

CEC ENTERTAINMENT INC
Form 10-Q
May 14, 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 April 1, 2007

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)

4441 West Airport Freeway

Irving, Texas 75062

(Address of principal executive offices, including zip code)

(972) 258-8507

48-0905805
(I.R.S. Employer

Identification No.)

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(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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 May 7, 2007, an aggregate of 32,485,780 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.
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Thousands, except share data)

	April 1, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 23,797	\$ 18,308
Accounts receivable, net	11,658	17,556
Inventories	15,554	18,296
Prepaid expenses	8,966	8,210
Deferred tax asset	2,394	2,394
Total current assets	62,369	64,764
Property and equipment, net	646,719	637,560
Other assets	2,113	1,861
	\$ 711,201	\$ 704,185

LIABILITIES AND SHAREHOLDERS EQUITY

Current liabilities:		
Current portion of long-term debt	\$ 707	\$ 693
Accounts payable	35,216	33,430
Accrued liabilities	68,269	40,680
Total current liabilities	104,192	74,803
Long-term debt, less current portion	145,217	181,088
Deferred rent	69,845	68,449
Deferred tax liability	3,523	12,056
Accrued insurance	7,883	8,583
Other liabilities	4,854	

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Commitments and contingencies (Note 4)

Shareholders' equity:

Common stock, \$.10 par value; authorized 100,000,000 shares; 57,126,659 and 56,619,300 shares issued, respectively	5,713	5,662
Capital in excess of par value	334,399	325,212
Retained earnings	560,825	531,435
Accumulated other comprehensive income	2,629	2,368
Less treasury shares of 24,888,265 and 24,359,450, respectively, at cost	(527,879)	(505,471)
	375,687	359,206
	\$ 711,201	\$ 704,185

See notes to condensed consolidated financial statements.

Table of Contents**CEC ENTERTAINMENT, INC.****CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS****AND COMPREHENSIVE INCOME****(Unaudited)****(Thousands, except per share data)**

	Three Months Ended	
	April 1, 2007	April 2, 2006
Food and beverage revenues	\$ 144,006	\$ 148,600
Games and merchandise revenues	88,036	77,506
Franchise fees and royalties	856	884
Interest income	1	2
	232,899	226,992
Costs and expenses:		
Cost of sales:		
Food, beverage and related supplies	26,569	27,422
Games and merchandise	9,685	10,062
Labor	58,234	59,626
	94,488	97,110
Selling, general and administrative expenses	29,694	28,483
Depreciation and amortization	17,106	15,919
Interest expense	2,772	1,793
Other operating expenses	37,361	36,610
	181,421	179,915
Income before income taxes	51,478	47,077
Income taxes	19,458	18,224
Net income	32,020	28,853
Other comprehensive income, net of tax:		
Foreign currency translation	261	21
Comprehensive income	\$ 32,281	\$ 28,874
Earnings per share:		
Basic:		
Net income	\$ 1.00	\$.86
Weighted average shares outstanding	32,164	33,719
Diluted:		
Net income	\$.95	\$.84

Weighted average shares outstanding	33,670	34,517
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See notes to condensed consolidated financial statements.

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	Amounts	Shares
Common stock and capital in excess of par value:		
Balance, beginning of year	\$ 330,874	56,619
Stock options exercised	7,621	488
Excess tax benefit from stock-based compensation	242	
Stock issued under 401(k) plan	473	12
Stock-based compensation expense	902	
Issuance of restricted stock, net of forfeiture adjustments		8
Balance, April 1, 2007	340,112	57,127
Retained earnings:		
Balance beginning of year	531,435	
Cumulative effect of adoption of FIN 48 (See Note 6)	(2,630)	
Balance beginning of year, as adjusted:	528,805	
Net income	32,020	
Balance, April 1, 2007	560,825	
Accumulated other comprehensive income:		
Balance, beginning of year	2,368	
Foreign currency translation	261	
Balance, April 1, 2007	2,629	
Treasury shares:		
Balance, beginning of year	(505,471)	24,359
Treasury stock acquired	(22,408)	529
Balance, April 1, 2007	(527,879)	24,888
Total shareholders equity	\$ 375,687	

See notes to condensed consolidated financial statements.

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

	Three Months Ended	
	April 1, 2007	April 2, 2006
Operating activities:		
Net income	\$ 32,020	\$ 28,853
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	17,106	15,919
Deferred income taxes	(1,354)	(2,783)
Stock-based compensation expense	874	1,283
Contributions from landlords	781	1,788
Deferred lease rentals	615	309
Provision for asset write-offs	1,127	367
Changes in assets and liabilities:		
Accounts receivable	5,898	(3,401)
Inventories	2,742	860
Prepaid expenses	(756)	(1,864)
Accounts payable	3,762	(8,865)
Accrued liabilities	21,934	26,918
 Cash provided by operating activities	 84,749	 59,384
Investing activities:		
Purchases of property and equipment	(28,579)	(18,688)
Decrease (increase) in other assets	(278)	412
 Cash used in investing activities	 (28,857)	 (18,276)
Financing activities:		
Proceeds on long-term debt	5,500	
Payments on long-term debt	(41,357)	(32,240)
Stock options exercised	7,621	4,842
Excess tax benefit from stock-based compensation	242	284
Treasury stock acquired	(22,408)	(10,442)
Other	(1)	(47)
 Cash used in financing activities	 (50,403)	 (37,603)
 Increase in cash and cash equivalents	 5,489	 3,505
Cash and cash equivalents, beginning of period	18,308	12,184
 Cash and cash equivalents, end of period	 \$ 23,797	 \$ 15,689
Supplemental cash flow information:		
Interest paid	\$ 2,433	\$ 630
Income taxes paid	2,676	1,226
Non-cash investing and financing activities:		

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Accrued construction accounts payable	\$ 5,768	\$ 7,031
Stock issued under 401(k) plan	473	457
Issuance of restricted stock, net of forfeiture adjustments	447	6,933
Treasury shares retired and reserved for 401(k) plan		3,796

See notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Interim financial statements:

In the opinion of management, the accompanying unaudited condensed consolidated financial statements for the periods ended April 1, 2007 and April 2, 2006 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 filed with the Securities and Exchange Commission for the year ended December 31, 2006. Results of operations for the periods ended April 1, 2007 and April 2, 2006 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 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. In conjunction with shareholder approval of restricted stock plans for employee and non-employee directors, 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 restricted stock 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 for issuance 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 restricted stock 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 restricted stock awards.

Stock option transactions are summarized as follows:

	Weighted Avg.
Options	Remaining
Outstanding	Life (Years)