Senior Notes). The 2001 Senior Notes are senior unsecured obligations of Holdings, are not guaranteed by subsidiaries and rank equal to the other Senior Notes of Holdings. The 2001 Senior Notes require annual interest payments of approximately \$35,625,000 (9¹/₂% per annum) and, except in the event of a change in control of Holdings and certain other circumstances, do not require any principal payments prior to their maturity in 2009. The 2001 Senior Notes are redeemable, at Holding's option, in whole or in part, at any time on or after February 1, 2005, at varying redemption prices beginning at 104.75% and reducing annually until maturity. The indenture under which the 2001 Senior Notes were issued contains covenants substantially similar to those relating to the other Senior Notes of Holdings. The net proceeds of the 2001 Senior Notes were used to fund the tender offer relating to senior notes of Six Flags Operations (see Note 6(a)) and to repay borrowings under the multicurrency revolving portion of the Credit Facility (see Note 6(d)).

Annual maturities of long-term debt during the five years subsequent to December 31, 2001, are as follows (after giving effect to the issuance of the 2002 Senior Notes in February 2002 and the use of proceeds and including borrowings under the working capital revolver at December 31, 2001):

2002	\$ 24,627,000
2003	9,449,000
2004	153,441,000
2005	443,950,000
2006	56,000
Thereafter	<u>1,643,837,000</u>
	<u>\$2,275,360,000</u>

The Credit Facility and, prior to the April 1, 2002 redemption of the existing Six Flags Operations senior notes, the indenture relating thereto restrict the ability of Six Flags Operations to distribute assets to Holdings, and the indentures relating to Holdings' Senior Notes restrict the ability of Holdings to distribute assets to its shareholders. The Credit Facility restricts distributions by Six Flags Operations to amounts required to pay interest on Holdings' senior notes, dividends on Holdings' outstanding preferred stock, required payments under the agreements relating to the Partnership Parks and certain tax and shared services arrangements. The following table discloses the amounts available for distribution (other than permitted payments in respect to shared administrative and other corporate expenses and tax sharing payments) at December 31, 2001 by each debt group based upon the most restrictive applicable indenture limitation.

	<u>Amount Available</u> (In thousands)
Holdings	\$ 581,995
Six Flags Operations	1,624,444

(7) Fair Value of Financial Instruments

The following table and accompanying information present the carrying amounts and estimated fair values of our financial instruments at December 31, 2001 and 2000. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties.

	2001		2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair value
Financial assets (liabilities):				
Restricted-use investment securities	\$ 75,169,000	\$ 75,169,000	\$ 88,149,000	\$ 88,138,000
Long-term debt	(2,247,069,000)	(2,261,081,000)	(2,322,313,000)	(2,271,779,000)
Interest rate swap agreements	(23,296,000)	(23,296,000)	—	(4,996,000)
PIERS	(278,867,000)	(253,000,000)	—	—

The carrying amounts shown in the table are included in the consolidated balance sheets under the indicated captions, except for the interest rate swap agreements (Note 5) which for December 31, 2000 are not reflected in the consolidated balance sheets.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- The fair values of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate fair value because of the short maturity of these instruments.
- Restricted-use investment securities: The fair values of debt securities (both available-for-sale and held-to-maturity investments) are based on quoted market prices at the reporting date for those or similar investments.
- Long-term debt: The fair value of our long-term debt is estimated by discounting the future cash flows of each instrument at rates currently offered to us for similar debt instruments of comparable maturities by our investment bankers or based upon quoted market prices.
- Derivative financial instruments: The fair value of our derivative financial instruments is determined by the counterparty financial institution.
- PIERS: The fair value of our mandatorily redeemable preferred stock is based upon quoted market prices.

(8) Income Taxes

Income tax expense (benefit) allocated to operations for 2001, 2000 and 1999 consists of the following:

	Current	Deferred	Total
2001:			
U.S. federal	\$ —	\$ (2,465,000)	\$ (2,465,000)
Foreign	1,818,000	(6,175,000)	(4,357,000)
State and local	427,000	(800,000)	(373,000)
	<u>\$2,245,000</u>	<u>\$ (9,440,000)</u>	<u>\$ (7,195,000)</u>
2000:			
U.S. federal	\$ (10,000)	\$ (2,211,000)	\$ (2,221,000)
Foreign	3,792,000	4,388,000	8,180,000
State and local	(377,000)	40,000	(337,000)
	<u>\$3,405,000</u>	<u>\$ 2,217,000</u>	<u>\$ 5,622,000</u>
1999:			
U.S. federal	\$ (683,000)	\$18,338,000	\$17,655,000
Foreign	1,058,000	3,072,000	4,130,000
State and local	(591,000)	3,266,000	2,675,000
	<u>\$ (216,000)</u>	<u>\$24,676,000</u>	<u>\$24,460,000</u>

U.S. federal income tax rate of 35% in 2001, 2000 and 1999 to income (loss) before income taxes as follows:

	2001	2000	1999
Computed "expected" federal income tax expense (benefit)	\$ (19,869,000)	\$ (16,218,000)	\$ 1,830,000
Amortization of goodwill	13,794,000	13,643,000	11,973,000
Nondeductible compensation	3,767,000	3,779,000	6,786,000
Other, net	(51,000)	499,000	864,000
Effect of foreign income taxes ..	(4,586,000)	4,145,000	1,215,000
Effect of state and local income taxes, net of federal tax benefit	(250,000)	(226,000)	1,792,000
	<u>\$ (7,195,000)</u>	<u>\$ 5,622,000</u>	<u>\$24,460,000</u>

Recorded income tax expense allocated to operations differed from amounts computed by applying the

An income tax benefit of \$5,227,000 was allocated to extraordinary loss for 2001. The U.S. federal benefit component was \$4,539,000 and the state and local benefit component was \$688,000. There were no extraordinary losses in 2000. An income tax benefit of

\$7,530,000 was allocated to extraordinary loss for 1999. The U.S. federal benefit component was \$6,539,000 and the state and local benefit component was \$991,000. There were no foreign extraordinary losses in 2001 or 1999.

Substantially all of our future taxable temporary differences (deferred tax liabilities) relate to the different financial accounting and tax depreciation methods and periods for property and equipment. Our net operating loss carryforwards, alternative minimum tax credits, accrued insurance expenses, and deferred compensation amounts represent future income tax deductions (deferred tax assets). The tax effects of these temporary differences as of December 31, 2001, 2000 and 1999 are presented below:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Deferred tax assets before valuation allowance	\$356,806,000	\$286,098,000	\$213,244,000
Less valuation allowance	<u>1,196,000</u>	<u>1,196,000</u>	<u>1,196,000</u>
Net deferred tax assets	355,610,000	284,902,000	212,048,000
Deferred tax liabilities	<u>465,536,000</u>	<u>429,821,000</u>	<u>354,008,000</u>
Net deferred tax liability	<u>\$109,926,000</u>	<u>\$144,919,000</u>	<u>\$141,960,000</u>

Our deferred tax liability results from the financial carrying amounts for property and equipment being substantially in excess of our tax basis in the corresponding assets. The majority of our property and equipment is depreciated over a 7-year period for tax reporting purposes and a longer 20-to-25 year period for financial purposes. The faster tax depreciation has resulted in tax losses which can be carried forward to future years to offset future taxable income. Because most of our depreciable assets' financial carrying amounts and tax basis difference will reverse before the expiration of our net operating loss carryforwards and taking into account our projections of future taxable income over the same period, management believes that we will more likely than not realize the benefits of these net future deductions.

As of December 31, 2001, we have approximately \$903,533,000 of net operating loss carryforwards available for U.S. federal income tax purposes which expire through 2020. Included are net operating loss carryforwards of \$3,400,000 which are not expected to be utilized as a result of an ownership change that occurred on October 30, 1992. A valuation allowance for the pre-October 1992 net operating loss carryforwards has been established. Additionally at December 31, 2001, we had approximately \$6,949,000 of alternative minimum tax credits which have no expiration date.

We have experienced ownership changes within the meaning of the Internal Revenue Code Section 382 and the regulations thereunder. We experienced an ownership change on June 4, 1996, as a result of the issuance of shares of common stock and the conversion of preferred stock into additional shares of common stock. This ownership change limits the amount of our post-October 1992 through June 1996 net operating loss carryforwards that can be used in any year.

Included in our tax net operating loss carryforward amounts are approximately \$249,353,000 of net operating loss carryforwards of Six Flags Entertainment Corporation ("SFEC") generated prior to its acquisition by us. SFEC experienced an ownership change on April 1, 1998 as a result of its acquisition. Due to this ownership change, no more than \$49,200,000 of pre-acquisition net operating loss carryforwards may be used to offset taxable income in any year; however, it is more likely than not that all of our carryforwards generated subsequent to October 1992 and all of the SFEC's pre-acquisition carryforwards will be fully utilized by us before their expiration.

(9) Preferred Stock, Common Stock and Other Stockholders' Equity

(a) Preferred Stock

We have authorized 5,000,000 shares of preferred stock, \$1.00 par value per share. All shares of preferred stock rank senior and prior in right to all of our now or hereafter issued common stock with respect to dividend payments and distribution of assets upon our liquidation or dissolution.

PIERS

In January 2001, we issued 11,500,000 PIERS, for proceeds of \$277,834,000, net of the underwriting discount and offering expenses of \$9,666,000. We used a portion of the proceeds to acquire substantially all of the assets of the former Sea World of Ohio. See Note 2. Each PIERS represents one one-hundredth of a share of our 7¼% mandatorily redeemable preferred stock (an aggregate of 115,000 shares of preferred stock). The PIERS accrue cumulative dividends (payable, at our option, in cash or shares of common stock) at 7¼% per annum (approximately \$20,844,000 per annum). Holders can voluntarily convert the PIERS into shares of common stock at any time prior to August 15, 2009.

Prior to August 15, 2009, each of the PIERS is convertible at the option of the holder into 1.1990 common shares (equivalent to a conversion price of \$20.85 per common share), subject to adjustment in certain circumstances (the Conversion Price). At any time on or after February 15, 2004 and at the then applicable conversion rate, we may cause the PIERS,

in whole or in part, to be automatically converted if for 20 trading days within any period of 30 consecutive trading days, including the last day of such period, the closing price of our common stock exceeds 120% of the then prevailing Conversion Price. On August 15, 2009, the PIERS are mandatorily redeemable in cash equal to 100% of the liquidation preference (initially \$25.00 per PIERS), plus any accrued and unpaid dividends.

PIES

Prior to April 2, 2001, we also had outstanding 5,750,000 PIES which automatically converted into 11,500,000 shares of common stock on that date. In addition, on that date we issued to holders of the PIES 278,912 shares of common stock, representing the final quarterly dividend payment on the PIES. The PIES accrued cumulative dividends at 7¹/₂% per annum (\$23,288,000 per annum). Each of the PIES represented one five-hundredth of a share of our mandatorily convertible preferred stock and is included as preferred stock in our December 31, 2000 consolidated balance sheet. The PIES were issued on April 1, 1998 for gross proceeds of \$310,500,000.

(b) Stock Options and Warrants

Certain members of our management and professional staff have been issued seven-year options to purchase common shares under our 2001, 1998, 1996, 1995 and 1993 Stock Option and Incentive Plans (collectively, the Option Plans). Through December 31, 2001 all stock options granted under the Option Plans, have been granted with an exercise price equal to the underlying stock's fair value at the date of grant. Except for conditional options issued in 1998, options may be exercised on a cumulative basis with 20% of the total exercisable on the date of issuance and with an additional 20% being available for exercise on each of the succeeding anniversary dates. Any unexercised portion of the options will automatically terminate upon the seventh anniversary of the issuance date or following termination of employment. There were 1,531,000 conditional stock options granted in 1998. These options have the same vesting schedule as the unconditional stock options, except that no conditional option could be exercised until after the conditions of the stock option were met. The conditions related to the exercise of these stock options were met during December 1999.

In 1999 and 1998, we also issued to certain consultants options to purchase 40,000 and 70,000 common

shares, respectively. The options have substantially the same terms and conditions as the options granted under the Option Plans. We have recognized the fair value of the options issued to the consultants as an expense in the accompanying 1999 consolidated statements of operations.

In June 2001, our shareholders approved a stock option plan for independent directors providing for options with respect to an aggregate of 250,000 shares. Options with respect to 80,000 shares, which had been previously granted, became effective upon shareholder approval. The exercise price of the options granted is \$15.06 per share and the other terms of these options are comparable to options issued under the Option Plans.

At December 31, 2001, there were 5,224,073 additional shares available for grant under the Option Plans. The per share weighted-average fair value of stock options granted during 2001, 2000 and 1999 was \$12.72, \$13.65 and \$17.43, respectively, on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: 2001 — expected dividend yield 0%, risk-free interest rate of 4.65%, expected volatility of 76%, and an expected life of 5 years. 2000 — expected dividend yield 0%, risk-free interest rate of 6.28%, expected volatility of 80%, and an expected life of 5 years. 1999 — expected dividend yield 0%, risk-free interest rate of 5.5%, expected volatility of 84%, and an expected life of 5 years.

No compensation cost has been recognized for the unconditional stock options in the consolidated financial statements. Had we determined compensation cost based on the fair value at the grant date for all our unconditional stock options, our net loss would have been as indicated below:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Net loss applicable to common stock:			
As reported	\$ (84,617,000)	\$(75,247,000)	\$(53,814,000)
Pro forma	(103,605,000)	(97,049,000)	(74,617,000)
Net loss per weighted average common share outstanding — basic:			
As reported	(0.95)	(0.96)	(0.69)
Pro forma	(1.16)	(1.23)	(0.96)

Stock option activity during the years indicated is as follows:

	Number of shares	Weighted- average exercise price
Balance at December 31, 1998..	4,849,916	\$14.72
Granted	3,440,000	25.00
Exercised	(354,565)	7.30
Forfeited	(93,600)	17.50
Expired	—	—
Balance at December 31, 1999..	7,841,751	19.55
Granted	151,000	20.00
Exercised	(377,501)	9.70
Forfeited	(183,400)	21.52
Expired	—	—
Balance at December 31, 2000..	7,431,850	20.11
Granted	88,000	15.47
Exercised	(113,025)	11.92
Forfeited	—	—
Expired	—	—
Balance at December 31, 2001..	<u>7,406,825</u>	<u>\$20.01</u>

At December 31, 2001, the range of exercise prices and weighted-average remaining contractual life of outstanding options was \$4.125 to \$25.00 and 4.09 years, respectively.

At December 31, 2001, 2000 and 1999, options exercisable were 5,323,905, 4,101,500, and 3,245,800, respectively, and weighted-average exercise price of those options was \$19.13, \$18.25 and \$15.23, respectively.

In 1989, our current chairman was issued a ten-year warrant to purchase 52,692 common shares at an exercise price of \$.50 per share and a ten-year warrant to purchase 37,386 common shares at an exercise price of \$.50 per share. The warrants were exercised during 1999 prior to their expiration.

(c) Share Rights Plan

On December 10, 1997, our board of directors authorized a share rights plan. The plan was subsequently amended on February 4, 1998. Under the plan, stockholders have one right for each share of common stock

held. The rights become exercisable ten business days after (a) an announcement that a person or group of affiliated or associated persons has acquired beneficial ownership of 15% or more of our voting shares outstanding, or (b) the commencement or announcement of a person's or group's intention to commence a tender or exchange offer that could result in a person or group owning 15% or more of the voting shares outstanding.

Each right entitles our holder (except a holder who is the acquiring person) to purchase 1/1000 of a share of a junior participating series of preferred stock designated to have economic and voting terms similar to those of one share of common stock for \$250.00, subject to adjustment. In the event of certain merger or asset sale transactions with another party or transactions which would increase the equity ownership of a stockholder who then owned 15% or more of the voting shares of Six Flags, each right will entitle our holder to purchase securities of the merging or acquiring party with a value equal to twice the exercise price of the right.

The rights, which have no voting power, expire in 2008. The rights may be redeemed by us for \$.01 per right until the rights become exercisable.

(d) Restricted Stock Grants

We issued 900,000 restricted common shares with an estimated aggregate value of \$14,625,000 to members of our senior management in July 1997. We issued an additional 920,000 restricted common shares with an estimated aggregate value of \$16,100,000 to members of our senior management in October 1998. We also issued an additional 370,126 restricted common shares with an estimated aggregate value of \$7,439,000 to members of our senior management in April 2001. The restrictions on the stock issued lapse ratably over various terms, generally based on continued employment. The restrictions also lapse upon termination of the executive without cause or if a change in control of Six Flags occurs. Compensation expense equal to the aggregate value of the shares is being recognized as an expense over the respective vesting period.

(e) Other Comprehensive Income (Loss)

The accumulated balances for each classification of comprehensive income (loss) are as follows:

	<u>Foreign currency items</u>	<u>Cash flow hedges</u>	<u>Accumulated other comprehensive income (loss)</u>
Beginning balance	\$ (48,589,000)	\$ —	\$ (48,589,000)
Cumulative effect of change in accounting principle	—	(3,098,000)	(3,098,000)
Net current period change	(19,062,000)	(17,843,000)	(36,905,000)
Reclassification adjustments for losses reclassified into operations	—	6,726,000	6,726,000
Ending balance	<u>\$ (67,651,000)</u>	<u>\$ (14,215,000)</u>	<u>\$ (81,866,000)</u>

The cash flow hedge amounts presented above are reflected net of tax, calculated at a rate of approximately 38%.

The following table sets forth the aggregate funded status of the Benefit Plan and the related amounts recognized in our consolidated balance sheets:

	<u>2001</u>	<u>2000</u>
Change in benefit obligation:		
Benefit obligation, January 1	\$ 84,313,000	\$72,189,000
Service cost	3,745,000	3,309,000
Interest cost	6,739,000	5,952,000
Actuarial (gain) loss	5,912,000	4,872,000
Benefits paid	(2,141,000)	(2,009,000)
Benefit obligation at December 31	<u>98,568,000</u>	<u>84,313,000</u>
Change in plan assets:		
Fair value of assets, January 1	88,261,000	89,958,000
Employer contributions	20,000	—
Actual return on plan assets	(3,161,000)	312,000
Benefits paid	(2,140,000)	(2,009,000)
Fair value of assets at December 31	<u>82,980,000</u>	<u>88,261,000</u>
Plan assets greater than (less than) benefit obligations	(15,589,000)	3,948,000
Unrecognized net actuarial (gain) loss	23,492,000	6,668,000
Unrecognized prior service cost	1,943,000	2,203,000
Prepaid benefit cost (included in deposits and other assets)	<u>\$ 9,846,000</u>	<u>\$12,819,000</u>

(10) Pension Benefits

As part of the acquisition of the former Six Flags, we assumed the obligations related to the SFTP Defined Benefit Plan (the Benefit Plan). The Benefit Plan covered substantially all of SFTP's full-time employees. During 1999 the Benefit Plan was extended to cover substantially all of our domestic full-time employees. The Benefit Plan permits normal retirement at age 65, with early retirement at ages 55 through 64 upon attainment of ten years of credited service. The early retirement benefit is reduced for benefits commencing before age 62. Benefit Plan benefits are calculated according to a benefit formula based on age, average compensation over the highest consecutive five-year period during the employee's last ten years of employment and years of service. Benefit Plan assets are invested primarily in common stock and mutual funds. The Benefit Plan does not have significant liabilities other than benefit obligations. Under our funding policy, contributions to the Benefit Plan are determined using the projected unit credit cost method. This funding policy meets the requirements under the Employee Retirement Income Security Act of 1974.

Net pension expense of the Benefit Plan for each of the years ended December 31, 2001, 2000 and 1999, included the following components:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Service cost.....	\$ 3,745,000	\$ 3,309,000	\$ 3,644,000
Interest cost.....	6,739,000	5,952,000	5,459,000
Expected return on plan assets.....	(7,837,000)	(7,999,000)	(7,774,000)
Amortization of prior service cost.....	260,000	260,000	260,000
Amortization of actuarial loss.....	<u>86,000</u>	<u>—</u>	<u>—</u>
Net pension expense.....	<u>\$ 2,993,000</u>	<u>\$ 1,522,000</u>	<u>\$ 1,589,000</u>

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligation in 2001, 2000 and 1999 was 7.25%, 7.50% and 7.75%, respectively. The rate of increase in future compensation levels was 4.25%, 4.50% and 4.75% in 2001, 2000 and 1999, respectively. The expected long-term rate of return on assets was 9% in each year.

(11) 401(k) Plan

We have a qualified, contributory 401(k) plan (the 401(k) Plan). All regular employees are eligible to participate in the 401(k) Plan if they have completed one full year of service and are at least 21 years old. We match 100% of the first 2% and 25% of the next 6% of salary contributions made by employees. The accounts of all participating employees are fully vested upon completion of four years of service. We recognized approximately \$1,743,000, \$1,730,000 and \$1,874,000 of related expense in the years ended December 31, 2001, 2000 and 1999, respectively.

(12) Commitments and Contingencies

On April 1, 1998 we acquired all of the capital stock of Six Flags Entertainment Corporation for \$976,000,000, paid in cash. In addition to our obligations under outstanding indebtedness and other securities issued or assumed in the Six Flags acquisition, we also guaranteed in connection therewith certain contractual obligations relating to the partnerships that own two Six Flags parks, Six Flags Over Texas and Six Flags Over Georgia (the Partnership Parks). Specifically, we guaranteed the obligations of the general partners of those partnerships to (i) make minimum annual distributions of approximately \$50,211,000 (as of 2001 and subject to annual cost of living adjustments thereafter) to the limited partners in the Partnership Parks and (ii) make minimum capital expenditures at each of the Partnership Parks during rolling five-year periods, based generally on 6% of such park's revenues. Cash flow from operations at the Partnership Parks is used to satisfy these requirements first, before any funds are required from us. We also guaranteed the obligation of our subsidiaries to purchase a maximum number of 5% per year (accumulating to the extent not purchased in any given year) of the total limited partnership units outstanding as of the date of

the agreements (the Partnership Agreements) that govern the partnerships (to the extent tendered by the unit holders). The agreed price for these purchases is based on a valuation for each respective Partnership Park equal to the greater of (i) a value derived by multiplying such park's weighted-average four-year EBITDA (as defined in the Partnership Agreements) by a specified multiple (8.0 in the case of the Georgia park and 8.5 in the case of the Texas park) or (ii) \$250,000,000 in the case of the Georgia park and \$374,800,000 in the case of the Texas park. Our obligations with respect to Six Flags Over Georgia and Six Flags Over Texas will continue until 2027 and 2028, respectively.

As we purchase units relating to either Partnership Park, we are entitled to the minimum distribution and other distributions attributable to such units, unless we are then in default under the applicable agreements with our partners at such Partnership Park. On December 31, 2001, we owned approximately 25% and 36%, respectively, of the limited partnership units in the Georgia and Texas partnerships. The maximum unit purchase obligations for 2002 at both parks will aggregate approximately \$128,900,000. We can utilize the \$75,169,000 of restricted use investment securities to fund any required unit purchases.

We lease the sites of Wyandot Lake, Enchanted Village, Six Flags Mexico, La Ronde, Walibi Schtroumpf and each of the two Waterworld/USA locations. We also lease portions of the sites of Six Flags Kentucky Kingdom, Six Flags New England and Warner Bros. Movie World Germany. In certain cases rent is based upon percentage of the revenues earned by the applicable park. During 2001, 2000 and 1999, we recognized approximately \$5,509,000, \$3,883,000 and \$2,045,000, respectively, of rental expense under these rent agreements.

Total rental expense, including office space and park sites, was approximately \$11,452,000, \$9,274,000 and \$7,352,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

Future obligations under noncancellable operating leases, including site leases, at December 31, 2001, are summarized as follows (in thousands):

<u>Year ending December 31,</u>	
2002	\$ 5,414
2003	5,270
2004	5,095
2005	4,804
2006	4,838
2007 and thereafter	<u>108,633</u>
	<u>\$134,054</u>

We are party to a license agreement (the U.S. License Agreement) pursuant to which we have the exclusive right on a long term basis to theme park use in the United States and Canada (excluding the Las Vegas, Nevada metropolitan area) of all animated, cartoon and comic book characters that Warner Bros. and DC Comics have the right to license for such use. Under the U.S. License Agreement, we pay an annual license fee of \$2,500,000 through 2005. Thereafter, the license fee will be subject to periodic scheduled increases and will be payable on a per-theme park basis.

In November 1999, we entered into license agreements (collectively the International License Agreement) pursuant to which we have the exclusive right on a long term basis to theme parks use in Europe, Central and South America of all animated, cartoon and comic book characters that Warner Bros., DC Comics and the Cartoon Network have the right to license for such use. Under the International License Agreement, the license fee is based on specified percentages of the gross revenues of the applicable parks. We have prepaid approximately \$8.0 million of international license fees.

In December 1998, a final judgment of \$197.3 million in compensatory damages was entered against Six Flags Entertainment Corporation, Six Flags Theme Parks Inc., Six Flags Over Georgia, Inc. and TWE, and a final judgment of \$245.0 million in punitive damages was entered against TWE and of \$12.0 million in punitive damages was entered against the referenced Six

Flags entities. The compensatory damages judgment has been paid and, in October 2001, the order of the Georgia Court of Appeals affirming the punitive damages judgment was vacated by the United States Supreme Court. In February 2002, the parties reargued the appeal of the punitive damages judgment before the Georgia Court of Appeals. The judgments arose out of a case entitled Six Flags Over Georgia, LLC et al v. Time Warner Entertainment Company, LP et al based on certain disputed partnership affairs prior to our acquisition of the former Six Flags at Six Flags Over Georgia, including alleged breaches of fiduciary duty. The sellers in the Six Flags acquisition, including Time Warner, Inc., have agreed to indemnify us from any and all liabilities arising out of this litigation.

We are a defendant in a purported class action litigation pending in California Superior Court for Los Angeles County. The master complaint, *Amendarez v. Six Flags Theme Parks, Inc.*, was filed on November 27, 2001, combining five previously filed complaints. The plaintiffs allege that security and other practices at our park in Valencia, California, discriminate against visitors on the basis of race, color, ethnicity, national origin and/or physical appearance, and assert claims under California statutes and common law. They seek compensatory and punitive damages in unspecified amounts, and injunctive and other relief. The named plaintiffs purport to represent seven "sub-classes" of visitors to the Valencia park. We have objected to the class allegations, arguing that the lawsuit cannot appropriately be maintained as a class action, and intend to vigorously defend this case. The case is in an early stage and consequently we cannot predict the outcome, however, we do not believe it will have a material adverse effect on our consolidated financial position, results of operations, or liquidity.

We are party to various other legal actions arising in the normal course of business. Matters that are probable of unfavorable outcome to us and which can be reasonably estimated are accrued. Such accruals are based on information known about the matters, we estimate of the outcomes of such matters and our experience in contesting, litigating and settling similar matters. None of the actions are believed by management to involve amounts that would be material to our consolidated financial position, results of operations, or liquidity after consideration of recorded accruals.

(13) Business Segments

We manage our operations on an individual park location basis. Discrete financial information is maintained for each park and provided to our management for review and as a basis for decision-making. The primary performance measure used to allocate resources is earnings before interest, tax expense, depreciation, and amortization (EBITDA). All of our parks provide similar products and services through a similar process to the same class of customer through a consistent method. As such, we have only one reportable segment —

operation of theme parks. The following tables present segment financial information, a reconciliation of the primary segment performance measure to income (loss) before income taxes and a reconciliation of theme park revenues to consolidated total revenues. Park level expenses exclude all non-cash operating expenses, principally depreciation and amortization and all non-operating expenses.

	<u>2001</u>	<u>2000</u>	<u>1999</u>
		(In thousands)	
Theme park revenues	\$1,263,913	\$1,215,177	\$1,152,258
Theme park cash expenses	<u>(789,269)</u>	<u>(746,841)</u>	<u>(712,111)</u>
Aggregate park EBITDA	474,644	468,336	440,147
Third-party share of EBITDA from parks accounted for under the equity method	(42,635)	(41,827)	(40,761)
Amortization of investment in theme park partnerships	(20,989)	(20,370)	(15,826)
Unallocated net expenses, including corporate and expenses from parks acquired after completion of the operating season	(44,594)	(47,720)	(54,625)
Depreciation and amortization	(199,800)	(179,989)	(154,264)
Interest expense	(230,033)	(232,336)	(193,965)
Interest income	6,639	7,569	24,524
Income (loss) before income taxes	<u>\$ (56,768)</u>	<u>\$ (46,337)</u>	<u>\$ 5,230</u>
Theme park revenues	\$1,263,913	\$1,215,177	\$1,152,258
Theme park revenues from parks accounted for under the equity method	<u>(217,949)</u>	<u>(208,196)</u>	<u>(225,274)</u>
Consolidated total revenues	<u>\$1,045,964</u>	<u>\$1,006,981</u>	<u>\$ 926,984</u>

Seven of our parks are located in Europe, one is located in Mexico and one is located in Canada. The Canadian park was acquired in May 2001, the Mexico park was acquired in May 1999 and one of the European parks was acquired in November 1999. The following information reflects our long-lived assets and revenues by domestic and foreign categories for 2001, 2000 and 1999:

	<u>Domestic</u>	<u>Foreign</u>	<u>Total</u>
		(In thousands)	
2001:			
Long-lived assets	\$3,411,429	\$526,210	\$3,937,639
Revenues	877,820	168,144	1,045,964
2000:			
Long-lived assets	\$3,346,733	\$504,414	\$3,851,147
Revenues	839,251	167,730	1,006,981
1999:			
Long-lived assets	\$3,267,019	\$441,925	\$3,708,944
Revenues	830,578	96,406	926,984

Long-lived assets include property and equipment, investment in theme park partnerships and intangible assets.

(14) Quarterly Financial Information (Unaudited)

Following is a summary of the unaudited interim results of operations for the years ended December 31, 2001 and 2000:

	2001				
	First quarter	Second quarter	Third quarter	Fourth quarter	Full year
Total revenue	\$ 35,169,000	\$356,458,000	\$571,784,000	\$ 82,553,000	\$1,045,964,000
Net income (loss) applicable to common stock	(140,602,000)	7,749,000	142,483,000	(94,247,000)	(84,617,000)
Net income (loss) per weighted average common share outstanding:					
Basic	(1.76)	0.08	1.54	(1.02)	(0.95)
Diluted	(1.76)	0.08	1.39	(1.02)	(0.95)

	2000				
	First quarter	Second quarter	Third quarter	Fourth quarter	Full year
Total revenue	\$ 30,893,000	\$341,079,000	\$547,439,000	\$ 87,570,000	\$1,006,981,000
Net income (loss) applicable to common stock	(119,714,000)	9,932,000	128,828,000	(94,293,000)	(75,247,000)
Net income (loss) per weighted average common share outstanding:					
Basic	(1.53)	0.13	1.64	(1.19)	(0.96)
Diluted	(1.53)	0.12	1.49	(1.19)	(0.96)

We operate a seasonal business. In particular, our theme park operations contribute most of their annual revenue during the period from Memorial Day to Labor Day each year. Also, on April 1, 2001, 11,500,000 common shares were issued as a result of the conversion of the PIES.