

DISTRESSED DEBT INVESTOR[®]

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BIG PICTURE...

Is Recession Avoidable?

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Recessions expand the supply of defaulted bonds, a development that distressed debt investors would welcome. Prominent economists, however, are urging the Federal Reserve, Congress, or the President to prevent a recession from occurring in 2008. Those who favor fiscal intervention seemingly ignore the disparaging of Keynesian fine-tuning by introductory economics textbooks. Neither has monetary policy displayed a flawless record in keeping the economy on an expansionary path.

Recession Talk Now Respectable

As detailed in the bibliography below, three leading financial publications recently have published prescriptions for heading off recession. The opinion pieces are all written by Harvard economists and bear remarkably similar titles. Strikingly, the authors make short work of the question – until recently quite controversial – whether a recession represents a genuine threat in 2008:

Martin Feldstein, President of the National Bureau of Economic Research (NBER and Professor of Economics at Harvard University):

In my judgment, the probability of a recession in 2008 has now reached 50%.

(Feldstein raised his estimate to a bit above 50% following the December unemployment report.)

Greg Mankiw, Former Chairman of the Council of Economic Advisers (CEA) and Professor of Economics at Harvard University:

Once we get the final numbers, we might even learn that a recession has already begun.

Lawrence Summers, Former Secretary of the Treasury and Charles W. Eliot Professor at Harvard University:

Even if necessary changes in policy are implemented, the odds now favor a U.S. recession that slows growth significantly on a global basis.

(On January 9, Summers estimated the probability of recession at 60%.)

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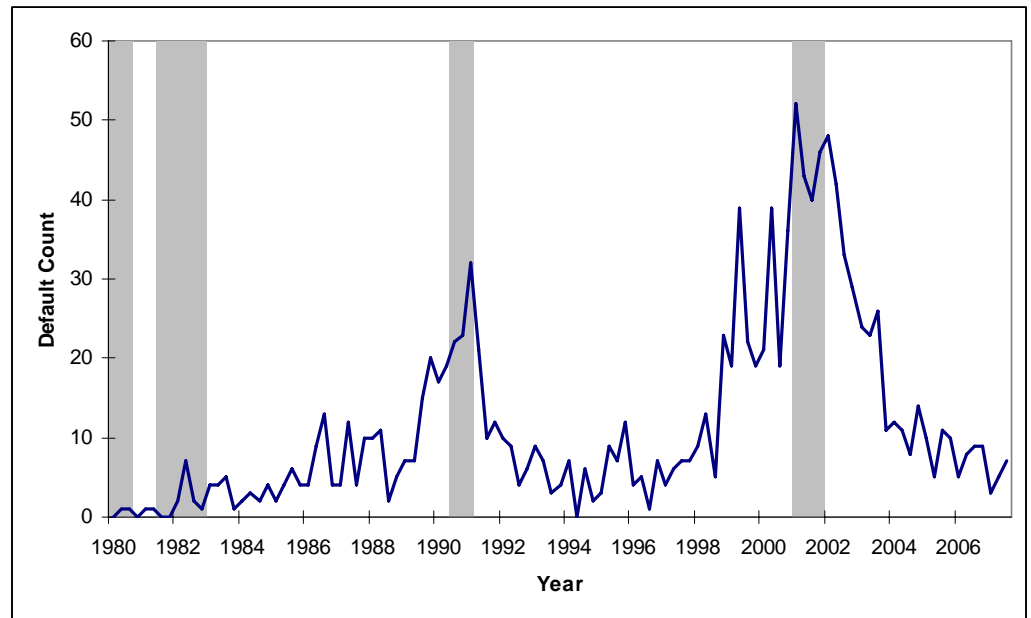
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Existing recessionary fears were amplified in 2008's very first trading session by the December report on the Institute of Supply Management's manufacturing index. The gauge showed its weakest reading in nearly five years, falling below the 50 level. That is commonly (if not altogether accurately) perceived as the threshold for contraction. Later the same week, an unexpectedly sharp 0.3-percentage-point rise in the unemployment rate further stoked fears of an economic downturn. At www.intrad.com, the contract on a U.S. recession jumped from less than a 50/50 proposition to a 53% probability. On January 9, Goldman Sachs predicted a recession in 2008, highlighted by GDP contractions in the second and third quarters.

Distressed investors have a large stake in the outcome of efforts to head off recession, as recommended by the experts listed above. **Exhibit 1** shows that the number of speculative grade defaults historically has reached its cyclical peak at some point during the recession, the starting and ending dates of which are determined by the NBER. (Note that the graph does not display the *default rate*, but rather the *default count*, which rises over time as the universe of speculative grade issuers grows. Accordingly, the data series's peaks are not comparable across cycles.)

Exhibit 1: Number of Speculative Grade Defaults
Quarterly, 1980 – 2007*



Number of defaults consistently peaks at some point during the recession

*Through third quarter.

Shaded periods indicate recessions.

Sources: Moody's Investors Service, National Bureau of Economic Research.

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Since the end of World War II, the average U.S. recession has lasted only 10 months. This implies that if a recession commences at any point during 2008, the default count is likely to rise from its current cyclical trough to a cyclical peak in less than two years, perhaps in as little as one year. Under such conditions, the universe of distressed¹ and defaulted bonds will probably expand more rapidly than credit analysts can update their valuations. The result, we expect, will be exceptional values for investors who get ahead of the pack in assessing newly troubled issuers.

¹ "Distressed" refers in this report to nondefaulted bonds yielding more than 1,000 basis points over Treasuries.

Anti-Recession Prescriptions

Lawrence Summers puts top priority on maintaining aggregate demand and proposes the following specific measures:

***Ex-Treasury Secretary
proposes a monetary-
fiscal cocktail***

1. Recognize that the Fed Funds rate levels that were neutral under ordinary financial conditions are now contractionary.
2. Put fiscal policy on stand-by, if the situation worsens, to provide temporary stimulus through spending or tax cuts for low- and middle-income families.
3. Articulate a clear strategy for maintaining the flow of credit, using nontraditional measures in view of the concentration of problems outside bank balance sheets.
4. Develop a comprehensive approach to keeping housing demand as high as possible, operating through the Federal Housing Administration, Fannie Mae, and Freddie Mac or through direct lending.
5. Establish templates for restructuring adjustable rate mortgages so that each case does not have to be managed individually.

Summers concludes by warning, “All of this may not be enough to avert a recession.” In Greg Mankiw’s view, however, Summers’s proposals are too much. He argues that Congress and the White House should do “absolutely nothing.” That is, he sees no current need for fiscal measures such as items 2-4, above.

***Former CEA Chief
advocates a Fed-only
approach***

“The Fed’s control over the money supply is a powerful lever to move overall demand for goods and services,” writes Mankiw. Fiscal measures, in his judgment, are appropriate only if “an economic downturn is deep, if a recovery is anemic, or if the Fed is running out of ammunition.” Such conditions (along with deflation worries) prevailed in 2003, says Mankiw, so cutting taxes was sound even though it magnified the federal deficit. Today, by contrast, plenty of room for interest rate cuts remains and inflation is a greater threat than deflation, according to Mankiw. “The best Congress can do now,” he concludes, “is to let the [Fed Chairman Ben] Bernanke bunch do its job.”

In direct contrast, Martin Feldstein forthrightly states, “Current economic conditions call for lowering interest rates and for enacting a tax cut now that is conditioned on economic developments in 2008.” That is, the NBER chief agrees with Summers that the present recession threat warrants both monetary and fiscal stimulus. According to Feldstein, exclusive reliance on monetary policy would risk dollar depreciation that would in turn invite retaliation by U.S. trading partners, as well as unhealthily large asset-price increases along the lines of the recent real estate boom.

While urging a role for fiscal policy, Feldstein rejects Summers’s prescription of stoking the mortgage market. “[W]hy should American taxpayers provide an implicit guarantee of mortgages of up to \$1 million when the average sale price of a home is now less than \$250,000?” he asks. Feldstein further argues that “arbitrarily changing the terms of mortgages now held by investors around the world would also destroy the credibility of American private debt.” As an alternative form of fiscal stimulus he recommends either giving each taxpayer a uniform tax rebate or reducing each taxpayer’s liability by a certain percentage.

Will Any of the Proposals Work?

Left aside in the Summers-Feldstein sparring over the correct fiscal measures is the question whether *any* fiscal measure is likely to have the desired effect. Suggesting otherwise is far from a radical proposition. In 2003, Professor of Economics and Law Alan J. Auerbach of University of California, Berkeley, a research associate at NBER for the past 30 years, wrote:

Little support for fiscal fine-tuning in the economic literature

The difficulty of practicing countercyclical fiscal policy has been a staple of macroeconomics textbooks for decades. With the typical postwar recession lasting less than a year and discretionary fiscal changes subject to information, political, and economic lags, knowledgeable policymakers have understood the daunting task they faced.²

The heyday of confidence in government's ability to fine-tune the economy through fiscal policy was 40 years ago. Even Laura D'Andrea Tyson, former chief economic advisor to President Bill Clinton who confesses to harboring "Keynesian³ sensibilities," comments:

When governments try to fight recessions by cutting taxes or increasing spending, they almost always get the timing wrong. By the time the tortuous budgetary process yields a new policy, the recession is over and the fiscal stimulus is no longer warranted. Nor, unfortunately, is it easily reversed, especially if it takes the form of a tax cut.⁴

This is not to suggest that Mankiw's recommended reliance on the Fed is a sure bet, either. Monetary policy, like fiscal policy, affects the economy with a lag. Knowing when is the right time to cut rates depends on knowing the actual state of the economy. Federal Reserve Chairman Alan Greenspan, renowned for his attention to economic data, told his fellow Federal Open Market Committee members on October 2, 1990, "The economy has not yet slipped into a recession." According to the NBER's subsequent determination, the U.S. contraction actually had begun three months earlier, in July 1990.

There is no need for distressed debt investors to get embroiled in economic theory, as the record speaks for itself. The Fed has had nearly 100 years of practice. If it actually knew how to prevent recessions, recessions would have become extinct a long time ago. The shaded areas in **Exhibit 2**, indicating recessions, demonstrate that this is not the case.

Monetary intervention has not worked flawlessly, either

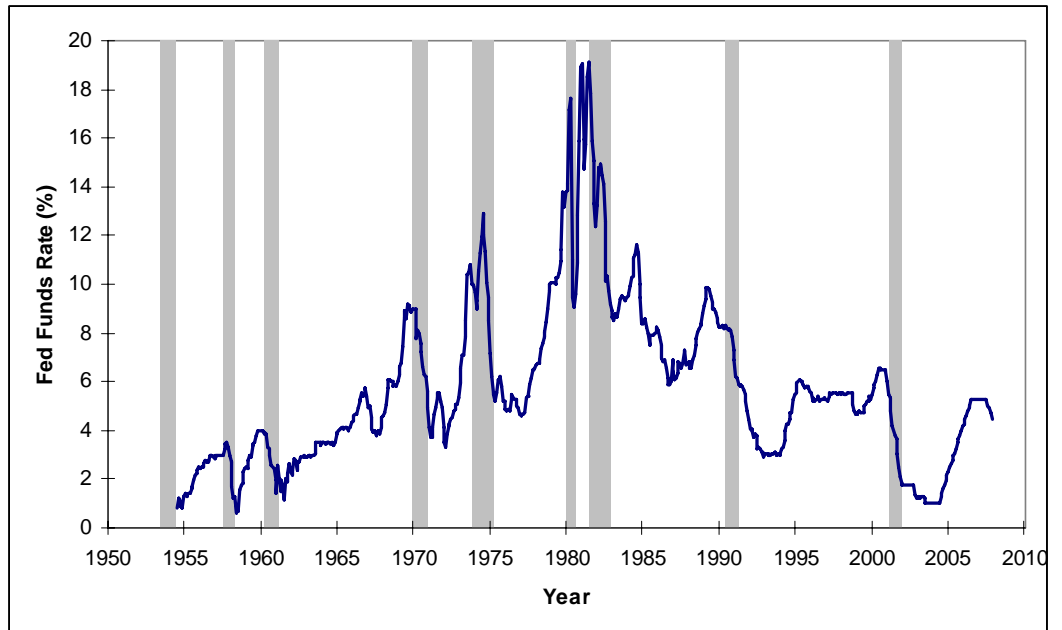
It is not even clear that if the Fed succeeds in getting ahead of events, rate cuts can avert a recession. For example, the commencement of the most recent recession in March 2001 was preceded by two 50-basis-point (bp) cuts in the Fed Funds rate (January 3 and January 31). Accordingly, there is no guarantee that the late-2006 cuts of 50 bp (September 18), 25 bp (October 31), and 25 bp (December 11), or for that matter additional cuts that may yet come, will avert a downturn.

² Alan J. Auerbach, "Is There a Role for Discretionary Fiscal Policy?" *Proceedings* (2003), pp. 109-150. Federal Reserve Bank of Kansas City, <http://ideas.repec.org/a/fip/fedkpr/y2003p109-150.html>

³ *Wikipedia's* entry on John Maynard Keynes (1883-1946) states: "He advocated interventionist government policy, by which the government would use fiscal and monetary measures to mitigate the adverse effects of economic recessions, depressions, and booms."

⁴ Laura D'Andrea Tyson, "Bush's New Tax-Cut Logic Is No Better Than the Old," *BusinessWeek Online* (January 15, 2001), http://www.businessweek.com/2001/01_03/b3715033.htm.

Exhibit 2: Effective Federal Funds Rate
July 1954 – November 2007



Shaded periods indicate recessions.

Source: Federal Reserve Bank of St. Louis.

Rate cuts have not always prevented recessions

Besides, as Mankiw notes, it may turn out that as in 1990, the Fed is currently debating whether to try to head off a recession that is already underway. By the way, despite Greenspan's unawareness as late as October 1990 that the economy had turned down, the Fed lowered its target Fed Funds rate from 9.8125% to 8.25% between June 1989 and June 1990. That easing did not prevent a recession.

Conclusion

Fed easing could block a sharp upturn in default rates, but it is no sure thing

In fairness, the Federal Reserve is credited by some observers with heading off recessions with rate cuts following the stock market crash of October 1987 and the Long-Term Capital crisis in the autumn of 1998. On that basis, we can infer that monetary policy *may* prevent a recession in 2008, but cannot be sure that it *will* prevent a recession. As for Congressional efforts to help matters, the record is not encouraging even though some eminent economists speak as if Keynesian fine-tuning were still held in universally high esteem. Vulture investors, who actually benefit from recessions in the sense of getting a bigger sandbox to play in, should not be overly alarmed about the possibility of astute government intervention spoiling the fun.

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DDI

RECOMMENDATION...

SELL: Six Flags 8.875% Senior Notes Due 2010

By Gordian Group
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Exhibit 1: Six Flags, Inc.

(Dollars in Millions)	As of 9/30/2007	Market Value		YTW	Bond Rating		Recommendation
		Price	Value		S&P	Moody's	
Secured Debt							
\$275 million Revolving Credit Facility	\$0.0	100.00	\$0.0				
\$850 million Term Loan	847.9	100.00	847.9				
Other Debt ¹	4.3	100.00	4.3				
Total Secured Debt	\$852.2		\$852.2				
Less Cash and Cash Equivalents	105.4		105.4				
Net Secured Debt	\$746.8		\$746.8				
Unsecured Debt							
8.875% Senior Notes due 2010 ²	208.3	78.38	163.3	22.6%	CCC-	Caa2	Sell
9.75% Senior Notes due 2013	388.0	74.00	287.1	17.5%	CCC-	Caa2	NR
9.625% Senior Notes due 2014	503.7	69.75	351.3	17.7%	CCC-	Caa2	NR
4.5% Convertible Senior Notes due 2015	299.0	69.00	206.3	10.7%	CCC-	NA	NR
Unsecured Debt	\$1,399.0		\$1,008.0				
Net Debt	\$2,145.8		\$1,754.8				
Redeemable Preferred Stock	287.5	\$14.45	41.5				
Market Capitalization	183.7	\$1.94	183.7				
Enterprise Value	\$2,617.0		\$1,980.0				

¹ Estimated balance; assumed to be secured and/or structurally senior to publicly traded debt.

² The Company repurchased \$92 million in aggregate principal amount of public bonds through the first nine months of 2007: as the Company has not disclosed which issue (or issues) were repurchased we have assumed, for the purposes of this analysis, that the 8.875% Senior Notes were targeted in this action, and have reduced aggregate principal outstanding for that series accordingly.

Sources: Bloomberg, Public Filings

Investment Summary: Short the 8.875% Senior Notes due 2010 of Six Flags, Inc.

Current Price: 78.375

In our view, the mismatch between operating performance and capital structure will eventually lead to impairment of senior unsecured bondholders

We recommend that investors initiate a short position in the 8.875% Senior Notes due 2010 of Six Flags, Inc. (“Six Flags” or the “Company”). Six Flags, which manages 21 theme parks throughout North America, has posted uninspiring results as new management has attempted to reposition the Company to provide a broader entertainment experience and reach new customers. Although these initiatives, while expensive, have increased franchise value, we question the Company’s ability to support the existing capital structure. Cash burn is substantial, and likely to remain so even if operating performance improves dramatically in 2008. In addition, Six Flags faces a mandatory redemption requirement for \$287.5 million in aggregate principal of preferred income equity redeemable securities (“PIERS”) in August 2009, which Six Flags may attempt to fund through incremental senior secured loans, to the detriment of unsecured public bondholders.

While some of this funding gap may be bridged through divestitures, the fundamental mismatch between operating performance and capital structure will eventually lead to impairment of public bondholders. While all the pari passu Senior Note issues are overvalued by our math, the 8.875% Senior Notes appear to be the most attractive short candidate, given prevailing prices and tenor.

Important disclosures and certifications are located on the last page of this document.

SELL: Six Flags 8.875% Senior Notes Due 2010

We estimate value cover for the pari passu Senior Note issues at 35% to 73%, indicating that these issues are generally underwater from a valuation perspective

Value Cover Analysis

Our income capitalization analysis, which contemplates steady state EBITDA substantially above last twelve month (“LTM”) levels, implies enterprise value of \$1,862 million to \$2,077 million, which represents an 8.9x to 9.9x multiple of LTM consolidated EBITDA and a 19.7x to 22.0x multiple of LTM consolidated EBITDA less capital spending. We used this valuation range, the Company’s capital structure, and a range of cash burn projections to estimate value cover for the various Senior Note issues. Our cash burn estimates range from \$80 million (our estimate of cash burn for the fourth quarter of 2007) to \$419 million (our estimate of cash burn through the end of 2008 plus incremental senior secured borrowings used to fund the PIERS redemption). This exercise implies value cover for the pari passu Senior Notes of 35% to 73% – and also suggests that the public bonds are underwater even if the PIERS are not refinanced, due to the significant operating cash burn projected through 2008.

Return Analysis

We have assumed (i) a nine-month short position initiated at 78 and (ii) a range of cover prices around the midpoint of our value cover estimate. Levered returns range from 23.7% to 35.9% and unlevered returns range from 10.8% to 19.4% under these exit price and holding period assumptions.

Highlights

- ***Weaker-Than-Expected 2007 Performance:*** Six Flags posted relatively unimpressive results through the first nine months of 2007, as positive developments in the first half of the year were offset by disappointing third-quarter performance. Year-to-date, revenues have increased by just 2.3% to \$860.6 million, as a 5.6% gain in ancillary and corporate sponsorship revenue offset a 0.5% decline in attendance revenue. Consolidated EBITDA for the first nine months of 2007 was essentially unchanged at \$222.9 million.
- ***Seasonality Risks:*** Six Flags generates approximately 85% of park attendance and related revenues in the second and third quarters, with peak activity between Memorial Day and Labor Day. As a result, performance is particularly sensitive to unseasonable weather, terrorist activities, and “headline” safety events during this time period. For example, attendance (and consequently revenue and profitability) this past July was significantly affected by bad weather (particularly in Texas) and adverse national publicity resulting from an accident at the Company’s Kentucky theme park.

SELL: Six Flags 8.875% Senior Notes Due 2010

The Company is likely to experience substantial cash burn in 2008...

- *Significant Cash Burn:* Current operating levels are substantially below debt service requirements and capital investment needs. We estimate fourth-quarter cash burn at \$80 million based upon (i) consolidated EBITDA of \$(10) million, (ii) capital spending of \$15 million, (iii) interest payments of \$65 million, and (iv) \$10 million in reduced working capital investment. Further, we project \$51 million in cash burn in 2008 even in a relatively bullish scenario (in which consolidated EBITDA increases 24% over LTM levels). Such cash burn rates call the Company's ability to support the existing capital structure into question.
- *Looming PIERS Redemption:* The Company faces the mandatory redemption of \$287.5 million in aggregate principal amount of PIERS on August 15, 2009. We assume the Company intends to refinance this issue on a senior secured basis if possible, as Six Flags has negotiated an uncommitted \$300 million term loan facility as part of its current Senior Secured Credit Facility. Since we believe the PIERS are out-of-the-money from a strict priority perspective today (even with a substantial gain in operating performance), funding the redemption of these junior securities through incremental secured debt would impair the relative position of public bondholders.

Risks

...despite likely gains in operating profitability.

- *Likely Year-over-Year Performance Gains:* We estimate 2008 consolidated EBITDA at roughly \$260 million, compared with LTM consolidated EBITDA of \$210 million. Our relatively aggressive projections are premised upon significantly reduced marketing support, increased corporate sponsorship revenues, and marginal gains in guest spending. While the Company would still burn cash in this bullish scenario, franchise value would be enhanced.
- *Economic Headwinds May Be Overrated:* The theme park business is generally thought to be sensitive to general and local economic conditions, consumer spending levels, and relative fuel prices. However, review of attendance trends for Six Flags and certain competitors in 2000 and 2001 indicates that such theme park operators were much more affected by the September 11 terrorist attacks than by the preceding recession.

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- *Saleable Assets:* Six Flags may be able to offset near-term cash burn and partially address the PIERS redemption requirement through asset sales. The Company has divested 18 parks since 2002, including an April 2007 transaction in which Six Flags sold seven parks for approximately \$312 million. In addition, the Company owns nearly 1400 acres of undeveloped land near existing facilities that may represent an additional source of value.

Company Description

Six Flags is the largest theme park company in the world, managing 21 theme, water and zoological parks throughout North America. Six Flags manages 19 parks in the United States (including one currently non-operating site in New Orleans) as well as one park each in Mexico and Canada. Approximately 24.8 million people visited the Company's 20 operating parks during the LTM period ended September 30, 2007. Six Flags holds exclusive long-term licenses for theme park usage of certain Warner Bros. and DC Comics characters, such as *Bugs Bunny*, *Daffy Duck*, *Tweety Bird*, *Yosemite Sam*, *Batman*, and *Superman*, in the United States (excluding the Las Vegas metropolitan area), Canada, Mexico, and other countries. Six Flags also has rights to use Hanna-Barbera and Cartoon Network characters, including *Yogi Bear*, *Scooby-Doo*, *Flintstones* and others, in its parks.

Six Flags has 21 theme parks throughout North America, and serves seven of the top ten metropolitan areas in the United States

The Company's theme parks offer a variety of thrill rides, water attractions, themed areas, concerts and shows, restaurants, game venues, and retail outlets. During 2006, the Company's theme parks offered more than 900 rides, including over 130 roller coasters. Six Flags serves seven of the top ten metropolitan areas in the United States, and manages the following theme parks:

- Six Flags America (Largo, MD);
- Six Flags Discovery Kingdom (Vallejo, CA);
- Six Flags Fiesta Texas (San Antonio, TX);
- Six Flags Great Adventure, Six Flags Hurricane Harbor, and Six Flags Wild Safari (Jackson, NJ);
- Six Flags Great America (Gurnee, IL, between Chicago and Milwaukee);
- Six Flags Kentucky Kingdom (Louisville, KY);
- Six Flags Magic Mountain and Six Flags Hurricane Harbor (Valencia, CA);
- Six Flags Mexico (Mexico City);
- Six Flags New England (Near Springfield, MA);
- Six Flags New Orleans;
- Six Flags Over Georgia and Six Flags White Water Atlanta;
- Six Flags Over Texas and Six Flags Hurricane Harbor (between Dallas and Fort Worth, TX);
- Six Flags St. Louis (Eureka, MO);
- La Ronde (Montreal, Canada); and
- The Great Escape and Six Flags Great Escape Lodge & Indoor Waterpark (near Lake George, NY).

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Two parks, Six Flags Over Georgia (including Six Flags White Water Atlanta) and Six Flags Over Texas, are operated under partnership arrangements (the “Partnership Parks”). In these arrangements, a wholly owned subsidiary is a 1% managing general partner and a material holder (25.8% in Six Flags Over Georgia and 38.2% in the Six Flags Over Texas) of limited partnership units. Six Flags guarantees certain Partnership Park obligations, including minimum annual distributions to limited partners and minimum capital expenditures. Six Flags also guarantees its subsidiaries’ obligation to purchase up to 5% of outstanding limited partnership units in each of the Partnership Parks per year. The Georgia partnership arrangement and the Texas partnership arrangement expire in 2027 and 2028, respectively.

The Company holds an approximate 40% interest in dick clark productions, inc. (“DCPI”), which it acquired in 2007 for \$39.4 million. The majority investor in DCPI is managed by the Six Flags’s Chairman Daniel Snyder. The Company also has a 41% interest in HWP Development LLC (“HWP”), a joint venture, which is developing the Six Flags Great Escape Lodge & Indoor Waterpark near Lake George, NY. Additionally, the Company guarantees (on a limited basis) \$33 million of HWP term loans. Six Flags Discovery Kingdom (Valencia, CA) was part of a joint venture, but the Company bought out the interest of its joint venture partner for \$52.8 million in July 31, 2007.

In 1998, the Company acquired the capital stock of Six Flags Entertainment Corporation, which had operated the regional theme parks under the Six Flags name for nearly forty years. Theme park operations expanded from 31 parks in 1998 to 39 in 2002, before divestitures brought the Company’s footprint to current levels. The most recent divestiture occurred in the second quarter of 2007, when the Company sold seven parks for approximately \$312 million.

New management has attempted to reposition Six Flags from a theme park operator to a provider of a broader entertainment experience, expanding its in-park content and customer target

Snyder and certain other significant shareholders gained control of the board in late 2005 and immediately replaced management. Under new management, the Company is being repositioned from a theme park operator to a provider of a broader entertainment experience. As part of this repositioning, Six Flags has expended its customer target to include parents, young adults, and “twens” and substantially increased marketing expenses and capital investment.

Description of Publicly Traded Bonds

After giving effect to \$92 million in open market purchases through the first nine months of 2007, the Company has approximately \$1,399 million in aggregate principal amount of pari passu senior unsecured bond debt outstanding across four series. These unsecured bonds are general unsecured obligations of the Company, but do not carry subsidiary guarantees. A brief description of each issue follows:

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8.875% Senior Notes due 2010: In February 2002, Six Flags issued \$480 million in aggregate principal amount of 8.875% Senior Notes due February 1, 2010, subsequently repurchasing \$179.7 million in aggregate principal amount of this issue in 2004. Although the Company has not specified which series was repurchased in 2007, we have assumed for this analysis that the 8.875% Senior Notes were repurchased. Interest is payable semiannually on February 1 and August 1 of each year until maturity in February 2010. The 8.875% Senior Notes are currently trading at 78.375, representing a yield-to-worst of 22.6%.

9.75% Senior Notes due 2013: In April 2003, Six Flags issued \$430 million in aggregate principal amount of 9.75% Senior Notes due April 15, 2013, subsequently repurchasing \$42.0 million in aggregate principal amount of this issue in December 2004. Interest is payable semiannually on April 15 and October 15 of each year until maturity in April 2013. The 9.75% Senior Notes are currently trading at 74, representing a yield-to-worst of 17.5%.

9.625% Senior Notes due 2014: In December 2003, Six Flags issued \$325 million in aggregate principal amount of 9.625% Senior Notes due June 1, 2014, subsequently repurchasing \$16.35 million in aggregate principal amount of this issue in December 2004. An additional \$195 million in aggregate principal amount of this issue was issued in January 2005. Interest is payable semiannually on June 1 and December 1 of each year until maturity in June 2014. The 9.625% Senior Notes are currently trading at 69.75, representing a yield-to-worst of 17.7%.

4.5% Convertible Senior Notes due 2015: In November 2004, Six Flags issued \$299 million in aggregate principal of 4.5% Convertible Senior Notes due May 15, 2015. Interest is payable semiannually on May 15 and November 15 of each year until maturity in May 2015. These Notes are convertible into Company common stock at an initial conversion price of \$6.35 per share. The 4.5% Convertible Senior Notes are currently trading at 69, representing a yield-to-worst of 10.7%.

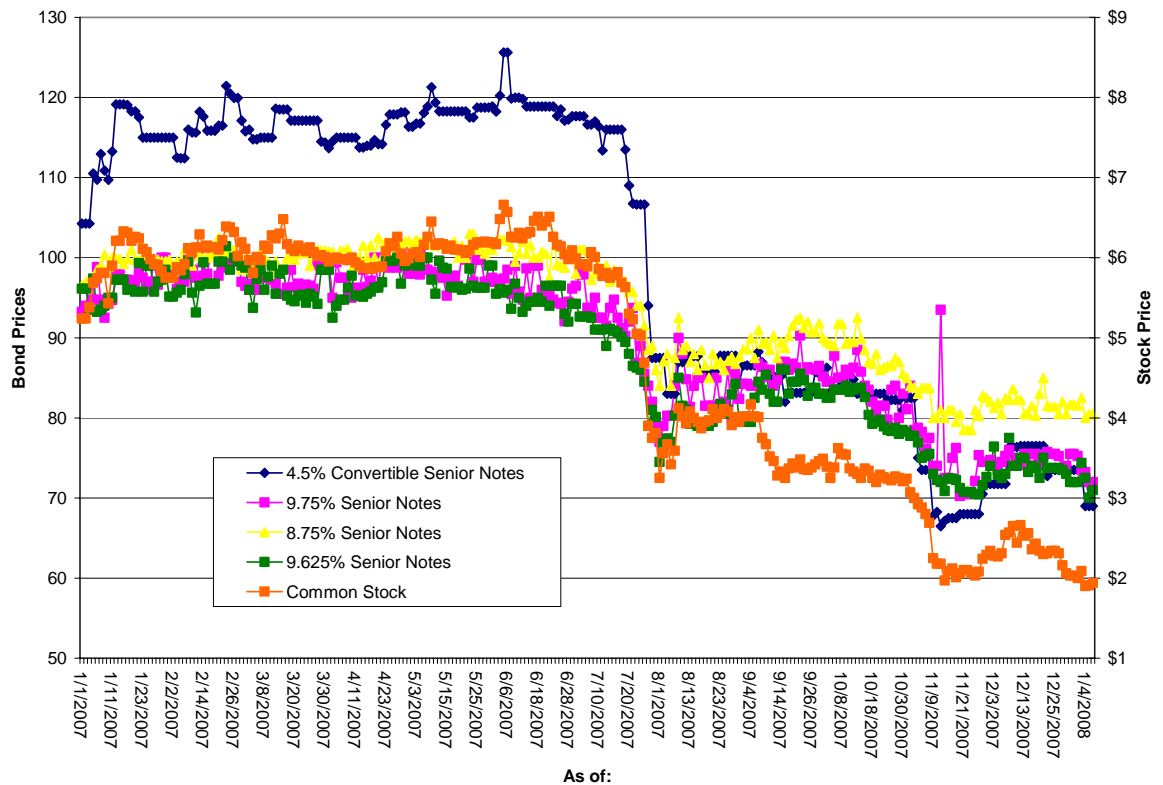
Please see, **Exhibit 2** for price history of Company's public debt instruments.

Six Flags has approximately \$1,399 million in aggregate principal amount of pari passu senior unsecured bond debt outstanding across four series

SELL: Six Flags 8.875% Senior Notes Due 2010

Exhibit 2: Price History for Unsecured Bonds and Common Stock

We can't resist – looks like a roller-coaster ride!



Source: Bloomberg.

The Company's unsecured bonds and common stock have plummeted since mid-2007. In the first half of 2007, the three series of non-convertible senior note issues were par or near-par paper, while the 4.5% Senior Convertible Notes were trading on its conversion option. These issues began to trade down in June 2007 with the initial dislocations in high yield markets. This selloff increased in velocity in response to the Company's disclosures (during the second-quarter earnings call) regarding weak July performance. The other shoe dropped in November, when the bonds took another leg down after the third-quarter earnings call.

Industry Drivers: More Sensitive to Black Swans than Economic Cycles?

Seasonality: Six Flags generates approximately 85% of park attendance and related revenues in the second and third quarters, with peak activity between Memorial Day and Labor Day. As a result, the Company is particularly sensitive to any demand disruptions that might occur during peak periods, such as adverse weather conditions, terrorist activities (and the threat thereof), and "headline" safety events. For example, the Company experienced a broad-based reduction in attendance in the aftermath of the September 11 terrorist attacks. Accidents and bad weather also have had noticeable effects on performance, particularly last summer.

SELL: Six Flags 8.875% Senior Notes Due 2010

Although demand should be affected by weaker economic conditions, review of attendance trends in 2000 and 2001 show relatively little impact from the most recent recession

Cyclical: The theme park business is sensitive to general and local economic conditions, consumer spending levels, and relative fuel prices. In our view, a recession is more likely than not in 2008; furthermore, we expect consumer spending to decline in response to falling asset prices. Under these circumstances, near-term risks may be amplified for the Company, yet review of attendance trends for the Company and certain competitors in 2000 and 2001 indicates attendance did not decline materially in response to that brief recession. Perhaps the Company's guest base (largely day-trippers or short-stay guests) and affordable price-value proposition does insulate operations somewhat from business cycle effects, as management has argued in recent conference calls.

Company Strategy: Build It and They Will Come.....

Since taking control in late 2005, new management has focused on transforming the Company from a theme park operator to an entertainment provider. Six Flags now targets parents, young adults, and "tweens" in addition to teenagers. Once a purveyor of thrilling rides, the Company is now developing more family-oriented content, through licensing agreements with *Wiggles World*, *Thomas the Tank Engine*, and *Tony Hawk*. Other business development initiatives include (i) driving corporate sponsorship revenue, (ii) increasing marketing spending, (iii) growing in-park spending, (iv) improving the guest experience, and (v) investing in new rides and IT infrastructure.

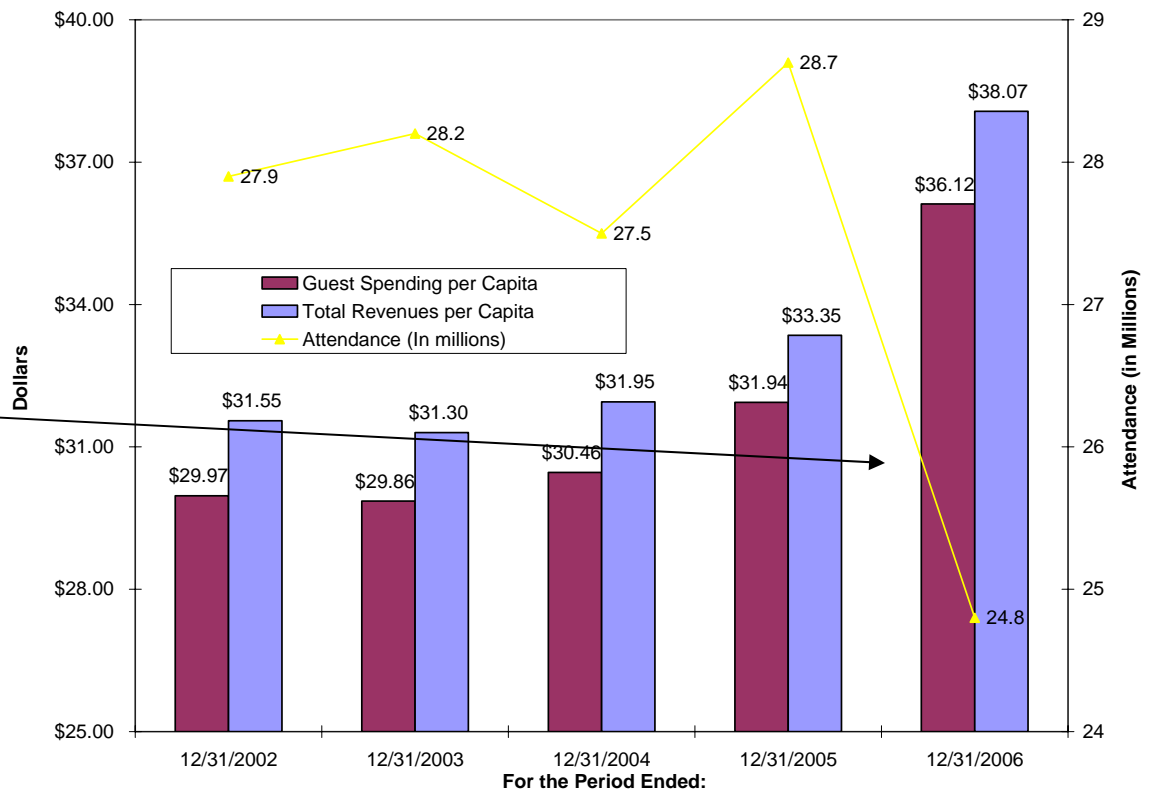
Performance has been a mixed bag thus far. Corporate sponsorship revenue and in-park guest spending has grown, but increased marketing efforts have not led to attendance gains. Guest spending per capita and total revenue per capita experienced 13% and 14% year-over-year growth, respectively, in 2006, versus compound annual growth of approximately 2% in these categories from 2002 to 2005. Despite increased advertising, attendance actually declined by 14% per annum in 2006, versus compound annual growth of 1% between 2002 and 2005. See **Exhibit 3**.

In addition, revenue and attendance has not shown meaningful gains in 2007 either. Preliminary data indicates that attendance was essentially unchanged from prior-year levels, although this performance could be positioned as a success given a 2% decline in days in operation, adverse weather effects during July, and negative national publicity from an accident at the Company's Kentucky theme park. Total revenue per capita increased by 2% to 3%, largely on the strength of increased corporate sponsorship revenue. Guest spending per capita grew by 1% during the first nine months of the year.

SELL: Six Flags 8.875% Senior Notes Due 2010

Exhibit 3: Guest Spending per Capita, Total Revenue per Capita, and Attendance

Guest spending and total revenue per capita have spiked under new management, but attendance trends have been weak

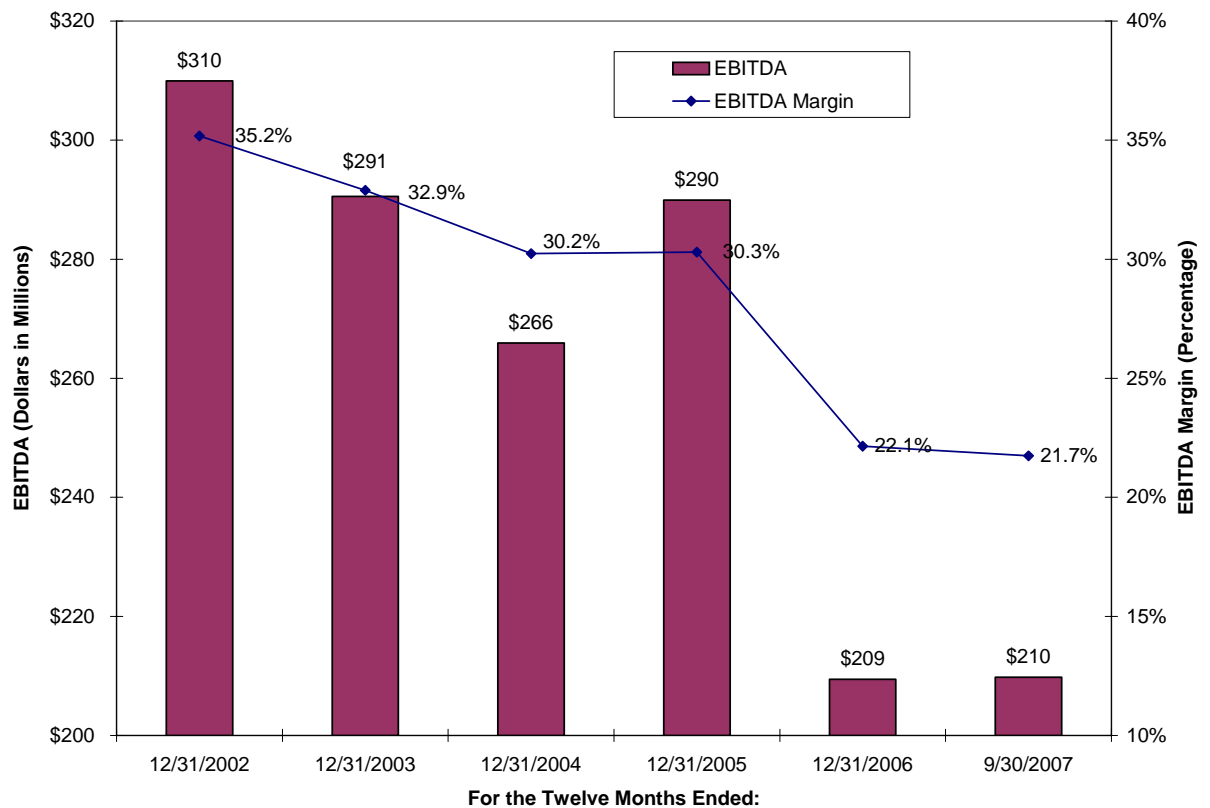


Source: Public Filings.

Operating profitability has declined significantly under new management – the expected result when increased spending fails to move the attendance needle. As shown below, LTM EBITDA was approximately \$210 million, unchanged from 2006, but roughly \$80 million below the Company’s average annual EBITDA from 2002 to 2005. Increased selling, general, and administrative (“SGA”) expenses capture most of this variance. LTM SGA was \$250 million, compared with \$181 million in average SGA expense from 2002 to 2005 – a \$69 million difference. See **Exhibit 4**.

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Exhibit 4: Trends in EBITDA and EBITDA Margin



Source: Public Filings.

2007 Performance: Lots of Motion but Little Observable Progress

Summary: The Company posted relatively modest results through the first nine months of 2007, as positive developments in the first half of the year were offset by a disappointing third quarter. Revenues for the nine months ended September 30, 2007, increased by 2.3% to \$860.6 million, as a 5.6% gain in ancillary and corporate sponsorship revenue offset a 0.5% decline in attendance revenue. Consolidated EBITDA for the first nine months of 2007 was essentially unchanged at \$222.9 million. In general, the Company posted year-over-year gains in the first half of 2007, yet experienced relatively mediocre third-quarter performance (during peak seasonal demand). See **Exhibit 5**, below, for a summary of historical operating performance.

Operating profitability has declined significantly under new management – the expected result when increased spending fails to move the attendance needle

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Exhibit 5: Historical Operating Performance

Dollars in Million	For the Year Ended:			For the Quarter Ended:									LTM 9/30/2007
	12/31/2005	12/31/2006	Growth	3/31/2006	3/31/2007	Growth	6/30/2006	6/30/2007	Growth	9/30/2006	9/30/2007	Growth	
Revenues:													
Theme Park Admissions	\$519.1	\$508.5	-2%	\$19.9	\$22.7	14%	\$176.6	\$183.6	4%	\$260.0	\$247.9	-5%	\$506.2
Theme Park Food, Merchandise and Other	437.6	437.2	0%	22.2	28.0	26%	148.4	161.2	9%	214.3	217.3	1%	458.8
Total Revenues	\$956.8	\$945.7	-1%	\$42.1	\$50.7	20%	\$325.0	\$344.8	6%	\$474.2	\$465.2	-2%	\$965.0
Operating Expenses	\$390.8	\$416.3	7%	\$84.7	\$78.1	-8%	\$131.0	\$135.2	3%	\$131.9	\$140.3	6%	\$422.4
Selling, General and Administrative Expenses	192.8	239.9	24%	58.5	48.5	-17%	84.2	99.1	18%	57.9	63.7	10%	250.5
Cost of Products Sold	83.2	80.0	-4%	4.0	4.5	12%	28.3	29.5	4%	38.3	39.0	2%	82.3
Depreciation	126.8	131.4	4%	32.3	33.6	4%	32.1	33.7	5%	33.8	35.0	4%	135.7
Amortization	0.9	0.9	0%	0.2	0.3	14%	0.2	0.3	48%	0.2	0.4	81%	1.2
Loss on Fixed Assets	13.9	27.1	95%	18.6	4.3	-77%	0.7	0.8	18%	0.8	6.2	654%	18.3
Total Operating Costs and Expenses	\$808.4	\$895.6	11%	\$198.3	\$169.3	-15%	\$276.6	\$298.7	8%	\$262.9	\$284.5	8%	\$910.3
Operating Profit (Loss)	\$148.4	\$50.1	-66%	(\$156.2)	(\$118.6)	-24%	\$48.4	\$46.1	-5%	\$211.3	\$180.7	-15%	\$54.7
Adjustments to operating income													
Add: Loss (Gain) on Sale of Fixed Assets	13.9	27.1	95%	18.6	4.3	-77%	0.7	0.8	18%	0.8	6.2	654%	18.3
EBIT	\$162.3	\$77.1	-52%	(\$137.6)	(\$114.3)	-17%	\$49.2	\$46.9	-5%	\$212.1	\$186.8	-12%	\$72.9
Add: Depreciation and Amortization	127.7	132.3	4%	32.5	33.9	4%	32.3	34.1	5%	34.0	35.4	4%	136.9
EBITDA ¹	\$289.9	\$209.4	-28%	(\$105.1)	(\$80.4)	-24%	\$81.5	\$81.0	-1%	\$246.1	\$222.2	-10%	\$209.8
Less Capital Spending	162.6	122.6	-25%	43.4	32.5	-25%	41.0	37.8	-8%	14.0	20.8	49%	115.4
EBITDA less Capital Spending	\$127.4	\$86.8	-32%	(\$148.5)	(\$112.9)	-24%	\$40.5	\$43.2	7%	\$232.2	\$201.4	-13%	\$94.4
Other data													
Attendance (In Thousands)	28,688	24,840	-13%	1,150	1,220	6%	8,625	8,875	3%	12,316	11,959	-3%	24,803
Per Capita Admission Revenue	\$18.10	\$20.47	13%	\$17.28	\$18.57	7%	\$20.48	\$20.68	1%	\$21.11	\$20.73	-2%	\$20.41
Per Capita Total Revenue	\$33.35	\$38.07	14%	\$36.59	\$41.52	13%	\$37.68	\$38.85	3%	\$38.51	\$38.90	1%	\$38.91
Adjusted EBITDA ¹	\$245.3	\$165.1	-33%	(\$97.3)	(\$71.3)	-27%	\$56.9	\$56.0	-2%	\$214.4	\$196.8	-8%	\$172.5
Margins			Difference in Basis Points			Difference in Basis Points			Difference in Basis Points			Difference in Basis Points	
SG&A / Sales	20.16%	25.37%	522	139.06%	95.69%	(4337)	25.92%	28.73%	281	12.21%	13.69%	148	25.96%
EBIT Margin	16.96%	8.16%	(880)	-327.01%	-225.53%	10148	15.12%	13.61%	(151)	44.73%	40.17%	(457)	7.56%
EBITDA Margin	30.30%	22.14%	(816)	-249.80%	-158.65%	9115	25.07%	23.49%	(158)	51.90%	47.77%	(412)	21.74%
EBITDA less Capital Spending Margin	13.31%	9.18%	(413)	-352.83%	-222.87%	12996	12.46%	12.54%	7	48.96%	43.30%	(566)	9.78%

¹ Our definition of consolidated EBITDA is generally similar to the Company's modified EBITDA metric, although stock-based compensation expense is included as a reduction of EBITDA in our calculation. Adjusted EBITDA is Consolidated EBITDA less net minority interest effects.

Source: Public Filings.

Third-quarter revenues fell 1.9%, due to weak attendance in July resulting from unfavorable weather and negative publicity from a ride-related accident

Third-Quarter Performance: Six Flags reported third-quarter revenues of \$465.2 million, representing a decrease of \$9.1 million, or 1.9%, from \$474.2 million in the prior-year period. Weak attendance was the primary driver behind the revenue decline, as admissions fell by 2.9% for the quarter due to a particularly weak performance in July, when admissions declined by 9%. The Company attributes July performance to unfavorable weather and extensive national media coverage of a ride-related accident that occurred at the Company's Kentucky Kingdom Park. Total revenue per capita increased by 1.0% from \$38.51 to \$38.90, as increased in-park spending and corporate sponsorship revenues offset lower average ticket prices. Ancillary revenues increased \$3.0 million (1.4%) to \$217.3 million in the third quarter of 2007. Entrance ticket revenues declined by \$12.0 million (4.6%) to \$247.9 million, as average ticket prices declined by 2%.

Operating expenses increased by \$8.4 million, or 6.3%, from \$131.9 million in the third quarter of 2006 to \$140.3 million in the corresponding period in 2007. This increase comprised of a \$3.0 million increase in salaries and wages, a \$2.7 million increase in employee benefit costs, and a \$1.7 million increase in repair and maintenance costs. Cost of products sold increased by \$0.7 million, or 1.8%, from \$38.3 million in the third quarter of 2006 to \$39.0 million in the corresponding period in 2007 due to increase in sales with the Company's brand name food partners.

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Selling, general, and administrative expenses increased by \$5.8 million or 10.0%, from \$57.9 million in the third quarter of 2006 to \$63.7 million in the corresponding period in 2007 due to a \$9.9 million increase in marketing expenses and a \$2.4 million increase in consulting services, partially offset by a \$7.8 million decrease in insurance expenses. Selling, general, and administrative expenses as a percentage of total revenues were 13.69% for the third quarter of 2007, compared to 12.21% for the prior-year period.

Operating income was \$180.7 million, a 15% decline from \$211.3 million reported in the prior-year period. Decreased revenues accounted for 30% of the reduction in operating income, with increased expenses (including losses on fixed asset disposals) representing 70% of the problem. Adjusting for the non-recurring charges such as loss on disposal of fixed assets, EBIT was \$186.8 million, compared with \$212.1 million in the prior-year period, representing a decrease of 11.9%. EBIT margin declined 457 basis points to 40.17% from 44.73% in the prior-year period.

Consolidated EBITDA was \$222.2 million, versus \$246.1 million in the corresponding period of the prior year, representing a 9.7% decline. Our definition of consolidated EBITDA is generally similar to the Company's modified EBITDA metric, although stock-based compensation expense is included as a reduction of EBITDA in our calculation. EBITDA margin declined 412 basis points to 47.77%. Adjusted EBITDA, which reflects Consolidated EBITDA less net minority interest positions, declined by 8% to \$196.8 million.

EBITDA less capital spending was \$201.4 million, versus \$232.2 million in the prior-year period, representing a decrease of \$30.8 million (13.2%). EBITDA less capital spending margin was 43.30%, representing a 566-basis-point decrease.

Prospects: Cash Burn Likely Even With Year-Over-Year Gains

On January 8, Six Flags announced relatively positive news regarding fourth-quarter revenue and attendance. Fourth-quarter revenue increased 7% to \$111 million, due in part to a 4% year-over-year gain in attendance. The Company also announced a double-digit percentage increase in 2008 season pass sales.

We estimate consolidated EBITDA at \$(10) million for the seasonally slow fourth quarter, a marginal gain from the \$(13.1) million EBITDA reported in the fourth quarter of 2006. Assuming fourth-quarter capital spending of \$15 million, fourth-quarter interest and dividend payments of \$65 million, and \$10 million in reduced working capital levels implies fourth-quarter cash burn of \$80 million, which is smaller but directionally consistent with the fourth quarter of 2006.

The Company's primary objective in 2008 is to reduce expenses while still driving revenue growth. Six Flags hopes to reduce cash costs by \$55 million while still achieving 2% growth in guest spending, in theory leaving attendance and corporate sponsorship revenues as the primary variables. Of course, driving increased attendance with reduced marketing support may be challenging.

Consolidated EBITDA was \$222.2 million for the third quarter, versus \$246.1 million in the corresponding period of the prior year, representing a 9.7% decline

Six Flags recently announced positive fourth-quarter revenue, attendance, and season pass information

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Our projections for Six Flags give the Company's business plan the benefit of the doubt. We expect attendance to grow from (2)% in a low case to 2% in a high case in 2008. Similarly, we expect guest spending per capita to be unchanged in a low case and achieve 2% year-over-year growth in a high case. Non-guest revenues are projected at \$70 million to \$80 million, compared with roughly \$61 million in 2007 and \$480 million in 2006. We expect aggregate operating costs (including certain variable costs) to decline by \$25 million to \$30 million. Based on the foregoing, the endpoints of our 2008 consolidated estimate are \$230 million to \$290 million, with a midpoint of \$260 million. In comparison, LTM consolidated EBITDA is \$210 million.

Even in a relatively bullish scenario, we expect \$51 million in 2008 cash burn – and much more if the Company is unable to post substantial year-over-year gains in operating profitability

Even in this relatively bullish scenario, the Company is likely to burn a substantial amount of cash in 2008. Assuming EBITDA of \$260 million, capital spending of \$110 million, cash interest of \$180 million, and PIERS dividends of \$21 million implies 2008 cash burn of \$51 million. This analysis underscores the difficulty of the Company's position: a 24% gain in EBITDA would represent very strong performance, yet such gains would be insufficient to support the existing capital structure.

Credit Analysis: Hold On to Your Restraints

Summary: We question the Company's ability to support its capital structure, given substantial operating cash burn and strained credit metrics. In addition, the August 2009 contractual redemption requirement for \$287.5 million in aggregate principal amount of PIERS represents "a fork in the road" for both Six Flags and public bondholders. Our valuation analysis indicates that the PIERS are out-of-the-money from a strict priority perspective; yet we assume that Six Flags (and its controlling shareholders) hope to fund the PIERS redemption on a senior secured basis if possible. If operating performance increases materially, the odds that the PIERS will be redeemed using the proceeds of incremental senior secured debt increase; in such case the adverse effect of additional senior secured debt may offset any benefits from increased franchise value for public bondholders. On the other hand, stagnant operating profitability may limit the probability of a timely PIERS redemption, at the cost of significant operating cash burn financed on a senior secured basis.

Credit Statistics: Coverage metrics are strained, with EBITDA interest coverage at 1.0x and EBITDA less capital spending coverage of 0.5x. Cash flow from operations has turned negative over the past two rolling LTM periods, due to increased debt service and weak operating performance. Cash flow from operations as a percentage of revenue was (5.9)% in the LTM period ended September 2007. Leverage has worsened in recent periods, as Net debt / EBITDA has increased from 7.5x as of December 31, 2005 to 10.2x at September 30, 2007. While aggregate liquidity of \$347.1 million at September 30, 2007 likely represents a seasonal high point, in general liquidity remains adequate – at least until the PIERS mature. See **Exhibit 6**.

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Exhibit 6: Certain Credit Metrics

	For the LTM Period Ended:				
	12/31/2005	12/31/2006	03/31/2007	06/30/2007	09/30/2007
EBITDA / Cash Interest	1.6x	1.1x	1.2x	1.2x	1.0x
EBITDA less Capital Spending / Cash Interest	0.7x	0.5x	0.6x	0.6x	0.5x
CFO	121.4	9.8	23.0	(2.8)	(57.0)
CFO / Revenue	12.7%	1.0%	2.4%	-0.3%	-5.9%
Net Debt / EBITDA	7.5x	10.6x	10.1x	9.3x	10.2x
Net Debt / EBITDA less Capital Spending	17.0x	25.5x	19.2x	17.4x	22.7x
Total Liquidity	\$339.8	\$268.7	\$134.8	\$322.1	\$347.1
Liquidity / Cash Interest	1.9x	1.4x	0.7x	1.6x	1.7x

Source: Public Filings.

Credit metrics demonstrate the mismatch between operating performance and capital structure

Capital Structure: The primary components of the Company's financing structure include (i) the Senior Secured Credit Facility, (ii) approximately \$1,400 million in aggregate principal amount of senior notes (across four issues), and (iii) \$287.5 million in aggregate principal amount of PIERS.

Senior Secured Credit Facility: The Senior Secured Credit Facility provides for a \$275 million revolving credit facility (consisting of \$190 million of domestic commitments and \$85 million of multicurrency commitments) and a term loan facility in original principal amount of \$850 million. The facility also includes an uncommitted optional term loan tranche of up to \$300 million. The amortization schedule for the term loan contemplates quarterly principal payments of \$2.125 million per quarter through March 31, 2015, with a bullet payment in the aggregate principal amount of \$784.1 million due on April 30, 2015.

One interesting component of the Senior Secured Credit Facility is the uncommitted \$300 million optional term loan. Under the terms of the Senior Secured Credit Facility, the Company can request an additional term of up to \$300 million if (i) no event of default exists, (ii) the borrowers would be in compliance with the senior secured leverage ratio covenant after giving effect to the transaction, and (iii) consolidated leverage ratio pro forma for the transaction is less than or equal to 6.5x. Each lender may approve or reject the optional increase request; and the Company can solicit new lenders to the extent existing lenders elect not to participate. Therefore, this provision does not solve the maturity of the PIERS in August 2009, but does leave a placeholder for a \$300 million first lien term loan assuming the Company can find a financing source.

The covenant package in the Senior Secured Credit Facility includes a maximum senior secured leverage ratio test and a maximum capital spending limit, which we consider to be a relatively loose covenant package. See **Exhibit 7** for a summary of certain terms of the Senior Secured Credit Facility.

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Exhibit 7: Certain Summary Terms of the Senior Secured Credit Facility

Lenders:	JPMorgan Chase Bank, N.A., Credit Suisse, Cayman Islands Branch and Lehman Commercial Paper Inc.												
Borrowers:	Six Flags Inc., Six Flags Operations Inc. and Six Flags Theme Parks Inc.												
Commitment:	Aggregate commitment of \$1,125 million, consisting of (i) \$275 million of Senior Secured Revolving Credit Facility (\$85 million of multicurrency revolving commitments and \$190 million of domestic revolving commitments), with a \$60 million sub-facility for letters of credit, and (ii) \$850 million of Senior Secured Term Loan. The facility also includes an uncommitted optional term loan tranche of up to \$300 million.												
Maturity:	April 30, 2015 for the Term Loan Facility and March 31, 2013 for the Revolving Credit Facility.												
Guarantors:	The facility is guaranteed by Six Flags Operations Inc. and certain other subsidiaries of the Company.												
Collateral:	The facility is secured by substantially all the tangible and intangible assets of Six Flags Operations Inc. and each guarantor.												
Interest Rates:	<p>The interest rate applicable to the Revolving Credit Facility is equal to either Alternate Base Rate (calculated as higher of (i) the Prime Rate, i.e., the rate of interest per annum announced by JPMorgan Chase Bank, N.A. or (ii) the Federal Funds Effective Rate plus 50 basis points) plus 1.50% in case of Base Rate loans or Eurocurrency Rate plus 2.50% in case of Eurocurrency loans.</p> <p>The interest rate applicable to the Term Loans is equal to either Alternate Base Rate (calculated as higher of (i) the Prime Rate, i.e., the rate of interest per annum announced by JPMorgan Chase Bank, N.A. or (ii) the Federal Funds Effective Rate plus 50 basis points) plus 1.25% in case of Base Rate loans or Eurocurrency Rate plus 2.25% in case of Eurocurrency loans.</p> <p>After the First Adjustment Date, the interest rate applicable to the Revolving Credit Facility will equal to either Alternate Base Rate (calculated as higher of (i) the Prime Rate, i.e., the rate of interest per annum announced by JPMorgan Chase Bank, N.A. or (ii) the Federal Funds Effective Rate plus 50 basis points) or Eurocurrency Rate plus an applicable margin percentage. The applicable margin is calculated based on the consolidated senior secured leverage ratio as follows:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;"><u>Level</u></th> <th style="text-align: center;"><u>Consolidated Senior Secured Leverage Ratio</u></th> <th style="text-align: center;"><u>Eurocurrency Loans</u></th> <th style="text-align: center;"><u>Base Rate Loans</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1</td> <td style="text-align: center;">Greater than or equal to 3.5x</td> <td style="text-align: center;">2.50%</td> <td style="text-align: center;">1.50%</td> </tr> <tr> <td style="text-align: center;">2</td> <td style="text-align: center;">Less than 3.5x</td> <td style="text-align: center;">2.25%</td> <td style="text-align: center;">1.25%</td> </tr> </tbody> </table>	<u>Level</u>	<u>Consolidated Senior Secured Leverage Ratio</u>	<u>Eurocurrency Loans</u>	<u>Base Rate Loans</u>	1	Greater than or equal to 3.5x	2.50%	1.50%	2	Less than 3.5x	2.25%	1.25%
<u>Level</u>	<u>Consolidated Senior Secured Leverage Ratio</u>	<u>Eurocurrency Loans</u>	<u>Base Rate Loans</u>										
1	Greater than or equal to 3.5x	2.50%	1.50%										
2	Less than 3.5x	2.25%	1.25%										

Financial Covenants: (i) Consolidated Senior Secured Leverage ratio at the last day of any period of four consecutive fiscal quarters not to exceed the following levels:

<u>Fiscal quarter ending</u>	<u>Maximum</u>
June 30, 2007 through December 31, 2007	6.00x
January 1, 2008 through December 31, 2008	5.75x
January 1, 2009 through December 31, 2009	5.25x
January 1, 2010 and thereafter	4.75x

If optional term loans have been used to make a restricted payment to Six Flags Inc. to effect the Preferred Income Equity Redeemable Securities Repurchase, the Consolidated Senior Secured Leverage ratio for the fiscal quarters ending on or about March 31, 2010, June 30, 2010, September 30, 2010 and December 31, 2010 shall not exceed 5.25x.

(ii) Capital Expenditures for a fiscal year not to exceed the following levels:

<u>Fiscal Year</u>	<u>Maximum Amount (USD millions)</u>
2007	120
2008	120
2009	125
2010	130
2011	135
2012	140
2013	145
2014	150
2015	155

Source: Public Filings.

The mandatory redemption of the PIERS in August 2009 could adversely affect public bondholders, if this issue is refinanced on a senior secured basis

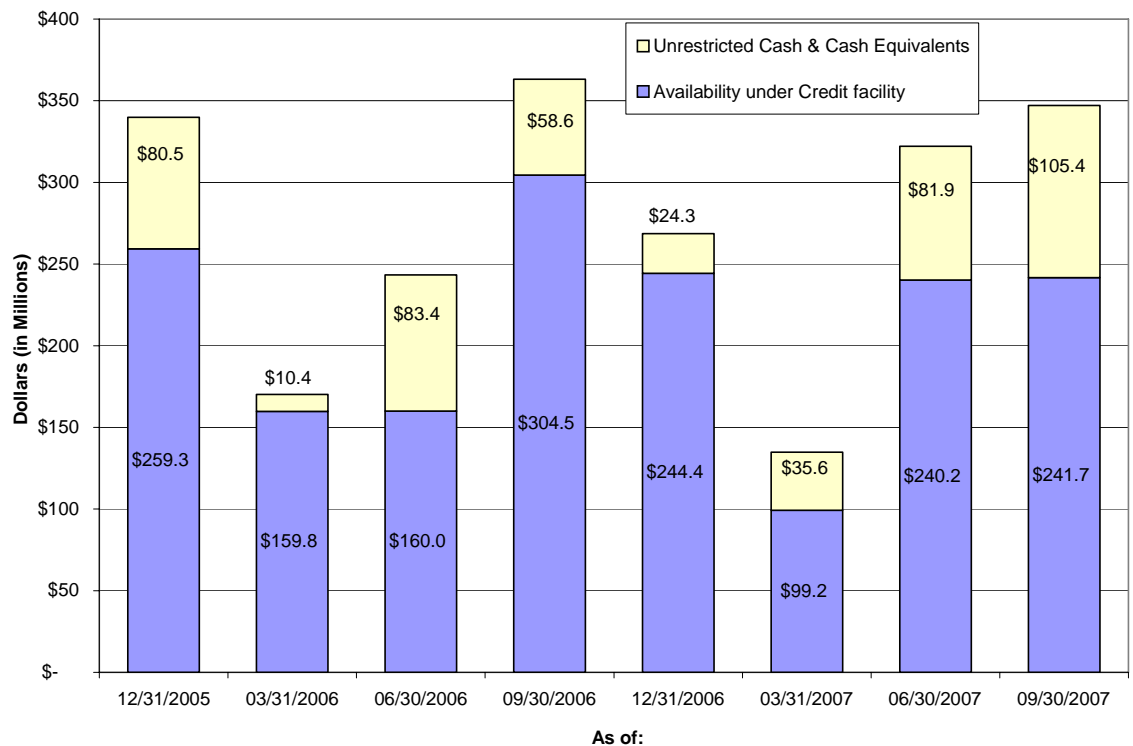
PIERS: In January 2001, Six Flags issued 11.5 million PIERS in aggregate principal amount of \$287.5 million. Each PIERS represents one one-hundredth of a share of the Company's 7.25% mandatorily redeemable preferred stock. Dividends on the PIERS are payable quarterly in either cash or common stock on February 15, May 15, August 15, and November 15. Dividends accrue at 7.25% per annum, representing approximately \$20.8 million per annum. The PIERS are convertible into Company common stock at \$20.85 per share, and are mandatorily redeemable in cash equal to 100% of liquidation preference (initially \$25 per PIERS), plus any accrued and unpaid dividends on August 15, 2009.

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Six Flags has offset cash burn from operations with proceeds from asset sales, although some proceeds from divestitures have been used to fund new acquisitions like DCPI

Liquidity: We calculate liquidity as unused borrowing availability under the Senior Secured Credit Facility plus unrestricted cash and cash equivalents. As shown below, liquidity reserves have remained adequate over the past eight quarters, as the Company has offset cash burn from operations with proceeds from asset sales. As of September 30, 2007, the Company had approximately \$347.1 million in available liquidity, representing a \$16 million decline from the prior-year period. This relatively modest decline in liquidity can be attributed to \$312 million (including \$275 million in cash) in proceeds generated from the sale of seven parks consummated in April 2007, offset by roughly \$185 million in debt repurchases (\$92 million) and acquisitions (\$40 million for DCPI interest and \$53 million buyout of the Company’s joint venture partner in Six Flags Discovery Kingdom). We note that available liquidity at December 31, 2006 and March 31, 2007 (the last two quarter-end dates prior to the April divestiture) was \$71 million and \$35 million, respectively, below aggregate liquidity reported twelve months earlier. See **Exhibit 8** for recent trends in liquidity.

Exhibit 8: Liquidity Trends



Source: Public Filings.

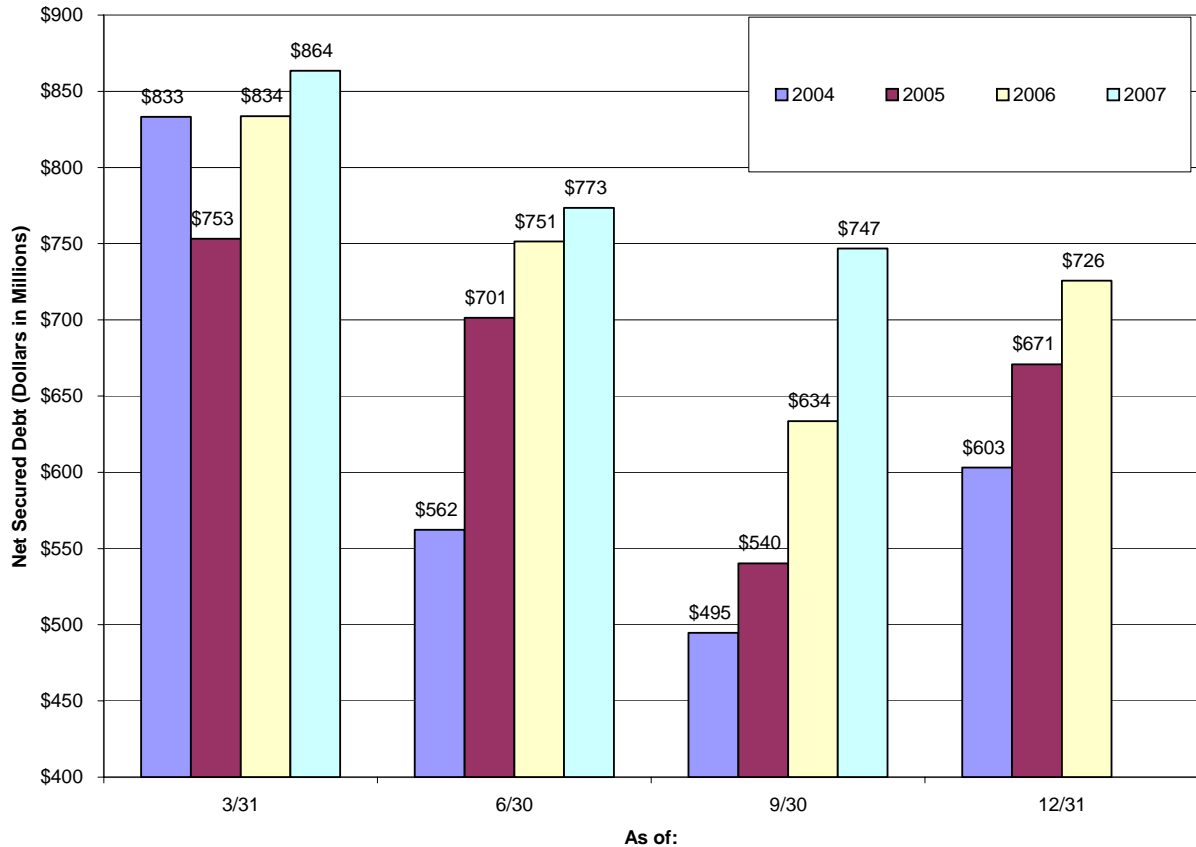
Earlier this week, Six Flags announced that revolver borrowings at December 31, 2007 were \$5 million and unused borrowing availability was \$243 million. The Company did not disclose its cash balance at December 31, although we estimate that cash and cash equivalents at that time might be roughly \$30 million, which is consistent with our fourth-quarter cash burn projection and historical seasonal trends.

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Secured debt has increased even as the Company has reduced its operating footprint dramatically, underscoring the gradual loss of financial flexibility

One consequence of the mismatch between the Company's strategy and its capital structure is the gradual loss of financial flexibility. Senior secured borrowings have increased steadily since 2004, even as the Company divested or closed 18 parks. For example, net secured debt has increased by more than \$250 million from September 30, 2004 to September 30, 2007. Similar increases are observed when measured from other quarter-end dates. See Exhibit 9, below.

Exhibit 9: Net Secured Debt



Source: Public Filings.

It is quite possible that this trend may accelerate in the next 18 months, if the Company is successful in funding the optional term loan and refinancing the PIERS on a senior secured basis. While this strategy may be advantageous to PIERS holders and allow shareholders to seek a favorable change of control exit, unsecured bondholders' relative position will continue to deteriorate.

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Value Cover Views: An Underwater Adventure?

Summary: Despite the Company's weaker-than-expected performance in 2007, we do believe that management's efforts are building franchise value. That said, the benefits from increased franchise value may be more than offset by cash burn financed on a senior secured basis – at least from the perspective of the four pari passu Senior Notes issues. Our analysis indicates that prospective cash burn and the potential refinancing (on a senior secured basis) of the PIERS leaves the Company's pari passu Senior Note issues underwater, even assuming substantial gains in performance.

Value Cover Analysis: Our value cover analysis incorporates an income capitalization analysis and three distinct scenarios for cash burn. The income capitalization analysis assumes (i) steady state consolidated EBITDA of \$260 million (in line with the midpoint of our projections for 2008 and 24% greater than LTM consolidated EBITDA), and (ii) steady state capital spending of \$110 million. We also assumed a tax rate of 40% and that capital spending and depreciation are equal.

We developed an estimate of the Company's unlevered cost of capital of approximately 7.3%, using (i) prevailing 10-year bond yields, (ii) an estimated risk premium of 5%, (iii) a 1% small company premium, and (iv) an estimated unlevered beta of 0.5. We assumed perpetual growth rates of 2.5% to 3.0%, which imply unlevered earnings multiples of 20.7x to 23.1x and an enterprise value of \$1,862 million to \$2,077 million. These enterprise value estimates represent an 8.9x to 9.9x multiple of LTM consolidated EBITDA and a 19.7x to 22.0x multiple of LTM consolidated EBITDA less capital spending. We adjust for the net minority interest effect by assuming that roughly 11% of consolidated cash flows are owned by third-party investors (consistent with third-quarter information). This adjustment is meant to capture third party investor interest in the Partnership Parks as well as the Company's minority interest positions in DCPI and one hotel property.

We then adjusted the value cover waterfall to reflect potential cash burn that will likely be financed on a senior secured basis through the development of three distinct scenarios:

- **Scenario One** includes estimated fourth-quarter 2007 cash burn of \$80 million, which reflects the seasonal nature of operations and the timing of interest payments on three of four senior note issues.
- **Scenario Two** includes (i) estimated 2008 cash burn of \$51 million, based upon the EBITDA and capital spending assumptions used in our income capitalization analysis and existing debt service requirements and (ii) estimated fourth-quarter 2007 cash burn of \$80 million.
- **Scenario Three** includes the potential refinancing of the PIERS on a senior secured basis, in addition to estimated cash burn through the end of 2008.

This analysis does not incorporate any prospective cash burn that might occur after 2008, which is a relatively aggressive assumption under the circumstances. Furthermore, our analysis does not reflect any recoveries by any structurally senior general unsecured creditors, which could be meaningful as the pari passu Senior Note issues are not guaranteed by the Company's operating subsidiaries. See **Exhibit 10**.

Our valuation range (\$1,862 million to \$2,077 million) represents an 8.9x to 9.9x LTM EBITDA multiple and a 19.7x to 22.0x LTM consolidated EBITDA less capital spending multiple

SELL: Six Flags 8.875% Senior Notes Due 2010

Exhibit 10: Prospective Value Cover for Senior Notes Assuming Various Perpetual Growth Rates and Cash Burn Scenarios

Dollars in Millions	Perpetual Growth Rate of 2.5%			Perpetual Growth Rate of 3.0%		
	Scenario 1	Scenario 2	Scenario 3	Scenario 1	Scenario 2	Scenario 3
Consolidated EBITDA	\$260	\$260	\$260	\$260	\$260	\$260
Capital Spending	110	110	110	110	110	110
EBIT	150	150	150	150	150	150
Taxes @ 40%	60	60	60	60	60	60
Unlevered Earnings	\$90	\$90	\$90	\$90	\$90	\$90
Perpetual Growth Rate	2.5%	2.5%	2.5%	3.0%	3.0%	3.0%
Implied Earnings Multiple	20.7x	20.7x	20.7x	23.1x	23.1x	23.1x
Consolidated Enterprise Value	\$1,862	\$1,862	\$1,862	\$2,077	\$2,077	\$2,077
Net Minority Investor Share of Cash Flows	11%	11%	11%	11%	11%	11%
Enterprise Value Available to Creditors and Shareholders	1,657	1,657	1,657	1,848	1,848	1,848
Net Secured Debt @ 9/30/2007	\$747	\$747	\$747	\$747	\$747	\$747
Estimated Cash Burn through 12/31/2007	80	80	80	80	80	80
Estimated 2008 Cash Burn	NA	51	51	NA	51	51
PIERS Refinanced on Senior Secured Basis	NA	NA	288	NA	NA	288
Pro Forma Net Secured Debt	\$827	\$878	\$1,165	\$827	\$878	\$1,165
Available to Unsecured Creditors	830	779	492	1,021	970	683
Aggregate Principal Amount of Pari Passu Senior Notes	1,399	1,399	1,399	1,399	1,399	1,399
Implied Value Cover	59%	56%	35%	73%	69%	49%
Estimated EV / LTM Consolidated EBITDA	8.9x	8.9x	8.9x	9.9x	9.9x	9.9x
Estimated EV / LTM Consolidated EBITDA less capital spending	19.7x	19.7x	19.7x	22.0x	22.0x	22.0x

We believe that the pari passu Senior Note issues are generally underwater even if the PIERS are not refinanced on a senior secured basis, due to substantial operating cash burn

Assuming a 2.5% perpetual growth rate (on substantially greater steady-state earnings) implies value cover of 35% to 59% for the pari passu Senior Notes, significantly below prevailing prices. If a 3.0% perpetual growth rate is used, value cover ranges from 49% to 73%. The high end of this range is generally in line with recent trading levels for three of the four senior note issues, with the 8.875% Senior Notes trading just a few points above this range. More importantly, this analysis suggests that the various Senior Note issues are generally underwater even if the PIERS are not refinanced on a senior secured basis, due to significant operating cash burn.

Return Analysis: Given our value cover views, we believe all four of the Company's senior notes issues are overvalued, although we believe that the 8.875% Senior Notes may be the best candidate for a short position, given prevailing price levels and tenor. See **Exhibit 10**, below.

SELL: Six Flags 8.875% Senior Notes Due 2010

Exhibit 11: Potential Returns from a Short Position in the 8.875% Senior Notes

	At Various Cover Prices		
	\$60.00	\$62.50	\$65.00
Bond Value	\$78.00	\$78.00	\$78.00
Bond Coupon	8.88%	8.88%	8.88%
Treasury Yield	3.84%	3.84%	3.84%
Treasury Loan Pct	95.00%	95.00%	95.00%
Short Rebate Pct	3.78%	3.78%	3.78%
Bond Collateral Pct	50.00%	50.00%	50.00%
Collateral Required	\$39.00	\$39.00	\$39.00
Treasuries Purchased	\$41.05	\$41.05	\$41.05
Bond Short Sale	\$78.00	\$78.00	\$78.00
One-Year Coupon	(\$8.88)	(\$8.88)	(\$8.88)
Years	0.75	0.75	0.75
Annual Short Rebate	\$2.95	\$2.95	\$2.95
Annual Treasury Interest	\$1.57	\$1.57	\$1.57
Cash Flows			
Initial Investment	(\$41.05)	(\$41.05)	(\$41.05)
Final Period Cash Flows	\$55.79	\$53.29	\$50.79
IRR (Levered Return)	35.9%	29.8%	23.7%
Unlevered Return	19.4%	15.1%	10.8%

Our proposed position could generate unlevered returns of 11% to 19%

In our return analysis, we have assumed (i) a nine-month short position initiated at 78 and (ii) a range of cover prices around the midpoint of our value cover estimate. Levered returns range from 23.7% to 35.9% and unlevered returns range from 10.8% to 19.4% under these exit price and holding period assumptions.

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- LTV Steel - Gordian Group recouped a bank's \$225 million securitization exposure after the court declined to recognize the "bankruptcy remote" receivables vehicle.
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