

CEC ENTERTAINMENT INC  
Form 10-K  
February 12, 2014  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-K

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ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 29, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-13687

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CEC ENTERTAINMENT, INC.  
(Exact name of registrant as specified, in its charter)

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Kansas (State or other jurisdiction of incorporation or organization)	48-0905805 (IRS Employer Identification No.)
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4441 West Airport Freeway Irving, Texas (Address of principal executive offices)	75062 (Zip Code)
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(972) 258-8507

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock, \$0.10 par value

Preferred Share Purchase Rights

Securities registered pursuant to Section 12(g) of the Act:

None

Name of each exchange on which registered  
New York Stock Exchange

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ..

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer  Accelerated filer   
 Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

As of June 28, 2013, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the common stock beneficially held by non-affiliates of the registrant was \$664,856,988.

The aggregate market value was determined based on the closing price of the common stock on June 28, 2013.

As of February 3, 2014, an aggregate of 17,535,155 shares of the registrant's common stock, par value \$0.10 per share, were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Information Statement, to be filed pursuant to Section 14F of the Securities Exchange Act of 1934 in connection with the possible appointment of persons to the Board of Directors of the Company, are incorporated by reference in Part III of this report.

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Table of ContentsCEC ENTERTAINMENT, INC.  
TABLE OF CONTENTS

	Page
<u>Cautionary Statement Regarding Forward-Looking Statements</u>	<u>3</u>
PART I	
ITEM 1. <u>Business</u>	<u>4</u>
ITEM 1A. <u>Risk Factors</u>	<u>9</u>
ITEM 1B. <u>Unresolved Staff Comments</u>	<u>16</u>
ITEM 2. <u>Properties</u>	<u>17</u>
ITEM 3. <u>Legal Proceedings</u>	<u>18</u>
ITEM 4. <u>Mine Safety Disclosures</u>	<u>20</u>
PART II	
ITEM 5. <u>Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>20</u>
ITEM 6. <u>Selected Financial Data</u>	<u>23</u>
ITEM 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
ITEM 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>45</u>
ITEM 8. <u>Financial Statements and Supplementary Data</u>	<u>46</u>
ITEM 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>72</u>
ITEM 9A. <u>Controls and Procedures</u>	<u>72</u>
ITEM 9B. <u>Other Information</u>	<u>72</u>
PART III	
ITEM 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>73</u>
ITEM 11. <u>Executive Compensation</u>	<u>73</u>
ITEM 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>73</u>
ITEM 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>73</u>
ITEM 14. <u>Principal Accountant Fees and Services</u>	<u>74</u>
PART IV	
ITEM 15. <u>Exhibits and Financial Statement Schedules</u>	<u>75</u>
<u>SIGNATURES</u>	
<u>EXHIBIT INDEX</u>	

## Table of Contents

As used in this report, the terms “CEC Entertainment,” “we,” “Company,” “us,” and “our” refer to CEC Entertainment, Inc. and its subsidiaries.

### Cautionary Statement Regarding Forward-Looking Statements

Certain statements in this report, 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,” “intend,” “anticipate,” “future,” “project,” “estimate,” and similar expressions (or the negative of such expressions) are forward-looking 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 the risk factors described in Part I, Item 1A. “Risk Factors” of this Annual Report on Form 10-K. 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. There are a number of important factors that could cause actual results or events to differ materially from those indicated by such forward-looking statements, including, among other things, risks relating to the expected timing, consummation, and financial benefits of the tender offer and the merger. Other risk factors 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;
- Our proposed merger may not be successful; and
- Litigation risks associated with our proposed merger.

The forward-looking statements made in this report relate only to events as of the date on which the statements were made. 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 were made or to reflect the occurrence of unanticipated events.



Table of Contents

Important Note

As described in Part I, Item 1 of this report, on January 15, 2014, the Company entered into the merger agreement. If the transactions contemplated by the merger agreement are completed, the Company's status as a reporting company will cease. Except as expressly noted, all statements and information in this filing presume the Company's continuation as an independent company, which will not be the case if the Company is acquired. If the Company is acquired, plans for the Company may differ from those set forth herein. See Part I, Item 1, "Business" for a description of the Merger Agreement.

PART I

ITEM 1. Business.

Company Overview

Chuck E. Cheese's<sup>®</sup> is a nationally recognized leader in family dining and entertainment. We consider the family dining and entertainment business to be our sole reportable segment. The first Chuck E. Cheese's opened in 1977. The Company was originally incorporated under the name ShowBiz Pizza Place, Inc. and began trading on the NASDAQ Stock Market in 1989. In 1998, the Company changed its name to CEC Entertainment, Inc. and began trading on the New York Stock Exchange under its existing ticker symbol (CEC).

We develop, operate and franchise family dining and entertainment centers (also referred to as "stores") under the name "Chuck E. Cheese's" in 47 states and ten foreign countries and territories. As of December 29, 2013, we and our franchisees operated a total of 577 stores, of which 522 were Company-owned stores located in 44 states and Canada. Our franchisees operated a total of 55 stores located in 14 states and nine foreign countries and territories including Chile, Guam, Guatemala, Mexico, Panama, Peru, Puerto Rico, Saudi Arabia and the United Arab Emirates.

Chuck E. Cheese's stores offer wholesome family dining, distinctive musical and comic entertainment by computer-controlled robotic characters, family-oriented arcade-style and skill-oriented games, video games, rides and other activities, all of which are intended to uniquely appeal to our primary customer base of families with children between two and 12 years of age. All of our stores offer dining selections consisting of a variety of pizzas, sandwiches, wings, appetizers, a salad bar, beverages and desserts.

We believe that the dining and entertainment components of our business are interdependent, and therefore we primarily manage and promote them as an integrated product. Our typical guest experience involves a combination of wholesome family dining and entertainment, comprised of token-operated games and rides, as well as attractions provided free-of-charge. We also believe our unique integrated experience drives our strategic plan as we continuously endeavor to increase customer traffic in our stores, benefiting both dining and entertainment revenue.

Merger Agreement

On January 15, 2014, the Company, Queso Holdings Inc. ("Parent"), a Delaware corporation, and Q Merger Sub Inc. ("Merger Sub"), a Kansas corporation and a wholly-owned subsidiary of Parent, entered into an Agreement and Plan of Merger (the "Merger Agreement"), pursuant to which, among other things, Merger Sub commenced a tender offer (the "Tender Offer") to purchase all of the Company's issued and outstanding shares of common stock at a price of \$54.00 per share payable net to the seller in cash, without interest (the "Offer Price"), and subject to deduction for applicable withholding taxes. Following completion of the Tender Offer and subject to the terms and conditions of the Merger Agreement, Merger Sub will be merged with and into the Company (the "Merger"), with the Company surviving the Merger as a wholly-owned subsidiary of Parent. At the time the Merger becomes effective, all remaining outstanding shares of common stock of the Company not tendered in the Tender Offer (other than such shares owned by Parent, Merger Sub and the Company) will be cancelled and converted into the right to receive the Offer Price, and any such shares held by stockholders who have properly perfected their statutory rights of appraisal pursuant to the applicable provisions of Section 17-6712 of the Kansas General Corporation Code, will be cancelled and converted into the right to receive appraisal value for such shares.

Under certain circumstances, including in the event that the conditions to the Tender Offer are not satisfied or waived on any expiration date of the offer on or after March 1, 2014, Merger Sub will have the option to terminate the Tender Offer, in which event the parties have agreed to complete the Merger without the prior completion of the Tender Offer.



## Table of Contents

Merger Sub commenced the Tender Offer, on January 16, 2014. The Tender Offer will initially expire at 9:30 A.M. (New York time) on February 14, 2014, and may be extended under certain circumstances as described in the Merger Agreement. Each share of common stock accepted by Merger Sub in accordance with the terms of the Tender Offer will be exchanged for the right to receive the Offer Price. Subject to the satisfaction or waiver of the conditions to the Tender Offer, Merger Sub will accept for payment all common shares validly tendered and not validly withdrawn as soon as practicable following the expiration of the Tender Offer (the "Acceptance Time").

### Rights Agreement

On January 15, 2014, the Board of Directors ("Board") of the Company authorized and declared a dividend of one preferred share purchase right (a "Right") for each share of common stock, and the Company entered into a Rights Agreement (the "Rights Agreement") with Computershare Trust Company, N.A., as rights agent (the "Rights Agent"). Each Right entitles the registered holder to purchase from the Company one ten-thousandth of a share of Series B Junior Participating Preferred Stock, par value \$100 per share (the "Preferred Shares"), of the Company at a price of \$54.00 per one ten-thousandth of a Preferred Share, subject to adjustment. The Rights become exercisable in the event any person or group, excluding Parent or Merger Sub, acquires 10% or more of the common shares without the approval of the Board. The Rights Agent currently serves as the Company's transfer agent with respect to its shares of common stock and also has been appointed transfer agent with respect to the Preferred Shares, if any, that may be issued pursuant to the exercise of rights issued under the Rights Agreement. The Rights Agreement has a final expiration date of January 14, 2015.

### Our Strategic Plan

Our strategic plan is focused on implementing our marketing plan and value proposition, continuing to reinvest in our existing store base, delivering on our operational plan, investing in new company store development domestically and developing franchises internationally. As part of this plan, we have implemented a number of strategic changes. We introduced an updated Chuck E. Cheese character, launched a multi-faceted advertising campaign, launched our redesigned website, began implementing and communicating our value proposition to our guests and began providing a significantly improved and targeted operational plan focused on enhancing the service level and experience for all guests. We continue to refine our strategic plan and are in the process of implementing several enhancements, including changes to the mix of our advertising spend, our capital spending initiatives and our methods for obtaining and measuring customer satisfaction.

**Marketing Plan and Value Proposition.** The primary components of our marketing plan include a robust television campaign targeting both children and parents, a creative plan for television focused on both brand and reasons to visit and a website that reinforces our value proposition and brand promise. Our primary advertising medium continues to be television, due to its broad access to family audiences and our belief in its ability to effectively communicate the unique Chuck E. Cheese's experience. Our messaging to children is built on a foundation of brand advertising and reasons to visit our locations for both everyday and birthday occasions. Our communication to parents is rooted in emotion and complemented by a value message. During 2013, we concluded digital branding advertising was ineffective in driving customer traffic and was discontinued in the latter half of 2013. Therefore, we re-allocated digital branding advertising expenditures to television advertising. During the fourth quarter of 2013, we also updated our website to enhance communication of our value proposition and our brand promise. Our value proposition includes competitive pizza prices and value deals, coupon offers and token packages. We distribute value offers on our website, digitally, through print and through strategic promotional partnerships with brands that target a similar customer base.

**Existing Stores.** We believe that in order to maintain consumer demand and the appeal of our concept, we must continue to reinvest in our existing stores. For our existing stores, we utilize the following capital initiatives: (a) game enhancements; (b) major remodels; and (c) store expansions. Game enhancements include replacing a portion of a store's games and rides with new, transferred and refurbished equipment. Beginning in the second quarter of 2013, we reduced the cost of game enhancements by utilizing more transferred games and rides, which will allow us to perform game enhancements at a store more frequently for approximately half the cost on a per store basis. We are also testing a number of major attractions that will be incorporated into game enhancements in 2014 and beyond. We also undertake periodic major remodels when there is a need to improve and refresh the overall appearance or layout of a



store or when we introduce concept changes or enhancements in our stores. Store expansions add square footage to a store that allows us to increase the number and variety of games and rides. Store expansions typically include all components of a major remodel and increase the store's seat count. While initiatives such as expansions may capitalize on incremental revenue growth opportunities, we believe capital initiatives involving major remodels and game enhancements help to preserve our existing sales base and cash flows and, to a lesser extent, provide a foundation for long-term revenue growth.

See Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition, Liquidity and Capital Resources – Capital Expenditures" for more information regarding our capital initiatives and expenditures.

## Table of Contents

**Operational Plan.** The primary objective of our operational plan is to improve the service level and experience for all of our guests. Our operational cornerstones include recognition of first time guests, interaction with our guests throughout the store, Chuck E. Cheese character performances every hour on the half-hour and adherence to strict cleanliness standards, including notifying our customers of the location of free hand sanitizer stations throughout the store. In the third quarter of 2013, we implemented a new guest survey tool that allows the guest to provide real-time, meaningful and actionable feedback to ensure our service is delivered in accordance with our operational plan.

**New Company Store Development.** Our plan for the development of new Company-owned stores focuses on opening high sales volume stores in densely populated areas domestically. The cost of opening a new store varies depending on many factors, including the existing real estate market, the size of the store, whether we acquire land and whether the store is located in an in-line or freestanding building.

Chuck E. Cheese's are typically located in shopping centers or in free-standing buildings near shopping centers. Our stores are typically divided into three areas: (a) a kitchen and other store-related areas (cashier and prize area, salad bar, manager's office, technician's office and restrooms); (b) a showroom area; and (c) a gameroom area. The average size of our existing stores is approximately 12,500 square feet. Total table and chair seating in both the showroom and gameroom areas generally average between 400 to 450 guests per store.

We periodically reevaluate the site characteristics of our stores and will consider relocating a store if certain site characteristics considered essential for the success of a store deteriorate, more desirable property becomes available or we are unable to negotiate acceptable lease terms with the existing landlord.

**International Growth.** We believe we have an opportunity to further expand the Chuck E. Cheese's concept globally. In 2013, our international franchisees opened five new stores, of which one was located in Mexico, Panama and Peru and two were located in Saudi Arabia. Under our existing international franchise agreements, we currently expect franchisees to open approximately seven to nine international franchise stores in 2014.

In 2012, we signed seven franchise development agreements, which grant the right to develop a total of 42 franchise stores in Bahrain, Mexico, Peru, the Philippines, Saudi Arabia, Trinidad and the United Arab Emirates. In 2013, we signed five new franchise development agreements, which grant the right to develop a total of 28 additional franchise stores located in Columbia, Costa Rica, Mexico and Venezuela. In addition, in 2014, we plan on continuing to pursue international franchise growth by selectively seeking franchise partners in certain countries in Asia, Latin America, the Middle East and Eastern Europe. As of December 29, 2013, we currently have 16 development agreements with the rights to open 87 franchise stores in foreign countries and territories, which could take a number of years to develop, if at all.

### 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 45.1%, 46.7% and 47.7% of our Company store sales during fiscal years 2013, 2012 and 2011, respectively.

### 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 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. Also included in the gameroom area of our stores are tubes and tunnels suspended from, or reaching to, the ceiling known as Sky Tubes<sup>®</sup>, as well as other free attractions for young children.

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 54.9%, 53.3% and 52.3% of our Company store sales during fiscal years 2013, 2012 and 2011, respectively.

## Table of Contents

### Franchising

As of December 29, 2013, a total of 55 Chuck E. Cheese's stores were operated by our franchisees. Of these stores, 34 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 10-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% of our total consolidated revenues during fiscal years 2013, 2012 and 2011.

### Foreign Operations

As of December 29, 2013, we operated a total of 14 Company-owned stores in Canada. During fiscal years 2013, 2012 and 2011, our Canada stores generated total revenues of \$20.9 million, \$21.7 million and \$22.2 million, respectively, representing 2.5%, 2.7% and 2.7% of our total consolidated revenues in 2013, 2012 and 2011, respectively. As of December 29, 2013, \$14.3 million, or 2.1%, of the total net book value of our long-lived assets were located in Canada.

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 Part I, Item 1A. "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 10 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. See Part I, Item 1A. "Risk Factors" for more information regarding the risks associated with our third-party suppliers.

7

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## Table of Contents

### 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 and proprietary rights, including Chuck E. Cheese's<sup>®</sup>, Where A Kid Can Be A Kid<sup>®</sup> 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. 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 and proprietary rights 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.

### 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 Part I, Item 1A. "Risk Factors."

### Employees

As of December 29, 2013, we employed approximately 18,800 employees, including approximately 18,450 in the operation of our Company-owned stores and approximately 350 in our corporate office. None of our employees are 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.

## Table of Contents

### Available Information

We make financial information, news releases and other information available on our corporate website at [www.chuckecheese.com](http://www.chuckecheese.com). Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, solicitations on Schedule 14A, 14D or 14F and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended are available free of charge on our website as soon as reasonably practicable after we electronically file these reports and amendments, or furnish them to, the United States Securities and Exchange Commission (“SEC”). Stockholders may also contact Investor Relations at 4441 W. Airport Freeway, Irving, Texas 75062 or call (972) 258-4525 to obtain a hard copy of these reports without charge. We do not intend for information contained on our website to be part of this Annual Report on Form 10-K.

### ITEM 1A. Risk Factors.

Our business operations and the implementation of our business strategy are subject to significant risks inherent in our business, including, without limitation, the risks and uncertainties described below. The occurrence of any one or more of the risks or uncertainties described below and elsewhere in this Annual Report on Form 10-K could have a material effect on our consolidated financial condition, results of operations and cash flows. Because these forward-looking statements are based on estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond our control or are subject to change, actual results could be materially different.

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, our existing credit facility, 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.





## Table of Contents

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 176 Chuck E. Cheese's stores are located in California, Texas and Florida (173 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 ("U.S.") 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.

10

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Table of Contents

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 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.

Table of Contents

Increases in our leverage could restrict our operations and future activities, expose us to interest rate risk to the extent of our variable rate debt and limit our ability to react to changes in the economy or our industry.

As of December 29, 2013, our total funded indebtedness was \$382.9 million. We had cash and cash equivalents of \$20.7 million and an additional \$127.6 million available for borrowing under our revolving credit facility at that date. As of December 29, 2013, our leverage ratio was 2.23 to 1.0, compared to our maximum leverage ratio, as defined in our credit agreement, of 3.0 to 1.0, or 2.75 to 1.0 for the unrestricted ability to repurchase shares of our common stock and pay cash dividends.

An increase in our leverage could have adverse effects on our operations, including (a) require a portion of cash flows from operating activities to be dedicated to paying down our indebtedness, therefore reducing our ability to use our cash flows to fund our operations, capital expenditures or future business opportunities; (b) limit our ability to repurchase shares and pay cash dividends; (c) expose us to interest rate risk on borrowings under our revolving credit facility; and (d) limit our ability to adjust to changing economic and market conditions.

In addition, under our revolving credit facility, we are required to satisfy and maintain specified financial ratios and other financial condition tests. Our ability to meet those financial ratios and tests can be affected by events beyond our control, and we may be unable to meet those ratios and tests. A breach of any of these covenants could result in a default under our revolving credit facility. Upon the occurrence of an event of default under our revolving credit facility, the lenders could elect to declare all amounts outstanding under our revolving credit facility to be immediately due and payable and terminate all commitments to extend further credit.

We may be able to incur substantial additional indebtedness in the future, subject to the restrictions contained in our revolving credit facility. If new indebtedness is added to our current debt levels, the related risks could intensify.

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.

Table of Contents

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.

Table of Contents

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. 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.

## Table of Contents

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 affect 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.

## Table of Contents

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.

Failure to complete the proposed Merger could adversely affect our business.

On January 15, 2014, we entered into the Merger Agreement. The obligation of Parent and Merger Sub to complete the Tender Offer and consummate the Merger is subject to certain conditions, including (a) that the number of shares of common stock validly tendered and not validly withdrawn before the offer expiration date represent more than 50% of the then outstanding shares of common stock on a fully-diluted basis and (b) the absence of any legal prohibition prohibiting the consummation of the Merger. If the conditions set forth in the Merger Agreement are not met or waived, the acquisition of us by Parent and Merger Sub may not occur. These conditions are described in more detail in the Merger Agreement, which we filed, as an exhibit to the Current Report on Form 8-K, with the SEC on January 16, 2014. There is no assurance that the Tender Offer will be completed or that each of the conditions set forth in the Merger Agreement will be satisfied or that the Merger will occur when or as expected.

Our announcement of having entered into the Merger Agreement and of Parent and Merger Sub's commencement of the Tender Offer could cause a material disruption to our business, and we are subject to several risks as a result of the announcement of the Merger Agreement and the Tender Offer, including, but not limited to, the following:

- If the Merger is not completed, the share price of our common stock may change to the extent that the current market price of our common stock reflects an assumption that the Merger will be completed;

- Certain costs related to the Merger, including the fees and/or expenses of our legal, accounting and financial advisors, must be paid even if the Merger is not completed;

- The payment of a (a) termination fee to Parent equal to 3.5% of the sum of (i) the Offer Price multiplied by the number of outstanding shares of common stock of the Company on a fully diluted basis as of January 15, 2014 plus (ii) \$385,279,000 and (b) expense reimbursement of \$7 million under certain circumstances;

- The inability to retain certain key employees who may have sought and obtained different employment in anticipation of the completion of the Merger;

- Our management and employees' attention may have been diverted from day-to-day operations; and

- The failure of the Merger may result in negative publicity and/or a negative impression of us in the investment community or business community generally.

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

As described in Part I, Item 3 of this report, "Legal Proceedings", we are, and the individual members of the Board have been named, as defendants in a number of lawsuits related to the Merger Agreement and the Merger. These suits generally allege, among other things, that the directors breached their fiduciary duties owed to the Company's stockholders 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 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 the Company's 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.

ITEM 1B. Unresolved Staff Comments.

None.

16

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Table of Contents

## ITEM 2. Properties.

The following table summarizes information regarding the number and location of stores we and our franchisees operated as of December 29, 2013:

Domestic	Company- Owned Stores	Franchised Stores	Total
Alabama	7	1	8
Alaska	1	—	1
Arizona	2	7	9
Arkansas	6	—	6
California	80	3	83
Colorado	10	—	10
Connecticut	5	—	5
Delaware	2	—	2
Florida	29	—	29
Georgia	16	—	16
Hawaii	—	2	2
Idaho	1	—	1
Illinois	22	—	22
Indiana	13	—	13
Iowa	4	—	4
Kansas	4	—	4
Kentucky	5	—	5
Louisiana	10	2	12
Maryland	15	—	15
Massachusetts	11	—	11
Michigan	18	—	18
Minnesota	7	—	7
Mississippi	3	2	5
Missouri	8	—	8
Montana	—	1	1
Nebraska	2	—	2
Nevada	6	—	6
New Hampshire	2	—	2
New Jersey	15	—	15
New Mexico	3	—	3
New York	23	—	23
North Carolina	13	2	15
North Dakota	—	1	1
Ohio	19	1	20
Oklahoma	4	—	4
Oregon	1	3	4
Pennsylvania	22	—	22
Rhode Island	1	—	1
South Carolina	7	—	7
South Dakota	2	—	2
Tennessee	12	—	12
Texas	64	—	64
Utah	2	2	4
Virginia	12	4	16

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Washington	9	3	12
West Virginia	1	—	1
Wisconsin	9	—	9
Total domestic	508	34	542

17

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Table of Contents

	Company- Owned Stores	Franchised Stores	Total
International			
Canada	14	—	14
Chile	—	5	5
Guam	—	1	1
Guatemala	—	2	2
Mexico	—	2	2
Panama	—	1	1
Peru	—	1	1
Puerto Rico	—	3	3
Saudi Arabia	—	5	5
United Arab Emirates	—	1	1
Total international	14	21	35
Total stores in operation	522	55	577
Company Store Leases			

Of the 522 Company-owned Chuck E. Cheese's stores as of December 29, 2013, 59 are owned premises and 463 are leased.

The terms of our store leases vary in length from lease to lease, although generally a lease provides for an initial primary term of 10 years, with two additional five-year options to renew. As of December 29, 2013, four of our leases were month-to-month and 33 of our leases were set to expire in 2014. Of those set to expire in 2014, five have no available renewal options and the remainder have available renewal options expiring between 2015 and 2034. Our remaining leases are set to expire at various dates through 2028, with available renewal options that expire at various dates through 2045.

These leases generally require us to pay the cost of repairs, other maintenance costs, insurance and real estate taxes and, in some instances, may provide for additional rent equal to the amount by which a percentage of revenues exceed the minimum rent. It is common for us to take possession of leased premises prior to the commencement of rent payments for the purpose of constructing leasehold improvements.

#### Corporate Office and Warehouse Facilities

We lease a 76,556 square foot office building in Irving, Texas, which serves as our corporate office and support services center. This lease expires in May 2015, with options to renew through May 2025.

We also lease a 166,432 square foot warehouse building in Topeka, Kansas, which, primarily serves as a storage and refurbishing facility for our store fixtures and game equipment. The lease expires in August 2024, with options to renew through August 2034.

#### ITEM 3. 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.



Table of Contents

Litigation Related to the Proposed Merger

Following the January 16, 2014 announcement that the Company had entered into the Merger Agreement, five putative shareholder class actions were filed on behalf of purported stockholders of the Company against the Company, its directors, Apollo Global Management, LLC (“Apollo”), Parent, and Merger Sub in connection with the Merger Agreement and the transactions contemplated thereby. Four of the actions were filed 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 (the “LMPERS Action”). The fifth purported class action, which is 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”) (together with the LMPERS, Coyne, Solak, and Dixon Actions, the “Shareholder Actions”).

Each of the Shareholder Actions alleges that the Company’s directors breached their fiduciary duties to the Company’s 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 will 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 or 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 CEC also aided and abetted such breaches, and the Solak, LMPERS and McCullough Actions further allege that Parent and the Merger Sub aided and abetted such actions. The LMPERS and McCullough Actions further allege 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, an injunction to prevent consummation of the Tender Offer and subsequent Merger, rescission of these transactions (to the extent already implemented), 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 with the Coyne Amended Complaint, 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 and, if necessary, extend the closing of the Tender Offer to permit such information to be disseminated to the Company’s stockholders. 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 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 closes. The Company believes these lawsuits are without merit and intends to defend them vigorously; however, we are presently unable to predict the ultimate outcome of this litigation.

Table of Contents

## ITEM 4. Mine Safety Disclosures.

None.

## PART II

## ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

## Market Information and Dividends

Our common stock is listed on the New York Stock Exchange under the symbol "CEC". The following table sets forth the highest and lowest closing sale price for our common stock as reported on the New York Stock Exchange and dividends declared during each quarterly period within the two most recent fiscal years:

	2013			2012		
	Price			Price		
	High	Low	Dividends	High	Low	Dividends
1st Quarter	\$34.21	\$29.63	\$0.24	\$40.01	\$33.77	\$0.22
2nd Quarter	\$42.08	\$31.31	\$0.24	\$39.36	\$31.88	\$0.22
3rd Quarter	\$45.60	\$40.47	\$0.24	\$36.92	\$28.23	\$0.22
4th Quarter	\$47.95	\$42.33	\$0.27	\$33.88	\$29.07	\$0.24

As of February 3, 2014, there were 1,542 stockholders of record. The number of stockholders of record does not include a substantially greater number of beneficial holders of our common stock, whose shares are held in "street name" with brokers, banks and other financial institutions.

In accordance with the Merger Agreement, our ability to declare dividends is restricted. If the Merger is not completed, we will continue to base future dividend decisions on a number of factors, including our operating results, financial condition and debt covenants that affect our ability to pay dividends. See further discussion of the Merger in Part I, Item 1. "Business - Merger Agreement" and Part II, Item 8. "Financial Statements and Supplementary Data - Note 13. Subsequent Events" of this Annual Report on Form 10-K. See Part I, Item 1A. "Risk Factors" for a discussion of factors that might affect our financial performance and compliance with debt covenants, including covenants that affect our ability to pay dividends. Pursuant to our current revolving credit facility agreement, there are restrictions on the amount of cash dividends that we may pay on our common stock. See the discussion of our current revolving credit facility agreement included in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition, Liquidity and Capital Resources – Debt Financing."

Table of Contents

## Issuer Purchases of Equity Securities

The following table presents information related to repurchases of our common stock during the fourth quarter of 2013 and the maximum dollar value of shares that may yet be purchased pursuant to our stock repurchase program:

## Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share (1)	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
September 30 – October 27, 2013	—	\$—	—	\$ 128,880,167
October 28 – November 24, 2013	466	\$44.86	—	\$ 128,880,167
November 25 – December 29, 2013	—	\$—	—	\$ 128,880,167
Total	466	\$44.86	—	\$ 128,880,167

For the period ended November 24, 2013, the total number of shares purchased were tendered by employees to satisfy tax withholding requirements on the vesting of restricted stock awards, which are not deducted from shares (1) available to be purchased under our share repurchase program. Shares tendered by employees to satisfy tax withholding requirements were considered purchased at the closing price of our common stock on the date of vesting.

We may repurchase shares of our common stock under a plan authorized by our Board. On April 30, 2013, the Board authorized a \$100 million increase to our existing Board approved stock repurchase program. The stock repurchase program, which does not have a stated expiration date, authorizes us to make repurchases in the open market, through accelerated share repurchases or in privately negotiated transactions.

Pursuant to our current revolving credit facility agreement, there are restrictions on the amount of our common stock we may repurchase. See the discussion of our current revolving credit facility included in Part II, Item 7.

“Management’s Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition, Liquidity and Capital Resources – Debt Financing.” In accordance with the Merger Agreement, our ability to repurchase shares of our common stock is restricted. See further discussion of the Merger in Part I, Item 1. "Business - Merger Agreement" and Part II, Item 8. "Financial Statements and Supplementary Data - Note 13. Subsequent Events" of this Annual Report on Form 10-K.

Table of Contents

## Stock Performance Graph

The graph below compares the annual change in the cumulative total stockholder return on our common stock over the last five fiscal years ended December 29, 2013, with the cumulative total return on the NYSE Composite Index and the S&P SmallCap 600 Restaurants Index. The comparison assumes an investment of \$100 on December 28, 2008 in our common stock and in each of the foregoing indices and assumes the reinvestment of dividends. Our stock price performance shown in the graph below may not be indicative of future stock price performance.

	December 28, 2008	January 3, 2010	January 2, 2011	January 1, 2012	December 30, 2012	December 29, 2013
CEC Entertainment Inc.	\$100.00	\$136.12	\$165.59	\$150.46	\$144.45	\$203.72
NYSE Composite	\$100.00	\$133.42	\$151.27	\$145.47	\$166.19	\$212.10
S&P SmallCap 600 Restaurants	\$100.00	\$140.44	\$191.33	\$190.83	\$225.06	\$371.01

The performance graph and related text are being furnished to and not filed with the SEC, and will not be deemed to be “soliciting material” or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate such information by reference into such a filing.

Table of Contents

## ITEM 6. Selected Financial Data.

The following selected financial data presented below should be read in conjunction with Part II, Item 7.

“Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Consolidated Financial Statements included in Part II, Item 8. “Financial Statements and Supplementary Data.”

	Fiscal Year <sup>(1)</sup>									
	2013		2012		2011		2010		2009 (2)	
	(in thousands, except percentages, per share and store number amounts)									
Statements of Earnings Data:										
Company store sales	\$816,739		\$798,937		\$815,894		\$813,133		\$ 814,563	
Sales percent increase (decrease):										
Total company store sales	2.2	%	(2.1	)%	0.3	%	(0.2	)%	0.5	%
Comparable store sales <sup>(3)</sup>	0.4	%	(2.9	)%	(2.0	)%	1.5	%	(2.8	)%
Total revenues	\$821,721		\$803,480		\$821,178		\$817,248		\$ 818,346	
Revenues percent increase (decrease)	2.3	%	(2.2	)%	0.5	%	(0.1	)%	0.5	%
Operating income	\$83,471		\$79,071		\$97,979		\$104,902		\$ 110,965	
As a percent of total revenues	10.2	%	9.8	%	11.9	%	12.8	%	13.6	%
Net income	\$47,824		\$43,590		\$54,962		\$54,034		\$ 61,194	
Per Share Data:										
Earnings per share:										
Basic	\$2.80		\$2.48		\$2.88		\$2.55		\$ 2.68	
Diluted	\$2.78		\$2.47		\$2.88		\$2.55		\$ 2.67	
Weighted average common shares outstanding:										
Basic	17,088		17,545		19,072		21,163		22,835	
Diluted	17,226		17,618		19,121		21,204		22,933	
Balance Sheet Data (end of year):										
Total assets	\$791,611		\$801,806		\$772,471		\$778,029		\$ 744,266	
Total debt <sup>(4)</sup>	\$382,879		\$412,216		\$400,509		\$388,262		\$ 365,810	
Stockholders’ equity	\$160,768		\$143,274		\$124,177		\$158,062		\$ 167,913	
Dividends declared <sup>(5)</sup>	\$17,372		\$16,182		\$15,806		\$—		\$ —	
Dividends declared per share <sup>(5)</sup>	\$0.99		\$0.90		\$0.82		\$—		\$ —	
Non-GAAP Financial Measures:										
EBITDA <sup>(6)</sup>	\$162,499		\$158,581		\$179,539		\$185,581		\$ 189,036	
EBITDA as a percent of Total revenues	19.8	%	19.7	%	21.9	%	22.7	%	23.1	%
Adjusted EBITDA <sup>(6)</sup>	\$168,859		\$168,895		\$185,313		\$189,837		\$ 191,977	
Adjusted EBITDA as a percent of Total revenues	20.5	%	21.0	%	22.6	%	23.2	%	23.5	%
Number of Stores (end of year):										
Company-owned	522		514		507		507		497	
Franchised	55		51		49		47		48	
	577		565		556		554		545	

(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 53<sup>rd</sup> operating week in our 2009 fiscal year benefited 2009 total revenues by \$19.5 million, comparable store sales by 0.5% and diluted earnings per share by \$0.17.

(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. See Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations” for discussion of the decrease in comparable store sales for 2012.

(4) Total debt includes our outstanding revolving credit facility borrowings and capital lease obligations.

(5) No cash dividends on common stock were declared prior to 2011.

See the definition of Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”) and Adjusted

(6) EBITDA and the reconciliation of net income to EBITDA and Adjusted EBITDA in “Non-GAAP Financial Measures” below.

Table of Contents

## Non-GAAP Financial Measures

We report and discuss our operating results using financial measures consistent with generally accepted accounting principles (“U.S. GAAP”). From time to time in our SEC filings (including this Annual Report on Form 10-K), press releases, financial presentations, earnings conference calls or otherwise, we may disclose certain non-GAAP financial measures such as EBITDA and Adjusted EBITDA presented below. This non-GAAP financial measure should not be viewed as an alternative or substitute for our reported U.S. GAAP results.

The following table sets forth a reconciliation of net income to EBITDA and Adjusted EBITDA and EBITDA and Adjusted EBITDA expressed as a percent of Total revenues for the periods shown:

	Fiscal Year					
	2013	2012	2011	2010	2009	
	(in thousands, except percentages)					
Total revenues	\$821,721	\$803,480	\$821,178	\$817,248	\$818,346	
Net income	\$47,824	\$43,590	\$54,962	\$54,034	\$61,194	
Add:						
Interest expense	7,453	9,401	8,875	12,142	12,017	
Income taxes	28,194	26,080	34,142	38,726	37,754	
Depreciation and amortization	79,028	79,510	81,560	80,679	78,071	
EBITDA	\$162,499	\$158,581	\$179,539	\$185,581	\$189,036	
EBITDA as a percent of Total revenues	19.8	% 19.7	% 21.9	% 22.7	% 23.1	%
Asset impairments	\$3,051	\$6,752	\$2,739	\$936	\$—	
Loss on sale of assets	3,309	3,562	3,035	3,320	2,941	
Adjusted EBITDA	\$168,859	\$168,895	\$185,313	\$189,837	\$191,977	
Adjusted EBITDA as a percent of Total revenues	20.5	% 21.0	% 22.6	% 23.2	% 23.5	%

We define EBITDA, a non-GAAP financial measure, as net income before interest expense, income taxes and depreciation and amortization. We define Adjusted EBITDA, a non-GAAP financial measure, as EBITDA plus asset impairments and loss on sale of assets. EBITDA and Adjusted EBITDA as defined herein may differ from similarly titled measures presented by other companies. We believe that EBITDA and Adjusted EBITDA provides useful information to us, our investors and other interested parties about our operating performance, our capacity to incur and service debt, fund capital expenditures and other corporate uses. EBITDA, as presented above, differs from the definition of consolidated EBITDA utilized in connection with the financial covenant ratios contained in our revolving credit facility agreement.

See the discussion of our revolving credit facility included in Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition, Liquidity and Capital Resources – Debt Financing.”



Table of Contents

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide the readers of our Consolidated Financial Statements with a narrative from the perspective of our management on our consolidated financial condition, results of operations, liquidity and certain other factors that may affect our future results. Our MD&A should be read in conjunction with our Consolidated Financial Statements and related notes included in Part II, Item 8. "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

Our MD&A includes the following sections:

- Executive Summary;
- Overview of Operations;
- Results of Operations;
- Financial Condition, Liquidity and Capital Resources;
- Off-Balance Sheet Arrangements and Contractual Obligations;
- Inflation;
- Critical Accounting Policies and Estimates; and
- Recently Issued Accounting Guidance.

Fiscal Year

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.

Executive Summary

Our Strategic Plan

As previously disclosed, we implemented an updated strategic plan with the primary objective of increasing guest traffic and ultimately improving our consolidated sales and operating results. As part of this plan, we implemented a number of strategic changes over the last two years. We introduced an updated Chuck E. Cheese character, launched a multi-faceted advertising campaign, launched our redesigned website, began implementing and communicating our value proposition to our guests and began providing a significantly improved and targeted operational plan focused on enhancing the service level and experience for all guests.

Our value proposition includes changes in our pricing strategy to ensure that we continue to provide our guests with what we believe is a great value. Based on market research and testing, we changed our pricing structure during 2012, including reducing price points for our package deals, reducing pizza prices, decreasing the number of tokens included in various token packages, reducing discounts included in certain coupons and reducing the number of "token only" coupons. In addition, a standardized menu and pricing for domestic Company-owned stores was included on our redesigned website and in all of our stores by November 2012. We believe that these changes to our pricing strategy will increase the attractiveness of our everyday menu offerings, while continuing to provide our guests with a great value proposition.

We continue to refine our strategic plan and have implemented several enhancements, including changes to our capital spending initiatives, the mix of our advertising spend and our methods for obtaining and measuring customer satisfaction. Beginning in the second quarter of 2013, we reduced the cost of game enhancements by utilizing more transferred games and rides, which will allow us to perform game enhancements at a store more frequently and for approximately half the cost on a per store basis. See further discussion of our capital spending initiatives in "Financial Condition, Liquidity and Capital Resources - Capital Expenditures." In the third and fourth quarters of 2013, we reduced spend on our digital brand advertising and are using a portion of national television airtime for new birthday commercials. In the third quarter, we implemented a new guest survey tool that allows the guest to provide real-time, meaningful and actionable feedback to ensure our service is delivered in accordance with our operational plan. We continuously look for opportunities to improve overall communication with our guests through our television advertising and website. We continue to communicate our value and entertainment offerings, including package deals, coupons, all games are one token and the Chuck E. Cheese live performances and ticket giveaway every hour on the half-hour. We believe these enhancements to our strategic plan will improve our sales and operating results. See Part

I, Item 1. “Business – Our Strategic Plan – Marketing Plan and Value Proposition” for more information regarding our revised marketing strategy.

25

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Table of Contents

Merger Agreement

On January 15, 2014, the Company entered into the Merger Agreement. Pursuant to the terms of the Merger Agreement, and on the terms and subject to the conditions thereof, among other things, Parent and Merger Sub have commenced the Tender Offer. If the Merger is completed, the Company will cease to be a publicly traded company. See further discussion of the Merger in Part I, Item 1. "Business - Merger Agreement" and Part II, Item 8. "Financial Statements and Supplementary Data - Note 13. Subsequent Events" of this Annual Report on Form 10-K.

Overview of 2013

Net income increased to \$47.8 million, or \$2.78 per share, for 2013 compared to net income of \$43.6 million, or \$2.47 per share, for 2012. Results included the following:

Total revenues increased \$18.2 million, or 2.3%, primarily due to a 0.4% increase in comparable store sales and additional revenues from eight net new stores opened in 2013.

Company store operating costs decreased 70 basis points, as a percentage of Company store sales, primarily due to a 90 basis point decrease in the cost of food, beverage, entertainment and merchandise, partially offset by a 10 basis point increase in labor costs.

Other costs and expenses increased \$5.7 million, due to an increase in advertising and general and administrative expenses, partially offset by a decrease in asset impairments.

Our effective income tax rate for 2013 decreased to 37.1% from 37.4% in 2012.

Cash provided by operations remained relatively flat at \$138.7 million in 2013 compared to \$137.1 million in the prior year.

We repurchased \$18.1 million of our common stock in 2013.

During 2013, we completed 175 capital initiatives, including 150 game enhancements, six major remodels, six expansions and opened 13 new Company-owned store locations, including one relocated store.

During 2013, we declared dividends of \$17.4 million, or \$0.99 per share.

Table of Contents

## Overview of Operations

We develop, 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 offer wholesome family dining, distinctive musical and comic entertainment by computer-controlled robotic characters, family-oriented arcade-style and skill-oriented games, video games, rides and other activities, all of which are intended to uniquely appeal to our primary customer base of families with children between two and 12 years of age. All of our stores offer dining selections consisting of a variety of pizzas, sandwiches, wings, appetizers, a salad bar, beverages and desserts.

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

	Fiscal Year		
	2013	2012	2011
Number of Company-owned stores:			
Beginning of period	514	507	507
New <sup>(1)</sup>	13	12	4
Acquired from franchisees	—	1	—
Closed <sup>(1)</sup>	(5	) (6	) (4
End of period	522	514	507
Number of franchised stores:			
Beginning of period	51	49	47
New <sup>(2)</sup>	6	3	3
Acquired by the Company	—	(1	) —
Closed <sup>(2)</sup>	(2	) —	(1
End of period	55	51	49

The number of new and closed Company-owned stores during 2013 included one store that was relocated. The (1) number of new and closed Company-owned stores during 2012 included three stores that were relocated. The number of new and closed Company-owned stores during 2011 included two stores that were relocated.

(2) The number of new and closed franchise stores during 2013 included one store that was relocated.

We are focusing on growing our concept both domestically and internationally. We currently plan to open 12 to 15 domestic Company-owned stores, including relocations and franchise acquisitions, in 2014. We are also targeting franchising our concept internationally in certain countries located in Asia, Eastern Europe, Latin America and the Middle East. During 2013, we opened five new stores, of which one was located in Mexico, Panama and Peru and two were located in Saudi Arabia. We currently expect franchisees to open a total of seven to nine additional international franchise stores in 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 at least 18 months as of the beginning of each respective fiscal year or operated by us for at least 12 months for acquired stores (our “comparable store base”). 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 <sup>(1)</sup>	\$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.

## Table of Contents

Revenues. Our primary source of revenues is sales at our Company-owned stores (“Company store sales”), which consists 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 or 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 and merchandise sales, as well as a portion of revenues allocated from Package Deals and coupons that relate to entertainment and merchandise.

Another source of revenues is from franchise fees and royalties. We earn monthly royalties from our franchisees based on a percentage of each franchised store’s monthly 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 initial franchise fees as revenue 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 costs and expenses relate only to the operation of our Company-owned stores and are as follows:

• 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 the “Cost of entertainment and merchandise” mentioned above excludes any allocation of (a) store employee payroll, related payroll taxes and benefit costs; (b) rent expense; (c) depreciation and amortization expense; or (d) other direct store operating expenses associated with the operation of our Company-owned stores. We believe that presenting store-level labor costs, rent expense, depreciation and amortization 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, computer-controlled robotic characters 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.”



Table of Contents

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.

Asset impairments. Asset impairments represent non-cash charges for the estimated write down or write-off of the carrying amount of certain long-lived assets within our stores to their estimated fair value, which are incurred when a store's operation is not expected to generate sufficient projected future cash flows to recover the current net book value of the long-lived assets within the store. We believe our assumptions in calculating the fair value of our long-lived assets is similar to those used by other marketplace participants.

## Results of Operations

## Historical Results

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

	Fiscal Year								
	2013			2012			2011		
	(in thousands, except percentages)								
Food and beverage sales	\$368,584	45.1	%	\$372,948	46.7	%	\$388,908	47.7	%
Entertainment and merchandise sales	448,155	54.9	%	425,989	53.3	%	426,986	52.3	%
Total Company store sales	\$816,739	100.0	%	\$798,937	100.0	%	\$815,894	100.0	%



Table of Contents

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:

	Fiscal Year								
	2013			2012			2011		
	(in thousands, except percentages)								
Total Company store sales	\$816,739	99.4	%	\$798,937	99.4	%	\$815,894	99.4	%
Franchising fees and royalties	4,982	0.6	%	4,543	0.6	%	5,284	0.6	%
Total revenues	821,721	100.0	%	803,480	100.0	%	821,178	100.0	%
Company store operating costs:									
Cost of food and beverage <sup>(1)</sup>	90,363	24.5	%	93,417	25.0	%	95,989	24.7	%
Cost of entertainment and merchandise <sup>(2)</sup>	29,775	6.6	%	30,855	7.2	%	32,362	7.6	%
Total cost of food, beverage, entertainment and merchandise <sup>(3)</sup>	120,138	14.7	%	124,272	15.6	%	128,351	15.7	%
Labor expenses <sup>(3)</sup>	229,172	28.1	%	223,605	28.0	%	222,596	27.3	%
Depreciation and amortization <sup>(3)</sup>	78,167	9.6	%	78,769	9.9	%	80,826	9.9	%
Rent expense <sup>(3)</sup>	78,463	9.6	%	75,312	9.4	%	74,992	9.2	%
Other store operating expenses <sup>(3)</sup>	131,035	16.0	%	126,855	15.9	%	126,847	15.5	%
Total Company store operating costs <sup>(3)</sup>	636,975	78.0	%	628,813	78.7	%	633,612	77.7	%
Other costs and expenses:									
Advertising expense	41,217	5.0	%	35,407	4.4	%	34,989	4.3	%
General and administrative expenses	57,007	6.9	%	53,437	6.7	%	51,859	6.3	%
Asset impairments	3,051	0.4	%	6,752	0.8	%	2,739	0.3	%
Total operating costs and expenses	738,250	89.8	%	724,409	90.2	%	723,199	88.1	%
Operating income	83,471	10.2	%	79,071	9.8	%	97,979	11.9	%
Interest expense	7,453	0.9	%	9,401	1.2	%	8,875	1.1	%
Income before income taxes	\$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 Total 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 sales and Entertainment and merchandise sales, as opposed to Total Company store sales.

Table of Contents

## 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. Comparable store sales were favorably impacted by record warm weather in the Midwest and Northeast in March 2012, which negatively impacted our prior year results. This benefit was partially offset by severe winter weather in December 2012, which negatively impacted comparable store sales in the fourth quarter of 2012. We also believe 2013 benefited from certain components of our strategy; however, this benefit was partially offset by an approximate 7% decline in birthday party sales during the current year, which have historically generated 15% to 20% of Company store sales. In addition, we believe our comparable store sales have been negatively impacted by overall political and economic uncertainties. 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.

Cost of food and beverage, as a percentage of Food and beverage sales, decreased 50 basis points to 24.5% in 2013 from 25.0% in 2012. The decrease primarily related to an approximate 15% reduction in dough usage as a result of our new thinner, more crispy pizza crust implemented in stores in March 2013 and a 20 basis point decrease related to changes in the product mix of paper and birthday supplies, partially offset by an increase of \$0.05 per pound, or 2.9%, in the average cost per pound of cheese.

Cost of entertainment and merchandise, as a percentage of Entertainment and merchandise sales, decreased 60 basis points to 6.6% in 2013 from 7.2% in 2012. The percentage of Cost of entertainment and merchandise was favorably impacted by the modification of our prize and merchandise categories, as well as the shift in the sales mix to entertainment and merchandise.

Labor expenses, as a percentage of Total Company store sales, increased 10 basis points to 28.1% in 2013 from 28.0% 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.

Table of Contents

## 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. We believe the decrease in comparable store sales is primarily attributable to the following: (a) a significant decrease in national television advertising to children as compared to the prior year; and (b) our messaging in new commercials being focused primarily on our new brand, without complementary messaging related to our value propositions and reasons to visit Chuck E. Cheese’s.

We continue to believe that families’ concerns about unemployment levels and costs of non-discretionary items cause our customers to be more cautious about how they spend their discretionary income. Competition for families’ food and entertainment dollars continues to increase. Additionally, our sales may have been impacted by certain changes in our pricing strategy, including a reduction in the circulation of certain coupons, a reduction in the discounts offered on certain coupons and changes in the types of coupons issued. Lastly, we believe the decrease in comparable store sales may be attributed, in part, to the impact of record warm weather in the Midwest and Northeast, in March 2012, which falls in our most significant quarter.

We have refined our strategic plan with the objective of increasing customer traffic in the future, as discussed earlier in Part I, Item 1. “Business – Our Strategic Plan.”

32

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Table of Contents

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 Total 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.

Cost of food and beverage, as a percentage of Food and beverage sales, increased 30 basis points to 25.0% in 2012 from 24.7% in 2011. The increase primarily related to a 40 basis point increase in the cost of paper and birthday supplies, partially offset by a reduction of \$0.10 per pound, or 5.6%, in the average cost per pound of cheese and a reduction of \$0.02, or 4.4%, in the average cost per pound of dough. The total Cost of food and beverage, as a percentage of Food and beverage sales, was also influenced by a shift in sales mix from food and beverage sales to entertainment and merchandise sales related to component and price changes in our Package Deals and tokens.

Cost of entertainment and merchandise, as a percentage of Entertainment and merchandise sales, decreased 40 basis points to 7.2% in 2012 from 7.6% in 2011. The percentage of Cost of entertainment and merchandise was favorably impacted by the shift in the sales mix to entertainment and merchandise related to component and price changes in our Package Deals and tokens.

Labor expenses, as a percentage of Total Company store sales, increased 70 basis points to 28.0% in 2012 from 27.3% 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."

**Advertising Expenses**

Advertising expenses, as a percentage of Total revenues, increased 10 basis points to 4.4% in 2012 from 4.3% 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.”

Table of Contents

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.

Diluted Earnings Per Share

Diluted earnings per share decreased to \$2.47 per share in 2012 compared to \$2.88 per share in 2011. The decrease was primarily due to an \$11.4 million, or 20.7%, decrease in net income, significantly offset by the decrease in the number of weighted average diluted shares outstanding in 2012 as compared to 2011. The decrease in the weighted average diluted shares outstanding was impacted by our repurchase of 2.7 million shares of our common stock since the beginning of the 2011 fiscal year. We estimate stock repurchases benefited our earnings per share in 2012 by approximately \$0.17. Our estimate is based on the weighted average number of shares repurchased since the beginning of the 2011 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 2011 fiscal year, or the effect of the issuance of restricted stock subsequent to the beginning of the 2011 fiscal year.

Table of Contents

## Financial Condition, Liquidity and Capital Resources

## Overview of Liquidity

We finance our business activities through cash flows provided by our operations and, as necessary, from borrowings under our revolving credit facility.

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.

As a result of these factors, our requirement for working capital is not significant and we are able to operate with a net working capital deficit (current liabilities in excess of current assets).

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

	Fiscal Year		
	2013	2012	2011
	(in thousands)		
Net cash provided by operating activities	\$ 138,664	\$ 137,092	\$ 177,233
Net cash used for investing activities	(70,942 )	(98,903 )	(94,652 )
Net cash used for financing activities	(66,031 )	(37,285 )	(82,973 )
Effect of foreign exchange rate changes on cash	(641 )	59	(204 )
Change in cash and cash equivalents	\$ 1,050	\$ 963	\$(596 )
Interest paid	\$ 7,798	\$ 9,419	\$ 9,081
Income taxes paid, net	\$ 31,614	\$ 27,598	\$ 6,592
		At Year End	
		2013	2012
		(in thousands)	
Cash and cash equivalents		\$ 20,686	\$ 19,636
Revolving credit facility borrowings		\$ 361,500	\$ 389,500
Available unused commitments under revolving credit facility		\$ 127,600	\$ 100,100

Funds generated by our operating activities, available cash and cash equivalents and, as necessary, borrowings from our revolving credit facility 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 year. 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. Although we are in compliance with the debt covenants associated with our revolving credit facility, our ability to access our revolving credit facility is subject to our continued compliance with the terms and conditions of the credit facility agreement, including our compliance with certain prescribed financial ratio 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.

Our cash and cash equivalents totaled \$20.7 million and \$19.6 million as of December 29, 2013 and December 30, 2012, respectively. Cash and cash equivalents as of December 29, 2013 and December 30, 2012 includes \$8.2 million and \$7.8 million, respectively, of undistributed income from our Canadian subsidiary that we consider to be permanently invested.



Table of Contents

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.

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.



Table of Contents

## Debt Financing

We maintain a \$500.0 million revolving credit facility under a credit agreement dated October 28, 2011, with a syndicate of lenders. The revolving credit facility is a senior unsecured credit commitment, which matures in October 2016. The revolving credit facility includes an accordion feature allowing us, subject to meeting certain conditions and lender approval, to request an increase to the revolving commitment of up to \$200.0 million in borrowings at any time. Based on the type of borrowing, the revolving credit facility bears interest at the one month London Interbank Offered Rate (“LIBOR”) plus an applicable margin of 0.875% to 1.625%, determined based on our financial performance and debt levels, or alternatively, the highest of (a) the Prime Rate, (b) the Federal Funds rate plus 0.50%, or (c) one-month LIBOR plus 1.0%; plus an applicable margin of up to 0.625%, determined based on our financial performance and debt levels. During 2013, the Prime Rate was 3.25% and the one-month LIBOR rate ranged from 0.16% to 0.24%. The revolving credit facility also requires us to pay a commitment fee on a quarterly basis ranging from 0.15% to 0.30%, depending on our financial performance and debt levels on any unused portion of our revolving credit facility. All borrowings under our revolving credit facility are unsecured, but we agreed not to pledge any of our existing assets to secure any other future indebtedness. We have the unrestricted ability to pay dividends and repurchase shares of our common stock under our revolving credit facility, provided that our consolidated leverage ratio, as defined in the revolving credit facility, does not exceed 2.75 to 1.0 on a proforma basis, for the four fiscal quarters then most recently ended, immediately after giving effect to such payments or repurchases.

As of December 29, 2013, we had \$361.5 million of borrowings outstanding and \$10.9 million of letters of credit, issued but undrawn, under our revolving credit facility. The weighted average effective interest rate incurred on our borrowings under our credit facilities was 1.7% for the year ended December 29, 2013.

Our revolving credit facility contains a number of covenants that, among other things, require us to comply with the following financial ratios as of the end of any fiscal quarter:

a consolidated fixed charge coverage ratio of not less than 1.5 to 1.0, based upon the ratio of (a) consolidated earnings before interest, income taxes and rents (“EBITR”) for the last four fiscal quarters to (b) the sum of consolidated interest charges plus consolidated rent expense during such period. Consolidated EBITR, as defined in the revolving credit facility, equals net income plus consolidated interest charges, income taxes, stock-based compensation expense, rent expense and other non-cash charges, reduced by non-cash income.

a consolidated leverage ratio of not greater than 3.0 to 1.0, based upon the ratio of (a) the quarter-end consolidated funded indebtedness (as defined in the revolving credit facility) to (b) consolidated EBITDA for the last four fiscal quarters. Consolidated EBITDA, as defined in the revolving credit facility, equals our consolidated EBITR adjusted to exclude the cash portion of rent expense plus depreciation and amortization.

Our revolving credit facility is the primary source of committed funding from which we finance our planned capital expenditures, repurchase our common stock and provide for our working capital needs. Non-compliance with the financial covenant ratios could prevent us from being able to access further borrowings under our revolving credit facility, require us to immediately repay all amounts outstanding under the revolving credit facility and increase our cost of borrowing. As of December 29, 2013, we were in compliance with these covenant ratios, with a consolidated fixed charge coverage ratio of 2.05 to 1.0 and a consolidated leverage ratio of 2.23 to 1.0, and we expect to remain in compliance for the next twelve months.

For information on the proposed financing related to our pending Merger, see our Solicitation/Recommendation Statement on Schedule 14D-9 (as may be amended) filed with the SEC on January 22, 2014. Such financing will not occur if the Merger is not completed.

Table of Contents

## Cash Dividends

The table below presents dividends declared during 2013 and 2012:

Declaration Date	Record Date	Dividend Payable Date	Dividend Payable Per Share	Total Amount of Dividends Declared (in millions)
February 19, 2013	March 21, 2013	April 18, 2013	\$0.24	\$ 4.3
April 30, 2013	June 6, 2013	July 2, 2013	0.24	4.2
July 29, 2013	September 5, 2013	October 3, 2013	0.24	4.2
October 29, 2013	December 5, 2013	December 27, 2013	0.27	4.7
			\$0.99	\$ 17.4

  

Declaration Date	Record Date	Dividend Payable Date	Dividend Payable Per Share	Total Amount of Dividends Declared (in millions)
February 21, 2012	March 22, 2012	April 19, 2012	\$0.22	\$ 4.0
May 1, 2012	June 7, 2012	July 5, 2012	0.22	3.9
July 31, 2012	September 6, 2012	October 4, 2012	0.22	4.0
October 30, 2012	December 6, 2012	December 27, 2012	0.24	4.3
			\$0.90	\$ 16.2

In accordance with the Merger Agreement, our ability to declare dividends is restricted. If the Merger is not completed, we will continue to base future dividend decisions on a number of factors, including our consolidated operating results, financial condition and debt covenants that affect our ability to pay dividends. See further discussion of the Merger in Part I, Item 1. "Business - Merger Agreement" and Part II, Item 8. "Financial Statements and Supplementary Data - Note 13. Subsequent Events" of this Annual Report on Form 10-K. Pursuant to our current revolving credit facility agreement, there are restrictions on the amount of cash dividends that we may pay on our common stock. See the discussion of our current revolving credit facility agreement included above in "Debt Financing." See Part I, Item 1A. "Risk Factors" for a discussion of factors that might affect our financial performance and compliance with debt covenants, including covenants that affect our ability to pay dividends.

Table of Contents

## Capital Expenditures

Capital expenditures for 2013 totaled \$74 million, including \$19 million related to capital initiatives for our existing stores, \$32 million related to new store development and the remainder of \$23 million related to other store initiatives, general store requirements and corporate capital expenditures. The following table summarizes information regarding the number of completed capital spending initiatives and the approximate total capital spend for those completed initiatives for the periods presented:

	Fiscal Year		
	2013	2012	2011
Investment in existing Company-owned stores:			
Game enhancements	150	94	137
Major remodels	6	6	11
Store expansions	6	25	33
Total completed	162	125	181
Total capital spend on completed existing Company-owned stores (in millions)	\$19	\$40	\$65
Company-owned stores added <sup>(1)</sup>	13	13	4
Total capital spend on completed new Company-owned stores (in millions)	\$32	\$35	\$10

Company-owned stores added during 2013 included one store we relocated. Company-owned stores added during (1)2012 included three stores we relocated and one store acquired from a franchisee. Company-owned stores added during 2011 included two stores we relocated.

**New Company store development.** Our plan for new store development is primarily focused on opening high sales volume stores in densely populated areas. We expect the cost of opening a new store will vary depending upon many factors, including the existing real estate market, the size of the store, whether we acquire land and whether the store is located in an in-line or freestanding building.

**Existing stores.** We believe that in order to maintain consumer demand and the appeal of our concept, we must continue to reinvest in our existing stores. For our existing stores, we utilize the following capital initiatives: (a) game enhancements; (b) major remodels; and (c) store expansions.

**Game enhancements.** Game enhancements include replacing a portion of a store's games and rides with new and refurbished equipment. We believe game enhancements are necessary to maintain the relevance and appeal of our games and rides. In addition, game enhancements counteract general wear and tear on the equipment and incorporate improvements in game ride technology. During the second quarter of 2013, we enhanced our existing store capital strategy to reduce the cost of game enhancements by utilizing more used and transferred games and rides in combination with new games and rides. This revised plan will allow us to perform a game enhancement at a store, generally, every two years for approximately half the cost of our historical game enhancements on a per store basis. We are testing a number of major attractions that will be incorporated into game enhancements, which we expect will add approximately \$3 million to \$4 million to the total cost of game enhancements in 2014.

**Major remodels.** We undertake periodic major remodels when there is a need to improve the overall appearance or layout of a store or when we introduce concept changes or enhancements in our stores. A major remodel initiative typically includes interior design modifications that allow us to more effectively utilize space allocated to the gameroom area of the store, increase the number of games and rides and modify or develop a new exterior and interior identity.

**Store expansions.** We believe store expansions improve the quality of our guests' experience because the additional square footage allows us to increase the number and variety of games, rides and other entertainment offerings in the expanded stores. In addition to expanding the square footage of a store, store expansions typically include all components of a major remodel and result in an increase in the store's seat count. We consider our investments in store expansions generally to be discretionary in nature. In undertaking store expansions, our objective is to improve the appeal of our stores and to capture sales growth opportunities as they arise.



Table of Contents

Since the lifecycles of our store format and our games are largely driven by changes in consumer behaviors and preferences, we believe that our capital initiatives involving major remodels and game enhancements are strategic investments required in order to keep pace with consumer entertainment expectations. As a result, we view our major remodel and game enhancement initiatives as a means to maintaining and protecting our existing sales and cash flows over the long-term. While we are hopeful that our major remodels and game enhancements will contribute to incremental sales growth, we believe that our capital spending with respect to expansions of existing stores will more directly lead to growth in our comparable store sales and cash flow. We typically invest in expansions when we believe there is a potential for sales growth and, in some instances, in order to maintain sales in stores that have competitors in their market. We believe that expanding the square footage and entertainment space of a store increases our customer traffic and enhances the overall customer experience, which we believe will contribute to the growth of our long-term comparable store sales. The objective of an expansion or remodel that increases space available for entertainment is not intended to exclusively improve our entertainment sales, but rather is focused on impacting overall Company store sales through increased customer traffic and satisfaction.

Fiscal 2014 Capital Plan

We have funded and expect to continue to fund our capital expenditures through existing cash flows from operations and, if necessary, borrowings under our revolving credit facility. We currently estimate that total capital expenditures for 2014 will be approximately \$75 million to \$80 million, including (a) approximately \$37 million related to new store development; (b) approximately \$29 million related to capital initiatives for our existing stores; and (c) the remainder for other store initiatives, general store requirements and other corporate capital expenditures. As discussed above, we currently plan to open 12 to 15 new stores in 2014 at an average cost of approximately \$2.47 million per store. New store growth will include a combination of opening new stores, acquiring franchise stores and relocating existing stores. We continually reassess the need for capital investment in our existing stores in light of each store's current condition.

The following tables summarize information regarding the expected number of, and estimated average cost for, our projected capital expenditures activities in fiscal 2014:

	Projected Completions In Fiscal 2014 (in millions, except projected completions)	Estimated Average Cost Per Project	Projected Total Costs In Fiscal 2014
Investment in existing Company-owned stores:			
Game enhancements	250	\$0.06	\$15
Major remodels	8	\$0.65	\$5
Store expansions	5	\$1.00	\$5
Major attractions	—	—	\$4
Total	263		\$29
New Company store development <sup>(1)</sup>	15	\$2.47	\$37

<sup>(1)</sup> New Company store development projected for fiscal year 2014 includes three store relocations and one franchise acquisition.

As described in Part I, Item 1. "Business", on January 15, 2014, the Company entered into the Merger Agreement. The above 2014 capital plan presumes the Company's continuation as an independent company, which may not be the case if the Company is acquired. If the Company is acquired, plans for the Company may differ from those set forth above. See Part I, Item 1. "Business" for a description of the Merger Agreement.

Table of Contents

Share Repurchases

On April 30, 2013, our Board authorized a \$100 million increase to our existing Board approved stock repurchase program. During 2013, we repurchased 526,246 shares of our common stock at an average purchase price of \$34.42 per share for an aggregate purchase price of \$18.1 million. As of December 29, 2013, \$128.9 million remained available for us to repurchase shares of our common stock in the future, under our approved stock repurchase program.

In accordance with the Merger Agreement, our ability to repurchase shares of our common stock is restricted. If the Merger is not completed, we will continue to base future stock repurchase decisions on a number of factors, including our working capital needs, our debt repayment obligations, the market price of our common stock and economic and market conditions. Our stock repurchase program does not have an expiration date, and repurchases may be effected from time to time through open market purchases, accelerated share repurchases or in privately negotiated transactions. Although there are no current plans to modify the implementation of our stock repurchase program, our Board may elect to accelerate, expand, suspend, delay or discontinue the program at any time. See further discussion of the Merger in Part I, Item 1. "Business - Merger Agreement" and Part II, Item 8. "Financial Statements and Supplementary Data - Note 13. Subsequent Events" of this Annual Report on Form 10-K. Pursuant to our current revolving credit facility agreement, there are restrictions on the amount of our common stock we may repurchase. See the discussion of our current revolving credit facility included above in "Debt Financing."



Table of Contents

## Off-Balance Sheet Arrangements and Contractual Obligations

As of December 29, 2013, 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 cash obligations as of December 29, 2013:

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
	(in thousands)				
Operating leases <sup>(1)</sup>	\$1,125,862	\$82,055	\$165,047	\$162,674	\$716,086
Capital leases	37,243	2,634	5,039	5,367	24,203
Purchase obligations <sup>(2)</sup>	28,365	24,056	1,359	1,459	1,491
Revolving credit facility	361,500	—	361,500	—	—
Interest obligations <sup>(3)</sup>	17,036	5,997	11,039	—	—
Uncertain tax positions <sup>(4)</sup>	645	645	—	—	—
	\$1,570,651	\$115,387	\$543,984	\$169,500	\$741,780

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

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; (2) (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. The above purchase obligations exclude agreements that are cancelable without significant penalty.

Interest obligations represent an estimate of future interest payments under our revolving credit facility. We calculated the estimate based on (a) terms of the revolving credit facility agreement and (b) using a 1.7% weighted (3) average interest rate incurred on outstanding borrowings as of December 29, 2013. Our estimate assumes that we will maintain the same levels of indebtedness and financial performance through the credit facility’s maturity in October 2016.

Due to the uncertainty related to the settlement of uncertain tax positions, only the current portion of the liability (4) for unrecognized tax benefits has been provided in the table above. The noncurrent portion of \$2.0 million is excluded from the table above.

As of December 29, 2013, capital expenditures totaling \$5.5 million were outstanding and included in accounts payable. These amounts are expected to be paid in less than one year.

The total estimate of accrued liabilities for our self-insurance programs was \$20.2 million as of December 29, 2013. We estimate that \$7.0 million of these liabilities will be paid in fiscal 2014 and the remainder paid in fiscal 2015 and beyond. Due to the nature of the underlying liabilities and the extended period of time often experienced in resolving insurance claims, we cannot make reliable estimates of the timing of cash payments to be made in the future for our obligations related to our insurance liabilities. Therefore, no amounts for such liabilities have been included in the table above.

As of December 29, 2013, there were \$10.9 million of letters of credit issued but undrawn under our revolving credit facility. We utilize standby letters of credit primarily for our self-insurance programs. These letters of credit do not represent additional obligations of the Company since the underlying liabilities are already recorded in accrued liabilities. However, if we were unable to pay insurance claims when due, our insurance carrier could make demand for payment pursuant to these letters of credit.

As of December 29, 2013, we had dividends payable of \$0.9 million, which will be paid when the restricted stock associated with the declared cash dividends vest, which is generally over four years. Pursuant to the Merger Agreement, the Company agreed that shares of restricted stock subject to vesting requirements will automatically vest

in connection with the Merger and, at the effective time of the Merger, each such share of restricted stock shall be cancelled and converted into the right to receive an amount equal to the Offer Price plus an amount in cash equal to all accrued but unpaid dividends relating to such shares, without interest and less any withholding required by applicable tax laws.

For information on the proposed financing related to our pending Merger, see our Solicitation/Recommendation Statement on Schedule 14D-9 (as may be amended) filed with the SEC on January 22, 2014. Such financing will not occur if the Merger is not completed.

We enter into various purchase agreements in the ordinary course of business and have fixed price agreements and contracts with “spot” market prices primarily relating to food and beverage products. Other than the purchase obligation included in the above table, we do not have any material contracts (either individually or in the aggregate) in place committing us to a minimum or fixed level of purchases or that are cancelable subject to significant penalty.

Table of Contents

Inflation

Our cost of operations, including but not limited to labor, food products, supplies, utilities, financing and rental costs, can be significantly affected by inflationary factors.

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” included in Part II, Item 8. “Financial Statements and Supplementary Data.” 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:

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 deemed 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.

Table of Contents

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.



Table of Contents

## 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

See 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" for a description of new accounting standards and their anticipated effects on our Consolidated Financial Statements.

## ITEM 7A. 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 fluctuations.

## Interest Rate Risk

We are exposed to market risk from changes in the variable interest rates (primarily LIBOR) related to borrowings from our revolving credit facility. Our borrowings outstanding as of December 29, 2013 of \$361.5 million are variable rate debt that is exposed to market risk. A hypothetical increase of 100 basis points in variable interest rates, assuming no change in our outstanding debt balance, would have increased annual interest expense by approximately \$3.6 million for the year ended December 29, 2013.

## 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 2013, the weighted average cost of a block of cheese was \$1.75. The estimated increase in our food costs from a hypothetical 10% increase in the average cost of a block of cheese would have been approximately \$1.3 million for the year ended December 29, 2013. For 2013, the weighted average cost of dough per pound was \$0.41. The estimated increase in our food costs from a hypothetical 10% increase in the average price of dough per pound would have been approximately \$0.4 million for the year ended December 29, 2013.

## 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 year ended December 29, 2013, our Canadian stores represented less than 0.1% of our consolidated operating income. 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 year ended December 29, 2013 were \$0.9336 and \$1.0166, respectively. A hypothetical 10% devaluation in the average quoted

United States dollar-equivalent of the Canadian dollar exchange rate during the year ended December 29, 2013 would have reduced our reported consolidated operating income by less than \$0.1 million.

Table of Contents

ITEM 8. Financial Statements and Supplementary Data.

CEC ENTERTAINMENT, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	<u>47</u>
Consolidated Financial Statements:	
<u>Consolidated Balance Sheets at December 29, 2013 and December 30, 2012</u>	<u>48</u>
<u>Consolidated Statements of Earnings for the years ended December 29, 2013, December 30, 2012 and January 1, 2012</u>	<u>49</u>
<u>Consolidated Statements of Comprehensive Income for the years ended December 29, 2013, December 30, 2012 and January 1, 2012</u>	<u>50</u>
<u>Consolidated Statements of Changes in Stockholders' Equity for the years ended December 29, 2013, December 30, 2012 and January 1, 2012</u>	<u>51</u>
<u>Consolidated Statements of Cash Flows for the years ended December 29, 2013, December 30, 2012 and January 1, 2012</u>	<u>52</u>
<u>Notes to Consolidated Financial Statements</u>	<u>53</u>

46

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Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
CEC Entertainment, Inc.  
Irving, Texas

We have audited the accompanying consolidated balance sheets of CEC Entertainment, Inc. and subsidiaries (the “Company”) as of December 29, 2013 and December 30, 2012, and the related consolidated statements of earnings, comprehensive income, changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 29, 2013. We also have audited the Company’s internal control over financial reporting as of December 29, 2013, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company’s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CEC Entertainment, Inc. and subsidiaries as of December 29, 2013 and December 30, 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 29, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 29, 2013, based on the criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP  
Dallas, Texas  
February 12, 2014

47

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Table of Contents

## CEC ENTERTAINMENT, INC.

## CONSOLIDATED BALANCE SHEETS

(in thousands, except per share and share information)

	December 29, 2013	December 30, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$20,686	\$19,636
Accounts receivable	24,881	26,411
Inventories	19,250	18,957
Prepaid expenses	20,111	18,171
Deferred tax asset	2,091	2,884
Total current assets	87,019	86,059
Property and equipment, net	691,454	703,956
Other noncurrent assets	13,138	11,791
Total assets	\$791,611	\$801,806
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Capital lease obligations, current portion	\$1,014	\$1,060
Accounts payable	35,770	32,678
Accrued expenses	34,001	35,517
Unearned revenues	14,504	11,779
Dividends payable	440	312
Accrued interest	977	1,794
Total current liabilities	86,706	83,140
Capital lease obligations, less current portion	20,365	21,656
Revolving credit facility borrowings	361,500	389,500
Deferred rent liability	59,743	57,196
Deferred landlord contributions	26,702	27,092
Deferred tax liability	57,831	62,931
Accrued insurance	13,194	11,980
Other noncurrent liabilities	4,802	5,037
Total liabilities	630,843	658,532
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock, \$0.10 par value; authorized 100,000,000 shares; 61,865,495 and 61,696,806 shares issued, respectively	6,187	6,170
Capital in excess of par value	453,702	447,449
Retained earnings	853,464	823,012
Accumulated other comprehensive income	4,764	5,880
Less treasury stock, at cost; 44,341,225 and 43,814,979 shares, respectively	(1,157,349)	(1,139,237)
Total stockholders' equity	160,768	143,274
Total liabilities and stockholders' equity	\$791,611	\$801,806
The accompanying notes are an integral part of these Consolidated Financial Statements.		

Table of Contents

CEC ENTERTAINMENT, INC.  
 CONSOLIDATED STATEMENTS OF EARNINGS  
 (in thousands, except per share information)

	Fiscal Year		
	2013	2012	2011
<b>REVENUES:</b>			
Food and beverage sales	\$368,584	\$372,948	\$388,908
Entertainment and merchandise sales	448,155	425,989	426,986
Total Company store sales	816,739	798,937	815,894
Franchise fees and royalties	4,982	4,543	5,284
Total revenues	821,721	803,480	821,178
<b>OPERATING COSTS AND EXPENSES:</b>			
Company store operating costs:			
Cost of food and beverage (exclusive of items shown separately below)	90,363	93,417	95,989
Cost of entertainment and merchandise (exclusive of items shown separately below)	29,775	30,855	32,362
Total cost of food, beverage, entertainment and merchandise	120,138	124,272	128,351
Labor expenses	229,172	223,605	222,596
Depreciation and amortization	78,167	78,769	80,826
Rent expense	78,463	75,312	74,992
Other store operating expenses	131,035	126,855	126,847
Total Company store operating costs	636,975	628,813	633,612
Other costs and expenses:			
Advertising expense	41,217	35,407	34,989
General and administrative expenses	57,007	53,437	51,859
Asset impairments	3,051	6,752	2,739
Total operating costs and expenses	738,250	724,409	723,199
Operating income	83,471	79,071	97,979
Interest expense	7,453	9,401	8,875
Income before income taxes	76,018	69,670	89,104
Income taxes	28,194	26,080	34,142
Net income	\$47,824	\$43,590	\$54,962
Earnings per share:			
Basic	\$2.80	\$2.48	\$2.88
Diluted	\$2.78	\$2.47	\$2.88
Weighted average common shares outstanding:			
Basic	17,088	17,545	19,072
Diluted	17,226	17,618	19,121

The accompanying notes are an integral part of these Consolidated Financial Statements.

Table of Contents

CEC ENTERTAINMENT, INC.  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (in thousands)

	Fiscal Year		
	2013	2012	2011
Net income	\$47,824	\$43,590	\$54,962
Components of other comprehensive income, net of tax:			
Change in fair value of cash flow hedge, net of income taxes of \$0, \$0 and (\$5), respectively	—	—	(10 )
Hedging loss realized in earnings, net of income taxes of \$0, \$0 and \$760, respectively	—	—	1,231
Foreign currency translation adjustments, net of income taxes of (\$155), \$31 and (\$64), respectively	(1,116 )	538	(401 )
Total components of other comprehensive income, net of tax	(1,116 )	538	820
Comprehensive income	\$46,708	\$44,128	\$55,782

The accompanying notes are an integral part of these Consolidated Financial Statements.

Table of Contents

## CEC ENTERTAINMENT, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands, except share amounts)

	Common Stock		Capital In Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balance at January 2, 2011	61,436,229	\$6,144	\$436,051	\$756,448	\$4,522	41,128,869	\$(1,045,103)	\$158,062
Net income	—	—	—	54,962	—	—	—	54,962
Other comprehensive income	—	—	—	—	820	—	—	820
Stock-based compensation costs	—	—	7,376	—	—	—	—	7,376
Stock options exercised	17,588	1	631	—	—	—	—	632
Restricted stock issued, net of forfeitures	173,713	17	(17 )	—	—	—	—	—
Tax benefit from stock options and restricted stock, net	—	—	674	—	—	—	—	674
Restricted stock returned for taxes	(73,832 )	(7 )	(2,755 )	—	—	—	—	(2,762 )
Dividends declared	—	—	—	(15,806 )	—	—	—	(15,806 )
Purchases of treasury stock	—	—	—	—	—	2,279,603	(79,781 )	(79,781 )
Balance at January 1, 2012	61,553,698	6,155	441,960	795,604	5,342	43,408,472	(1,124,884 )	124,177
Net income	—	—	—	43,590	—	—	—	43,590
Other comprehensive income	—	—	—	—	538	—	—	538
Stock-based compensation costs	—	—	7,595	—	—	—	—	7,595
Restricted stock issued, net of forfeitures	214,059	22	(22 )	—	—	—	—	—
Tax benefit from restricted stock, net	—	—	565	—	—	—	—	565
Restricted stock returned for taxes	(70,951 )	(7 )	(2,649 )	—	—	—	—	(2,656 )
Dividends declared	—	—	—	(16,182 )	—	—	—	(16,182 )
Purchases of treasury stock	—	—	—	—	—	406,507	(14,353 )	(14,353 )
Balance at December 30, 2012	61,696,806	6,170	447,449	823,012	5,880	43,814,979	(1,139,237 )	143,274

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Net income	—	—	—	47,824	—	—	—	47,824
Other comprehensive income	—	—	—	—	(1,116 )	—	—	(1,116 )
Stock-based compensation costs	—	—	8,660	—	—	—	—	8,660
Restricted stock issued, net of forfeitures	240,619	24	(24 )	—	—	—	—	—
Tax benefit from restricted stock, net	—	—	(178 )	—	—	—	—	(178 )
Restricted stock returned for taxes	(71,930 )	(7 )	(2,205 )	—	—	—	—	(2,212 )
Dividends declared	—	—	—	(17,372 )	—	—	—	(17,372 )
Purchases of treasury stock	—	—	—	—	—	526,246	(18,112 )	(18,112 )
Balance at December 29, 2013	61,865,495	\$6,187	\$453,702	\$853,464	\$4,764	44,341,225	\$(1,157,349)	\$160,768

The accompanying notes are an integral part of these Consolidated Financial Statements.

Table of Contents

CEC ENTERTAINMENT, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

	Fiscal Year		
	2013	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$47,824	\$43,590	\$54,962
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	79,028	79,510	81,560
Deferred income taxes	(3,025 )	(836 )	20,292
Stock-based compensation expense	8,481	7,468	7,185
Amortization of landlord contributions	(2,355 )	(2,293 )	(2,024 )
Amortization of deferred debt financing costs	448	492	361
Loss on asset disposals, net	3,309	3,562	3,035
Asset impairments	3,051	6,752	2,739
Other adjustments	135	474	423
Changes in operating assets and liabilities:			
Accounts receivable	578	(1,587 )	3,113
Inventories	(368 )	(594 )	(714 )
Prepaid expenses	(1,270 )	(4,150 )	(1,721 )
Accounts payable	(2,355 )	374	(2,416 )
Accrued expenses	(344 )	1,132	(349 )
Unearned revenues	2,735	1,925	460
Accrued interest	(730 )	(376 )	(37 )
Income taxes payable	(647 )	(1,361 )	6,170
Deferred rent liability	2,431	2,744	3,016
Deferred landlord contributions	1,738	266	1,178
Net cash provided by operating activities	138,664	137,092	177,233
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of property and equipment	(74,085 )	(99,489 )	(94,669 )
Proceeds from the sale of property and equipment	2,530	586	—
Other investing activities	613	—	17
Net cash used in investing activities	(70,942 )	(98,903 )	(94,652 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net proceeds from (repayments on) revolving credit facility	(28,000 )	(100 )	12,600
Payments on capital lease obligations	(953 )	(949 )	(938 )
Payment of debt financing costs	—	—	(2,052 )
Dividends paid	(17,097 )	(19,846 )	(11,487 )
Proceeds from exercise of stock options	—	—	632
Excess tax benefit realized from stock-based compensation	343	619	815
Restricted stock returned for payment of taxes	(2,212 )	(2,656 )	(2,762 )
Purchases of treasury stock	(18,112 )	(14,353 )	(79,781 )
Net cash used in financing activities	(66,031 )	(37,285 )	(82,973 )
Effect of foreign exchange rate changes on cash	(641 )	59	(204 )
Change in cash and cash equivalents	1,050	963	(596 )
Cash and cash equivalents at beginning of period	19,636	18,673	19,269
Cash and cash equivalents at end of period	\$20,686	\$19,636	\$18,673
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>			
Interest paid	\$7,798	\$9,419	\$9,081



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Income taxes paid, net	\$31,614	\$27,598	\$6,592
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Accrued construction costs	\$5,542	\$3,025	\$3,580
Dividends payable	\$931	\$656	\$4,319
Capital lease obligations	\$740	\$12,732	\$932

The accompanying notes are an integral part of these Consolidated Financial Statements.

Table of Contents

CEC ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Description of Business and Summary of Significant Accounting Policies:

Description of Business: CEC Entertainment, Inc. and its subsidiaries (the “Company”) operate and franchise Chuck E. Cheese<sup>®</sup> family dining and entertainment centers (also referred to as “stores”) in a total of 47 states and 10 foreign countries and territories. As of December 29, 2013 we and our franchisees operated a total of 577 stores, of which 522 were Company-owned stores located in 44 states and Canada. Our franchisees operated a total of 55 stores located in 14 states and nine foreign countries and territories, including Chile, Guam, Guatemala, Mexico, Panama, Peru, Puerto Rico, Saudi Arabia and the United Arab Emirates. The use of the terms “CEC Entertainment,” “we,” “us” and “our” throughout these Notes to Consolidated Financial Statements refer to the Company.

All of our stores utilize a consistent restaurant-entertainment format that features both family dining and entertainment areas with the same general mix of food, beverages, entertainment and merchandise. The economic characteristics, products and services, preparation processes, distribution methods and types of customers are substantially similar for each of our stores. Therefore, we aggregate each store’s operating performance into one reportable segment for financial reporting purposes.

Merger Agreement: On January 15, 2014, the Company, Queso Holdings Inc. (“Parent”), a Delaware corporation, and Q Merger Sub Inc. (“Merger Sub”), a Kansas corporation and a wholly-owned subsidiary of Parent, entered into an Agreement and Plan of Merger (the “Merger Agreement”), pursuant to which, among other things, Merger Sub commenced a tender offer (the “Tender Offer”) to purchase all of the Company’s issued and outstanding shares of common stock at a price of \$54.00 per share payable net to the seller in cash, without interest (the “Offer Price”), and subject to deduction for applicable withholding taxes. Following completion of the Tender Offer and subject to the terms and conditions of the Merger Agreement, Merger Sub will be merged with and into the Company (the “Merger”), with the Company surviving the Merger as a wholly-owned subsidiary of Parent. At the time the Merger becomes effective, all remaining outstanding shares of common stock of the Company not tendered in the Tender Offer (other than such shares owned by Parent, Merger Sub and the Company) will be cancelled and converted into the right to receive the Offer Price, and any such shares held by stockholders who have properly perfected their statutory rights of appraisal pursuant to the applicable provisions of Section 17-6712 of the Kansas General Corporation Code, will be cancelled and converted into the right to receive appraisal value for such shares. See further discussion of the Merger in Note 13. Subsequent Events.

Basis of Presentation: Our Consolidated Financial Statements include the accounts of the Company and the International Association of CEC Entertainment, Inc. (the “Association”), a variable interest entity in which we have a controlling financial interest. The Association primarily administers the collection and disbursement of funds (the “Association Funds”) used for advertising, entertainment and media programs that benefit both us and our franchisees. We and our franchisees are required to contribute a percentage of gross sales to these funds and could be required to make additional contributions to fund any deficits that may be incurred by the Association. We include the Association in our Consolidated Financial Statements, as we concluded that we are the primary beneficiary of its variable interests because we (a) have the power to direct the majority of its significant operating activities; (b) provide it unsecured lines of credit; and (c) own the majority of the store locations that benefit from the Association’s advertising, entertainment and media expenditures. The assets, liabilities and operating results of the Association are not material to our Consolidated Financial Statements.

All intercompany accounts and transactions have been eliminated in consolidation.

Fiscal Year: 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. Our 2013, 2012 and 2011 fiscal years each consisted of 52 weeks.

Use of Estimates and Assumptions: The preparation of these Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of our Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



Table of Contents

CEC ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Change in Accounting Estimate and Capitalization Thresholds:** During 2011, we performed an assessment of the useful lives of all of our property and equipment. In evaluating the useful lives, we considered the historical life of the assets, operational strategy and related functionality. We concluded that certain games and leasehold improvements in our stores remained in service longer than the depreciable life assigned and certain pieces of equipment utilized in our stores remained in service for less than the depreciable life assigned. As a result, effective July 4, 2011, we revised our estimate of the useful lives of certain property and equipment as follows: (a) certain games from six years to either eight years or 10 years; (b) leasehold improvements related to expansions of our stores from 15 to 20 years or the remaining lease term if shorter; (c) leasehold improvements related to major remodels of our stores from 10 to 15 years or the remaining lease term if shorter; and (d) other equipment utilized in our stores had various useful lives reduced. Accounting guidance requires a change in estimate to be accounted for on a prospective basis by amortizing an asset's current carrying value over its revised remaining useful life. This change provided an incremental benefit to pre-tax depreciation and amortization expense in our Consolidated Statements of Earnings in the second half of 2011 and the first half of 2012. Pre-tax depreciation and amortization expense incrementally benefited by approximately \$3.0 million for both 2012 and 2011.

In conjunction with the revision of the estimated useful lives of certain property and equipment in 2011, we also changed our capitalization thresholds with respect to costs associated with certain refurbished games, as well as costs related to the replacement of certain asset parts. This change incrementally increased other store operating costs in our Consolidated Statements of Earnings in the second half of 2011 and first half of 2012. Pre-tax other store operating costs incrementally increased by approximately \$1.0 million for 2012 and 2011.

We estimate that the after-tax effect of both the change in estimated useful lives and the change in capitalization thresholds benefited our fully diluted earnings per share by approximately \$0.08 and \$0.06 per share for the years ended December 30, 2012 and January 1, 2012, respectively.

**Subsequent Events:** We recognize the effects of events or transactions that occur after the balance sheet date but before financial statements are issued ("subsequent events") if there is evidence that conditions related to the subsequent event existed at the date of the balance sheet, including the impact of such events on management's estimates and assumptions used in preparing our Consolidated Financial Statements. Other significant subsequent events that are not recognized in our Consolidated Financial Statements, if any, are disclosed in the Notes to Consolidated Financial Statements.

**Cash and Cash Equivalents:** Cash and cash equivalents are comprised of demand deposits with banks and short-term cash investments with remaining maturities of three months or less from the purchase date.

**Concentrations of Credit Risk:** We have exposure to credit risk to the extent that our cash and cash equivalents exceed amounts covered by the United States and Canada deposit insurance limits, as we currently maintain a significant amount of our cash and cash equivalents balances with two major financial institutions. The individual balances, at times, may exceed the insured limits. We have not experienced any losses in such accounts. In management's opinion, the capitalization and operating history of the financial institutions are such that the likelihood of a material loss is considered remote.

**Inventories:** Inventories of food, beverages, merchandise, paper products and other supplies needed for our food service and entertainment operations are stated at the lower of cost on a first-in, first-out basis or market.

**Property and Equipment:** Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization are charged to operations using the straight-line method over the assets' estimated useful lives, which are as follows:

Buildings	40 years
Game and ride equipment	4 to 12 years
Non-technical play equipment	15 to 20 years
Furniture, fixtures and other equipment	4 to 20 years

Leasehold improvements are amortized using the straight-line method over the lesser of the lease term or the estimated useful lives of the related assets. We use a consistent lease period (generally, the initial non-cancelable lease

term plus renewal option periods provided for in the lease that can be reasonably assured of being exercised) when estimating the depreciable lives of leasehold improvements, in determining classification of our leases as either operating or capital and in recognizing straight-line rent expense. Interest costs incurred during the construction period are capitalized and depreciated based on the estimated useful life of the underlying asset.

Table of Contents

CEC ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. Any impairment loss recognized equals the amount by which the asset carrying amount exceeds its estimated fair value. In the event an asset is impaired, its carrying value is adjusted to the estimated fair value, and any subsequent increases in fair value are not recorded. Additionally, if it is determined that the estimated remaining useful life of the asset should be decreased, any periodic depreciation and amortization expense is adjusted based on the new carrying value of the asset unless the asset is written down to salvage value, at which time depreciation or amortization ceases.

**Capitalized Store Development Costs:** We capitalize our internal department costs that are directly attributable to store development projects, such as the design and construction of a new store and the remodeling and expansion of our existing stores. Capitalized internal department costs include the compensation, benefits and various office costs related to our design, construction, facilities and legal departments. We also capitalize interest costs in conjunction with the construction of new stores. Store development costs are initially accumulated in our construction in progress account until a project is completed. At the time of completion, the costs accumulated to date are then reclassified to property and equipment and depreciated according to our depreciation policies. In 2013, 2012 and 2011, we capitalized internal costs of \$3.5 million, \$3.3 million and \$3.6 million, respectively, related to our store development activities.

**Goodwill:** In 2010, we recorded goodwill of \$3.5 million associated with four stores we acquired from our franchisees, representing the excess of the purchase price over the fair value of the specific assets acquired. As of December 29, 2013 and December 30, 2012, goodwill of \$3.5 million was included in "Other noncurrent assets" on our Consolidated Balance Sheets. Goodwill is not amortized, but is tested for impairment at least once per year, or when events or changes in circumstances indicate that the carrying amount may be less than fair value, using a two-step fair value test. We perform this test at the lowest reporting unit, which is at the store level. The first step of the test compares the carrying amount of the goodwill to its estimated fair value, which is based on the undiscounted expected future cash flows of the store. If the estimated fair value of the store is less than its carrying amount, a second step is performed to quantify the amount of goodwill impairment that should be recorded. When testing goodwill for impairment, we make certain assumptions regarding the amount and the timing of estimated future cash flows similar to those when testing a store's property and equipment for impairment, as described above. We believe our assumptions in calculating the fair value are similar to those used by other marketplace participants. We perform our annual impairment analysis of goodwill at the beginning of the fourth quarter of each fiscal year. We did not record any losses in connection with our impairment tests in 2013, 2012 or 2011.

**Self-Insurance Accruals:** We are self-insured for certain losses related to workers' compensation, general liability, property and our Company sponsored employee health insurance programs. We estimate the accrued liabilities for all risk retained by the Company at the end of each reporting period. This estimate is primarily based on historical claims experience and loss reserves, with the assistance of an independent third-party actuary. To limit our exposure to losses, we purchase stop-loss or high-deductible insurance coverage through third-party insurers for certain losses related to workers' compensation, property and employee health insurance programs. Our deductibles generally range from \$0.2 million to \$0.5 million per occurrence. For claims that exceed the deductible amount, we record a gross liability and a corresponding receivable representing expected recoveries pursuant to the stop-loss coverage, since we are not legally relieved of our obligation to the claimant.

Contingent Loss Accruals: When a contingency involving uncertainty as to a possible loss occurs, an estimate of the loss may be accrued as a charge to income and a reserve established on the Consolidated Balance Sheets. We perform regular assessments of our contingent losses and develop estimates of the degree of probability for and range of possible settlement. We accrue liabilities for losses we deem probable and for which we can reasonably estimate an amount of settlement. We do not record liabilities for losses we believe are only reasonably possible to result in an adverse outcome, but provide disclosure of the reasonably possible range of loss to the extent it is estimable. Reserve balances may be increased or decreased in the future to reflect further developments. However, there can be no assurance that there will not be a loss different from the amounts accrued. Any such loss, if realized, could have a material effect on our consolidated results of operations in the period during which the underlying matters are resolved.

Table of Contents

CEC ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Revolving Credit Facility Borrowings:** We classify the borrowings obtained under our revolving credit facility as a noncurrent liability on our Consolidated Balance Sheets because the credit agreement allows us, except in the event of our violation of a provision that makes the obligation callable, to continuously refinance borrowings on a long-term basis through the maturity date and, by its terms, borrowings are not due on demand. On October 28, 2011, we amended and restated our then existing revolving credit facility. Refer to Note 6 “Revolving Credit Facility” for further discussion of our revolving credit facility.

**Comprehensive Income:** We present the components of other comprehensive income (“OCI”) in a separate financial statement, referred to as our Consolidated Statements of Comprehensive Income. Comprehensive income consists of net income and certain other changes in stockholders’ equity, which are excluded from net income and referred to as OCI on our Consolidated Statements of Changes in Stockholders’ Equity. Our OCI consists of foreign currency translation adjustments, net of tax. In 2011, our OCI also consisted of changes in the fair value of our interest rate swap, net of tax, and hedging losses realized in earnings, net of tax. OCI is recorded directly to “Accumulated other comprehensive income,” which is a separate component of stockholders’ equity.

**Foreign Currency Translation:** Our Consolidated Financial Statements are presented in United States (“U.S.”) dollars. The assets and liabilities of our Canadian subsidiary are translated to U.S. dollars at year-end exchange rates, while revenues and expenses are translated at average exchange rates during the year. Adjustments that result from translating amounts are reported as a component of “Accumulated other comprehensive income” on our Consolidated Statements of Changes in Stockholders’ Equity and in our Consolidated Statements of Comprehensive Income. The effect of foreign currency exchange rate changes on cash is reported in our Consolidated Statements of Cash Flows as a separate component of the change in cash and cash equivalents during the period.

**Fair Value Disclosures:** Fair value is defined as the price that we would receive to sell an asset or pay to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. In determining fair value, U.S. GAAP establishes a three-level hierarchy used in measuring fair value, as follows:

Level 1- inputs are quoted prices available for identical assets or liabilities in active markets.

Level 2- inputs are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets and liabilities in active markets; or other inputs that are observable or can be corroborated by observable market data.

Level 3- inputs are unobservable and reflect our own assumptions.

Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, revolving credit facility and capital lease obligations. The carrying amount of cash and cash equivalents, accounts receivable and accounts payable approximates fair value because of their short maturities. We believe that the carrying amount of our revolving credit facility approximates fair value because the interest rates are adjusted regularly based on current market conditions. We may also adjust the carrying amount of certain nonfinancial assets to fair value on a non-recurring basis when they are impaired. The fair values of our long-lived assets held and used are determined using Level 3 inputs based on the estimated discounted future cash flows of the store over its expected remaining lease term. Due to uncertainties in the estimates and assumptions used, actual results could differ from the estimated fair values. See Note 4 “Property and Equipment” for the fair value disclosures of stores we have impaired.

During 2013 and 2012, there were no significant transfers among Level 1, 2 or 3 fair value determinations.

**Stock-Based Compensation:** We expense the fair value of stock-based compensation awards granted to our employees and directors in our Consolidated Financial Statements on a straight-line basis over the period that services are required to be provided in exchange for the award (“requisite service period”), which typically is the period over which the award vests. Stock-based compensation is recognized only for awards that vest, and our periodic accrual of compensation cost is based on the estimated number of awards expected to vest. We measure the fair value of compensation cost related to restricted stock awards based on the closing market price of our common stock on the grant date.



Stock-based compensation expense is recorded in “General and administrative expenses” in the Consolidated Statements of Earnings, which is the same financial statement caption where the associated salary expense of employees with stock-based compensation awards is recorded. The gross benefits of tax deductions in excess of the compensation cost recognized from the vesting of restricted stock awards are tax affected and classified as cash inflows from financing activities in our Consolidated Statements of Cash Flows.

Table of Contents

CEC ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Revenue Recognition – Company Store Activities:** Food, beverage and merchandise revenues are recognized when sold. Game revenues are recognized as game-play tokens are purchased by guests, and we accrue unearned revenue as a liability for the estimated amount of unused tickets and tokens that may be redeemed or used in the future. We allocate the revenue recognized from the sale of value-priced combination packages, which generally are comprised of food, beverage and game tokens (and in some instances, merchandise), 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.

Sales taxes collected from guests are excluded from revenues. The obligation is included in accrued liabilities until the taxes are remitted to the appropriate taxing authorities.

We sell gift cards to our customers in our stores and through certain third-party distributors, which do not expire and do not incur a service fee on unused balances. Gift card sales are recorded as unearned gift card revenue liability when sold and are recognized as revenue when: (a) the gift card is redeemed by the guest or (b) the likelihood of the gift card being redeemed by the guest is remote (“gift card breakage”) and we determine that we do not have a legal obligation to remit the value of the unredeemed gift card under applicable state unclaimed property escheat statutes. Gift card breakage is determined based upon historical redemption patterns of our gift cards. Breakage income from gift cards is included in “Food and beverage sales” in our Consolidated Statements of Earnings and was not material for the periods presented.

**Revenue Recognition – Franchise Fees and Royalties:** Revenues from franchise activities include area development and initial franchise fees received from franchisees to establish new stores, and once a store is opened, a franchisee is charged monthly royalties based on a percentage of franchised stores’ sales. These fees are collectively referred to as “Franchise fees and royalties” in our Consolidated Statements of Earnings. Area development and initial franchise fees are accrued as unearned franchise revenue liability when received and recognized as revenue when the franchised stores associated with the fees open, which is generally when we have fulfilled all significant obligations to the franchisee. Continuing royalties and other miscellaneous sales and fees are recognized in the period earned.

Continuing royalties and other miscellaneous sales and fees of \$4.3 million, \$3.8 million and \$3.7 million in 2013, 2012 and 2011, respectively, are included in “Franchise fees and royalties” in our Consolidated Statements of Earnings.

**Cost of Food, Beverage, Entertainment and Merchandise:** Cost of food and beverage includes all direct costs of food and beverage sold to our guests and related paper and birthday supplies used in our food service operations, less “vendor rebates” described below. Cost of entertainment and merchandise includes the direct cost of prizes provided and merchandise sold to our customers, as well as the cost of tickets dispensed to customers and redeemed for prize items. These amounts exclude any allocation of other operating costs including labor and related costs for store personnel and depreciation and amortization expense.

**Vendor Rebates:** We receive rebate payments primarily from a single third-party vendor. Pursuant to the terms of a volume purchasing and promotional agreement entered into with the vendor, rebates are primarily provided based on the quantity of the vendor’s products we purchase over the term of the agreement. We record these allowances in the period they are earned as a reduction in the cost of the vendor’s products, and when the related inventory is sold, the allowances are recognized in “Cost of food and beverage” in our Consolidated Statements of Earnings.

**Rent Expense:** We recognize rent expense on a straight-line basis over the lease term, including the construction period and lease renewal option periods provided for in the lease that can be reasonably assured at the inception of the lease. The lease term commences on the date when we take possession and have the right to control use of the leased premises. The difference between actual rent payments and rent expense in any period is recorded as “Deferred rent liability” on our Consolidated Balance Sheets. Construction allowances received from the landlord as a lease incentive intended to reimburse us for the cost of leasehold improvements (“Landlord contributions”) are accrued as deferred landlord contributions. Landlord contributions are amortized on a straight-line basis over the lease term as a reduction to rent expense.

Advertising Costs: Production costs for commercials and coupons are expensed in the period in which the commercials are initially aired and the coupons are distributed. All other advertising costs are expensed as incurred. We and our franchisees are required to contribute a percentage of gross sales to advertising, media and entertainment funds maintained by the Association, which are utilized to administer all the national advertising programs that benefit both us and our franchisees. Because the Association Funds are required to be segregated and used for specified purposes, we do not reflect franchisee contributions to the Association Funds as revenue, but rather record franchisee contributions as an offset to advertising expenses in our Consolidated Financial Statements. Our contributions to the Association Funds are eliminated in consolidation. Contributions from our franchisees to the Association Funds for advertising, entertainment and media programs were \$2.5 million, \$2.0 million and \$2.1 million in 2013, 2012 and 2011, respectively.

Table of Contents

CEC ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Income Taxes:** We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax basis. A valuation allowance is applied against net deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Deferred income taxes are not provided on undistributed income from our Canadian subsidiary, as these earnings are considered to be permanently invested. We maintain tax 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. In our Consolidated Statements of Earnings, we include interest expense related to unrecognized tax benefits in "Interest expense" and include penalties in "General and administrative expenses." On our Consolidated Balance Sheets, we include current interest related to unrecognized tax benefits in "Accrued interest," current penalties in "Accrued expenses" and noncurrent accrued interest and penalties in "Other noncurrent liabilities."

**Recently Issued Accounting Guidance**

**Accounting Guidance Adopted:** In July 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2012-2, Testing Indefinite-Lived Intangible Assets for Impairment. This amendment allows an entity to first assess relevant qualitative factors in order to determine whether it is necessary to perform the two-step quantitative impairment test for indefinite-lived intangible assets. Unless the entity determines, based on the qualitative assessment, that it is more likely than not that the asset is impaired, it would not be required to calculate the fair value of an indefinite-lived intangible asset in connection with the impairment test. The adoption of this amendment during the first quarter of 2013 did not have a significant impact on our impairment analysis.

In February 2013, the FASB issued ASU 2013-2, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This amendment requires an entity to provide the effects on net income of significant reclassifications out of accumulated other comprehensive income by component on a prospective basis. The adoption of this amendment during the first quarter of 2013 required additional disclosure but did not have an impact on our Consolidated Financial Statements.

**Accounting Guidance Not Yet Adopted:** In July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This amendment requires an unrecognized tax benefit related to a net operating loss carryforward, a similar tax loss or a tax credit carryforward to be presented as a reduction to a deferred tax asset, unless the tax benefit is not available at the reporting date to settle any additional income taxes under the tax law of the applicable tax jurisdiction. The amendment is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. We believe the adoption of this amendment will not have a significant impact on our Consolidated Financial Statements.

Table of Contents

CEC ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 2. Accounts Receivable:

Accounts receivable consisted of the following:

	At Year End	
	2013	2012
	(in thousands)	
Trade receivables	\$6,177	\$7,320
Vendor rebates	6,736	7,186
Income taxes receivable	7,884	9,189
Other accounts receivable	4,084	2,716
	\$24,881	\$26,411

Trade receivables consist primarily of debit and credit card receivables due from third-party financial institutions. The other accounts receivable balance consists primarily of lease incentives, amounts due from our franchisees and amounts expected to be recovered from third-party insurers.

## Note 3. Inventories:

Inventories consisted of the following:

	At Year End	
	2013	2012
	(in thousands)	
Food and beverage	\$4,530	\$4,549
Entertainment and merchandise	14,720	14,408
	\$19,250	\$18,957

Food and beverage inventories include food, beverage, paper products and other supplies needed for our food service operations. Entertainment and merchandise inventories consist primarily of novelty toy items used as redemption prizes for certain games, sold directly to our guests or used as part of our birthday party packages. In addition, entertainment and merchandise inventories also consist of other supplies used in our entertainment operations.

Table of Contents

CEC ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Property and Equipment:

Property and equipment consisted of the following:

	At Year End	
	2013	2012
	(in thousands)	
Land	\$43,423	\$43,423
Buildings	110,817	112,205
Leasehold improvements	624,353	602,940
Game and ride equipment	284,454	284,666
Furniture, fixtures and other equipment	230,986	229,943
Property leased under capital leases (Note 7)	28,228	28,650
	1,322,261	1,301,827
Less accumulated depreciation and amortization	(641,559)	(608,125)
Net property and equipment in service	680,702	693,702
Construction in progress	10,752	10,254
	\$691,454	\$703,956

Property leased under capital leases consists primarily of buildings for our store locations. Accumulated amortization related to these assets was \$10.4 million and \$9.1 million as of December 29, 2013 and December 30, 2012, respectively. Amortization of assets under capital leases is included in "Depreciation and amortization expense" in our Consolidated Statements of Earnings.

Total depreciation and amortization expense was \$79.0 million, \$79.5 million and \$81.6 million in 2013, 2012 and 2011, respectively, of which, \$0.8 million, \$0.7 million and \$0.7 million in 2013, 2012 and 2011, respectively, was included in "General and administrative expenses" in our Consolidated Statements of Earnings.

**Asset Impairments**

In 2013, we recognized asset impairment charges of \$3.1 million primarily relating to seven stores, of which three stores were previously impaired. In 2012, we recognized asset impairment charges of \$6.8 million relating to 18 stores, seven of which were previously impaired. In 2011, we recognized asset impairment charges of \$2.7 million relating to six stores, none of which were previously impaired. We continue to operate all but three of these stores. These impairment charges were the result of a decline in the stores' financial performance, primarily due to various economic factors in the markets in which the stores are located. As of December 29, 2013 and December 30, 2012, respectively, the aggregate carrying value of the property and equipment at impaired stores, after the impairment charges, was \$2.7 million for stores impaired in 2013 and \$7.2 million for stores impaired in 2012.

Asset impairments represent adjustments we recognize to write down the carrying amount of the property and equipment at our stores to their estimated fair value, as the store's operation is not expected to generate sufficient projected future cash flows to recover the current net book value of its long-lived assets. We estimate the fair value of a store's long-lived assets (property and equipment) by discounting the expected future cash flows of the store over its estimated remaining lease term using a weighted average cost of capital commensurate with the risk. Accordingly, the fair value measurement of the stores for which we recognized an impairment charge is classified within Level 3 of the fair value hierarchy. 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.



Table of Contents

CEC ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following average discount rates, average sales growth rates and average cash flow margin rates were used in determining the fair value of impaired stores on a non-recurring basis in 2013 and 2012:

	2013		2012	
Average discount rate	8	%	8	%
Average sales growth rate	0.2	%	0.5	%
Average cash flow margin	11	%	8	%

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.

Note 5. Accrued Expenses:

Accrued expenses consisted of the following:

	At Year End	
	2013	2012
	(in thousands)	
Current:		
Salaries and wages	\$12,399	\$12,207
Insurance	6,976	8,057
Taxes, other than income taxes	9,393	9,289
Other accrued operating expenses	5,233	5,964
	\$34,001	\$35,517
Noncurrent:		
Insurance	\$13,194	\$11,980

Accrued current and noncurrent insurance represents estimated claims incurred but unpaid under our self-insurance programs for general liability, workers' compensation, health benefits and certain other insured risks.



Table of Contents

CEC ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 6. Revolving Credit Facility:

	At Year End	
	2013	2012
	(in thousands)	
Revolving credit facility borrowings	\$361,500	\$389,500

The revolving credit facility is a senior unsecured credit commitment of \$500.0 million that expires on October 28, 2016. The revolving credit facility also includes an accordion feature allowing us, subject to meeting certain conditions and lender approval, to request an increase to the revolving commitment of up to \$200.0 million in borrowings at any time. Based on the type of borrowing, the revolving credit facility bears interest at the one month London Interbank Offered Rate ("LIBOR") plus an applicable margin of 0.875% to 1.625%, determined based on our financial performance and debt levels, or alternatively, the highest of (a) the Prime Rate; (b) the Federal Funds rate plus 0.50%; or (c) one month LIBOR plus 1.0%; plus an applicable margin up to 0.625%, determined based on our financial performance and debt levels. During 2013, the Prime Rate was 3.25% and the one month LIBOR rate ranged from 0.16% to 0.24%. The revolving credit facility also requires us to pay a commitment fee on a quarterly basis, ranging from 0.15% to 0.30%, depending on our financial performance and debt levels, on any unused portion of the revolving credit facility. All borrowings under the revolving credit facility are unsecured, but we agreed not to pledge any of our existing assets to secure any other future indebtedness.

As of December 29, 2013, we had \$10.9 million of letters of credit, issued but undrawn under the revolving credit facility. The weighted average effective interest rate incurred on our borrowings under our revolving credit facility was 1.7% for fiscal years ended December 29, 2013 and December 30, 2012.

The credit agreement for the revolving credit facility also contains certain restrictions and conditions that, among other things, require us to comply with specified financial covenant ratios, including, at the end of any fiscal quarter, a consolidated fixed charge coverage ratio of not less than 1.5 to 1.0 and a consolidated maximum leverage ratio of not greater than 3.0 to 1.0, as defined in the revolving credit facility. Additionally, the terms of the credit agreement for the revolving credit facility do not restrict dividend payments or stock repurchases by us as long as we do not exceed a consolidated leverage ratio (as defined in the revolving credit facility) of 2.75 to 1.0 on a pro forma basis, for the four fiscal quarters then most recently ended, immediately after giving effect to such payments or repurchases. As of December 29, 2013, we were in compliance with all of these restrictions and covenants.

Table of Contents

CEC ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 7. Commitments and Contingencies:

## Leases

We lease certain store locations under operating and capital leases that expire at various dates through 2028, with renewal options that expire at various dates through 2045. The leases generally require us to pay a minimum rent, property taxes, insurance, other maintenance costs and, in some instances, additional rent equal to the amount by which a percentage of the store's revenues exceed the minimum rent. The leases generally have initial terms of 10 to 20 years with various renewal options.

The annual future lease commitments under capital lease obligations and noncancelable operating leases, including reasonably assured option periods but excluding contingent rent, as of December 29, 2013, are as follows:

Fiscal Years	Capital (in thousands)	Operating
2014	\$2,634	\$82,055
2015	2,578	82,111
2016	2,461	82,936
2017	2,488	81,839
2018	2,879	80,835
Thereafter	24,203	716,086
Future minimum lease payments	37,243	\$1,125,862
Less amounts representing interest (interest rates range from 4.9% to 16.63%)	(15,864 )	
Present value of future minimum lease payments	21,379	
Less current portion	(1,014 )	
Capital lease obligations, net of current portion	\$20,365	

Rent expense, including contingent rent based on a percentage of stores' sales, when applicable, was comprised of the following:

	Fiscal Year		
	2013	2012	2011
	(in thousands)		
Minimum rentals	\$79,315	\$76,151	\$75,711
Contingent rentals	103	138	338
	\$79,418	\$76,289	\$76,049

Rent expense of \$1.0 million in 2013, 2012 and 2011 related to our corporate office and warehouse facilities and was included in "General and administrative expenses" in our Consolidated Statements of Earnings.

## Unconditional Purchase Obligations

Our unconditional purchase obligations consist of agreements to purchase goods or services that are enforceable and legally binding on us and that specify 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 with terms in excess of one year totaled \$5.2 million at December 29, 2013 and consisted of obligations associated with the modernization of various information technology platforms. These purchase obligations exclude agreements that are cancelable without significant penalty.

Table of Contents

CEC ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

Litigation Related to the Proposed Merger: Following the January 16, 2014 announcement that the Company had entered into the Merger Agreement, five putative shareholder class actions were filed on behalf of purported stockholders of the Company against the Company, its directors, Apollo Global Management, LLC (“Apollo”), Parent, and Merger Sub in connection with the Merger Agreement and the transactions contemplated thereby. Four of the actions were filed 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 (the “LMPERS Action”). The fifth purported class action, which is 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”) (together with the LMPERS, Coyne, Solak, and Dixon Actions, the “Shareholder Actions”).

Each of the Shareholder Actions alleges that the Company’s directors breached their fiduciary duties to the Company’s 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 will 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 or 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 CEC also aided and abetted such breaches, and the Solak, LMPERS and McCullough Actions further allege that Parent and the Merger Sub aided and abetted such actions. The LMPERS and McCullough Actions further allege that Apollo Management VII, L.P. and AP VIII Queso Holdings, L.P. aided and abetted such actions.

The Shareholder Actions seek, among other things, an injunction to prevent consummation of the Tender Offer and subsequent Merger, rescission of these transactions (to the extent already implemented), 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 and, if necessary, extend the closing of the Tender Offer to permit such information to be disseminated to the Company’s stockholders. 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.

Table of Contents

CEC ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 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 closes.

The Company believes these lawsuits are without merit and intends to defend them vigorously; however, we are presently unable to predict the ultimate outcome of this litigation. See further discussion of the Merger in Note 13. Subsequent Events.

Note 8. Income Taxes:

The components of income tax expense are as follows:

	Fiscal Year		
	2013	2012	2011
	(in thousands)		
Current tax expense (benefit):			
Federal	\$26,950	\$23,903	\$9,502
State	4,191	2,936	4,409
Foreign	78	77	(61 )
	31,219	26,916	13,850
Deferred tax expense (benefit):			
Federal	(2,099 )	(619 )	20,305
State	(732 )	(36 )	(353 )
Foreign	(194 )	(181 )	340
	(3,025 )	(836 )	20,292
Income tax expense	\$28,194	\$26,080	\$34,142

A reconciliation of the federal statutory income tax rate to our effective tax rates is as follows:

	Fiscal Year			
	2013	2012	2011	
Federal statutory rate	35.0	% 35.0	% 35.0	%
State income taxes, net of federal benefit	3.0	3.4	4.0	
Federal income tax credits, net	(1.2 )	(0.5 )	(1.5 )	)
Other	0.3	(0.5 )	0.8	)
Effective tax rate	37.1	% 37.4	% 38.3	%

Table of Contents

CEC ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred income tax assets and liabilities consisted of the following:

	At Year End	
	2013	2012
	(in thousands)	
Deferred tax assets:		
Accrued vacation	\$2,180	\$2,010
Unearned revenue	3,645	4,204
Deferred rent	23,209	22,232
Stock-based compensation	2,781	2,380
Accrued insurance and employee benefit plans	7,915	7,790
Unrecognized tax benefits <sup>(1)</sup>	1,373	1,817
Other	2,880	2,161
Gross deferred tax assets	43,983	42,594
Deferred tax liabilities:		
Depreciation and amortization	(96,394 )	(100,147 )
Prepaid assets	(1,636 )	(1,575 )
Other	(1,693 )	(919 )
Gross deferred tax liabilities	(99,723 )	(102,641 )
Net deferred tax liability	\$(55,740 )	\$(60,047 )
Amounts reported on Consolidated Balance Sheets:		
Current deferred tax asset	\$2,091	\$2,884
Noncurrent deferred tax liability	(57,831 )	(62,931 )
Net deferred tax liability	\$(55,740 )	\$(60,047 )

(1) Amount represents the value of future tax benefits that would result if the liabilities for uncertain state tax positions and accrued interest related to uncertain tax positions are settled.

We file numerous income tax returns in U.S. federal, state, local and foreign jurisdictions. As a matter of ordinary course, we are subject to regular examination by various tax authorities. In general, the U.S. federal statute of limitations has expired for our federal tax returns filed for tax years ended before 2010 (with the exception of adjustments included in amended returns filed in 2011, 2012 and 2013 for tax years 2006 through 2009). In addition, certain of our federal and state income tax returns are currently under examination and are in various stages of the audit/appeals process. In general, both state and Canadian tax returns with open statutes of limitations include tax years 2009 through 2012.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Fiscal Year		
	2013	2012	2011
	(in thousands)		
Balance at beginning of period	\$2,923	\$4,497	\$4,363
Additions for tax positions taken in the current year	223	511	487
Increases for tax positions taken in prior years	463	1,076	2,117
Decreases for tax positions taken in prior years	(422 )	(1,063 )	(1,440 )
Settlement with tax authorities	(283 )	(1,699 )	(876 )
Expiration of statute of limitations	(306 )	(399 )	(154 )
Balance at end of period	\$2,598	\$2,923	\$4,497

Table of Contents

CEC ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At December 29, 2013, the balance of unrecognized tax benefits was \$2.6 million, excluding interest and penalties. If this balance were recognized, our tax provision for income taxes would decrease by \$1.8 million. Additionally, within the next 12 months we could settle or otherwise conclude certain ongoing tax audits and/or have certain statutes of limitations expire, and as such, it is reasonably possible that the liability for unrecognized tax positions could decrease within the next 12 months by as much as \$1.6 million.

We recorded a net reversal of interest and penalties related to unrecognized tax benefits of \$0.3 million in 2013 and expense for interest and penalties related to unrecognized tax benefits of \$0.2 million and \$1.0 million in 2012 and 2011, respectively. The total accrued interest and penalties related to unrecognized tax benefits was \$1.9 million and \$2.6 million in 2013 and 2012, respectively.

## Note 9. Earnings Per Share:

Basic earnings per share (“EPS”) represents net income divided by the weighted average number of common shares outstanding during the period. Common shares outstanding consist of shares of our common stock and certain unvested shares of restricted stock containing nonforfeitable dividend rights. Diluted EPS represents net income divided by the basic weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares represent the incremental common shares issuable upon the vesting of unvested shares of restricted stock. The dilutive effect of potential common shares is determined using the treasury stock method, whereby unamortized stock-based compensation cost of unvested restricted stock, and any associated excess tax benefits are assumed to be used to repurchase our common stock at the average market price during the period.

The following table sets forth the computation of basic and diluted EPS:

	Fiscal Year		
	2013	2012	2011
	(in thousands, except per share data)		
Numerator:			
Net income	\$47,824	\$43,590	\$54,962
Denominator:			
Basic weighted average common shares outstanding	17,088	17,545	19,072
Potential common shares for restricted stock and stock options	138	73	49
Diluted weighted average common shares outstanding	17,226	17,618	19,121
Earnings Per Share:			
Basic	\$2.80	\$2.48	\$2.88
Diluted	\$2.78	\$2.47	\$2.88

Stock options to purchase 37,500 shares of our common stock were not included in the diluted EPS computations in 2011 because the exercise prices of these options were greater than the average market price of our common shares and, therefore, their effect would be antidilutive. All of the outstanding stock options expired in March 2012.

## Note 10. Stockholders’ Equity:

We have one class of common capital stock, our common stock, as disclosed on our Consolidated Balance Sheets. Holders of our common stock are entitled to one vote per share held on all matters submitted to a vote of the stockholders.

Our articles of incorporation authorize our Board of Directors (“Board”), at its discretion, to issue up to 500,000 shares of Class B Preferred Stock (“Preferred B Stock”), par value \$100.00. Shares of Preferred B Stock may be issued in one or more series and are entitled to dividends, voting powers, liquidation preferences, conversion and redemption rights and certain other rights and preferences as determined by the Board. As of December 29, 2013 and December 30, 2012, there were no shares of Preferred B Stock issued or outstanding.

Table of Contents

CEC ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock Repurchase Program

On April 30, 2013, our Board authorized a \$100 million increase to our existing Board approved stock repurchase program. During 2013, 2012 and 2011, we repurchased, under our repurchase program, 526,246 shares, 406,507 shares and 2,279,603 shares, respectively, of our common stock at an aggregate purchase price of \$18.1 million, \$14.4 million and \$79.8 million, respectively. As of December 29, 2013, \$128.9 million remained available for us to repurchase shares of our common stock in the future, under our approved stock repurchase program.

In accordance with the Merger Agreement, our ability to repurchase shares of our common stock is restricted. If the Merger is not completed, we will continue to base future stock repurchase decisions on a number of factors, including our working capital needs, our debt repayment obligations, the market price of our common stock and economic and market conditions. Our stock repurchase program does not have an expiration date, and repurchases may be effected from time to time through open market purchases, accelerated share repurchases or in privately negotiated transactions. Although there are no current plans to modify the implementation of our stock repurchase program, our Board may elect to accelerate, expand, suspend, delay or discontinue the program at any time. See further discussion of the Merger in Note 13. Subsequent Events.

Cash Dividends

On October 29, 2013, our Board approved a 13% increase in the Company's quarterly cash dividend. We declared dividends to common stockholders during 2013 and 2012 of \$17.4 million and \$16.2 million, respectively. In accordance with the Merger Agreement, our ability to declare dividends is restricted. If the Merger is not completed, we will continue to base future dividend decisions on a number of factors, including our consolidated operating results, financial condition and debt covenants that affect our ability to pay dividends. See further discussion of the Merger in Note 13. Subsequent Events.

Note 11. Stock-Based Compensation Plans:

Our stock-based compensation plans permit us to grant awards of restricted stock to our employees and non-employee directors. Certain of these awards are subject to performance-based criteria. The fair value of all stock-based awards on the date of grant, less estimated forfeitures, if any, is recognized as stock-based compensation expense in our Consolidated Financial Statements over the period that services are required to be provided in exchange for the award. In accordance with the Merger Agreement, our ability to grant restricted stock awards to our employees and non-employee directors is restricted. If the Merger is not completed, we will continue to grant restricted stock awards based on our stock-based compensation plans. See further discussion of the Merger in Note 13. Subsequent Events.

The following table summarizes stock-based compensation expense and the associated tax benefit recognized in our Consolidated Financial Statements:

	Fiscal Year		
	2013	2012	2011
	(in thousands)		
Total stock-based compensation cost	\$8,660	\$7,595	\$7,376
Portion capitalized as property and equipment <sup>(1)</sup>	(179 )	(127 )	(191 )
Stock-based compensation expense recognized	\$8,481	\$7,468	\$7,185
Tax benefit recognized from stock-based compensation awards	\$3,377	\$2,947	\$2,731

We capitalize the portion of stock-based compensation costs related to our design, construction, facilities and legal departments that are directly attributable to our store development projects, such as the design and construction of a (1) new store and the remodeling and expansion of our existing stores. Capitalized stock-based compensation cost attributable to our store development projects is included in "Property and equipment, net" on our Consolidated Balance Sheets.

As of December 29, 2013, unrecognized pre-tax stock-based compensation cost of \$11.7 million related to restricted stock awards granted will be recognized over a weighted average remaining vesting period of 1.6 years.





Table of Contents

CEC ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Restricted Stock Plans

We maintain a restricted stock plan for our employees under which 2,300,000 shares are authorized to be granted before December 31, 2014. Shares awarded under the employee restricted stock plan generally provide for a vesting period of at least one year and no more than five years. The full award generally may not vest in less than three years, nor vest on terms that are more favorable than pro-rata vesting over a period of three years. Although the terms and conditions of the individual agreements governing the awards may vary, each agreement is subject to the terms, conditions and limitations of the employee restricted stock plan. The employee restricted stock plan also provides for the granting of restricted stock units; however, as of December 29, 2013 none have been issued.

Certain shares awarded under the employee plan are performance-based. The number of performance-based shares that ultimately vest ranges from zero to 100 percent of the number of shares initially granted and are based on performance tied to our total revenues during the fiscal year granted. The total revenues targets are set at the beginning of each fiscal year.

We have also adopted a restricted stock plan for our non-employee directors under which 215,000 shares are authorized to be granted before May 1, 2020. Shares awarded under the non-employee directors' restricted stock plan generally provide for an annual pro-rata vesting period over four years.

As of December 29, 2013, a total of 1,006,749 shares remained available for future grant under our current restricted stock plans, including 942,811 for employees and 63,938 for non-employee directors. Shares of unvested stock issued under a restricted stock award are nontransferable and subject to the forfeiture restrictions. Unvested shares that are forfeited or cancelled may be re-granted under the plans.

Certain unvested shares of restricted stock awards contain nonforfeitable dividend rights, and therefore, cash dividends are accrued but not paid until the restricted stock vests. The following table summarizes 2013 restricted stock activity for all plans:

	Restricted Shares	Weighted Average Grant Date Fair Value
Unvested restricted stock awards, December 30, 2012	547,077	\$35.94
Granted	292,050	\$30.99
Vested	(223,283	) \$33.69
Forfeited	(51,431	) \$34.56
Unvested restricted stock awards, December 29, 2013	564,413	\$34.39

During 2013, employees and non-employee directors tendered 71,930 shares of their common stock to satisfy tax withholding requirements on the vesting of their restricted stock at an average price per share of \$30.76.

In 2012 and 2011, we granted 240,187 and 233,562 shares of restricted stock at a weighted average grant date fair value of \$37.79 and \$37.95 per share, respectively. The total fair value of shares that vested during 2013, 2012 and 2011 was \$7.5 million, \$7.2 million and \$7.6 million, respectively.

Pursuant to the Merger Agreement, the Company agreed that shares of restricted stock subject to vesting requirements will automatically vest in connection with the Merger and, at the effective time of the Merger, each such share of restricted stock shall be cancelled and converted into the right to receive an amount equal to the Offer Price plus an amount in cash equal to all accrued but unpaid dividends relating to such shares, without interest and less any withholding required by applicable tax laws. See further discussion of the Merger in Note 13. Subsequent Events.

Table of Contents

CEC ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 12. Quarterly Results of Operations (Unaudited):

The following table summarizes our unaudited quarterly condensed consolidated results of operations in 2013 and 2012:

	Quarters in Fiscal Year 2013			
	March 31, 2013	June 30, 2013	Sept. 29, 2013	Dec. 29, 2013
	(in thousands, except per share data)			
Food and beverage sales	\$115,801	\$86,517	\$87,170	\$79,096
Entertainment and merchandise sales	138,402	103,926	107,629	98,198
Company store sales	254,203	190,443	194,799	177,294
Franchise fees and royalties	1,100	1,501	1,107	1,274
Total revenues	\$255,303	\$191,944	\$195,906	\$178,568
Operating income <sup>(1)</sup>	\$56,221	\$13,465	\$13,225	\$560
Income (loss) before income taxes <sup>(1)</sup>	\$54,029	\$11,426	\$11,947	\$(1,384 )
Net income (loss) <sup>(1)</sup>	\$33,257	\$7,239	\$7,439	\$(111 )
Earnings (loss) per share:				
Basic	\$1.92	\$0.42	\$0.44	\$(0.01 )
Diluted	\$1.90	\$0.42	\$0.43	\$(0.01 )
	Quarters in Fiscal Year 2012			
	April 1, 2012	July 1, 2012	Sept. 30, 2012	Dec. 30, 2012
	(in thousands, except per share data)			
Food and beverage sales	\$115,902	\$84,882	\$90,406	\$81,758
Entertainment and merchandise sales	129,524	96,274	105,223	94,968
Company store sales	245,426	181,156	195,629	176,726
Franchise fees and royalties	1,332	1,259	921	1,031
Total revenues	\$246,758	\$182,415	\$196,550	\$177,757
Operating income <sup>(2)</sup>	\$54,777	\$8,543	\$14,467	\$1,284
Income (loss) before income taxes <sup>(2)</sup>	\$52,806	\$6,460	\$12,436	\$(2,032 )
Net income (loss) <sup>(2)</sup>	\$32,304	\$4,079	\$7,794	\$(587 )
Earnings (loss) per share:				
Basic	\$1.82	\$0.23	\$0.45	\$(0.03 )
Diluted	\$1.81	\$0.23	\$0.45	\$(0.03 )

(1) The results for the second, third and fourth quarters of 2013 include asset impairments of \$0.2 million, \$0.5 million and \$2.3 million, respectively.

(2) The results for the first, second, third and fourth quarters of 2012 include asset impairments of \$0.3 million, \$2.4 million, \$0.8 million and \$3.2 million, respectively.

Quarterly operating results are not necessarily representative of operations for a full year. EPS amounts in each quarter are computed using the weighted average number of shares outstanding during the quarter and may not sum to EPS for the full year, which is computed using the weighted average number of shares outstanding during the full year.

Table of Contents

CEC ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 13. Subsequent Events:

Merger Agreement: On January 15, 2014, the Company, Queso Holdings Inc. (“Parent”), a Delaware corporation, and Q Merger Sub Inc. (“Merger Sub”), a Kansas corporation and a wholly-owned subsidiary of Parent, entered into an Agreement and Plan of Merger (the “Merger Agreement”), pursuant to which, among other things, Merger Sub commenced a tender offer (the “Tender Offer”) to purchase all of the Company’s issued and outstanding shares of common stock at a price of \$54.00 per share payable net to the seller in cash, without interest (the “Offer Price”), and subject to deduction for applicable withholding taxes. Following completion of the Tender Offer and subject to the terms and conditions of the Merger Agreement, Merger Sub will be merged with and into the Company (the “Merger”), with the Company surviving the Merger as a wholly-owned subsidiary of Parent. At the time the Merger becomes effective, all remaining outstanding shares of common stock of the Company not tendered in the Tender Offer (other than such shares owned by Parent, Merger Sub and the Company) will be cancelled and converted into the right to receive the Offer Price, and any such shares held by stockholders who have properly perfected their statutory rights of appraisal pursuant to the applicable provisions of Section 17-6712 of the Kansas General Corporation Code, will be cancelled and converted into the right to receive appraisal value for such shares.

Under certain circumstances, including in the event that the conditions to the Tender Offer are not satisfied or waived on any expiration date of the offer on or after March 1, 2014, Merger Sub will have the option to terminate the Tender Offer, in which event the parties have agreed to complete the Merger without the prior completion of the Tender Offer.

Merger Sub commenced the Tender Offer, on January 16, 2014. The Tender Offer will initially expire at 9:30 A.M. (New York time) on February 14, 2014, and may be extended under certain circumstances as described in the Merger Agreement. Each share of common stock accepted by Merger Sub in accordance with the terms of the Tender Offer will be exchanged for the right to receive the Offer Price. Subject to the satisfaction or waiver of the conditions to the Tender Offer, Merger Sub will accept for payment all common shares validly tendered and not validly withdrawn as soon as practicable following the expiration of the Tender Offer (the “Acceptance Time”).

Rights Agreement: On January 15, 2014, the Board of the Company authorized and declared a dividend of one preferred share purchase right (a “Right”) for each share of common stock, and the Company entered into a Rights Agreement (the “Rights Agreement”) with Computershare Trust Company, N.A., as rights agent (the “Rights Agent”). Each Right entitles the registered holder to purchase from the Company one ten-thousandth of a share of Series B Junior Participating Preferred Stock, par value \$100.00 per share (the “Preferred Shares”), of the Company at a price of \$54.00 per one ten-thousandth of a Preferred Share, subject to adjustment. The Rights become exercisable in the event any person or group, excluding Parent or Merger Sub, acquires 10% or more of the common shares without the approval of the Board. The Rights Agent currently serves as the Company’s transfer agent with respect to its shares of common stock and also has been appointed transfer agent with respect to the Preferred Shares, if any, that may be issued pursuant to the exercise of rights issued under the Rights Agreement. The Rights Agreement has a final expiration date of January 14, 2015.

Table of Contents

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

ITEM 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, as of the end of the period covered by this report. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, has concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 29, 2013 to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, was (a) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (b) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only a reasonable assurance of achieving the desired control objectives.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Exchange Act Rule 13a-15(f), internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of management and our directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Our management, including our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 29, 2013 based on the criteria established in "Internal Control – Integrated Framework (1992)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our management's assessment, we have concluded that, as of December 29, 2013 our internal control over financial reporting was effective based on those criteria.

Deloitte & Touche LLP, the independent registered public accounting firm that audited our financial statements included in this Annual Report on Form 10-K, has issued an attestation report on our internal control over financial reporting as of December 29, 2013, which is included in Part II, Item 8. "Financial Statements and Supplementary Data" under the caption "Report of Independent Registered Public Accounting Firm."

Changes in Internal Control over Financial Reporting

During the quarterly period ended December 29, 2013, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information.

None.

Table of Contents

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance.

The information required by this Item regarding our directors and executive officers is incorporated by reference from and will be included in our Information Statement to be filed pursuant to Regulation 14F in connection with the possible appointment of persons to the Board of Directors of the Company, under the captions “Board of Directors”, “Meetings and Committees of the Board of Directors”, “Corporate Governance”, “Executive Officers”, “Section 16(a) Beneficial Ownership Reporting Compliance” and “Audit Committee Disclosure.”

We have adopted a Code of Ethics for the Chief Executive Officer, President and Senior Financial Officers (the “Code of Ethics”) that applies to the Chief Executive Officer, President, Chief Financial Officer and Principal Accounting Officer. Changes to and waivers granted with respect to the Code of Ethics related to the above named officers required to be disclosed pursuant to applicable rules and regulations will also be posted on our website at [www.chuckecheese.com](http://www.chuckecheese.com).

ITEM 11. Executive Compensation.

The information required by this Item regarding our directors and executive officers is incorporated by reference from and will be included in our Information Statement to be filed pursuant to Regulation 14F in connection with the possible appointment of persons to the Board of Directors of the Company, under the captions “Meetings and Committees of the Boards of Directors”, “Compensation Discussion and Analysis”, “Compensation Committee Report”, “Executive Compensation” and “Director Compensation.”

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item is incorporated by reference from and will be included in our Information Statement to be filed pursuant to Regulation 14F in connection with the possible appointment of persons to the Board of Directors of the Company, under the captions “Executive Compensation – Equity Compensation Plan Information” and “Security Ownership of Certain Beneficial Owners and Management.”

ITEM 13. Certain Relationships and Related Transactions, and Directors Independence.

The information required by this Item is incorporated by reference from and will be included in our Information Statement to be filed pursuant to Regulation 14F in connection with the possible appointment of persons to the Board of Directors of the Company, under the captions “Certain Relationships and Related Transactions” and “Meetings and Committees of the Board of Directors.”

Table of Contents

## ITEM 14. Principal Accountant Fees and Services.

The firm of Deloitte & Touche LLP was the independent registered public accounting firm for the audit of the Company's annual consolidated financial statements included in the Company's annual report on Form 10-K, the review of the consolidated financial statements included in the Company's quarterly reports on Forms 10-Q and for services that are normally provided by accountants in connection with statutory and regulatory filings or engagements for the fiscal years ended December 29, 2013 and December 30, 2012. The following table presents fees billed or expected to be billed for professional services rendered by Deloitte & Touche LLP for the audit of the Company's annual consolidated financial statements, audit-related services, tax services and all other services rendered by Deloitte & Touche LLP for the Company's 2013 and 2012 fiscal years:

	Fiscal 2013	Fiscal 2012
Audit Fees <sup>(1)</sup>	\$595,000	\$545,376
Audit-related Fees <sup>(2)</sup>	170,000	—
Tax fees <sup>(3)</sup>	—	—
All other fees <sup>(4)</sup>	—	—
Total	\$765,000	\$545,376

“Audit fees” are fees billed by Deloitte & Touche LLP for professional services rendered for the audit of the Company's annual consolidated financial statements (including services incurred with rendering an opinion under Section 404 of the Sarbanes-Oxley Act of 2002) included in the Company's Form 10-K, the review of the

(1) Company's quarterly consolidated financial statements included in the Company's Forms 10-Q, and includes fees for services that are normally incurred in connection with statutory and regulatory filings or engagements, such as consents, comfort letters, statutory audits, attest services and review of documents filed with the Securities and Exchange Commission.

(2) “Audit-related fees” are fees billed by Deloitte & Touche LLP for assurance services that are reasonably related to the performance of the audit or review of the Company's consolidated financial statements or other attestation services or consultations that are not reported under audit fees.

(3) “Tax fees” are fees billed by Deloitte & Touche LLP for professional services rendered for tax compliance, tax planning and tax advice.

(4) “All other fees” are fees billed by Deloitte & Touche LLP for any professional services not included in the first three categories.

All audit services, audit related services, and other services were pre-approved by the Audit Committee, which concluded that the provision of such services by Deloitte & Touche LLP was compatible with the maintenance of that firm's independence in the conduct of its auditing functions.

Table of Contents

PART IV

ITEM 15. Exhibits and Financial Statement Schedules.

(a) Documents filed as a part of this report:

(1) Financial Statements.

The financial statements and related notes included in Part II, Item 8. "Financial Statements and Supplementary Data" are filed as a part of this Annual Report on Form 10-K. See "Index to Consolidated Financial Statements."

(2) Financial Statement Schedules.

There are no financial statement schedules filed as a part of this Annual Report on Form 10-K, since the circumstances requiring inclusion of such schedules are not present.

(3) Exhibits.

The exhibits required by Item 601 of Regulation S-K are listed in the Exhibit Index, which Exhibit Index is incorporated in this Annual Report on Form 10-K by reference. The exhibits include agreements to which the Company is a party or has a beneficial interest. The agreements have been filed to provide investors with information regarding their respective terms. The agreements are not intended to provide any other factual information about the Company or its business or operations. In particular, the assertions embodied in any representations, warranties and covenants contained in the agreements may be subject to qualifications with respect to knowledge and materiality different from those applicable to investors and may be qualified by information in confidential disclosure schedules not included with the exhibits. These disclosure schedules may contain information that modifies, qualifies and creates exceptions to the representations, warranties and covenants set forth in the agreements. Moreover, certain representations, warranties and covenants in the agreements may have been used for the purpose of allocating risk between the parties, rather than establishing matters as facts. In addition, information concerning the subject matter of the representations, warranties and covenants may have changed after the date of the respective agreement, which subsequent information may or may not be fully reflected in the Company's public disclosures. Accordingly, investors should not rely on the representations, warranties and covenants in the agreements as characterizations of the actual state of facts about the Company or its business or operations on the date hereof.



Table of Contents

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 12, 2014

CEC Entertainment, Inc.

/s/ Michael H. Magusiak  
 Michael H. Magusiak  
 President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Michael H. Magusiak Michael H. Magusiak	President, Chief Executive Officer and Director (Principal Executive Officer)	February 12, 2014
/s/ Tiffany B. Kice Tiffany B. Kice	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)	February 12, 2014
/s/ Laurie E. Priest Laurie E. Priest	Vice President and Controller (Principal Accounting Officer)	February 12, 2014
* Richard M. Frank	Executive Chairman of the Board of Directors	February 12, 2014
* Tommy R. Franks	Director	February 12, 2014
* Tim T. Morris	Director	February 12, 2014
* Louis P. Neeb	Director	February 12, 2014
* Cynthia Pharr Lee	Director	February 12, 2014
* Bruce M. Swenson	Director	February 12, 2014
* Walter Tyree	Director	February 12, 2014
* Raymond E. Wooldridge	Director	February 12, 2014

\*By:

/s/ Jay A. Young  
Jay A. Young

Attorney-in-fact

February 12, 2014

76

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Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
2.1	Agreement and Plan of Merger among Queso Holdings Inc., Q Merger Sub Inc. and CEC Entertainment, Inc (the "Company") dated January 15, 2014 (incorporated by reference in Exhibit 2.1 to the Company's Current Report on Form 8-K (File No. 001-13687) as filed with the Commission on January 16, 2014)
3.1	Second Restated Articles of Incorporation of the Company dated May 4, 2010 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-13687) as filed with the Securities and Exchange Commission (the "Commission") on May 6, 2010)
3.2	Amended and Restated Bylaws of the Company dated May 4, 2010 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K (File No. 001-13687) as filed with the Commission on May 6, 2010)
3.3	Amendment to the Bylaws of the Company dated January 15, 2014 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-13687) as filed with the Commission on January 16, 2014)
3.4	Certification of Designation of Series B Junior Participating Preferred Stock, as filed with the Secretary of State of Kansas on January 16, 2014 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K (File No 001-13687) as filed with the Commission on January 16, 2014)
4.1	Second Restated Articles of Incorporation of the Company dated May 4, 2010 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-13687) as filed with the Commission on May 6, 2010)
4.2	Amended and Restated Bylaws of the Company dated May 4, 2010 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K (File No. 001-13687) as filed with the Commission on May 6, 2010)
4.3	Specimen form of Certificate representing \$0.10 par value Common Stock (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 10-Q (File No. 001-13687) as filed with the Commission on October 29, 2009)
4.4	Rights Agreement, dated January 16, 2014, between the Company and Computershare as rights agent (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 001-13687) as filed with the Commission on January 16, 2014)
4.5	Letter Agreement, dated as of January 17, 2014, between the Company and Computershare, as rights agreement (incorporated by reference to Exhibit 4.2 to the Company's Registration of Securities on Form 8-A (File No. 001-13687) as filed with the Commission on January 23, 2014)
10.1	

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Third Amended and Restated Credit Agreement dated October 28, 2011, by and among CEC Entertainment Concepts, L.P., as the Borrower, CEC Entertainment, Inc., as Guarantor, Bank of America, N.A., as Administrative Agent, Swing Line Lender, and L/C Issuer, and the other lenders party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-13687) as filed with the Commission on November 2, 2011)

10.2 § Richard M. Frank 2010 Employment Agreement dated February 23, 2010 by and between Richard M. Frank and the Company (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-13687) as filed with the Commission on March 1, 2010)

10.3 § Michael H. Magusiak 2010 Employment Agreement dated February 23, 2010 by and between Michael H. Magusiak and the Company (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-13687) as filed with the Commission on March 1, 2010)

10.4 § CEC Entertainment, Inc. Third Amended and Restated 2004 Restricted Stock Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-13687) as filed with the Commission on May 6, 2010)

10.5 § Form of Restricted Stock Agreement under the Company's Third Amended and Restated 2004 Restricted Stock Plan (incorporated by referenced to Exhibit 10.9 to the Company's Annual Report on Form 10-K (File No. 001-13687) as filed with the Commission on February 24, 2011)

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Table of Contents

Exhibit Number	Description
10.6 §	CEC Entertainment, Inc. Second Amended and Restated Non-Employee Directors Restricted Stock Plan effective as of May 4, 2010 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 10-Q (File No. 001-13687) as filed with the Commission on August 5, 2010)
10.7 §	Form of Restricted Stock Agreement under the Company's Second Amended and Restated Non-Employee Directors Restricted Stock Plan (incorporated by referenced to Exhibit 10.11 to the Company's Annual Report on Form 10-K (File No. 001-13687) as filed with the Commission on February 24, 2011)
10.8 §	Summary of Director Compensation (incorporated by reference to the Company's Definitive Proxy Statement (File No. 001-13687) as filed with the Commission on March 19, 2012 under the section entitled "Director Compensation" on page 64)
10.9 §	Summary of Incentive Bonus Plan (incorporated by reference to the Company's Definitive Proxy Statement (File No. 001-13687) as filed with the Commission on March 19, 2012 under the section entitled "Compensation Discussion and Analysis – How We Determine the Amount and Material Terms of Each Element of Compensation – Cash Bonus – Incentive Bonus Plan" on page 29)
10.10 §	Form of Indemnification Agreement for the Board of Directors and certain senior officers of the Company (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-13687) as filed with the Commission on December 16, 2011)
21.1	Subsidiaries of the Company (incorporated by reference to Exhibit 21.1 to the Company's Annual Report on Form 10-K (File No. 001-13687) as filed with the Commission on February 26, 2010)
23.1 *	Consent of Independent Registered Public Accounting Firm
31.1 *	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a)
31.2 *	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a)
32.1 **	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2 **	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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\* Filed herewith.

\*\*Furnished herewith.

§ Management contract or compensatory plan, contract or arrangement.