

CEC ENTERTAINMENT INC
Form 10-Q
April 23, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

- Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended October 1, 2006.**
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____.**

Commission File Number 001-13587

CEC ENTERTAINMENT, INC.

(Exact name of registrant as specified in its charter)

Kansas
(State or other jurisdiction of
incorporation or organization)

48-0905805
(I.R.S. Employer

Identification No.)

4441 West Airport Freeway

Irving, Texas 75062

(Address of principal executive offices, including zip code)

(972) 258-8507

(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer in Rule 12b-2 of the Securities Exchange Act of 1934.

Large accelerated filer Accelerated filer Non-accelerated filer .

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) .. Yes No

At April 13 2007 an aggregate of 32,241,703 shares of the registrant's Common Stock, par value of \$.10 each (being the registrant's only class of common stock), were outstanding.

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CEC ENTERTAINMENT, INC.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****CEC ENTERTAINMENT, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(Thousands, except share data)

ASSETS

| | October 1, 2006 (unaudited) | January 1, 2006 (as restated and adjusted See Notes 2 and 3) |
|-----------------------------|--|---|
| Current assets: | | |
| Cash and cash equivalents | \$ 16,262 | \$ 12,184 |
| Accounts receivable | 14,426 | 16,251 |
| Inventories | 18,248 | 13,659 |
| Prepaid expenses | 9,113 | 7,882 |
| Deferred tax asset | 1,824 | 1,824 |
| Total current assets | 59,873 | 51,800 |
| Property and equipment, net | 625,895 | 597,919 |
| Other assets | 2,003 | 2,201 |
| | \$ 687,771 | \$ 651,920 |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|--------------------------------------|---------------|---------------|
| Current liabilities: | | |
| Current portion of long-term debt | \$ 652 | \$ 594 |
| Accounts payable | 33,917 | 36,210 |
| Accrued liabilities | 47,547 | 27,360 |
| Total current liabilities | 82,116 | 64,164 |
| Long-term debt, less current portion | 171,981 | 148,974 |
| Deferred rent | 67,080 | 61,877 |

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| | | |
|---|------------|------------|
| Deferred tax liability | 14,329 | 19,619 |
| Accrued insurance | 6,703 | 14,103 |
| Commitments and contingencies (Note 5) | | |
| Shareholders' equity: | | |
| Common stock, \$.10 par value; authorized 100,000,000 shares; 56,592,967 and 56,115,658 shares issued, respectively | 5,659 | 5,612 |
| Capital in excess of par value | 322,847 | 314,439 |
| Retained earnings | 519,382 | 463,178 |
| Accumulated other comprehensive income | 3,146 | 2,446 |
| Less treasury shares of 24,359,450 and 22,499,815, respectively, at cost | (505,472) | (442,492) |
| | 345,562 | 343,183 |
| | \$ 687,771 | \$ 651,920 |

See notes to condensed consolidated financial statements.

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CEC ENTERTAINMENT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

AND COMPREHENSIVE INCOME

(Unaudited)

(Thousands, except per share data)

| | Three Months Ended | |
|--|--------------------|--|
| | October 1, 2006 | October 2, 2005 (as restated and adjusted- See Notes 2 and 3) |
| Food and beverage revenues | \$ 120,088 | \$ 114,284 |
| Games and merchandise revenues | 73,903 | 64,527 |
| Franchise fees and royalties | 670 | 769 |
| Interest income | 10 | 9 |
| | 194,671 | 179,589 |
| Costs and expenses: | | |
| Cost of sales: | | |
| Food, beverage and related supplies | 21,961 | 21,316 |
| Games and merchandise | 8,176 | 7,875 |
| Labor | 52,074 | 49,888 |
| | 82,211 | 79,079 |
| Selling, general and administrative expenses | 27,265 | 23,549 |
| Depreciation and amortization | 16,308 | 15,377 |
| Interest expense | 2,686 | 1,144 |
| Other operating expenses | 38,151 | 36,298 |
| | 166,621 | 155,447 |
| Income before income taxes | 28,050 | 24,142 |
| Income taxes | 10,858 | 9,334 |
| Net income | 17,192 | 14,808 |
| Other comprehensive income (loss), net of tax: | | |
| Foreign currency translation | (3) | 317 |
| Comprehensive income | \$ 17,189 | \$ 15,125 |
| Earnings per share: | | |
| Basic: | | |
| Net income | \$.54 | \$.42 |
| Weighted average shares outstanding | 31,975 | 34,954 |

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| | | | |
|-------------------------------------|----|--------|--------|
| Diluted: | | | |
| Net income | \$ | .53 | \$.41 |
| Weighted average shares outstanding | | 32,614 | 36,004 |

See notes to condensed consolidated financial statements.

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CEC ENTERTAINMENT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

AND COMPREHENSIVE INCOME

(Unaudited)

(Thousands, except per share data)

| | Nine Months Ended | |
|--|-------------------|--|
| | October 1, 2006 | October 2, 2005 (as restated and adjusted- See Notes 2 and 3) |
| Food and beverage revenues | \$ 378,971 | \$ 362,783 |
| Games and merchandise revenues | 216,547 | 197,022 |
| Franchise fees and royalties | 2,301 | 2,249 |
| Interest income | 23 | 22 |
| | 597,842 | 562,076 |
| Costs and expenses: | | |
| Cost of sales: | | |
| Food, beverage and related supplies | 69,916 | 66,876 |
| Games and merchandise | 26,113 | 22,906 |
| Labor | 162,566 | 152,335 |
| | 258,595 | 242,117 |
| Selling, general and administrative expenses | 81,477 | 73,956 |
| Depreciation and amortization | 48,372 | 45,554 |
| Interest expense | 6,819 | 2,948 |
| Other operating expenses | 110,876 | 101,512 |
| | 506,139 | 466,087 |
| Income before income taxes | 91,703 | 95,989 |
| Income taxes | 35,499 | 36,961 |
| Net income | 56,204 | 59,028 |
| Other comprehensive income, net of tax: | | |
| Foreign currency translation | 700 | 174 |
| Comprehensive income | \$ 56,904 | \$ 59,202 |
| Earnings per share: | | |
| Basic: | | |
| Net income | \$ 1.71 | \$ 1.66 |
| Weighted average shares outstanding | 32,779 | 35,475 |
| Diluted: | | |

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| | | | | |
|-------------------------------------|----|--------|----|--------|
| Net income | \$ | 1.67 | \$ | 1.61 |
| Weighted average shares outstanding | | 33,581 | | 36,658 |

See notes to condensed consolidated financial statements.

Table of Contents**CEC ENTERTAINMENT, INC.****CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY****(Unaudited)****(Thousands)**

| | Amounts | Shares |
|---|----------------|---------------|
| Common stock and capital in excess of par value: | | |
| Balance, beginning of year (as restated and adjusted see Notes 2 and 3) | \$ 320,051 | 56,116 |
| Stock options exercised | 7,279 | 322 |
| Tax benefit from exercise of options | 343 | |
| Stock issued under 401(k) plan | 457 | 13 |
| Stock-based compensation expense | 4,347 | |
| Issuance of nonvested stock, net of forfeiture adjustments | | 242 |
| Other | (175) | |
| Treasury stock retired and reserved for 401(k) plan | (3,796) | (100) |
| Balance, October 1, 2006 | 328,506 | 56,593 |
| Retained earnings (as restated see Notes 2 and 3): | | |
| Balance, beginning of year (as previously reported) | 468,398 | |
| Prior period adjustment due to restatement | (5,220) | |
| Balance, beginning of year (as restated) | 463,178 | |
| Net income | 56,204 | |
| Balance, October 1, 2006 | 519,382 | |
| Accumulated other comprehensive income: | | |
| Balance, beginning of year | 2,446 | |
| Foreign currency translation | 700 | |
| Balance, October 1, 2006 | 3,146 | |
| Treasury shares: | | |
| Balance, beginning of year | (442,492) | 22,500 |
| Treasury stock acquired | (66,776) | 1,960 |
| Treasury stock retired and reserved for 401(k) plan | 3,796 | (100) |
| Balance, October 1, 2006 | (505,472) | 24,360 |
| Total shareholders equity (as restated see Notes 2 and 3) | \$ 345,562 | |

See notes to condensed consolidated financial statements.

Table of Contents**CEC ENTERTAINMENT, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(Thousands)**

| | Nine Months Ended | |
|---|-------------------|---|
| | October 1, 2006 | October 2, 2005 (as restated and adjusted See Notes 2 and 3) |
| Operating activities: | | |
| Net income | \$ 56,204 | \$ 59,028 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortization | 48,372 | 45,554 |
| Deferred income taxes | (5,717) | (5,464) |
| Stock-based compensation expense | 4,219 | 5,788 |
| Contributions from landlords | 3,628 | 3,239 |
| Deferred lease rentals | 1,575 | 2,447 |
| Provision for asset write-offs | 7,625 | 1,684 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 2,464 | (2,222) |
| Inventories | (4,589) | (1,917) |
| Prepaid expenses | (1,231) | (1,634) |
| Accounts payable | (830) | 2,191 |
| Accrued liabilities | 12,787 | (1,297) |
| Cash provided by operating activities | 124,507 | 107,397 |
| Investing activities: | | |
| Purchases of property and equipment | (83,908) | (58,325) |
| Decrease in other assets | 113 | 45 |
| Cash used in investing activities | (83,795) | (58,280) |
| Financing activities: | | |
| Proceeds on long-term debt | 59,435 | 77,810 |
| Payments on long-term debt | (36,748) | (52,690) |
| Exercise of stock options | 7,279 | 9,500 |
| Excess tax benefit from exercise of stock options | 343 | 3,296 |
| Treasury stock acquired | (66,776) | (88,118) |
| Other | (167) | 68 |
| Cash used in financing activities | (36,634) | (50,134) |
| Increase (decrease) in cash and cash equivalents | 4,078 | (1,017) |
| Cash and cash equivalents, beginning of period | 12,184 | 11,798 |
| Cash and cash equivalents, end of period | \$ 16,262 | \$ 10,781 |

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Supplemental Cash Flow Information:

| | | |
|---|----------|----------|
| Interest paid | \$ 6,574 | \$ 2,453 |
| Income taxes paid | 33,453 | 46,611 |
| Non-cash investing and financing activities: | | |
| Accrued construction accounts payable | 9,511 | 10,859 |
| Stock issued under 401(k) plan | 457 | 456 |
| Investment in capital leases | 378 | 973 |
| Restricted stock awards issued, net of forfeitures | 7,100 | |
| Treasury stock retired and reserved for 401(k) plan | 3,796 | |

See notes to condensed consolidated financial statements.

Table of Contents**CEC ENTERTAINMENT, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****1. Interim financial statements:**

In the opinion of management, the accompanying unaudited condensed financial statements for the periods ended October 1, 2006 and October 2, 2005 reflect all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the Company's financial condition, results of operations and cash flows in accordance with generally accepted accounting principles.

Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with generally accepted accounting principles have been omitted. The unaudited condensed consolidated financial statements referred to above should be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-K/A filed with the Securities and Exchange Commission for the year ended January 1, 2006. Results of operations for the periods ended October 1, 2006 and October 2, 2005 are not necessarily indicative of the results for the year.

2. Stock-based compensation:

The Company accounts for stock-based compensation in accordance with the provisions of Financial Accounting Standards Board Statement No. 123(R), Share-Based Payment (FAS 123R) using the Black-Scholes option pricing model to determine the fair value of stock options at the date of grant. The Company adopted FAS 123R at the beginning of fiscal year 2006 using the modified retrospective method of adoption and as a result, retroactively adjusted the results from prior periods.

The Company has stock-based compensation plans that include: a) non-statutory stock option plans for its employees and non-employee directors, b) restricted stock plans for employees and non-employee directors, and c) a retirement savings plan.

Under the terms of the Company's stock option plans, employees and non-employee directors may be granted options to purchase the Company's common stock at a price equal to the fair market value on the date of grant. Options may not be exercised until the employee has been continuously employed for at least one year after the date of grant. Shares granted generally vest over a period of one to four years. The Company issues new shares for stock option exercises. Effective May 2006, in conjunction with shareholder approval of an increase in restricted stock the Company agreed to discontinue issuing stock options to its employees and non-employee directors pursuant to the Company's stock option plans.

In May 2004, the Company adopted an employee nonvested share plan under which 500,000 shares may be granted before December 31, 2014. In May 2006, the Company's shareholders approved an additional 500,000 shares under the same plan. The price of the shares awarded under the plan shall be equal to the fair market value of such shares on the date of grant. All shares awarded shall provide for a vesting period of at least one year and no more than five years, and the full award may not vest in less than three years. Shares issued under a nonvested share award are nontransferable and subject to the forfeiture restrictions. Shares which expire or terminate may be re-granted under the plan. The Company issues new shares for nonvested share awards.

Stock option transactions are summarized as follows:

| | Options Outstanding | Weighted Avg. Remaining Life (Years) | Weighted Average Exercise Price |
|--------------------------------------|------------------------|--|---------------------------------------|
| Options outstanding, January 1, 2006 | 5,452,774 | 3.4 | \$ 25.69 |
| Granted | 0 | | |
| Exercised | (320,971) | | 22.68 |
| Forfeited | (145,346) | | 33.30 |
| Options outstanding, October 1, 2006 | 4,986,457 | 2.6 | 25.66 |

Table of Contents**CEC ENTERTAINMENT, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****2. Stock-based compensation (continued):**

There are 3,704,695 shares exercisable at October 1, 2006 with a weighted average exercise price of \$23.83 and a weighted average remaining life of 2.6 years.

Nonvested share transactions are summarized as follows:

| | Restricted Share Awards | Weighted Avg. Fair Value Per Award |
|---|------------------------------------|---|
| Nonvested shares outstanding, January 1, 2006 | 0 | |
| Granted | 257,377 | \$ 33.31 |
| Forfeited | (15,266) | 33.29 |
| Nonvested shares outstanding, October 1, 2006 | 242,111 | 33.31 |

No nonvested shares were granted in 2005.

Prior to 2006, the Company accounted for stock-based compensation under the intrinsic value method of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations (APB 25), and had adopted the disclosure-only provisions of Financial Accounting Standards Board Statement No. 123, Accounting for Stock-Based Compensation, (FAS 123). In December 2004, the Financial Accounting Standards Board issued a revised and renamed standard regarding stock-based compensation FAS 123R. The revised standard, which was adopted by the Company in the first quarter of 2006, eliminates the disclosure only election under FAS 123 and requires the recognition of compensation expense of stock options and all other forms of equity compensation generally based on the fair value of the instruments on the date of grant. In order to enhance comparability among all years presented and to provide the fullest understanding of the impact that expensing stock-based compensation has on the Company, the Company has retrospectively applied the new standard to prior period results. See Note 3 for the effects of the adoption of FAS 123R on prior periods.

The fair value of stock-based compensation is recognized in expense over the vesting period, and is determined on the date of grant using the Black-Scholes option pricing model to determine the fair value of options granted. The estimated fair value of options granted was \$9.80 in the first nine months of 2005. The weighted average assumptions used for grants in 2005 were: risk free interest rate of 4.1%, no dividend yield; expected lives of three years and expected volatility of 30%. There were no stock options granted in the first nine months of 2006.

The unaudited condensed consolidated statements of earnings and comprehensive income for the three months ended October 1, 2006 and October 2, 2005 reflect pre-tax stock-based compensation cost of \$1.5 million and \$2.2 million, respectively and for the nine months ended October 1, 2006 and October 2, 2005 reflects pre-tax stock-based compensation cost of \$4.2 million and \$5.8 million, respectively. The impact on net income for the third quarter ended October 1, 2006 and October 2, 2005 was \$915,000 and \$1.3 million, respectively. The impact on net income for the nine months ended October 1, 2006 and October 2, 2005 was \$2.6 million and \$3.6 million, respectively. Stock-based compensation cost of \$128,000 was capitalized as property and equipment in the first nine months of 2006. There was no stock-based compensation capitalized in the first nine months of 2005. The amount expensed in 2006 includes the expense of nonvested shares granted in 2006. Unrecognized pretax stock-based compensation cost as of October 1, 2006 was \$3.6 million related to stock options granted and \$6.3 million related to nonvested shares issued which will be recognized over a weighted average period of 2.4 years. At October 1, 2006, the weighted average remaining contractual life of options outstanding and exercisable is 2.6 years and 2.3 years, respectively.

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CEC ENTERTAINMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

3. Restatement of Consolidated Financial Statements:

Cash proceeds from the exercise of stock options totaled \$7.3 million and \$9.5 million in the first nine months of 2006 and the first nine months of 2005, respectively. Stock options exercised in the first nine months of 2006 and 2005 had an aggregate intrinsic value (amount by which the market price exceeded the exercise price on the date of exercise) of \$3.4 million and \$7.0 million, respectively. At October 1, 2006, the aggregate intrinsic value of options outstanding and exercisable is \$29.2 million and \$28.4 million, respectively. The income tax benefit related to the expense of employee stock options was \$343,000 and \$3.3 million for the first nine months of 2006 and 2005, respectively.

Following an internal investigation into the Company's stock option accounting during the period from 1989 through 2005, the Company and its Audit Committee concluded that the Company's consolidated financial statements for each of the fiscal years during the three year period ended January 1, 2006, as well as the quarter ended April 2, 2006, should be restated to record additional stock-based compensation and related tax effects resulting from stock options granted during fiscal years 1989 through 2005 that were incorrectly accounted for under generally accepted accounting principles. The decision was based on the determination that the actual measurement dates for determining the accounting treatment of certain stock option grants differed from the measurement dates used by the Company in preparing its consolidated financial statements.

For this restatement, the Company determined the actual measurement date by determining the date on which the terms and recipients of the stock option awards were determined with finality and all required granting actions were completed in full. The Company determined the actual measurement date to be the date on which the Board of Directors or a special committee of the Board of Directors would approve a stock option grant with sufficient specificity to determine the option price and the number of options to be allocated to individuals. In some instances approval was made in a meeting but in most instances was made through unanimous written consent (UWC). The Company considered the approval date of a UWC to be the date on which the last required approval was received by the Company. For certain stock option grants, the Company was unable to locate definitive and complete documentation evidencing the date on which the last required approval of a UWC was received by the Company. For these instances, the Company formed a conclusion as to the most likely date that approval was received based on the pattern of past stock option grants.

After comparing the actual measurement dates to the measurement dates used by the Company in preparing its consolidated financial statements, the Company determined that certain stock options were granted at an exercise price below the fair market value of the Company's common stock on the actual measurement date. As a result of this determination, the Company has restated the condensed consolidated financial statements for the third quarter and six months ended October 2, 2005 included in this Form 10-Q to correct previously recorded stock-based compensation and other errors.

The restatement of the third quarter ended October 2, 2005 includes a \$26,000 reduction in stock-based compensation expense included in selling, general and administrative expenses. Interest expense increased \$72,000 for interest payable on the underpayment of income taxes due to the disallowed tax deductions for compensation paid to executive officers under Internal Revenue Code Section 162(m). Additionally, in the third quarter ended October 2, 2005, income tax expense increased \$60,000 primarily due to additional income taxes of \$88,000 related to the disallowed tax deductions. In the restatement of the nine months ended October 2, 2005, food, beverage and related supplies expenses increased by \$155,000 due to an increase in beverage costs related to a vendor rebate adjustment; and selling, general and administrative expenses decreased \$43,000 due to the correction of a pricing error and \$78,000 due to reduced stock-based compensation expense. Interest expense increased \$169,000 for interest payable on the underpayment of income taxes due to the disallowed tax deductions for compensation paid to executive officers under Internal Revenue Code Section 162(m). Additionally in the first nine months ended October 2, 2005, income tax expense increased \$90,000 primarily due to additional taxes of \$264,000 related to the disallowed tax deductions offset by an adjustment to reduce state taxes by \$67,000 and a decrease of \$14,000 in income tax expense for the adjustments described above. For the first nine months of 2005, the Company has reported non-cash investing and financing activities for accrued construction accounts payable of \$10,859,000, stock issued under its 401(k) plan of \$456,000 and investments in capital leases of \$973,000.

Table of Contents**CEC ENTERTAINMENT, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****3. Restatement of Consolidated Financial Statements (continued):**

The following tables present the effects of the restatement and retrospective application of FAS 123R on previously issued condensed consolidated balance sheets, statements of earnings and statements of cash flows. (thousands, except per share data) (See Note 2 for further discussion):

| | Fiscal Year Ended January 1, 2006 | | | |
|--|--|------------------------|---------------------|---------------------------------|
| | As Previously Reported | Restatement (1) | FAS 123R Adj | As Restated And Adjusted |
| Condensed Consolidated Balance Sheet: | | | | |
| Accounts receivable | \$ 20,323 | \$ (4,072) | | \$ 16,251 |
| Total current assets | 55,872 | (4,072) | | 51,800 |
| Property and equipment, net | 592,255 | 5,664 | | 597,919 |
| Total assets | 650,328 | 1,592 | | 651,920 |
| Accounts payable | 30,264 | 5,946 | | 36,210 |
| Accrued liabilities | 27,791 | (431) | | 27,360 |
| Total current liabilities | 58,649 | 5,515 | | 64,164 |
| Long-term deferred tax liability | 29,272 | 80 | \$ (9,733) | 19,619 |
| Accrued insurance | 17,000 | (2,897) | | 14,103 |
| Capital in excess of par value | 262,846 | 8,486 | 43,107 | 314,439 |
| Retained earnings | 506,144 | (9,592) | (33,374) | 463,178 |
| Total shareholders' equity | 334,556 | (1,106) | 9,733 | 343,183 |
| Total liabilities and shareholders' equity | 650,328 | 1,592 | | 651,920 |

(1) Previously reported amounts were subsequently restated on the Company's amended Form 10-K/A for the fiscal year ended January 1, 2006.

| | Quarter Ended October 2, 2005 | | | |
|--|--------------------------------------|--------------------|---------------------|---------------------------------|
| | As Previously Reported | Restatement | FAS 123R Adj | As Restated and Adjusted |
| Condensed Consolidated Statement of Earnings: | | | | |
| Selling, general and administrative expenses | \$ 21,378 | | \$ 2,171 | \$ 23,549 |
| Interest expense | 1,072 | \$ 72 | | 1,144 |
| Total costs and expenses | 153,204 | 72 | 2,171 | 155,447 |
| Income before income taxes | 26,385 | (72) | (2,171) | 24,142 |
| Income taxes | 10,105 | 60 | (831) | 9,334 |
| Net income | 16,280 | (132) | (1,340) | 14,808 |
| Comprehensive income | 16,597 | (132) | (1,340) | 15,125 |
| Basic earnings per share | .47 | .00 | (.05) | .42 |
| Diluted earnings per share | .45 | .00 | (.04) | .41 |

Table of Contents**CEC ENTERTAINMENT, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****3. Restatement of Consolidated Financial Statements (continued):**

| | Nine Months Ended October 2, 2005 | | | |
|--|-----------------------------------|------------------|-----------------|-----------------------------|
| | As Previously Reported | Restate- ment | FAS 123R Adj | As Restated and Adjusted |
| Condensed Consolidated Statement of Earnings: | | | | |
| Food, beverage, and related supplies | \$ 66,721 | \$ 155 | \$ 0 | \$ 66,876 |
| Total cost of sales | 241,962 | 155 | 0 | 242,117 |
| Selling, general and administrative expenses | 68,211 | (43) | 5,788 | 73,956 |
| Interest expense | 2,779 | 169 | | 2,948 |
| Total costs and expenses | 460,018 | 281 | 5,788 | 466,087 |
| Income before income taxes | 102,058 | (281) | (5,788) | 95,989 |
| Income taxes | 39,088 | 90 | (2,217) | 36,961 |
| Net income | 62,970 | (371) | (3,571) | 59,028 |
| Comprehensive income | 63,144 | (371) | (3,571) | 59,202 |
| Basic earnings per share | 1.78 | (.02) | (.10) | 1.66 |
| Diluted earnings per share | 1.72 | (.01) | (.10) | 1.61 |

| | Nine Months Ended October 2, 2005 | | | |
|--|-----------------------------------|------------------|--------------------|--------------------------------|
| | As Previously Reported | Restate- ment | FAS 123R Adj | As Restated and Adjusted |
| Condensed Consolidated Statement of Cash Flows: | | | | |
| Operating activities: | | | | |
| Net income | \$ 62,970 | \$ (371) | \$ (3,571) | \$ 59,028 |
| Deferred income taxes | (6,736) | 343 | 929 | (5,464) |
| Stock compensation expense | 0 | 0 | 5,788 | 5,788 |
| Excess tax benefit from stock-based compensation | 4,408 | 0 | (4,408) | 0 |
| Accounts receivable | (2,377) | 155 | 0 | (2,222) |
| Accrued liabilities | 821 | (84) | (2,034) | (1,297) |
| Cash provided by operating activities | 110,650 | 43 | (3,296) | 107,397 |
| Investing activities: | | | | |
| Purchases of property and equipment | (58,282) | (43) | 0 | (58,325) |
| Cash used in investing activities | (58,237) | (43) | 0 | (58,280) |
| Financing activities: | | | | |
| Excess tax benefit from stock-based compensation | 0 | 0 | 3,296 | 3,296 |
| Cash used in financing activities | (53,430) | 0 | 3,296 | (50,134) |
| Non-cash investing and financing activities: | | | | |
| Accrued construction accounts payable | 441 | 10,418 | 0 | 10,859 |
| Stock issued under 401(k) plan | 0 | 456 | 0 | 456 |
| Investment in capital leases | 0 | 973 | 0 | 973 |

Table of Contents**CEC ENTERTAINMENT, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****4. Earnings per common share:**

Basic earnings per common share (EPS) is computed by dividing net income by the weighted average number of common shares outstanding. Diluted EPS adjusts for the effect of potential common shares from dilutive stock options and restricted shares using the treasury stock method. Earnings per common and potential common share were computed as follows (thousands, except per share data):

| | Three Months Ended | | Nine Months Ended | |
|------------|---------------------------|-------------------|--------------------------|-------------------|
| | October 1, | October 2, | October 1, | October 2, |
| | 2006 | 2005 | 2006 | 2005 |
| Net income | \$ 17,192 | \$ 14,808 | \$ 56,204 | \$ 59,028 |