SPT Distribution Company, Inc.
Form 424B3
October 28, 2014
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Filed Pursuant to Rule 424(b)(3)
Registration No. 333-199298

PROSPECTUS

CEC Entertainment, Inc.

Exchange Offer for $255,000,000

8.000% Senior Notes due 2022

The Notes and the Guarantees

We are offering to exchange $255,000,000 of registered 8.000% Senior Notes due 2022 and certain related guarantees, which we refer to collectively as the exchange notes, for a like aggregate amount of our outstanding 8.000% Senior Notes due 2022 and certain related guarantees, which were issued on February 19, 2014 and which we refer to collectively as the initial notes. The exchange notes will be issued under an indenture dated as of February 19, 2014, which we refer to as the indenture. We refer to the initial notes and the exchange notes collectively as the notes.

The exchange notes will mature on February 15, 2022. We will pay interest on the exchange notes semi-annually on February 15 and August 15 of each year at a rate of 8.000% per annum, to holders of record at the close of business on the February 1 or August 1 immediately preceding the interest payment date.

The exchange notes will be fully and unconditionally guaranteed by each of our domestic restricted subsidiaries that guarantees our senior secured credit facilities (the Senior Facilities).

The exchanges notes and the related guarantees will be our senior unsecured obligations and will rank (i) equally in right of payment with all of our existing and future senior indebtedness, (ii) senior to all of our future subordinated indebtedness, (iii) effectively subordinated to all of our existing and future secured indebtedness, including indebtedness under the Senior Facilities, to the extent of the value of the collateral securing such indebtedness and (iv) structurally subordinated to all obligations of each of our subsidiaries that is not a guarantor of the notes.

Terms of the Exchange Offer

The exchange offer will expire at 5:00 p.m., New York City time, on December 2, 2014, unless we extend it.

If all the conditions to this exchange offer are satisfied, we will exchange all of our initial notes that are validly tendered and not withdrawn for the exchange notes.

You may withdraw your tender of initial notes at any time before the expiration of this exchange offer.

The exchange notes that we will issue you in exchange for your initial notes will be substantially identical to your initial notes except that, unlike your initial notes, the exchange notes will have no transfer restrictions or registration rights.

The exchange notes that we will issue you in exchange for your initial notes are new securities with no established market for trading.

Before participating in this exchange offer, please refer to the section in this prospectus entitled Risk Factors commencing on page 20.

Neither the Securities and Exchange Commission (the SEC), nor any state securities commission nor any other regulatory authority has approved or disapproved of these securities nor have any of the foregoing authorities passed upon or endorsed the merits of this exchange offer or the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

We have not applied, and do not intend to apply, for listing or quotation of the notes on any national securities exchange or automated quotation system.

Each broker-dealer that receives exchange notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act of 1933, as amended (the Securities Act). This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of exchange notes received in exchange for initial notes where such initial notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. We have agreed that, for a period of 180 days after the expiration date of the exchange offer, we will make this prospectus available to any broker-dealer for use in connection with any such resale. See Plan of Distribution.

The date of this prospectus is October 27, 2014.

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We have not authorized anyone to give you any information or to make any representations about us or the transactions we discuss in this prospectus other than those contained in this prospectus. If you are given any information or representations about these matters that is not discussed in this prospectus, you must not rely on that information. This prospectus is not an offer to sell or a solicitation of an offer to buy securities anywhere or to anyone where or to whom we are not permitted to offer or sell securities under applicable law. The delivery of this prospectus does not, under any circumstances, mean that there has not been a change in our affairs since the date of this prospectus. Subject to our obligation to amend or supplement this prospectus as required by law and the rules and regulations of the SEC, the information contained in this prospectus is correct only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of these securities.

Until January 25, 2015 (90 days after the date of this prospectus), all dealers effecting transactions in the exchange notes, whether or not participating in the exchange offer, may be required to deliver a prospectus. This is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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Each prospective purchaser of the exchange notes must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the notes or possesses or distributes this prospectus and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the additional exchange notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and we shall not have any responsibility therefor.

PRESENTATION OF FINANCIAL INFORMATION

This prospectus contains financial statements of CEC Entertainment, Inc. On January 15, 2014, CEC Entertainment, Inc. entered into an agreement and plan of merger (the Merger Agreement) with Queso Holdings Inc., a Delaware corporation (Holdings), and Q Merger Sub Inc., a Kansas corporation (Merger Sub). Holdings and Merger Sub were, and Holdings continues to be, controlled by Apollo Global Management, LLC and its subsidiaries. On February 14, 2014, pursuant to the Merger Agreement, Merger Sub merged with and into CEC Entertainment, Inc., with CEC Entertainment, Inc. surviving the merger (the Merger) and becoming a wholly owned subsidiary of Holdings. The merger and certain associated transactions, which we refer to as the Transactions, are further described in the Prospectus Summary The Transactions section of this prospectus.

The Successor period ended June 29, 2014 refers to the period from February 15, 2014 to June 29, 2014, and the Predecessor period ended February 14, 2014 refers to the period from December 30, 2013, the first day of fiscal 2014, to February 14, 2014. The term Successor refers to CEC Entertainment, Inc. and its subsidiaries following the Merger, and the term Predecessor refers to CEC Entertainment, Inc. and its subsidiaries prior to the Merger.

USE OF NON-GAAP FINANCIAL INFORMATION

EBITDA, a measure used by management to assess operating performance, is defined as net income plus interest expense, income taxes and depreciation and amortization.

Adjusted EBITDA, another measure used by management to assess operating performance, is defined as EBITDA adjusted to exclude unusual items and other adjustments required or permitted in calculating covenant compliance under the indenture and/or the Senior Facilities.

We have provided EBITDA and Adjusted EBITDA in this prospectus because we believe they provide investors with additional information to measure our performance. We believe that the presentation of Adjusted EBITDA is appropriate to provide additional information to investors about certain material non-cash items and about unusual items that we do not expect to continue at the same level in the future, as well as other items. Further, we believe Adjusted EBITDA provides a meaningful measure of operating profitability because we use it for evaluating our business performance and understanding certain significant items.

EBITDA and Adjusted EBITDA are not presentations made in accordance with generally accepted accounting principles in the United States (GAAP), and our use of the terms EBITDA and Adjusted EBITDA varies from others in our industry. EBITDA and Adjusted EBITDA should not be considered as alternatives to operating income or any other performance measures derived in accordance with GAAP as measures of operating performance or cash flows as measures of liquidity. EBITDA and Adjusted EBITDA have important limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results as reported under GAAP. For example, EBITDA:

excludes certain tax payments that may represent a reduction in cash available to us;

does not reflect any cash capital expenditure requirements for the assets being depreciated and amortized that may have to be replaced in the future;

- does not reflect changes in, or cash requirements for, our working capital needs; and
- does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our indebtedness.

In addition, Adjusted EBITDA:

- does not include one-time expenditures;
- excludes the impairment of Company-owned stores or impairments of long-lived assets and gains or losses upon disposal of property or equipment;
- excludes non-cash equity based compensation expense;
- reflects the removal of the non-cash portion of rent expense relating to the impact of straight-line rent and the amortization of cash incentives and allowances received from landlords, plus the actual cash received from landlords incentives and allowances in the period;
- excludes start-up and marketing costs incurred prior to the opening of new Company-owned stores;
- excludes non-recurring income and expenses primarily related to (i) non-recurring franchise fee income; (ii) severance costs; (iii) employee and other legal claims and settlements; (iv) sales and use tax refunds; and (v) certain insurance recoveries relating to prior year expense;
- includes estimated cost savings, including some adjustments not permitted under Article 11 of Regulation S-X; and
- does not reflect the impact of earnings or charges resulting from matters that we, the initial purchasers of the notes, the current holders of the notes or the lenders under the Senior Facilities may consider not to be indicative of our ongoing operations.

Our definition of Adjusted EBITDA allows us to add back certain non-cash and non-recurring charges or costs that are deducted in calculating Net income. However, these are expenses that may recur, vary greatly and are difficult to predict. They can represent the effect of long-term strategies as opposed to short-term results. In addition, certain of these expenses can represent the reduction of cash that could be used for other corporate purposes. Because of these limitations, we rely primarily on our GAAP results and use EBITDA and Adjusted EBITDA only supplementally.

MARKET AND INDUSTRY DATA

We include in this prospectus statements regarding factors that have impacted our and our customers industries. Such statements are statements of belief and are based on industry data and forecasts that we have obtained from industry publications and surveys, including those published by IBISWorld and Technomic, as well as internal company sources. Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of such information. Neither we nor the initial purchasers have independently verified any of the data from third-party sources, nor have we ascertained the underlying economic assumptions relied upon therein. In addition, while we believe that the industry information included herein is generally reliable, such information is inherently imprecise. While we are not aware of any misstatements regarding the industry data presented herein, our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed under the caption Risk Factors in this prospectus.

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TRADEMARKS

This prospectus contains references to our trademarks and service marks. Solely for convenience, trademarks and trade names referred to in this prospectus may appear without the ® or ™ symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensor to these trademarks and trade names. We do not intend our use or display of other companies trade names, trademarks or service marks to imply a relationship with, or endorsement or sponsorship of us by, any other companies.

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PROSPECTUS SUMMARY

The following summary highlights certain information contained elsewhere in this prospectus and is qualified in its entirety by the more detailed information and historical financial statements included elsewhere herein. Because this is a summary, it is not complete and may not contain all of the information that may be important to you in making an investment decision. Before making an investment decision, you should carefully read the entire prospectus, including the information presented under Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations and the historical financial statements and related notes included elsewhere in this prospectus.

Unless otherwise indicated or the context otherwise requires, references in this prospectus to we, our, us, Chuck E. Cheese s and the Company refer to CEC Entertainment, Inc. and each of its consolidated subsidiaries. Unless otherwise indicated or the context otherwise requires, references in this prospectus to the Issuer refer to CEC Entertainment, Inc. and not to any of its subsidiaries. References in this prospectus to our Sponsor and the Apollo Funds refer to certain investment funds directly or indirectly managed by Apollo Global Management, LLC and its subsidiaries (Apollo) as described under Our Sponsor. Unless otherwise indicated or the context otherwise requires, references to pro forma information gives pro forma effect to the Transactions described under the Transactions, as if they had occurred on December 31, 2012 for income statement purposes. We operate on a 52 or 53 week fiscal year that ends on the Sunday nearest to December 31. Each quarterly period has 13 weeks, except for a 53 week year, when the fourth quarter has 14 weeks. References to 2013, 2012, 2011 and 2010 are to the fiscal years ended December 29, 2013, December 30, 2012, January 1, 2012 and January 2, 2011, respectively, which each consisted of 52 weeks. References to 2014 are to the fiscal year ending December 28, 2014, which will consist of 52 weeks.

Our Company

Chuck E. Cheese s is a unique, family-oriented entertainment company that provides its guests with a variety of family entertainment and dining alternatives. Our highly differentiated family leisure offerings include video games, skill games, rides, musical and comical shows and other attractions along with tokens, tickets, and prizes for kids and a wholesome family dining experience. We target families with children aged two through 12 and are known as a destination where a kid can be a kid. All of our properties operate under the Chuck E. Cheese s brand, which is considered one of the most iconic and popular children s brands. Our commitment to establishing an affordable, fun and safe environment for families is evidenced by our long history and track record of stable revenues, our strong operating margins and our attractive free cash flow profile. We are headquartered in Irving, Texas and have approximately 17,500 employees. For the twelve months ended June 29, 2014, we generated total revenues of $816.9 million and Adjusted EBITDA of $187.4 million. See Summary Historical Consolidated Financial Data for additional information about Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net income.

As of June 29, 2014, our portfolio includes 578 stores, of which 524 were Company-operated and the remaining 54 were franchised. Approximately 543 (or 94%) of our stores are located across 47 states in the U.S., and the remaining 35 (or 6%) are located in ten foreign countries. For the twelve months ended June 29, 2014, 55% of our total revenues were derived from entertainment and merchandise, 44% were derived from food and beverage and the remaining 1% were derived from franchise fees and royalties. The charts below show our revenue by source and our geographic and owned-store mix.

Chuck E. Cheese s Revenue Mix **Geographic Store Mix** **Franchised Store Mix**

We benefit from an attractive store portfolio that enables us to consistently deliver a high-quality family entertainment experience for our guests. On average, our stores are approximately 12,600 square feet and include approximately 70 games, rides and attractions. Our stores are typically located in densely populated locations, within a 20-minute drive of our guests, and are predominantly situated in shopping centers or free-standing buildings near shopping centers. We recently completed a comprehensive facilities renovation cycle through which we have remodeled or expanded over 90% of our stores since 2005. This process has enabled us to continue to offer a contemporary, safe and clean environment to our guests and has provided us with the square footage necessary to add our newest and most popular games, rides and attractions to our stores. Our comparable stores generate, on average, approximately $1.6 million of revenue per year and store-level EBITDA margins (defined as Company store sales less Company store expenses, excluding depreciation, amortization and allocated advertising, divided by Company store sales) of approximately 35%. Additionally, approximately 99% of our comparable store base has positive store-level EBITDA, further demonstrating the strength of our concept.

Our stores offer customers a broad variety of high-quality entertainment and family dining alternatives. Each of our stores has a showroom and playroom area, which includes an extensive array of amusement and entertainment options. These options range from classic skill games, such as air hockey, skee ball and basketball, to rides, such as mini trains, motorcycles and various driving games. At Chuck E. Cheese s, kids are able to physically interact with games in order to win tickets that can later be redeemed for prizes, which is an experience that cannot be replicated inside the home or by technology. In an effort to further engage our guests, we also offer musical and comical entertainment that features our iconic Chuck E. Cheese character who captures the imagination of kids with live performances and frequent appearances on our showroom and playroom floor. Our wholesome family dining offerings are centered on made-to-order pizzas that are always fresh and never frozen. We also offer a fully stocked salad bar, as well as a variety of sandwiches, wings, appetizers, beverages, desserts and certain gluten-free options. We believe that this unique and highly differentiated combination of high-quality entertainment, food and beverages, as well as attentive and friendly service, provides us with a competitive advantage relative to other family leisure alternatives.

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Overview of Family Leisure Alternatives

Our Competitive Strengths

We attribute our success in large part to the following competitive strengths:

Leading Iconic Brand with High Customer Loyalty. We benefit from significant brand strength. Over our 37-year history, we have continued to refine and improve our approach to providing guests with a highly differentiated family leisure experience. We have invested significant resources into building our brand and expanding and optimizing our customer experience. Despite significant advances in technology and consumer taste, our long-standing and iconic brand has continued to resonate amongst our target audience of families with young children. Today, Chuck E. Cheese s is considered the #1 brand for family fun and entertainment according to a study conducted by a third-party consulting firm. The study indicated that our brand has 99% awareness amongst moms and children, demonstrating its near universal recognition. Additionally, nearly 60% of moms have children who ask to go to Chuck E. Cheese s at least once every other month, with the average user visiting around four times per year, further demonstrating the strength and loyalty of our brand.

Unique and Differentiated Experience. We provide a highly differentiated leisure and entertainment experience for families within convenient driving distance of their homes. Our business model is unique in that it combines a wholesome family dining offering with distinctive family-oriented games, rides, activities, shows and other entertainment alternatives, all under one roof. In addition to our broad variety of family entertainment and dining offerings, we are differentiated by our well established and highly regarded brand, our proprietary and branded attractions, amenities and characters and our long track record of providing a safe, engaging and family-friendly environment for our guests. We believe that we are the only business of scale to provide such a multi-faceted, convenient and differentiated family leisure experience.

Highly Compelling, Value-Oriented Family Experience. Our unique product offering and differentiated experience offers an attractive value proposition to families. Many of our high quality entertainment offerings, including all of our live and interactive shows and some of our activities, can be experienced by our guests free of charge. We also generate significant revenue from packaged deals through which our guests receive a combination of food, drinks and tokens at discounted prices. Our breadth of product offerings and our dedication to providing families with a safe and engaging environment at a compelling value provide us with a significant competitive advantage. For a family of four, a visit to Chuck E. Cheese s costs approximately $30 for food, drinks and entertainment, which is a fraction of the cost of comparable food, drink and entertainment for a family of four at other family leisure alternatives, including movie theaters, bowling alleys and regional amusement parks.

Diversified Business Model. We believe that the distinctive nature of our product offerings and the diverse locations of our stores provide us with significant benefits. Unlike a traditional dining company, we generate significant revenue from our entertainment and merchandise. For the twelve months ended June 29, 2014, we generated approximately 55% of our revenue from entertainment and merchandise and approximately 44% from food and beverage and the remaining 1% from franchised stores. In addition, our portfolio of 578 stores is spread across 47 states and 11 total countries, with relatively consistent revenue contribution across regions. This significant geographic diversity fosters a much more resilient business model as it limits the potential impact of weather or economic conditions in any particular region. Additionally, our broad geographic exposure provides us with a high degree of visibility and allows us to leverage a national advertising platform that fosters brand strength, loyalty and awareness.

Resilient Business Model. We believe that we benefit from strong and consistent demand for our entertainment offerings from families who desire high quality, safe, clean, convenient and affordable ways to spend time with their children outside of the home. Additionally, unlike many other family leisure alternatives, such as regional amusement parks, our stores are open year round and operate indoors which limits exposure to weather and seasonality. Our differentiated and diversified business model has enabled us to demonstrate strong and resilient financial performance regardless of the macro economic backdrop. For example, during 2009, when GDP declined by 2.8% and unemployment peaked at a year-end high of 9.9%, our comparable store sales declined by only 2.8%, which compares favorably to comparable store sales for casual dining, amusement park and cruise businesses, which declined by an average of 5.6%, 7.5% and 7.7%, respectively.

Strong Operating Margins with Attractive Free Cash Flow. Our unique business model, which combines high-quality entertainment with wholesome family dining, provides for an attractive free cash flow profile. We have been able to consistently generate high operating margins while offering a compelling value proposition to our guests and maintaining strict discipline with respect to our highly scalable operating expense base. We also benefit from modest maintenance capital expenditure requirements (i.e., total capital expenditures excluding capital expenditures on new units, remodels, expansions and major attractions). For the twelve months ended June 29, 2014, our Adjusted EBITDA margin was 23% and our Free Cash Flow conversion (measured as Adjusted EBITDA less maintenance capital expenditures divided by Adjusted EBITDA) was approximately 87%.

Proven and Experienced Management Team. Our executive management team has significant experience in the leisure, hospitality, entertainment and family dining industries and has significant expertise operating complex, themed family entertainment businesses. Our executive management team has a long history and successful track record of driving comparable store sales growth, maintaining attractive Adjusted EBITDA margins and growing our footprint, both domestically and internationally. We also benefit from a strong team of highly skilled, loyal and committed managers and employees at each of our stores. We believe that our executive management team, as well as our other employees, are well positioned to continue to drive strong financial performance while providing our guests with a superior and highly memorable experience.

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Our Strategies

Our strategy focuses on increasing comparable store sales, improving profitability and margins and expanding our stores domestically and internationally. We have developed and implemented a long-term strategy which includes the following elements:

Increase Comparable Store Sales. We have multiple drivers to increase our comparable store sales. We believe that entertainment is a key driver of our sales, and have remained focused on refreshing and optimizing our offerings in order to continue to provide our guests with a highly engaging and entertaining environment. During 2013, we developed a strategy to provide our stores with new games and rides on a more regular basis and at a lower cost per store, which we believe will benefit our comparable store sales. We have also begun to test the introduction of new major attractions in our stores. Some of these attractions, which include bumper cars, a laser maze and a fun house, have demonstrated early success and are expected to be introduced to a number of our stores in the near-term. In addition to our refined games and attractions strategy, we also expect to drive comparable store sales performance through improved marketing efficiency and effectiveness. As a part of our enhanced strategy, we are reallocating our advertising spend towards national television and are refocusing our marketing message towards kids, who are the biggest catalysts for our demand. We expect to experience success going forward as we realize the impact of the full implementation of these strategies. Finally, we believe that the compelling value proposition we provide is not only a strength but also a significant area of opportunity. We believe that we can modify pricing and packaging in select markets across the U.S. while still continuing to provide our guests with a strong value proposition.

Improve Profitability and Margins. We continuously focus on driving financial performance through expense rationalization across all our stores and corporate functions. We believe that continued focus on operating margins and the deployment of best practices across our brand and corporate functions will yield continued margin improvement. Our general managers at our properties and our corporate staff are all incentivized on both revenue and profitability, which fosters a strict focus on both expense control and providing a high-quality experience for our guests. Additionally, we are implementing a number of cost savings initiatives across our business. We expect these initiatives to generate cost savings in a number of key areas, including labor, utilities, cost of sales and other operating expenses, as well as general and administrative expenses. Our business model benefits from substantial operating leverage and will enable us to continue to drive margin improvement as we realize our strategic plan to grow our comparable store sales and our domestic and international store base.

Expand Our Stores Domestically and Internationally. We maintain a proven and highly successful business model and have developed a long history and successful track record of opening new Chuck E. Cheese s stores at attractive rates of return. We strategically locate our stores within convenient driving distance to large metropolitan areas with favorable demographic conditions, including but not limited to large numbers of families with children aged two through 12. We believe that there are a significant number of locations, both domestically and internationally, with these characteristics in which a Chuck E. Cheese s can be successful. For domestic new store openings, we undergo a rigorous due diligence and site selection process prior to opening a new store. This disciplined process has enabled us to achieve highly attractive returns, generating unlevered returns on our investment in new company-operated stores in excess of 20% on average (excluding allocated advertising). Internationally, we have focused on our franchise model, through which we have developed partnerships with strong and reputable counterparties in order to grow our concept globally. Over the last few years, we have experienced growth in our international franchise store count and expect this to be a key area of growth going forward. Our franchise model is highly attractive in that it enables us to earn predictable and high-margin cash flow without any upfront capital requirements. We also benefit from a highly scalable existing platform that enables us to manage additional domestic and international stores without any material incremental costs.

Our Industry

We operate in a unique niche and benefit from the attractive attributes of both the entertainment industry and the family dining sector.

Entertainment Industry Overview

The entertainment industry is comprised of a large number of venues ranging from a small group of high-attendance, heavily themed destination theme parks to a large group of lower attendance local theme parks and family entertainment centers. According to IBISWorld report, sales for amusement parks, movie theatres and arcades and food and entertainment complexes in the U.S. grew by 2.4% to almost $30 billion in 2012, significantly outperforming industry sales growth of 0.5% in 2011. IBISWorld s one-year forecast for total U.S. revenue growth for the aforementioned industries is projected to increase 3.8% in aggregate for 2013 due to an overall improvement in economic conditions that should drive disposable income and willingness to spend time pursuing entertainment-related activities.

Restaurant Industry Overview

The restaurant business and, in particular, the family dining industry is intensely competitive. Key elements of competition in this industry include: the price, quality and value of food products offered; service; advertising effectiveness; brand name awareness; restaurant convenience; and attractiveness of facilities. According to Technomic, sales for the U.S. restaurant industry grew 3.2% to approximately $449 billion in 2013, compared to industry sales growth of 5.2% in 2012. Total industry units had a second consecutive year of growth since the recession, growing at a rate of 0.7% in 2013. Technomic s one-year forecast for total U.S. restaurant growth shows that overall forecasted restaurant sales are projected to increase 2.1% in the aggregate for 2014 due to slight price increases and a continued consumer preference for value based dining options as the economy improves.

The Transactions

On January 15, 2014, the Issuer entered into an agreement and plan of merger (the Merger Agreement) with Queso Holdings, Inc., a Delaware corporation (Holdings), and Q Merger Sub Inc., a Kansas corporation and a wholly owned subsidiary of Holdings (Merger Sub). Holdings and Merger Sub are controlled by Apollo. Pursuant to the Merger Agreement, on January 16, 2014, Merger Sub commenced a tender offer to purchase all of the issued and outstanding shares of common stock of the Issuer (the Tender Offer). Following the successful completion of the Tender Offer, on February 14, 2014, Merger Sub merged with and into the Issuer, with the Issuer surviving the merger (the Merger) and becoming a wholly owned subsidiary of Holdings. We refer to the Merger and the Tender Offer together as the Acquisition. The consideration paid in the Acquisition, including the repayment of our previously existing revolving credit facility (the Existing Facility), was approximately $1.4 billion. Upon the completion of the Acquisition, the Apollo Funds directly and indirectly owned all of the equity interests of Holdings.

Prior to the closing of the Acquisition, the Apollo Funds directly and indirectly contributed approximately $350 million in cash in the form of common equity to Holdings, which amounts were contributed to Merger Sub and used to fund a portion of the Acquisition consideration and to pay fees and expenses in connection with the Transactions.

Concurrently with the closing of the Acquisition, we entered into (i) our $910 million Senior Facilities, which include a five-year $150 million senior secured revolving credit facility (the revolving credit facility), which was undrawn at the closing of the Acquisition, and a seven-year $760 million senior secured term loan

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credit facility (the term loan facility) and (ii) a bridge loan facility (the bridge facility), pursuant to which we borrowed approximately $248.5 million of bridge loans. We used the proceeds from the borrowings under the term loan facility and the bridge facility to fund a portion of the Acquisition and to pay fees and expenses in connection with the Transactions (as defined below). A portion of the Acquisition consideration was used to repay the outstanding borrowings under the Existing Facility, and the commitments thereunder were terminated.

On February 19, 2014, we issued the initial notes and used the proceeds therefrom to repay our borrowings under the bridge facility in full.

Throughout this prospectus, we collectively refer to the Acquisition, the investment in Holdings equity described above, the entry into the Senior Facilities and the bridge facility, the repayment of borrowings under the Existing Facility and termination of commitments thereunder, the issuance of the initial notes and the repayment of the borrowings under the bridge facility as the Transactions.

Recent Events

On August 21, 2014, Holdings granted options to purchase approximately 194,000 shares of its common stock to certain directors, officers and employees of the Issuer. The options are subject to certain service- and performance-based vesting criteria and also to accelerated vesting in the event of certain terminations of employment upon or within 12 months following a change in control of Holdings.

On August 25, 2014, we closed a sale leaseback transaction (the Sale Leaseback) with National Retail Properties, Inc. (NNN). Pursuant to the Sale Leaseback, we sold 49 properties located throughout the United States to NNN, and we leased each of the 49 properties back from NNN pursuant to two separate master leases on a triple-net basis for their continued use as Chuck-E-Cheese s family dining and entertainment centers. The leases have an initial term of 20 years, with four five-year options to renew. The aggregate purchase price for the properties in connection with the Sale Leaseback was approximately $185 million in cash, and the net proceeds realized by the Company were approximately $140 million. We expect to use the net proceeds from the Sale Leaseback for capital expenditures, future liquidity needs and other general corporate purposes.

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Corporate Structure

The diagram below sets forth a simplified version of our organizational structure and our principal indebtedness as of the date of this prospectus. This chart is provided for illustrative purposes only and does not represent all legal entities affiliated with, or all obligations of, the Issuer.

(1) Holdings guarantees the Senior Facilities on a non-recourse basis but does not guarantee the notes. In addition, Holdings has pledged all of the equity of the Issuer to secure the Senior Facilities.

(2) The Issuer has pledged a significant portion of its assets, including 65% of the capital stock of the first-tier foreign subsidiaries that are not subsidiary guarantors, as collateral under the Senior Facilities. See Description of Other Indebtedness Senior Facilities.

(3) As of June 29, 2014, no borrowings were drawn and outstanding under the revolving credit facility and $10.9 million of letters of credit were outstanding thereunder.

(4) All wholly owned material domestic subsidiaries of the Issuer, other than any domestic subsidiary that is a subsidiary of a foreign subsidiary and certain other exceptions, guarantee the Senior Facilities and the notes. In addition, all such subsidiary guarantors guarantee and pledge certain assets under the Senior Facilities.

(5) Consists of non-wholly owned subsidiaries and foreign subsidiaries. As of June 29, 2014, on a historical basis, our foreign non-guarantor subsidiaries held less than 3% of our consolidated assets and had no outstanding indebtedness, excluding intercompany obligations. During the twelve months ended June 29, 2014, the foreign non-guarantor subsidiaries generated less than 3% of our total revenues and approximately 1% of our EBITDA. Our non-wholly owned, non-guarantor subsidiaries represented less than 1% of our historical consolidated assets as of June 29, 2014 and less than 1% of total revenues and of EBITDA during the twelve months ended June 29, 2014.

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Our Sponsor

Apollo is a leading global alternative investment manager with offices in New York, Los Angeles, Houston, Toronto, London, Frankfurt, Luxembourg, Singapore, Mumbai and Hong Kong. Apollo had assets under management of approximately $168 billion as of June 30, 2014 in private equity, credit and real estate funds invested across a core group of nine industries where Apollo has considerable knowledge and resources. For more information about Apollo, please visit www.agm.com.

Corporate Information

Our principal executive offices are located at 4441 West Airport Freeway, Irving, Texas 75062.

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SUMMARY OF THE EXCHANGE OFFER

Exchange Offer	We are offering to exchange up to $255,000,000 aggregate principal amount of our exchange notes for a like aggregate principal amount of our initial notes. In order to exchange your initial notes, you must properly tender them and we must accept your tender. We will exchange all outstanding initial notes that are validly tendered and not validly withdrawn. Initial notes may be exchanged only for a minimum principal denomination of $2,000 and in integral multiples of $1,000 in excess thereof.
Expiration Date	This exchange offer will expire at 5:00 p.m., New York City time, on December 2, 2014, unless we decide to extend it.
Exchange Notes	The exchange notes will be material in all respects to the initial notes except that:

- the exchange notes have been registered under the Securities Act and will be freely tradable by persons who are not affiliates of ours or subject to restrictions due to being broker-dealers;
- the exchange notes are not entitled to the registration rights applicable to the initial notes under the registration rights agreement dated February 19, 2014 (the Registration Rights Agreement); and
- our obligation to pay additional interest on the initial notes due to the failure to consummate the exchange offer by a prior date does not apply to the exchange notes.

Conditions to the Exchange Offer	We will complete this exchange offer only if subject to customary conditions, some of which we may waive, that include the following conditions:

- there is no change in the laws and regulations which would impair our ability to proceed with this exchange offer;
- there is no change in the current interpretation of the staff of the SEC permitting resales of the exchange notes;

	there is no stop order issued by the SEC which would suspend the effectiveness of the registration statement which includes this prospectus or the qualification of the exchange notes under the Trust Indenture Act of 1939 (the TIA);
	there is no litigation or threatened litigation which would impair our ability to proceed with this exchange offer; and
	we obtain all the governmental approvals we deem necessary to complete this exchange offer.
	Please refer to the section in this prospectus entitled The Exchange Offer Conditions to the Exchange Offer.
Procedures for Tendering Initial Notes	To participate in this exchange offer, you must complete, sign and date the letter of transmittal or its facsimile and transmit it, together

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	with your initial notes to be exchanged and all other documents required by the letter of transmittal, to Wilmington Trust, National Association, as exchange agent, at its address indicated under The Exchange Offer Exchange Agent. In the alternative, you can tender your initial notes by book-entry delivery following the procedures described in this prospectus. For more information on tendering your notes, please refer to the section in this prospectus entitled The Exchange Offer Procedures for Tendering Initial Notes.
Special Procedures for Beneficial Owners	If you are a beneficial owner of initial notes that are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your initial notes in the exchange offer, you should contact the registered holder promptly and instruct that person to tender on your behalf.
Guaranteed Delivery Procedures	If you wish to tender your initial notes and you cannot get the required documents to the exchange agent on time, you may tender your initial notes by using the guaranteed delivery procedures described under the section of this prospectus entitled The Exchange Offer Procedures for Tendering Initial Notes Guaranteed Delivery Procedure.
Withdrawal Rights	You may withdraw the tender of your initial notes at any time before 5:00 p.m., New York City time, on the expiration date of the exchange offer. To withdraw, you must send a written or facsimile transmission notice of withdrawal to the exchange agent at its address indicated under The Exchange Offer Exchange Agent before 5:00 p.m., New York City time, on the expiration date of the exchange offer.
Acceptance of Initial Notes and Delivery of Exchange Notes	If all the conditions to the completion of this exchange offer are satisfied, we will accept any and all initial notes that are properly tendered in this exchange offer on or before 5:00 p.m., New York City time, on the expiration date. We will return any initial notes that we do not accept for exchange to you without expense promptly after the expiration date. We will deliver the exchange notes to you promptly after the expiration date and acceptance of your initial notes for exchange. Please refer to the section in this prospectus entitled The Exchange Offer Acceptance of Initial Notes for Exchange; Delivery of Exchange Notes.
Federal Income Tax Considerations Relating to the Exchange Offer	Exchanging your initial notes for exchange notes will not be a taxable event to you for U.S. federal income tax purposes. Please refer to the section of this prospectus entitled U.S. Federal Income Tax Considerations.

Exchange Agent	Wilmington Trust, National Association is serving as exchange agent in the exchange offer.

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Fees and Expenses	We will pay all expenses related to this exchange offer. Please refer to the section of this prospectus entitled The Exchange Offer Fees and Expenses.
Use of Proceeds	We will not receive any proceeds from the issuance of the exchange notes. We are making this exchange offer solely to satisfy certain of its obligations under the Registration Rights Agreement entered into in connection with the offering of the initial notes.
Consequences to Holders Who Do Not Participate in the Exchange Offer	If you do not participate in this exchange offer:

- except as set forth in the next paragraph, you will not necessarily be able to require us to register your initial notes under the Securities Act;
- you will not be able to resell, offer to resell or otherwise transfer your initial notes unless they are registered under the Securities Act or unless you resell, offer to resell or otherwise transfer them under an exemption from the registration requirements of, or in a transaction not subject to, the Securities Act; and
- the trading market for your initial notes will become more limited to the extent other holders of initial notes participate in the exchange offer.

You will not be able to require us to register your initial notes under the Securities Act unless:

- the initial purchasers request us to register initial notes that are not eligible to be exchanged for exchange notes in the exchange offer; or
- you are not eligible to participate in the exchange offer; or
- you may not resell the exchange notes you acquire in the exchange offer to the public without delivering a prospectus and the prospectus contained in the exchange offer registration statement is not appropriate or available for such resales by you; or

you are a broker-dealer and hold initial notes that are part of an unsold allotment from the original sale of the initial notes.

In these cases, the Registration Rights Agreement requires us to file a registration statement for a continuous offering in accordance with Rule 415 under the Securities Act for the benefit of the holders of the initial notes described in this paragraph. We do not currently anticipate that we will register under the Securities Act, any initial notes that remain outstanding after completion of the exchange offer.

Please refer to the section of this prospectus entitled Risk Factors Risks Related to The Exchange Offer.

Resales	It may be possible for you to resell the notes issued in the exchange offer without compliance with the registration and prospectus

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delivery provisions of the Securities Act, subject to the conditions described under Obligations of Broker-Dealers below.

To tender your initial notes in this exchange offer and resell the exchange notes without compliance with the registration and prospectus delivery requirements of the Securities Act, you must make the following representations:

- you are authorized to tender the initial notes and to acquire exchange notes, and that the Issuer will acquire good and unencumbered title thereto;

- the exchange notes acquired by you are being acquired in the ordinary course of business;

- you have no arrangement or understanding with any person to participate in a distribution of the exchange notes and are not participating in, and do not intend to participate in, the distribution of such exchange notes;

- you are not an affiliate, (as defined in Rule 405) under the Securities Act, of the Issuer, or you will comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable;

- if you are not a broker-dealer, you are not engaging in, and do not intend to engage in, a distribution of exchange notes; and

- if you are a broker-dealer, initial notes to be exchanged were acquired by you as a result of market-making or other trading activities and you will deliver a prospectus in connection with any resale, offer to resell or other transfer of such exchange notes.

Please refer to the sections of this prospectus entitled The Exchange Offer Procedures for Tendering Initial Notes Proper Execution and Delivery of Letters of Transmittal, Risk Factors Risks Related to the Exchange Offer Some persons who participate in the exchange offer must deliver a prospectus in connection with resales of the exchange notes and Plan of Distribution.

Obligations of Broker-Dealers	If you are a broker-dealer (1) that receives exchange notes, you must acknowledge that you will deliver a prospectus meeting the requirements of the Securities Act in connection with any resales of the exchange notes, (2) who acquired the initial notes as a result of market making or other trading activities, you may use the exchange offer prospectus as supplemented or amended, in connection with resales of the exchange notes, or (3) who acquired the initial notes directly from us in the initial offering and not as a result of market making and trading activities, you must, in the absence of an exemption, comply with the registration and prospectus delivery requirements of the Securities Act in connection with resales of the exchange notes.

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SUMMARY OF TERMS OF THE EXCHANGE NOTES

Issuer	CEC Entertainment, Inc.
Exchange Notes	Up to $255,000,000 aggregate principal amount of 8.000% Senior Notes due 2022. The form and terms of the exchange notes are the same as the forms and terms of the initial notes except that the issuance of the exchange notes is registered under the Securities Act, the exchange notes will not bear legends restricting their transfer and the exchange notes will not be entitled to registration rights under our Registration Rights Agreement. The exchange notes will evidence the same debt as the initial notes, and both the initial notes and the exchange notes will be governed by the same indenture.
Maturity Date	The notes will mature on February 15, 2022.
Interest Payment Date	February 15 and August 15 of each year.
Interest Rate	Interest on the notes has accrued from February 19, 2014 at a rate of 8.000% per annum and is payable in cash.
Denominations	Minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof; provided that notes may be issued in denominations of less than $2,000 solely to accommodate book-entry positions that have been created by a DTC participant in denominations of less than $2,000.
Guarantees	Our obligations under the notes are fully and unconditionally guaranteed, jointly and severally, by the Issuer s present and future direct or indirect wholly owned material domestic subsidiaries that guarantee the Senior Facilities.
Ranking	The notes and the related guarantees will be our senior unsecured obligations and will:
	rank equally in right of payment with all of our existing and future senior indebtedness;

rank senior in right of payment to all of our future debt and other obligations that are, by their terms, expressly subordinated in right of payment to the notes;

be effectively subordinated to all of our existing and future secured indebtedness, including indebtedness under the Senior Facilities, to the extent of the value of the collateral securing such indebtedness; and

be structurally subordinated to all obligations of each of our subsidiaries that is not a guarantor of the notes.

As of June 29, 2014, the notes were effectively subordinated to $760.0 million face value of indebtedness drawn (with a further $150.0 million available for borrowing, without giving effect to letters of credit) under the Senior Facilities.

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	As of June 29, 2014, on a historical basis, foreign subsidiaries of the Issuer that would not have guaranteed the notes held less than 3% of our consolidated assets and had no outstanding indebtedness, excluding intercompany obligations. During the twelve months ended June 29, 2014, the foreign non-guarantor subsidiaries generated less than 3% of our total revenues and approximately 1% of our EBITDA. The non-wholly owned subsidiaries that would not have guaranteed the notes represent less than 1% of our consolidated total assets on a historical basis as of June 29, 2014 as well as less than 1% of revenue and of EBITDA during the twelve months ended June 29, 2014.
Optional Redemption	Prior to February 15, 2017, the Issuer may redeem some or all of the notes at a redemption price equal to 100% of the principal amount of the notes plus accrued and unpaid interest and additional interest, if any, to (but not including) the applicable redemption date plus the applicable make-whole premium.
	On or after February 15, 2017, the Issuer may redeem some or all of the notes at the redemption prices set forth in this prospectus.
	Additionally, on or prior to February 15, 2017, the Issuer may redeem up to 40% of the aggregate principal amount of the notes with the net proceeds of specified equity offerings at the redemption price set forth in this prospectus. See Description of Notes Optional Redemption.
Change of Control	If we experience a change of control, we may be required to offer to purchase the notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest, if any. We might not be able to pay you the required price for notes you present us at the time of a change of control because the Senior Facilities or other indebtedness may prohibit payment or we might not have enough funds at that time. See Description of Notes Change of Control.
Certain Covenants	The indenture, among other things, limits our ability and the ability of our restricted subsidiaries to:
	incur or guarantee additional indebtedness;
	pay dividends or distributions on, or redeem or repurchase, capital stock and make other restricted payments;

make investments;

consummate certain asset sales;

engage in transactions with affiliates;

grant or assume liens; and

consolidate, merge or transfer all or substantially all of our assets.

	These limitations are subject to a number of important qualifications and exceptions as described under Description of Notes Certain Covenants.
	Most of the restrictive covenants set forth above will cease to apply for so long as the notes are rated investment grade by both rating agencies.
Use of Proceeds	We will not receive any proceeds from the issuance of the exchange notes in exchange for the outstanding initial notes. We are making this exchange solely to satisfy our obligations under the Registration Rights Agreement entered into in connection with the offering of the initial notes. See Use of Proceeds.
Risk Factors	You should consider all of the information contained in this prospectus before making an investment decision. In particular, you should consider the risks described under Risk Factors.
Absence of a Public Market for the Exchange Notes	The exchange notes are new securities for which there is no established market. We cannot assure you that a market for these exchange notes will develop, be maintained or that this market will be liquid. Please refer to the section of this prospectus entitled Risk Factors Risks Related to Our Indebtedness and the Notes. Your ability to transfer the notes may be limited by the absence of an active trading market, and there is no assurance that any active trading market will develop, or if developed be maintained, for the notes.
Form of the Exchange Notes	The exchange notes will be represented by one or more permanent global securities in registered form deposited on behalf of The Depository Trust Company (DTC) with Wilmington Trust, National Association, as custodian. You will not receive exchange notes in certificated form unless one of the events described in the section of this prospectus entitled Book-Entry; Delivery and Form of Securities occurs. Instead, beneficial interests in the exchange notes will be shown on, and transfers of these exchange notes will be effected only through, records maintained in book-entry form by DTC with respect to its participants.

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SUMMARY HISTORICAL CONSOLIDATED FINANCIAL DATA

The following table presents the summary historical consolidated financial data of the Company. We have derived the consolidated statement of earnings data for the fiscal years ended January 1, 2012, December 30, 2012 and December 29, 2013, and the consolidated balance sheet data as of December 30, 2012 and December 29, 2013, from the audited consolidated financial statements of our Predecessor included elsewhere in this prospectus.

We have derived the consolidated statement of earnings data for the six months ended June 30, 2013 and the Predecessor period from December 30, 2013 to February 14, 2014 from the unaudited consolidated financial statements of our Predecessor included elsewhere in this prospectus. We have derived the consolidated statement of earnings data for the Successor period from February 15, 2014 to June 29, 2014, and the consolidated balance sheet data as of June 29, 2014, from the unaudited consolidated financial statements of our Successor included elsewhere in this prospectus. Our unaudited consolidated financial data were prepared on the same basis as our audited consolidated financial statements and, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information. The results of operations for the six months ended June 29, 2014 are not necessarily indicative of the results that can be expected for the full year or any future period.

The summary historical consolidated financial data should be read in conjunction with Selected Historical Consolidated Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as the historical consolidated financial statements and the notes to those statements included elsewhere in this prospectus.

	Successor	Predecessor				
	135 Day Period Ended June 29, 2014	47 Day Period Ended February 14, 2014 (unaudited)	Six Month Period Ended June 30, 2013	Fiscal Year Ended December 29, 2013	December 30, 2012	January 1, 2012
	(dollars in thousands)					
Consolidated Statement of Earnings Data:						
Revenues						
Food and beverage sales	$ 141,926	$ 50,897	$ 202,318	$ 368,584	$ 372,948	$ 388,908
Entertainment and merchandise sales	184,264	62,659	242,328	448,155	425,989	426,986
Total Company store sales	326,190	113,556	444,646	816,739	798,937	815,894
Franchise fees and royalties	1,960	687	2,601	4,982	4,543	5,284
Total revenues	328,150	114,243	447,247	821,721	803,480	821,178
Operating Costs and Expenses						
Company store operating costs	36,083	12,285	48,965	90,363	93,417	95,989

Cost of food and beverage (exclusive of items shown separately below)						
Cost of entertainment and merchandise (exclusive of items shown separately below)	10,757	3,729	16,280	29,775	30,855	32,362
Total cost of food, beverage, entertainment and merchandise	46,840	16,014	65,245	120,138	124,272	128,351
Labor expenses	86,695	31,998	117,940	229,172	223,605	222,596
Depreciation and amortization	52,519	9,733	39,063	78,167	78,769	80,826
Rent expense	30,425	12,365	38,976	78,463	75,312	74,992
Other store operating expenses	48,978	15,760	64,374	131,035	126,855	126,847
Total Company store operating costs	265,457	85,870	325,598	636,975	628,813	633,612

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	Successor	Predecessor				
	135 Day Period Ended June 29, 2014	47 Day Period Ended February 14, 2014 (unaudited)	Six Month Period Ended June 30, 2013	Fiscal Year Ended December 29, 2013	December 30, 2012	January 1, 2012
	(dollars in thousands)					
Other costs and expenses						
Advertising expense	14,688	5,903	22,316	41,217	35,407	34,989
General and administrative expenses	18,756	7,963	29,421	57,007	53,437	51,859
Transaction and Severance Costs	37,521	11,634				
Asset impairment			226	3,051	6,752	2,739
Total operating costs and expenses	336,422	111,370	377,561	738,250	724,409	723,199
Operating income (loss)	(8,272)	2,873	69,686	83,471	79,071	97,979
Interest expense	27,282	1,151	4,231	7,453	9,401	8,875
Income (loss) before income taxes	(35,554)	1,722	65,455	76,018	69,670	89,104
Income tax expense (benefit)	(8,898)	1,018	24,959	28,194	26,080	34,142
Net income (loss)	$ (26,656)	$ 704	$ 40,496	$ 47,824	$ 43,590	$ 54,962
Other Financial Data:						
EBITDA(1)	$ 44,968	$ 12,756	$ 109,115	$ 162,499	$ 158,581	$ 179,539
Adjusted EBITDA(1)	94,151	24,967	117,893	186,131	184,024	198,412
Balance Sheet Data (at end of period):						
Cash and cash equivalents	$ 55,171		$ 20,195	$ 20,686	$ 19,636	
Total assets	1,712,285		783,065	791,611	801,806	
Total liabilities	1,383,397		624,907	630,843	658,532	
Total stockholders equity	328,888		158,158	160,768	143,274	

(1) EBITDA, a measure used by management to assess operating performance, is defined as net income plus interest expense, income taxes and depreciation and amortization.

Adjusted EBITDA, another measure used by management to assess operating performance, is defined as EBITDA adjusted to exclude unusual items and other adjustments required or permitted in calculating covenant compliance under the indenture and/or the Senior Facilities.

Each of the above described EBITDA-based measures is not a recognized term under U.S. GAAP and does not purport to be an alternative to net income as a measure of operating performance or to cash flows from operations as a measure of liquidity. Additionally, each such measure is not intended to be a measure of free cash flows available for management s discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. Such measures have limitations as analytical tools, and you should not consider any of such measures in isolation or as substitutes for our results as reported under U.S. GAAP. Management compensates for the limitations of using non-GAAP financial measures by using them to supplement U.S. GAAP results to provide a more complete understanding of the factors and trends affecting the business than U.S. GAAP results alone. Because not all companies use identical calculations, these EBITDA-based measures may not be comparable to other similarly titled measures of other companies. See Use of Non-GAAP Financial Information.

Management believes EBITDA is helpful in highlighting trends because EBITDA excludes the results of decisions that are outside the control of operating management and can differ significantly from company to company depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate and capital investments.

Management believes that the inclusion of supplementary adjustments to EBITDA applied in presenting Adjusted EBITDA are appropriate to provide additional information to investors in our debt about certain material non-cash items and about unusual items that we do not expect to continue at the same level in the future as well as others. Such supplementary adjustments to EBITDA may not be in accordance with current SEC practice or with regulations adopted by the SEC that apply to registration statements filed under the Securities Act and periodic reports presented under the Exchange Act. Accordingly, the SEC may require that Adjusted EBITDA be presented differently in filings made with the SEC than as presented in this offering circular or not be presented at all. The indenture, the credit agreement

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governing the Senior Facilities and other debt agreements may permit us to exclude other charges and expenses and make other or different adjustments in calculating Adjusted EBITDA (which is defined as EBITDA in the indenture and the credit agreement governing the Senior Facilities). See Securities and Exchange Commission Review.

EBITDA and Adjusted EBITDA are calculated as follows:

	For the 135 Day Period Ended June 29, 2014	For the 47 Day Period Ended February 14, 2014	Six Months Ended June 29, 2014	Six Months Ended June 30, 2013	Fiscal Year Ended December 29, 2013	Fiscal Year Ended December 30, 2012	Fiscal Year Ended January 1, 2012
	Successor	Predecessor	Combined[9]	Predecessor			
	(in thousands)						
Net income (loss) as Reported	$ (26,656)	$ 704	$ (25,952)	$ 40,496	$ 47,824	$ 43,590	$ 54,962
Interest expense	27,282	1,151	28,433	4,231	7,453	9,401	8,875
Income tax expense (benefit)	(8,898)	1,018	(7,880)	24,959	28,194	26,080	34,142
Depreciation and amortization	53,240	9,883	63,123	39,429	79,028	79,510	81,560
EBITDA	44,968	12,756	57,724	109,115	162,499	158,581	179,539
Non-cash impairments, gain or loss on disposal(1)	2,551	294	2,845	(99)	6,360	10,314	5,774
Non-cash stock-based compensation(2)		12,639	12,639	4,225	8,481	7,468	7,185
Rent expense book to cash(3)	6,460	(1,190)	5,270	871	714	(313)	1,675
Store pre-opening costs(4)	506	131	637	549	2,057	1,525	391
Purchase accounting adjustments(5)	413		413				
Franchise fee revenue(6)	100		100				
One-time items(7)	37,986	(165)	37,821	351	(40)	99	372
Cost savings initiatives(8)	1,167	502	1,669	2,881	6,060	6,350	3,476
Adjusted EBITDA	$ 94,151	$ 24,967	$ 119,118	$ 117,893	$ 186,131	$ 184,024	$ 198,412

(1) Relates primarily to (i) the impairment of Company-owned stores or impairments of long lived assets and (ii) gains or losses upon disposal of property or equipment.
(2) Represents non-cash equity-based compensation expense.
(3) Represents (i) the removal of the non-cash portion of rent expense relating to the impact of straight-line rent and the amortization of cash incentives and allowances received from landlords, plus (ii) the actual cash received from landlords incentives and allowances in the period in which it was received.

(4) Relates to start-up and marketing costs incurred prior to the opening of new Company-owned stores and generally consists of payroll, recruiting, training, supplies and rent incurred prior to store opening.
(5) Represents revenue related to unearned gift cards and unearned franchise fees that were removed in purchase accounting, and therefore were not recorded as revenue.
(6) Represents the actual cash received for franchise fees received in the period for post-acquisition franchise development agreements, which are not recorded as revenue until the franchise store is opened.
(7) Represents non-recurring income and expenses primarily related to (i) transaction costs associated with the Merger; (ii) severance expense and executive termination benefits; (iii) employee and other legal claims and settlements; (iv) sales and use tax refunds; and (v) certain insurance recoveries relating to prior year expense.
(8) Relates to estimated net cost savings primarily from (i) the change from public to private ownership upon the closing of the Acquisition and elimination of public equity securities, with reductions in investor relations activities, directors fees and certain legal and other securities and filing costs; (ii) the full-year effect of cost savings initiatives implemented by the Company in 2013; (iii) the estimated effect of cost savings following the Acquisition from participation in Sponsor-leveraged purchasing programs including various supplies, travel and communications purchasing categories; (iv) the net impact of labor savings associated with changes in management; and net of (v) the estimated incremental costs associated with our new IT systems and post-closing insurance arrangements. Does not include the proforma impact of new and closed stores.
(9) In order to present our Summary Historical Consolidated Financial Data in a way that offers a meaningful period to period comparison, we have combined the Predecessor and Successor periods to arrive at the six month period ended June 29, 2014; however, these combined results are considered non-GAAP financial measures.

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RISK FACTORS

You should carefully consider the risk factors set forth below, as well as the other information contained in this prospectus, before participating in the exchange offer. Any of the following risks could materially and adversely affect our business, financial condition or results of operations. In any such case, you may lose all or a part of your investment in the notes.

Risks Related to Our Business

If we are unable to successfully open new stores or appropriately update and evolve our current store base, our business and our consolidated financial results could be adversely affected.

Our ability to increase revenues and improve financial results depends, to a significant degree, on our ability to successfully implement and refine our long-term growth strategy. As part of our long-term growth strategy, we plan to upgrade the games, rides and entertainment in some of our existing stores, remodel and expand certain of our existing stores and open additional new stores in selected markets. The opening and success of new Chuck E. Cheese s stores is dependent on various factors, including but not limited to the availability of suitable sites, the negotiation of acceptable lease terms for such locations, our ability to meet construction schedules, our ability to manage such expansion and hire and train personnel to manage the new stores, the potential cannibalization of sales at our adjacent stores located in the market, as well as general economic and business conditions. Our ability to successfully open new stores or remodel, expand or upgrade the entertainment at existing stores will also depend upon the availability of sufficient capital for such purposes, including operating cash flow, the Senior Facilities, future debt financings, future equity offerings or a combination thereof. There can also be no assurance that we will be successful in opening and operating the number of anticipated new stores on a timely or profitable basis. There can be no assurance that we can continue to successfully remodel or expand our existing facilities or upgrade the games and entertainment or obtain a reasonable return on such investments.

Our growth is also dependent on our ability to continually evolve and update our business model to anticipate and respond to changing customer preferences and competitive conditions. There can be no assurance that we will be able to successfully anticipate changes in competitive conditions or customer preferences or that the market will accept our business model. In recent years, we have reduced capital expenditures allocated to our existing stores and increased capital expenditures related to new store development. This reduction in capital expenditures allocated to our existing stores may have an adverse effect on our comparable store sales, revenues and operating results. If revenues and/or operating results are lower than our current estimates, we may incur additional charges for asset impairments in the future, which could adversely impact our consolidated financial results. Additionally, we incur significant costs each time we open a new store and other expenses when we relocate or remodel existing stores. The expenses of opening, relocating or remodeling any of our stores may be higher than anticipated. If we are unable to open or are delayed in opening new or relocated stores, we may incur significant costs, which could adversely affect our consolidated financial results. If we are unable to remodel or are delayed in remodeling stores, we may incur significant costs, which could adversely affect our business and our consolidated financial results.

We may not be successful in the implementation of our marketing strategy, which could adversely affect our business and our consolidated financial results.

Our long-term growth is dependent on the success of strategic initiatives to effectively market and advertise our concept to our target audience. In recent years, we have made significant changes to our marketing and advertising strategy, including (a) the introduction of an updated Chuck E. Cheese character; (b) reallocations of our media expenditures; and (c) promoting our value proposition and national menu pricing through free-standing inserts in newspapers, on television and online. There can be no assurance that these changes to our traditional media strategy, which was heavily weighted towards kids television advertising, free-standing inserts in newspapers and significant couponing, will be effective at reaching customers or be accepted by customers. If we are not effective in reaching our target audience with our new marketing and advertising strategy or if these changes are not accepted by guests, our business and our consolidated financial results could be adversely affected. Additionally, these changes to our strategy increased our total advertising costs. We may incur additional advertising costs in the future, as there can be no assurance that our current strategy will be effective in reaching our targeted customer base.

The restaurant and entertainment industries are highly competitive, and that competition could harm our business and our consolidated financial results.

We believe that our combined restaurant and entertainment center concept puts us in a niche, which combines elements of both the restaurant and entertainment industries. As a result, we compete with entities in both industries. The family dining industry and the entertainment industry are highly competitive, with a number of major national and regional chains operating in each of these spaces. Although other restaurant chains presently utilize the concept of combined family dining-entertainment operations, we believe these competitors operate primarily on a local, regional or market-by-market basis. Within the traditional restaurant sector, we compete with other casual dining restaurants on a nationwide basis with respect to price, quality and speed of service, type and quality of food, personnel, the number and location of restaurants, attractiveness of facilities, effectiveness of advertising and marketing programs and new product development. To a lesser extent, our competition also includes quick service restaurants with respect to pricing, service, experience and perceived value. Within the entertainment sector, we compete with movie theaters, bowling alleys, theme parks and other family-oriented concepts on a nationwide basis with respect to perceived value and overall experience. Additionally, children s interests and opportunities for entertainment continue to expand. If we are unable to successfully evolve our concept, including new food and entertainment offerings, we may lose market share to our competition. These competitive market conditions, including the emergence of significant new competition, could adversely affect our business and our consolidated financial results.

Changes in consumer discretionary spending could reduce sales at our stores and have an adverse effect on our business and our consolidated financial results.

Purchases at our stores are discretionary for consumers and, therefore, our consolidated results of operations are susceptible to economic slowdowns and recessions. We are dependent in particular upon discretionary spending by consumers living in the communities in which our stores are located. A significant portion of our stores are clustered in certain geographic areas. Currently, a total of 177 Chuck E. Cheese s stores are located in California, Texas and Florida (174 are Company-owned and three are franchised locations). A significant weakening in the local economies of these geographic areas, or any of the areas in which our stores are located, may cause consumers to curtail discretionary spending, which in turn could reduce our Company store sales and have an adverse effect on our business and our consolidated financial results.

The future performance of the United States and global economies are uncertain and are directly affected by numerous national and global financial, political and other factors that are beyond our control. Increases in credit card debt, home mortgage and other borrowing costs and declines in housing values could further weaken the U.S. economy, leading to a further decrease in discretionary consumer spending. We believe that consumers generally are more willing to make discretionary purchases, including at our stores, during periods in which favorable economic conditions prevail. Further, fluctuations in the retail price of gasoline and the potential for future increases in gasoline and other energy costs may affect consumers disposable incomes available for entertainment and dining. Changes in consumer spending habits as a result of a recession or a reduction in consumer confidence are likely to reduce our sales performance, which could have an adverse effect on our business and our consolidated financial results. In addition, these economic factors could affect our level of spending on planned capital initiatives at our stores, and thereby impact our future sales.

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Economic uncertainty in the U.S. and Canada could adversely impact our business and our consolidated financial results, and a renewed recession could adversely affect our business and our consolidated financial results.

Our target market of families with young children can be highly sensitive to adverse economic conditions, which may impact their desire to spend discretionary dollars resulting in lower customer traffic levels in our stores. Reduced consumer confidence as a result of a renewed recession, job losses, home foreclosures, investment losses in the financial markets, personal bankruptcies and reduced access to credit may also result in lower levels of traffic to our stores. Moreover, our customer traffic may be impacted by major changes in U.S. fiscal policy. If conditions worsen, we could experience a deterioration in customer traffic and/or a reduction in the average amount spent in our stores, which would negatively impact our sales. This could result in a reduction in staffing at our stores, deferring or curtailing our capital expenditures and potential store closures. Additionally, if revenues and/or operating results are lower than our current estimates, we may incur additional charges for asset impairments in the future, which could adversely impact our consolidated financial results. Future recessionary effects are unknown at this time and could have an adverse impact on our business and our consolidated financial results.

Negative publicity concerning food quality, health, general safety or other issues could negatively affect our brand image and adversely affect our consolidated financial results.

Food service businesses can be adversely affected by litigation and complaints from guests, consumer groups or government authorities resulting from food quality, illness, injury or other health concerns or operating issues stemming from one store or a limited number of stores. Publicity concerning food-borne illnesses, injuries caused by food tampering and general safety issues could negatively affect our operations, reputation and brand. Families with young children may be highly sensitive to adverse publicity that may arise from an actual or perceived negative event within one or more of our stores. We have, from time to time, received negative publicity related to altercations and other incidents in certain of our stores. There can be no assurance that in the future we will not experience negative publicity regarding one or more of our stores, and the existence of negative publicity could adversely affect our brand image with our customers and our consolidated financial results.

The speed at which negative publicity can be disseminated has increased dramatically with electronic communication, including social media. Many social media platforms allow for users to immediately publish content without checking the accuracy of the content posted. If we are unable to quickly and effectively respond to such information, we may suffer declines in guest traffic, which could adversely impact our consolidated financial results.

Our strategy to open international franchise-owned stores may not be successful and may subject us to unanticipated conditions in foreign markets, which could adversely impact our business and our ability to operate effectively in those markets.

Part of our growth strategy depends on our ability to attract new international franchisees and the ability of these franchisees to open and operate new stores on a profitable basis. As we do not have a history of significant international growth experience, there can be no assurance that we will be able to successfully execute this strategy in the future. Delays or failures in identifying desirable franchise partners and opening new franchised stores could adversely affect our planned growth. Our franchisees depend on the availability of financing to construct and open new stores. If these franchisees experience difficulty in obtaining adequate financing, our growth strategy and franchise revenues could be adversely affected. Additionally, our growth strategy depends on the ability of our international franchisees to learn and implement our business strategy, while adapting to the local culture. There can be no assurance that the Chuck E. Cheese s concept will be accepted in targeted international markets. Currently, our international franchisees operate stores in Chile, Guam, Guatemala, Mexico, Panama, Peru, Puerto Rico, Saudi Arabia and the United Arab Emirates. We and our franchisees are subject to

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the regulatory, economic and political conditions of any foreign market in which our franchisees operate stores. Any change in the laws, regulations and economic and political stability of these foreign markets could adversely affect our consolidated financial results. Changes in foreign markets that could affect our consolidated financial results include, but are not limited to, taxation, inflation, currency fluctuations, political instability, economic instability, war or conflicts, increased regulations and quotas, tariffs and other protectionist measures. Additionally, our long-term growth strategy includes adding franchisees in additional foreign markets in the future.

To the extent unfavorable conditions exist in the foreign markets we plan to expand into or we are unable to secure intellectual property rights sufficient to operate in such foreign markets, we and our international franchise partners may not be successful in opening the number of anticipated new stores on a timely and profitable basis. Delays or failures in opening new foreign market store locations could adversely affect our planned growth.

Increases in food, labor and other operating costs could adversely affect our consolidated financial results.

The performance of our stores is affected by changes in the costs for food products we purchase, including but not limited to cheese, dough, produce, chicken and beef. The commodity prices for these food products vary throughout the year and may be affected by changes in supply, demand and other factors beyond our control. We have not entered into any hedging arrangements to reduce our exposure to commodity price volatility associated with commodity prices; however, we typically enter into short-term purchasing arrangements, which may contain pricing designed to minimize the impact of commodity price fluctuations. An increase in our food costs could negatively affect our profit margins and adversely affect our consolidated financial results.

A significant number of our store-level employees are subject to various minimum wage requirements. Several states and cities in which we operate stores have established a minimum wage higher than the federally mandated minimum wage. There may be similar increases implemented in other jurisdictions in which we operate or seek to operate. Changes in the minimum wage could increase our labor costs and could have an adverse effect on our profit margins and our consolidated financial results.

The performance of our stores is also adversely affected by increases in the price of utilities on which the stores depend, such as electricity and natural gas, whether as a result of inflation, shortages or interruptions in supply, or otherwise. Our business also incurs significant costs for and including, among other things, insurance, marketing, taxes, real estate, borrowing and litigation, all of which could increase due to inflation, rising interest rates, changes in laws, competition or other events beyond our control, which could have an adverse effect on our consolidated financial results.

If we are unable to maintain and protect our information technology systems and technologies, we could suffer disruptions in our business, damage our reputation with customers and incur substantial costs.

The operation of our business is heavily dependent upon the implementation, integrity, security and successful functioning of our computer networks and information systems, including the point-of-sales systems in our stores, data centers that process transactions, enterprise resource planning system and various software applications used in our operations. In the ordinary course of our business, we also collect and store sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners and personally identifiable information of our customers and employees, on our computer networks and information systems. A failure of our systems to operate effectively as a result of a cyber-attack, damage to, interruption or failure of any of these systems could result in a failure to meet our reporting obligations, material misstatements in our consolidated financial statements or losses due to disruption of our business operations. These adverse situations could also lead to loss of sales or profits or cause us to incur additional development costs. We purchase insurance coverage related to network security and privacy to limit the cost of any such failure or cyber-attack. Despite our efforts to secure our computer networks and information systems, security could be compromised or confidential information could be misappropriated, resulting in a loss of customers or employees personal information, negative publicity or harm to our business and reputation that could cause us to incur costs to reimburse third parties for damages or cause a potential decrease in guest traffic.

Changes in consumers health, nutrition and dietary preferences could adversely affect demand for our menu offerings and adversely affect our consolidated financial results.

Our industry is affected by consumer preferences and perceptions. Changes in prevailing health or dietary preferences and perceptions may cause consumers to avoid certain products we offer in favor of alternative or healthier foods. If consumer eating habits change significantly and we are unable to respond with appropriate menu offerings, it could adversely affect our consolidated financial results.

Any disruption of our commodity distribution system could adversely affect our business and our consolidated financial results.

We are currently transitioning to a new major food distributor, which may cause a disruption to the availability of the products and supplies used in our stores. Any failure by this distributor to adequately distribute products or supplies to our stores could increase our costs and have an adverse effect on our business and our consolidated financial results. We believe that alternative third-party distributors are available for our products and supplies, but we may incur additional costs if we are required to replace our distributor or obtain the necessary products and supplies from other suppliers.

Our procurement of games, rides, entertainment-related equipment, redemption prizes and merchandise is dependent upon a few global providers, the loss of any of whom could adversely affect our business and our consolidated financial results.

Our ability to continue to procure new games, rides, entertainment-related equipment, redemption prizes and merchandise is important to our business strategy. The number of suppliers from which we can purchase these items is limited due to industry consolidation over the past several years. To the extent that the number of suppliers continues to decline, we could be subject to the risk of distribution delays, pricing pressure, lack of innovation and other associated risks. Furthermore, some of our suppliers are located in China, and continuing and increasing tension between the U.S. and Chinese governments could also result in interruptions in our ability to procure these products, which could adversely affect our business and our consolidated financial results.

We face risks with respect to product liability claims and product recalls, which could adversely affect our reputation, business and consolidated financial results.

We purchase merchandise from third parties and offer this merchandise to customers in exchange for prize tickets or for sale. This merchandise could be subject to recalls and other actions by regulatory authorities. Changes in laws and regulations could also impact the type of merchandise we offer to our customers. We have experienced, and may in the future experience, issues that result in recalls of merchandise. In addition, individuals have asserted claims, and may in the future assert claims, that they have sustained injuries from third-party merchandise offered by us, and we may be subject to future lawsuits relating to these claims. There is a risk that these claims or liabilities may exceed, or fall outside of the scope of, our insurance coverage. Any of the issues mentioned above could result in damage to our reputation, diversion of development and management resources, or reduced sales and increased costs, any of which could adversely affect our business and our consolidated financial results.

We are subject to various government regulations, including health care reform, which could adversely affect our business and our consolidated financial results.

The development and operation of our stores are subject to various federal, state and local laws and regulations in many areas of our business, including, but not limited to, those that impose restrictions, levy a fee or tax, or require a permit, license or other regulatory approval, and those that relate to the operation of video and arcade games and rides, the preparation of food and beverages, the sale and service of alcoholic beverages, and building and zoning requirements. Difficulties or failure in obtaining required permits, licenses or other regulatory approvals could delay or prevent the opening of a new store, remodel or expansion, and the suspension of, or inability to renew, a license or permit could interrupt operations at an existing store.

We continue to review the health care reform law enacted by Congress in March of 2010 and regulations issued related to the law to evaluate the potential impact of this new law on our business, and to accommodate various parts of the law as they take effect. The costs and other effects of the new legal requirements cannot be determined with certainty. For example, health care reform law may result in increased costs directly for our compliance or indirectly through increased prices charged by our vendors because of their increased compliance costs. We are also subject to laws governing our relationship with employees, including minimum wage requirements, overtime, other health insurance mandates, working and safety conditions, immigration status requirements and child labor laws. Additionally, potential changes in federal labor laws, including card verification regulations, could result in portions of our workforce being subjected to greater organized labor influence. This could result in an increase to our labor costs. A significant portion of our store personnel are paid at rates related to the minimum wage established by federal, state and municipal law. Increases in such minimum wage result in higher labor costs, which may be only partially offset by price increases and operational efficiencies. Furthermore, we are also subject to certain laws and regulations that govern our handling of customers personal information. A failure to protect the integrity and security of our customers personal information could expose us to litigation, as well as materially damage our reputation.

We are also subject to the rules and regulations of the Federal Trade Commission and various state laws regulating the offer and sale of franchises. The Federal Trade Commission and various state laws require that we furnish a franchise disclosure document containing certain information to prospective franchisees, and a number of states require registration of the franchise disclosure document with state authorities. Substantive state laws that regulate the franchisor-franchisee relationship presently exist in a substantial number of states, and bills have been introduced in Congress from time to time that would provide for federal regulation of the franchisor-franchisee relationship. The state laws often limit, among other things, the duration and scope of non-competition provisions, the ability of a franchisor to terminate or refuse to renew a franchise and the ability of a franchisor to designate sources of supply. We believe that our franchise disclosure document, together with any applicable state versions or supplements, and franchising procedures comply in all material respects with both the Federal Trade Commission guidelines and all applicable state laws regulating franchising in those states in which we have offered franchises.

While we endeavor to comply with all applicable laws and regulations, governmental and regulatory bodies may change such laws and regulations in the future, which may require us to incur substantial cost increases. If we fail to comply with applicable laws and regulations, we may be subject to various sanctions and/or penalties and fines or may be required to cease operations until we achieve compliance, which could have an adverse effect on our business and our consolidated financial results.

We face litigation risks from customers, employees, franchisees and other third parties in the ordinary course of business, which could adversely affect our business and our consolidated financial results.

Our business is subject to the risk of litigation by customers, current and former employees, suppliers, stockholders or others through private actions, class actions, administrative proceedings, regulatory actions or other litigation. The outcome of litigation, particularly class action lawsuits and regulatory actions, is difficult to assess or quantify. Plaintiffs in these types of lawsuits may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to such lawsuits may remain unknown for substantial periods of time. The cost to defend future litigation may be significant. There may also be adverse publicity associated with litigation that could decrease customer acceptance of our food or entertainment offerings, regardless of whether the allegations are valid or whether we are ultimately found liable. From time to time we are also involved in lawsuits with respect to alleged infringement of third party intellectual property rights, as well as challenges to our intellectual property.

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We are continuously subject to risks from litigation and regulatory action regarding advertising to our market of children between the ages of two and 12 years old. In addition, since certain of our stores serve alcoholic beverages, we are subject to dram shop statutes. These statutes generally allow a person injured by an intoxicated person to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. Although we believe we are adequately covered by insurance, a judgment against us under a dram shop statute in excess of the liability covered by insurance could have an adverse effect on our business and our consolidated financial results.

Our stores may be adversely affected by local conditions, natural disasters and other events.

Certain regions in which our stores are located may be subject to adverse local conditions, natural disasters and other events. Severe weather, such as heavy snowfall or extreme temperatures, may discourage or restrict customers in a particular region from traveling to our stores, which could adversely affect our sales. If severe weather conditions occur during the first quarter of the year, the adverse impact to our sales and profitability could be even greater than at other times during the year because we generate our highest sales and profits during the first quarter. Natural disasters including tornadoes, hurricanes, floods and earthquakes may damage our stores or other operations, which may adversely affect our business and our consolidated financial results.

Public health issues could adversely affect our consolidated financial results.

Our business may be impacted by certain public health issues including epidemics, pandemics and the rapid spread of certain illnesses and contagious diseases. To the extent that our customers feel uncomfortable visiting public locations, particularly locations with a large number of children, due to a perceived risk of exposure to a public health issue, we could experience a reduction in customer traffic, which could adversely affect our consolidated financial results.

Our business is seasonal, and quarterly results may fluctuate significantly as a result of this seasonality.

We have experienced, and in the future could experience, quarterly variations in our consolidated revenues and profitability as a result of a variety of factors, many of which are outside our control, including the timing of school vacations, holidays and changing weather conditions. We typically generate our highest sales volumes and profitability in the first quarter of each fiscal year. If there is a material decrease in the customer traffic in our stores during the first quarter of the year due to unusually cold or inclement weather or other circumstances outside of our control, our operating results could be materially adversely affected for that quarter and further, may have an adverse effect on our consolidated financial results for the fiscal year.

Our current insurance policies may not provide adequate levels of coverage against all claims, and we could incur losses that are not covered by our insurance, which could adversely affect our business and our consolidated financial results.

We have procured and maintain insurance coverage, which we believe is typical for a business of our type and size. However, we could experience a loss that either cannot be insured against or is not commercially reasonable to insure. For example, insurance covering liability for violations of wage and hour laws is generally not available. Under certain circumstances, plaintiffs may file certain types of claims, which may not be covered by insurance. In some cases, plaintiffs may seek punitive damages, which may also not be covered by insurance. Losses such as these, if they occur, could adversely affect our business and our consolidated financial results.

We are dependent on the service of certain key personnel, and the loss of any of these personnel could harm our business.

Our success significantly depends on the continued employment and performance of our senior management team. We have employment agreements with certain members of our senior management team. However, we cannot prevent the members of our senior management team from terminating their employment with us. Losing the services of senior management could harm our business until a suitable replacement is hired, and such replacement may not have equal experience or capabilities.

We may not be able to adequately protect our trademarks or other proprietary rights, which could have an adverse effect on our business and our consolidated financial results.

We own certain common law trademark rights and a number of federal and international trademark and service mark registrations, Internet domain name registrations and other proprietary rights relating to our operations. We believe that our trademarks and other proprietary rights are important to our success and our competitive position. We, therefore, devote appropriate resources to the protection of our trademarks and proprietary rights. However, the protective actions that we take may not be enough to prevent unauthorized usage or imitation by others, which could harm our image, brand or competitive position and, if we commence litigation to enforce our rights, we may incur significant legal fees.

There can be no assurance that third parties will not claim that our trademarks or menu offerings infringe upon their proprietary rights. Any such claim, whether or not it has merit, may result in costly litigation, cause delays in introducing new menu items in the future, interfere with our international development agreements or require us to enter into royalty or licensing agreements. As a result, any such claim could have an adverse effect on our business and our consolidated financial results.

We are subject to risks in connection with owning and leasing real estate, which could adversely affect our consolidated financial results.

As an owner or lessee of the land and/or building for our Company-owned stores, we are subject to all of the risks generally associated with owning and leasing real estate, including changes in the supply and demand for real estate in general and the supply and demand for the use of the stores. We may be compelled to continue to operate a non-profitable store due to our obligations under lease agreements, or we may close a non-profitable store and continue making rental payments with respect to the lease, which could adversely affect our consolidated financial results. Furthermore, economic instability may inhibit our landlords from securing financing and maintaining good standing in their existing financing arrangements, which could result in their inability to keep, or attract new, tenants thereby reducing customer traffic to our stores. The lease term for each of our leased facilities vary and some have only a short term remaining. Most but not all of our leased facilities have renewal terms. When a lease term expires, the Company may not be able to renew such lease on reasonable economic and commercial terms or at all. As a result, failure to renew leases on reasonable economic and commercial terms, could adversely affect our business and consolidated financial results.

We are involved in litigation relating to the Merger Agreement that could divert management s attention and harm our business.

As described under Business Legal Proceedings Litigation Related to the Merger, we are defendants in a number of lawsuits related to the Merger Agreement and the Merger. These suits generally allege, among other things, that the pre-merger directors breached their fiduciary duties owed to the Issuer s stockholders by, among other things, agreeing to an inadequate tender price, the adoption on January 15, 2014 of Rights Agreement with Computershare Trust Company, N.A., as rights agent (the Rights Agreement), and certain provisions in the Merger Agreement that allegedly make it less likely that the pre-Merger Board will be able to consider alternative acquisition proposals. These suits also allege that Apollo aided and abetted the directors alleged breaches of fiduciary duty in connection with our entry into the Merger Agreement. Although we believe these suits are without merit, the defense of these suits may be expensive and may divert management s attention and resources, which could adversely affect our business.

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Risks Related to Our Indebtedness and the Notes

Our substantial indebtedness could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry and prevent us from making debt service payments on the notes.

We are a highly leveraged company. As of June 29, 2014, we had $1,015 million face value of outstanding indebtedness (excluding capital leases), in addition to $150 million of undrawn commitments under our revolving credit facility (without giving effect to letters of credit), and for the six months ended June 29, 2014, we had total debt service payment obligations of $25.2 million.

Our substantial indebtedness could have important consequences for you as a holder of the notes. For example, it could:

- limit our ability to borrow money for our working capital, capital expenditures, debt service requirements, strategic initiatives or other purposes;
- make it more difficult for us to satisfy our obligations with respect to our indebtedness, including the notes, and any failure to comply with the obligations of any of our debt instruments, including restrictive covenants and borrowing conditions, could result in an event of default under the indenture and the agreements governing other indebtedness;
- require us to dedicate a substantial portion of our cash flow from operations to the repayment of our indebtedness, thereby reducing funds available to us for other purposes;
- limit our flexibility in planning for, or reacting to, changes in our operations or business;
- make us more highly leveraged than some of our competitors, which may place us at a competitive disadvantage;
- impact our rent expense on leased space, which could be significant;
- make us more vulnerable to downturns in our business or the economy;
- restrict us from making strategic acquisitions, engaging in development activities, introducing new technologies or exploiting business opportunities;
- cause us to make non-strategic divestitures;

- limit, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds or dispose of assets;

- prevent us from raising the funds necessary to repurchase all notes tendered to us upon the occurrence of certain changes of control, which failure to repurchase would constitute a default under the indenture; or

- expose us to the risk of increased interest rates, as certain of our borrowings, including borrowings under the Senior Facilities, are at variable rates of interest.

In addition, the credit agreement governing the Senior Facilities and the indenture will contain restrictive covenants that will limit our ability to engage in activities that may be in our long-term best interest. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of substantially all of our indebtedness.

Despite our substantial indebtedness, we may still be able to incur significantly more debt, which could intensify the risks described above.

We and our subsidiaries may be able to incur substantial indebtedness in the future. Although the terms of the indenture and the credit agreement governing the Senior Facilities will contain restrictions on our and our

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subsidiaries ability to incur additional indebtedness, these restrictions are subject to a number of important qualifications and exceptions, and the indebtedness incurred in compliance with these restrictions could be substantial. These restrictions also will not prevent us from incurring obligations that do not constitute indebtedness. As of June 29, 2014, we had approximately $150 million available for additional borrowing under the revolving credit facility portion of our Senior Facilities (without giving effect to letters of credit), all of which would be secured. In addition to the notes and our borrowings under the Senior Facilities, the covenants under any other existing or future debt instruments could allow us to incur a significant amount of additional indebtedness. The more leveraged we become, the more we, and in turn our security holders, will be exposed to certain risks described above under Our substantial indebtedness could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry and prevent us from making debt service payments on the notes.

We may not be able to generate sufficient cash to service all of our indebtedness, including the notes, and may be forced to take other actions to satisfy our obligations under our indebtedness that may not be successful.

Our ability to pay principal and interest on the notes and to satisfy our other debt obligations will depend upon, among other things:

- our future financial and operating performance (including the realization of any cost savings described herein), which will be affected by prevailing economic, industry and competitive conditions and financial, business, legislative, regulatory and other factors, many of which are beyond our control; and

- our future ability to borrow under our revolving credit facility, the availability of which depends on, among other things, our complying with the covenants in the credit agreement governing such facility.

We cannot assure you that our business will generate cash flow from operations, or that we will be able to draw under our revolving credit facility or otherwise, in an amount sufficient to fund our liquidity needs, including the payment of principal and interest on the notes.

If our cash flows and capital resources are insufficient to service our indebtedness, we may be forced to reduce or delay capital expenditures, sell assets, seek additional capital or restructure or refinance our indebtedness, including the notes. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. In addition, the terms of existing or future debt agreements, including the Senior Facilities and the indenture, may restrict us from adopting some of these alternatives. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. We may not be able to consummate those dispositions for fair market value or at all. Furthermore, any proceeds that we could realize from any such dispositions may not be adequate to meet our debt service obligations then due. Our Sponsor and its affiliates have no continuing obligation to provide us with debt or equity financing. Our inability to generate sufficient cash flow to satisfy our debt obligations, or to refinance our indebtedness on commercially reasonable terms or at all, could result in a material adverse effect on our business, results of operations and financial condition and could negatively impact our ability to satisfy our obligations under the notes.

If we cannot make scheduled payments on our indebtedness, we will be in default, and holders of the notes could declare all outstanding principal and interest to be due and payable, the lenders under the Senior Facilities could terminate their commitments to loan money, our secured lenders (including the lenders under the Senior Facilities) could foreclose against the assets securing their loans and we could be forced into bankruptcy or liquidation. All of these events could cause you to lose all or part of your investment in the notes.

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If we default on our obligations to pay our other indebtedness, we may not be able to make payments on the notes.

Any default under the agreements governing our indebtedness, including defaults under the Senior Facilities that are not waived by the required lenders, and the remedies sought by the holders of such indebtedness could leave us unable to pay principal, premium, if any, or interest on the notes and could substantially decrease the market value of the notes. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, or interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our indebtedness (including the Senior Facilities), we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to (i) declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, (ii) terminate their commitments and cease making further loans and (iii) institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation.

If our operating performance declines, we may in the future need to seek waivers from the required lenders under the Senior Facilities to avoid being in default. If we breach our covenants under the Senior Facilities and seek a waiver, we may not be able to obtain a waiver from the required lenders. In such a case, we would be in default under these facilities, the lenders could exercise their rights as described above and we could be forced into bankruptcy or liquidation. See Description of Other Indebtedness and Description of Notes.

Upon any such bankruptcy filing, we would be stayed from making any ongoing payments on the notes, and the holders of the notes would not be entitled to receive post-petition interest or applicable fees, costs or charges, or any adequate protection under Title 11 of the United States Code, as amended (the Bankruptcy Code).

The notes are unsecured and effectively subordinated to our existing and future secured debt.

The notes are unsecured and effectively subordinated to our existing and future secured debt (including the obligations under the Senior Facilities), to the extent of the value of the assets securing such debt. We have $760 million of secured debt, consisting of $760 million of borrowings under the term loan facility and no borrowings under the revolving credit facility. We also have $150 million of additional secured debt borrowing capacity under the revolving credit facility (without giving effect to outstanding letters of credit). The indenture permits us to incur additional secured debt in the future. Upon a default in payment on, or the acceleration of, any of our secured indebtedness, or in the event of our bankruptcy, insolvency, liquidation, dissolution or reorganization, any indebtedness that is secured and therefore effectively senior to the notes and will be entitled to be paid in full from our assets securing such indebtedness before any payment may be made with respect to the notes. As a result, the holders of the notes may receive less, ratably, than the holders of secured debt in the event of our bankruptcy, insolvency, liquidation, dissolution or reorganization. Further, holders of the notes will participate ratably with all holders of our unsecured indebtedness that is deemed to be of the same class as the notes, and potentially with all of our other general creditors, based upon the respective amounts owed to each holder or creditor, in our remaining assets.

The lenders under the Senior Facilities have the discretion to release any guarantors under the Senior Facilities in a variety of circumstances, which will cause those guarantors to be released from their guarantees of the notes.

While any obligations under the Senior Facilities remain outstanding, any guarantee of the notes may be released without action by, or consent of, any holder of the notes or the trustee under the indenture that will govern the notes, if the related guarantor is no longer a guarantor of obligations under the Senior Facilities or any other indebtedness. See Description of the Notes Subsidiary Guarantees. The lenders under the Senior Facilities have the discretion to release the guarantees under the Senior Facilities in a variety of circumstances. You will not have a claim as a creditor against any entity that is no longer a guarantor of the notes, and the indebtedness and other liabilities, including trade payables, whether secured or unsecured, of those subsidiaries will effectively be senior to claims of noteholders.

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Our debt agreements contain restrictions that will limit our flexibility in operating our business.

The Senior Facilities and the indenture will contain, and any other existing or future indebtedness of ours would likely contain, a number of covenants that will impose significant operating and financial restrictions on us, including restrictions on our and our subsidiaries ability to, among other things:

- incur additional debt, guarantee indebtedness or issue certain preferred shares;
- pay dividends on or make distributions in respect of, or repurchase or redeem, our capital stock or make other restricted payments;
- prepay, redeem or repurchase certain debt;
- make loans or certain investments;
- sell certain assets;
- create liens on certain assets;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;
- enter into certain transactions with our affiliates;
- alter the businesses we conduct;
- enter into agreements restricting our subsidiaries ability to pay dividends; and
- designate our subsidiaries as unrestricted subsidiaries.

In addition, the revolving facility will require us to comply with a first lien net senior secured leverage ratio. See Description of Other Indebtedness The Senior Facilities Restrictive Covenants and Other Matters.

As a result of these covenants, we will be limited in the manner in which we conduct our business, and we may be unable to engage in favorable business activities or finance future operations or capital needs.

A failure to comply with the covenants under the Senior Facilities or any of our other future indebtedness could result in an event of default, which, if not cured or waived, could have a material adverse effect on our business, financial condition and results of operations. In the event of any such default, the lenders thereunder:

- will not be required to lend any additional amounts to us;
- could elect to declare all borrowings outstanding, together with accrued and unpaid interest and fees, to be due and payable and terminate all commitments to extend further credit;
- could require us to apply all of our available cash to repay these borrowings; or
- could effectively prevent us from making debt service payments on the notes (due to a cash sweep feature);

any of which could result in an event of default under the notes.

Such actions by the lenders could cause cross defaults under our other indebtedness. If we were unable to repay those amounts, the lenders under the Senior Facilities could proceed against the collateral granted to them to secure the Senior Facilities. We will pledge a significant portion of our assets as collateral under the Senior Facilities.

If any of our outstanding indebtedness under the Senior Facilities or our other indebtedness, including the notes, were to be accelerated, there can be no assurance that our assets would be sufficient to repay such indebtedness in full. See Description of Other Indebtedness and Description of Notes.

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We may not be able to repurchase the notes upon a change of control.

Upon the occurrence of certain specific kinds of change of control events, we will be required to offer to repurchase all outstanding notes at 101% of the principal amount thereof plus, without duplication, accrued and unpaid interest and additional interest, if any, to the date of repurchase. Additionally, under the Senior Facilities, a change of control constitutes an event of default that permits the lenders to accelerate the maturity of borrowings and terminate their commitments to lend. The source of funds for any repurchase of the notes and repayment of borrowings under the Senior Facilities would be our available cash or cash generated from our subsidiaries operations or other sources, including borrowings, sales of assets or sales of equity. It is possible that we will not have sufficient funds at the time of a change of control to make the required repurchase of notes or that restrictions in the Senior Facilities will not allow such repurchases. We may require additional financing from third parties to fund any such repurchases, and we may be unable to obtain financing on satisfactory terms or at all. Further, our ability to repurchase the notes may be limited by law. In addition, certain important corporate events, such as leveraged recapitalizations that would increase the level of our indebtedness, would not constitute a change of control under the indenture. See Description of Notes Change of Control.

Courts interpreting change of control provisions under New York law (which will be the governing law of the indenture) have not provided clear and consistent meanings of such change of control provisions which leads to subjective judicial interpretation. In addition, a court case in Delaware has questioned whether a change of control provision contained in an indenture could be unenforceable on public policy grounds.

We may enter into transactions that would not constitute a change of control that could affect our ability to satisfy our obligations under the notes.

Legal uncertainty regarding what constitutes a change of control and the provisions of the indenture may allow us to enter into transactions, such as acquisitions, refinancings or recapitalizations, that would not constitute a change of control but may increase our outstanding indebtedness or otherwise affect our ability to satisfy our obligations under the notes. The definition of change of control for purposes of the notes includes a phrase relating to the transfer of all or substantially all of our assets taken as a whole. Although there is a limited body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase under applicable law. Accordingly, your ability to require us to repurchase notes as a result of a transfer of less than all of our assets to another person may be uncertain.

Federal and state statutes allow courts, under specific circumstances, to void notes and guarantees and require noteholders to return payments received.

If we or any guarantor becomes a debtor in a case under the Bankruptcy Code or encounters other financial difficulty, under federal or state fraudulent transfer law a court may void or otherwise decline to enforce the notes or the guarantees. A court might do so if it found that when we issued the notes or a guarantor entered into its guarantee, or in some states when payments became due under the notes or the guarantees, we or such guarantor received less than reasonably equivalent value or fair consideration and:

- was insolvent or rendered insolvent by reason of such incurrence;
- was left with inadequate capital to conduct its business;

- believed or reasonably should have believed that it would incur debts beyond its ability to pay; or

- was a defendant in an action for money damages or had a judgment for money damages docketed against us or the guarantor if, in either case, the judgment is unsatisfied after final judgment.

The court might also void an issuance of notes or a guarantee, without regard to the above factors, if the court found that we issued the notes or the applicable guarantor entered into its guarantee with actual intent to hinder, delay or defraud its creditors.

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A court would likely find that we or a guarantor did not receive reasonably equivalent value or fair consideration for the notes or its guarantee if we or a guarantor did not substantially benefit directly or indirectly from the issuance of the notes. If a court were to void the issuance of the notes or any guarantee, you would no longer have any claim against us or the applicable guarantor. Sufficient funds to repay the notes may not be available from other sources, including the remaining obligors, if any. In addition, the court might direct you to repay any amounts that you already received from us or a guarantor. In the event of a finding that a fraudulent transfer or conveyance occurred, you may not receive any repayment on the notes. Further, the avoidance of the notes could result in an event of default with respect to our and our subsidiaries other debt, which could result in acceleration of that debt.

The measures of insolvency for purposes of these fraudulent transfer laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, a guarantor would be considered insolvent if:

- the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all of its assets;
- if the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or
- it could not pay its debts as they become due.

We cannot assure you, however, as to what standard a court would apply in making these determinations.

Although each guarantee entered into by a guarantor will contain a provision intended to limit that guarantor s liability to the maximum amount that it could incur without causing the incurrence of obligations under its guarantee to be a fraudulent transfer, this provision may not be effective to protect those guarantees from being voided under fraudulent transfer law or may reduce that guarantor s obligation to an amount that effectively makes its guarantee worthless.

Finally, as a court of equity, the bankruptcy court may subordinate the claims in respect of the notes to other claims against us under the principle of equitable subordination if the court determines that (i) the holder of notes engaged in some type of inequitable conduct, (ii) the inequitable conduct resulted in injury to our other creditors or conferred an unfair advantage upon the holders of notes and (iii) equitable subordination is not inconsistent with the provisions of the Bankruptcy Code.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Borrowings under the Senior Facilities are at variable rates of interest and expose us to interest rate risk. Assuming the revolving credit facility is fully drawn, each 0.125% change in assumed interest rates would result in an approximately $5.6 million change in annual interest expense on indebtedness under the Senior Facilities. In the future, we may enter into interest rate swaps that involve the exchange of floating for fixed rate interest payments in order to reduce interest rate volatility. However, we may not maintain interest rate swaps with respect to all of our variable rate indebtedness, and any swaps we enter into may not fully mitigate our interest rate risk, may prove disadvantageous or may create additional risks. Your ability to transfer the notes may be limited by the absence of an active trading market, and there is no assurance that any active trading market will develop, or if developed be maintained, for the notes.

The notes are new issues of securities for which there is no established public market. We do not intend to have the notes listed on a national securities exchange or included in any automated quotation system. Affiliates of the initial purchasers have advised us that they intend to make a market in the notes, as permitted by applicable laws and regulations; however, they are not obligated to make a market in any of the notes, and they may discontinue their market making activities at any time without notice. Therefore, an active market for any of the notes may not develop or, if developed, it may not continue. The liquidity of any market for the notes will depend upon the number of holders of the notes, our performance, the market for similar securities, the interest of securities dealers in making a market in the notes and other factors. A liquid trading market may not develop for the notes or any series of notes. If an active market does not develop or is not maintained, the price and liquidity of the notes may be adversely affected. Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the notes. The market, if any, for any of the notes may not be free from similar disruptions and any such disruptions may adversely affect the prices at which you may sell your notes. In addition, the notes may trade at a discount from their value on the date you acquired the notes, depending upon prevailing interest rates, the market for similar notes, our performance and other factors.

Risks Related to the Exchange Offer

If you do not properly tender your initial notes, you will continue to hold unregistered initial notes and be subject to the same limitations on your ability to transfer initial notes.

We will only issue exchange notes in exchange for initial notes that are timely received by the exchange agent together with all required documents, including a properly completed and signed letter of transmittal. Therefore, you should allow sufficient time to ensure timely delivery of the initial notes and you should carefully follow the instructions on how to tender your initial notes. Neither we nor the exchange agent are required to tell you of any defects or irregularities with respect to your tender of the initial notes. If you are eligible to participate in the exchange offer and do not tender your initial notes or if we do not accept your initial notes because you did not tender your initial notes properly, then, after we consummate the exchange offer, you will continue to hold initial notes that are subject to the existing transfer restrictions and will no longer have any registration rights or be entitled to any additional interest with respect to the initial notes. In general, you may only offer or sell the initial notes if they are registered under the Securities Act and applicable state securities laws, or offered and sold under an exemption from these requirements. Except as required by the Registration Rights Agreement, we do not currently anticipate that we will register under the Securities Act, any initial notes that remain outstanding after the Exchange Offer. In addition:

- if you tender your initial notes for the purpose of participating in a distribution of the exchange notes, you will be required to comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale of the exchange notes; and

- if you are a broker-dealer that receives exchange notes for your own account in exchange for initial notes that you acquired as a result of market-making activities or any other trading activities, you will be required to acknowledge that you will deliver a prospectus in connection with any resale, offer to resell or other transfer of those exchange notes.

We have agreed that, for a period of 180 days after the exchange offer is consummated, we will make additional copies of this prospectus and any amendment or supplement to this prospectus available to any broker-dealer for use in connection with any resales of the exchange notes. After the exchange offer is consummated, if you continue to hold any initial notes, you may have difficulty selling them because there will be fewer initial notes outstanding.

The issuance of the exchange notes may adversely affect the market for the initial notes.

To the extent the initial notes are tendered and accepted in the exchange offer, the trading market for the untendered and tendered but unaccepted initial notes could be adversely affected. Because we anticipate that most holders of the initial notes will elect to exchange their initial notes for exchange notes due to the absence of restrictions on the resale of exchange notes under the Securities Act, we anticipate that the liquidity of the market for any initial notes remaining after the completion of this exchange offer may be substantially limited. Please

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refer to the section in this prospectus entitled The Exchange Offer Your Failure to Participate in the Exchange Offer Will Have Adverse Consequences.

Some persons who participate in the exchange offer must deliver a prospectus in connection with resales of the exchange notes.

Based on interpretations of the staff of the Commission contained in Exxon Capital Holdings Corp., SEC no-action letter (April 13, 1988), Morgan Stanley & Co. Inc., SEC no-action letter (June 5, 1991) and Shearman & Sterling, SEC no-action letter (July 2, 1983), we believe that you may offer for resale, resell or otherwise transfer the exchange notes without compliance with the registration and prospectus delivery requirements of the Securities Act. However, in some instances described in this prospectus under Plan of Distribution, you will remain obligated to comply with the registration and prospectus delivery requirements of the Securities Act to transfer your exchange notes. In these cases, if you transfer any exchange note without delivering a prospectus meeting the requirements of the Securities Act or without an exemption from registration of your exchange notes under the Securities Act, you may incur liability under the Securities Act. We do not and will not assume, or indemnify you against, this liability.

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus, other than historical information, may be considered forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, and are subject to various risks, uncertainties and assumptions. Statements that are not historical in nature, and which may be identified by the use of words such as may, should, could, believe, predict, potential, continue, plan, i anticipate, future, project, estimate and similar expressions (or the negative of such expressions) are forward-lookin statements. Forward-looking statements are made based on management s current expectations and beliefs concerning future events and, therefore, involve a number of assumptions, risks and uncertainties, including those described under Risk Factors. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ from those anticipated, estimated or expected. Factors that could cause actual results to differ materially from those contemplated by forward-looking statements include, but are not limited to:

- the success of our capital initiatives, including new store development and existing store evolution;
- our ability to successfully implement our marketing strategy;
- competition in both the restaurant and entertainment industries;
- changes in consumer discretionary spending;
- impacts on our business and financial results from economic uncertainty in the United States and Canada;
- negative publicity concerning food quality, health, general safety and other issues;
- expansion in international markets;
- increases in our leverage;
- increases in food, labor and other operating costs;
- disruptions of our information technology systems and technologies;
- changes in consumers health, nutrition and dietary preferences;

- any disruption of our commodity distribution system;
- our dependence on a limited number of suppliers for our games, rides, entertainment-related equipment, redemption prizes and merchandise;
- product liability claims and product recalls;
- government regulations, including health care reform;
- litigation risks;
- adverse effects of local conditions, natural disasters and other events;
- existence or occurrence of certain public health issues;
- fluctuations in our quarterly results of operations due to seasonality;
- inadequate insurance coverage;
- loss of certain key personnel;
- our ability to adequately protect our trademarks or other proprietary rights;
- risks in connection with owning and leasing real estate; and
- litigation risks associated with the Merger.

The forward-looking statements made in this prospectus relate only to events as of the date on which the statements are made in this prospectus. Except as may be required by law, we undertake no obligation to update our forward-looking statements to reflect events and circumstances after the date on which the statements are made in this prospectus or to reflect the occurrence of unanticipated events.

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USE OF PROCEEDS

We will not receive any cash proceeds from the issuance of the exchange notes in exchange for the outstanding initial notes. We are making this exchange solely to satisfy our obligations under the Registration Rights Agreement entered into in connection with the offering of the initial notes. In consideration for issuing the exchange notes, we will receive initial notes in like aggregate principal amount.

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CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of June 29, 2014. The information in this table should be read in conjunction with Risk Factors, Selected Historical Consolidated Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as our historical consolidated financial statements included elsewhere in this prospectus.

	As of June 29, 2014 (in thousands)
Cash and cash equivalents	$ 55,171
Debt:	
Revolving credit facility(1)	$
Term loan facility(1)	756,402
The notes	255,000
Capital lease obligations	15,422
Total long-term debt, including current portion	1,026,824
Total stockholders equity	328,888
Total capitalization	$ 1,355,712

(1) The Senior Facilities are comprised of a $150 million revolving credit facility and a $760 million term loan facility. As of June 29, 2014, there were no borrowings outstanding, $10.9 million of letters of credit outstanding and $139.1 million available for future borrowings under the revolving credit facility. The term loan facility was issued at a discount totaling $3.8 million. Holdings and all of the material wholly owned domestic subsidiaries of the Issuer, other than any domestic subsidiary of a foreign subsidiary, guarantee the Senior Facilities. Holdings has pledged the equity interests of the Issuer and all of the material wholly owned domestic subsidiaries of the Issuer have pledged their assets to secure the Senior Facilities. See Description of Other Indebtedness Senior Facilities for a description of the Senior Facilities.

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL DATA

We derived the following unaudited pro forma combined statement of earnings for the year ended December 29, 2013 by applying pro forma adjustments to the audited consolidated statement of earnings of our Predecessor for the year ended December 29, 2013 included elsewhere in this prospectus. We derived the following unaudited pro forma combined consolidated statement of earnings for the six months ended June 29, 2014 by applying pro forma adjustments to the unaudited consolidated statement of earnings of our Predecessor for the 47 day period ended February 14, 2014 and the unaudited consolidated statement of earnings of our Successor for 135 day the period ended June 29, 2014, each of which is included elsewhere in this prospectus. The pro forma adjustments give effect to the Transactions as if they occurred on December 31, 2012, the first day of fiscal 2013. A pro forma balance sheet has not been presented due to the fact that the Transactions are reflected in our historical June 29, 2014 balance sheet. We describe the assumptions underlying the pro forma adjustments in the accompanying notes, which should be read in conjunction with these unaudited pro forma condensed consolidated financial data.

Pro forma adjustments for the Transactions were made primarily to reflect:

- the Acquisition;
- borrowings under the Senior Facilities and the bridge facility used to fund a portion of the Acquisition, to repay the Existing Facility, and to pay related fees and expenses, including changes in interest expense resulting therefrom and amortization of estimated debt issuance costs;
- the use of the proceeds from this offering were used to repay our borrowings under the bridge facility in full upon the consummation of this offering;
- transaction costs and fees incurred as a result of the Transactions; and
- changes in depreciation and amortization expense resulting from fair value adjustments to net tangible assets and amortizable intangible assets.

The unaudited pro forma condensed consolidated statements of operations have been prepared to give effect to the Transactions, including the accounting for the acquisition of our business as a purchase in accordance with Accounting Standards Codification 805 (ASC 805), Business Combinations. The total purchase price for the Acquisition was allocated to our net assets based upon estimates of fair value. The pro forma adjustments were based an assessment of the value of our tangible and intangible assets by management based on information obtained to date and are subject to revision as additional information becomes available. The actual purchase accounting adjustments described in the accompanying notes may differ from those reflected in these unaudited pro forma condensed consolidated statements of operations. The purchase price allocation could change in subsequent periods, up to one year from the Merger Date. Differences between the preliminary and final purchase price allocations may have a material impact on the pro forma amounts of cost of revenue, selling, general and administrative expense, depreciation and amortization and interest expense.

The unaudited pro forma condensed consolidated statements of operations include only factually supportable adjustments directly attributable to the Transactions that are going to have a continuing impact on us. The unaudited pro forma condensed consolidated financial information does not give effect to any cost-saving initiatives we may pursue.

The unaudited pro forma condensed consolidated financial data should be read in conjunction with the information contained in Summary The Transactions, Selected Historical Consolidated Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as our audited and unaudited consolidated financial statements and the related notes included elsewhere in this prospectus.

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CEC Entertainment, Inc.

Unaudited Pro Forma Condensed Consolidated Statement of Earnings

For the fiscal year ended December 29, 2013

(in thousands)

	Historical	Pro Forma Adjustments	Pro Forma
Revenues:			
Food and beverage sales	$ 368,584	$	$ 368,584
Entertainment and merchandise sales	448,155		448,155
Total Company store sales	816,739		816,739
Franchised fees and royalties	4,982		4,982
Total revenues	821,721		821,721
Operating costs and expenses:			
Company store operating costs:			
Costs of food and beverage (exclusive of items shown separately below)	90,363		90,363
Cost of entertainment and merchandise (exclusive of items shown separately below	29,775		29,775
Total cost of food, beverage, entertainment and merchandise	120,138		120,138
Labor expenses	229,172		229,172
Depreciation and amortization	78,167	47,738(1)	125,905
Rent expense	78,463	8,672(2)	87,135
Other store operating expenses	131,035	(1,108)(2)	129,927
Total Company store operating costs	636,975	55,302	692,277
Other costs and expenses:			
Advertising expense	41,217		41,217
General and administrative	57,007	401(1)	57,128
		(280)(3)	
Asset impairments	3,051		3,051
Total operating costs and expenses	738,250	55,423	793,673
Operating income	83,471	(55,423)	28,048
Interest expense, net	7,453	1,136(2)	59,985
		51,396(4)	
Income (loss) before income taxes	76,018	(107,955)	(31,937)

Income tax provision (benefit)		28,194		(41,023)[5]		(12,829)
Net income (loss)	$	47,824	$	(66,932)	$	(19,108)

See the accompanying notes to the unaudited pro forma condensed consolidated statement of earnings.

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(1) Reflects the estimated adjustments to depreciation and amortization resulting from the preliminary fair value adjustments to the acquired property and equipment and franchise rights using remaining estimated useful lives as follows (in thousands):

	Estimated Useful Life (years)	Fiscal Year Ended December 29, 2013 Increase to depreciation/amortization
Depreciation and Amortization		
Depreciation	2 23	$ 46,805
Amortization	15	933
Total Depreciation and amortization expense adjustment		47,738
General administrative	2 23	401
Net adjustment to depreciation and amortization expense		$ 47,337

(2) Represents the effect of the following items (in thousands):

		Fiscal Year Ended December 29, 2013
Rent expense	(a)	$ 8,250
Rent expense	(b)	422
Total Rent expense adjustment		8,672
Other store operating expenses	(c)	(1,108)
Interest expense	(d)	1,136

(a) Represents the adjustment to straight-line rent expense based on a reassessment of remaining lease terms for those leases in place on the first day of fiscal year 2013.
(b) Represents the adjustment to record net favorable lease amortization over an average estimated remaining life of approximately nine years for both favorable lease assets and unfavorable lease liabilities.
(c) Represents the adjustment for rent expense related to unopened stores, which is recorded in other store operating expenses until the store opens.
(d) Represents the adjustment to interest expense relating to capital lease obligations based on a reassessment of the capital leases based on preliminary valuations by our independent valuation firm.

(3) Represents the removal of $0.3 million of transaction expenses incurred for in fiscal year 2013.

(4) Reflects interest expense related to the borrowings under the notes offered hereby as well as under the term loan facilities, based on stated interest rates, less the removal of interest expense, non-cash amortization of debt issuance costs and other associated finance costs related to the repayment of our Existing Facility. The interest rates for pro forma purposes are based on stated interest rates effective upon the closing of the Transactions. Our new revolving credit facility was undrawn at the closing of the Transactions. If the revolving credit facility had been fully drawn, each 0.125% change in assumed interest rates for our new term loan facility and revolving credit facility would change pro forma interest expense by approximately $5.6 million for the year ended December 29, 2013.

(5) Reflects the estimated tax effects resulting from the Transactions at the estimated statutory rates.

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CEC Entertainment, Inc.

Unaudited Pro Forma Condensed Consolidated Statement of Earnings

For the Six Months Ended June 29, 2014

(in thousands)

	Predecessor For the 47 Day Period Ended February 14, 2014	Successor For the 135 Day Period Ended June 29, 2014	Pro forma Adjustments	Pro forma
Revenues:				
Food and beverage sales	$ 50,897	$ 141,926	$	$ 192,823
Entertainment and merchandise sales	62,659	184,264		246,923
Total Company store sales	113,556	326,190		439,746
Franchise fees and royalties	687	1,960		2,647
Total revenues	$ 114,243	$ 328,150	$	$ 442,393
Operating costs and expenses:				
Company store operating costs:				
Cost of food and beverage (exclusive of items shown separately below)	12,285	36,083		48,368
Cost of entertainment and merchandise (exclusive of items shown separately below)	3,729	10,757		14,486
Total cost of food, beverage, entertainment and merchandise	16,014	46,840		62,854
Labor expenses	31,998	86,695		118,693
Depreciation and amortization	9,733	52,519	701(1)	62,953
Rent expense	12,365	30,425	2,183(2)	44,973
Other store operating expenses	15,760	48,978	(178)(2)	64,560
Total Company store operating costs	85,870	265,457	2,706	354,033
Other costs and expenses:				
Advertising expense	5,903	14,688		20,591
General and administrative expenses	7,963	18,756	(240)(1)	26,479
Transaction and Severance Costs	11,634	37,521	(49,155)(3)	
Asset impairments				

Total operating costs and expenses	111,370	336,422	(46,689)	401,103
Operating income (loss)	2,873	(8,272)	46,689	41,290
Interest expense	1,151	27,282	428(2)	51,297
			22,436(4)	
Income (loss) before income taxes	1,722	(35,554)	23,825	(10,007)
Income tax expense (benefit)	1,018	(8,898)	9,054(5)	1,174
Net income (loss)	$ 704	$ (26,656)	$ 14,771	$ (11,181)

See the accompanying notes to the unaudited pro forma condensed consolidated statements of earnings.

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Notes to Unaudited Pro Forma Condensed Consolidated Statements of Earnings

(1) Reflects the estimated adjustments to depreciation and amortization resulting from the preliminary fair value adjustments to the acquired property and equipment and franchise rights using remaining estimated useful lives as follows (in thousands):

	Estimated Useful Life (years)	Six Months Ended June 29, 2014 Increase (Decrease) to depreciation/amortization
Depreciation and Amortization		
Depreciation	2 23	$ 234
Amortization	15	467
Total Depreciation and amortization expense adjustment		701
General administrative	2 23	(240)
Net adjustment to depreciation and amortization expense		$ 461

(2) Represents the effect of the following items (in thousands):

		Six Months Ended June 29, 2014
Rent expense	(a)	$ 1,972
Rent expense	(b)	211
Total Rent expense adjustment		$ 2,183
Other store operating expenses	(c)	(178)
Interest expense	(d)	428

(a) Represents the adjustment to straight-line rent expense based on a reassessment of remaining lease terms for those leases in place on the first day of fiscal year 2013.

(b) Represents the adjustment to record net favorable lease amortization over an average estimated remaining life of approximately nine years for both favorable lease assets and unfavorable lease liabilities.

(c) Represents the adjustment for rent expense related to unopened stores, which is recorded in other store operating expenses until the store opens.

(d) Represents the adjustment to interest expense relating to capital lease obligations based on a reassessment of the capital leases based on preliminary valuations by our independent valuations firm.

(3) Represents the removal of $32 million of transaction expenses and $17 million of accelerated stock compensations costs and severance costs incurred in the six months ended June 29, 2014.

(4) Reflects interest expense related to the borrowings under the notes as well as under the term loan facility, based on stated interest rates, less the removal of interest expense, non-cash amortization of debt issuance costs and other associated finance costs related to the repayment of our Existing Facility. The interest rates for pro forma purposes are based on stated interest rates effective upon the closing of the Transactions. Our new revolving credit facility was undrawn at the closing of the Transactions. If the revolving credit facility had been fully drawn, each 0.125% change in assumed interest rates for our new term loan facility and revolving credit facility would change pro forma interest expense by approximately $2.8 million for the six months ended June 29, 2014.

(5) Reflects the estimated tax effects resulting from the Transactions at the estimated statutory rates.

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following table presents the selected historical consolidated financial data of the Company. We have derived the consolidated statement of earnings data for the fiscal years ended January 1, 2012, December 30, 2012 and December 29, 2013, and the consolidated balance sheet data as of December 30, 2012 and December 29, 2013, from the audited consolidated financial statements of our Predecessor included elsewhere in this prospectus. We have derived the consolidated statement of earnings data for the fiscal years ended January 3, 2010 and January 2, 2011, and the consolidated balance sheet data as of January 3, 2010, January 2, 2011 and January 1, 2012, from the audited consolidated financial statements of our Predecessor not included elsewhere in this prospectus. The following selected historical consolidated financial data as of June 29, 2014 and June 30, 2013 and for 135 day period ended June 29, 2014, the 47 day period ended February 14, 2014 and the six month period ended June 30, 2013 is derived from our unaudited interim financial statements.

The selected historical consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as the historical consolidated financial statements and the notes to those statements included elsewhere in this prospectus.

	Successor	Predecessor						
	135 Day Period Ended June 29, 2014	47 Day Period Ended February 14, 2014	Six Month Period Ended June 30, 2013	Fiscal Year Ended(1) December 29, 2013	December 30, 2012	January 1, 2012	January 2, 2011	January 3, 2010(2)
	(in thousands, except percentages and store number amounts)							
Statement of Earnings Data:								
Company store sales	$ 326,190	$ 113,556	$ 444,646	$ 816,739	$ 798,937	$ 815,894	$ 813,133	$ 814,563
Sales percent increase (decrease):								
Total company store sales	3.1%(5)		4.2%(5)	2.2%	(2.1)%	0.3%	(0.2)%	0.5%
Comparable store sales(3)	(3.2)%(5)		3.3%(5)	0.4%	(2.9)%	(2.0)%	1.5%	(2.8)%
Total revenues	$ 328,150	$ 114,243	$ 447,247	$ 821,721	$ 803,480	$ 821,178	$ 817,248	$ 818,346
Revenues percent increase (decrease)	3.1%(5)		4.2%(5)	2.3%	(2.2)%	0.5%	(0.1)%	0.5%
Operating income	$ (8,272)	$ 2,873	$ 69,686	$ 83,471	$ 79,071	$ 97,979	$ 104,902	$ 110,965
Net income	$ (26,656)	$ 704	$ 40,496	$ 47,824	$ 43,590	$ 54,962	$ 54,034	$ 61,194
Balance Sheet Data (at end of period):								
Total assets	$ 1,712,285		$ 783,065	$ 791,611	$ 801,806	$ 772,471	$ 778,029	$ 744,266
Total debt(4)	$ 1,026,824		$ 373,896	$ 382,879	$ 412,216	$ 400,509	$ 388,262	$ 365,810

Stockholders quity	$ 328,888		$ 158,158	$ 160,768	$ 143,274	$ 124,177	$ 158,062	$ 167,913
Number of Stores (end of ear):								
Company-owned	524		514	522	514	507	507	497
ranchised	54		53	55	51	49	47	48
	578		567	577	565	556	554	545
Other Financial Data:								
Ratio of earnings o fixed harges(6)	NM	1.33x	4.80x	3.26x	3.02x	3.63x	3.60x	3.86x

(1) We operate on a 52 or 53 week fiscal year ending on the Sunday nearest December 31. Fiscal year 2009 was 53 weeks in length and all other fiscal years presented were 52 weeks.

(2) We estimate that the additional 53rd operating week in our fiscal year ended January 3, 2010 benefited total revenues by $19.5 million and comparable store sales by 0.5%.

(3) We define comparable store sales as the percentage change in sales for our domestic Company-owned stores that have been open for at least 18 months as of the beginning of each respective fiscal year or operated by us for 12 months for acquired stores. We believe comparable store sales to be a key performance indicator used within our industry and is a critical factor when evaluating our performance, as it is indicative of acceptance of our strategic initiatives and local economic and consumer trends.

(4) Total debt includes the notes, our outstanding borrowings under the term loan facility, the revolving credit facility and the Existing Facility and capital lease obligations.

(5) Sales percent increase (decrease) was calculated based on comparable data from 2013 and 2012, respectively. To compute the predecessor/successor values for 2013 and 2012, we used February data from each year and allocated total sales based on the number of days in the predecessor and successor periods (i.e., 19 days and 9 days).

(6) For purposes of determining the ratio of earnings to fixed charges, earnings consist of income from continuing operations before income taxes, fixed charges and amortization of capitalized interest. Fixed charges consist of interest expense (before interest is capitalized), amortization of debt premiums and discounts, capitalized expenses related to indebtedness and one-third of rent expense, which represents an appropriate interest factor on operating leases. The ratio of earnings to fixed charges was calculated as shown in the chart below (amounts in thousands).

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	Successor	Predecessor						
					Fiscal Year Ended			
	135 Day Period Ended June 29, 2014	47 Day Period Ended February 14, 2014	Six Month Period Ended June 30, 2013	December 29, 2013	December 30, 2012	January 1, 2012	January 2, 2011	January 3, 2010
				(dollars in thousands)				
Income (loss) before income taxes	$ (35,554)	$ 1,722	$ 65,455	$ 76,018	$ 69,670	$ 89,104	$ 92,760	$ 98,948
Fixed charges								
Interest expense and amortization of debt issuance cost	27,282	1,151	4,231	7,453	9,401	8,875	12,142	12,017
Portion of rent estimated to represent interest factor	10,142	4,122	12,992	26,154	25,104	24,997	23,475	22,565
Total fixed charges	$ 37,424	$ 5,273	$ 17,223	$ 33,607	$ 35,505	$ 33,872	$ 35,617	$ 34,582
Income before income taxes plus fixed charges	$ 1,870	$ 6,995	$ 82,678	$ 109,625	$ 104,175	$ 122,976	$ 128,377	$ 133,530
Ratio of earnings to fixed charges	NM(1)	1.33x	4.80x	3.26x	3.02x	3.63x	3.60x	3.86x

(1) Due to the registrant s loss in the 135 day period ended June 29, 2014, the ratio coverage was less than 1:1. The registrant must generate additional earnings of $35,554 to achieve a coverage of 1:1.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations covers periods prior to the consummation of the Transactions. Accordingly, the discussion and analysis of historical periods does not reflect the impact that the Transactions will have on us. You should read the following discussion of our financial condition and results of operations in conjunction with our historical consolidated financial statements and the related notes included elsewhere in this prospectus and the information presented under the heading Unaudited Pro Forma Condensed Consolidated Financial Data elsewhere in this prospectus. This discussion contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those described in the Risk Factors section of this prospectus. Actual results may differ materially from those contained in any forward-looking statements. We operate on a 52 or 53 week fiscal year that ends on the Sunday nearest to December 31. Each quarterly period has 13 weeks, except for a 53 week year, when the fourth quarter has 14 weeks. References to 2013, 2012 and 2011 are for the fiscal years ended December 29, 2013, December 30, 2012 and January 1, 2012, respectively, which each consisted of 52 weeks. References to 2014 are for the fiscal year ending December 28, 2014, which will consist of 52 weeks.

Executive Summary

The Merger

On January 15, 2014, the Issuer entered into the Merger Agreement with Holdings and Merger Sub. Holdings and Merger Sub were controlled by Apollo. Pursuant to the Merger Agreement, on January 16, 2014, Merger Sub commenced the tender offer at a price of $54.00 per share payable net to the seller in cash, without interest (the Offer Price). Approximately 68% of the outstanding shares were tendered in the Tender Offer, and Merger Sub accepted all such tendered shares for payment. Following the expiration of the Tender Offer on February 14, 2014, Merger Sub exercised its option under the Merger Agreement to purchase a number of shares of common stock necessary for Merger Sub to own one share more than 90% of the outstanding shares of common stock (the Top-Up Shares) at the Offer Price. Following Merger Sub s purchase of the Top-Up Shares, on February 14, 2014, Merger Sub merged with and into CEC Entertainment with CEC Entertainment surviving the Merger and becoming a wholly owned subsidiary of Holdings. At the effective time of the Merger, each share of common stock issued and outstanding immediately prior thereto, other than common stock owned or held (a) in treasury by the Company or any wholly-owned subsidiary of the Company; (b) by Holdings or any of its subsidiaries; or (c) by stockholders who validly exercised their appraisal rights, was cancelled and converted into the right to receive the Offer Price in cash, without interest and subject to applicable withholding tax. As a result of the Merger, the shares of CEC Entertainment common stock ceased to be traded on the New York Stock Exchange after close of market on February 14, 2014.

The aggregate consideration paid to acquire the Company was $1.4 billion, including the payoff of net debt of approximately $362 million and transaction costs of approximately $63 million. The Acquisition was funded by (a) $350.0 million of equity contributions from the Apollo Funds; (b) $248.5 million of borrowings under a bridge loan facility, which were later repaid using the proceeds from our issuance of $255.0 million of notes; and (c) $760.0 million of borrowings under a term loan facility. In addition, we also entered into a $150.0 million revolving credit facility in connection with the Acquisition, but it was undrawn at closing. See discussion of the bridge facility, notes, term loan facility and revolving credit facility under Financial Condition, Liquidity and Capital Resources-Debt Financing.

Stock Options in Parent

On August 21, 2014, Holdings granted options to purchase approximately 194,000 shares of its common stock to certain directors, officers and employees of the Issuer. The options are subject to certain service- and performance-based vesting criteria and also to accelerated vesting in the event of certain terminations of employment upon or within 12 months following a change in control of Holdings. Compensation costs related to options in the Parent will be recorded by the Company.

Sale Leaseback Transaction

On August 25, 2014, we closed the Sale Leaseback with NNN. Pursuant to the Sale Leaseback, we sold 49 properties located throughout the United States to NNN, and we leased each of the 49 properties back from NNN pursuant to two separate master leases on a triple-net basis for their continued use as Chuck-E-Cheese s family dining and entertainment centers. The leases have an initial term of 20 years, with four five-year options to renew. The aggregate purchase price for the properties in connection with the Sale Leaseback was approximately $185 million in cash, and the net proceeds realized by the Company were approximately $140 million. We expect to use the net proceeds from the Sale Leaseback for capital expenditures, future liquidity needs and other general corporate purposes.

Overview of Operations

We currently operate and franchise family dining and entertainment centers under the name Chuck E. Cheese s in 47 states and ten foreign countries and territories. Our stores provide our guests with a variety of family entertainment and dining alternatives. Our family leisure offerings include video games, skill games, rides, musical and comical shows and other attractions along with tokens, tickets and prizes for kids. Our wholesome family dining offerings are centered on made-to-order pizzas and a salad bar, as well as a variety of sandwiches, wings, appetizers, beverages and desserts. We target families with children that are two through 12 years of age.

In order to present Management s Discussion and Analysis of Financial Condition and Results of Operations in a way that offers a meaningful period to period comparison, we have combined the Predecessor and Successor periods to arrive at the six months ended June 29, 2014 and compared to the Predecessor six months ended June 30, 2013; however, these combined results are considered non-GAAP financial measures.

The following table summarizes information regarding the number of Company-owned and franchised stores for the periods presented:

	Six Months Ended		Fiscal Year Ended		
	June 29, 2014	June 30, 2013	2013	2012	2011
Number of Company-owned stores:					
Beginning of period	522	514	514	507	507
New(1)	6	3	13	12	4
Acquired from franchisee	1			1	
Closed(1)	(5)	(3)	(5)	(6)	(4)
End of period	524	514	522	514	507
Number of franchised stores:					
Beginning of period	55	51	51	49	47
New		3	6	3	3
Acquired by the Company	(1)			(1)	

Closed		(1)	(2)		(1)
End of period	54	53	55	51	49

(1) During the six months ended June 29, 2014, the number of new and closed Company-owned stores included two stores that were relocated.

We continue to focus on growing our concept both domestically and internationally. We currently expect to open a total of 11 to 13 new domestic Company-owned stores, including two relocated stores and one acquisition from a franchisee, in 2014. We currently expect to close seven Company-owned stores, including two relocated stores, in 2014. We are also targeting franchising our concept internationally in certain countries located in Asia, Latin America, the Middle East and Eastern Europe. We currently expect our franchisees to open a total of eight to 10 international franchise stores during 2014.

Comparable store sales. We define comparable store sales as the percentage change in sales for our domestic Company-owned stores that have been open for more than 18 months as of the beginning of each respective fiscal year or acquired stores we have operated for at least 12 months. Comparable store sales is a key performance indicator used within our industry and is a critical factor when evaluating our performance, as it is indicative of acceptance of our strategic initiatives and local economic and consumer trends.

The following table summarizes information regarding our average annual comparable store sales and comparable store base:

	Fiscal Year		
	2013	**2012**	**2011**
	(in thousands, except store number amounts)		
Average annual sales per comparable store(1)	$ 1,573	$ 1,553	$ 1,596
Number of stores included in our comparable store base	485	480	475

(1) Average annual sales per comparable store is calculated based on the average weekly sales of our comparable store base. The amount of average annual sales per comparable store cannot be used to compute year-over-year comparable store sales increases or decreases due to the change in comparable store base.

Revenues. Our primary source of revenues is sales at our Company-owned stores (Company store sales), which consist of the sale of food, beverages, game-play tokens and merchandise. A portion of our Company store sales are from sales of value-priced combination packages generally comprised of food, beverage and game tokens (Package Deals), which we promote through in-store menu pricing, our website and coupon offerings. We allocate the revenues recognized from the sale of our Package Deals and coupons between Food and beverage sales and Entertainment and merchandise sales based upon the price charged for each component when it is sold separately, or in limited circumstances, our best estimate of selling price if a component is not sold on a stand-alone basis, which we believe approximates each component s fair value.

Food and beverage sales include all revenues recognized with respect to stand-alone food and beverage sales, as well as the portion of revenues allocated from Package Deals and coupons that relate to food and beverage sales. Entertainment and merchandise sales include all revenues recognized with respect to stand-alone game token sales, as well as a portion of revenues allocated from Package Deals and coupons that relate to entertainment and merchandise.

Franchise fees and royalties are another source of revenues. We earn monthly royalties from our franchisees based on a percentage of each franchise store s sales. We also receive development and initial franchise fees to establish new franchised stores, as well as earn revenues from the sale of equipment and other items or services to franchisees. We recognize development and franchise fees as revenues when the franchise store has opened and we have substantially completed our obligations to the franchisee relating to the opening of a store.

Company store operating costs. Certain of our costs and expenses relate only to the operation of our Company-owned stores. These costs and expenses are listed and described below:

Cost of food and beverage includes all direct costs of food, beverages and costs of related paper and birthday supplies, less rebates from suppliers;

- Cost of entertainment and merchandise includes all direct costs of prizes provided and merchandise sold to our customers, as well as the cost of tickets dispensed to customers;

- Labor expenses consist of salaries and wages, bonuses, related payroll taxes and benefits for store personnel;

- Depreciation and amortization includes expenses that are directly related to our Company-owned stores property and equipment, including leasehold improvements, game and ride equipment, furniture, fixtures and other equipment;

- Rent expense includes lease costs for Company-owned stores, excluding common occupancy costs (e.g., common area maintenance (CAM) charges and property taxes); and

- Other store operating expenses primarily include utilities, repair and maintenance costs, liability and property insurance, CAM charges, property taxes, credit card processing fees, licenses, preopening expenses, store asset disposal gains and losses and all other costs directly related to the operation of a store.

The Cost of food and beverage and Cost of entertainment and merchandise mentioned above exclude any allocation of (a) store employee payroll, related payroll taxes and benefit costs; (b) depreciation and amortization expense; (c) rent expense; and (d) other direct store operating expenses associated with the operation of our Company-owned stores. We believe that presenting store-level labor costs, depreciation and amortization expense, rent expense and other store operating expenses in the aggregate provides the most informative financial reporting presentation. Our rationale for excluding such costs is as follows:

- our store employees are trained to sell and attend to both our dining and entertainment operations. We believe it would be difficult and potentially misleading to allocate labor costs between Food and beverage sales and Entertainment and merchandise sales ; and

- while certain assets are individually dedicated to either our food service operations or game activities, we also have significant capital investments in shared depreciating assets, such as leasehold improvements, point-of-sale systems and showroom fixtures. Therefore, we believe it would be difficult and potentially misleading to allocate depreciation and amortization expense or rent expense between Food and beverage sales and Entertainment and merchandise sales.

Cost of food and beverage and Cost of entertainment and merchandise , as a percentage of Company store sales, are influenced by both the cost of products, as well as the overall mix of our Package Deals and coupon offerings. Entertainment and merchandise sales have higher margins than Food and beverage sales.

Advertising expense. Advertising expense includes production costs for television commercials, newspaper inserts, internet advertising, coupons, media expenses for national and local advertising and consulting fees, partially offset by contributions from our franchisees.

General and administrative expenses. General and administrative expenses represent all costs associated with operating our corporate office, including regional and district management and corporate personnel payroll and benefits, depreciation and amortization of corporate assets, back-office support systems and other administrative costs not directly related to the operation of our Company-owned stores.

Adjusted EBITDA. We define Adjusted EBITDA as earnings before interest, income taxes, depreciation and amortization adjusted to exclude unusual items and other adjustments required or permitted in calculating covenant compliance under the indenture and/or our Senior Facilities. Adjusted EBITDA is a measure used by management to evaluate our performance. Adjusted EBITDA provides additional information about certain trends, material non-cash items and unusual items that we do not expect to continue at the same level in the future, as well as other items.

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Seasonality and Variation in Quarterly Results. Our operating results fluctuate seasonally due to the timing of school vacations, holidays and changing weather conditions. As a result, we typically generate higher sales volumes during the first quarter of each fiscal year. School operating schedules, holidays and weather conditions may affect sales volumes in some operating regions differently than others. Because of the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year.

Results of Operations

The following tables summarize our principal sources of Total Company store sales expressed in dollars and as a percentage of Total Company store sales for the periods presented:

	Six Months Ended				Fiscal Year					
	June 29, 2014 Combined		June 30, 2013 Predecessor		2013		2012		2011	
	(in thousands, except percentages)									
Food and beverage sales	$ 192,823	43.8%	$ 202,318	45.5%	$ 368,584	45.1%	$ 372,948	46.7%	$ 388,908	47.7%
Entertainment and merchandise sales	246,923	56.2%	242,328	54.5%	448,155	54.9%	425,989	53.3%	426,986	52.3%
Total Company store sales	$ 439,746	100.0%	$ 444,646	100.0%	$ 816,739	100.0%	$ 798,937	100.0%	$ 815,894	100.0%

	For the 135 Day Period Ended June 29, 2014 Successor		For the 47 Day Period Ended February 14, 2014 Predecessor	
	(in thousands, except percentages)			
Food and beverage sales	$ 141,926	43.5%	$ 50,897	44.8%
Entertainment and merchandise sales	184,264	56.5%	62,659	55.2%
Total Company store sales	$ 326,190	100.0%	$ 113,556	100.0%

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The following table summarizes our revenues and expenses expressed in dollars and as a percentage of Total revenues (except as otherwise noted) for the periods presented:

	Six Months Ended				Fiscal Year					
	June 29, 2014 Combined		June 30, 2013 Predecessor		2013		2012		2011	
	(in thousands, except percentages)									
Total Company store sales	$ 439,746	99.4%	$ 444,646	99.4%	$ 816,739	99.4%	$ 798,937	99.4%	$ 815,894	99.4%
Franchising fees and royalties	2,647	0.6%	2,601	0.6%	4,982	0.6%	4,543	0.6%	5,284	0.6%
Total revenues	442,393	100.0%	447,247	100.0%	821,721	100.0%	803,480	100.0%	821,178	100.0%
Company store operating costs:										
Cost of food and beverage(1)	48,368	25.1%	48,965	24.2%	90,363	24.5%	93,417	25.0%	95,989	24.7%
Cost of entertainment and merchandise(2)	14,486	5.9%	16,280	6.7%	29,775	6.6%	30,855	7.2%	32,362	7.6%
Total cost of food, beverage, entertainment and merchandise(3)	62,854	14.3%	65,245	14.7%	120,138	14.7%	124,272	15.6%	128,351	15.7%
Labor expenses(3)	118,693	27.0%	117,940	26.5%	229,172	28.1%	223,605	28.0%	222,596	27.3%
Depreciation and amortization(3)	62,252	14.2%	39,063	8.8%	78,167	9.6%	78,769	9.9%	80,826	9.9%
Rent expense(3)	42,790	9.7%	38,976	8.8%	78,463	9.6%	75,312	9.4%	74,992	9.2%
Other store operating expenses(3)	64,738	14.7%	64,374	14.5%	131,035	16.0%	126,855	15.9%	126,847	15.5%
Total Company store operating costs(3)	351,327	79.9%	325,598	73.2%	636,975	78.0%	628,813	78.7%	633,612	77.7%
Other costs and expenses:										
	20,591	4.7%	22,316	5.0%	41,217	5.0%	35,407	4.4%	34,989	4.3%

Advertising expense										
General and administrative expenses	26,719	6.0%	29,421	6.6%	57,007	6.9%	53,437	6.7%	51,859	6.3%
Transaction and Severance Costs	49,155	11.1%		%		%		%		%
Asset impairments		%	226	0.1%	3,051	0.4%	6,752	0.8%	2,739	0.3%
Total operating costs and expenses	447,792	101.2%	377,561	84.4%	738,250	89.8%	724,409	90.2%	723,199	88.1%
Operating income (loss)	(5,399)	(1.2)%	69,686	15.6%	83,471	10.2%	79,071	9.8%	97,979	11.9%
Interest expense	28,433	6.4%	4,231	0.9%	7,453	0.9%	9,401	1.2%	8,875	1.1%
Income before income taxes	$ (33,832)	(7.6)%	$ 65,455	14.6%	$ 76,018	9.3%	$ 69,670	8.7%	$ 89,104	10.9%

(1) Percent amount expressed as a percentage of Food and beverage sales.
(2) Percent amount expressed as a percentage of Entertainment and merchandise sales.
(3) Percent amount expressed as a percentage of Company store sales.
Due to rounding, percentages presented in the table above may not sum to total. The percentage amounts for the components of Cost of food and beverage and the Cost of entertainment and merchandise may not sum to total due to the fact that Cost of food and beverage and Cost of entertainment and merchandise are expressed as a percentage of related Food and beverage and Entertainment and merchandise sales, as opposed to Total Company store sales.

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The following table summarizes our revenues and expenses expressed in dollars and as a percentage of Total revenues (except as otherwise noted) for the periods presented:

	For the 135 Day Period Ended June 29, 2014 Successor		For the 47 Day Period Ended February 14, 2014 Predecessor	
	(in thousands, except percentages)			
Total Company store sales	$ 326,190	99.4%	$ 113,556	99.4%
Franchising fees and royalties	1,960	0.6%	687	0.6%
Total revenues	328,150	100.0%	114,243	100.0%
Company store operating costs:				
Cost of food and beverage(1)	36,083	25.4%	12,285	24.1%
Cost of entertainment and merchandise(2)	10,757	5.8%	3,729	6.0%
Total cost of food, beverage, entertainment and merchandise(3)	46,840	14.4%	16,014	14.1%
Labor expenses(3)	86,695	26.6%	31,998	28.2%
Depreciation and amortization(3)	52,519	16.1%	9,733	8.6%
Rent expense(3)	30,425	9.3%	12,365	10.9%
Other store operating expenses(3)	48,978	15.0%	15,760	13.9%
Total Company store operating costs(3)	265,457	81.4%	85,870	75.6%
Other costs and expenses:				
Advertising expense	14,688	4.5%	5,903	5.2%
General and administrative expenses	18,756	5.7%	7,963	7.0%
Transaction and Severance Costs	37,521	11.4%	11,634	10.2%
Asset impairments		%		%
Total operating costs and expenses	336,422	102.5%	111,370	97.5%
Operating income (loss)	(8,272)	(2.5)%	2,873	2.5%
Interest expense	27,282	8.3%	1,151	1.0%
Income before income taxes	$ (35,554)	(10.8)%	$ 1,722	1.5%

(1) Percent amount expressed as a percentage of Food and beverage sales.
(2) Percent amount expressed as a percentage of Entertainment and merchandise sales.
(3) Percent amount expressed as a percentage of Company store sales.

Due to rounding, percentages presented in the table above may not sum to total. The percentage amounts for the components of Cost of food and beverage and the Cost of entertainment and merchandise may not sum to total due to the fact that Cost of food and beverage and Cost of entertainment and merchandise are expressed as a percentage of related Food and beverage and Entertainment and merchandise sales, as opposed to Total Company store sales.

Six Months Ended June 29, 2014 (combined) Compared to Six Months Ended June 30, 2013

Revenues

Company store sales decreased $4.9 million, or 1.1%, to $439.7 million in the first six months of 2014 compared to $444.6 million in the first six months of 2013. The decrease in Company store sales is primarily due to a 3.3% decrease in comparable store sales, offset by revenues generated from ten net new stores (including the acquisition of one franchisee) opened since the end of the second quarter of 2013.

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Company Store Operating Costs

Overall, the Cost of food, beverage, entertainment and merchandise, as a percentage of Total Company store sales, decreased 40 basis points to 14.3% in the first six months of 2014 compared to 14.7% in the first six months of 2013. We believe this decrease was attributable to our cost savings initiatives that were fully implemented in the second quarter of 2013, partially offset by commodity cost inflation.

Labor expenses increased $0.8 million to $118.7 million in the first six months of 2014 compared to $117.9 million in the first six months of 2013. The increase was primarily related to an increase in health insurance costs during the second quarter of 2014, partially offset by a decrease in sales bonuses as a result of current sales performance.

Depreciation and amortization increased $23.2 million to $62.3 million in the first six months of 2014 compared to $39.1 million in the first six months of 2013 primarily due to an increase in the basis of our property, plant and equipment to fair value in accordance with the acquisition method of accounting as a result of the Merger.

Rent expense increased $3.8 million to $42.8 million in the first six months of 2014 compared to $39.0 million in the first six months of 2013. As a result of the acquisition method of accounting related to the Merger, non-cash rent expense net of landlord contributions increased $2.2 million when compared to same period of the prior year. The increase in rent expense also was due to a $1.6 million increase in cash rent from new store development and expansions of existing stores.

Advertising Expense

Advertising expense decreased $1.7 million to $20.6 million in the first six months of 2014 from $22.3 million in the first six months of 2013. The decrease is primarily related to a reduction in digital brand advertising spend, partially offset by an increase in national television advertising.

General and Administrative Expenses

General and administrative expenses decreased $2.7 million to $26.7 million in the first six months of 2014 from $29.4 million in the first six months of 2013, primarily due to a decrease in management bonuses as a result of lower sales and profit performance.

Transaction and Severance Costs

Transaction and severance costs increased $49.1 million in the first six months of 2014 due to transaction costs of $32.0 million, accelerated stock-based compensation costs of $11.1 million and employee termination benefits of $6.0 million related to the departure of our Chairman and Chief Executive Officer, all of which were as a result of the Merger.

Interest Expense

Interest expense increased $24.2 million to $28.4 million in the first six months of 2014 from $4.2 million in the first six months of 2013. Interest expense for the first six months includes debt issuance costs related to the bridge facility, amortization of debt issuance costs related to our Senor Facilities and senior notes, amortization of our term loan facility original issue discount and commitment and other fees related to our Senor Facilities. The increase in our interest expense for the period was caused by an increase in our level of debt which increased in 2014 as a result of debt issued to fund a portion of the Acquisition as well as an increase in our weighted average effective interest rate. The weighted average effective interest rate for the first six months of 2014 was further impacted by $4.7 million of debt issuance costs related to borrowings under the bridge facility which we

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used to fund a portion of the Acquisition and expensed in the first quarter. Excluding the bridge facility issuance costs, our weighted average effective rate would have been 5.6% for the 135 day period ended June 29, 2014. Our weighted average effective interest rate increased to 6.3% for the first six months of 2014 from 1.7% for the first six months of 2013. The total debt (excluding capital leases and original issue discount) as of the quarter ended June 29, 2014, was $1,015 million as compared to $352 million as of the quarter ended June 30, 2013.

Income Taxes

We recorded an effective income tax rate of 23.3% for the six months ended June 29, 2014 compared to an effective income tax rate of 38.1% for the six months ended June 30, 2013. The change in our effective income tax rate was primarily caused by nondeductible transaction costs related to the Merger.

Fiscal Year 2013 Compared to Fiscal Year 2012

Revenues

Company store sales increased $17.8 million, or 2.2%, to $816.7 million in 2013 compared to $798.9 million in 2012. The increase in Company store sales is primarily due to a 0.4% increase in comparable store sales and additional revenues from 13 new stores opened, net of five closed stores, since the end of 2012.

Our Company store sales mix consisted of food and beverage sales totaling 45.1% and entertainment and merchandise sales totaling 54.9% in 2013 compared to 46.7% and 53.3%, respectively, in 2012. We believe that this shift in our sales mix is primarily due to the following: (a) repricing of certain components of our offerings; (b) changing the mix of items included in Packaged Deals and coupons; and (c) modification of our various token offers. These changes were part of our continued effort to rebalance our menu pricing between food and games. We believe that the rebalancing of our menu pricing and our ongoing investment in our games has resulted in more of our guests average check being allocated to games.

Company Store Operating Costs

Overall, the Cost of food, beverage, entertainment and merchandise, as a percentage of Total Company store sales, decreased 90 basis points to 14.7% in 2013 from 15.6% in 2012. We believe the decrease was primarily attributable to the changes in our pricing strategy that were fully implemented in the fourth quarter of 2012 and our cost savings initiatives that were fully implemented in the second quarter of 2013, partially offset by commodity cost inflation.

Labor expenses increased $5.6 million to $229.2 million in 2013 compared to $223.6 million in 2012, primarily related to higher sales and performance bonuses, partially offset by a decrease in workers compensation and health insurance costs during 2013.

Advertising Expenses

Advertising expenses increased $5.8 million to $41.2 million in 2013 from $35.4 million in 2012. In accordance with our updated strategic plan, we increased our expenditures for television advertising and our digital advertising campaign in 2013.

General and Administrative Expenses

General and administrative expenses increased $3.6 million to $57.0 million in 2013 from $53.4 million in 2012, primarily due to higher corporate compensation costs, including operational management bonuses, and increases in certain professional fees related to the modernization of various information technology platforms.

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Asset Impairments

In 2013, we recognized an asset impairment charge of $3.1 million primarily related to seven stores, of which three stores were previously impaired. In 2012, we recognized an asset impairment charge of $6.8 million for 18 stores, of which seven were previously impaired. We continue to operate all but two of these impaired stores. The impairment charge was based on the determination that these stores were adversely impacted by various economic factors in the markets in which they are located. Management determined that the estimated fair value of certain long-lived assets at these stores (determined from discounted future projected operating cash flows of the stores over their remaining lease term) had declined below their carrying amount. As a result, we recorded an impairment charge to write down the carrying amount of certain property and equipment at these stores to the estimated fair value. For additional information about these impairment charges, refer to Note 4 Property and Equipment Asset Impairments in our Consolidated Financial Statements included in Part II, Item 8. Financial Statements and Supplementary Data.

Interest Expense

Interest expense decreased $1.9 million to $7.5 million in 2013 from $9.4 million in 2012, primarily as a result of favorable settlements and the expiration of statutes of limitations relating to uncertain tax positions and a decrease in the average outstanding debt balance on our revolving credit facility.

Income Taxes

Our effective income tax rate decreased to 37.1% in 2013 as compared to 37.4% in 2012. The decrease primarily related to an increase in federal Work Opportunity Tax Credits related to our 2012 fiscal year, which was accounted for in the first quarter of 2013 due to the retroactive reinstatement of the credit program enacted January 2, 2013. In addition, the 2013, and to a greater extent 2012, effective tax rates were favorably impacted by the recognition of uncertain tax positions resulting from audit settlements and the expirations of statutes of limitations, net of increases related to uncertain tax positions taken in the current and prior years.

Diluted Earnings Per Share

Diluted earnings per share increased $0.31, or 12.6%, to $2.78 per share in 2013 compared to $2.47 per share in 2012. The increase was primarily due to the increase in net income and a decrease in the number of weighted average diluted shares outstanding in 2013 as compared to 2012. The decrease in the weighted average diluted shares outstanding was impacted by our repurchase of 0.9 million shares of our common stock since the beginning of the 2012 fiscal year. We estimate stock repurchases benefited our earnings per share in 2013 by approximately $0.07. Our estimate is based on the weighted average number of shares repurchased since the beginning of the 2012 fiscal year and includes consideration of the estimated additional interest expense attributable to increased borrowings under our revolving credit facility to finance any repurchases. Our computation does not include the effect of share repurchases prior to the 2012 fiscal year, or the effect of the issuance of restricted stock subsequent to the beginning of the 2012 fiscal year.

Fiscal Year 2012 Compared to Fiscal Year 2011

Revenues

Company store sales decreased $17.0 million, or 2.1%, to $798.9 million in 2012 compared to $815.9 million in 2011. The decrease in Company store sales is primarily due to a 2.9% decrease in comparable store sales. This decrease was partially offset by additional revenues from 13 new stores opened or acquired, net of six closed stores, since the end of 2011.

Our Company store sales mix consisted of food and beverage sales totaling 46.7% and entertainment and merchandise sales totaling 53.3% in 2012 compared to 47.7% and 52.3%, respectively, in 2011. We believe that this shift in our sales mix is primarily due to the following: (a) repricing of certain components of our offerings; (b) changing the mix of items included in Packaged Deals and coupons; and (c) modification of our various token offers. These changes were part of our continued effort to rebalance our menu pricing between food and games. We believe that the rebalancing of our menu pricing and our ongoing investment in our games has resulted in more of our guests average check being allocated to games.

Company Store Operating Costs

Overall, the cost of food, beverage, entertainment and merchandise, as a percentage of Company store sales, decreased 10 basis points to 15.6% in 2012 from 15.7% in 2011. The decrease primarily related to a decrease in certain commodity costs and price changes, as well as a shift in sales mix from food and beverage sales to entertainment and merchandise sales.

Labor expenses increased $1.0 million to $223.6 million in 2012 compared to $222.6 million in 2011. The increase primarily related to a 1.2% increase in labor hours and a 0.6% increase in average hourly wage rate, partially offset by a reduction in store incentive compensation attributable to our sales decline.

Depreciation and amortization expense for Company-owned stores decreased $2.0 million to $78.8 million in 2012 from $80.8 million in 2011. The decrease primarily related to a reduction in depreciation and amortization expense of approximately $3.0 million associated with our change in the estimated useful lives of certain games, leasehold improvements and various pieces of equipment utilized in our stores implemented at the beginning of the third quarter of 2011. The change in accounting estimate is discussed further in Note 1 Description of Business and Summary of Significant Accounting Policies to our Consolidated Financial Statements included in Part II, Item 8. Financial Statements and Supplementary Data of the 2012 Annual Report.

Advertising Expenses

Advertising expenses increased $0.4 million to $35.4 million in 2012 compared to $35.0 million in 2011. The increase is due to increases in production costs for new commercials, costs associated with our new advertising agency and new digital advertising costs, partially offset by a reduction in the frequency of national television advertising to children and frequency of free standing inserts.

General and Administrative Expenses

General and administrative expenses increased $1.5 million to $53.4 million in 2012 from $51.9 million in 2011. The increase primarily related to investments to modernize our various information technology platforms and infrastructure.

Asset Impairments

In 2012, we recognized an asset impairment charge of $6.8 million for 18 stores, of which seven stores were previously impaired. In 2011, we recognized an asset impairment charge of $2.7 million for six stores, none of which were previously impaired. We continue to operate all but two of these impaired stores. The impairment charge was based on the determination that these stores were adversely impacted by various economic factors in the markets in which they are located. Management determined that the estimated fair value of certain long-lived assets at these stores (determined from discounted future projected operating cash flows of the stores over their remaining lease term) had declined below their carrying amount. As a result, we recorded an impairment charge to write down the carrying amount of certain property and equipment at these stores to the estimated fair value. For additional information about these impairment charges, refer to Note 4 Property and Equipment Asset Impairments in our Consolidated Financial Statements included in Part II, Item 8. Financial Statements and Supplementary Data of the 2012 Annual Report.

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Interest Expense

Interest expense increased $0.5 million to $9.4 million in 2012 from $8.9 million in 2011. The increase is primarily due to interest related to new capital leases and an increase in the average outstanding debt balance on our revolving credit facility to $373.9 million in 2012 from $358.9 million in 2011, partially offset by the reduction in our weighted average effective interest rate. Our weighted average interest rate was 1.7% in 2012 compared to 2.0% in 2011, which decreased as a result of the expiration of our interest rate swap contract in May 2011.

Income Taxes

Our 2012 effective income tax rate decreased to 37.4% in 2012 as compared to 38.3% in 2011. The decrease primarily related to the recognition of uncertain tax positions resulting from favorable settlements and the expirations of statutes of limitations, refund claims filed in connection with prior year federal and state income tax returns, as well as the true-up of prior year s estimated tax provision. The favorable impact of these adjustments was partially offset by an increase in other uncertain tax positions and a decrease in employment related federal income tax credits, as a result of the expiration of certain credits in 2012.

Financial Condition, Liquidity and Capital Resources

Overview of Liquidity

We finance our business activities through cash flows provided by our operations.

The primary components of working capital are as follows:

- our store customers pay for their purchases in cash or credit cards at the time of the sale and the cash from these sales is typically received before our related accounts payable to suppliers and employee payroll becomes due;

- frequent inventory turnover results in a limited investment required in inventories; and

- our accounts payable are generally due within five to 30 days.

Funds generated by our operating activities and available cash and cash equivalents continue to be our primary sources of liquidity. We believe funds generated from our expected results of operations and available cash and cash equivalents will be sufficient to finance our strategic plan and capital initiatives for the next twelve months. Our revolving credit facility is also available for additional working capital needs and investment opportunities. However, in the event of a material decline in our sales trends or operating margins, there can be no assurance that we will generate sufficient cash flows at or above our current levels. Our ability to access our revolving credit facility is subject to our compliance with the terms and conditions of the credit agreement governing such facility, including our compliance with certain prescribed covenants, as more fully described below. Our primary uses for cash provided by operating activities relate to funding our ongoing business activities, planned capital expenditures and servicing our debt.

Total cash requirements of the Merger of approximately $1.4 billion were used to (a) purchase common stock and unvested restricted shares issued to our employees and non-employee directors; (b) repay and terminate the Existing Facility; and (c) pay certain fees, transaction costs and expenses related to the Merger. These financing requirements were funded by (a) $350.0 million of equity contributions from the Apollo Funds; (b) $248.5 million of borrowings under the bridge facility, which were later repaid using the proceeds from our issuance of $255.0 million of senior notes; and (c) $760.0 million of borrowings under a term loan facility. In addition, we also entered into a $150.0 million revolving credit facility in connection with the Acquisition, but it was undrawn at closing.

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Debt Financing

Existing Facility

In connection with the Merger on February 14, 2014, we repaid the total outstanding borrowings of $348.0 million under the Existing Facility, as well as all incurred and unpaid interest on our Existing Facility. The debt issuance costs related to the Existing Facility were removed from our Consolidated Balance Sheet through acquisition accounting.

Senior Facilities

In connection with the Merger, on February 14, 2014, we entered into the Senior Facilities, which include the term loan facility and the revolving credit facility, which includes a letter of credit sub-facility and a $30.0 million swingline loan sub-facility. Upon the consummation of the Acquisition, we had no borrowings outstanding under the revolving credit facility and $11.1 million of letters of credit issued but undrawn under the facility. As of June 29, 2014, we had no borrowings outstanding under the revolving credit facility and $10.9 million of letters of credit issued but undrawn under the facility.

In addition, we may request one or more incremental term loan facilities and/or increase commitments under our revolving credit facility in an aggregate amount of up to the sum of (x) $200.0 million plus (y) such additional amount as long as, (i) in the case of loans under additional credit facilities that rank equally and without preference with the liens on the collateral securing the Senior Facilities, our consolidated net first lien senior secured leverage ratio would be no greater than 4.25 to 1.00 and (ii) in the case of loans under additional credit facilities that rank junior to the liens on the collateral securing the Senior Facilities, our consolidated total net secured leverage ratio would be no greater than 5.25 to 1.00, subject to certain conditions and receipt of commitments by existing or additional lenders.

All borrowings under our revolving credit facility are subject to the satisfaction of customary conditions, including the absence of a default and the accuracy of representations and warranties.

We received proceeds on the term loan facility of $756.2 million, net of original issue discount of $3.8 million, which were used to fund a portion of the Acquisition. We paid $17.8 million and $3.4 million in debt issuance costs related to the term loan facility and revolving credit facility, respectively, which we capitalized in Deferred financing costs, net on our Consolidated Balance Sheets. The original issue discount and deferred financing costs are amortized over the lives of the facilities and are included in Interest expense on our Consolidated Statements of Earnings.

Borrowings under the Senior Facilities bear interest at a rate equal to, at our option, either (a) a London Interbank Offered Rate (LIBOR) determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowings, adjusted for certain additional costs, subject to a 1.00% floor in the case of term loans or (b) a base rate determined by reference to the highest of (i) the federal funds effective rate plus 0.50%.; (ii) the prime rate of Deutsche Bank AG New York Branch; and (iii) the one-month adjusted LIBOR plus 1.00%; in each case plus an applicable margin. The initial applicable margin for borrowings is 3.25% with respect to LIBOR borrowings and 2.25% with respect to base rate borrowings under the term loan facility and base rate borrowings and swingline borrowings under the revolving credit facility. The applicable margin for borrowings under the term loan facility is subject to one step down based on our first lien senior secured leverage ratio, and the applicable margin for borrowings under the revolving credit facility is subject to two step-downs based on our first lien senior secured leverage ratio. During the 135 day period ended June 29, 2014, the federal funds rate ranged from 0.06% to 0.10%, the prime rate was 3.25% and the one-month LIBOR ranged from 0.15% to 0.16%.

In addition to paying interest on outstanding principal under the Senior Facilities, we are required to pay a commitment fee equal to 0.50% per annum to the lenders under the revolving credit facility in respect of the unutilized commitments thereunder. The applicable commitment fee under the revolving credit facility is subject to one step-down based on our first lien senior secured leverage ratio. We are also required to pay customary agency fees, as well as letter of credit participation fees computed at a rate per annum equal to the applicable margin for LIBOR rate borrowings on the dollar equivalent of the daily stated amount of outstanding letters of credit, plus such letter of credit issuer s customary documentary and processing fees and charges and a fronting fee computed at a rate equal to 0.125% per annum on the daily stated amount of each letter of credit.

The weighted average effective interest rate incurred on our borrowings under our Senior Facilities was 4.8% for the 135 day period ended June 29, 2014, which includes amortization of debt issuance costs related to our Senior Facilities, amortization of our term loan facility original issue discount and commitment and other fees related to our Senior Facilities. The weighted average effective interest rate incurred on our borrowings under our Existing Facility for the 47 day period ended February 14, 2014, the three and six months ended June 30, 2013 were 1.6%, 1.7%, and 1.7%, respectively.

The Senior Facilities require scheduled quarterly payments on the term loan equal to 0.25% of the original principal amount of the term loan from July 2014 to November 2021, with the balance paid at maturity. In addition, the Senior Facilities include customary mandatory prepayment requirements based on certain events, such as asset sales, debt issuances and defined levels of excess cash flow.

We may voluntarily repay outstanding loans under the Senior Facilities at any time, without prepayment premium or penalty, except in connection with a repricing event as described below, subject to customary breakage costs with respect to LIBOR rate loans. Any refinancing through the issuance or repricing amendment of any debt that results in a repricing event applicable to the term loan facility borrowings resulting in a lower yield occurring at any time during the first six months after the closing date will be accompanied by a 1.00% prepayment premium or fee, as applicable.

Our revolving credit facility includes a springing financial maintenance covenant that requires our net first lien senior secured leverage ratio not to exceed 6.25 to 1.00 (the ratio of consolidated net debt secured by first-priority liens on the collateral to EBITDA, as defined in the Senior Credit Facilities). The covenant will be tested quarterly when the revolving credit facility is more than 30% drawn (excluding outstanding letters of credit), beginning with the fiscal quarter ended June 30, 2014, and will be a condition to drawings under the revolving credit facility that would result in more than 30% drawn thereunder. As of June 30, 2014, the borrowings under the revolving credit facility were less than 30% of the outstanding, therefore the covenant was not in effect.

The Senior Facilities also contain customary affirmative covenants and events of default, and the negative covenants limit our ability to, among other things: incur additional debt or issue certain preferred shares; create liens on certain assets; make certain loans or investments (including acquisitions); pay dividends on or make distributions in respect of our capital stock or make other restricted payments; consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; sell assets; enter into certain transactions with our affiliates; enter into sale-leaseback transactions; change our lines of business; restrict dividends from our subsidiaries or restrict liens; change our fiscal year; and modify the terms of certain debt or organizational agreements.

All obligations under the Senior Facilities are unconditionally guaranteed by Holdings on a limited-recourse basis and each of our existing and future direct and indirect material, wholly-owned domestic subsidiaries, subject to certain exceptions. The obligations are secured by a pledge of our capital stock and substantially all of our assets and those of each subsidiary guarantor, including capital stock of the subsidiary guarantors and 65% of the capital stock of the first-tier foreign subsidiaries that are not subsidiary guarantors, in each case subject to exceptions. Such security interests will consist of a first-priority lien with respect to the collateral.

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Senior Unsecured Debt

Also in connection with the Merger on February 14, 2014, we borrowed $248.5 million under the bridge facility and used the proceeds to fund a portion of the Acquisition. We incurred $4.7 million of financing costs and $0.2 million of interest related to the bridge facility, which are included in Interest expense in our Consolidated Statements of Earnings for the 135 day period ended June 29, 2014.

On February 19, 2014, we issued $255.0 million aggregate principal amount of 8.000% Senior Notes due 2022 in a private offering. The notes bear interest at a rate of 8.000% per year and mature on February 15, 2022. On or after February 15, 2017, we may redeem some or all of the notes at certain redemption prices set forth in the indenture. Prior to February 15, 2017, we may redeem (i) up to 40.0% of the original aggregate principal amount of the notes with the net cash proceeds of one or more equity offerings at a price equal to 108.0% of the principal amount thereof, plus accrued and unpaid interest, or (ii) some or all of the notes at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, plus the applicable make-whole premium set forth in the indenture.

We paid $6.4 million in debt issuance costs related to the notes, which we capitalized in Deferred financing costs, net on our Consolidated Balance Sheets. The deferred financing costs are amortized over the life of the notes and are included in Interest expense on our Consolidated Statements of Earnings.

Our obligations under the notes are fully and unconditionally guaranteed, jointly and severally, by our present and future direct and indirect wholly-owned material domestic subsidiaries that guarantee our Senior Facilities.

The indenture contains restrictive covenants that limit our ability to, among other things: incur additional debtor issue certain preferred shares; create liens on certain assets; make certain loans or investments (including acquisitions); pay dividends on or make distributions in respect of our capital stock or make other restricted payments; consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; sell assets; enter into certain transactions with our affiliates; and restrict dividends from our subsidiaries.

Sources and Uses of Cash

The following table presents summarized consolidated cash flow information for the periods presented:

	For the 135 Day Period Ended	For the 47 Day Period Ended	Six Months Ended		Fiscal Year Ended		
	June 29, 2014	February 14, 2014	June 29, 2014	June 29, 2013	December 29, 2013	December 30, 2012	January 1, 2012
	Successor	Predecessor	Combined	Predecessor			
	(in thousands)						
Net cash provided by operating activities	$ 16,831	$ 22,314	$ 39,145	$ 92,692	$ 138,664	$ 137,092	$ 177,233
Net cash used in investing activities	(970,744)	(9,659)	(980,403)	(29,350)	(70,942)	(98,903)	(94,652)

Net cash provided by (used in) financing activities	989,667	(13,844)	975,823	(62,422)	(66,031)	(37,285)	(82,973)
Effect of foreign exchange rate changes on cash	233	(313)	(80)	(361)	(641)	59	(204)
Change in cash and cash equivalents	$ 35,987	$ (1,502)	$ 34,485	$ 559	$ 1,050	$ 963	$ (596)
Interest paid	16,800	938	17,738	3,842	7,798	9,419	9,081
Income taxes paid (refunded), net	794	(79)	715	20,559	31,614	27,598	6,592

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The following table presents summarized consolidated financial information that we believe is helpful in evaluating our liquidity and capital resources:

	June 29, 2014 Successor	December 29, 2013 Predecessor
	(in thousands)	
Cash and cash equivalents	$ 55,171	$ 20,686
Term loan facility, net of unamortized original issue discount	$ 756,402	$
Senior notes	$ 255,000	$
Existing Facility	$	$ 361,500
Available unused commitments under revolving credit facility	$ 139,100	$ 127,600

Our cash and cash equivalents totaled $55.2 million and $20.7 million as of June 29, 2014 and December 29, 2013, respectively. Cash and cash equivalents as of June 29, 2014 and December 29, 2013 includes $8.7 million and $8.2 million, respectively, of undistributed income from our Canadian subsidiary that we consider to be permanently invested.

Our strategic plan does not require that we enter into any material development or contractual purchase obligations. Therefore, we have the flexibility necessary to manage our liquidity by promptly deferring or curtailing any planned capital spending. In 2014, our planned capital spending includes new store development, existing store improvements, improvements to our various information technologies platforms and other capital initiatives.

In addition, see discussion of the Sale Leaseback transaction above under Executive Summary Sale Leaseback Transaction.

Sources and Uses of Cash Six Months Ended June 29, 2014 Compared to Six Months Ended June 30, 2013

Net cash provided by operating activities decreased by $53.6 million to $39.1 million in the first six months of 2014 from $92.7 million in the first six months of 2013. The decrease was primarily driven by transaction costs incurred in connection with the Merger.

Net cash used in investing activities increased to $980.4 million in the first six months of 2014 from $29.4 million in the first six months of 2013, primarily due to the $946.9 million paid as part of the Acquisition.

Net cash provided by (used in) financing activities increased to $975.8 million in the first six months of 2014 from $(62.4) million in the first six months of 2013. The increase primarily related to proceeds from the issuance of debt in connection with Parent s acquisition of the Company and the Apollo Funds equity contribution of $350 million, partially offset by the repayment of the Predecessor Facility.

Sources and Uses of Cash Fiscal Year 2013 Compared to Fiscal Year 2012

Net cash provided by operating activities was relatively flat at $138.7 million in 2013 compared to $137.1 million in 2012. During 2013 and 2012, we benefitted from federal bonus tax depreciation for qualifying capital additions and the federal Work Opportunity Tax Credit, which both expired at the end of 2013. As a result, our cash payments for income taxes will increase in future years barring a retroactive extension of these provisions.

Net cash used in investing activities decreased $28.0 million to $70.9 million in 2013 from $98.9 million in 2012. The decrease primarily related to a reduction in the number of store expansions and other capital initiatives completed, as well as recognizing cash proceeds from the sale of a property.

Net cash used in financing activities increased $28.7 million to $66.0 million in 2013 from $37.3 million in 2012. The increase primarily related to net repayments of $28.0 million on our revolving credit facility in 2013 compared to net repayments of $0.1 million on our revolving credit facility in 2012 and a $3.7 million increase in repurchases of our common stock, partially offset by a $2.7 million decrease in dividend payments.

Sources and Uses of Cash Fiscal Year 2012 Compared to Fiscal Year 2011

Net cash provided by operating activities decreased $40.1 million to $137.1 million in 2012 from $177.2 million in 2011. The decrease was primarily attributable to a $9.0 million refund of federal income tax reported on our 2010 income tax return received in the first quarter of 2011 and an increase in the amount of estimated tax payments required for 2012 income taxes. The remaining decrease in cash provided by operating activities related to a decrease in net income and changes in our working capital.

Our cash interest payments increased $0.3 million to $9.4 million in 2012 from $9.1 million in 2011. The increase primarily related to higher average outstanding debt balances on our revolving credit facility of $373.9 million in fiscal 2012 as compared to $358.9 in fiscal 2011, partially offset by a decrease in the weighted average interest rate incurred from 2.0% to 1.7% on our borrowings under our revolving credit facility. The decrease in the weighted average interest rate was associated with the expiration of the interest rate swap agreement in May 2011.

Our cash payments for income taxes, net of refunds received, increased $21.0 million to $27.6 million in 2012 from $6.6 million in 2011. The increase primarily related to the receipt in 2011 of refunds of $9.0 million in federal income taxes related to our 2010 tax year and a $15.0 million increase of estimated tax payments required for 2012 federal income taxes, partially offset by a $3.0 million reduction in the amount of other income tax payments. The reduced amount of tax payments and the increase in refunds related to our 2010 and 2011 tax years largely resulted from more favorable bonus tax depreciation rules in effect from September 2010 through December 2011. Bonus depreciation for qualifying capital additions placed in service in 2012 was less favorable and was scheduled to expire at the end of 2012. However in January 2013, bonus depreciation for qualifying capital additions placed in service in 2013 was extended, and thus, we will continue to benefit from bonus depreciation through 2013.

Net cash used in investing activities increased $4.2 million to $98.9 million in 2012 from $94.7 million in 2011. The increase primarily related to an increase in the number of new or relocated stores opened or acquired in 2012 compared to 2011, partially offset by a reduction of $24.7 million in spending on existing stores in 2012. Capital spending for our existing stores affected 125 stores during 2012 compared to 181 stores during 2011. Additionally, during 2012 we opened 13 new stores, including three relocated stores and one acquired from a franchisee, while in 2011 we opened four new stores, including two relocations.

Net cash used in financing activities decreased $45.7 million to $37.3 million in 2012 from $83.0 million in 2011. The decrease primarily related to a $65.4 million decrease in repurchases of our common stock, partially offset by an $8.4 million increase in dividend payments and net repayments of $0.1 million on our revolving credit facility in 2012 compared to net proceeds of $12.6 million on our revolving credit facility in 2011.

Capital Expenditures

We intend to continue to focus our future capital expenditures on reinvestment into our existing Company-owned stores through various planned capital initiatives and the development or acquisition of additional Company-owned stores. During 2014, we currently expect to complete 250 game enhancements, eight major remodels and four store expansions, and we currently expect to open a total of 11 to 13 new domestic Company-owned stores, including two relocated stores and one acquisition from a franchisee, in 2014. We have funded and expect to continue to fund our capital expenditures through existing cash flows from operations. We currently estimate capital expenditures in 2014 will total approximately $75 million to $80 million, including (a) approximately $50 million related to growth capital spend and (b) approximately $30 million related to maintenance capital spend.

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The following table reconciles the approximate total capital spend by initiative to our Consolidated Statements of Cash Flows for the periods presented:

	Six Months Ended		Fiscal Year Ended		
	June 29, 2014	June 30, 2013	December 29, 2013	December 30, 2012	January 1, 2012
Growth capital spend(1)	19,334	16,407	48,175	66,980	53,432
Maintenance capital spend(2)	$ 14,015	$ 15,673	$ 25,910	$ 32,509	$ 41,237
Total capital spend(3)	$ 33,349	$ 32,080	$ 74,085	$ 99,489	$ 94,669

(1) Growth capital spend includes major remodels, store expansions, major attractions and new store development, including relocations.

(2) Maintenance capital spend includes game enhancements, general store capital expenditures and corporate capital expenditures.

(3) Total capital spend does not include $0.4 million of goodwill and intangible assets associated with the franchise acquisition during the second quarter of 2014, which is included in Purchases of property and equipment on the Consolidated Statement of Cash Flows.

Off-Balance Sheet Arrangements and Contractual Obligations

As of June 29, 2014, we had no off-balance sheet financing arrangements as described in Regulation S-K Item 303(a)(4)(ii).

The following table summarizes our contractual obligations as of June 29, 2014:

	Less than 1 Year	1-3 Years	3-5 Years (in thousands)	Greater than 5 Years	Total
Operating lease(1)	$ 79,632	$ 159,177	$ 154,933	$ 670,043	$ 1,063,785
Capital leases	2,183	4,286	4,463	23,415	34,347
Purchase obligations(2)	62,924	8,121	2,950		73,995
Secured Credit Facilities	7,600	17,100	15,200	720,100	760,000
Senior Notes(1)				255,000	255,000
Interest Obligations	47,819	116,429	106,218	112,754	383,220
Uncertain tax positions(3)	880				880
Total	$ 201,037	$ 305,113	$ 283,764	$ 1,781,311	$ 2,571,226

(1) Includes the initial non-cancelable term plus renewal option periods provided for in the lease that can be reasonably assured but excluded contingent rent obligations and obligations to pay property taxes, insurance and

maintenance on the leased assets.

(2) A purchase obligation is defined as an agreement to purchase goods or services that is enforceable and legally binding on us and that specifies all significant terms, including (a) fixed or minimum quantities to be purchased; (b) fixed, minimum or variable price provisions, and (c) the approximate timing of the transaction. Our purchase obligations primarily consist of obligations for the purchase of merchandise and entertainment inventory and obligations associated with the modernization of various information technology platforms, as well as advertising spend in local and national markets. The above purchase obligations exclude agreements that are cancelable without significant penalty.

(3) Due to the uncertainty related to the settlement of uncertain tax positions, only the current portion of the liability for unrecognized tax benefits has been provided in the table above. The noncurrent portion of $1.9 million is excluded from the table above.

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Critical Accounting Policies and Estimates

Our Consolidated Financial Statements are prepared in accordance with U.S. GAAP, which requires us to make estimates and assumptions that affect the reported amount of our assets and liabilities at the date of our Consolidated Financial Statements, the reported amount of revenues and expenses during the reporting period and the related disclosures of contingent assets and liabilities. The use of estimates is pervasive throughout our Consolidated Financial Statements and is affected by management judgment and uncertainties. Our estimates, assumptions and judgments are based on historical experience, current market trends and other factors that we believe to be relevant and reasonable at the time our Consolidated Financial Statements were prepared. We continually evaluate the information used to make these estimates as our business and the economic environment change. Actual results could differ materially from these estimates under different assumptions or conditions.

The significant accounting policies used in the preparation of our Consolidated Financial Statements are described in Note 1 Description of Business and Summary of Significant Accounting Policies to our Consolidated Financial Statements included elsewhere in this prospectus. We consider an accounting policy or estimate to be critical if it requires difficult, subjective or complex judgments and is material to the portrayal of our consolidated financial condition, changes in financial condition or results of operations. The selection, application and disclosure of the critical accounting policies and estimates have been reviewed by the Audit Committee of our Board of Directors. Our accounting policies and estimates that our management considers most critical are as follows:

Acquisition Accounting in connection with the Merger

We have accounted for the Merger as a business combination using the acquisition method of accounting, whereby the purchase price was allocated to tangible and intangible assets acquired and liabilities assumed, based on their estimated fair market values. Fair value measurements have been applied based on assumptions that market participants would use in the pricing of the asset or liability. The Acquisition and the allocation of the purchase price have been recorded as of February 14, 2014. In connection with the purchase price allocation, we have made estimates of the fair values of the long-lived and intangible assets based upon assumptions that are reasonable related to discount rates and asset lives utilizing currently available information, and in some cases, preliminary valuation results from independent valuation specialists. As of February 14, 2014, we recorded purchase accounting adjustments to the carrying value of property and equipment and intangible assets, including our Chuck E. Cheese s tradename, franchise agreements and favorable leases. We have also revalued our rent related liabilities. The purchase price allocation could change in subsequent periods, up to one year from the Merger date. The adjustments, if any, arising out of the finalization of the allocation of the purchase price will not impact cash flow, including cash interest and rent. However, such adjustments could result in material changes to our Consolidated Financial Statements.

Goodwill and Other Intangible Assets

The excess of the purchase price over fair value of net identifiable assets and liabilities of an acquired business (goodwill), trademarks and trade names and other indefinite-lived intangible assets are not amortized, but rather tested for impairment, at least annually. We assess the recoverability of the carrying amount of our goodwill and other indefinite-lived intangible assets either qualitatively or quantitatively annually at the beginning of the fourth quarter of each fiscal year, or whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable.

When assessing the recoverability of goodwill and other indefinite-lived intangible assets, we may first assess qualitative factors. If an initial qualitative assessment indicates that it is more likely than not the carrying amount exceeds fair value, a quantitative analysis may be required. We may also elect to skip the qualitative assessment and proceed directly to the quantitative analysis.

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Recoverability of the carrying value of goodwill is measured at the reporting unit level. In performing a quantitative analysis, we measure the recoverability of goodwill for our reporting units using a discounted cash flow model incorporating discount rates commensurate with the risks involved, which is classified as a Level 3 fair value measurement. The key assumptions used in the discounted cash flow valuation model include discount rates, growth rates, tax rates, cash flow projections and terminal value rates. Discount rates, growth rates and cash flow projections are the most sensitive and susceptible to change as they require significant management judgment.

If the calculated fair value is less than the current carrying amount, impairment of the reporting unit may exist. When the recoverability test indicates potential impairment, we will calculate an implied fair value of goodwill for the reporting unit. The implied fair value of goodwill is determined in a manner similar to how goodwill is calculated in a business combination. If the implied fair value of goodwill exceeds the carrying amount of goodwill assigned to the reporting unit, there is no impairment. If the carrying amount of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment loss is recorded to write down the carrying amount.

In performing a quantitative analysis, recoverability is measured by a comparison of the carrying amount of the indefinite-lived intangible asset over its fair value. Any excess of the carrying amount of the indefinite-lived intangible asset over its fair value is recognized as an impairment loss.

We test indefinite-lived intangible assets utilizing the relief from royalty method to determine the estimated fair value for each indefinite-lived intangible asset, which is classified as a Level 3 fair value measurement. The relief from royalty method estimates our theoretical royalty savings from ownership of the intangible asset. Key assumptions used in this model include discount rates, royalty rates, growth rates, tax rates, sales projections and terminal value rates. Discount rates, royalty rates, growth rates and sales projections are the assumptions most sensitive and susceptible to change as they require significant management judgment. Discount rates used are similar to the rates estimated by the weighted average cost of capital (WACC) considering any differences in company-specific risk factors.

Estimation of Reserves

The amount of liability we record for claims related to insurance and tax reserves requires us to make judgments about the amount of expenses that will ultimately be incurred. We use history and experience, as well as other specific circumstances surrounding these contingencies, in evaluating the amount of liability that should be recorded. As additional information becomes available, we assess the potential liability related to various claims and revise our estimates as appropriate. These revisions could materially impact our consolidated results of operations, financial position or liquidity.

Self-Insurance reserves. We are self-insured for certain losses related to workers compensation, general liability, property, and company-sponsored employee health plans. Liabilities associated with risks retained by the Company are estimated primarily using historical claims experience, current claims data, demographic and severity factors, other factors deem relevant by us, as well as information provided by independent third-party actuaries. To limit our exposure for certain losses, we purchase stop-loss or high-deductible insurance coverage through third-party insurers. Our stop-loss limit or deductibles for workers compensation, general liability, property, and company-sponsored employee health plans, generally range from $0.2 million to $0.5 million per occurrence. As of December 29, 2013, our total estimate of accrued liabilities for our self-insurance and high deductible plan programs was $20.2 million. We estimate $7.0 million of these liabilities will be paid in fiscal 2014 and the remainder paid in fiscal 2015 and beyond. If actual claims trends or other factors differ from our estimates, our financial results could be significantly impacted.

Income tax reserves. We are subject to audits from multiple domestic and foreign tax authorities. We maintain reserves for federal, state and foreign income taxes when we believe a position may not be fully sustained upon review by taxing authorities. Although we believe that our tax positions are fully supported by the applicable tax laws and regulations, there are matters for which the ultimate outcome is uncertain. We recognize the benefit from an uncertain tax position in our Consolidated Financial Statements when the position is more-likely-than-not (a greater than 50 percent chance of being sustained). The amount recognized is measured using a probability weighted approach and is the largest amount of benefit that is greater than 50 percent likelihood of being realized upon settlement or ultimate resolution with the taxing authority. We routinely assess the adequacy of the estimated liability for unrecognized tax benefits, which may be affected by changing interpretations of laws, rulings by tax authorities and administrative policies, certain changes and/or developments with respect to audits and expirations of the statute of limitations. Depending on the nature of the tax issue, the ultimate resolution of an uncertain tax position may not be known for a number of years; therefore, the estimated reserve balances could be included on our Consolidated Balance Sheets for multiple years. To the extent that new information becomes available that causes us to change our judgment regarding the adequacy of a reserve balance, such a change will affect our income tax expense in the period in which the determination is made and the reserve is adjusted. Significant judgment is required to estimate our provision for income taxes and liability for unrecognized tax benefits. At December 29, 2013, the reserve for uncertain tax positions (unrecognized tax benefits) was $2.6 million. Although we believe our approach is appropriate, there can be no assurance that the final outcome resulting from a tax authority s review will not be materially different than the amounts reflected in our estimated tax provision and tax reserves. If the results of any audit materially differ from the liabilities we have established for taxes, there would be a corresponding impact to our Consolidated Financial Statements, including the liability for unrecognized tax benefits, current tax provision, effective tax rate, net after tax earnings and cash flows, in the period of resolution.

Impairment of Long-Lived Assets

We review our property and equipment for indicators of impairment on an ongoing basis at the lowest reporting unit level, which is on a store-by-store basis, to assess if the carrying amount may not be recoverable. Such events or changes may include a significant change in the business climate in a particular market area (for example, due to economic downturn or natural disaster), historical negative cash flows or plans to dispose of or sell the property and equipment before the end of its previously estimated useful life. If an event or change in circumstances occurs, we estimate the future cash flows expected to result from the use of the property and equipment and its eventual disposition. If the sum of the expected future cash flows, undiscounted and without interest, is less than the asset carrying amount (an indication that the carrying amount may not be recoverable), we may be required to recognize an impairment loss. We estimate the fair value of a store s property and equipment by discounting the expected future cash flows of the store over its remaining lease term using a weighted average cost of capital commensurate with the risk.

The following estimates and assumptions used in the discounted cash flow analysis impact the fair value of a store s long-lived assets:

Discount rate based on our weighted average cost of capital and the risk-free rate of return;

Sales growth rates and cash flow margins over the expected remaining lease terms;

Strategic plans, including projected capital spending and intent to exercise renewal options, for the store;

- Salvage values; and

- Other risks and qualitative factors specific to the asset or conditions in the market in which the asset is located at the time the assessment was made.

During 2013, the average discount rate, average sales growth rate and average cash flow margin rate used were 8%, 0.2% and 11%, respectively. We believe our assumptions in calculating the fair value of our long-lived assets are similar to those used by other marketplace participants. If actual results are not consistent with our estimates and assumptions, we may be exposed to additional impairment charges, which could be material to our Consolidated Statements of Earnings.

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Accounting for Leases

The majority of our stores are leased. The terms of our store leases vary in length from lease to lease, although a typical lease provides for an initial primary term of 10 years with two additional five year options to renew. We estimate the expected term of a lease by assuming the exercise of renewal options, in addition to the initial non-cancelable lease term, if the renewal is reasonably assured. Generally, reasonably assured relates to our contractual right to renew and the existence of an economic penalty that would preclude the abandonment of the lease at the end of the initial non-cancelable lease term. The expected term is used in the determination of whether a lease is a capital or operating lease and in the calculation of straight-line rent expense. Additionally, the useful life of leasehold improvements is limited by the expected lease term or the economic life of the asset, whichever is shorter. If significant expenditures are made for leasehold improvements late in the expected term of a lease and renewal is reasonably assured, the useful life of the leasehold improvement is limited to the end of the reasonably assured renewal period or economic life of the asset.

The determination of the expected term of a lease requires us to apply judgment and estimates concerning the number of renewal periods that are reasonably assured. If a lease is terminated prior to reaching the end of the expected term, this may result in the acceleration of depreciation or impairment of a store s long-lived assets, and it may result in the accelerated recognition of landlord contributions and the reversal of deferred rent balances that assumed higher rent payments in renewal periods that were never ultimately exercised by us.

Recently Issued Accounting Guidance

Refer to Note 1 Description of Business and Summary of Significant Accounting Policies to our Consolidated Financial Statements included elsewhere in this prospectus for a description of recently issued accounting guidance.

Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to various types of market risk in the normal course of business, including the impact of interest rates, commodity price changes and foreign currency fluctuation.

Interest Rate Risk

We are exposed to market risk from changes in the variable interest rates related to borrowings from our Senior Facilities. All of our borrowings outstanding under the Senior Facilities as of June 29, 2014 of $760.0 million accrue interest at variable rates. We have elected to base our interest on the cost of funds for Eurodollar deposits, which uses LIBOR (a variable interest rate) and is subject to a 1% floor. During the 135 day period ended June 29, 2014, the one month LIBOR ranged from 0.15% to 0.16%. Therefore, a hypothetical increase of 100 basis points in the one-month LIBOR, assuming no change in our outstanding debt balance, would have increased interest expense by $0.5 million for the 135 day period ended June 29, 2014, or approximately $1.2 million on an annualized basis.

Commodity Price Risk

We are exposed to commodity price changes related to certain food products that we purchase, primarily related to the prices of cheese and dough, which can vary throughout the year due to changes in supply, demand and other factors. We have not entered into any hedging arrangements to reduce our exposure to commodity price volatility associated with such commodity prices; however, we typically enter into short-term cancellable purchasing contracts, which may contain pricing arrangements designed to minimize the impact of commodity price fluctuations. For the three and six months ended June 29, 2014, the weighted average cost of a block of cheese was $2.13 and $2.17, respectively. The estimated increase in our food costs from a hypothetical 10% increase in the average cost of a block of cheese would have been $0.3 million and $0.8 million for the three and six months ended June 29, 2014, respectively. For the three and six months ended June 29, 2014, the weighted average cost of dough per pound was $0.42. The estimated increase in our food costs from a hypothetical 10% increase in the average cost of dough per pound would have been $0.1 million and $0.2 million for the three and six months ended June 29, 2014, respectively.

Foreign Currency Risk

We are exposed to foreign currency fluctuation risk associated with changes in the value of the Canadian dollar relative to the United States dollar as we operate a total of 14 Company-owned stores in Canada. For the 135 day period ended June 29, 2014 our Canadian stores generated $0.3 million of operating loss compared to our consolidated operating loss of $8.3 million. For the 47 day period ended February 14, 2014, our Canadian stores generated $0.4 million of operating income compared to our consolidated operating income of $2.9 million.

Changes in the currency exchange rate result in cumulative translation adjustments and are included in Accumulated other comprehensive income and potentially result in transaction gains or losses, which are included in our earnings. The low and high currency exchange rates for a Canadian dollar into a United States dollar for the 135 day period ended June 29, 2014 were $0.8888 and $0.9371, respectively. A hypothetical 10% devaluation in the average quoted U.S. dollar-equivalent of the Canadian dollar exchange rate during the 135 day period ended June 29, 2014 would have increased our reported consolidated operating results by less than $0.1 million. The low and high currency exchange rates for a Canadian dollar into a United States dollar for the 47 day period ended February 14, 2014 were $0.8945 and $0.9408, respectively. A hypothetical 10% devaluation in the average quoted U.S. dollar-equivalent of the Canadian dollar exchange rate during the 47 day period ended February 14, 2014 would have reduced our reported consolidated operating results by less than $0.1 million.

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BUSINESS

Overview

Chuck E. Cheese s is a unique, family-oriented entertainment company that provides its guests with a variety of family entertainment and dining alternatives. Our highly differentiated family leisure offerings include video games, skill games, rides, musical and comical shows and other attractions along with tokens, tickets, and prizes for kids and a wholesome family dining experience. We target families with children aged two through 12 and are known as a destination where a kid can be a kid. All of our properties operate under the Chuck E. Cheese s brand, which is considered one of the most iconic and popular children s brands. Our commitment to establishing an affordable, fun and safe environment for families is evidenced by our long history and track record of stable revenues, our strong operating margins and our attractive free cash flow profile. We are headquartered in Irving, Texas and have approximately 17,500 employees. For the twelve months ended June 29, 2014, we generated total revenues of $816.9 million and Adjusted EBITDA of $187.4 million. See Summary Historical Consolidated Financial Data for additional information about Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net income.

As of June 29, 2014, our portfolio includes 578 stores, of which 524 were Company-operated and the remaining 54 were franchised. Approximately 543 (or 94%) of our stores are located across 47 states in the U.S., and the remaining 35 (or 6%) are located in ten foreign countries. For twelve months ended June 29, 2014, 55% of our total revenues were derived from entertainment and merchandise, 44% were derived from food and beverage and the remaining 1% were derived from franchise fees and royalties. The charts below show our revenue by source and our geographic and owned-store mix.

Chuck E. Cheese s Revenue Mix **Geographic Store Mix** **Franchised Store Mix**

We benefit from an attractive store portfolio that enables us to consistently deliver a high-quality family entertainment experience for our guests. On average, our stores are approximately 12,600 square feet and include approximately 70 games, rides and attractions. Our stores are typically located in densely populated locations, within a 20-minute drive of our guests, and are predominantly situated in shopping centers or free-standing buildings near shopping centers. We recently completed a comprehensive facilities renovation cycle through which we have remodeled or expanded over 90% of our stores since 2005. This process has enabled us to continue to offer a contemporary, safe and clean environment to our guests and has provided us with the square footage necessary to add our newest and most popular games, rides and attractions to our stores. Our comparable stores generate, on average, approximately $1.6 million of revenue per year and store-level EBITDA margins (defined as Company store sales less Company store expenses, excluding depreciation, amortization and allocated advertising, divided by Company store sales) of approximately 35%. Additionally, approximately 99% of our comparable store base has positive store-level EBITDA, further demonstrating the strength of our concept.

Our stores offer customers a broad variety of high-quality entertainment and family dining alternatives. Each of our stores has a showroom and playroom area, which includes an extensive array of amusement and entertainment options. These options range from classic skill games, such as air hockey, skee ball and basketball, to rides, such as mini trains, motorcycles and various driving games. At Chuck E. Cheese s, kids are able to physically interact with games in order to win tickets that can later be redeemed for prizes, which is an experience that cannot be replicated inside the home or by technology. In an effort to further engage our guests,

we also offer musical and comical entertainment that features our iconic Chuck E. Cheese character who captures the imagination of kids with live performances and frequent appearances on our showroom and playroom floor. Our wholesome family dining offerings are centered on made-to-order pizzas that are always fresh and never frozen. We also offer a fully stocked salad bar, as well as a variety of sandwiches, wings, appetizers, beverages, desserts and certain gluten-free options. We believe that this unique and highly differentiated combination of high-quality entertainment, food and beverages, as well as attentive and friendly service, provides us with a competitive advantage relative to other family leisure alternatives.

Overview of Family Leisure Alternatives

Our Competitive Strengths

We attribute our success in large part to the following competitive strengths:

Leading Iconic Brand with High Customer Loyalty. We benefit from significant brand strength. Over our 37-year history, we have continued to refine and improve our approach to providing guests with a highly differentiated family leisure experience. We have invested significant resources into building our brand and expanding and optimizing our customer experience. Despite significant advances in technology and consumer taste, our long-standing and iconic brand has continued to resonate amongst our target audience of families with young children. Today, Chuck E. Cheese s is considered the #1 brand for family fun and entertainment according to a study conducted by a third-party consulting firm. The study indicated that our brand has 99% awareness amongst moms and children, demonstrating its near universal recognition. Additionally, nearly 60% of moms have children who ask to go to Chuck E. Cheese s at least once every other month, with the average user visiting around four times per year, further demonstrating the strength and loyalty of our brand.

Unique and Differentiated Experience. We provide a highly differentiated leisure and entertainment experience for families within convenient driving distance of their homes. Our business model is unique in that it combines a wholesome family dining offering with distinctive family-oriented games, rides, activities, shows and other entertainment alternatives, all under one roof. In addition to our broad variety of family entertainment and dining offerings, we are differentiated by our well established and highly regarded brand, our proprietary and branded attractions, amenities and characters and our long track record of providing a safe, engaging and family-friendly environment for our guests. We believe that we are the only business of scale to provide such a multi-faceted, convenient and differentiated family leisure experience.

Highly Compelling, Value-Oriented Family Experience. Our unique product offering and differentiated experience offers an attractive value proposition to families. Many of our high quality entertainment offerings, including all of our live and interactive shows and some of our activities, can be experienced by our guests free of charge. We also generate significant revenue from packaged deals through which our guests receive a combination of food, drinks and tokens at discounted prices. Our breadth of product offerings and our dedication to providing families with a safe and engaging environment at a compelling value provide us with a significant competitive advantage. For a family of four, a visit to Chuck E. Cheese s costs approximately $30 for food, drinks and entertainment, which is a fraction of the cost of comparable food, drink and entertainment for a family of four at other family leisure alternatives, including movie theaters, bowling alleys and regional amusement parks.

Diversified Business Model. We believe that the distinctive nature of our product offerings and the diverse locations of our stores provide us with significant benefits. Unlike a traditional dining company, we generate significant revenue from our entertainment and merchandise. For the twelve months ended June 29, 2014, we generated approximately 55% of our revenue from entertainment and merchandise and approximately 44% from food and beverage and the remaining 1% from franchised stores. In addition, our portfolio of 578 stores is spread across 47 states and 11 total countries, with relatively consistent revenue contribution across regions. This significant geographic diversity fosters a more resilient business model as it limits the potential impact of weather or economic conditions in any particular region. Additionally, our broad geographic exposure provides us with a high degree of visibility and allows us to leverage a national advertising platform that fosters brand strength, loyalty and awareness.

Resilient Business Model. We believe that we benefit from strong and consistent demand for our entertainment offerings from families who desire high quality, safe, clean, convenient and affordable ways to spend time with their children outside of the home. Additionally, unlike many other family leisure alternatives, such as regional amusement parks, our stores are open year round and operate indoors which limits exposure to weather and seasonality. Our differentiated and diversified business model has enabled us to demonstrate strong and resilient financial performance regardless of the macro economic backdrop. For example, during 2009, when GDP declined by 2.8% and unemployment peaked at a year-end high of 9.9%, our comparable store sales declined by only 2.8%, which compares favorably to comparable store sales for casual dining, amusement park and cruise businesses, which declined by an average of 5.6%, 7.5% and 7.7%, respectively.

Strong Operating Margins with Attractive Free Cash Flow. Our unique business model, which combines high-quality entertainment with wholesome family dining, provides for an attractive free cash flow profile. We have been able to consistently generate high operating margins while offering a compelling value proposition to our guests and maintaining strict discipline with respect to our highly scalable operating expense base. We also benefit from modest maintenance capital expenditure requirements. For the twelve months ended June 29, 2014, our Adjusted EBITDA margin was 23% and our Free Cash Flow conversion was approximately 86%.

Proven and Experienced Management Team. Our executive management team has significant experience in the leisure, hospitality, entertainment and family dining industries and has significant expertise operating complex, themed family entertainment businesses. Our executive management team has a long history and successful track record of driving comparable store sales growth, maintaining attractive Adjusted EBITDA margins and growing our footprint, both domestically and internationally. We also benefit from a strong team of highly skilled, loyal and committed managers and employees at each of our stores. We believe that our executive management team, as well as our other employees, are well positioned to continue to drive strong financial performance while providing our guests with a superior and highly memorable experience.

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Our Strategies

Our strategy focuses on increasing comparable store sales, improving profitability and margins and expanding our stores domestically and internationally. We have developed and implemented a long-term strategy which includes the following elements:

Increase Comparable Store Sales. We have multiple drivers to increase our comparable store sales. We believe that entertainment is a key driver of our sales, and have remained focused on refreshing and optimizing our offerings in order to continue to provide our guests with a highly engaging and entertaining environment. During 2013, we developed a strategy to provide our stores with new games and rides on a more regular basis and at a lower cost per store, which we believe will benefit our comparable store sales. We have also begun to test the introduction of new major attractions in our stores. Some of these attractions, which include bumper cars, a laser maze and a fun house, have demonstrated early success and are expected to be introduced to a number of our stores in the near-term. In addition to our refined games and attractions strategy, we also expect to drive comparable store sales performance through improved marketing efficiency and effectiveness. As a part of our enhanced strategy, we are reallocating our advertising spend towards national television and are refocusing our marketing message towards kids, who are the biggest catalysts for our demand. We expect to experience success going forward as we realize the impact of the full implementation of these strategies. Finally, we believe that the compelling value proposition we provide is not only a strength but also a significant area of opportunity. We believe that we can modify pricing and packaging in select markets across the U.S. while still continuing to provide our guests with a strong value proposition.

Improve Profitability and Margins. We continuously focus on driving financial performance through expense rationalization across all our stores and corporate functions. We believe that continued focus on operating margins and the deployment of best practices across our brand and corporate functions will yield continued margin improvement. Our general managers at our properties and our corporate staff are all incentivized on both revenue and profitability, which fosters a strict focus on both expense control and providing a high-quality experience for our guests. Additionally, we are implementing a number of cost savings initiatives across our business. We expect these initiatives to generate cost savings in a number of key areas, including labor, utilities, cost of sales and other operating expenses, as well as general and administrative expenses. Our business model benefits from substantial operating leverage and will enable us to continue to drive margin improvement as we realize our strategic plan to grow our comparable store sales and our domestic and international store base.

Expand Our Stores Domestically and Internationally. We maintain a proven and highly successful business model and have developed a long history and successful track record of opening new Chuck E. Cheese s stores at attractive rates of return. We strategically locate our stores within convenient driving distance to large metropolitan areas with favorable demographic conditions, including but not limited to large numbers of families with children aged two through 12. We believe that there are a significant number of locations, both domestically and internationally, with these characteristics in which a Chuck E. Cheese s can be successful. For domestic new store openings, we undergo a rigorous due diligence and site selection process prior to opening a new store. This disciplined process has enabled us to achieve highly attractive returns, generating unlevered returns on our investment in new company-operated stores in excess of 25% on average (excluding allocated advertising). Internationally, we have focused on our franchise model, through which we have developed partnerships with strong and reputable counterparties in order to grow our concept globally. Over the last few years, we have experienced growth in our international franchise store count and expect this to be a key area of growth going forward. Our franchise model is highly attractive in that it enables us to earn predictable and high-margin cash flow without any upfront capital requirements. We also benefit from a highly scalable existing platform that enables us to manage additional domestic and international stores without any material incremental costs.

Our Industry

We operate in a unique niche and benefit from the attractive attributes of both the entertainment industry and the family dining sector.

Entertainment Industry Overview

The entertainment industry is comprised of a large number of venues ranging from a small group of high-attendance, heavily themed destination theme parks to a large group of lower attendance local theme parks and family entertainment centers. According to IBISWorld report, sales for amusement parks, movie theatres and arcades and food and entertainment complexes in the U.S. grew by 2.4% to almost $30 billion in 2012, significantly outperforming industry sales growth of 0.5% in 2011. IBISWorld s one-year forecast for total U.S. revenue growth for the aforementioned industries is projected to increase 3.8% in aggregate for 2013 due to an overall improvement in economic conditions that should drive disposable income and willingness to spend time pursuing entertainment-related activities.

Restaurant Industry Overview

The restaurant business and, in particular, the family dining industry is intensely competitive. Key elements of competition in this industry include: the price, quality and value of food products offered; service; advertising effectiveness; brand name awareness; restaurant convenience; and attractiveness of facilities. According to Technomic, sales for the U.S. restaurant industry grew 3.2% to approximately $449 billion in 2013, compared to industry sales growth of 5.2% in 2012. Total industry units had a second consecutive year of growth since the recession, growing at a rate of 0.7% in 2013. Technomic s one-year forecast for total U.S. restaurant growth shows that overall forecasted restaurant sales are projected to increase 2.1% in the aggregate for 2014 due to slight price increases and a continued consumer preference for value based dining options as the economy improves.

Overview of Operations

Entertainment and Merchandise

Each Chuck E. Cheese s store includes a showroom area featuring musical and comic entertainment presented by computer-controlled robotic characters, a live show and gameroom area offering arcade-style and skill-oriented games, video games, rides, attractions and other forms of entertainment. Tokens are used to activate the games and rides in the gameroom area. All of our games and rides are activated with one token. A number of skill-oriented games dispense tickets that can be redeemed by guests for prize merchandise such as toys and plush items. Our guests can also purchase this merchandise directly for cash. We place a limited amount of table and chair seating in the gameroom areas of our Company-owned stores so that parents can more closely observe and interact with their children as they play the games and ride the rides.

Entertainment and merchandise sales represented 56.2% and 54.5% of our Company store sales during the six months ended June 29, 2014 and June 30, 2013, respectively, and 54.9%, 53.3% and 52.3% during fiscal years 2013, 2012 and 2011, respectively.

Food and Beverages

Each Chuck E. Cheese s store offers a variety of pizzas, sandwiches, wings, appetizers, a salad bar and desserts, as well as certain gluten-free options. Soft drinks, coffee and tea are also served, along with beer and wine where permitted by local laws. We continuously focus on delivering a quality-driven product and believe the quality of our food compares favorably with that of our competitors. During the fourth quarter of 2013, we began transitioning to a new distributor for the food, non-alcoholic beverages and other supplies used in Company-owned stores. We expect the transition to be completed during the second quarter of 2014 and do not expect the change in distributor to disrupt the distribution of products or to materially impact our distribution costs. We believe that using a single distribution system creates certain cost and operational efficiencies for us.

Food and beverage sales represented 43.8% and 45.5% of our Company store sales during the six months ended June 29, 2014 and June 30, 2013, respectively, and 45.1%, 46.7% and 47.7% during fiscal years 2013, 2012 and 2011, respectively.

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Franchising

As of June 29, 2014, a total of 54 Chuck E. Cheese s stores were operated by our franchisees. Of these stores, 33 are located domestically in the United States and 21 are located in foreign countries and territories.

Our standard franchise agreement grants the franchisee the right to construct and operate a store and use our associated trade names, trademarks and service marks in accordance with our standards and guidelines. Most of our existing franchise agreements have an initial term of 15 to 20 years and include a ten-year renewal option. The standard agreement provides us with a right of first refusal should a franchisee decide to sell a store. We also enter into area development agreements, which grant franchisees exclusive rights to open a specified number of stores in a designated geographic area within a specified period of time. In addition to initial franchise and area development fees, the franchisee is charged a continuing monthly royalty fee equal to a certain percentage of their gross monthly sales.

In 1985, we and our franchisees formed the International Association of CEC Entertainment, Inc. (the Association) to discuss and consider matters of common interest relating to the operation of Company-owned and franchised Chuck E. Cheese s. Routine business matters of the Association are conducted by a board of directors of the Association, composed of five members appointed by us and five members elected by the franchisees. The Association serves as an advisory council, which among other responsibilities, oversees expenditures from the funds established and managed by the Association. These funds include (a) the Advertising Fund, a fund that pays the costs of development, purchasing and placement of advertising programs, including websites; (b) the Entertainment Fund, a fund established to develop and improve audio-visual and animated entertainment attractions, as well as the development and implementation of new entertainment concepts; and (c) the Media Fund, a fund primarily designated for the purchase of national network television advertising.

The franchise agreements governing existing franchised Chuck E. Cheese s in the United States currently require each franchisee to pay to the Association a monthly contribution equal to a certain percentage of their gross monthly sales. Additionally, under these franchise agreements, we are required, with respect to Company-owned stores, to contribute to the Advertising Fund and the Entertainment Fund at the same rates, or at higher rates in certain instances, as our franchisees. We and our franchisees are also required to spend minimum amounts on local advertising and could be required to make additional contributions to fund any deficits that may be incurred by the Association. Certain franchise agreements governing existing franchised Chuck E. Cheese s outside of the United States currently require each franchisee to pay a certain percentage of their gross monthly sales to the Association to fund various advertising and media costs.

Royalties, franchise and area development fees and other miscellaneous franchise income represented 0.6% and 0.6% of our total consolidated revenues during the six months ended June 29, 2014 and June 30, 2013, respectively, and 0.6%, 0.6% and 0.5% during fiscal years 2013, 2012 and 2011, respectively.

Foreign Operations

As of June 29, 2014, we operated a total of 14 Company-owned stores in Canada. Our Canada stores generated total revenues of $9.5 million and $11.2 million during the six months ended June 29, 2014 and June 30, 2013, respectively, representing 2.1% and 2.5% of our total consolidated revenues, respectively, and $20.9 million, $21.7 million and $22.2 million during fiscal years 2013, 2012 and 2011, representing 2.5%, 2.7% and 2.7% of our total consolidated revenues, respectively.

These foreign activities, along with our international franchisees, are subject to various risks of conducting business in a foreign country, including changes in foreign currency, laws and regulations and economic and political stability. See Risk Factors for more information regarding the risks associated with operations located in foreign markets.

Third-Party Suppliers

As discussed above, we are currently transitioning to a new distributor, which uses a network of ten distribution centers to distribute most of the products and supplies used in our domestic stores. We believe that alternative third-party distributors are available for our products and supplies, but we may incur additional costs if we are required to replace our distributor or obtain the necessary products and supplies from other suppliers.

We have not entered into any hedging arrangements to reduce our exposure to commodity price volatility associated with commodity prices; however, we typically enter into short-term purchasing arrangements, which may contain pricing designed to minimize the impact of commodity price fluctuations.

We procure games, rides and other entertainment-related equipment from a limited number of suppliers, some of which are located in China. The number of suppliers from which we purchase games, rides and other entertainment-related equipment has declined due to industry consolidation over the past several years, coupled with a lower overall global demand. See Risk Factors for more information regarding the risks associated with our third-party suppliers.

Competition

The family dining and entertainment industries are highly competitive, with a number of major national and regional chains operating in each of these spaces. In this regard, we compete for customers on the basis of (a) our name recognition; (b) the price, quality, variety and perceived value of our food and entertainment offerings; (c) the quality of our customer service; and (d) the convenience and attractiveness of our facilities. Although there are other concepts that presently utilize the combined family dining and entertainment format, these competitors primarily operate on a regional or market-by-market basis. To a lesser extent, we also compete directly and/or indirectly with other dining and entertainment formats, including full-service and quick-service restaurants appealing to families with young children, the quick service pizza segment, movie theaters, themed amusement attractions, and other entertainment facilities for children.

We believe that our principal competitive strengths consist of our established recognized brand, the quality and value of the food and service we provide, the quality and variety of our entertainment offerings, the location and attractiveness of our stores and the cleanliness, safety and whole family fun we offer our guests. We also believe that our competitive strengths include our operating model and tenured management team s knowledge of the family dining and entertainment industries relative to our target market of families with young children.

Intellectual Property

We own various trademarks, including Chuck E. Cheese®, Where A Kid Can Be A Kid® and the Chuck E. Cheese character image used in connection with our business, which have been registered with the appropriate patent and trademark offices. The duration of such trademarks is unlimited, subject to continued use and renewal. To further protect our brand, we have registered Internet domain names, including www.chuckecheese.com. We believe that we hold the necessary rights for protection of the trademarks considered essential to conduct our business. We believe our trade name and our ownership of trademarks in the names and character likenesses featured in the operation of our stores provide us with an important competitive advantage, and we actively seek to protect our interests in such property.

Seasonality

Our operating results fluctuate seasonally. We typically generate our highest sales volumes during the first quarter of each fiscal year due to the timing of school vacations, holidays and changing weather conditions. School operating schedules, holidays and weather conditions may also affect our sales volumes in some operating regions differently than others. Because of the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for our full fiscal year.

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Government Regulation

We and our franchisees are subject to various federal, state and local laws and regulations affecting the development and operation of Chuck E. Cheese s stores. For a discussion of government regulation risks to our business, see Risk Factors.

Employees

As of June 29, 2014, we employed approximately 17,500 employees, including approximately 17,200 in the operation of our Company-owned stores and approximately 300 in our corporate office. None of our employees were members of any union or collective bargaining group. We believe that our employee relations are satisfactory, and we have not experienced any work stoppages at any of our stores.

Each Chuck E. Cheese s store typically employs a general manager, one or two managers, an electronic specialist who is responsible for repair and maintenance of the robotic characters, games and rides and approximately 20 to 40 food preparation and service employees, many of whom work part-time. Our staffing requirements are seasonal, and the number of people we employ at our stores will fluctuate throughout the year.

Legal Proceedings

From time to time, we are involved in various inquiries, investigations, claims, lawsuits and other legal proceedings that are incidental to the conduct of our business. These matters typically involve claims from customers, employees or other third parties involved in operational issues common to the retail, restaurant and entertainment industries. Such matters typically represent actions with respect to contracts, intellectual property, taxation, employment, employee benefits, personal injuries and other matters. A number of such claims may exist at any given time, and there are currently a number of claims and legal proceedings pending against us.

In the opinion of our management, after consultation with legal counsel, the amount of liability with respect to claims or proceedings currently pending against us is not expected to have a material effect on our consolidated financial condition, results of operations or cash flows.

Employment-Related Litigation

On January 27, 2014, a purported class action lawsuit against us, entitled Franchesca Ford v. CEC Entertainment, Inc. d/b/a Chuck E. Cheese s (the Ford Litigation), was filed in San Francisco County Superior Court, California, Cause Number CGC 14-536992. We received service of process on February 26, 2014. The Ford Litigation was filed by Franchesca Ford, a former store employee, claiming to represent other similarly situated hourly non-exempt employees and former employees of the Company in California from January 27, 2010 to the present. The lawsuit alleges violations of the state wage and hour laws involving unpaid vacation wages, meal and rest periods, wages due upon termination and waiting time penalties. The plaintiff seeks an unspecified amount in damages. On March 27, 2014, we removed the Ford Litigation to the U.S. District Court Northern District of California San Francisco Division, Cause Number 3:14-cv-01420-MEJ. On April 25, 2014, the plaintiff petitioned the court to remand the Ford Litigation to California state court and on July 10, 2014, the motion to remand was denied. The case thus will proceed in federal court. The parties have exchanged initial disclosures but no other formal discovery. The Company s investigation is on-going. We believe that the Company has meritorious defenses to this lawsuit and intends to vigorously defend against it, including the Ford Litigation plaintiff s efforts to certify a California class action.

On March 24, 2014, a purported class action lawsuit against us, entitled Franchesca Ford and Isabel Rodriguez v. CEC Entertainment, Inc. d/b/a Chuck E. Cheese s (the FCRA Litigation), was filed in U.S. District Court Southern District, California, Case Number 3:14-cv-00677-JLS-JLB. We received service of process on March 31, 2014. The FCRA Litigation was filed by Franchesca Ford and Isabel Rodriguez claiming to represent other similarly situated applicants who were subject to pre-employment background checks with us

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across the United States and in California from March 24, 2012 to the present. The lawsuit alleges violations of the Fair Credit Reporting Act and the California Consumer Credit Reporting and Investigative Reporting Agencies Act. On May 21, 2014, we filed an answer to the complaint. The Court conducted an Early Neutral Evaluation Conference in the case on June 30, 2014, and a Continued Early Neutral Evaluation Conference on August 13, 2014, and September 23, 2014. The parties reached a settlement in principle at the September 23 session of the Continued Early Neutral Evaluation Conference to settle the action on a classwide basis. The settlement would result in the dismissal of all claims asserted in the action, along with certain related claims, and releases in exchange for a maximum settlement payment of $1,750,500, a substantial portion of which would be covered by the Company s insurance carrier.

Litigation Related to the Merger

Following the January 16, 2014 announcement that we had entered into the Merger Agreement, four putative shareholder class actions were filed on behalf of purported stockholders of the Company against us, our directors, Apollo, Holdings and Merger Sub in connection with the Merger Agreement and the transactions contemplated thereby in the District Court of Shawnee County, Kansas. The first purported class action, which is captioned Hilary Coyne v. Richard M. Frank et al., Case No. 14C57, was filed on January 21, 2014 (the Coyne Action). The second purported class action, which is captioned John Solak v. CEC Entertainment, Inc. et al., Civil Action No. 14C55, was filed on January 22, 2014 (the Solak Action). The third purported class action, which is captioned Irene Dixon v. CEC Entertainment, Inc. et al., Case No. 14C81, was filed on January 24, 2014 and additionally names as defendants Apollo Management VIII, L.P. and the AP VIII Queso Holdings, L.P. (the Dixon Action). The fourth purported class action, which is captioned Louisiana Municipal Public Employees Retirement System v. Frank, et al., Case No. 14C97, was filed on January 31, 2014 and additionally names as defendants Apollo Management VIII, L.P. and AP VIII Queso Holdings, L.P. (the LMPERS Action) (together with the Coyne, Solak, and Dixon Actions, the Shareholder Actions).

Each of the Shareholder Actions alleges that our directors breached their fiduciary duties to our stockholders in connection with their consideration and approval of the Merger Agreement by, among other things, agreeing to an inadequate tender price, the adoption on January 15, 2014 of the Rights Agreement, and certain provisions in the Merger Agreement that allegedly make it less likely that the Board would be able to consider alternative acquisition proposals. The Coyne, Dixon and LMPERS Actions further allege that the Board was advised by a conflicted financial advisor. The Solak, Dixon and LMPERS Actions further allege that the Board was subject to material conflicts of interest in approving the Merger Agreement and that the Board breached its fiduciary duties in allowing allegedly conflicted members of management to negotiate the transaction. The Dixon and LMPERS Actions further allege that the Board breached their fiduciary duties in approving the Solicitation/Recommendation Statement on Schedule 14D-9 (together with the exhibits and annexes thereto, as it may be amended or supplemented, the Statement) filed with the SEC on January 22, 2014, which allegedly contained material misrepresentations and omissions.

Each of the Shareholder Actions allege that Apollo aided and abetted the Board s breaches of fiduciary duties. The Solak and Dixon Actions allege that we also aided and abetted such breaches, and the Solak and LMPERS Actions further allege that Holdings and Merger Sub aided and abetted such actions. The LMPERS Action further alleges that Apollo Management VIII, L.P. and AP VIII Queso Holdings, L.P. aided and abetted such actions.

The Shareholder Actions seek, among other things, rescission of these transactions, damages, attorneys and experts fees and costs and other relief that the court may deem just and proper.

On January 24, 2014, the plaintiff in the Coyne Action filed an amended complaint (the Coyne Amended Complaint); furthermore, on January 30, 2014, the plaintiff in the Solak Action filed an amended complaint (the Solak Amended Complaint) (together, the Amended Complaints). The Amended Complaints incorporate all of the allegations in the original complaints and add allegations that the Board approved the Statement which omitted certain material information in violation of their fiduciary duties. The Amended Complaints further request an order directing the Board to disclose such allegedly omitted material information. Additionally, the Solak Amended Complaint adds allegations that the Board breached its fiduciary duties in allowing an allegedly conflicted financial advisor and management to lead the sales process.

On January 28, 2014, the plaintiffs in the Coyne and Dixon Actions jointly filed a motion in each action for a temporary restraining order, expedited discovery, and the scheduling of a hearing for the plaintiffs anticipated motion for temporary injunction seeking expedited discovery and a hearing date in anticipation of a motion for a temporary injunction. CEC Entertainment, Inc. and the individual defendants filed responses to those motions on January 31, 2014.

On February 6, 2014, the plaintiff in the LMPERS Action filed a motion to join the January 28 motion, and the plaintiff in the Solak Action filed a motion for expedited proceedings in anticipation of a motion for a temporary injunction.

On February 7, 2014 and February 11, 2014, the plaintiffs in the four actions pending in Kansas withdrew their respective motions and determined to pursue a consolidated action for damages after the Tender Offer closed.

On March 7, 2014, the Coyne, Solak, Dixon and LMPERS Actions were consolidated under the caption In re CEC Entertainment, Inc. Stockholder Litigation, Case No. 14C57. Thereafter, the parties engaged in limited discovery. By stipulation of the parties, the Company has no obligation to answer, move, or otherwise respond to the complaints filed in the Coyne, Solak, Dixon or LMPERS Actions until after the plaintiffs serve a consolidated amended complaint, or designate an operative complaint or amended complaint.

A fifth purported class action, which was captioned McCullough v Frank, et al. Case No. CC-14-00622-B, was filed in the County Court of Dallas County, Texas on February 7, 2014 (the McCullough Action). On May 21, 2014, the County Court of Dallas County, Texas dismissed the McCullough Action for want of prosecution.

On June 10, 2014, Magnetar Global Event Driven Fund Ltd., Spectrum Opportunities Master Fund, Ltd., Magnetar Capital Master Fund, Ltd., and Blackwell Partners LLC, as the purported beneficial owners of shares held as of record by the nominal petitioner Cede & Co., (the Appraisal Petitioners), filed an action for statutory appraisal under Kansas state law against the Company in the U.S. District Court for the District of Kansas, captioned Magnetar Global Event Driven Master Fund Ltd, et al. v. CEC Entertainment, Inc., 2:14-cv-02279-RDR-KGS. The Appraisal Petitioners seek appraisal of 750,000 shares of common stock. We have answered the complaint and filed a verified list of stockholders, as required under Kansas law. On September 3, 2014, the court entered a scheduling order that contemplates that discovery will commence in the fall of 2014 and will substantially be completed by May 2015. Following discovery, the scheduling order contemplates dispositive motion practice followed, potentially, by a trial on the merits of the Appraisal Petitioners claims thereafter.

We believe these lawsuits are without merit and intend to defend them vigorously; however, we are presently unable to predict the ultimate outcome of this litigation.

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MANAGEMENT

The following table provides information regarding our executive officers and the members of our Board:

Name	Age	Position(s)
Thomas Leverton	42	Chief Executive Officer and Director
J. Roger Cardinale	54	President
Temple Weiss	42	Executive Vice President, Chief Financial Officer
Randy G. Forsythe	52	Executive Vice President, Director of Operations
Laurie E. Priest	41	Vice President, Controller
Lance A. Milken	38	Director
James P. Chambers	29	Director
Daniel E. Flesh	33	Director
Allen R. Weiss	60	Director

Thomas Leverton has served as a member of our Board and Chief Executive Officer of the Company since July 2014. He served as Chief Executive Officer of Topgolf from May 2013 until July 2014. Before Topgolf, Mr. Leverton served as Chief Executive Officer of Omniflight, an air medical operator. Earlier in his career, he held executive roles at FedEx Office, including Executive Vice President and Chief Development Officer. Mr. Leverton also served as Chief Operating Officer of TXU Energy. He began his career at Johnson & Johnson and Bain & Company. In light of our ownership structure and Mr. Leverton s extensive executive leadership and management experience, the Board believes it is appropriate for Mr. Leverton to serve as our director.

J. Roger Cardinale has served as President of the Company since June 2014. Previously, he served as Executive Vice President of Development and Purchasing of the Company since December 1999. In 2013, he was named President of the Company s International Division. Prior to that, he served as Senior Vice President of Purchasing from March 1998 to December 1999 and Senior Vice President of Real Estate from January 1999 to December 1999. From January 1993 to March 1998, he served as Vice President of Purchasing and, from September 1990 to January 1993, he served as Director of Purchasing. Mr. Cardinale also held various other positions with the Company from November 1986 to September 1990.

Temple Weiss has served as Executive Vice President, Chief Financial Officer of the Company since September 2014. He served as Chief Financial Officer of Pegasus Solutions, Inc., a hospitality technology company, from May 2013 to September 2014. From January 2012 to January 2013, he served as Executive Vice President and Chief Financial Officer for ACE Cash Express, Inc., a financial services company. Prior to that, from February 2001 to December 2011, he served in various finance and development roles with hotel operator LQ Management, Inc. and its predecessor La Quinta Corporation, including Executive Vice President and Chief Financial Officer.

Randy G. Forsythe has served as Executive Vice President, Director of Operations of the Company since September 2008. Prior to that time he served as Senior Vice President from February 2000 to September 2008. Mr. Forsythe served as a Regional Vice President from November 1997 to February 2000. From November 1982 to November 1997, Mr. Forsythe held various positions in operations with the Company.

Laurie E. Priest has served as Vice President, Controller of the Company since March 2012. Prior to joining the Company, Ms. Priest served as Manager of Accounting Standards at Kimberly-Clark Corporation, a New York Stock Exchange listed company engaged in the manufacturing and marketing of essential products, from January 2010 to February 2012. From October 2003 to November 2009, Ms. Priest held various financial positions including Director, Financial Reporting with Centex Corporation (a predecessor to PulteGroup, Inc.), a New York Stock Exchange listed company in the residential homebuilding and mortgage lending industry. From September 1996 to October 2003, Ms. Priest worked for public accounting firms, where she held various roles, including most recently Audit Senior Manager with KPMG LLP. Ms. Priest is a Certified Public Accountant.

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Lance A. Milken became a member of our Board in February 2014 in connection with the Acquisition. Mr. Milken is a partner of Apollo, having joined in 1998. Mr. Milken serves on the board of directors of Claire s Stores Inc. and has previously served on the board of directors of CKE Restaurants, Inc. Mr. Milken is also a member of the Milken Institute and Brentwood School Board of Trustees. In light of our ownership structure and Mr. Milken s extensive financial and business experience, including experience in financing, analyzing and investing in companies in the entertainment sector, the Board believes it is appropriate for Mr. Milken to serve as our director.

James P. Chambers became a member of our Board in February 2014 in connection with the Acquisition. Mr. Chambers is a principal at Apollo, having joined in 2009. Prior to that time, Mr. Chambers was a member of the Consumer and Retail Group in the Investment Banking Division of Goldman, Sachs & Co. Mr. Chambers serves on the board of directors of Great Wolf Resorts, Inc., Veritable Maritime Holdings, LLC and Principal Maritime Holdings, LLC. In light of our ownership structure and Mr. Chambers extensive financial and business experience, including his experience managing companies in the entertainment sector, the Board believes it is appropriate for Mr. Chambers to serve as our director.

Daniel E. Flesh became a member of our Board in February 2014 in connection with the Acquisition. Mr. Flesh is a principal at Apollo, having joined in 2006. Prior to that time, Mr. Flesh was a member of the Investment Banking Division of Bear, Stearns & Co. Inc. Mr. Flesh serves on the board of directors of Hostess Brands and Jacuzzi Brands. In light of our ownership structure and Mr. Flesh s extensive financial and business experience, including his background as an investment banker, the Board believes it is appropriate for Mr. Flesh to serve as our director.

Allen R. Weiss became a member of our Board in June 2014. Mr. Weiss served as President of Worldwide Operations for the Walt Disney Parks and Resorts business of The Walt Disney Company, a global entertainment company listed on the NYSE, from 2005 until his retirement in 2011. Prior to that, Mr. Weiss served in a number of roles for The Walt Disney Company beginning in 1972, including most recently as President of Walt Disney World Resort, Executive Vice President of Walt Disney World Resort and Vice President of Resort Operations Support. Mr. Weiss serves as a director of Dick s Sporting Goods, Inc. and Apollo Group, Inc. (a private education provider unaffiliated with Apollo). Mr. Weiss also serves on the board or council of a number of community and civic organizations. In light of our ownership structure and Mr. Weiss s knowledge and understanding of the entertainment sector, including insight gained through his executive leadership and management experience at The Walt Disney Company, the Board believes it is appropriate for Mr. Weiss to serve as our director.

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COMPENSATION DISCUSSION AND ANALYSIS

In this Compensation Discussion and Analysis, we discuss our compensation objectives, our decisions and the rationale behind those decisions relating to 2013 compensation for our named executive officers. The discussion and analysis also contains statements regarding future individual and Company performance targets and goals. These targets and goals are disclosed in the limited context of our compensation programs and should not be understood to be statements of management s expectations or estimates of results or other guidance. We specifically caution investors not to apply these statements to other contexts. This discussion and analysis also explains the current compensation policies of the Company, which may change in the future in certain circumstances that the Board of Directors or the Compensation Committee consider advisable.

Our named executive officers for 2013 included J. Roger Cardinale, our President; and Randy G. Forsythe, our Executive Vice President and Director of Operations. In addition, in accordance with SEC rules, our named executive officers for 2013 also included Richard M. Frank, our former Executive Chairman; Michael H. Magusiak, our former President and Chief Executive Officer; Scott A. McDaniel, our former Executive Vice President and Chief Marketing Officer; and Tiffany B. Kice, our former Executive Vice President, Chief Financial Officer, and Treasurer. Mr. Frank retired from the Company on March 31, 2014, Mr. Magusiak retired from the Company on June 2, 2014, and Ms. Kice resigned from the Company on July 11, 2014. Mr. McDaniel s employment with the Company terminated on November 4, 2013.

Objectives of Our Compensation Program

The objectives of our 2013 compensation program included the following:

- attract, retain and motivate executive officers and other employees to successfully implement our strategic plan and enhance stockholder value, through the use of both short and long-term incentives that reward individual and Company performance;
- structure compensation based on performance measures intended to reward performance, which we believe creates value for stockholders; and
- promote an ownership mentality and ensure senior management continuity among our officers and employees through the use of equity-based compensation that more closely aligns the interests of the executives with those of our stockholders.

Our ability to hire and retain executives with the requisite skills and experience to implement our strategic plan is essential to our success on behalf of our stockholders. The goals encompassed in our strategic plan include both improving sales and profits from our existing stores and increasing the number of Company-owned and franchise stores. We believe that if we successfully execute this strategic plan, we can enhance stockholder value by increasing our free cash flow over the long-term through increased earnings and careful management of capital expenditures.

We believe that our success in recruitment and retention of executives is dependent upon our ability to offer a work environment in which our executives can find attractive career challenges and opportunities. We also understand that our executives have a choice regarding where they pursue their careers, and that the compensation we offer plays a significant role in their decision to work for the Company.

What Our Compensation Program Is Designed to Reward

Our executive compensation program during 2013 was designed to reward strong financial performance of the Company that results from quality execution of our strategic plan on both a short-term and long-term basis. In addition, we wanted to reinforce those core values that we believed help us achieve our strategic goals, including teamwork, integrity, and the importance we place on each individual.

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Elements of Our Compensation Program and Why We Pay Each Element

Our 2013 compensation program was primarily comprised of three elements: base salaries, cash bonuses and long-term equity-based incentive compensation.

Base Salaries. We pay base salary in order to recognize each executive officer s unique value and historical contributions to the Company s success. In establishing base salaries, the Compensation Committee considered salary norms in the industry and the general marketplace, base salaries offered by companies that we compete with for executive talent and the executive s position and level of responsibility.

Cash Bonuses. We included cash bonuses as part of our compensation program because we believe this element of compensation helps to focus executive officers on achieving, and motivates executive officers to achieve, key corporate objectives by rewarding the achievement of these objectives. We also believe it is necessary in order to offer a competitive total remuneration package.

Our cash bonuses during 2013 were an integral component of compensation that linked and reinforced executive decision-making and performance with the objectives of the Company. The Compensation Committee during 2013 had the ability to award cash bonuses through the Incentive Bonus Plan or on a discretionary basis. Our Incentive Bonus Plan provided annual cash bonuses to our named executive officers and other eligible employees based upon comparable store sales and diluted earnings per share results for the applicable fiscal year. Each executive s bonus under our Incentive Bonus Plan represented an amount equal to a specified percentage of the executive s gross base salary.

Long-Term Equity-Based Incentive Compensation. Long-term equity-based incentive compensation is an element of our compensation policy because we believe it aligns executive officers interests with the interests of the Company s stockholders, rewards long-term performance, is required in order for us to be competitive from a total remuneration standpoint, encourages executive retention and provides executives the opportunity to share in the long-term performance of the Company.

During 2013 and in previous years, we typically granted restricted stock with a four-year ratable vesting schedule. By typically providing a four-year ratable vesting schedule, the recipients of the restricted stock had an incentive to remain employed over the vesting period. For several years, the Compensation Committee has also included a performance-based component to restricted stock awards to Messrs. Frank and Magusiak. In February 2013, the Compensation Committee approved a performance-based criterion for the restricted stock grants to the named executive officers other than Messrs. Frank and Magusiak. The performance-based components for certain of the restricted stock awards are discussed below under Long-Term Equity-Based Incentives. We believe that our restricted stock plan served as a vehicle for providing performance-based incentives where applicable, long-term incentives and also served as a retention tool.

How We Determined the Amount and Material Terms of Each Element of Compensation

The Compensation Committee of our Board of Directors oversaw our compensation programs during 2013. The Compensation Committee s primary purpose was to assist the Board of Directors in the discharge of its responsibilities relating to determining the compensation of the Company s executive officers. Consistent with the listing requirements of the New York Stock Exchange that applied to the Company during 2013, the Compensation Committee was composed entirely of independent members of our Board of Directors.

In October 2011, the Compensation Committee engaged Longnecker for the purpose of evaluating the compensation of the Company s top 10 executives from 2012. The Compensation Committee selected Longnecker as its independent compensation consultant for 2012 primarily as a result of Longnecker s familiarity with the Company and its executive compensation program as well as the Compensation Committee s satisfaction with the compensation consulting services Longnecker has provided in the past. The evaluation resulting from this engagement was submitted to the Compensation Committee in January 2012 (the 2012 Longnecker Report) and was considered by the Compensation Committee along with a number of factors in the process of determining the 2012 compensation for the Company s executives. The 2012 Longnecker Report reviewed, assessed and compared a variety of compensation surveys, and compared our executive compensation to that of a peer group of 10 public companies from the restaurant industry. The peer group utilized by Longnecker was selected based on companies in the leisure, hospitality and entertainment services industry with revenues and market capitalization similar to that of the Company s.

The 10 companies included in the peer group for the 2012 Longnecker Report are as follows:

Bob Evans Farms, Inc.	Panera Bread Company
California Pizza Kitchen, Inc.	Papa John s International, Inc.
Cracker Barrel Old Country Store, Inc.	Red Robin Gourmet Burgers, Inc.
The Cheesecake Factory Incorporated	Ruby Tuesday, Inc.
P.F. Chang s China Bistro	Texas Roadhouse, Inc.

From a business perspective at the time of the 2012 Longnecker Report, as compared to the 50th percentile of our selected peer group, the Company generally has a higher enterprise value, higher annual operating cash flow, higher gross profit percentage, lower gross profit, lower revenues and lower amount of assets.

In reviewing total compensation of executives, the 2012 Longnecker Report analyzed total compensation of amounts generally in the range between the 50th and 75th percentile of our selected peer group. The 50th percentile, or midpoint range of our peer group, is intended to provide compensation at a level appropriate for an executive who meets expectations and is fully qualified for the responsibilities of a given position. Compensation approximating the 75th percentile of the range is intended to provide compensation at a level appropriate for a seasoned incumbent who typically exceeds expectations.

As part of its process during 2013, the Compensation Committee again utilized the assistance of Longnecker & Associates, an executive compensation consulting company (Longnecker), to assist the Compensation Committee in evaluating executive compensation programs and in evaluating executive officers compensation compared to an established peer group of similar public companies selected by the Compensation Committee in consultation with Longnecker. While the Compensation Committee considered many factors in determining compensation, including Company and individual performance, the use by the Compensation Committee of an independent consultant was intended to provide some additional assurance that the Company s executive compensation programs were reasonable and consistent with the Company s compensation objectives and market compensation levels. Longnecker reported directly to the Compensation Committee, communicated with the Compensation Committee to discuss compensation trends and best practices, and did not perform any services for management.

Base Salary

During 2013, the Compensation Committee and Messrs. Frank and Magusiak met to review the base salaries of the Company s executive officers. Mr. Frank participated in some preliminary discussions with the Compensation Committee about the base salary levels of the Company s other executive officers, including the performance of the other executive officers. Thereafter, Mr. Frank was excused and the Compensation Committee met in an executive session to consider any potential change to Messrs. Frank and Magusiak s respective base salaries. Neither Mr. Frank nor Mr. Magusiak made a recommendation on their respective base salaries. For 2013, the Compensation Committee set the base salary of Messrs. Frank, Magusiak, Cardinale, Forsythe and McDaniel, and Ms. Kice at $600,000, $800,000, $375,000, $257,500, $325,000 and $315,000, respectively. The Compensation Committee decreased the base salary for Mr. Frank for 2013 effective April 1, 2013, maintained the same base salary for Messrs. Magusiak and McDaniel for 2013 and increased the base salaries for the other named executive officers for 2013 based upon consideration of the factors below.

In setting base salaries in 2013, the Compensation Committee took into account a combination of subjective factors, as well as Company performance and the information in the 2012 Longnecker Report, respectively. Subjective factors the Compensation Committee considered include individual achievements, level of responsibility, experience, leadership abilities, increases or changes in duties and responsibilities, contributions to the Company s performance and the recommendations of Messrs. Frank and Magusiak with respect to the other named executive officers. The Compensation Committee did not consider wealth accumulation in its evaluation. The Compensation Committee generally established base salaries in conjunction with the cash bonus and long-term incentive elements of the compensation program to create a compensation package that met the Compensation Committee s goals for an appropriate mix of compensation discussed below, and to the extent consistent with the other factors considered by the Committee, also affords the individual an opportunity which generally approximates the 50th to 75th percentile of the competitive market.

Cash Bonus

During 2013, the Compensation Committee had the ability to award cash bonuses through the Incentive Bonus Plan and on a discretionary basis.

Incentive Bonus Plan

During 2013, the Company maintained the Incentive Bonus Plan whereby executive officers (excluding Messrs. Frank and Forsythe who did not participate in the Incentive Bonus Plan) had the potential to receive a cash bonus if the Compensation Committee s pre-established comparable store sales goal and diluted earnings per share goal for a fiscal year were met. The Compensation Committee believed that comparable store sales and diluted earnings per share targets were the appropriate measures of Company performance for purposes of determining the annual incentive compensation under the Incentive Bonus Plan.

The Compensation Committee determined by no later than March 15th of each fiscal year the applicable percentage of an executive s gross base earnings that may be earned under the Incentive Bonus Plan for such year (the Bonus Potential). Executives would receive a bonus under the Incentive Bonus Plan if our comparable store sales and diluted earnings per share for the applicable fiscal year reach the target levels established by the Compensation Committee. In no event would a cash bonus be paid under the 2013 Incentive Bonus Plan unless certain minimum comparable store sales for the fiscal year as predetermined by the Compensation Committee were attained.

For 2013, the actual bonus payout for an executive was equal to the gross base earnings of such executive multiplied by his or her Bonus Potential, multiplied by the sales multiplier for the fiscal year, multiplied by the diluted earnings per share multiplier for the fiscal year. If the comparable store sales target for a fiscal year was obtained, the sales multiplier for that fiscal year would be 0.866. If the diluted earnings per share target for a fiscal year was obtained, the earnings per share multiplier described below for that fiscal year would be 0.866. The sales multiplier and the diluted earnings per share multiplier for a fiscal year will be lower or higher if the comparable store sales and the diluted earnings per share are lower or higher, respectively, than the targeted results. The amount of bonus may be adjusted, as determined by the Compensation Committee, for certain specific material unusual transactions that may occur outside of the normal, regular course of business, if such transactions are equal to or greater than 0.5% or 5.0% of total revenues or pre-tax earnings, respectively, in 2013. No such adjustments were made in 2013. Based on this formula, the comparable store sales and diluted earnings per share criteria for our named executive officers (excluding Messrs. Frank and Forsythe) is the same for any given fiscal year but the targets may be adjusted from year to year.

For 2013, the Compensation Committee set the target increase for comparable store sales at 2.5% and the target for diluted earnings per share at $2.89. To the extent the Company repurchased Company shares in fiscal 2013, actual diluted earnings per share figures in fiscal 2013 for purposes of the Incentive Bonus Plan were adjusted to exclude the effects of such share repurchases. The Compensation Committee believed that

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comparable store sales and diluted earnings per share targets were the appropriate measures of Company performance and established the diluted earnings per share and comparable stores targets for 2013 after taking into consideration the Company s recent performance, the continuing difficult economic environment and continuing pressures on consumer discretionary spending. The Compensation Committee established what it considered to be ambitious, yet achievable goals, and determined that the diluted earnings per share target and the comparable store sales target established the appropriate short-term incentive for the named executive officers. The Compensation Committee set the target bonus amount for each named executive officer based upon a percentage of gross base earnings.

For purposes of the 2013 Incentive Bonus Plan, gross base earnings equaled the amount of taxable earnings paid to the executive as salary during fiscal year 2013. This is distinguished from the Base Salary set forth in the Summary Compensation Table which is the annual base salary established by the Compensation Committee. For each executive except for Messrs. Frank and Forsythe, the Compensation Committee set a percentage of gross base earnings that such executive would receive if the target comparable store sales and the target diluted earnings per share were met in 2013. The Compensation Committee excluded Mr. Frank from incentive bonus plan eligibility for 2013. Mr. Forsythe was excluded from participation in the 2013 Incentive Bonus Plan as he participated in a separate operational bonus plan. Mr. Magusiak had a target percentage of gross base earnings of 93.75% under the 2013 Incentive Bonus Plan and the other executive officers (excluding Messrs. Frank and Forsythe) each had a target percentage of gross base earnings of 75% under the 2013 Incentive Bonus Plan, which would be earned if the comparable store sales and diluted earnings per share targets were met but not exceeded. The Compensation Committee reduced the target bonus amounts from those in 2012 for the persons who were named executive officers in both years, determining that the target amounts provided the appropriate mix of short-term incentive with the amounts of base salary described above and long-term incentives described below. The Compensation Committee applied the higher target bonus percentage for the Chief Executive Officer compared to the other named executive officers based upon the importance of his role in Company performance. The actual percentage of gross base earnings payable to each executive for 2013 may be higher or lower than the set percentage depending on whether the actual comparable store sales and diluted earnings per share are higher or lower than the 2013 targets. In 2013, the maximum bonus potential for Messrs. Cardinale and McDaniel and Ms. Kice was 200% of gross base earnings and for Mr. Magusiak was 250% of gross base earnings. In 2013, the minimum bonus potential for Messrs. Cardinale and McDaniel and Ms. Kice was 20% of gross base earnings and for Mr. Magusiak was 25% of gross base earnings. No bonus would have been earned in 2013 if comparable store sales declined by more than 1.0%. The Compensation Committee raised this minimum requirement from a 3.0% comparable store sales decline in 2012 to set a more difficult minimum performance requirement.

For 2013, comparable store sales increased 0.4% and diluted earnings per share was $2.78, or $2.71 when adjusted to exclude the effects of 2013 share repurchases. Under the 2013 Incentive Bonus Plan, the corresponding multiplier for an increase in comparable store sales of 0.4% was 0.59 and the corresponding multiplier for diluted earnings per share of $2.72 was 0.667. Therefore, the actual bonus payout to our named executive officers (excluding Messrs. Frank, Magusiak and Forsythe) was 0.394 (0.59 multiplied by 0.667) multiplied by a Bonus Potential of 100%, or a 39.4% payout of gross base earnings. The actual bonus payout to Mr. Magusiak were 0.492 (0.59 multiplied by 0.667) multiplied by a Bonus Potential of 125%, or a 49.2% bonus payout of his gross base earnings. Thus, our named executive officers received the following bonuses for 2013 under the Incentive Bonus Plan:

Name and Position	Incentive Bonus Payment	
Michael H. Magusiak (President and Chief Executive Officer)	$	394,000
Tiffany B. Kice (Chief Financial Officer)	$	124,110
J. Roger Cardinale (Executive Vice President)	$	147,750

Mr. McDaniel forfeited his 2013 incentive bonus when he left the Company in November 2013.

The determination of bonus eligibility and targets pursuant to the Incentive Bonus Plan at the beginning of the year to any individual or to the officers as a group is entirely at the discretion of the Compensation Committee.

Period Performance and Quarterly Sales Bonus Plan

The cash bonus for Mr. Forsythe, our Executive Vice President, Director of Operations, was based on a separate plan that was comprised of two components: the period performance bonus and the quarterly sales bonus.

In 2013, Mr. Forsythe s period performance bonus was calculated by multiplying his base salary for each applicable performance period by the performance bonus factor for such period. The performance bonus factor was 50% of Mr. Forsythe s base salary, subject to an increase or a decrease depending on whether the Company s controllable profit percent was above or below the targeted controllable profit performance. The targeted performance levels set forth specified target controllable profit percentages at varying levels of average weekly sales. The controllable profit percent was our controllable profit as a percentage of sales for the applicable performance period. In 2013, no bonus would have been paid under the period performance component of the plan if the Company s actual controllable profit percent was below the specified target controllable profit percent by more than 4.1%. In 2013, for the period performance bonus, the minimum Mr. Forsythe could earn was $0 and there was no limit on the amount that could be earned. In 2013, Mr. Forsythe received an aggregate period performance bonus of $132,324 for all performance periods (or 102.8% of the target performance in 2013).

In 2013, Mr. Forsythe s quarterly sales bonus was based on comparable store sales for the Company and was calculated based upon multiplying 50% of his base salary for the first three quarters by the sales bonus factor for each such quarter. The fourth quarter sales bonus was calculated on an annual basis. In 2013, the sales bonus factor was based on a targeted increase in comparable store sales of 2.0% for the first quarter of 2013 and 3.0% for the remaining quarters of 2013. The sales bonus factor ranged from a minimum factor of 0.0 for flat comparable stores sales, which would have resulted in Mr. Forsythe not receiving a quarterly sales bonus, to a maximum sales bonus factor of 2.0 for a 5% comparable store sales increase for the first three quarters of the fiscal year, which would have resulted in a maximum quarterly sales bonus of 100% of his base salary earned during each such quarter, or $64,375. The maximum sales bonus factor did not apply to the fourth quarter sales bonus. The calculation of the 2013 fourth quarter sales bonus on an annual basis would be adjusted for payments in prior quarters. To qualify for the full amount of the quarterly sales bonus, the increase in the Company s controllable profit as a percent of its increase in sales must have been 50% or greater and no quarterly sales bonus would be payable if the threshold fell below 30%. In 2013, Mr. Forsythe received an aggregate sales bonus of $57,294 based on the Company s comparable store sales results (or 44.5% of the target for sales in 2013).

Discretionary Bonuses

During 2013, the Compensation Committee, in its discretion based on the collective business judgment of its members, also had the authority to choose to award a bonus other than pursuant to the Incentive Bonus Plan, and decide on the actual level of the award in light of all relevant factors during or after completion of the fiscal year. No discretionary bonuses were paid to named executive officers in 2013.

Long-Term Equity-Based Incentives

During 2013, our Third Amended and Restated 2004 Restricted Stock Plan was administered by the Compensation Committee. The Compensation Committee selected award recipients, determined the timing of grants, assigned the number of shares subject to each award and set the vesting schedule, which was usually over a period of four years. The Compensation Committee determined the amount of the restricted stock grants based on the level of job responsibility, individual performance, Company performance, the retention feature provided by such awards, and the increase in the alignment of executives and stockholders. The Compensation Committee also considered recommendations from Messrs. Frank and Magusiak for the value of restricted stock to be granted to the other named executive officers. The Compensation Committee would meet between two and ten business days after our quarterly earnings release, and these four meetings would be the only times during the year that grants of restricted stock will be awarded. The Compensation Committee believed it is a better practice to make awards at consistent times when material information regarding our performance has been recently disclosed.

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For 2013, the Compensation Committee granted to named executive officers an aggregate of 153,444 shares of restricted stock with a four-year vesting schedule (excluding Mr. Frank s grant, which had a three-year vesting schedule pursuant to his employment agreement). The Compensation Committee considered the current compensation levels, the existing compensation mix, individual contributions and Company performance in increasing the value of awards for 2013. On February 26, 2013, the Compensation Committee granted the named executive officers (excluding Mr. Frank) shares of restricted stock with a four-year vesting schedule with 25% of the shares granted vesting on the first anniversary date of the grant and thereafter with 25% of the shares granted vesting on February 26, 2015, February 26, 2016 and February 26, 2017, provided the named executive officer was still employed by us on those dates. Mr. Frank s 2013 restricted stock grant vested 33% on February 26, 2014, and would have vested 33% on February 26, 2015 and 34% on February 26, 2016, had Mr. Frank remained employed by us on those dates. The Compensation Committee granted the named executive officers the following value and number of shares of restricted stock on February 26, 2013:

	2013 Restricted Stock	
Name and Position	**Value**	**Shares**
Richard M. Frank (Executive Chairman)	$ 1,350,000	44,074
Michael H. Magusiak (President and Chief Executive Officer)	$ 1,800,000	58,766
Tiffany B. Kice (Chief Financial Officer)	$ 300,000	9,794
J. Roger Cardinale (Executive Vice President)	$ 550,000	17,956
Randy G. Forsythe (Executive Vice President)	$ 350,000	11,427
Scott A. McDaniel(1)	$ 350,000	11,427

(1) Mr. McDaniel s 2013 restricted stock grants were forfeited when he left the Company on November 4, 2013.

In addition, the restricted stock awards granted to Messrs. Frank and Magusiak in 2013 included additional, performance-based vesting conditions based on the achievement of total revenue targets during fiscal year 2013. Under the performance-based vesting conditions, no restricted stock award would be retained if total revenues during fiscal year 2013 were $762,372,999 or less. In addition, under the performance-based vesting conditions, the entire restricted stock award would be retained if total revenues during fiscal year 2013 were $821,229,000 or more. In the event total revenues were equal to or between $762,373,000 and $821,228,999, 75% or more of the restricted stock award would be retained and the remaining portion would be forfeited. The performance-based awards established by the Compensation Committee were based 100% on the achievement of revenue objectives set by the Compensation Committee, which the Compensation Committee believed were the appropriate performance-based inducement for the executive to retain some or all of his restricted stock award. The 2013 performance-based vesting conditions were satisfied with respect to 100% of the 2013 performance-based revenue objective and corresponding restricted stock awards. Thus Messrs. Frank and Magusiak retained 100% of their restricted stock grants or $1,350,000 totaling 44,074 shares for Mr. Frank and $1,800,000 totaling 58,766 shares for Mr. Magusiak.

In addition, the restricted stock awards granted to Messrs. Cardinale, Forsythe and McDaniel and Ms. Kice in 2013 included additional, performance-based vesting conditions based on the achievement of comparable store sales targets during fiscal year 2013. Under the performance-based vesting conditions for Messrs. Cardinale, Forsythe and McDaniel and Ms. Kice, ninety percent (90%) of the restricted stock award would be retained in the event comparable store sales during fiscal year 2013 were less than zero percent. For Messrs. Cardinale, Forsythe and McDaniel and Ms. Kice the entire restricted stock award would be retained in the event comparable store sales for fiscal year 2013 were zero percent or higher. All equity awards held by our named executive officers vested in full in conection with the Merger. The 2013 performance-based vesting conditions were satisfied with respect to 100% of the 2013 performance-based revenue objective and corresponding restricted stock awards for Messrs. Cardinale and Forsythe and Ms. Kice, and therefore Messrs. Cardinale and Forsythe and Ms. Kice retained 100% of their restricted stock grants. Mr. McDaniel forfeited all of his 2013 restricted stock awards when he left the Company in November 2013.

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Benefits

During 2013, we provided Company benefits, or perquisites, that we believed were standard in the industry to our executive officers. We provided a group medical and dental insurance program for the executives and their qualified dependents, group life insurance for the executives and their spouses, accidental death and dismemberment coverage and a Company sponsored cafeteria plan. A major portion of these benefits were paid for by the Company. Employee life insurance amounts surpassing the Internal Revenue Service maximum were treated as additional compensation to all employees. The named executive officers participated in a separate medical, dental and life insurance benefits program that was fully-funded by the Company. Messrs. Frank and Magusiak were also reimbursed for all out-of-pocket expenses related to their life insurance premiums, as well as all out-of-pocket medical and dental expenses for them, their spouses and dependent children. We paid all administrative costs to maintain the medical and dental benefit plans. Our executive officers were also entitled to certain benefits that were not otherwise available to all of our employees, including car allowances and subsidized annual physical exams.

How Elements of Our Compensation Program Are Related to Each Other

We view the various components of 2013 compensation as related but distinct and emphasize pay for performance with cash bonuses and equity awards as a significant portion of total compensation reflecting a risk aspect that is tied to long-term and short-term financial and strategic goals. Our compensation philosophy was to foster entrepreneurship and alignment of the interests of executives and stockholders by making equity compensation a significant component of executive compensation. We determined the appropriate level for each compensation component based in part, but not exclusively, on our view of internal equity and consistency, retention of executive officers and other considerations we deem relevant, such as rewarding extraordinary performance and the other factors discussed above. Our Compensation Committee did not have any formal or informal policies or guidelines during 2013 for allocating compensation between long-term and currently paid out compensation, between cash and non-cash compensation, or among different forms of non-cash compensation.

Role of Executive Officers in Compensation Decisions

Messrs. Frank and Magusiak and other executive officers attended portions of Compensation Committee meetings throughout the year in order to provide information and help explain data relating to matters under consideration by the Compensation Committee. Executive officers, however, did not participate in deliberations or determination of their respective compensation or during executive sessions. In addition, Messrs. Frank and Magusiak submitted recommendations to the Compensation Committee regarding certain elements of the compensation for the other named executive officers. All decisions regarding the compensation of executive officers ultimately were made solely by the Compensation Committee, which considered these recommendations and exercised its discretion to modify certain recommended adjustments or awards based on a number of factors considered by the Compensation Committee, as described above. The Committee s determinations regarding compensation for the other named executive officers were generally consistent with the recommendations of management.

Accounting and Tax Considerations

In general, we structured our compensation program to attempt to satisfy certain provisions of the Internal Revenue Code of 1986, as amended (the Code). Under Section 162(m) of the Code, a limitation is placed on tax deductions of any publicly held corporation for individual compensation to certain executives of such corporation exceeding $1,000,000 in any taxable year, unless the compensation is performance-based.

While the Compensation Committee considered the deductibility of compensation and awards as one factor in determining executive compensation, the Compensation Committee also considered other factors in approving

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compensation and retains the flexibility to pay compensation, such as base salary, and to grant awards, such as service-based restricted stock, that it determined to be consistent with our goals for our executive compensation program during 2013, even if the compensation or award was potentially not deductible by us for tax purposes. In addition, because of the uncertainties associated with the application and interpretation of Section 162(m) of the Code and the regulations issued thereunder, there can be no assurance that compensation intended to satisfy the requirements for deductibility under Section 162(m) of the Code will in fact be deductible.

All equity awards to executive officers have been reflected in our consolidated financial statements, based upon the applicable accounting guidance, at the fair market value on the grant date in accordance with accounting principles generally accepted in the United States (GAAP).

Stock Ownership Guidelines

During 2013, the Compensation Committee believed that executive officers should own appropriate amounts of the Company s Common Stock to align their interests with those of the Company s stockholders. The Company s equity incentive plans provided ample opportunity for executives to acquire such Common Stock. The Compensation Committee also had stock ownership and retention guidelines for the Executive Chairman, President and Chief Executive Officer, all Executive Vice Presidents and all non-employee directors in place during 2013. The ownership targets under that policy were as follows:

Executive Chairman	75,000 shares
President and Chief Executive Officer	75,000 shares
Executive Vice Presidents	10,000 shares
Non-Employee Directors	5,000 shares

New directors and officers had five years to attain such ownership thresholds. All of the directors and executive officers had attained such ownership thresholds in 2013.

Termination of Employment Arrangements

Prior to their retirements in 2014, we had change of control severance provisions in the employment agreements negotiated with our former Executive Chairman and our former President and Chief Executive Officer. Our Board of Directors and Compensation Committee believed that providing these agreements to our Executive Chairman and our President and Chief Executive Officer would serve to help protect stockholders interests. The agreements provided that the executives would receive change of control severance only in the event that both a change of control occurred and the executive left the Company within one year of the change of control. Our Board of Directors and Compensation Committee believed that providing these agreements to our Executive Chairman and our President and Chief Executive Officer would serve to help protect stockholders interests in the event of a change of control event affecting the Company, by enhancing the likelihood of management continuity through the closing of any transaction. Our Board of Directors and Compensation Committee further believed that these provisions were appropriate given the combined tenure of the two executives with the Company was approximately 50 years and that in the event of any change in control, Messrs. Frank and Magusiak would likely be asked to remain as members of the executive management team of the Company. Finally, the Board of Directors and Compensation Committee believed that the remuneration for any change of control severance, which approximated one year of total target compensation for Mr. Frank and amounted to less than one year of total target compensation for Mr. Magusiak, was fair and appropriate given their long-term service with the Company and provided the appropriate incentive to continue service to the Company during any pending change of control.

The employment agreements with Messrs. Frank and Magusiak also provided the executives with certain additional severance and deferred compensation benefits. The Board of Directors and Compensation Committee believed that such benefits, which were less than those for any change of control severance, were fair and appropriate given their long-term service with the Company. The Board of Directors and Compensation Committee also believed that such benefits provided an appropriate incentive for each of the executives to enter his respective employment agreement and for each of Messrs. Maguisak and Frank to continue his service to the Company.

In addition, our equity incentive plans had provisions allowing for the vesting of awards granted under those plans in connection with a change of control (as defined in the applicable equity incentive plan), which would apply to awards granted to our executive officers. Generally, awards granted under the equity incentive plans provided that the award would vest in the event that there was a change of control. The employment agreements with Messrs. Frank and Magusiak also provided for the vesting of their awards under certain circumstances.

See Potential Payments Upon Termination or Change-in-Control for more information on the benefits payable to the Company s executives upon termination of employment.

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EXECUTIVE COMPENSATION

The following tables and accompanying narrative disclosure should be read in conjunction with the Compensation Discussion and Analysis, which sets forth the objectives of the Company s executive compensation program.

Summary Compensation Table

The Summary Compensation Table below summarizes the total compensation of each named executive officer earned and awarded during fiscal years 2013, 2012 and 2011:

Name and Principal Position	Year	Salary(1) ($)	Bonus(2) ($)	Stock Awards(3) ($)	Non-Equity Incentive Plan Compensation (4) ($)	All Other Compensation (5) ($)	Total ($)
Richard M. Frank		661,382(6)					
(Executive Chairman)	2013	771,017(7)		1,350,000		46,634	2,058,016
	2012			1,392,290	252,000	56,073	2,471,380
	2011	760,016(8)		1,500,000	351,750	61,019	2,672,785
Michael H. Magusiak		836,760(9)					
							3,066,453
(President and CEO)	2013	833,336(10)		1,800,000	394,000	35,693	2,875,211
	2012			1,670,733	336,000	35,142	
	2011	831,516(11)		1,800,000	468,718	34,378	3,134,612
Tiffany B. Kice							
(Chief Financial Officer)	2013	315,000		300,000	124,110	19,376	758,486
	2012	299,519		300,000	100,639	19,692	719,850
	2011	275,000		250,000	128,975	19,520	673,495
J. Roger Cardinale							
(Executive Vice President)	2013	375,000		550,000	147,750	19,376	1,092,126
	2012	359,808		525,000	120,895	19,864	1,025,567
	2011	350,000		500,000	164,060	19,704	1,033,764
Randy G. Forsythe					189,618(12)		
(Executive Vice President)	2013	257,500		350,000	83,010(12)	19,345	816,463
	2012	250,000		349,417		10,045	692,472
	2011	250,000		350,000	108,423(12)	19,771	728,194
Scott A. McDaniel (13)	2013	295,000		350,000		261,149	906,149
	2012	325,000		350,000		19,736	944,736

2011	250,000

(1) This column represents the base compensation earned during each of the fiscal years presented. For Messrs. Frank and Magusiak, this column also includes the additional imputed interest associated with the previously earned deferred compensation. See Footnotes 6 and 9 for further discussion of deferred compensation.

(2) In fiscal year 2012, Mr. McDaniel was guaranteed a minimum performance bonus of $250,000.

(3) This column represents the fair value of restricted stock awards approved by the Compensation Committee in each of the fiscal years presented and is consistent with the grant date fair value of the award computed in accordance with GAAP. Pursuant to SEC rules, the amounts shown reflect the actual or probable outcome of performance conditions that affect the vesting of awards granted to Messrs. Frank and Magusiak and exclude the impact of estimated forfeitures related to service-based vesting conditions. See the Grants of Plan-Based Awards in Fiscal 2013 table for information on restricted stock awards granted in 2013. The values of the awards granted to Messrs. Frank and Magusiak in 2012 were $1,500,000 and $1,800,000, respectively, assuming the highest level of performance conditions would be achieved. Mr. McDaniel s 2013 restricted stock awards were forfeited when he left the Company on November 4, 2013.

(4) This column includes payments pursuant to the 2013 Incentive Bonus Plan earned in 2013 and anticipated to be paid in 2014, payments pursuant to the 2012 Incentive Bonus Plan earned in 2012 and paid in 2013 and

payments pursuant to the 2011 Incentive Bonus Plan earned in 2011 and paid in 2012 for each of the executives, excluding Mr. Forsythe (see footnote 12). For all of the years provided, the incentive bonus computation is based on the annual base compensation amounts that were paid on a bi-weekly basis to the named executive officers during the calendar year.

(5) See the All Other Compensation in Fiscal 2013 table below for additional information about the compensation included under All Other Compensation for 2013.

(6) Salary includes the following amounts earned during the 2013 fiscal year: (i) base compensation of $750,000 from January 1, 2013 to March 31, 2013 and $600,000 from April 1, 2013 to December 31, 2013; and (ii) deferred compensation of $20,997, which represents the additional imputed interest associated with the previously earned deferred compensation. Pursuant to Mr. Frank s employment agreement entered into on February 23, 2010, deferred compensation in the amount of $250,000 became payable to Mr. Frank in ten equal annual installments, without interest, with the first installment due upon termination of his employment at the end of the term of the agreement in March 2014 based upon the terms set forth in such agreement.

(7) Salary includes the following amounts earned during the 2012 fiscal year: (i) base compensation of $750,000; and (ii) deferred compensation of $21,017, which represents the additional imputed interest associated with the previously earned deferred compensation. See Footnote 6 for a description of the deferred compensation arrangement.

(8) Salary includes the following amounts earned during the 2011 fiscal year: (i) base compensation of $750,000; and (ii) deferred compensation of $10,016, which represents the additional imputed interest associated with the previously earned deferred compensation. See Footnote 6 for a description of the deferred compensation arrangement.

(9) Salary includes the following amounts earned during the 2013 fiscal year: (i) base compensation of $800,000; and (ii) deferred compensation of $36,760, which represents the actuarially determined present value of the prorated amount of earned deferred compensation and the additional imputed interest associated with the previously earned deferred compensation. Pursuant to Mr. Magusiak s employment agreement entered into on February 23, 2010, deferred compensation in the amount of $250,000 would have become payable to Mr. Magusiak in certain circumstances in ten equal annual installments, without interest, with the first installment due upon the Company s termination of his employment, the end of the term of his agreement or a change of control based upon the terms set forth in such agreement. At the closing of the Merger, Mr. Magusiak became entitled to the full $250,000 payment to be paid out in ten (10) pro rata annual installments.

(10) Salary includes the following amounts earned during the 2012 fiscal year: (i) base compensation of $800,000; and (ii) deferred compensation of $33,336, which represents the actuarially determined present value of the prorated amount of earned deferred compensation and the additional imputed interest associated with the previously earned deferred compensation. See Footnote 9 for a description of the deferred compensation arrangement.

(11) Salary includes the following amounts earned during the 2011 fiscal year: (i) base compensation of $800,000; and (ii) deferred compensation of $31,516, which represents the actuarially determined present value of the prorated amount of earned deferred compensation and the additional imputed interest associated with the previously earned deferred compensation. See Footnote 9 for a description of the deferred compensation arrangement.

(12) Payments of non-equity incentive plan awards were made to Mr. Forsythe pursuant to the Company s Period Performance and Quarterly Sales Bonus Plan. Under the plan, Mr. Forsythe received bonuses if the Company s controllable profit and comparable store sales results reached the target levels of performance. See the discussion in the section entitled Period Performance and Quarterly Sales Bonus Plan in the Compensation Discussion and Analysis section for a further description of these awards.

(13) Mr. McDaniel was the Executive Vice President, Chief Marketing Officer from October 2011 to November 2013. Mr. McDaniel left the Company on November 4, 2013. At the time of his departure, Mr. McDaniel forfeited all of his unvested restricted stock, including all of his 2013 restricted stock award. In connection with Mr. McDaniel s departure from the Company, the Company entered into a letter agreement (the Agreement) with Mr. McDaniel, pursuant to which he received a payment of $243,750, an amount equal to thirty-nine weeks of

Mr. McDaniel s 2013 annual salary, less applicable withholdings and deductions, which is included in All Other Compensation in the above summary compensation table.

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Pursuant to the terms and conditions of the Agreement, Mr. McDaniel had the right to be reimbursed for an amount up to $5,000 for outplacement services and will continue his current health insurance coverage until the earlier of (i) the end of the thirty-nine-week period and (ii) his employment in another full-time position. The Agreement contains a customary release of claims by Mr. McDaniel, as well as confidentiality, cooperation and non-solicitation obligations.

All Other Compensation in Fiscal 2013

Name	Car Allowance ($)	Long Term Disability, Spousal and Child Life Insurance Reimbursement ($)	Medical Expense Reimbursement ($)	Car Insurance Reimbursement ($)	Service Award ($)	Severance ($)	Total ($)
Richard M. Frank (Executive Chairman)	24,000		21,445	1,189			46,634
Michael H. Magusiak (President and CEO)	24,000		10,436	1,257			35,693
Tiffany B. Kice (Chief Financial Officer)	18,000			1,376			19,376
J. Roger Cardinale (Executive Vice President)	18,000			1,376			19,376
Randy G. Forsythe (Executive Vice President)	18,000			1,345			19,345
Scott A. McDaniel	15,231					245,918	261,149

Grants of Plan-Based Awards in Fiscal 2013

The following table summarizes the 2013 grants of non-equity awards under the Company s Incentive Bonus Plan and all restricted stock awards:

		Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Possible Payouts Under Equity Incentive Plan Awards(2)			All Other Stock Awards: Number of Shares Of Stock	Grant Date Fair Value of Stock Awards(3)
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold ($)	Target ($)	Maximum ($)	(#)	($)
Richard M. Frank	02/26/13				(5)	1,350,000(4)	1,350,000		1,350,000

(Executive Chairman)								
Michael H. Magusiak (President and CEO)	02/26/13	202,500	750,000	2,000,000	(5)	1,800,000(4)	1,800,000	1,800,000
Tiffany B. Kice (Chief Financial Officer)	02/26/13	63,717	235,991	629,308	(5)	300,000(4)	300,000	300,000
J. Roger Cardinale (Executive Vice President)	02/26/13	75,867	280,990	749,308	(5)	550,000(4)	550,000	550,000
Randy G. Forsythe (Executive Vice President)	02/26/13		257,500	(1)	(5)	350,000(4)	350,000	350,000
Scott A. McDaniel(5)	02/26/13	65,813	243,750	650,000	(5)	350,000(4)	350,000	350,000

(1) Payments of non-equity incentive plan awards were made pursuant to the Company s Incentive Bonus Plan. For grants of non-equity incentive plan awards to all the named executive officers, threshold refers to the minimum amount payable

for a certain level of performance under the applicable plan, target refers to the amount payable if the specified performance target(s) are reached, and maximum refers to the maximum payout possible under the applicable plan. Under the awards made pursuant to the Company s Incentive Bonus Plan, the named executive officers received a bonus under the Incentive Bonus Plan if the Company s comparable store sales and diluted earnings per share for the applicable fiscal year reach the target levels of performance established by the Compensation Committee. No bonus would have been paid under the 2013 Incentive Bonus Plan if comparable store sales declined more than 1.0%. In 2014, the named executive officers (except Messrs. Frank, Magusiak and Forsythe) received payments equal to 39.4% of the Bonus Potential in 2013 under the Company s 2013 Incentive Bonus Plan. In 2014, Mr. Magusiak received payments equal to 49.2% of the Bonus Potential in 2013 under the Company s 2013 Incentive Bonus Plan. As described in the section entitled Incentive Bonus Plan in the Compensation Discussion and Analysis section, potential bonus payouts under the 2013 Incentive Bonus Plan were based on the named executive officer s gross base earnings. For purposes of the 2013 Incentive Bonus Plan, gross base earnings equaled the amount of taxable earnings paid to the executive as salary during calendar year 2013 (except for Mr. McDaniel: see footnote 7 below). This is distinguished from the Base Salary set forth in the Summary Compensation Table, which was the annual base salary established by the Compensation Committee (and, for Messrs. Frank and Magusiak, included certain deferred compensation earned during the 2013 fiscal year). See the discussion in the section entitled Incentive Bonus Plan in the Compensation Discussion and Analysis section for a further description of these awards. Payments of non-equity incentive plan awards were made to Mr. Forsythe pursuant to the Company s Period Performance and Quarterly Sales Bonus Plan. Under the plan, Mr. Forsythe received bonuses if the Company s controllable profit and comparable store sales results reach the target levels of performance. No bonus would have been paid under the period performance component of the plan if the Company s actual controllable profit percent was below the specified target controllable profit percent by more than 4.1%. There was no limit on the amount that could be earned under the period performance component of the plan. No bonus would have been paid under the quarterly sales bonus component of the plan if the Company s comparable store sales failed to increase or if the increase in the Company&