

CEC ENTERTAINMENT INC
Form 10-Q
May 05, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended April 3, 2011

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: 001-13687

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

Kansas
(State or other jurisdiction of incorporation or organization)

48-0905805
(IRS Employer Identification No.)

4441 West Airport Freeway
Irving, Texas
(Address of principal executive offices)

75062
(Zip Code)

(972) 258-8507
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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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

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 Smaller reporting company

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

As of April 25, 2011, an aggregate of 19,846,182 shares of the registrant’s common stock, par value \$0.10 per share were outstanding.

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CEC ENTERTAINMENT, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements.

CEC ENTERTAINMENT, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)
 (in thousands, except share amounts)

| | April 3, 2011 | January 2, 2011 |
|---|------------------|--------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$20,252 | \$19,269 |
| Accounts receivable | 13,512 | 32,237 |
| Inventories | 17,542 | 18,485 |
| Prepaid expenses | 17,893 | 13,942 |
| Deferred tax asset | 3,419 | 3,420 |
| Total current assets | 72,618 | 87,353 |
| Property and equipment, net | | |
| Other noncurrent assets | 679,918 | 683,192 |
| Total assets | 8,127 | 7,484 |
| | \$760,663 | \$778,029 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Capital lease obligations, current portion | \$957 | \$936 |
| Accounts payable | 35,312 | 42,844 |
| Accrued expenses | 44,723 | 32,968 |
| Unearned revenues | 9,450 | 9,393 |
| Accrued interest | 1,738 | 957 |
| Derivative instrument liability | 730 | 1,976 |
| Total current liabilities | 92,910 | 89,074 |
| Capital lease obligations, less current portion | 10,622 | 10,326 |
| Revolving credit facility borrowings | 337,000 | 377,000 |
| Deferred rent liability | 51,799 | 51,522 |
| Deferred landlord contributions | 28,479 | 28,913 |
| Deferred tax liability | 53,006 | 43,038 |
| Accrued insurance | 13,506 | 13,144 |
| Other noncurrent liabilities | 6,458 | 6,950 |
| Total liabilities | 593,780 | 619,967 |
| Commitments and contingencies (Note 5) | | |
| Stockholders' equity: | | |
| | 6,158 | 6,144 |

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| | | |
|--|-------------|-------------|
| Common stock, \$0.10 par value; authorized 100,000,000 shares; 61,579,275 and 61,436,229 shares issued, respectively | | |
| Capital in excess of par value | 435,924 | 436,051 |
| Retained earnings | 786,529 | 756,448 |
| Accumulated other comprehensive income | 5,838 | 4,522 |
| Less treasury stock, at cost; 41,733,093 and 41,128,869 shares, respectively | (1,067,566) | (1,045,103) |
| Total stockholders' equity | 166,883 | 158,062 |
| Total liabilities and stockholders' equity | \$760,663 | \$778,029 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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

| | Three Months Ended | |
|---|--------------------|------------------|
| | April 3, 2011 | April 4, 2010 |
| REVENUES | | |
| Food and beverage sales | \$123,757 | \$121,016 |
| Entertainment and merchandise sales | 131,459 | 124,184 |
| Company store sales | 255,216 | 245,200 |
| Franchise fees and royalties | 1,186 | 1,127 |
| Total revenues | 256,402 | 246,327 |
| OPERATING COSTS AND EXPENSES | | |
| Company store operating costs: | | |
| Cost of food and beverage (exclusive of items shown separately below) | 28,903 | 27,619 |
| Cost of entertainment and merchandise (exclusive of items shown separately below) | 10,160 | 10,050 |
| | 39,063 | 37,669 |
| Labor expenses | 63,637 | 60,595 |
| Depreciation and amortization | 20,752 | 19,606 |
| Rent expense | 18,485 | 17,486 |
| Other store operating expenses | 32,994 | 31,034 |
| Total Company store operating costs | 174,931 | 166,390 |
| Advertising expense | 9,067 | 9,037 |
| General and administrative expenses | 14,055 | 13,685 |
| Total operating costs and expenses | 198,053 | 189,112 |
| Operating income | 58,349 | 57,215 |
| Interest expense | 2,754 | 2,670 |
| Income before income taxes | 55,595 | 54,545 |
| Income taxes | 21,513 | 20,683 |
| Net income | \$34,082 | \$33,862 |
| Earnings per share: | | |
| Basic | \$1.71 | \$1.53 |
| Diluted | \$1.71 | \$1.53 |
| Weighted average shares outstanding: | | |
| Basic | 19,938 | 22,076 |
| Diluted | 19,979 | 22,106 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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CEC ENTERTAINMENT, INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the three Months Ended April 3, 2011
(Unaudited)
(in thousands, except share amounts)

| | Common Shares | Stock Amount | Capital In Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Income | Treasury Stock Shares | Treasury Stock Amount | Total |
|---|------------------|-----------------|--------------------------------------|----------------------|---|--------------------------|--------------------------|-----------|
| 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 | - | - | - | 34,082 | - | - | - | 34,082 |
| Change in fair value of cash flow hedge, net of income taxes of (\$5) | - | - | - | - | (9) | - | - | (9) |
| Hedging loss realized in earnings, net of income taxes of \$488 | - | - | - | - | 772 | - | - | 772 |
| Foreign currency translation adjustments, net of income taxes of \$88 | - | - | - | - | 553 | - | - | 553 |
| Comprehensive income | | | | | | | | 35,398 |
| Stock-based compensation costs | - | - | 1,885 | - | - | - | - | 1,885 |
| Stock options exercised | 2,588 | - | 82 | - | - | - | - | 82 |
| Restricted stock issued, net of forfeitures | 213,218 | 21 | (21) | - | - | - | - | - |
| Tax benefit from stock options and restricted stock | - | - | 645 | - | - | - | - | 645 |
| Restricted stock returned for taxes | (72,760) | (7) | (2,718) | - | - | - | - | (2,725) |
| Cash dividends declared (\$0.20 per share) | - | - | - | (4,001) | - | - | - | (4,001) |
| Purchases of treasury stock | - | - | - | - | - | 604,224 | (22,463) | (22,463) |

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Balance at April

| | | | | | | | | |
|---------|------------|---------|-----------|-----------|----------|------------|---------------|-----------|
| 3, 2011 | 61,579,275 | \$6,158 | \$435,924 | \$786,529 | \$ 5,838 | 41,733,093 | \$(1,067,566) | \$166,883 |
|---------|------------|---------|-----------|-----------|----------|------------|---------------|-----------|

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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

| | Three Months Ended | |
|---|--------------------|------------------|
| | April 3, 2011 | April 4, 2010 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$34,082 | \$33,862 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 20,914 | 19,797 |
| Deferred income taxes | 10,007 | (1,255) |
| Stock-based compensation expense | 1,835 | 1,912 |
| Amortization of landlord contributions | (532) | (509) |
| Amortization of deferred debt financing costs | 70 | 70 |
| Loss on asset disposals, net | 462 | 552 |
| Other adjustments | (9) | 19 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 3,408 | 15,307 |
| Inventories | 943 | 536 |
| Prepaid expenses | (4,566) | (3,979) |
| Accounts payable | (2,064) | 5,777 |
| Accrued expenses | 3,851 | 1,310 |
| Unearned revenues | 57 | 1,837 |
| Accrued interest | (213) | 11 |
| Income taxes payable | 19,363 | 15,746 |
| Deferred rent liability | 828 | 233 |
| Deferred landlord contributions | 25 | 531 |
| Net cash provided by operating activities | 88,461 | 91,757 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (22,390) | (20,954) |
| Other investing activities | (524) | (1,124) |
| Net cash used in investing activities | (22,914) | (22,078) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net repayments on revolving credit facility | (40,000) | (49,800) |
| Payments on capital lease obligations | (231) | (213) |
| Exercise of stock options | 82 | 2,385 |
| Excess tax benefit realized from stock-based compensation | 698 | 564 |
| Payment of taxes for returned restricted shares | (2,725) | (2,732) |
| Treasury stock acquired | (22,463) | (16,916) |
| Other financing activities | (2) | 1 |
| Net cash used in financing activities | (64,641) | (66,711) |
| Effect of foreign exchange rate changes on cash | 77 | (38) |
| Change in cash and cash equivalents | 983 | 2,930 |

| | | |
|--|----------|----------|
| Cash and cash equivalents at beginning of period | 19,269 | 17,361 |
| Cash and cash equivalents at end of period | \$20,252 | \$20,291 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Interest paid | \$2,832 | \$2,633 |
| Income taxes (refunded) paid, net | \$(8,108 |) \$58 |
| NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Accrued construction costs | \$5,685 | \$5,740 |
| Common stock issued under 401(k) plan | \$- | \$603 |
| Declaration of dividends | \$4,001 | \$- |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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CEC ENTERTAINMENT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation and Recently Issued Accounting Guidance:

The use of the terms “CEC Entertainment,” “Company,” “we,” “us” and “our” throughout these Notes to Condensed Consolidated Financial Statements refer to CEC Entertainment, Inc. and its subsidiaries.

All of our stores utilize a consistent restaurant-entertainment format that features both family dining and entertainment areas where each store offers 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 operating segment for financial reporting purposes.

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 because 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 and media expenditures. The assets, liabilities and operating results of the Association are not material to our consolidated financial statements. We provide unsecured lines of credit to the Association which it uses to fund deficiencies in its media and advertising funds.

Because the Association Funds are required to be segregated and used for specified purposes, we do not reflect franchisee contributions as revenue, but rather as an offset to reported expenses. Our contributions to the Association Funds are eliminated in consolidation. Contributions to the advertising and media funds from our franchisees reflected as offsets to reported advertising expenses were approximately \$0.7 million each for the three months ended April 3, 2011 and April 4, 2010.

Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements as of April 3, 2011 and for the three months ended April 3, 2011 and April 4, 2010 are presented in accordance with the requirements for quarterly reports on Form 10-Q and, consequently, do not include all of the information and footnote disclosures required by accounting principles generally accepted in the United States of America (“GAAP”). In the opinion of management, such financial statements include all adjustments (consisting solely of normal recurring adjustments) necessary for the fair statement of the financial information included herein in accordance with GAAP and the rules and regulations of the Securities and Exchange Commission (the “SEC”). The balance sheet at January 2, 2011 has been derived from the audited financial statements at that date, but does not include all of the information and footnote disclosures required by GAAP for complete financial statements. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. Results of operations for interim periods are not necessarily indicative of results for the full year. These unaudited condensed consolidated

financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K filed with the SEC for the fiscal year ended January 2, 2011 on February 24, 2011.

Recently Issued Accounting Guidance

Newly Adopted Accounting Guidance: In October 2009, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2009-13 which amends the accounting and reporting guidance for arrangements comprised of multiple products or services (“deliverables”). The FASB’s revised guidance clarifies how an entity determines separate units of accounting in a multiple-deliverable arrangement and requires that revenue be allocated to all arrangement deliverables using the relative selling price method. We adopted this guidance prospectively as of January 3, 2011, the beginning of our 2011 fiscal year. The adoption of this guidance did not have a material effect on our consolidated financial statements.

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CEC ENTERTAINMENT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

2. Inventories:

Inventories consisted of the following:

| | April 3, 2011 | January 2, 2011 |
|-------------------------------|------------------|--------------------|
| | (in thousands) | |
| Food and beverage | \$4,329 | \$3,809 |
| Entertainment and merchandise | 13,213 | 14,676 |
| | \$17,542 | \$18,485 |

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 that may also be sold to our customers and birthday party and other supplies needed for our entertainment operations.

3. Revolving Credit Facility:

| | April 3, 2011 | January 2, 2011 |
|--------------------------------------|------------------|--------------------|
| | (in thousands) | |
| Revolving credit facility borrowings | \$337,000 | \$377,000 |

We have a revolving credit facility providing for total borrowings of up to \$550.0 million. The credit facility, which matures in October 2012, also includes an accordion feature allowing us, subject to lender approval, to request an additional \$50.0 million in borrowings at any time. As of April 3, 2011, there were \$337.0 million of borrowings outstanding and \$10.7 million of letters of credit issued but undrawn under the credit facility. Based on the type of borrowing, the credit facility bears interest at the London Interbank Offered Rate (“LIBOR”) plus an applicable margin of 0.625% to 1.25% determined based on our financial performance and debt levels, or alternatively, the higher of (a) the prime rate or (b) the Federal Funds rate plus 0.50%. As of April 3, 2011, borrowings under the credit facility incurred interest at LIBOR (ranging from 0.24% - 0.31%) plus 1.00% or prime (3.25%). A commitment fee of 0.1% to 0.3%, depending on our financial performance and debt levels, is payable on a quarterly basis on any unused credit line. All borrowings under the credit facility are unsecured, but we have agreed not to pledge any of our existing assets to secure future indebtedness.

Including the effect of our interest rate swap contract discussed in Note 4 “Derivative Instrument,” the weighted average effective interest rate incurred on borrowings under our revolving credit facility was 2.8% and 2.9% for the three months ended April 3, 2011 and April 4, 2010, respectively.

The revolving credit facility agreement contains certain restrictions and conditions that, among other things, require us to comply with financial covenant ratios, including a minimum fixed charge coverage ratio of 1.5 to 1.0 and a maximum leverage ratio of 3.0 to 1.0, as defined in the revolving credit facility agreement. Additionally, the terms of the revolving credit facility agreement limit the amount of our repurchases of our common stock and cash dividends we may pay on our common stock based on certain financial covenants and criteria. As of April 3, 2011, we were in

compliance with these covenants.

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CEC ENTERTAINMENT, INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
 (Unaudited)

4. Derivative Instrument:

Interest Rate Risk Management

Our revolving credit facility bears interest at variable rates and therefore exposes us to the impact of interest rate changes. To manage this risk, we use an interest rate swap contract to mitigate the variability of the interest payment cash flows and to reduce our exposure to adverse interest rate changes.

Cash Flow Hedge

We have entered into a \$150.0 million notional amount interest rate swap contract to effectively convert a portion of our variable rate revolving credit facility debt to a fixed interest rate. The contract, which matures in May 2011, requires us to pay a fixed rate of 3.62% while receiving variable payments from the counterparty at the three-month LIBOR rate. Including the 1.00 percentage point applicable margin incurred on our revolving credit facility, the effective interest rate of the swap contract was 4.62% at April 3, 2011. The differential amounts receivable or payable under the swap contract are recorded over the life of the contract as adjustments to interest expense.

We have designated the swap contract as a cash flow hedge. Accordingly, gains or losses from changes in its fair value that are determined to be effective in mitigating our exposure to changes in interest payments on the hedged amount of revolving credit facility debt are reported on the unaudited Condensed Consolidated Balance Sheets as a component of "Accumulated other comprehensive income." Throughout the term of the swap contract, the unrealized gains or losses we have reported in accumulated other comprehensive income will be recognized in earnings when the variable interest rate of the debt affects earnings. The ineffective portion of any gains or losses would be recorded immediately in earnings.

The following table summarizes the location and fair value of the derivative instrument in our unaudited Condensed Consolidated Balance Sheets:

| | Balance Sheet Location | April 3, 2011 | January 2, 2011 |
|--|--|------------------|--------------------|
| | | (in thousands) | |
| Derivative designated as hedging instrument: | | | |
| Interest rate swap contract | Derivative instrument liability(1) (2) | \$730 | \$1,976 |

(1) As of April 3, 2011, the estimated fair value was recorded as a \$0.7 million current liability.

(2) As of January 2, 2011, the estimated fair value was recorded as a \$2.0 million current liability.

The following table summarizes the effect of the derivative instrument on other comprehensive income ("OCI") and income:

| | Three Months Ended | |
|---|--------------------|------------------|
| | April 3, 2011 | April 4, 2010 |
| | (in thousands) | |
| Derivative in cash flow hedging relationship: | | |
| Loss recognized in accumulated OCI – effective portion: | | |
| Interest rate swap contract | \$(14) | \$(790) |

Loss reclassified from accumulated OCI into income – effective portion:

| | | |
|------------------|-------------|-------------|
| Interest expense | \$ (1,260) | \$ (1,276) |
|------------------|-------------|-------------|

There were no ineffective gains or losses recognized during the three months ended April 3, 2011. We expect that approximately \$0.4 million, net of taxes, of the change in fair value of the swap contract included in “Accumulated other comprehensive income” as of April 3, 2011 will be realized in earnings as additional interest expense during the second quarter of 2011 when the interest rate swap contract expires.

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CEC ENTERTAINMENT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

4. Derivative Instrument (continued):

Fair Value Measurement

Our interest rate swap contract is not traded on a public exchange. Therefore, its fair value is determined using the present value of expected future cash flows arising from the contract which approximates an amount to be received from or paid to a market participant for this instrument. This valuation methodology utilizes forward interest rate yield curves obtained from an independent pricing service's quotes of three-month forward LIBOR rates through the swap contract's maturity. Accordingly, the inputs to our fair value measurement of the interest rate swap are classified within Level 2 of the fair value hierarchy. For more information regarding fair value measurements, refer to Note 1 "Fair Value Measurements" to our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended January 2, 2011 on February 24, 2011.

5. Commitments and Contingencies:

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 ultimate liability with respect to claims or proceedings currently pending against us is not expected to have a material adverse effect on our financial condition, results of operations or cash flows.

6. Income Taxes:

Our liability for uncertain tax positions (including tax, interest and penalties) increased from \$4.4 million as of January 2, 2011 to \$4.9 million as of April 3, 2011, primarily in connection with additions relating to current year tax positions and adjustments to the liability relating to prior years' tax positions (net of decreases resulting from expiring statutes of limitation). The increase also includes the accrual of approximately \$0.2 million of additional interest and penalties relating to uncertain tax positions which are included in "General and administrative expenses".

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CEC ENTERTAINMENT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

7. Earnings Per Share:

Basic earnings per share (“EPS”) is computed by dividing net income 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 is computed using the weighted average number of common shares and dilutive potential common shares outstanding during the period using the treasury stock method. Potential common shares consist of dilutive stock options and unvested shares of restricted stock that are not considered to be participating securities.

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

| | Three Months Ended | |
|--|---|------------------|
| | April 3, 2011 | April 4, 2010 |
| | (in thousands, except per share amounts) | |
| Numerator: | | |
| Net income | \$34,082 | \$33,862 |
| Denominator: | | |
| Basic weighted average common shares outstanding | 19,938 | 22,076 |
| Potential common shares for stock options and restricted stock | 41 | 30 |
| Diluted weighted average common shares outstanding | 19,979 | 22,106 |
| Earnings per share: | | |
| Basic | \$1.71 | \$1.53 |
| Diluted | \$1.71 | \$1.53 |

Stock options to purchase 38,094 shares and 250,613 shares of common stock for the three months ended April 3, 2011 and April 4, 2010, respectively were not included in the diluted EPS computations because the exercise prices of these options were greater than the average market price of the common shares and, therefore, their effect would be antidilutive.

8. Stock-Based Compensation:

We have stock-based compensation plans pursuant to which we may grant awards of restricted stock and, prior to fiscal 2006, stock options to our employees and non-employee directors. The fair value of all stock-based awards, less estimated forfeitures, is recognized as stock-based compensation expense in the consolidated financial statements over the vesting period of the award.

The following table summarizes total pre-tax stock-based compensation expense recognized in the unaudited condensed consolidated financial statements:

Three Months Ended
April 3, April 4,

| | 2011 | 2010 |
|---|----------------|---------|
| | (in thousands) | |
| Total stock-based compensation cost | \$1,885 | \$1,957 |
| Portion capitalized as property and equipment (1) | (50) | (45) |
| Pre-tax stock-based compensation expense recognized (2) | \$1,835 | \$1,912 |

⁽¹⁾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 new store and the remodeling and expansion of our existing stores. Capitalized stock-based compensation is included in “Property and equipment, net” in the unaudited Condensed Consolidated Balance Sheets.

⁽²⁾Included in “General and administrative expense” in the unaudited Condensed Consolidated Statements of Earnings.

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CEC ENTERTAINMENT, INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
 (Unaudited)

8. Stock-Based Compensation (continued):

As of April 3, 2011, there was \$19.3 million of unrecognized pre-tax stock-based compensation cost related to restricted stock that will be recognized over a weighted average remaining vesting period of 1.9 years. All previously granted and currently outstanding stock options are fully vested. As such there is no unrecognized stock-based compensation cost related to stock options.

9. Stockholders' Equity:

Stock Repurchase Program

Our Board of Directors (the "Board") has approved a program for us to repurchase shares of our common stock. On July 25, 2005, the Board approved a stock repurchase program which authorized us to repurchase from time to time up to \$400 million of our common stock and on October 22, 2007 and October 27, 2009 authorized \$200 million increases each. During the three months ended April 3, 2011, we repurchased 604,224 shares of our common stock at an aggregate purchase price of approximately \$22.5 million under the repurchase program. As of April 3, 2011, approximately \$118.7 million remained available for share repurchases under our repurchase authorization.

The share repurchase authorization approved by the Board does not have an expiration date and the pace of our repurchase activity will depend on factors such as our working capital needs, our debt repayment obligations, our stock price, and economic and market conditions. Our share repurchases may be effected from time to time through open market purchases, accelerated share repurchases or in privately negotiated transactions. Our share repurchase program may be accelerated, suspended, delayed or discontinued at any time.

Cash Dividend

On February 22, 2011, our Board approved the initiation of a quarterly cash dividend of \$0.20 per share, or \$0.80 per share for each year. Due to the timing of the Board's decision, dividends paid during the 2011 fiscal year are expected to be \$0.60 per share. Our first quarterly dividend of \$0.20 per share was paid on April 21, 2011 to stockholders of record on March 24, 2011.

Stock Options

During the three months ended April 3, 2011, 2,588 shares of common stock were issued from the exercise of stock options for cash proceeds of approximately \$0.1 million.

Restricted Stock

The following table summarizes restricted stock activity during the three months ended April 3, 2011 (not presented in thousands):

| Restricted Shares | Weighted Average Grant Date Fair Value |
|----------------------|---|
|----------------------|---|

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| | | |
|---|------------|---------|
| Unvested restricted stock awards, January 2, 2011 | 648,235 | \$29.90 |
| Granted | 219,055 | \$38.16 |
| Vested | (244,637) | \$30.07 |
| Forfeited | (5,837) | \$29.88 |
| Unvested restricted stock awards, April 3, 2011 | 616,816 | \$32.77 |

During the three months ended April 3, 2011, employees and non-employee directors tendered 72,760 shares of common stock to satisfy tax withholding requirements on the vesting of restricted stock at an average price per share of \$37.45.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide the readers of our financial statements with a narrative from the perspective of our management on our 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 unaudited condensed consolidated financial statements and related notes included in Part I, Item 1 "Financial Statements" of this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended January 2, 2011 filed on February 24, 2011. Our MD&A is presented in the following sections:

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

Executive Summary

- Revenues increased 4.1% during the first quarter of 2011 compared to the same period in 2010.
 - Comparable store sales increased 1.1%.
- Weighted average Company-owned store count increased by approximately eight stores.
 - Menu prices increased on average 2.1%.
- Operating income as a percentage of total revenues decreased 0.4 percentage points to 22.8%, primarily reflecting increases in store labor, other operating expenses, depreciation and rent expense.
- Diluted earnings per share for the first quarter of 2011 increased 11.8% to \$1.71 compared to \$1.53 in the same period in 2010. Earnings per share benefited from our cumulative repurchase of approximately 2.8 million shares of our common stock since the beginning of the first quarter of 2010.
- We repurchased approximately 0.6 million shares of our common stock during the first quarter of 2011 at an average price of \$37.18 a share.
- During the first quarter of 2011, we completed 25 capital initiatives consisting of one store relocation, three expansions and 21 game enhancements.

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Overview of Operations

We develop, operate and franchise family dining and entertainment centers under the name “Chuck E. Cheese’s®” in 48 states and seven foreign countries or territories. Chuck E. Cheese’s stores feature musical and comic entertainment by robotic and animated characters, arcade-style and skill oriented games, video games, rides and other activities intended to 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 beverages, pizzas, sandwiches, appetizers, a salad bar, and desserts.

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

| | Three Months Ended | |
|---------------------------------|--------------------|------------------|
| | April 3, 2011 | April 4, 2010 |
| Number of Company-owned stores: | | |
| Beginning of period | 507 | 497 |
| New (1) | 1 | - |
| Acquired from franchisees | - | 1 |
| Closed (1) | (1) | - |
| End of period | 507 | 498 |
| Number of franchised stores: | | |
| Beginning of period | 47 | 48 |
| New | 1 | 1 |
| Acquired by the Company | - | (1) |
| Closed | (1) | - |
| End of period | 47 | 48 |

(1) Both the new and closed store in the first quarter of 2011 represents our relocated store.

Comparable store sales. We define comparable store sales as the percentage change in sales for our domestic Company-owned stores that have been open for more than 18 months as of the beginning of each respective fiscal year or 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.

Revenues. Our primary source of revenues is from sales at our Company-owned stores (“Company store sales”) and consists of the sale of food, beverages, game-play tokens and merchandise. A portion of Company store sales comes 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. Food and beverage sales include all revenue recognized with respect to stand-alone food and beverage sales as well as the portion of revenue that is allocated from package deals. Entertainment and merchandise sales include all revenue recognized with respect to stand-alone game token sales as well as the portion of revenue that is allocated from package deals. This revenue caption also includes sales of merchandise at our stores. We allocate the revenue recognized from the sale of our package deals 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.

Franchise fees and royalties include royalties charged to franchisees based on a percentage of a franchised store's sales, area development and initial franchise fees received from franchisees to establish new stores and other miscellaneous sales to franchisees.

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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 and redeemed for prize items;
 - Labor expenses consist of salaries and wages, related payroll taxes and benefits for store personnel;
- Depreciation and amortization includes expenses that pertain directly to our store assets primarily consisting of 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, property taxes, etc.); and
- Other store operating expenses include utilities, repair costs, liability and property insurance, CAM charges, property taxes, preopening expenses, store asset disposal gains and losses, and all other costs directly related to the operation of a store.

Our “Cost of food and beverage” and “Cost of entertainment and merchandise” mentioned above do not include an allocation of (i) store employee payroll, related taxes and benefit costs and (ii) depreciation and amortization expense associated with Company-store assets. We believe that presenting store-level labor costs and depreciation and amortization expense in the aggregate provides the most informative financial reporting presentation.

Advertising expense. Advertising expense includes production costs for television commercials, newspaper inserts, Internet advertising, coupons and media expenses for national and local advertising, with offsetting contributions from our franchisees.

General and administrative expenses. General and administrative expenses represent all costs associated with our corporate office operations, including regional and district management and corporate personnel payroll and benefits, depreciation and amortization of corporate assets and other administrative costs not directly related to the operation of a store location.

Asset impairments. Asset impairments (if any) represent non-cash charges we record to write down the carrying amount of long-lived assets within stores that are not expected to generate sufficient projected cash flows in order to recover their net book value.

Seasonality and Variation in Quarterly Results

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

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 during a 53 week year when the fourth quarter has 14 weeks. Our 2011 fiscal year will consist of 52 weeks and our 2010 fiscal year consisted of 53 weeks.

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Results of Operations

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

| | Three Months Ended | | | | | |
|-------------------------------------|------------------------------------|-------|---|---------------|-------|---|
| | April 3, 2011 | | | April 4, 2010 | | |
| | (in thousands, except percentages) | | | | | |
| Food and beverage sales | \$123,757 | 48.5 | % | \$121,016 | 49.4 | % |
| Entertainment and merchandise sales | 131,459 | 51.5 | % | 124,184 | 50.6 | % |
| Company store sales | \$255,216 | 100.0 | % | \$245,200 | 100.0 | % |

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:

| | Three Months Ended | | | | | |
|---|------------------------------------|-------|---|---------------|-------|---|
| | April 3, 2011 | | | April 4, 2010 | | |
| | (in thousands, except percentages) | | | | | |
| Company store sales | \$255,216 | 99.5 | % | \$245,200 | 99.5 | % |
| Franchise fees and royalties | 1,186 | 0.5 | % | 1,127 | 0.5 | % |
| Total revenues | 256,402 | 100.0 | % | 246,327 | 100.0 | % |
| Company store operating costs: | | | | | | |
| Cost of food and beverage (1) | 28,903 | 23.4 | % | 27,619 | 22.8 | % |
| Cost of entertainment and merchandise (2) | 10,160 | 7.7 | % | 10,050 | 8.1 | % |
| Cost of food, beverage, entertainment and merchandise (3) | 39,063 | 15.3 | % | 37,669 | 15.4 | % |
| Labor expenses (3) | 63,637 | 24.9 | % | 60,595 | 24.7 | % |
| Depreciation and amortization (3) | 20,752 | 8.1 | % | 19,606 | 8.0 | % |
| Rent expense (3) | 18,485 | 7.2 | % | 17,486 | 7.1 | % |
| Other store operating expenses (3) | 32,994 | 12.9 | % | 31,034 | 12.7 | % |
| Total Company store operating costs (3) | 174,931 | 68.5 | % | 166,390 | 67.9 | % |
| Advertising expense | 9,067 | 3.5 | % | 9,037 | 3.7 | % |
| General and administrative expenses | 14,055 | 5.5 | % | 13,685 | 5.6 | % |
| Total operating costs and expenses | 198,053 | 77.2 | % | 189,112 | 76.8 | % |
| Operating income | 58,349 | 22.8 | % | 57,215 | 23.2 | % |
| Interest expense | 2,754 | 1.1 | % | 2,670 | 1.1 | % |
| Income before income taxes | \$55,595 | 21.7 | % | \$54,545 | 22.1 | % |

(1) Percent amount expressed as a percentage of food and beverage sales.

(2) Percent amount expressed as a percentage of entertainment and merchandise sales.

(3) Percent amount expressed as a percentage of Company store sales.

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

Three Months Ended April 3, 2011 Compared to Three Months Ended April 4, 2010

Revenues

Company store sales increased 4.1% to \$255.2 million during the first quarter of 2011 compared to \$245.2 million in the first quarter of 2010 primarily due to a 1.1% increase in comparable store sales and a weighted average net increase of approximately eight Company-owned stores. The increase in comparable store sales is partially attributable to menu prices increased approximately 2.1% during the first quarter of 2011 as compared to the first quarter of 2010. We also believe the various strategies we have implemented, including the ongoing capital initiatives at our stores, an enhanced marketing plan and a continuing focus on increasing birthday parties contributed to the comparable store sales increase during the first quarter of 2011.

Our Company store sales mix was 48.5% food and beverage sales and 51.5% entertainment and merchandise sales during the first quarter of 2011 compared to 49.4% and 50.6%, respectively, in the first quarter of 2010. We believe the mix shift from food and beverage to entertainment and merchandise is primarily the effect of recent changes in the component mix of coupons promoting bundled packages, resulting in more of the price being allocated to entertainment revenue.

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Company Store Operating Costs

Cost of food, beverage, entertainment and merchandise as a percentage of Company store sales is influenced by both the cost of products, as well as the overall mix of company store sales due to the fact that entertainment and merchandise sales have higher margins than food and beverage sales. For the first quarter of 2011, the cost of food, beverage, entertainment and merchandise as a percentage of Company store sales decreased 0.1 percentage point to 15.3% compared to 15.4% in the first quarter of 2010. This decrease is primarily related to a reduction in beverage costs and is largely offset by an increase in certain commodity costs.

Cost of food and beverage as a percentage of food and beverage sales increased 0.6 percentage points to 23.4% during the first quarter of 2011 compared to 22.8% in the first quarter of 2010 primarily due to an increase in certain commodity prices and the deleveraging effect of the sales mix shift to entertainment and merchandise revenue related to component changes in our bundled value meals and coupons. During the first quarter of 2011, the average price per pound of cheese increased approximately \$0.30, or 21%, and produce prices increased approximately 15%. This increase was partially offset by a reduction in our beverage costs.

Cost of entertainment and merchandise as a percentage of entertainment and merchandise sales decreased 0.4 percentage points to 7.7% during the first quarter of 2011 from 8.1% in the first quarter of 2010 primarily due to the leveraging effect of the sales mix shift to entertainment and merchandise revenue related to component changes in our bundled value meals and coupons.

Labor expenses as a percentage of Company store sales increased 0.2 percentage points to 24.9% during the first quarter of 2011 compared to 24.7% in the first quarter of 2010 primarily due to a 0.9% increase in the average hourly wage rate and higher benefit costs.

Depreciation and amortization expense related to our stores increased \$1.2 million to \$20.8 million during the first quarter of 2011 compared to \$19.6 million in the first quarter of 2010 primarily due to the ongoing capital investment initiatives occurring at our existing stores and new store development.

Store rent expense increased \$1.0 million to \$18.5 million during the first quarter of 2011 compared to \$17.5 million in the first quarter of 2010 primarily due to an increase in our leased properties resulting from new store development and expansions of existing stores.

Other store operating expenses as a percentage of Company store sales increased 0.2 percentage points to 12.9% during the first quarter of 2011 compared to 12.7% in the first quarter of 2010 primarily due to a net increase in various store related operating costs.

Advertising Expense

Advertising expense as a percentage of total revenues decreased 0.2 percentage points to 3.5% during the first quarter of 2011 from 3.7% in the first quarter of 2010 primarily due to the leveraging effect of higher sales during the first quarter of 2011.

General and Administrative Expenses

General and administrative expenses increased \$0.4 million to \$14.1 million during the first quarter of 2011 from \$13.7 million in the first quarter of 2010 primarily due to a net increase in various corporate office overhead costs.

Interest Expense

Interest expense increased to \$2.8 million during the first quarter of 2011 compared to \$2.7 million in the first quarter of 2010 primarily due to a higher average debt balance outstanding between the two periods. The average debt balance outstanding under our revolving credit facility increased to \$358.2 million during the first quarter of 2011 compared to \$323.1 million during the first quarter of 2010. The increase in interest expense was partially offset by a decrease in our weighted average effective interest rate incurred on borrowings under our revolving credit facility from 2.9% in the first quarter of 2010 to 2.8% in the first quarter of 2011.

Income Taxes

Our effective income tax rate was 38.7% and 37.9% during the first quarter of 2011 and 2010, respectively. The increase in our effective tax rate was due to higher effective state tax rates including liabilities for uncertain tax positions and to a lesser extent increases in permanent differences and an estimated decrease in wage related federal tax credits.

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Diluted Earnings Per Share

Diluted earnings per share increased to \$1.71 per share for the first quarter of 2011 from \$1.53 per share in the first quarter of 2010 primarily due to a 9.6% decrease in the number of weighted average diluted shares outstanding between the two periods. The increase in diluted earnings per share between the two periods was impacted by our repurchase of approximately 2.8 million shares of our common stock since the beginning of the first quarter of 2010. We estimate that the decrease in the number of weighted average diluted shares outstanding during the first quarter of 2011 attributable solely to these repurchases benefited our earnings per share in the first quarter of 2011 by approximately \$0.11. Our estimate is based on the weighted average number of shares repurchased since the beginning of the first quarter of 2010 and includes consideration of the estimated additional interest expense attributable to increased borrowings under our revolving credit facility to finance the repurchases. Our computation does not include the effect of share repurchases prior to the 2010 fiscal year, or the effect of the issuance of restricted stock or exercise of stock options subsequent to the beginning of the first quarter of 2010.

Financial Condition, Liquidity and Capital Resources

Overview of Liquidity

Funds generated by our operating activities, available cash and cash equivalents, and our revolving credit facility continue to be our most significant 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 business development strategies 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, there can be no assurance that we will generate cash flows at or above our current levels.

Our primary requirements for cash provided by operating activities relate to planned capital expenditures and servicing our debt. We may also use cash from operations to pay dividends to our stockholders and make repurchases of our common stock.

Our requirement for working capital is not significant since 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 related accounts payable to suppliers and our employee payroll become due. Frequent inventory turnover results in limited investment in inventories and our accounts payable are generally due in five to 30 days. As a result of these factors, we are able to operate with a net working capital deficit (current liabilities in excess of current assets), and we can do so without incurring significant short-term or long-term borrowings.

We do not enter into any material development or contractual purchase obligations in connection with our business development strategy. As a result, with respect to our planned capital expenditures, including spending that pertains to our new store development and capital initiatives, we believe that we have the flexibility necessary to manage our liquidity by promptly deferring or curtailing our capital spending.

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

| | Three Months Ended | |
|---|--------------------|------------------|
| | April 3, 2011 | April 4, 2010 |
| | (in thousands) | |
| Net cash provided by operating activities | \$88,461 | \$91,757 |

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| | | |
|---|------------|-----------|
| Net cash used for investing activities | (22,914) | (22,078) |
| Net cash used for financing activities | (64,641) | (66,711) |
| Effect of foreign exchange rate changes on cash | 77 | (38) |
| Change in cash and cash equivalents | \$983 | \$2,930 |
| Interest paid | \$2,832 | \$2,633 |
| Income taxes (refunded) paid, net | \$(8,108) | \$58 |

| | April 3, 2011 | January 2, 2011 |
|--|------------------|--------------------|
| | (in thousands) | |
| Cash and cash equivalents | \$20,252 | \$19,269 |
| Revolving credit facility borrowings | \$337,000 | \$377,000 |
| Available unused commitments under revolving credit facility | \$202,341 | \$162,341 |

Cash Flows – Operating Activities

Net cash provided by operating activities decreased \$3.3 million to \$88.5 million during the first three months of 2011 from \$91.8 million in the first three months of 2010. The decrease was primarily attributable to decreases in our working capital.

Our cash interest payments increased \$0.2 million to \$2.8 million during the first three months of 2011 from \$2.6 million in the first three months of 2010 primarily due to an increase in the average debt balance outstanding under our revolving credit facility between the two periods.

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Our cash payments for income taxes, net of refunds received, decreased \$8.2 million to a net refund of \$8.1 million during the first three months of 2011 from a payment of \$0.1 million in the first three months of 2010 primarily due to the refund of an overpayment of \$9.0 million of federal income tax relating to our 2010 tax year which was received in the first quarter of 2011. The refund was primarily due to additional tax depreciation stemming from the enactment of beneficial depreciation rules signed into law in December 2010.

Cash Flows – Investing Activities

Net cash used in investing activities increased \$0.8 million to \$22.9 million during the first three months of 2011 from \$22.1 million in the first three months of 2010, primarily due to the timing of capital payments for many of the initiatives completed in the fourth quarter of 2010.

Cash Flows – Financing Activities

Net cash used in financing activities decreased \$2.1 million to \$64.6 million during the first three months of 2011 from \$66.7 million in the first three months of 2010. During the first three months of 2011, we made repayments on the outstanding borrowings under our revolving credit facility of \$40.0 million, compared to the same period in 2010 when we made repayments of \$49.8 million. This decrease in repayments was primarily related to our share repurchases during 2011. During the first three months of 2011, our repurchases of our common stock increased \$5.6 million to \$22.5 million compared to \$16.9 million during the same period last year. Also, during the first three months of 2011, cash proceeds received through the exercise of employee stock options decreased \$2.3 million compared to the same period in 2010 due to a decline in the number of exercisable awards outstanding.

Sources of Liquidity

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

Our requirement for working capital is not significant since our customers pay for their purchases in cash or credit cards at the time of the sale, enabling us to monetize many of our inventory items before we have to pay suppliers for such items. We attempt to maintain only sufficient inventory of supplies in our stores to satisfy current operational needs. Since our accounts payable are generally due in five to 30 days, we are able to operate with a net working capital deficit (current liabilities in excess of current assets). Our net working capital deficit increased to \$19.6 million at April 3, 2011 from \$1.7 million at January 2, 2011 primarily due to variations in the timing and amount of payments for accounts payable, income taxes and collection of receivables.

Our ability to access our revolving credit facility is subject to our compliance with the terms and conditions of the credit facility agreement, including our maintenance of certain prescribed financial ratio covenants, as more fully described below.

Debt Financing

We have a revolving credit facility providing for total borrowings of up to \$550.0 million. The credit facility, which matures in October 2012, also includes an accordion feature allowing us, subject to lender approval, to request an increase to the revolving commitment of up to \$50.0 million in borrowings at any time. As of April 3, 2011, there were \$337.0 million of borrowings and approximately \$10.7 million of letters of credit issued but undrawn under our credit facility. Based on the type of borrowing, the credit facility bears interest at the London Interbank Offered Rate (“LIBOR”) plus an applicable margin of 0.625% to 1.25% determined based on our financial performance and debt

levels, or alternatively, the higher of (a) the prime rate or (b) the Federal Funds rate plus 0.50%. As of April 3, 2011, borrowings under the credit facility incurred interest at LIBOR (ranging from 0.24% - 0.31%) plus 1.00% or prime (3.25%). A commitment fee of 0.1% to 0.3%, depending on our financial performance and debt levels, is payable on a quarterly basis on any unused credit line. All borrowings under the credit facility are unsecured, but we have agreed not to pledge any of our existing assets to secure future indebtedness.

During the first three months of 2011, we decreased the outstanding debt balance under our revolving credit facility by \$40 million to \$337.0 million as of April 3, 2011 from \$377.0 million as of January 2, 2011. Including the effect of our interest rate swap contract, the weighted average effective interest rate incurred on borrowings under our revolving credit facility was 2.8% and 2.9% for the three months ended April 3, 2011 and April 4, 2010, respectively.

Our revolving credit facility agreement 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 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 agreement, 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.

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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 agreement) to (b) consolidated EBITDA for the last four fiscal quarters. Consolidated EBITDA, as defined in the revolving credit facility agreement, equals our consolidated EBITR adjusted to exclude the non-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 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 April 3, 2011, we were in compliance with these covenant ratios, with a consolidated fixed charge coverage ratio of 2.24 to 1 and a consolidated leverage ratio of 1.81 to 1.

Interest Rate Swap

We have maintained an interest rate swap contract to effectively convert \$150.0 million of our variable rate revolving credit facility debt to a fixed interest rate. The contract, which matures in May 2011, requires us to pay a fixed rate of 3.62% while receiving variable payments from the counterparty at the three-month LIBOR rate. Including the 1.00 percentage point applicable margin incurred on our revolving credit facility, the effective interest rate of the swap contract was 4.62% as of April 3, 2011. The differential amounts receivable or payable under the swap contract are recorded over the life of the contract as adjustments to interest expense.

As of April 3, 2011, the estimated fair value of the swap contract was a liability of approximately \$0.7 million. Refer to Note 4 "Derivative Instrument" of our condensed consolidated financial statements for a more complete discussion of our interest rate swap contract.

Cash Dividend

On February 22, 2011, our Board of Directors ("Board") approved the initiation of a quarterly cash dividend of \$0.20 per share, or \$0.80 per share for each year. Due to the timing of the Board's decision, dividends paid during the 2011 fiscal year are expected to be \$0.60 per share. Our first quarterly dividend of \$0.20 per share was paid on April 21, 2011 to stockholders of record on March 24, 2011. We expect to continue to pay quarterly dividends. However, there can be no assurance that future dividends will be declared or paid. The actual declaration and payment of future dividends, the amount of any such dividends, and the establishment of record and payment dates, if any, is subject to final determination by the Board each quarter after its review of our then-current strategy, applicable debt covenants, and financial performance and position, among other things.

Capital Expenditures

Our future capital expenditures are expected to be primarily for reinvestment into our existing Company-owned store base through various capital initiatives and the development or acquisition of additional Company stores. We estimate capital expenditures in 2011 will total approximately \$92 million to \$93 million, including approximately \$63 million related to capital initiatives for our existing stores, approximately \$14 million related to new store development and the remainder for other store initiatives, general store requirements and corporate capital expenditures. We plan to fund these capital expenditures through cash flow from operations and, if necessary, borrowings under our revolving credit facility.

The following tables summarize certain information regarding the Company's actual and our projected capital expenditure activities during each of the periods presented:

| | Three Months Ended | |
|---|--------------------|------------------|
| | April 3, 2011 | April 4, 2010 |
| Existing Company-owned store initiatives: | | |
| Game Enhancements | 21 | 48 |
| Major Remodels | - | 4 |
| Store Expansions | 3 | 6 |
| Total completed | 24 | 58 |
| | | |
| New Company store development and franchise acquisition (1) | 1 | 1 |

(1) The company-owned store added in 2011 was a relocated store. The company-owned store added in 2010 was a store acquired from a franchisee.

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| | Estimated Average Cost Per Project (in millions) | Projected Completions Fiscal Year 2011 | Actual Completions Fiscal Year 2010 |
|---|---|---|--|
| Investment in existing Company-owned stores: | | | |
| | 0.1 to | | |
| Game Enhancements (1) | \$ \$0.2 | 140 to 150 | 180 |
| Major Remodels | \$ 0.6 | 15 to 20 | 15 |
| Store Expansions | \$ 1.0 | 30 to 35 | 28 |
| Total | | 185 to 205 | 223 |
| | 2.7 to | | |
| New Company store development and franchise store acquisitions: (2) | \$ \$2.8 | 5 | 12 |

(1)2010 included incremental game enhancements completed for stores located in the Los Angeles, San Diego, Chicago, and Philadelphia market areas in conjunction with local television advertising. The Company is not projecting this incremental capital spending during 2011.

(2)New Company-owned stores projected to be developed during 2011 include three stores that will be relocated. Company-owned stores added during 2010 included five stores we acquired from franchisees and two stores we relocated.

Investment in Existing Company-owned Stores. We believe that in order to maintain consumer demand for and the appeal of our concept, we must continually reinvest in our existing Company-owned stores. For our existing stores, we currently utilize the following capital initiatives: (a) game enhancements, (b) major remodels, and (c) store expansions. We believe these capital initiatives are essential to preserving our existing sales and cash flows and provide a solid foundation for long term revenue growth.

Game enhancements. 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 and ride technology.

Major remodels. We undertake periodic major remodels when there is a need to improve the overall appearance of a store or when we introduce concept changes or enhancements to our stores. A major remodel initiative typically includes interior design modifications that allow us to more effectively utilize space allocated to the playroom area of the store, increasing the number of games and rides, and developing 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 our stores. In addition to expanding the square footage of a store, store expansions typically include all components of a major remodel and generally result in an increase in the store's seat count. We consider our investments in store expansions to generally be discretionary in nature. In undertaking store expansions, our objective is to improve the appeal of our stores and to respond to sales growth opportunities as they arise.

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 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 compete with other large-box competitors. We believe that expanding the square footage and entertainment space of a store increases our guest 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 guest traffic and satisfaction.

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

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Share Repurchases

Our Board has approved a program for us to repurchase shares of our common stock. On July 25, 2005, the Board approved a stock repurchase program which authorized us to repurchase from time to time up to \$400 million of our common stock and on October 22, 2007 and October 27, 2009 authorized \$200 million increases each. During the three months ended April 3, 2011, we repurchased 604,224 shares of our common stock at an aggregate purchase price of approximately \$22.5 million, and as of April 3, 2011, approximately \$118.7 million remained available for share repurchases under our repurchase authorization.

The share repurchase authorization approved by the Board does not have an expiration date and the pace of our repurchase activity will depend on factors such as our working capital needs, our debt repayment obligations, our stock price, and economic and market conditions. Our share repurchases may be effected from time to time through open market purchases, accelerated share repurchases or in privately negotiated transactions. Our share repurchase program may be accelerated, suspended, delayed or discontinued at any time.

Off-Balance Sheet Arrangements and Contractual Obligations

As of April 3, 2011, we had no off-balance sheet financing arrangements as described in Regulation S-K Item 303(a)(4)(ii) and we believe there has been no material change in our contractual obligations since the end of fiscal year 2010.

For information regarding our contractual obligations, refer to “Off Balance Sheet Arrangements and Contractual Obligations” in Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the fiscal year ended January 2, 2011 filed on February 24, 2011.

Critical Accounting Policies and Estimates

Our unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) which requires us to make estimates and assumptions that affect the reported values of assets and liabilities at the date of the 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 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 the consolidated financial statements are prepared. We continually evaluate the information used to make these estimates as our business and the economic environment change. Actual results may differ materially from these estimates under different assumptions or conditions. Results of operations of interim periods are not necessarily indicative of results for the full year.

Information with respect to our critical accounting policies and estimates which we believe could have the most significant effect on our reported results and require difficult, subjective or complex judgment by management are described under “Critical Accounting Policies and Estimates” in Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the fiscal year ended January 2, 2011 filed on February 24, 2011. We believe that as of April 3, 2011 there has been no material change to the information concerning our critical accounting policies and estimates.

Recently Issued Accounting Guidance

Refer to Note 1 “Basis of Presentation and Recently Issued Accounting Guidance” of our unaudited condensed consolidated financial statements included in Part I, Item 1 “Financial Statements” of this Quarterly Report on Form

10-Q for a description of the new accounting guidance we have recently adopted.

Cautionary Note 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 Item 1A “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended January 2, 2011 filed on February 24, 2011. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ from those anticipated, estimated or expected. Factors that could cause actual results to differ materially from those contemplated by forward-looking statements include, but are not limited to:

- Changes in consumer discretionary spending and general economic conditions;
- Our ability to successfully implement our business development strategies;

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- Costs incurred in connection with our business development strategies;
- Negative publicity concerning food quality, health, safety and other issues;
- Competition in both the restaurant and entertainment industries;
- Disruptions in the financial markets affecting the availability and cost of credit and our ability to maintain adequate insurance coverage;
- Loss of certain key personnel;
- Increases in food, labor and other operating costs;
- Changes in consumers' health, nutrition and dietary preferences;
- Continued existence or occurrence of certain public health issues;
- Disruption of our commodity distribution system;
- Our dependence on a few global providers for the procurement of games and rides;
- Fluctuations in our quarterly results of operations due to seasonality;
- Adverse effects of local conditions, natural disasters and other events;
- Risks in connection with owning and leasing real estate;
- Our ability to adequately protect our trademarks or other proprietary rights;
- Government regulations, litigation, product liability claims and product recalls;
- Disruptions of our information technology systems; and
- Conditions in foreign markets.

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.

ITEM 3. 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 rate and commodity price changes and foreign currency fluctuation.

Interest Rate Risk

We are exposed to market risk from changes in the variable interest rates (primarily LIBOR) incurred on our revolving credit facility, which at April 3, 2011 had borrowings outstanding of \$337 million. We have maintained an interest

rate swap contract which effectively fixes the LIBOR component of our interest rate to a fixed rate of 3.62% on \$150.0 million of our borrowings leaving us with \$187 million of variable rate debt as of April 3, 2011. After giving effect to the interest rate swap which expires in May 2011, a 100 basis point increase in the variable interest rates on our revolving credit facility at April 3, 2011, assuming no change in our outstanding debt balance, would increase our annual interest expense by approximately \$1.9 million.

Commodity Price Risk

Commodity prices of certain food products that we purchase, primarily cheese and dough, vary throughout the year due to changes in demand, supply and other factors. We currently have not entered into any hedging arrangements to reduce the volatility of the commodity prices from period to period. The estimated increase in our food costs from a hypothetical 10 percent increase in the average cheese block price per pound (approximately \$0.17 as of April 3, 2011) would have been approximately \$0.4 million for the first three months of 2011. The estimated increase in our food costs from a hypothetical 10 percent increase in the average dough price per pound (approximately \$0.04 as of April 3, 2011) would have been approximately \$0.2 million for the first three months of 2011.

Foreign Currency Risk

As of April 3, 2011, we operated a total of 14 Company-owned stores in Canada. As a result, we have market risk associated with changes in the value of the Canadian dollar. These changes result in cumulative translation adjustments, which are included in "Accumulated other comprehensive income," and potentially result in transaction gains or losses, which are included in our earnings. During the first three months of 2011, our Canada stores represented approximately 1.3% of our operating income. A hypothetical 10 percent devaluation in the average quoted U.S. dollar-equivalent of the Canadian dollar exchange rate during the first three months of 2011 would have reduced our reported operating income by less than \$0.1 million.

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ITEM 4. 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 as of April 3, 2011 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 (1) recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

During the quarterly period covered by this report 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.

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PART II – OTHER INFORMATION

ITEM 1. 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 ultimate liability with respect to claims or proceedings currently pending against us is not expected to have a material adverse effect on our financial condition, results of operations or cash flows.

ITEM 1A. Risk Factors.

We believe there have been no material changes in our risk factors from those disclosed in Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended January 2, 2011 and filed on February 24, 2011. The risks set forth in those risk factors are not the only risks we face in conducting our business. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table presents information related to repurchases of our common stock during the first quarter of 2011 and the maximum dollar value of shares that may yet be purchased pursuant to our share repurchase program:

Issuer Purchases of Equity Securities

| Period | Total Number of Shares Purchased(1) | Average Price Paid Per Share(1) | Total | Maximum |
|--------------------------------|--|--|---|---|
| | | | Number of Shares Purchased As Part of Publicly Announced Plans or Programs | Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs(2) |
| January 3 - January 30, 2011 | 2,522 | \$38.59 | - | \$141,126,354 |
| January 31 - February 27, 2011 | 53,596 | \$37.32 | - | \$141,126,354 |
| February 28 - April 3, 2011 | 620,866 | \$37.19 | 604,224 | \$118,663,102 |
| Total | 676,984 | \$37.21 | 604,224 | \$118,663,102 |

(1) For the periods ended January 30, February 27 and April 3, 2011, the total number of shares purchased included 2,522 shares, 53,596 shares and 16,642 shares, respectively, tendered by employees and non-employee directors at an average price per share of \$38.59, \$37.32 and \$37.72, respectively, to satisfy tax withholding requirements on the vesting of restricted stock awards, which are not deducted from shares available to be purchased under our share repurchase program. Shares tendered by employees and non-employee directors to satisfy tax withholding

requirements were considered purchased at the closing price of our common stock on the date of vesting.

(2) We may repurchase shares of our common stock under a plan authorized by our Board. On July 25, 2005, the Board approved a stock repurchase program which authorized us to repurchase from time to time up to \$400 million of our common stock and on October 22, 2007 and October 27, 2009 authorized \$200 million increases each. 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.

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ITEM 6. Exhibits.

EXHIBIT INDEX

| Exhibit Number | Description |
|----------------|---|
| 3.1 | Second Restated Articles of Incorporation of CEC Entertainment, Inc. (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) |
| 4.1 | Specimen form of Certificate representing \$.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) |
| 31.1* | Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2* | Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 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 |

* Filed herewith.

** Furnished herewith.

Pursuant to Item 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

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SIGNATURES

Pursuant to the requirements 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.

CEC ENTERTAINMENT, INC.

May 5, 2011

By: /s/ Michael H. Magusiak
Michael H. Magusiak
President and Chief Executive Officer
(Principal Executive Officer)

May 5, 2011

/s/ Tiffany B. Kice
Tiffany B. Kice
Executive Vice President, Chief Financial
Officer and Treasurer
(Principal Financial Officer)

May 5, 2011

/s/ Darin E. Harper
Darin E. Harper
Vice President, Controller
(Principal Accounting Officer)

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