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 July 1, 2018

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.)**
1707 Market Place Blvd **Irving, Texas** **(Address of principal executive offices)**	**75063** **(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 ☐

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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ☐

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 August 6, 2018, an aggregate of 200 shares of the registrant's common stock, par value $0.01 per share were outstanding.

CEC ENTERTAINMENT, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements.

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

	July 1, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 88,887	$ 67,200
Restricted cash	207	112
Accounts receivable	18,154	20,061
Income taxes receivable	6,073	10,960
Inventories	20,671	22,000
Prepaid expenses	28,745	20,398
Total current assets	162,737	140,731
Property and equipment, net	553,780	570,021
Goodwill	484,438	484,438
Intangible assets, net	478,682	480,377
Other noncurrent assets	18,062	19,477
Total assets	$ 1,697,699	$ 1,695,044
LIABILITIES AND STOCKHOLDER’S EQUITY		
Current liabilities:		
Bank indebtedness and other long-term debt, current portion	$ 7,600	$ 7,600
Capital lease obligations, current portion	634	596
Accounts payable	34,050	31,374
Accrued expenses	37,644	36,616
Unearned revenues	19,959	21,050
Accrued interest	8,296	8,277
Other current liabilities	5,000	4,776
Total current liabilities	113,183	110,289
Capital lease obligations, less current portion	12,674	13,010
Bank indebtedness and other long-term debt, net of deferred financing costs, less current portion	963,243	965,213
Deferred tax liability	110,672	114,186
Accrued insurance	8,876	8,311
Other noncurrent liabilities	223,114	221,887
Total liabilities	1,431,762	1,432,896
Stockholder’s equity:		
Common stock, $0.01 par value; authorized 1,000 shares; 200 shares issued as of July 1, 2018 and December 31, 2017	—	—
Capital in excess of par value	359,466	359,233
Accumulated deficit	(91,943)	(95,199)
Accumulated other comprehensive loss	(1,586)	(1,886)
Total stockholder’s equity	265,937	262,148
Total liabilities and stockholder’s equity	$ 1,697,699	$ 1,695,044

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

CEC ENTERTAINMENT, INC.
COSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)
(in thousands)

	Three Months Ended		Six Months Ended	
	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
REVENUES:				
Food and beverage sales	$ 96,258	$ 97,411	$ 214,635	$ 221,830
Entertainment and merchandise sales	115,904	109,724	247,021	245,641
Total company venue sales	212,162	207,135	461,656	467,471
Franchise fees and royalties	5,196	4,649	10,606	9,272
Total revenues	217,358	211,784	472,262	476,743
OPERATING COSTS AND EXPENSES:				
Company venue operating costs (excluding Depreciation and amortization):				
Cost of food and beverage	22,894	22,823	50,254	51,040
Cost of entertainment and merchandise	8,421	6,854	17,802	15,341
Total cost of food, beverage, entertainment and merchandise	31,315	29,677	68,056	66,381
Labor expenses	62,618	60,351	129,966	126,738
Rent expense	24,714	23,906	48,764	47,225
Other venue operating expenses	37,069	35,967	75,132	72,716
Total company venue operating costs	155,716	149,901	321,918	313,060
Other costs and expenses:				
Advertising expense	12,977	12,237	26,952	25,619
General and administrative expenses	13,416	13,719	26,325	29,090
Depreciation and amortization	25,493	27,623	52,065	55,928
Transaction, severance and related litigation costs	191	490	725	570
Asset impairments	1,591	—	1,591	—
Total operating costs and expenses	209,384	203,970	429,576	424,267
Operating income	7,974	7,814	42,686	52,476
Interest expense	19,113	17,061	37,671	34,123
Income (loss) before income taxes	(11,139)	(9,247)	5,015	18,353
Income tax expense (benefit)	(2,174)	(3,317)	1,759	7,061
Net income (loss)	$ (8,965)	$ (5,930)	$ 3,256	$ 11,292

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

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

	Three Months Ended		Six Months Ended	
	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
Net income (loss)	$ (8,965)	$ (5,930)	$ 3,256	$ 11,292
Components of other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	145	420	300	539
Comprehensive income (loss)	$ (8,820)	$ (5,510)	$ 3,556	$ 11,831

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

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

	Six Months Ended	
	July 1, 2018	July 2, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,256	$ 11,292
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	52,065	55,928
Deferred income taxes	(3,626)	(3,589)
Stock-based compensation expense	227	336
Amortization of lease related liabilities	(508)	(237)
Amortization of original issue discount and deferred debt financing costs	2,226	2,273
Loss on asset disposals, net	2,038	3,716
Asset impairments	1,591	—
Non-cash rent expense	2,931	2,101
Other adjustments	348	9
Changes in operating assets and liabilities:		
Accounts receivable	2,380	2,770
Inventories	1,314	(7,453)
Prepaid expenses	(7,430)	(2,587)
Accounts payable	1,439	8,031
Accrued expenses	1,134	(3,090)
Unearned revenues	(1,089)	2,905
Accrued interest	14	54
Income taxes (receivable) payable	4,964	2,933
Deferred landlord contributions	1,751	1,210
Net cash provided by operating activities	65,025	76,602
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(36,808)	(47,045)
Development of internal use software	(1,022)	(2,075)
Proceeds from sale of property and equipment	412	237
Net cash used in investing activities	(37,418)	(48,883)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on senior term loan	(3,800)	(3,800)
Repayments on note payable	—	(13)
Proceeds from sale leaseback transaction	—	4,073
Payment of debt financing costs	(395)	—
Payments on capital lease obligations	(295)	(218)
Payments on sale leaseback obligations	(1,384)	(1,161)

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CEC ENTERTAINMENT, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS, CONT'D
(Unaudited)
(in thousands)

Return of capital		—		1,447
Net cash used in financing activities		(5,874)		328
Effect of foreign exchange rate changes on cash		49		239
Change in cash, cash equivalents and restricted cash		21,782		28,286
Cash, cash equivalents and restricted cash at beginning of period		67,312		61,291
Cash, cash equivalents and restricted cash at end of period	$	89,094	$	89,577

	Six Months Ended			
	July 1, 2018		July 2, 2017	
SUPPLEMENTAL CASH FLOW INFORMATION:				
Interest paid	$	35,906	$	31,861
Income taxes paid, net	$	421	$	7,716
NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Accrued construction costs	$	1,352	$	2,214

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

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

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

Description of Business

The use of the terms "CEC Entertainment," the "Company," "we," "us" and "our" throughout these unaudited notes to the interim Consolidated Financial Statements refer to CEC Entertainment, Inc. and its subsidiaries.

We currently operate and franchise Chuck E. Cheese's and Peter Piper Pizza family dining and entertainment venues in 47 states and 14 foreign countries and territories. Our venues provide our guests with a variety of family entertainment and dining alternatives. All of our venues utilize a consistent restaurant-entertainment format that features both family dining and entertainment areas with a mix of food, entertainment and merchandise. The economic characteristics, products and services, preparation processes, distribution methods and types of customers are substantially similar for each of our venues. Therefore, we aggregate each venue's operating performance into one reportable segment for financial reporting purposes.

Basis of Presentation

The Company has a controlling financial interest in International Association of CEC Entertainment, Inc. (the "Association"), a variable interest entity ("VIE"). 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 Chuck E. Cheese's 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 venues that benefit from the Association's advertising, entertainment and media expenditures. We eliminate the intercompany portion of transactions with VIEs from our financial results. The assets, liabilities and operating results of the Association are not material to our Consolidated Financial Statements.

The Association Funds are required to be segregated and used for specified purposes. Cash balances held by the Association are restricted for use in our advertising, entertainment and media programs, and are recorded as "Restricted cash" on our Consolidated Balance Sheets. Contributions to the advertising, entertainment and media funds from our franchisees were $1.3 million and $1.2 million for the six months ended July 1, 2018 and July 2, 2017, respectively. Our contributions to the Association Funds are eliminated in consolidation. On January 1, 2018 we adopted Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (ASC Topic 606).* As a result of the adoption of ASU 2016-15, *Statement of Cash Flows (Topic 230) and ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash,* on January 1, 2018, certain reclassifications have been made in our Consolidated Statements of Cash Flows to conform with the current period presentation.

For further details regarding the impact of these new accounting standards on our Consolidated financial statements "Recently Issued Accounting Guidance - Accounting Guidance Adopted - below.

We reclassified $1.8 million and $3.7 million, respectively, of depreciation and amortization for the three and six months ended July 2, 2017 which was previously included in "General and administrative expenses" and we reclassified "Depreciation and amortization" of $25.8 million and $52.2 million, respectively, for the three months and six months ended July 2, 2017 from "Company venue operating costs" to a single classification as "Depreciation and amortization" now shown in "Other costs and expenses" in our Consolidated Statements of Earnings, to conform to the current period's presentation.

The preparation of these unaudited 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 unaudited Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Interim Financial Statements

The accompanying Consolidated Financial Statements as of and for the three and six months ended July 1, 2018 and July 2, 2017 are unaudited and 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 GAAP. In the opinion of management, the Consolidated Financial Statements include all adjustments (consisting solely of normal recurring adjustments) necessary for the fair statement of its consolidated results of operations, financial position and cash flows as of the dates and for the periods presented in accordance with GAAP and the rules and regulations of the United States Securities and Exchange Commission (the "SEC"). All intercompany accounts have been eliminated in consolidation.

Consolidated results of operations for interim periods are not necessarily indicative of results for the full year. The unaudited 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 for the fiscal year ended December 31, 2017, filed with the SEC on March 28, 2018.

Recently Issued Accounting Guidance

Accounting Guidance Adopted:

Effective January 1, 2018, we adopted the following Accounting Standards Updates:

(i) ASU 2016-04, *Liabilities—Extinguishments of Liabilities (Subtopic 405-20).* This amendment provides a narrow scope exception to Liabilities—Extinguishment of Liabilities (Subtopic 405-20) that requires breakage for those liabilities to be accounted for in accordance with the breakage guidance in ASU 2014-09 *Revenue From Contracts With Customers (Topic 606).* Under the new guidance, if an entity expects to be entitled to a breakage amount for a liability resulting from the sale of a prepaid stored-value product, the entity shall derecognize the amount related to the expected breakage in proportion to the pattern of rights expected to be exercised by the product holder only to the extent that it is probable that a significant reversal of the recognized breakage amount will not subsequently occur. If an entity does not expect to be entitled to a breakage amount for a prepaid stored-value product, the entity shall derecognize the amount related to the breakage when the likelihood of the product holder exercising its remaining rights becomes remote. The adoption of this amendment did not have a significant impact on our Consolidated Financial Statements.

(ii) ASU 2016-10*, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* ("ASU 2016-10"). This amendment updates the revenue guidance on identifying performance obligations and accounting for licenses of intellectual property, changing the FASB's previous proposals on right-of-use licenses and contractual restrictions. We elected the modified retrospective method to apply this standard. Under the modified retrospective method, results for reporting periods beginning on or after January 1, 2018 are presented under the revenue guidance in this amendment, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting treatment. The cumulative impact of adopting this amendment was not material, and as such we did not record an adjustment to our opening accumulated deficit in our Consolidated Balance Sheet as of January 1, 2018. For further details, see Note 2. "Revenue."

(iii) ASU 2016-15, *Statement of Cash Flows (Topic 230) and* ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* on a retrospective basis. Amounts generally described as restricted cash and restricted cash equivalents are now presented with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Accordingly, as a result of the adoption of these amendments, we reclassified $0.1 million of restricted cash into cash, cash equivalents and restricted cash as of July 2, 2017 for a total balance of $89.6 million, which resulted in a reduction in net cash provided by operating activities of $0.2 million in the Consolidated Statement of Cash Flows for the six months ended July 2, 2017. The adoption of these amendments did not impact net cash used in investing or financing activities for the six months ended July 2, 2017.

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

The adoption of these amendments also requires us to reconcile our cash balance on our Consolidated Statements of Cash Flows to the cash balance on our Consolidated Balance Sheets, as well as make disclosures about the nature of restricted cash balances. A reconciliation of "Cash and cash equivalents" and "Restricted cash" as presented in our Consolidated Balance Sheets for the periods presented and "Cash, cash equivalents and restricted cash" as presented in our Consolidated Statements of Cash Flows for the six months ended July 1, 2018 and July 2, 2017 is as follows:

	July 1, 2018	December 31, 2017	July 2, 2017	January 1, 2017
	(in thousands)			
Cash and cash equivalents	$ 88,887	$ 67,200	$ 89,462	$ 61,023
Restricted cash	207	112	115	268
Cash, cash equivalents and restricted cash	$ 89,094	$ 67,312	$ 89,577	$ 61,291

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(1) Restricted cash represents cash balances held by the Association that are restricted for use in our advertising, entertainment and media programs (see Note 1 "Description of Business and Summary of Significant Accounting Policies" for further discussion of the Association Funds).

(iv) ASU 2017-04, *Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* on a prospective basis. This amendment eliminates Step 2 from the goodwill impairment test, which measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill, from the goodwill impairment test. Instead, under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. However, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. We early adopted this amendment on January 1, 2018. The adoption of this amendment did not have a significant impact on our Consolidated Financial Statements.

Accounting Guidance Not Yet Adopted:

In February 2016, the FASB issued ASU 2016-02*, Leases (Topic 842)*. This new standard introduces a new lease model that requires the recognition of lease assets and lease liabilities on the balance sheet and the disclosure of key information about leasing arrangements. While this new standard retains most of the principles of the existing lessor model under U.S. GAAP, it aligns many of those principles with *Accounting Standards Codification ("ASC") 606: Revenue from Contracts with Customers*. The new guidance will be effective for us beginning December 31, 2018. We are currently evaluating the impact of the adoption of this guidance on our Consolidated Financial Statements, but we expect this will have a material effect on our balance sheet since the Company has a significant amount of operating and capital lease arrangements.

In February 2018, the FASB issued ASU 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.* This standard provides companies with an option to reclassify stranded tax effects resulting from enactment of the Tax Cuts and Jobs Act ("TCJA") from accumulated other comprehensive income to retained earnings. This ASU will be effective for us for annual and interim periods beginning on December 31, 2019. Early adoption of this standard is permitted and may be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the tax rate as a result of TCJA is recognized. We do not expect the adoption of this ASU to have a material impact on our results of operations, financial position and cash flows.

2. Revenue:

Food, beverage and merchandise revenues from company-operated venues are recognized when sold. A portion of our entertainment revenue includes customer purchases of game play credits on Play Pass game cards. We recognize a liability for the estimated amount of unused game play credits which we believe our customers will utilize in the future, based on credits remaining on Play Pass cards and utilization patterns.

We sell gift cards to our customers in our venues 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 deferred revenue 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.

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

On January 1, 2018 we adopted the revenue guidance set forth in ASU 2016-10. Under the new guidance, there is a five-step model to apply to revenue recognition. The five-steps consist of: (i) the determination of whether a contract, an agreement between two or more parties that creates legally enforceable rights and obligations, exists; (ii) the identification of the performance obligations in the contract; (iii) the determination of the transaction price; (iv) the allocation of the transaction price to the performance obligations in the contract; and (v) recognition of revenue when (or as) the performance obligation is satisfied.

ASU 2016-10 requires us to recognize initial and renewal franchise and development fees on a straight-line basis over the life of the related franchise agreement or the renewal period. Historically, we recognized revenue from initial franchise and development fees upon the opening of a franchised restaurant when we completed all of our material obligations and initial services. Additionally, our national advertising fund receipts from Association members are now accounted for on a gross basis as “Franchise fees and royalties,” when historically they were netted against “Advertising expense.” Revenue related to advertising contributions from our franchisees was $0.6 million and $1.3 million in the three and six months ended July 1, 2018, respectively, and is recorded in “Franchise fees and royalties” in our Consolidated Statement of Earnings.

Liabilities relating to unused game credits, Play Pass game cards, gift card liabilities and deferred franchise and development fees are included in “Unearned revenues” on our Consolidated Balance Sheets. The following table presents changes in the Company’s Unearned revenue balances during the six months ended July 1, 2018:

	Balance at January 1, 2018	Revenue Deferred	Revenue Recognized	Balance at July 1, 2018
		(in thousands)		
PlayPass related deferred revenue	$ 12,035	$ 36,136	$ (38,183)	$ 9,988
Gift card related deferred revenue	3,868	2,883	(3,476)	3,275
Unearned franchise and development fees	4,274	1,045	(31)	5,288
Other unearned revenues	873	13,547	(13,012)	1,408
Total unearned revenue	$ 21,050	$ 53,611	$ (54,702)	$ 19,959

3. Property and Equipment

Asset Impairments

During the three and six months ended July 1, 2018 we recognized an impairment charge of $1.6 million, primarily related to one venue. This impairment charge was the result of a decline in the venue’s financial performance, primarily related to various economic factors in the market in which the venue is located. As of July 1, 2018, the aggregate carrying value of the property and equipment at impaired venues, after the impairment charge, was $0.4 million for venues impaired in 2018.

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

4. Intangible Assets, Net:

The following table presents our indefinite and definite-lived intangible assets at July 1, 2018:

	Weighted Average Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
			(in thousands)	
Chuck E. Cheese's tradename	Indefinite	$ 400,000		$ 400,000
Peter Piper Pizza tradename	Indefinite	26,700		26,700
Favorable lease agreements (1)	10	14,880	(7,976)	6,904
Franchise agreements	25	53,300	(8,222)	45,078
		$ 494,880	$ (16,198)	$ 478,682

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(1) In connection with the Merger, as defined in Note 12 "Consolidating Guarantor Financial Information", and the acquisition of Peter Piper Pizza in October 2014, we also recorded unfavorable lease liabilities of $10.2 million and $3.9 million, respectively, which are included in "Other current liabilities" and "Other noncurrent liabilities" in our Consolidated Balance Sheets. Such amounts are being amortized over a weighted average life of 10 years, and are included in "Rent expense" in our Consolidated Statements of Earnings.

Amortization expense related to favorable lease agreements was $0.3 million and $0.4 million for the three months ended July 1, 2018 and July 2, 2017, respectively, and $0.7 million and $0.9 million for the six months ended July 1, 2018 and July 2, 2017, respectively, and is included in "Rent expense" in our Consolidated Statements of Earnings. Amortization expense related to franchise agreements was $0.5 million for both the three months ended July 1, 2018 and July 2, 2017, respectively, and $1.0 million for both the six months ended July 1, 2018 and July 2, 2017, respectively, and is included in "Depreciation and amortization" in our Consolidated Statements of Earnings.

5. Accounts Payable:

Accounts payable consisted of the following as of the dates presented:

	July 1, 2018	December 31, 2017
	(in thousands)	
Trade and other amounts payable	$ 23,881	$ 20,492
Book overdraft	10,169	10,882
Accounts payable	$ 34,050	$ 31,374

The book overdraft balance represents checks issued but not yet presented to banks.

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

6. Indebtedness and Interest Expense:

Our long-term debt consisted of the following as of the dates presented:

	July 1, 2018	December 31, 2017
	(in thousands)	
Term loan facility	$ 727,700	$ 731,500
Senior notes	255,000	255,000
Total debt outstanding	982,700	986,500
Less:		
Unamortized original issue discount	(1,424)	(1,694)
Deferred financing costs, net	(10,433)	(11,993)
Current portion	(7,600)	(7,600)
Bank indebtedness and other long-term debt, net of deferred financing costs, less current portion	$ 963,243	$ 965,213

Secured Credit Facilities

Our secured credit facilities include (i) a $760.0 million term loan facility with a maturity date of February 14, 2021 (the "term loan facility") and (ii) a $150.0 million senior secured revolving credit facility with an original maturity date of February 14, 2019, which includes a letter of credit sub-facility and a $30.0 million swingline loan sub-facility (the "revolving credit facility" and together with the term loan facility, the "secured credit facilities"). The term loan facility requires scheduled quarterly payments equal to 0.25% of the original principal amount from July 2014 to December 2020, with the remaining balance paid at maturity, February 14, 2021. We had no borrowings outstanding and $9.0 million and $9.9 million, respectively of issued but undrawn letters of credit under the revolving credit facility as of July 1, 2018 and December 31, 2017, respectively.

On May 8, 2018 we entered into an incremental assumption agreement with certain of our revolving credit facility lenders to extend the maturity on $95.0 million of the revolving credit facility through November 16, 2020. In connection with the extension of the maturity date, we agreed to the following covenants for the benefit of the revolving credit facility lenders: (a) with respect to each fiscal year (commencing with the fiscal year ending December 30, 2018), to the extent we have excess cash flow (as defined in the secured credit facilities), we will make one or more optional prepayments of term loans, to the extent required, such that the amount of such optional prepayments, together with the mandatory excess cash flow prepayment of term loans required under the secured credit facilities in respect of such fiscal year, shall equal at least 75% of the Company's excess cash flow for such fiscal year (subject to step-downs based on our net first lien senior secured leverage ratio, and subject to a certain excess cash flow threshold amount) and (b) we shall not incur additional first lien debt in connection with certain acquisitions, mergers or consolidations unless our net first lien senior secured leverage ratio is not greater than 3.65 to 1.00 on a pro forma basis. The maturity date of the amount of the revolving credit facility that was not extended remains February 14, 2019.

The term loan was issued net of $3.8 million of original issue discount. We also paid $17.8 million and $3.8 million in debt financing costs related to the term loan facility and revolving credit facility inclusive of costs incurred in connection with the May 8, 2018 incremental assumption agreement, respectively. All debt financing costs were capitalized in "Bank indebtedness and other long-term debt, net of deferred financing costs" on our Consolidated Balance Sheets. The original issue discount and deferred financing costs related to the term loan facility are amortized over the life of the term loan facility, and the deferred financing costs related to the revolving credit facility are being amortized through November 16, 2020, and are included in "Interest expense" on our Consolidated Statements of Earnings.

Borrowings under the secured credit facilities bear interest at a rate equal to, at our option, either (a) a London Interbank Offered Rate ("LIBOR") determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowings, adjusted for certain additional costs, subject to a 1.00% floor in the case of term loans or (b) a base rate determined by reference to the highest of (i) the federal funds effective rate plus 0.50%; (ii) the prime rate of Deutsche Bank AG New York Branch; and (iii) the one-month adjusted LIBOR plus 1.00%, in each case plus an applicable margin. The base applicable margin is 3.25% with respect to LIBOR borrowings and 2.25% with respect to base rate borrowings under the term loan facility and base rate borrowings and swingline borrowings under the revolving credit facility. The applicable margin for LIBOR borrowings under the term loan facility is subject to one step-down from 3.25% to 3.00% based on our net first lien senior secured leverage ratio and the applicable margin for LIBOR borrowings under the revolving credit facility is subject to two step-downs from 3.25% to 3.00% and 2.75% based on our net first lien senior secured leverage ratio. Effective March 4, 2016, the applicable margin for both our term loan facility and revolving credit facility stepped down to 3.0%. Effective November 16, 2017, the applicable margin for LIBOR borrowings under both the term loan facility and the revolving credit facility returned to their previous level of 3.25%.

In addition to paying interest on outstanding principal under the secured credit facilities, we are required to pay a commitment fee to the lenders under the revolving credit facility with respect to the unutilized commitments thereunder. The base applicable commitment fee rate under the revolving credit facility was 0.50% per annum and is subject to one step-down from 0.50% to 0.375% based on our net first lien senior secured leverage ratio. We are also required to pay customary agency fees, as well as letter of credit participation fees computed at a rate per annum equal to the applicable margin for LIBOR rate borrowings on the dollar equivalent of the daily stated amount of outstanding letters of credit, plus such letter of credit issuer's customary documentary and processing fees and charges and a fronting fee computed at a rate equal to 0.125% per annum on the daily stated amount of such letter of credit.

During the six months ended July 1, 2018, the federal funds rate ranged from 1.34% to 1.92%, the prime rate ranged from 4.50% to 5.00% and the one-month LIBOR ranged from 1.55% to 2.10%.

The weighted average effective interest rate incurred on our borrowings under our secured credit facilities was 5.6% and 4.6% for the six months ended July 1, 2018 and July 2, 2017, respectively, which includes amortization of deferred financing costs related to our secured credit facilities, amortization of our term loan facility original issue discount and commitment and other fees related to our secured credit facilities.

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

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

Our revolving credit facility includes a springing financial maintenance covenant that requires our net first lien senior secured leverage ratio not to exceed 6.25 to 1.00 (the ratio of consolidated net debt secured by first-priority liens on the collateral to the last twelve months' EBITDA, as defined in the senior credit facilities). The covenant will be tested quarterly if the revolving credit facility is more than 30% drawn (excluding outstanding letters of credit) and will be a condition to drawings under the revolving credit facility that would result in more than 30% drawn thereunder.

Senior Unsecured Debt

Our senior unsecured debt consists of $255.0 million aggregate principal amount borrowings of 8.0% Senior Notes due 2022 (the "senior notes"). The senior notes bear interest at a rate of 8.0% per year and mature on February 15, 2022. We may redeem some or all of the senior notes at certain redemption prices set forth in the indenture governing the senior notes (the "indenture").

We paid $6.4 million in debt issuance costs related to the senior notes, which we capitalized in "Bank indebtedness and other long-term debt, net of deferred financing costs" on our Consolidated Balance Sheets. The deferred financing costs are being amortized over the life of the senior notes and are included in "Interest expense" in our Consolidated Statements of Earnings.

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

The indenture contains restrictive covenants that limit our ability to, among other things: (i) incur additional debt or issue certain preferred shares; (ii) create liens on certain assets; (iii) make certain loans or investments (including acquisitions);

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

(iv) pay dividends on or make distributions in respect of our capital stock or make other restricted payments; (v) consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; (vi) sell assets; (vii) enter into certain transactions with our affiliates; and (viii) restrict dividends from our subsidiaries.

The weighted average effective interest rate incurred on borrowings under our senior notes was 8.2% for the both six months ended July 1, 2018 and July 2, 2017, which included amortization of deferred financing costs and other fees related to our senior notes.

Interest Expense

Interest expense consisted of the following for the periods presented:

	Three Months Ended	
	July 1, 2018	July 2, 2017
	(in thousands)	
Term loan facility [1]	$ 9,681	$ 7,619
Senior notes	5,083	5,083
Capital lease obligations	431	414
Sale leaseback obligations	2,623	2,663
Amortization of deferred financing costs	954	1,001
Other	341	281
Total interest expense	$ 19,113	$ 17,061

	Six Months Ended	
	July 1, 2018	July 2, 2017
	(in thousands)	
Term loan facility [1]	$ 18,800	$ 15,226
Senior notes	10,165	10,165
Capital lease obligations	859	831
Sale leaseback obligations	5,252	5,302
Amortization of deferred financing costs	1,955	2,003
Other	640	596
Total interest expense	$ 37,671	$ 34,123

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(1) Includes amortization of original issue discount.

The weighted average effective interest rate incurred on our borrowings under our secured credit facilities and senior notes (including amortized debt issuance costs, amortization of original issue discount, commitment and other fees related to the secured credit facilities and senior notes) was 6.3% for the six months ended July 1, 2018 and 5.5% for the six months ended July 2, 2017, respectively.

We were in compliance with the debt covenants in effect as of July 1, 2018 for both the secured credit facilities and the senior notes.

7. Fair Value of Financial Instruments:

Fair value measurements of financial instruments are determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity’s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy) has been established.

The following table presents information on our financial instruments as of the periods presented:

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

	July 1, 2018		December 31, 2017	
	Carrying Amount (1)	Estimated Fair Value	Carrying Amount (1)	Estimated Fair Value
	(in thousands)			
Financial Liabilities:				
Bank indebtedness and other long-term debt:				
Current portion	$ 7,600	$ 7,068	$ 7,600	$ 7,220
Long-term portion (2)	973,676	896,189	977,206	937,662
Bank indebtedness and other long-term debt:	$ 981,276	$ 903,257	$ 984,806	$ 944,882

(1) Excluding net deferred financing costs.

(2) Net of original issue discount.

Our financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, accounts payable, our secured credit facilities and our senior notes. The carrying amount of cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximates fair value because of their short maturities. The estimated fair value of our secured credit facilities, term loan facility and senior notes was determined by using the respective average of the ask and bid price of our outstanding borrowings under our term loan facility and the senior notes as of the nearest open market date preceding the reporting period end. The average of the ask and bid price are classified as Level 2 in the fair value hierarchy.

Our non-financial assets, which include long-lived assets, including property, plant and equipment, goodwill and intangible assets, are reported at carrying value and are not required to be measured at fair value on a recurring basis. However, on a periodic basis, or whenever events or changes in circumstances indicate that their carrying value may not be recoverable, we assess our long-lived assets for impairment.

During the six months ended July 1, 2018 and July 2, 2017, there were no significant transfers among Level 1, 2 or 3 fair value determinations.

8. Other Noncurrent Liabilities:

Other noncurrent liabilities consisted of the following as of the dates presented:

	July 1, 2018	December 31, 2017
	(in thousands)	
Sale leaseback obligations, less current portion	$ 176,324	$ 177,933
Deferred rent liability	29,775	27,951
Deferred landlord contributions	7,571	6,282
Long-term portion of unfavorable leases	4,577	5,453
Other	4,867	4,268
Total other noncurrent liabilities	$ 223,114	$ 221,887

9. Income Taxes:

Our income tax expense consists of the following for the periods presented:

	Three Months Ended	
	July 1, 2018	July 2, 2017
	(in thousands)	
Federal and state income taxes	$ (2,251)	$ (3,420)
Foreign income taxes (1)	77	103
Income tax benefit	$ (2,174)	$ (3,317)

	Six Months Ended	
	July 1, 2018	July 2, 2017
	(in thousands)	
Federal and state income taxes	$ 1,284	$ 6,678
Foreign income taxes (1)	475	383
Income tax expense	$ 1,759	$ 7,061

(1) Including foreign taxes withheld.

Our effective income tax rates for the three and six months ended July 1, 2018 were 19.5% and 35.1%, respectively, as compared to 35.9% and 38.5%, respectively, for the three and six months ended July 2, 2017. Our effective income tax rate for the three and six months ended July 1, 2018 was impacted by the reduction in the U.S. federal statutory corporate income tax rate from 35% to 21% resulting from the Tax Cuts and Jobs Act (TCJA) signed into law on December 22, 2017. Our effective income tax rate for the three and six months ended July 1, 2018 differs from the statutory tax rate primarily due to state income taxes, the favorable impact of employment-related federal income tax credits, a one-time adjustment to deferred taxes (the tax effect of the cumulative foreign currency translation adjustment existing as of January 1, 2018) resulting from the change in our intent to no longer indefinitely reinvest monies previously loaned to our Canadian subsidiary partially offset by the negative impact of nondeductible litigation costs related to the Merger, non-deductible penalties, and state tax legislation enacted during the second quarter of 2018 that increased the amount of income subject to state taxation and changed state income tax rates. Our effective income tax rates for the three and six months ended July 2, 2017 differed from the statutory rate primarily due to state income taxes and the favorable impact of employment-related federal income tax credits.

The TCJA's reduction in the U.S. corporate tax rate from 35% to 21% (effective for Fiscal 2018) and increased allowance for bonus depreciation will have a favorable impact on our future net income and cash flows. While we were able to make provisional estimates for the impact of the TJCA, the actual results may differ from these estimates, due to, among other things, changes in our interpretations and assumptions relating to the changes made by the TCJA and additional guidance that is anticipated to be issued by the U.S. Treasury and Internal Revenue Service regarding (i) the newly enacted increase in bonus depreciation for qualifying assets acquired and placed in service after September 27, 2017, (ii) the expansion of the limitation under Section 162(m) relating to the deductibility of executive compensation in excess of $1.0 million, and (iii) the one-time transition tax, net of foreign tax credits and operating losses, on earnings of foreign subsidiaries that were previously deferred from U.S. tax.

For the periods presented herein, we have used the year-to-date effective tax rate (the "discrete method"), as prescribed by ASC 740-270, *Accounting for Income Taxes-Interim Reporting* when a reliable estimate of the estimated annual rate cannot be made. We believe at this time, the use of the discrete method is more appropriate than the annual effective tax rate method due to significant variations in the customary relationship between income tax expense and projected annual pre-tax income or loss which occurs when annual projected pre-tax income or loss nears a relatively small amount in comparison to the differences between income and deductions determined for financial statement purposes versus income tax purposes. Using the discrete method, we have determined our current and deferred income tax expense as if the interim period were an annual period.

Our liability for uncertain tax positions (excluding interest and penalties) was $3.9 million as of July 1, 2018 and December 31, 2017 and if recognized would decrease our provision for income taxes by $2.7 million. Within the next twelve months, we could settle or otherwise conclude certain ongoing income tax audits. As such, it is reasonably possible that the liability for uncertain tax positions could decrease by as much as $1.1 million as a result of settlements with certain taxing authorities and expiring statutes of limitations within the next twelve months.

Total accrued interest and penalties related to unrecognized tax benefits as of July 1, 2018 and December 31, 2017 was $1.1 million and $1.0 million, respectively. On the 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."

10. Stock-Based Compensation Arrangements:

The 2014 Equity Incentive Plan provides Parent authority to grant equity incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, stock bonus awards or performance compensation awards to certain directors, officers or employees of the Company. A summary of the options outstanding under the equity incentive plan as of July 1, 2018 and the activity for the six months ended July 1, 2018 is presented below:

	Stock Options	Weighted Average Exercise Price (1)	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
		($ per share)		($ in thousands)
Outstanding stock options, December 31, 2017	2,349,288	$9.00		
Options Granted	112,769	$13.73		
Options Exercised	(7,745)	$9.96		
Options Forfeited	(191,632)	$9.58		
Outstanding stock options, July 1, 2018	2,262,680	$9.17	6.2	$ 132
Stock options expected to vest, July 1, 2018	1,573,236	$9.40	6.3	$ —
Exercisable stock options, July 1, 2018	514,639	$8.41	5.8	$ 423

(1) The weighted average exercise price reflects the original grant date fair value per option as adjusted for the dividend payment made in August 2015.

As of July 1, 2018, we had $1.1 million of total unrecognized share-based compensation expense related to unvested options, which is expected to be amortized over the remaining weighted-average period of 2.8 years.

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

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

	Three Months Ended	
	July 1, 2018	July 2, 2017
	(in thousands)	
Stock-based compensation costs	$ 166	$ 189
Portion capitalized as property and equipment (1)	(3)	(3)
Stock-based compensation expense recognized	$ 163	$ 186

	Six Months Ended	
	July 1, 2018	July 2, 2017
	(in thousands)	
Stock-based compensation costs	$ 233	$ 343
Portion capitalized as property and equipment (1)	(6)	(7)
Stock-based compensation expense recognized	$ 227	$ 336

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(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 venue development projects, such as the design and construction of a new venue and the remodeling and expansion of our existing venues. Capitalized stock-based compensation costs attributable to our venue development projects are included in "Property and equipment, net" in the Consolidated Balance Sheets.

11. Stockholder's Equity:

The following table summarizes the changes in stockholder's equity during the six months ended July 1, 2018:

	Common Stock		Capital In Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
	(in thousands, except share information)					
Balance at December 31, 2017	200	$ —	$ 359,233	$ (95,199)	$ (1,886)	$ 262,148
Net income	—	—		3,256		3,256
Other comprehensive income	—	—			300	300
Stock-based compensation costs	—	—	233			233
Balance July 1, 2018	200	$ —	$ 359,466	$ (91,943)	$ (1,586)	$ 265,937

12. Consolidating Guarantor Financial Information:

On February 14, 2014, CEC Entertainment, Inc. (the "Issuer") merged with and into an entity controlled by Apollo Global Management, LLC and its subsidiaries, which we refer to as the "Merger." The senior notes issued by the Issuer, in conjunction with the Merger, are our unsecured obligations and are fully and unconditionally, jointly and severally guaranteed by all of our 100% wholly-owned U.S. subsidiaries (the "Guarantors"). Our wholly-owned foreign subsidiaries and our less-than-wholly-owned U.S. subsidiaries are not a party to the guarantees (the "Non-Guarantors"). The following schedules present the condensed consolidating financial statements of the Issuer, Guarantors and Non-Guarantors, as well as consolidated results, for the periods presented:

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

CEC Entertainment, Inc.
Condensed Consolidating Balance Sheet
As of July 1, 2018
(in thousands)

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	$ 86,234	$ 1,884	$ 769	$ —	$ 88,887
Restricted cash	—	—	207	—	207
Accounts receivable	20,823	2,748	4,665	(4,009)	24,227
Inventories	16,361	4,041	269	—	20,671
Prepaid expenses	14,360	13,083	1,302	—	28,745
Total current assets	137,778	21,756	7,212	(4,009)	162,737
Property and equipment, net	474,661	72,528	6,591	—	553,780
Goodwill	433,024	51,414	—	—	484,438
Intangible assets, net	15,692	462,990	—	—	478,682
Intercompany	76,325	—	—	(76,325)	—
Investment in subsidiaries	477,703	—	—	(477,703)	—
Other noncurrent assets	7,870	10,111	81	—	18,062
Total assets	$ 1,623,053	$ 618,799	$ 13,884	$ (558,037)	$ 1,697,699
Current liabilities:					
Bank indebtedness and other long-term debt, current portion	$ 7,600	$ —	$ —	$ —	$ 7,600
Capital lease obligations, current portion	624	—	10	—	634
Accounts payable and accrued expenses	55,843	39,717	4,389	—	99,949
Other current liabilities	4,490	510	—	—	5,000
Total current liabilities	68,557	40,227	4,399	—	113,183
Capital lease obligations, less current portion	12,627	—	47	—	12,674
Bank indebtedness and other long-term debt, net of deferred financing costs, less current portion	963,243	—	—	—	963,243
Deferred tax liability	96,539	16,056	(1,923)	—	110,672
Intercompany	—	53,341	26,993	(80,334)	—
Other noncurrent liabilities	216,150	15,379	461	—	231,990
Total liabilities	1,357,116	125,003	29,977	(80,334)	1,431,762
Stockholder's equity:					
Common stock	—	—	—	—	—
Capital in excess of par value	359,466	466,115	3,241	(469,356)	359,466
Retained earnings (deficit)	(91,943)	27,681	(17,748)	(9,933)	(91,943)
Accumulated other comprehensive income (loss)	(1,586)	—	(1,586)	1,586	(1,586)
Total stockholder's equity	265,937	493,796	(16,093)	(477,703)	265,937
Total liabilities and stockholder's equity	$ 1,623,053	$ 618,799	$ 13,884	$ (558,037)	$ 1,697,699

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

CEC Entertainment, Inc.
Condensed Consolidating Balance Sheet
As of December 31, 2017
(in thousands)

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	$ 59,948	$ 410	$ 6,842	$ —	$ 67,200
Restricted cash	—	—	112	—	112
Accounts receivable	27,098	3,283	2,563	(1,923)	31,021
Inventories	17,104	4,614	282	—	22,000
Prepaid expenses	13,766	5,549	1,083	—	20,398
Total current assets	117,916	13,856	10,882	(1,923)	140,731
Property and equipment, net	496,725	66,669	6,627	—	570,021
Goodwill	433,024	51,414	—	—	484,438
Intangible assets, net	16,764	463,613	—	—	480,377
Intercompany	90,937	10,770	—	(101,707)	—
Investment in subsidiaries	462,873	—	—	(462,873)	—
Other noncurrent assets	7,913	11,359	205	—	19,477
Total assets	$ 1,626,152	$ 617,681	$ 17,714	$ (566,503)	$ 1,695,044
Current liabilities:					
Bank indebtedness and other long-term debt, current portion	$ 7,600	$ —	$ —	$ —	$ 7,600
Capital lease obligations, current portion	586	—	10	—	596
Accounts payable and accrued expenses	58,014	35,134	4,169	—	97,317
Other current liabilities	4,265	511	—	—	4,776
Total current liabilities	70,465	35,645	4,179	—	110,289
Capital lease obligations, less current portion	12,956	—	54	—	13,010
Bank indebtedness and other long-term debt, net of deferred financing costs, less current portion	965,213	—	—	—	965,213
Deferred tax liability	99,083	16,697	(1,594)	—	114,186
Intercompany	—	75,052	28,578	(103,630)	—
Other noncurrent liabilities	216,287	13,465	446	—	230,198
Total liabilities	1,364,004	140,859	31,663	(103,630)	1,432,896
Stockholder's equity:					
Common stock	—	—	—	—	—
Capital in excess of par value	359,233	466,114	3,241	(469,355)	359,233
Retained earnings (deficit)	(95,199)	10,708	(15,304)	4,596	(95,199)
Accumulated other comprehensive income (loss)	(1,886)	—	(1,886)	1,886	(1,886)
Total stockholder's equity	262,148	476,822	(13,949)	(462,873)	262,148
Total liabilities and stockholder's equity	$ 1,626,152	$ 617,681	$ 17,714	$ (566,503)	$ 1,695,044

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CEC Entertainment, Inc.
Consolidating Statement of Comprehensive Income (Loss)
For the Three Months Ended July 1, 2018
(in thousands)

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues:					
Food and beverage sales	$ 81,611	$ 13,438	$ 1,209	$ —	$ 96,258
Entertainment and merchandise sales	100,495	13,147	2,262	—	115,904
Total company venue sales	182,106	26,585	3,471	—	212,162
Franchise fees and royalties	429	4,216	551	—	5,196
International Association assessments and other fees	233	9,713	8,529	(18,475)	—
Total revenues	182,768	40,514	12,551	(18,475)	217,358
Operating Costs and Expenses:					
Company venue operating costs:					
Cost of food and beverage	18,848	3,607	439	—	22,894
Cost of entertainment and merchandise	7,899	403	119	—	8,421
Total cost of food, beverage, entertainment and merchandise	26,747	4,010	558	—	31,315
Labor expenses	56,461	4,994	1,163	—	62,618
Rent expense	21,900	2,319	495	—	24,714
Other venue operating expenses	42,386	3,793	837	(9,947)	37,069
Total company venue operating costs	147,494	15,116	3,053	(9,947)	155,716
Advertising expense	8,773	1,420	11,312	(8,528)	12,977
General and administrative expenses	4,326	8,669	421	—	13,416
Depreciation and amortization	22,268	2,713	512	—	25,493
Transaction, severance and related litigation costs	146	45	—	—	191
Asset impairments	86	1,505	—	—	1,591
Total operating costs and expenses	183,093	29,468	15,298	(18,475)	209,384
Operating income (loss)	(325)	11,046	(2,747)	—	7,974
Equity in earnings (loss) in affiliates	5,778	—	—	(5,778)	—
Interest expense	18,099	911	103	—	19,113
Income (loss) before income taxes	(12,646)	10,135	(2,850)	(5,778)	(11,139)
Income tax expense	(3,681)	2,227	(720)	—	(2,174)
Net income (loss)	$ (8,965)	$ 7,908	$ (2,130)	$ (5,778)	$ (8,965)
Components of other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments	145	—	145	(145)	145
Comprehensive income (loss)	$ (8,820)	$ 7,908	$ (1,985)	$ (5,923)	$ (8,820)

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

CEC Entertainment, Inc.
Consolidating Statement of Comprehensive Income (Loss)
For the Three Months Ended July 2, 2017
(in thousands)

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues:					
Food and beverage sales	$ 82,807	$ 13,324	$ 1,280	$ —	$ 97,411
Entertainment and merchandise sales	88,857	18,811	2,056	—	109,724
Total company venue sales	171,664	32,135	3,336	—	207,135
Franchise fees and royalties	463	4,186	—	—	4,649
International Association assessments and other fees	375	10,544	8,098	(19,017)	—
Total revenues	172,502	46,865	11,434	(19,017)	211,784
Operating Costs and Expenses:					
Company venue operating costs:					
Cost of food and beverage	18,936	3,464	423	—	22,823
Cost of entertainment and merchandise	6,329	389	136	—	6,854
Total cost of food, beverage, entertainment and merchandise	25,265	3,853	559	—	29,677
Labor expenses	54,654	4,541	1,156	—	60,351
Rent expense	21,825	1,552	529	—	23,906
Other venue operating expenses	42,664	3,259	990	(10,946)	35,967
Total company venue operating costs	144,408	13,205	3,234	(10,946)	149,901
Advertising expense	8,315	1,413	10,580	(8,071)	12,237
General and administrative expenses	4,391	9,268	60	—	13,719
Depreciation and amortization	24,729	2,401	493	—	27,623
Transaction, severance and related litigation costs	490	—	—	—	490
Total operating costs and expenses	182,333	26,287	14,367	(19,017)	203,970
Operating income (loss)	(9,831)	20,578	(2,933)	—	7,814
Equity in earnings (loss) in affiliates	27,993	—	—	(27,993)	—
Interest expense	15,921	975	165	—	17,061
Income (loss) before income taxes	2,241	19,603	(3,098)	(27,993)	(9,247)
Income tax expense (benefit)	8,171	(10,515)	(973)	—	(3,317)
Net income (loss)	$ (5,930)	$ 30,118	$ (2,125)	$ (27,993)	$ (5,930)
Components of other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments	420	—	420	(420)	420
Comprehensive income (loss)	$ (5,510)	$ 30,118	$ (1,705)	$ (28,413)	$ (5,510)

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

CEC Entertainment, Inc.
Consolidating Statement of Comprehensive Income (Loss)
For the Six Months Ended July 1, 2018
(in thousands)

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues:					
Food and beverage sales	$ 184,259	$ 27,396	$ 2,980	$ —	$ 214,635
Entertainment and merchandise sales	215,770	25,874	5,377	—	247,021
Total company venue sales	400,029	53,270	8,357	—	461,656
Franchise fees and royalties	1,000	8,359	1,247	—	10,606
International Association assessments and other fees	574	18,751	19,090	(38,415)	—
Total revenues	401,603	80,380	28,694	(38,415)	472,262
Operating Costs and Expenses:					
Company venue operating costs:					
Cost of food and beverage	41,733	7,497	1,024	—	50,254
Cost of entertainment and merchandise	16,665	848	289	—	17,802
Total cost of food, beverage, entertainment and merchandise	58,398	8,345	1,313	—	68,056
Labor expenses	117,290	10,088	2,588	—	129,966
Rent expense	43,697	4,008	1,059	—	48,764
Other venue operating expenses	85,295	7,382	1,806	(19,351)	75,132
Total company venue operating costs	304,680	29,823	6,766	(19,351)	321,918
Advertising expense	19,758	3,361	22,897	(19,064)	26,952
General and administrative expenses	8,521	16,837	967	—	26,325
Depreciation and amortization	45,645	5,445	975	—	52,065
Transaction, severance and related litigation costs	459	266	—	—	725
Asset Impairments	86	1,505	—	—	1,591
Total operating costs and expenses	379,149	57,237	31,605	(38,415)	429,576
Operating income (loss)	22,454	23,143	(2,911)	—	42,686
Equity in earnings (loss) in affiliates	14,423	—	—	(14,423)	—
Interest expense	35,627	1,755	289	—	37,671
Income (loss) before income taxes	1,250	21,388	(3,200)	(14,423)	5,015
Income tax expense	(2,006)	4,414	(649)	—	1,759
Net income (loss)	$ 3,256	$ 16,974	$ (2,551)	$ (14,423)	$ 3,256
Components of other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments	300	—	300	(300)	300
Comprehensive income (loss)	$ 3,556	$ 16,974	$ (2,251)	$ (14,723)	$ 3,556

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CEC Entertainment, Inc.
Consolidating Statement of Comprehensive Income (Loss)
For the Six Months Ended July 2, 2017
(in thousands)

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues:					
Food and beverage sales	$ 190,998	$ 27,725	$ 3,107	$ —	$ 221,830
Entertainment and merchandise sales	207,645	32,923	5,073	—	245,641
Total company venue sales	398,643	60,648	8,180	—	467,471
Franchise fees and royalties	904	8,368	—	—	9,272
International Association assessments and other fees	689	21,088	18,607	(40,384)	—
Total revenues	400,236	90,104	26,787	(40,384)	476,743
Operating Costs and Expenses:					
Company venue operating costs:					
Cost of food and beverage	42,931	7,152	957	—	51,040
Cost of entertainment and merchandise	14,230	804	307	—	15,341
Total cost of food, beverage, entertainment and merchandise	57,161	7,956	1,264	—	66,381
Labor expenses	114,837	9,379	2,522	—	126,738
Rent expense	43,104	3,053	1,068	—	47,225
Other venue operating expenses	85,680	6,545	2,295	(21,804)	72,716
Total company venue operating costs	300,782	26,933	7,149	(21,804)	313,060
Advertising expense	19,252	3,259	21,688	(18,580)	25,619
General and administrative expenses	10,137	18,803	150	—	29,090
Depreciation and amortization	50,044	4,820	1,064	—	55,928
Transaction, severance and related litigation costs	570	—	—	—	570
Total operating costs and expenses	380,785	53,815	30,051	(40,384)	424,267
Operating income (loss)	19,451	36,289	(3,264)	—	52,476
Equity in earnings (loss) in affiliates	38,647	—	—	(38,647)	—
Interest expense	31,828	1,992	303	—	34,123
Income (loss) before income taxes	26,270	34,297	(3,567)	(38,647)	18,353
Income tax expense (benefit)	14,978	(6,803)	(1,114)	—	7,061
Net income (loss)	$ 11,292	$ 41,100	$ (2,453)	$ (38,647)	$ 11,292
Components of other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments	539	—	539	(539)	539
Comprehensive income (loss)	$ 11,831	$ 41,100	$ (1,914)	$ (39,186)	$ 11,831

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

CEC Entertainment, Inc.
Consolidating Statement of Cash Flows
For the Six Months Ended July 1, 2018
(in thousands)

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash flows provided by operating activities:	$ 55,435	$ 14,473	$ (4,883)	$ —	$ 65,025
Cash flows from investing activities:					
Purchases of property and equipment	(22,876)	(12,792)	(1,140)	—	(36,808)
Development of internal use software	(973)	(49)	—	—	(1,022)
Proceeds from sale of property and equipment	570	(158)	—	—	412
Cash flows provided by (used in) investing activities	(23,279)	(12,999)	(1,140)	—	(37,418)
Cash flows from financing activities:					
Repayments on senior term loan	(3,800)	—	—	—	(3,800)
Payment of debt financing costs	(395)	—	—	—	(395)
Payments on capital lease obligations	(291)	—	(4)	—	(295)
Payments on sale leaseback transactions	(1,384)	—	—	—	(1,384)
Cash flows provided by (used in) financing activities	(5,870)	—	(4)	—	(5,874)
Effect of foreign exchange rate changes on cash	—	—	49	—	49
Change in cash, cash equivalents and restricted cash	26,286	1,474	(5,978)	—	21,782
Cash, cash equivalents and restricted cash at beginning of period	59,948	410	6,954	—	67,312
Cash, cash equivalents and restricted cash at end of period	$ 86,234	$ 1,884	$ 976	$ —	$ 89,094

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

CEC Entertainment, Inc.
Consolidating Statement of Cash Flows
For the Six Months Ended July 2, 2017
(in thousands)

	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash flows provided by (used in) operating activities:	$ 55,867	$ 20,594	$ 141	$ —	$ 76,602
Cash flows from investing activities:					
Purchases of property and equipment	(32,066)	(14,330)	(649)	—	(47,045)
Development of internal use software	—	(2,075)	—	—	(2,075)
Proceeds from the sale of property and equipment	237	—	—	—	237
Cash flows provided by (used in) investing activities	(31,829) —	(16,405) —	(649) —	— —	(48,883)
Cash flows from financing activities:					
Repayments on senior term loan	(3,800)	—	—	—	(3,800)
Repayments on note payable	—	(13)	—	—	(13)
Proceeds from sale leaseback transaction	4,073	—	—	—	4,073
Payments on capital lease obligations	(215)	—	(3)	—	(218)
Payments on sale leaseback transactions	(1,161)	—	—	—	(1,161)
Return of capital	1,447	—	—	—	1,447
Cash flows provided by (used in) financing activities	344 —	(13) —	(3) —	— —	328
Effect of foreign exchange rate changes on cash	—	—	239	—	239
Change in cash, cash equivalents and restricted cash	24,382 —	4,176 —	(272) —	— —	28,286
Cash, cash equivalents and restricted cash at beginning of period	53,088	1,158	7,045	—	61,291
Cash, cash equivalents and restricted cash at end of period	$ 77,470	$ 5,334	$ 6,773	$ —	$ 89,577

13. Related Party Transactions:

We reimburse Apollo Management, L.P. for certain out-of-pocket expenses incurred in connection with travel and Board of Directors related expenses. These expenses totaled $0.1 million for the three months ended July 1, 2018 and $0.2 million for the three months ended July 2, 2017 and $0.1 million and $0.3 million for the six months ended July 1, 2018 and July 2, 2017, respectively, and are included in “General and administrative expenses” in our Consolidated Statements of Earnings.

We utilize an Apollo portfolio company to provide security services to certain of our venues. These expenses totaled approximately $0.2 million for both the three months ended July 1, 2018 and July 2, 2017, respectively, and $0.5 million for both the six months ended July 1, 2018 and July 2, 2017, respectively, in connection with services provided by this Apollo portfolio company. These expenses are included in “Other venue operating expenses” in our Consolidated Statements of Earnings.

14. 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.

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

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. All necessary loss accruals based on the probability and estimate of loss have been recorded.

Employment-Related Litigation: On October 10, 2014, former General Manager Richard Sinohui filed a purported class action lawsuit against CEC Entertainment in the Superior Court of California, Riverside County (the "Sinohui Litigation"), claiming to represent other similarly-situated current and former General Managers of CEC Entertainment in California during the period October 10, 2010 to the present. The lawsuit sought an unspecified amount in damages and to certify a class based on allegations that CEC Entertainment wrongfully classified current and former California General Managers as exempt from overtime protections; that such General Managers worked more than 40 hours a week without overtime premium pay, paid rest periods, and paid meal periods; and that CEC Entertainment failed to provide accurate itemized wage statements or to pay timely wages upon separation from employment, in violation of the California Labor Code, California Business and Professions Code, and the applicable Wage Order issued by the California Industrial Welfare Commission. The plaintiff also alleged that CEC Entertainment failed to reimburse General Managers for certain business expenses, including for personal cell phone usage and mileage, in violation of the California Labor Code; he also asserted a claim for civil penalties under the California Private Attorneys General Act ("PAGA"). On December 5, 2014, CEC Entertainment removed the Sinohui Litigation to the U.S. District Court for the Central District of California, Southern Division. On March 16, 2016, the Court issued an order denying in part and granting in part Plaintiff's Motion for Class Certification. Specifically, the Court denied Plaintiff's motion to the extent that he sought to certify a class on Plaintiff's misclassification and wage statement claims, but certified a class with respect to Plaintiff's claims that CEC Entertainment had wrongfully failed to reimburse him for cell phone expenses and/or mileage. On June 14, 2016, the Court dismissed Sinohui's PAGA claim. After participating in mediation on April 19, 2017, the parties agreed to settle all of Sinohui's individual and class claims. Pursuant to the basic terms of their settlement, Sinohui will grant a complete release to CEC Entertainment on behalf of himself and the class of all claims that he asserted or could have asserted against the Company, based on the facts that gave rise to the certified reimbursement claim in the Sinohui Litigation, in exchange for the Company's settlement payment. On December 13, 2017, the Court entered its order granting preliminary approval of the parties' settlement and setting a final fairness hearing for June 15, 2018. Pursuant to the order, Plaintiff filed his motion for final approval of the parties' settlement on April 27, 2018; the Court then set the motion for hearing on June 15, 2018. By order dated June 6, 2018, the Court continued the hearing on the motion for final approval to September 21, 2018. The settlement of this lawsuit should not have a material adverse effect on our results of operations, financial position, liquidity or capital resources.

On January 30, 2017, former Technical Manager Kevin French filed a purported class action lawsuit against the Company in the U. S. District Court for the Northern District of California ("the French Federal Court Lawsuit"), alleging that CEC Entertainment failed to pay overtime wages, failed to issue accurate itemized wage statements, failed to pay wages due upon separation of employment, and failed to reimburse for certain business expenses, including for mileage and personal cell phone usage, in violation of the California Labor Code and federal law, and seeking to certify separate classes on his federal and state claims. On October 30, 2017, the parties conducted a mediation. At the conclusion of the mediation, the parties agreed to settle all of French's class and individual claims. Pursuant to the parties' agreement, on November 14, 2017, the Federal Court Lawsuit was dismissed, and on November 15, 2017, Plaintiff filed a new lawsuit in Superior Court of San Bernadino County, California (the "French State Court Lawsuit"). The French State Court Lawsuit carried forward only the California state law claims alleging a failure to reimburse for business expenses, and sought to certify a class of CEC California Senior Assistant Managers, Assistant Managers, Technical Managers and Assistant Technical Managers who were authorized to drive on behalf of CEC from January 30, 2013 through April 27, 2018. On December 20, 2017, further pursuant to the parties' settlement, Plaintiff filed a Notice of Settlement. The Court entered an order preliminarily approving of the parties' settlement on May 17, 2018; in that same order, the Court set the final approval hearing for October 15, 2018. The settlement of this action will not have a material adverse effect on our results of operations, financial position, liquidity or capital resources.

Litigation Related to the Merger: Following the January 16, 2014 announcement that CEC Entertainment had entered into an agreement ("Merger Agreement"), pursuant to which an entity controlled by Apollo Global Management, LLC and its subsidiaries merged with and into CEC Entertainment, with CEC Entertainment surviving the merger ("the Merger"), four putative shareholder class actions were filed in the District Court of Shawnee County, Kansas, on behalf of purported stockholders of CEC Entertainment, against A.P. VIII Queso Holdings, L.P., CEC Entertainment, CEC Entertainment's directors, Apollo and Merger Sub (as defined in the Merger Agreement), in connection with the Merger Agreement and the transactions contemplated thereby. These actions were consolidated into one action (the "Consolidated Shareholder Litigation") in March 2014, and on July 21, 2015, a consolidated class action petition was filed as the operative consolidated complaint, asserting claims against CEC's former directors, adding The Goldman Sachs Group ("Goldman Sachs") as a defendant, and removing all Apollo entities as defendants (the "Consolidated Class Action Petition"). The Consolidated Class Action Petition alleges that CEC Entertainment's directors breached their fiduciary duties to CEC Entertainment's stockholders in connection with their consideration and approval of the Merger Agreement by, among other things, conducting a deficient sales process, agreeing to an inadequate tender price, agreeing to certain provisions in the Merger Agreement, and filing materially deficient disclosures regarding the transaction. The Consolidated Class Action Petition also alleges that two members of CEC Entertainment's board who also served as the senior managers of CEC Entertainment had material conflicts of interest and that Goldman Sachs aided and abetted the board's breaches as a result of various conflicts of interest facing the bank. The Consolidated Class Action Petition seeks, among other things, to recover damages, attorneys' fees and costs. The Company assumed the defense of the Consolidated Shareholder Litigation on behalf of CEC's named former directors and Goldman Sachs pursuant to existing indemnity agreements. On March 23, 2016, the Court conducted a hearing on the defendants' Motion to Dismiss the Consolidated Class Action Petition and on March 1, 2017, the Special Master appointed by the Court issued a report recommending to the Court that the Consolidated Class Action Petition be dismissed in its entirety.

On March 17, 2017, Plaintiffs filed objections to the Special Master's report and recommendation with the Kansas court and separately filed a motion with the Special Master to amend the complaint as to Goldman Sachs, but not objecting to the dismissal of CEC or its former directors. On November 20, 2017, the Special Master filed a Supplemental Report recommending to the Court that Plaintiffs' motion for leave to amend be denied; if the District Court accepts the Special Master's supplemental recommendations, the case will be dismissed in its entirety. Both remaining parties (Plaintiffs and Goldman Sachs) filed objections to the Supplemental Report on December 22, 2017, and the parties filed responses to these objections on February 16, 2018. The District Court has not yet set this case for trial. While no assurance can be given as to the ultimate outcome of the consolidated matter, we currently believe that the final resolution of the action will not have a material adverse effect on our results of operations, financial position, liquidity or capital resources.

Peter Piper, Inc. Litigation: On September 8, 2016, Diane Jacobson filed a purported class action lawsuit against Peter Piper, Inc. ("Peter Piper") in the U.S. District Court for the District of Arizona, Tucson Division (the "Jacobson Litigation"). The plaintiff claims to represent other similarly-situated consumers who, within the two years prior to the filing of the Jacobson Litigation, received a printed receipt on which Peter Piper allegedly printed more than the last five digits of the consumer's credit/debit card number, in violation of the Fair and Accurate Credit Transactions Act. On November 11, 2016, Peter Piper filed a motion to dismiss the Jacobson Litigation. After the plaintiff filed her opposition to the Motion to Dismiss and Peter Piper filed its reply in support thereof, the motion was submitted to the Court for ruling on December 22, 2016. On February 2, 2017, the Court stayed the Jacobson Litigation pending the decision of the U.S. Ninth Circuit Court of Appeals in *Noble v. Nevada Check Cab Corp.*, a case that presented an issue for decision that is relevant to Peter Piper's motion to dismiss. On March 9, 2018, the Ninth Circuit issued its decision in the Noble case, setting precedent that favors Peter Piper's position in the Jacobson Litigation. Based on the appellate court's decision in that case, on March 15, 2018 Peter Piper filed a motion to lift the stay and requesting that the trial court grant its motion to dismiss. On June 28, 2018, the magistrate judge issued a report recommending that the District Court grant Peter Piper's motion to dismiss and dismiss the plaintiff's claims without prejudice to their refiling. On August 3, 2018, the District Court accepted the magistrate judge's recommendation and entered an order dismissing the lawsuit without prejudice to its refiling.

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

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

This 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 (i) our Consolidated Financial Statements and related notes included in Part I, Item 1. "Financial Statements" of this report and (ii) Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II, Item 8. "Financial Statements and Supplementary Data" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the Securities and Exchange Commission ("SEC") on March 28, 2018. Our MD&A includes the following sub-sections:

- Presentation of Operating Results;
- Executive Summary;
- Key Measure of Our Financial Performance and Key Non-GAAP Measures;
- Key Income Statement Line Item Descriptions;
- 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;
- Non-GAAP Financial Measures; and
- Cautionary Statement Regarding Forward-Looking Statements.

Presentation of Operating Results

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 current fiscal year, which ends on December 30, 2018, and our fiscal year ended December 31, 2017, each consist of 52 weeks.

Seasonality and Variation in Quarterly Results

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

Executive Summary

General

We develop, operate and franchise family dining and entertainment centers (also referred to as "venues") under the names "Chuck E. Cheese's" ("Where A Kid Can Be A Kid") and "Peter Piper Pizza" ("The Solution to the Family Night Out"). Our venues deliver a lively, kid-friendly atmosphere that feature a broad array of entertainment offerings including arcade-style and skill-oriented games, rides, live entertainment shows, and other attractions, with the opportunity for kids to win tickets that they can redeem for prizes. We combine this memorable entertainment experience with a broad and creative menu that combines kid-friendly classics as well as a selection of more sophisticated options for adults. We operate 559 venues and have an additional 196 venues operating under franchise arrangements across 47 states and 14 foreign countries and territories as of July 1, 2018.

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

	Three Months Ended		Six Months Ended	
	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
Number of Company-operated venues:				
Beginning of period	561	560	562	559
New	—	2	—	3
Acquired from franchisee	—	2	—	2
Closed	(2)	—	(3)	—
End of period	559	564	559	564
Number of franchised venues:				
Beginning of period	195	191	192	188
New	2	4	6	7
Acquired from franchisee	—	(2)	—	(2)
Closed	(1)	—	(2)	—
End of period	196	193	196	193
Total number of venues:				
Beginning of period	756	751	754	747
New	2	6	6	10
Acquired from franchisee	—	—	—	—
Closed	(3)	—	(5)	—
End of period	755	757	755	757

Key Measure of Our Financial Performance and Key Non-GAAP Measures

Comparable venue sales. We define "comparable venue sales" as the sales for our domestic Company-operated venues that have been open for more than 18 months as of the beginning of each respective fiscal year or acquired venues we have operated for at least 12 months as of the beginning of each respective fiscal year. Comparable venue sales also excludes sales for our domestic Company-owned venues that are expected to be temporarily closed for more than three months primarily as a result of natural disasters, fires, floods and property damage. We define "comparable venue sales change" as the percentage change in comparable venue sales for each respective fiscal period. We believe comparable venue sales change to be a key performance indicator used within our industry; it is a critical factor when evaluating our performance, as it is indicative of acceptance of our strategic initiatives and local economic and consumer trends.

Adjusted EBITDA and Margin. We define Adjusted EBITDA, a measure used by management to assess operating performance, as net income (loss) plus interest expense, income tax expense (benefit), depreciation and amortization expense, impairments, gains and losses on asset disposals, and stock based compensation. In addition, Adjusted EBITDA excludes other items we consider unusual or non-recurring and certain other adjustments required or permitted in calculating covenant compliance under the indenture governing our senior notes and/or our secured credit facilities. Adjusted EBITDA Margin represents Adjusted EBITDA as a percentage of total revenues.

Key Income Statement Line Item Descriptions

Revenues. Our primary source of revenues is sales at our Company-owned venues ("Company venue sales"), which consist of the sale of food, beverages, game-play credits and merchandise. A portion of our Company venue sales are from sales of value-priced combination packages have historically been comprised of food, beverage and game plays ("Package Deals"), which we promote through in-venue menu pricing, our website and coupon offerings. We allocate the revenues recognized from the sale of our Package Deals and coupons between "Food and beverage sales" and "Entertainment and merchandise sales" based upon the relative 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 game play credit sales, as well as a portion of revenues allocated from Package Deals and coupons that relate to entertainment and merchandise.

Franchise fees and royalties are another source of revenues. We earn monthly royalties from our franchisees based on a percentage of each franchise venue's sales. We also receive development and initial franchise fees to establish new franchised venues, as well as earn fees from the sale of equipment and other items or services to franchisees. Historically, we recognized development and franchise fees as revenues when the franchise venue had opened and we had substantially completed our obligations to the franchisee relating to the opening of a venue. Effective January 1, 2018, with the adoption of Accounting Standards Update 2016-10 *Revenues from Contracts with Customers (Topic 606)*, we recognize initial and renewal development and franchise fees as revenues on a straight-line basis over the life of the franchise agreement starting when the franchise venue has opened. In addition, our national advertising fund receipts from members of the International Association of CEC Entertainment, Inc. (the "Association") are now accounted for on a gross basis as revenue from franchisees, when historically they have been netted against advertising expense.

Company venue operating costs. Certain of our costs and expenses relate only to the operation of our Company-operated venues. These costs and expenses are listed and described below:

- Cost of food and beverage includes all direct costs of food, beverages and costs of related paper and birthday supplies, less rebates from suppliers;
- Cost of entertainment and merchandise includes all direct costs of prizes provided and merchandise sold to our customers, as well as the cost of tickets dispensed to customers;
- Labor expenses consist of salaries and wages, bonuses, related payroll taxes and benefits for venue personnel;
- Rent expense includes lease costs for Company-operated venues, excluding common occupancy costs (e.g., common area maintenance ("CAM") charges and property taxes); and
- Other venue operating expenses primarily include utilities, repair and maintenance costs, liability and property insurance, CAM charges, property taxes, credit card processing fees, licenses, preopening expenses, venue asset disposal gains and losses and all other costs directly related to the operation of a venue.

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

Advertising expense. Advertising expense includes production costs for television commercials, newspaper inserts, Internet advertising, coupons, and media expenses for national and local advertising and consulting fees.

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, back-office support systems and other administrative costs not directly related to the operation of our Company-operated venues.

Depreciation and amortization. Depreciation and amortization includes expenses that are directly related to our Company-operated venues' property and equipment, including leasehold improvements, game and ride equipment, furniture, fixtures and other equipment, and depreciation and amortization of corporate assets and intangibles.

Results of Operations

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

	Three Months Ended			
	July 1, 2018		July 2, 2017	
	(in thousands, except percentages)			
Food and beverage sales	$ 96,258	45.4%	$ 97,411	47.0%
Entertainment and merchandise sales	115,904	54.6%	109,724	53.0%
Total company venue sales	$ 212,162	100.0%	$ 207,135	100.0%

	Six Months Ended			
	July 1, 2018		July 2, 2017	
	(in thousands, except percentages)			
Food and beverage sales	$ 214,635	46.5%	$ 221,830	47.5%
Entertainment and merchandise sales	247,021	53.5%	245,641	52.5%
Total company venue sales	$ 461,656	100.0%	$ 467,471	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			
	July 1, 2018		July 2, 2017	
	(in thousands, except percentages)			
Total company venue sales	$ 212,162	97.6 %	$ 207,135	97.8 %
Franchise fees and royalties	5,196	2.4 %	4,649	2.2 %
Total revenues	217,358	100.0 %	211,784	100.0 %
Company venue operating costs:				
Cost of food and beverage (1)	22,894	23.8 %	22,823	23.4 %
Cost of entertainment and merchandise (2)	8,421	7.3 %	6,854	6.2 %
Total cost of food, beverage, entertainment and merchandise (3)	31,315	14.8 %	29,677	14.3 %
Labor expenses (3)	62,618	29.5 %	60,351	29.1 %
Rent expense (3)	24,714	11.6 %	23,906	11.5 %
Other venue operating expenses (3)	37,069	17.5 %	35,967	17.4 %
Total company venue operating costs (3)	155,716	73.4 %	149,901	72.4 %
Other costs and expenses:				
Advertising expense	12,977	6.0 %	12,237	5.8 %
General and administrative expenses	13,416	6.2 %	13,719	6.5 %
Depreciation and amortization	25,493	11.7 %	27,623	13.0 %
Transaction, severance and related litigation costs	191	0.1 %	490	0.2 %
Asset impairments	1,591	0.7 %	—	— %
Total operating costs and expenses	209,384	96.3 %	203,970	96.3 %
Operating income	7,974	3.7 %	7,814	3.7 %
Interest expense	19,113	8.8 %	17,061	8.1 %
Loss before income taxes	$ (11,139)	(5.1)%	$ (9,247)	(4.4)%

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(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 venue sales.

(4) 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 venue sales.

	Six Months Ended			
	July 1, 2018		July 2, 2017	
	(in thousands, except percentages)			
Total company venue sales	$ 461,656	97.8%	$ 467,471	98.1%
Franchise fees and royalties	10,606	2.2%	9,272	1.9%
Total revenues	472,262	100.0%	476,743	100.0%
Company venue operating costs:				
Cost of food and beverage (1)	50,254	23.4%	51,040	23.0%
Cost of entertainment and merchandise (2)	17,802	7.2%	15,341	6.2%
Total cost of food, beverage, entertainment and merchandise (3)	68,056	14.7%	66,381	14.2%
Labor expenses (3)	129,966	28.2%	126,738	27.1%
Rent expense (3)	48,764	10.6%	47,225	10.1%
Other venue operating expenses (3)	75,132	16.3%	72,716	15.6%
Total company venue operating costs (3)	321,918	69.7%	313,060	67.0%
Other costs and expenses:				
Advertising expense	26,952	5.7%	25,619	5.4%
General and administrative expenses	26,325	5.6%	29,090	6.1%
Depreciation and amortization	52,065	—%	55,928	—%
Transaction, severance and related litigation costs	725	0.2%	570	0.1%
Asset impairments	1,591	0.3%	—	—%
Total operating costs and expenses	429,576	91.0%	424,267	89.0%
Operating income	42,686	9.0%	52,476	11.0%
Interest expense	37,671	8.0%	34,123	7.2%
Income before income taxes	$ 5,015	1.1%	$ 18,353	3.8%

(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 venue sales.

(4) 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 venue sales.

Three months ended July 1, 2018 Compared to the Three months ended July 2, 2017

Revenues

Company venue sales were $212.2 million for the second quarter of 2018 compared to $207.1 million for the second quarter of 2017, primarily attributable to a 1.0% increase in comparable venue sales and a $4.6 million increase in net breakage related to PlayPass compared to the second quarter of 2017, offset by a $1.2 million decrease in revenue due to temporary store closures.

Franchise fees and royalties increased from $4.6 million to $5.2 million primarily due to the impact of new revenue recognition guidance which was effective for us on January 1, 2018. Franchise fees and royalties for the second quarter of 2018 increased $0.6 million related to the recognition of our national advertising fund contributions as revenue, rather than netted against advertising expense (see “Advertising Expense” below).

Company Venue Operating Costs

The cost of food and beverage, as a percentage of food and beverage sales, was 23.8% for the second quarter of 2018 compared to 23.4% for the second quarter of 2017. The marginal increase in the cost of food and beverage on a percentage basis in the second quarter of 2018 was primarily driven by mix shift related to a promotion on chicken wing packages during the second quarter of 2018.

The cost of entertainment and merchandise, as a percentage of entertainment and merchandise sales, was 7.3% for the second quarter of 2018 compared to 6.2% for the second quarter of 2017. The increase in the cost of entertainment and merchandise on a percentage basis in the second quarter of 2018 was impacted by an increase in PlayPass related supplies as a result of PlayPass being deployed to all of our Company-owned venues compared to 459 venues at the end of the second quarter of 2017 and due to the impact of various tests related to time based play and “More Tickets” in certain of our venues during the second quarter of 2018.

Labor expenses were $62.6 million in the second quarter of 2018 compared to $60.4 million in the second quarter of 2017. The increase in the second quarter of 2018 reflects a 4.7% increase in our average hourly wage rate, driven by mandated minimum wage rate increases, partially offset by a reduction in hours.

Other venue operating expenses were $37.1 million in the second quarter of 2018 compared to $36.0 million in the second quarter of 2017. The increase was primarily driven by an increase in self-insurance expense associated with general liability claims, an increase in common area maintenance expenses, and increased expenses related to the production of new menu panels and inserts in connection with the launch of time based play in all of our domestic Company-operated venues.

Advertising Expense

Advertising expense was $13.0 million in the second quarter of 2018 compared to $12.2 million in the second quarter of 2017. Advertising expense for the second quarter of 2018 was impacted by the adoption of a new revenue recognition standard effective January 1, 2018 that requires us to account for our national advertising fund contributions as revenues, rather than netted against Advertising expense. Including the impact of netting national advertising fund revenues against Advertising expense, Advertising expense for the second quarter of 2018 would have been $12.4 million (see “Revenues” above).

General and Administrative Expenses

General and administrative expenses were $13.4 million in the second quarter of 2018 compared to $13.7 million in the second quarter of 2017. The decrease in general and administrative expenses in the second quarter of 2018 is primarily due to cost reductions implemented in the first quarter of 2018, partially offset by an increase in legal fees related to venue related incidents.

Depreciation and Amortization

Depreciation and amortization was $25.5 million in the second quarter of 2018 compared to $27.6 million in the second quarter of 2017. The decrease in depreciation and amortization is primarily due to the impact of certain property plant and equipment having reached the end of their depreciable lives throughout the past year.

Transaction, Severance and Related Litigation Costs

Transaction, severance and related litigation costs were $0.2 million in the second quarter of 2018 compared to $0.5 million in the second quarter of 2017. The Transaction, severance and related litigation costs relate primarily to legal fees incurred in connection with litigation payments incurred in connection with the merger in 2014 of CEC Entertainment, Inc. with and into an entity controlled by Apollo Global Management, LLC and its subsidiaries (referred to as the “Merger”).

Income Taxes

Our effective income tax rate was 19.5% for the second quarter of 2018 as compared to 35.9% for the second quarter of 2017, and was favorably impacted by the Tax Cuts and Jobs Act signed into law on December 22, 2017 which reduced the U.S. federal corporate income tax rate from 35% to 21%. Our effective income tax rate for the second quarter of 2018 differs from the statutory tax rate primarily due to state income taxes, the favorable impact of employment-related federal income tax credits offset by the negative impact of nondeductible litigation costs related to the Merger, non-deductible penalties, and state tax legislation enacted during the quarter that increased the amount of income subject to state taxation and changed state income tax rates. Our effective income tax rate for the second quarter of 2017 differed from the statutory rate primarily due to state income taxes and the favorable impact of employment-related federal income tax credits partially offset by the negative impact of non-deductible litigation costs related to the Merger.

Six months ended July 1, 2018 Compared to Six months ended July 2, 2017

Revenues

Company venue sales were $461.7 million for the first six months of 2018 compared to $467.5 million for the first six months of 2017, primarily attributable to a 2.4% decrease in comparable venue sales, offset partially by a $6.4 million decrease in deferred revenue related to PlayPass compared to the first six months of 2017, and revenue from new venue openings.

Franchise fees and royalties increased from $9.3 million to $10.6 million primarily due to the impact of new revenue recognition guidance which resulted in $1.3 million of national advertising fund contributions from franchisees being recorded as revenue, rather than netted against advertising expense in 2018 (see “Advertising Expense” below).

Company Venue Operating Costs

The cost of food and beverage, as a percentage of food and beverage sales, was 23.4% for the first six months of 2018 compared to 23.0% for the first six months of 2017. The increase in the cost of food and beverage on a percentage basis in the first six months of 2018 was driven primarily by a change in sales mix and an increase in beverage costs.

The cost of entertainment and merchandise, as a percentage of entertainment and merchandise sales, was 7.2% for the first six months of 2018 compared to 6.2% for the first six months of 2017. The cost of entertainment and merchandise on a percentage basis in the first six months of 2018 compared to the first six months of 2017 was impacted by an increase in PlayPass related supplies as a result of PlayPass now being deployed to all of our Company-owned venues, compared to 268 venues at the beginning of 2017, and due to the impact of various tests related to time based play and “More Tickets” in certain of our venues during the second quarter of 2018.

Labor expenses were $130.0 million for the first six months of 2018 compared to $126.7 million for the first six months of 2017. Increased minimum wage rates in several states, fully offset a decrease in labor hours as a result of lower sales volumes in the first six months of 2018 compared to the first six months of 2017.

Other venue operating costs were $75.1 million in the first six months of 2018 compared to $72.7 million in the first six months of 2017. The increase was primarily due to an increase in self-insurance expense associated with general liability claims, increased common area and utility costs, and increased expenses related to the production of new menu boards and panels, partially offset by a decreases in postage and maintenance and repair costs.

Advertising Expense

Advertising expense was $27.0 million in the first six months of 2018 compared to $25.6 million in the first six months of 2017. Advertising expense for the first six months of 2018 was impacted by the adoption of a new revenue recognition standard effective January 1, 2018 that requires us to account for our national advertising fund contributions as revenues, rather than netted against Advertising expense. Including the impact of netting national advertising fund revenues against Advertising expense, Advertising expense for the first six months of 2018 would have been $25.7 million (see “Revenues” above).

General and Administrative Expenses

General and administrative expenses were $26.3 million for the first six months of 2018 compared to $29.1 million for the first six months of 2017. The decrease in general and administrative expenses in the first six months of 2018 is primarily due to a decrease in labor related litigation costs, and cost reductions implemented in the first quarter of 2018.

Depreciation and Amortization

Depreciation and amortization was $52.1 million in the first six months of 2018 compared to $55.9 million in the first six months of 2017. The decrease in depreciation and amortization is primarily due to the impact of certain property plant and equipment having reached the end of their depreciable lives.

Transaction, Severance and Related Litigation Costs

Transaction, severance and related litigation costs were $0.7 million in the first six months of 2018 compared to $0.6 million in the first six months of 2017. The Transaction, severance and related litigation costs in the first six months of 2018 relate primarily to $0.5 million in legal fees incurred in connection with Merger related litigation and severance payments of $0.2 million. The Transaction, severance and related litigation costs in the first six months of 2017 relate to legal fees incurred in connection with Merger related litigation.

Income Taxes

Our effective income tax rate for the six months ended July 1, 2018 was 35.1% as compared to 38.5% for the six months ended July 2, 2017, and was favorably impacted by the TCJA signed into law on December 22, 2017 which reduced the U.S. federal corporate income tax rate from 35% to 21%. Our effective income tax rate for the six months ended July 1, 2018 differs from the statutory tax rate primarily due to state income taxes, the favorable impact of employment-related federal income tax credits and a one-time adjustment to deferred taxes (the tax effect of the cumulative foreign currency translation adjustment existing as of January 1, 2018) resulting from the change in our intent to no longer indefinitely reinvest monies previously loaned to our Canadian subsidiary partially offset by the negative impact of nondeductible litigation costs related to the Merger and non-deductible penalties. In addition, our effective income tax rate for the six months ended July 1, 2018 was negatively impacted by certain state tax legislation enacted during the quarter that increased the amount of income subject to state taxation and changed state income tax rates. Our effective income tax rate for the six months ended July 2, 2017 differed from the statutory rate primarily due to state income taxes and the favorable impact of employment-related federal income tax credits partially offset by the negative impact of non-deductible litigation costs related to the Merger.

Financial Condition, Liquidity and Capital Resources

Overview of Liquidity

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

The primary components of working capital are as follows:

- our guests 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 become 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), similar to other companies in the restaurant industry. As part of our capital allocation strategy, we may elect from time to time to retire certain of our debt obligations through voluntary prepayments or open market purchases.

Sources and Uses of Cash

The following tables present summarized consolidated financial information that we believe is helpful in evaluating our liquidity and capital resources as of and for the periods presented:

	Six Months Ended	
	July 1, 2018	July 2, 2017
	(in thousands)	
Net cash provided by operating activities	$ 65,025	$ 76,602
Net cash used in investing activities	(37,418)	(48,883)
Net cash provided by (used in) financing activities	(5,874)	328
Effect of foreign exchange rate changes on cash	49	239
Change in cash, cash equivalents and restricted cash	$ 21,782	$ 28,286
Interest paid	$ 35,906	$ 31,861
Income taxes paid, net	$ 421	$ 7,716

	July 1, 2018	December 31, 2017
	(in thousands)	
Cash and cash equivalents	$ 88,887	$ 67,200
Restricted cash	$ 207	$ 112
Term loan facility	$ 727,700	$ 731,500
Senior notes	$ 255,000	$ 255,000
Available unused commitments under revolving credit facility	$ 141,000	$ 140,100

Sources and Uses of Cash - Six months ended July 1, 2018 Compared to the Six months ended July 2, 2017

Net cash provided by operating activities was $65.0 million in the six months ended July 1, 2018 compared to $76.6 million in the six months ended July 2, 2017. The decrease in net cash provided by operating activities is primarily due to a decrease in net income and fluctuations in our working capital.

Net cash used in investing activities was $37.4 million in the six months ended July 1, 2018 compared to $48.9 million in the six months ended July 2, 2017. Net cash used in investing activities in the six months ended July 1, 2018 and July 2, 2017 relates primarily to capital expenditures.

Net cash used in financing activities was $5.9 million in the six months ended July 1, 2018, relating primarily to principal payments on our term loan and other lease related obligations. Net cash provided by financing activities of $0.3 million in the six months ended July 2, 2017 related primarily to sale leaseback proceeds of $4.1 million, partially offset by a $1.4 million return of capital.

Debt Financing

Secured Credit Facilities

Our secured credit facilities include (i) a $760.0 million term loan facility with a maturity date of February 14, 2021 (the “term loan facility”) and (ii) a $150.0 million senior secured revolving credit facility with an original maturity date of February 14, 2019, which includes a letter of credit sub-facility and a $30.0 million swingline loan sub-facility (the “revolving credit facility” and together with the term loan facility, the “secured credit facilities”). The secured credit facilities require scheduled quarterly payments on the term loan facility equal to 0.25% of the original principal amount of the term loan facility from July 2014 to December 2020, with the balance paid at maturity, February 14, 2021. As of July 1, 2018, we had no borrowings outstanding under the revolving credit facility and $9.0 million and $9.9 million of letters of credit issued but undrawn under the facility as of July 1, 2018 and December 31, 2017, respectively.

On May 8, 2018 we entered into an incremental assumption agreement with certain of our revolving credit facility lenders to extend the maturity on $95.0 million of the revolving credit facility through November 16, 2020. In connection with the extension of the maturity date, we agreed to the following covenants for the benefit of the revolving facility lenders: (a) with respect to each fiscal year (commencing with the fiscal year ending December 30, 2018), to the extent we have positive excess cash flow (as defined in the secured credit facilities), we will make one or more optional prepayments of term loans to the extent required such that the amount of such optional prepayments, together with the mandatory excess cash flow prepayment of term loans required under the secured credit facilities in respect of such fiscal year, shall equal at least 75% of our excess cash flow for such fiscal year (subject to step-downs based on our net first lien senior secured leverage ratio, and subject to a certain excess cash flow threshold amount) and (b) we shall not incur additional first lien senior secured debt in connection with certain acquisitions, mergers or consolidations unless our net first lien senior secured leverage ratio is not greater than 3.65 to 1.00 on a pro forma basis.

Borrowings under the secured credit facilities bear interest at a rate equal to, at our option, either (a) a London Interbank Offered Rate (“LIBOR”) determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowings, adjusted for certain additional costs, subject to a 1.00% floor in the case of term loans or (b) a base rate determined by reference to the highest of (i) the federal funds effective rate plus 0.5%; (ii) the prime rate of Deutsche Bank AG New York Branch; and (iii) the one-month adjusted LIBOR plus 1.00%; in each case plus an applicable margin. The base applicable margin is 3.25% with respect to LIBOR borrowings and 2.25% with respect to base rate borrowings under the term loan facility, and base rate borrowings and swingline borrowings under the revolving credit facility. The applicable margin for LIBOR borrowings under the term loan facility is subject to one step down from 3.25% to 3.00%, based on our net first lien senior secured leverage ratio. The applicable margin for LIBOR borrowings under the revolving credit facility is subject to two step-downs from 3.25% to 3.00% and 2.75% based on our net first lien senior secured leverage ratio. Effective March 4, 2016, the applicable margin for both our term loan facility and revolving credit facility stepped-down to 3.00%. Effective November 16, 2017, the applicable margin for LIBOR borrowings under both the term loan facility and the revolving facility returned to their previous level of 3.25%.

During the six months ended July 1, 2018, the federal funds rate ranged from 1.34% to 1.92%, the prime rate ranged from 4.5% to 5.0% and the one-month LIBOR ranged from 1.55% to 2.10%.

In addition to paying interest on outstanding principal under the secured credit facilities, we are required to pay a commitment fee to the lenders under the revolving credit facility with respect to the unutilized commitments thereunder. The base applicable commitment fee rate under the revolving credit facility was 0.5% per annum and is subject to one step-down from 0.5% to 0.375% based on our net first lien senior secured leverage ratio. Effective March 4, 2016, the commitment fee rate stepped down to 0.375%. Effective November 16, 2017, the commitment fee rate returned to its previous level of 0.5%. We are also required to pay customary agency fees, as well as letter of credit participation fees computed at a rate per annum equal to the applicable margin for LIBOR rate borrowings on the dollar equivalent of the daily stated amount of outstanding letters of credit, plus such letter of credit issuer’s customary documentary and processing fees and charges and a fronting fee computed at a rate equal to 0.125% per annum on the daily stated amount of such letter of credit.

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

Senior Unsecured Notes

Our senior unsecured notes consist of $255.0 million aggregate principal amount borrowings of 8.000% Senior Notes due 2022 (the “senior notes”) and mature on February 15, 2022. The senior notes bear interest at a rate of 8.000% per year and mature on February 15, 2022. We may redeem some or all of the senior notes at certain redemption prices set forth in the indenture governing the senior notes (the “indenture”).

Capital Expenditures

We intend to continue to focus our future capital expenditures on reinvestment into our existing Company-operated Chuck E. Cheese’s and Peter Piper Pizza venues through various planned capital initiatives and the development or acquisition of additional Company-operated venues. During the first six months of 2018, we completed 144 game enhancements and 5 major remodels. We have funded and expect to continue to fund our capital expenditures through existing cash flows from operations. Capital expenditures in the first six months of 2018 totaled approximately $37.9 million.

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

	Six Months Ended	
	July 1, 2018	July 2, 2017
	(in thousands)	
Growth capital spend (1)	$ 10.768	$ 28,890
Maintenance capital spend (2)	25,256	16,304
IT capital spend	1,858	3,916
Total Capital Spend	$ 37,882	$ 49,110

(1) Growth capital spend includes major remodels, venue expansions, our PlayPass initiative and new venue development, including relocations and franchise acquisitions.

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

We currently estimate our capital expenditures in 2018 will total approximately $75 million to $85 million, inclusive of maintenance capital, growth capital and IT related capital.

Off-Balance Sheet Arrangements and Contractual Obligations

As of July 1, 2018, we had no off-balance sheet financing arrangements as described in Regulation S-K Item 303(a)(4)(ii).

For information regarding our contractual obligations, refer to "Off Balance Sheet Arrangements and Contractual Obligations" in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on March 28, 2018.

See further discussion of our indebtedness and future debt obligations in "Financial Condition, Liquidity and Capital Resources - Debt Financing" of this report. There have been no other material changes to our contractual obligations since December 31, 2017.

Critical Accounting Policies and Estimates

Information with respect to our critical accounting policies and estimates, which we believe could have the most significant effect on our reported consolidated results and require difficult, subjective or complex judgment by management are described under "Critical Accounting Policies and Estimates" in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on March 28, 2018. See Note 1. "Description of Business and Summary of Significant Accounting Policies" to our Consolidated Financial Statements included in Part I, Item 1. "Financial Statements" of this report. There has been no other material change to the information concerning our critical accounting policies and estimates since December 31, 2017.

Recently Issued Accounting Guidance

Refer to Note 1 "Description of Business and Summary of Significant Accounting Policies" to our Consolidated Financial Statements included in Part I, Item 1. "Financial Statements" of this report for a description of recently issued accounting guidance.

Non-GAAP Financial Measures

Adjusted EBITDA, a measure used by management to assess operating performance, is defined as Net income (loss) plus interest expense, income tax expense (benefit), depreciation and amortization expense, impairments, gains and losses on asset disposals, and stock based compensation. In addition, Adjusted EBITDA excludes other items we consider unusual or non-recurring and certain other adjustments required or permitted in calculating covenant compliance under our secured credit facilities and the indenture governing our senior notes (see discussion of our senior notes in Note 6 "Indebtedness and Interest Expense" to our Consolidated Financial Statements included in Part I, Item 1. "Financial Statements" and above under the heading "Financial Condition, Liquidity and Capital Resources - Debt Financing").

Adjusted EBITDA is presented because we believe that it provides useful information to investors regarding our operating performance and our capacity to incur and service debt and fund capital expenditures. We believe that Adjusted EBITDA is used by many investors, analysts and rating agencies as a measure of performance. We also present Adjusted EBITDA because it is substantially similar to Credit Agreement EBITDA, a measure used in calculating financial ratios and other calculations under our debt agreements, except for (i) the Change in deferred amusement revenue, and (ii) excluding the annualized full year effect of Company-operated and franchised venues that were opened and closed during the year. By reporting Adjusted EBITDA, we provide a basis for comparison of our business operations between current, past and future periods by excluding items that we do not believe are indicative of our core operating performance.

Our definition of Adjusted EBITDA allows for the exclusion of certain non-cash and other income and expense items that are used in calculating net income from continuing operations. However, these are items that may recur, vary greatly and can be difficult to predict. They can represent the effect of long-term strategies as opposed to short-term results. In addition, certain of these items can represent the reduction of cash that could be used for other corporate purposes. These measures should not be considered as alternatives to operating income, cash flows from operating activities or any other performance measures derived in accordance with GAAP as measures of operating performance, or cash flows as measures of liquidity. These measures have important limitations as analytical tools, and you should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP. Because of these limitations, we rely primarily on our U.S. GAAP results and use Adjusted EBITDA and Adjusted EBITDA Margin, only supplementally.

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The following table sets forth a reconciliation of Net income to Adjusted EBITDA and Adjusted EBITDA Margin for the periods presented:

	Three Months Ended		Six Months Ended	
	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
	(in thousands, except percentages)			
Total revenues	$ 217,358	$ 211,784	$ 472,262	$ 476,743
Net income as reported	$ (8,965)	$ (5,930)	$ 3,256	$ 11,292
Interest expense	19,113	17,061	37,671	34,123
Income tax expense	(2,174)	(3,317)	1,759	7,061
Depreciation and amortization	25,493	27,623	52,065	55,928
Asset Impairments	1,591	—	1,591	—
Loss on asset disposals, net (1)	801	1,961	2,038	3,716
Unrealized loss on foreign exchange (2)	339	—	695	—
Non-cash stock-based compensation (3)	163	186	227	336
Rent expense book to cash (4)	2,015	1,856	4,188	2,836
Franchise revenue, net cash received (5)	322	(254)	742	(344)
Impact of purchase accounting (6)	—	569	—	785
Venue pre-opening costs (7)	2	248	25	488
One-time and unusual items (8)	702	947	1,467	3,213
Change in deferred amusement revenue (9)	(5,237)	(676)	(2,006)	4,368
Adjusted EBITDA	$ 34,165	$ 40,274	$ 103,718	$ 123,802
Adjusted EBITDA Margin	15.7%	19.0%	22.0%	26.0%

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(1) Relates primarily to gains or losses upon disposal of property or equipment.

(2) Relates to unrealized gains or losses on the revaluation of our indebtedness with our Canadian subsidiary. Effective January 1, 2018, we no longer consider undistributed income from our Canadian subsidiary to be permanently invested.

(3) Represents non-cash equity-based compensation expense.

(4) Represents (i) the removal of the non-cash portion of rent expense relating to the impact of straight-line rent and the amortization of cash incentives and allowances received from landlords, plus (ii) the actual cash received from landlords incentives and allowances in the period in which it was received.

(5) Represents the actual cash received for franchise fees received in the period for post-acquisition franchise development agreements, which we do not start recognizing into revenue until the franchise venue is opened.

(6) Represents revenue related to unearned gift cards and unearned franchise fees that were removed in purchase accounting, and, therefore, were not recorded as revenue.

(7) Relates to start-up and marketing costs incurred prior to the opening of new Company-owned venues and generally consists of payroll, recruiting, training, supplies and rent incurred prior to venue opening.

(8) Represents non-recurring income and expenses primarily related to (i) legal fees, claims and settlements related to litigation in respect of the Merger; (ii) severance expense and executive termination benefits; (iii) legal claims and settlements related to employee class action lawsuits and settlements; (iv) sales and use tax refunds relating to prior periods; (v) professional fees incurred in connection with one-time strategic corporate and tax initiatives, such as accounting and consulting fees incurred to enhance transfer pricing and to implement PlayPass; (vi) removing current period property losses and insurance recoveries relating to prior period business interruption losses at certain venues, primarily relating to disaster recoveries, such as natural disasters, fires, floods and property damage; and (vii) one-time training and travel-related costs incurred in connection with training venue employees in connection with the implementation of our PlayPass initiative that we began in 2016.

(9) Represents the change in the deferred revenue liability relating to unused game play credits on PlayPass cards through the end of the periods presented. The deferred revenue liability built up due to the PlayPass implementation as the shift in the business model from tokens to play credits impacted revenue recognition. Since PlayPass is now fully deployed in all of our domestic Company-operated venues, the liability should fluctuate in proportion to entertainment and merchandise revenue in future periods.

Cautionary Statement Regarding Forward-Looking Statements

This report contains forward-looking statements, which involve risks and uncertainties. These forward-looking statements are generally identified by the use of forward-looking terminology, including the terms "anticipate," "believe," "could," "estimate," "expect," "intent," "may," "plan," "predict," "potential," "project," "should," "target," "will," "would" and, in each case, their negative or other various or comparable terminology. All statements other than statements of historical facts contained in this report, including statements regarding our strategy, future operations, future financial position, future revenue, projected costs, prospects, plans, objections of management and expected market growth 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 our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on March 28, 2018. 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, but are not limited to:

- our strategy, outlook and growth prospects;
- our operational and financial targets and dividend policy;
- our planned expansion of the venue base and the implementation of the new design in our existing venues;
- general economic trends and trends in the industry and markets; and
- the competitive environment in which we operate.

These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Important factors that could cause our results to vary from expectations include, but are not limited to:

- negative publicity and changes in consumer preferences;
- our ability to successfully expand and update our current venue base;
- our ability to successfully implement our marketing strategy;
- our ability to compete effectively in an environment of intense competition;
- our ability to weather economic uncertainty and changes in discretionary spending;
- increases in food, labor and other operating costs;
- our ability to successfully open international franchises and to operate under the United States and foreign anti-corruption laws that govern those international ventures;
- risks related to our substantial indebtedness;
- failure of our information technology systems to support our current and growing business;
- disruptions to our commodity distribution system;
- our dependence on third-party vendors to provide us with sufficient quantities of new entertainment-related equipment, prizes and merchandise at acceptable prices;
- risks from product liability claims and product recalls;
- the impact of governmental laws and regulations and the outcomes of legal proceedings;
- potential liability under certain state property laws;
- fluctuations in our financial results due to new venue openings;
- local conditions, natural disasters, terrorist attacks and other events and public health issues;
- the seasonality of our business;
- inadequate insurance coverage;
- labor shortages and immigration reform;
- loss of certain personnel;
- our ability to protect our trademarks or other proprietary rights;
- our ability to pay our fixed rental payments;
- our ability to successfully integrate the operations of companies we acquire;
- impairment charges for goodwill, indefinite-lived intangible assets or other long-lived assets;
- our failure to maintain adequate internal controls over our financial and management systems; and

- other risks, uncertainties and factors set forth in Part I, Item 1A. “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on March 28, 2018.

The forward-looking statements made in this report reflect our views with respect to future events as of the date of this report and are based on assumptions and subject to risks and uncertainties. Given these uncertainties, undue reliance should not be placed on these forward-looking statements. These forward-looking statements represent our estimates and assumptions only as of the date of this report and, except as required by law, we undertake no obligation to update or review publicly any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this report. We anticipate that subsequent events and developments will cause our views to change. This report should be read completely and with the understanding that our actual future results may be materially different from what we expect. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may undertake. We qualify all of our forward-looking statements by these cautionary statements.

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 rates, commodity price changes and foreign currency fluctuation.

Interest Rate Risk

We are exposed to market risk from changes in the variable interest rates related to borrowings from our secured credit facilities. All of our borrowings outstanding under the secured credit facilities, $727.7 million as of July 1, 2018, accrue interest at variable rates. Assuming the revolving credit facility remains undrawn, each 1% change in assumed interest rates, excluding the impact of our 1% interest rate floor, would result in a $7.3 million change in annual interest expense on indebtedness under the secured credit facilities.

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 purchasing contracts, which may contain pricing arrangements designed to minimize the impact of commodity price fluctuations, and derivative instruments such as futures contracts to mitigate our exposure to commodity price fluctuations.

For the three months ended July 1, 2018 and July 2, 2017, the average cost of a block of cheese was $1.68 and $1.79, respectively. The estimated increase in our food costs from a hypothetical 10% increase in the average cost of a block of cheese would have been $0.2 million and $0.3 million for the three months ended July 1, 2018 and July 2, 2017, respectively. For the six months ended July 1, 2018 and July 2, 2017, the average cost of a block of cheese was $1.69 and $1.74, respectively. The estimated increase in our food costs from a hypothetical 10% increase in the average cost of a block of cheese would have been $0.5 million for the six months ended July 1, 2018 and $0.6 million for the six months ended July 2, 2017, respectively.

For the three months ended July 1, 2018 and July 2, 2017, the average cost of dough per pound was $0.47 and $0.45, respectively. The estimated increase in our food costs from a hypothetical 10% increase in the average cost of dough per pound would have been $0.1 million for both the three months ended July 1, 2018 and July 2, 2017, respectively. For the six months ended July 1, 2018 and July 2, 2017, the average cost of dough per pound was $0.48 and $0.45, respectively. The estimated increase in our food costs from a hypothetical 10% increase in the average cost of dough per pound would have been $0.3 million for both the six months ended July 1, 2018 and July 2, 2017.

Foreign Currency Risk

We are exposed to foreign currency fluctuation risk associated with changes in the value of the Canadian dollar relative to the U.S. dollar as we operate a total of 11 Company-owned venues in Canada. For the three and six months ended July 1, 2018, our Canadian venues generated operating losses of $0.2 million and $0.5 million, respectively, compared to our consolidated operating income of $8.0 million and $42.7 million, respectively.

Changes in the currency exchange rate result in cumulative translation adjustments and are included in “Accumulated other comprehensive income (loss)” on our Consolidated Balance Sheets 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 six months ended July 1, 2018 were $0.751 and $0.814, respectively. A hypothetical 10% devaluation in the average quoted U.S. dollar-equivalent of the Canadian dollar exchange rate during the three and six months ended July 1, 2018 would have decreased our reported consolidated operating results by less than $0.1 million for both the three and six months ended July 1, 2018.

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 July 1, 2018 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.

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.

PART II – OTHER INFORMATION

ITEM 1. Legal Proceedings.

Refer to Note 14 "Commitments and Contingencies" to our Consolidated Financial Statements included in Part I, Item 1. "Financial Statements" of this report for a discussion of our legal proceedings.

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 December 31, 2017, filed with the SEC on March 28, 2018.

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

NONE.

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ITEM 6. Exhibits.

EXHIBIT INDEX

Exhibit Number	Description
10.1*	Incremental Assumption Agreement (Extended Revolving Facility Commitment) dated as of May 8, 2018
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

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* Filed herewith.
** Furnished herewith.

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.
August 10, 2018	By:	/s/ Thomas Leverton
		Thomas Leverton Chief Executive Officer and Director
August 10, 2018	By:	/s/ Dale R. Black
		Dale R. Black Executive Vice President and Chief Financial Officer (Principal Financial Officer)

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** Furnished herewith.

INCREMENTAL ASSUMPTION AGREEMENT
(EXTENDED REVOLVING FACILITY COMMITMENT)

This INCREMENTAL ASSUMPTION AGREEMENT (EXTENDED REVOLVING FACILITY COMMITMENT) (this "***Agreement***"), dated as of May 8, 2018, is made by and among Queso Holdings Inc., a Delaware corporation ("***Holdings***"), CEC Entertainment, Inc., a Kansas corporation (the "***Borrower***"), each "Subsidiary Loan Party" listed on the signature pages hereto (each, a "***Subsidiary Loan Party***" and, collectively, jointly and severally, the "***Subsidiary Loan Parties***"), Deutsche Bank AG New York Branch, as Administrative Agent under the Credit Agreement (as defined below) (the "***Administrative Agent***"), and each of the Lenders party hereto.

WHEREAS, Holdings, the Borrower, the Lenders party thereto from time to time and the Administrative Agent are party to that certain First Lien Credit Agreement, dated as of February 14, 2014 (as amended, restated, supplemented, waived or otherwise modified from time to time prior to the date hereof, the "***Credit Agreement***");

WHEREAS, Holdings and the Borrower desire to amend the Credit Agreement to extend the maturity of certain Revolving Facility Commitments into Extended Maturity Revolving Facility Commitments (as defined below), and to make certain other changes as set forth herein;

WHEREAS, pursuant to Section 2.21(e) of the Credit Agreement, the Borrower may consummate transactions with individual Lenders from time to time to extend the maturity date of such Lender's Loans and/or Commitments of any Class;

WHEREAS, each Revolving Facility Lender holding Revolving Facility Commitments who executes and delivers an Extension Consent (as defined below) on or prior to the Amendment Effective Date (as defined below) has, to the extent set forth on such Extension Consent, elected to extend the maturity of their Revolving Facility Commitments into Extended Maturity Revolving Facility Commitments in accordance with the terms and subject to the conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual agreements herein contained and for other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, and subject to the conditions set forth herein, the parties hereto hereby agree as follows:

section 1. Defined Terms. Capitalized terms used but not defined herein shall have the meanings assigned to such terms in the Credit Agreement.

SECTION 2. Extended Maturity Revolving Facility Commitments. On the date hereof, each Revolving Facility Lender that has delivered a counterpart of this Agreement as an "Extending Lender" in the form of Exhibit A hereto (an "***Extension Consent***") (each such Revolving Facility Lender, an "***Initial Extending Lender***") has agreed to become an Extending Lender hereunder and to extend the maturity date of its Revolving Facility Commitments on the Amendment Effective Date on the terms contemplated hereunder (such extended Revolving Facility Commitments, the "***Extended Maturity Revolving Facility Commitments***"). After the date hereof, each Revolving Facility Lender that has delivered an Extension Consent on or prior to 5:00 p.m., New York City time, on May 11, 2018 (the "***Consent Deadline***") has agreed to become an Extending Lender hereunder (each such Revolving Facility Lender, together with the Initial Extending Lenders, the "***Extending Lenders***") and to extend the maturity date of its Revolving Facility Commitments on the Amendment Effective Date into Extended Maturity Revolving Facility Commitments.

SECTION 3. Amendment of the Credit Agreement. On the Amendment Effective Date, the Credit Agreement shall be amended as follows:

(a) Section 1.01 of the Credit Agreement shall be amended by inserting the following definitions in proper alphabetical order:

(i) "Excess Cash Flow Payment Date" shall mean, with respect to each Excess Cash Flow Period, the date on which the Borrower is required to prepay Term Loans pursuant to Section 2.11(c) in respect of such Excess Cash Flow Period.

(ii) "Extended Maturity Revolving Facility Commitment" shall mean the Revolving Facility Commitments held by each Revolving Facility Lender immediately prior to the First Amendment Effective Date that are converted into Extended Maturity Revolving Facility Commitments pursuant to Section 4 of the First Amendment, as such commitment may be (a) reduced from time to time pursuant to Section 2.08, (b) reduced or increased from time to time pursuant to assignments by or to such Lender under Section 9.04, and (c) increased (or replaced) as provided under Section 2.21. The initial amount of each Lender's Extended Maturity Revolving Facility Commitment as of (and after giving effect to) the First Amendment Effective Date is equal to the amount of such Lender's Revolving Facility Commitment set forth on such Lender's First Amendment Extension Consent.

(iii) "Extended Maturity Required Excess Cash Flow Amount" shall mean, with respect to each Excess Cash Flow Period, an amount equal to (i) the amount by which the Extended Maturity Required Percentage of Excess Cash Flow for such Excess Cash Flow Period exceeds the ECF Threshold Amount minus (ii) an amount equal to the amount of Term Loans required to be repaid pursuant to Section 2.11(c) in respect of such Excess Cash Flow Period.

(iv) "Extended Maturity Required Percentage" shall mean, with respect to each Excess Cash Flow Period, (i) 75%, if the Net First Lien Leverage Ratio at the end of the Excess Cash Flow Period is greater than 3.25 to 1.00, (ii) 50%, if the Net First Lien Leverage Ratio at the end of the Excess Cash Flow Period is greater than 2.75 to 1.00 but less than or equal to 3.25 to 1.00, (iii) 25%, if the Net First Lien Leverage Ratio at the end of the Excess Cash Flow Period is greater than 2.50 to 1.00 but less than or equal to 2.75 to 1.00 or (iv) 0%, if the Net First Lien Leverage Ratio at the end of the Excess Cash Flow Period is less than or equal to 2.50 to 1.00.

(v) "First Amendment" shall mean that certain Incremental Assumption Agreement, dated as of May 8, 2018, by and among Holdings, the Borrower, the Subsidiary Loan Parties party thereto, the Administrative Agent and the Lenders party thereto.

(vi) "First Amendment Extension Consent" shall mean the "Extension Consent" (as defined in the First Amendment).

(vii) "First Amendment Effective Date" shall mean the "Amendment Effective Date" (as defined in the First Amendment).

(viii) "Original Maturity Revolving Facility Commitment" shall mean the Revolving Facility Commitments held by each Revolving Facility Lender immediately prior to the First Amendment Effective Date that are not converted into Extended Maturity Revolving Facility Commitments pursuant to Section 4 of the First Amendment, as such commitments may be (a) reduced from time to time pursuant to Section 2.08, (b) reduced or increased from time to time pursuant to assignments by or to such Lender under Section 9.04, and (c) increased (or replaced) as provided under Section 2.21. The initial amount of each Lender's Original Maturity Revolving Facility Commitment as of (and after giving effect to) the First Amendment Effective Date is equal to the amount of such Lender's Revolving Facility Commitment outstanding immediately prior to the First Amendment Effective Date (that has not been converted to an Extended Maturity Revolving Facility Commitment pursuant to Section 4 of the First Amendment).

(b) The following definitions shall be amended and restated in their entirety to read as follows:

(i) "Financial Covenant" shall mean the covenant of the Borrower set forth in Section 6.11(a); *provided* that, solely with respect to Section 7.01, "Financial Covenant" shall also include the covenants of the Borrower set forth in Sections 6.11(b) and (c).

(ii) "Revolving Facility Commitment" shall mean, with respect to each Revolving Facility Lender, the commitment of such Revolving Facility Lender to make Revolving Facility Loans pursuant to Section 2.01(b), expressed as an amount representing the maximum aggregate permitted amount of such Revolving Facility Lender's Revolving Facility Credit Exposure hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.08, (b) reduced or increased from time to time pursuant to assignments by or to such Lender under Section 9.04, and (c) increased (or replaced) as provided under Section 2.21. The initial amount of each Lender's Revolving Facility Commitment as of the Closing Date was set forth on Schedule 2.01, or in the Assignment and Acceptance or Incremental Assumption Agreement pursuant to which such Lender shall have assumed its Revolving Facility Commitment (or Incremental Revolving Facility Commitment), as applicable. The aggregate amount of the Lenders' Revolving Facility Commitments on the Closing Date was $150,000,000. On the First Amendment Effective Date, there are two Classes of Revolving Facility Commitments, which consist of the Original Maturity Revolving Facility Commitments and the Extended Maturity Revolver Facility Commitments. The aggregate amount of the Lenders' Revolving Facility Commitments on the First Amendment Effective Date is $150,000,000. After the First Amendment Effective Date, additional Classes of Revolving Facility Commitments may be added or created pursuant to Incremental Assumption Agreements.

(iii) "Revolving Facility Maturity Date" shall mean, as the context may require, (a) with respect to the Original Maturity Revolving Facility Commitments in effect on the First Amendment Effective Date, February 14, 2019, (b) with respect to the Extended Maturity Revolving Facility Commitments in effect on the First Amendment Effective Date, November 16, 2020 and (c) with respect to any other Classes of Revolving Facility Commitments, the maturity dates specified therefor in the applicable Incremental Assumption Agreement establishing such Revolving Facility Commitments.

(c) The definition of "Pro Forma Basis" shall be amended by replacing each reference to "Section 6.11" therein to "Section 6.11(a)".

(d) Section 6.11 shall be amended by:

(i) adding "(a)" at the beginning thereof; and

(ii) adding the following new clauses (b) and (c) after clause (a):

"(b) With respect to each Excess Cash Flow Period (commencing with the Excess Cash Flow Period ending on December 31, 2018), the Borrower shall make one or more optional repayments of Term Loans on or prior to the Excess Cash Flow Payment Date applicable to such Excess Cash Flow Period in an aggregate amount at least equal to the Extended Maturity Required Excess Cash Flow Amount required for such Excess Cash Flow Period.

(c) The Borrower shall not incur Indebtedness secured by Liens on the Collateral that are Other First Liens pursuant to Section 6.01(h) unless on such date of the incurrence thereof the Net First Lien Leverage Ratio on a Pro Forma Basis immediately after giving effect to the related acquisition, merger or consolidation, the incurrence of such Indebtedness and the use of proceeds thereof and any related transactions is not greater than 3.65 to 1.00."

SECTION 4. Extension of Revolving Facility Commitments.

(a) On the Amendment Effective Date, the Revolving Facility Commitments of each of the Extending Lenders shall be converted into

"Extended Maturity Revolving Facility Commitments" under the Credit Agreement, and shall have the terms contemplated by the Credit Agreement, after giving effect to the amendments set forth in Section 3 of this Agreement. On the Amendment Effective Date, the Revolving Facility Commitments of each of the Revolving Facility Lenders that are not Extending Lenders shall become "Original Maturity Revolving Facility Commitments" under the Credit Agreement and shall remain outstanding thereunder with the terms contemplated under the Credit Agreement, after giving effect to the amendments set forth in Section 3 of this Agreement. For the avoidance of doubt, all of the terms of the Extended Maturity Revolving Facility Commitments under the Credit Agreement and the other Loan Documents shall be the same as those applicable to the Original Maturity Revolving Facility Commitments, other than with respect to the Maturity Date applicable to the Extended Maturity Revolving Facility Commitments.

(b) On and after the Amendment Effective Date, while each of the Original Maturity Revolving Facility Commitments and the Extended Maturity Revolving Facility Commitments remain outstanding, any Borrowings and/or repayments of Revolving Facility Loans under the Credit Agreement shall be allocated ratably between the Original Maturity Revolving Facility Commitments and the Extended Maturity Revolving Facility Commitments (based on the aggregate amount of commitments outstanding at any such time).

(c) Notwithstanding the foregoing, to the extent that any Revolving Facility Lender has delivered an Extension Consent hereunder that has indicated an amount of Revolving Facility Commitments that is less than the amount of Revolving Facility Commitments held by such Revolving Facility Lender, then (i) such Revolving Facility Lender will be deemed to be an Extending Lender hereunder with respect to the amount so indicated in such Revolving Facility Lender's Extension Consent (such amount, the "***Extension Amount***") and, effective as of the Amendment Effective Date, to have an Extended Maturity Revolving Facility Commitment in an amount equal to such Extension Amount and (ii) such Revolving Facility Lender will be deemed to not be an Extending Lender hereunder with respect to the amount of such Revolving Facility Lender's Revolving Facility Commitment in excess of such Extension Amount (such amount, the "***Non-Extension Amount***") and, effective as of the Amendment Effective Date, to have an Original Maturity Revolving Facility Commitment in amount equal to such Non-Extension Amount.

SECTION 5. Conditions to Effectiveness of Amendment. The Amendments contained in Section 3 of this Agreement and the extension of the Revolving Facility Commitments to Extended Maturity Revolving Facility Commitments contained in Section 4 shall become effective on the date (the "***Amendment Effective Date***") on which the following conditions are satisfied or waived:

(a) The Consent Deadline shall have occurred.

(b) The Borrower shall have paid, to the account of each Extending Lender (other than a Defaulting Lender) as of the Amendment Effective Date, a fee equal to 25 basis points on the aggregate amount of Revolving Facility Commitments held by such Extending Lender on the Amendment Effective Date that are converted to Extended Maturity Revolving Facility Commitments hereunder.

(c) The Administrative Agent shall have received all fees payable thereto on or prior to the Amendment Effective Date and, to the extent invoiced at least three Business Days prior to the Amendment Effective Date, reimbursement or payment of all reasonable and documented out-of-pocket expenses (including reasonable and documented fees, charges and disbursements of Paul Hastings LLP) required to be reimbursed or paid by the Loan Parties in connection with this Agreement on or prior to the Amendment Effective Date.

(d) The Administrative Agent shall have received, on behalf of itself and the Revolving Facility Lenders, a written opinion of Paul, Weiss, Rifkind, Wharton & Garrison LLP, as special counsel to the Loan Parties, (A) dated the date of the Amendment Effective Date, (B) addressed to the Administrative Agent and the Revolving Facility Lenders at the Amendment Effective Date and (C) in form and substance reasonably satisfactory to the Administrative Agent covering such matters relating to this Agreement as the Administrative Agent shall reasonably request.

(e) The Revolving Facility Lenders shall have received a solvency certificate substantially in the form of Exhibit C to the Credit Agreement and signed by a Financial Officer of the Borrower confirming the solvency of Borrower and its Subsidiaries on a consolidated basis after giving effect to the transactions contemplated by this Agreement.

(f) The Administrative Agent shall have received a certificate of the Secretary or Assistant Secretary or similar officer of each Loan Party dated the date of the Amendment Effective Date:

(i) either (x) attaching a copy of the certificate or articles of incorporation, certificate of limited partnership, certificate of formation or other equivalent constituent documents, including all amendments thereto, of such Loan Party, certified as of a recent date by the Secretary of State (or other similar official) of the jurisdiction of its organization or (y) certifying there have been no changes to the certificate or articles of incorporation, certificate of limited partnership, certificate of formation or other equivalent constituent documents of such Loan Party since the Closing Date or the date such Loan Party became a Subsidiary Guarantor, as applicable,

(ii) attaching a "bring-down" certificate as to the good standing (to the extent such concept or a similar concept exists under the laws of such jurisdiction) of such Loan Party as of a recent date from such Secretary State (or similar official),

(iii) either (x) certifying that attached thereto is a true and complete copy of the by-laws (or partnership agreement, limited liability company agreement or other equivalent governing documents) of such Loan Party as in effect at the Amendment Effective Date and at all times since a date prior to the date of the resolutions described in clause (iv) below or (y) certifying that there have been no changes to the by-laws (or partnership agreement, limited liability company agreement or other equivalent governing documents) of such Loan Party since the Closing Date or the date such Loan Party became a Subsidiary Guarantor, as applicable,

(iv) certifying that attached thereto is a true and complete copy of resolutions duly adopted by the Board of Directors (or equivalent governing body) of such Loan Party (or its managing general partner or managing member) authorizing the execution, delivery and performance of the Loan Documents executed in connection with this Agreement to which such Loan Party is a party and that such resolutions have not been modified, rescinded or amended and are in full force and effect at the Amendment Effective Date,

(v) either (x) certifying as to the incumbency and specimen signature of each officer executing any Loan Document executed in connection with this Agreement on behalf of such Loan Party or (y) certifying there have been no changes to the incumbency and specimen signature of each officer executing any Loan Document executed in connection with this Agreement on behalf of such Loan Party since the Closing Date or the date such Loan Party became a Subsidiary Guarantor, as applicable, and

(vi) certifying as to the absence of any pending proceeding for the dissolution or liquidation of such Loan Party or, to the knowledge of such person, threatening the existence of such Loan Party.

Notwithstanding anything to the contrary herein, in the event that the Amendment Effective Date does not occur on or before the date that is 10 Business Days after the date hereof, then this Agreement shall automatically terminate without further action or notice.

SECTION 6. Representations of the Loan Parties. Each Loan Party hereby represents and warrants to the other parties hereto as of the Amendment Effective Date that:

(a) this Agreement has been duly authorized, executed and delivered by each Loan Party and constitutes a legal, valid and binding obligation of such Loan Party enforceable against each such Loan Party in accordance with its terms, subject to (i) the effects of bankruptcy, insolvency, moratorium, reorganization, fraudulent conveyance or other similar laws affecting creditors' rights generally, (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law) and (iii) implied covenants of good faith and fair dealing;

(b) the representations and warranties of the Borrower and each other Loan Party contained in the Loan Documents shall be true and correct in all material respects on and as of the Amendment Effective Date with the same effect as though made on and as of the Amendment Effective Date, except to the extent such representations and warranties expressly relate to an earlier date (in which case such representations and warranties were true and correct in all material respects as of such earlier date);

(c) the execution, delivery and performance by each Loan Party of this Agreement (i) have been duly authorized by all corporate, stockholder, partnership or limited liability company action required to be obtained by such Loan Party and (ii) will not (x) violate (A) any provision of law, statute, rule or regulation applicable to such Loan Party, (B) the certificate or articles of incorporation or other constitutive documents (including any partnership, limited liability company or operating agreements) or by-laws of such Loan Party, (C) any applicable order of any court or any rule, regulation or order of any Governmental Authority or (D) any provision of any indenture, certificate of designation for preferred stock, agreement or other instrument to which such Loan Party is a party or by which any of them or any of their property is or may be bound, (y) result in a breach of or constitute (alone or with due notice or lapse of time or both) a default under, give rise to a right of or result in any cancellation or acceleration of any right or obligation (including any payment) under any such indenture, certificate of designation for preferred stock, agreement or other instrument, where any such conflict, violation, breach or default referred to in clause (x) or (y) of this clause (ii), would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, or (z) result in the creation or imposition of any Lien upon or with respect to (1) any property or assets now owned or hereafter acquired by such Loan Party (other than Holdings), other than the Liens created by the Loan Documents and Permitted Liens, or (2) any Equity Interests of the Borrower now owned or hereafter acquired by Holdings, other than Liens created by the Loan Documents or Liens permitted by Article VIA of the Credit Agreement; and

(d) at the time of and immediately after giving effect to this Agreement, no Default or Event of Default has occurred and is continuing or shall result from this Agreement.

SECTION 7. Consent and Affirmation of the Subsidiary Loan Parties. Each of the Subsidiary Loan Parties, in its capacity as a guarantor under the Subsidiary Guarantee Agreement and a pledgor under the Security Documents to which such Subsidiary Loan Party is a party, hereby (i) consents to the execution, delivery and performance of this Agreement and agrees that each of the Subsidiary Guarantee Agreement and the Security Documents to which such Subsidiary Loan Party is a party is, and shall continue to be, in full force and effect and is hereby in all respects ratified and confirmed on the Amendment Effective Date and (ii) confirms that the Security Documents to which such Subsidiary Loan Party is a party and all of the Collateral described therein do, and shall continue to, secure the payment of all of the Obligations.

SECTION 8. Reference to and Effect on the Loan Documents. %3. On and after the Amendment Effective Date, each reference in the Credit Agreement to "*hereunder*", "*hereof*", "*Agreement*", "*this Agreement*" or words of like import and each reference in the other Loan Documents to "*Credit Agreement*", "*First Lien Credit Agreement*", "*thereunder*", "*thereof*" or words of like import shall, unless the context otherwise requires, mean and be a reference to the Credit Agreement as amended hereby. From and after the Amendment Effective Date, this Agreement shall be a Loan Document under the Credit Agreement.

(a) The Security Documents and each other Loan Document are and shall continue to be in full force and effect and are hereby in all respects ratified and confirmed, and the respective guarantees, pledges, grants of security interests and other agreements, as applicable, under each of the Security Documents, notwithstanding the consummation of the transactions contemplated hereby, shall continue to be in full force and effect and shall accrue to the benefit of the Secured Parties under the Credit Agreement. Without limiting the generality of the foregoing, the Security Documents and all of the Collateral described therein do and shall continue to secure the payment of all Obligations of the Loan Parties under the Loan Documents.

(b) The execution, delivery and effectiveness of this Agreement shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of any Lender or the Administrative Agent under any of the Loan Documents, nor constitute a waiver of any provision of any of the Loan Documents.

(d) This Agreement shall constitute an "Incremental Assumption Agreement", the Lenders party hereto shall constitute "Revolving Facility Lenders" and "Lenders", in each case, for all purposes of the Credit Agreement and the other Loan Documents.

(e) This Agreement shall constitute notice to the Administrative Agent required under Section 2.21(e) of the Credit Agreement and the Administrative Agent and the Revolving Facility Lenders party hereto acknowledge and agree that such notice period is satisfactory.

(f) Each Extending Lender hereunder, to the extent constituting a Swingline Lender or Issuing Bank under the Credit Agreement on the Amendment Effective Date, hereby consents in its capacity as a Swingline Lender and/or an Issuing Bank to the amendments to the Credit Agreement contemplated hereunder and the establishment of the Extended Maturity Revolving Facility Commitments and hereby agrees to continue in its capacity as a Swingline Lender and/or Issuing Bank, as applicable, under the Credit Agreement after the Amendment Effective Date, including under the Extended Maturity Revolving Facility Commitments thereunder.

SECTION 9. Effectiveness; Execution in Counterparts. This Agreement shall become effective when copies hereof that, when taken together, bear the signatures of Holdings, the Borrower, the Subsidiary Loan Parties and the Initial Extending Lenders shall have been received by the Administrative Agent (including in the form of an Extension Consent). This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute but one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by .pdf or other electronic form shall be effective as delivery of a manually executed original counterpart of this Agreement.

SECTION 10. Amendments; Headings; Severability. This Agreement may not be amended nor may any provision hereof be waived except pursuant to a writing signed by Holdings, the Borrower, the Administrative Agent, and the Lenders party hereto. The Section headings used herein are for convenience of reference only, are not part of this Agreement and are not to affect the construction of, or to be taken into consideration in interpreting this Agreement. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof, and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction. The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions, the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 11. Governing Law; Etc.

(a) THIS AGREEMENT AND ANY CLAIMS, CONTROVERSY, DISPUTE OR CAUSES OF ACTION (WHETHER IN CONTRACT OR TORT OR OTHERWISE) BASED UPON, ARISING OUT OF OR RELATING TO THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO ANY PRINCIPLE OF CONFLICTS OF LAW THAT COULD REQUIRE THE APPLICATION OF ANY OTHER LAW.

(b) EACH PARTY HERETO HEREBY AGREES AS SET FORTH IN SECTIONS 9.11 AND 9.15 OF THE CREDIT AGREEMENT AS IF SUCH SECTIONS WERE SET FORTH IN FULL HEREIN.

SECTION 12. No Novation. This Agreement shall not extinguish the obligations for the payment of money outstanding under the Credit Agreement or discharge or release the Lien or priority of any Security Document or any other security therefor. Nothing herein contained shall be construed as a substitution or novation of the obligations outstanding under the Credit Agreement or instruments securing the same, which shall remain in full force and effect, except to any extent modified hereby or by instruments executed concurrently herewith and except to the extent repaid as provided herein. Nothing implied in this Agreement or in any other document contemplated hereby shall be construed as a release or other discharge of any of the Loan Parties under any Loan Document from any of its obligations and liabilities as a borrower, guarantor or pledgor under any of the Loan Documents.

SECTION 13. Notices. All notices hereunder shall be given in accordance with the provisions of Section 9.01 of the Credit Agreement.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

HOLDINGS:

QUESO HOLDINGS INC.

By: /s/ Dale Black
Name: Dale Black
Title: Chief Financial Officer & Treasurer

BORROWER:

CEC ENTERTAINMENT, INC.

By: /s/ Dale Black
Name: Dale Black
Title: Chief Financial Officer

SUBSIDIARY LOAN PARTIES:

CEC ENTERTAINMENT HOLDINGS, LLC

By: /s/ Laurie Priest
Name: Laurie Priest
Title: Vice President & Secretary

CEC ENTERTAINMENT CONCEPTS, L.P.

By: /s/ Dale Black
Name: Dale Black
Title: Chief Financial Officer

SPT DISTRIBUTION COMPANY, INC.

By: /s/ Laurie Priest
Name: Laurie Priest
Title: Vice President & Treasurer

BHC ACQUISITION CORPORATION

By: /s/ Maribel Alamillo
Name: Maribel Alamillo
Title: Chief Executive Officer, President & Chief Operating Officer

HOSPITALITY DISTRIBUTION INCORPORATED

By: /s/ David A. Deck
Name: David A. Deck
Title: President

SB HOSPITALITY CORPORATION

By: /s/ Laurie Priest
Name: Laurie Priest
Title: Vice President & Treasurer

PETER PIPER HOLDINGS, INC.

By: /s/ David A. Deck
Name: David A. Deck
Title: Vice President, General Counsel & Secretary

PETER PIPER, INC.

By: /s/ David A. Deck
Name: David A. Deck
Title: Vice President, General Counsel & Secretary

PETER PIPER MEXICO, LLC

By: /s/ Tom Leverton
Name: Tom Leverton
Title: Manager

TEXAS PP BEVERAGE, INC.

By: /s/ David A. Deck
Name: David A. Deck
Title: Vice President & Secretary

CEC ENTERTAINMENT LEASING COMPANY

By: /s/ David A. Deck
Name: David A. Deck
Title: Secretary

CEC LEASEHOLDER, LLC

By: /s/ David A. Deck
Name: David A. Deck
Title: Secretary

CEC LEASEHOLDER #2, LLC

By: /s/ David A. Deck
Name: David A. Deck
Title: Secretary

CEC ENTERTAINMENT INTERNATIONAL, LLC

By: /s/ David A. Deck
Name: David A. Deck
Title: Vice President & Secretary

PETER PIPER TEXAS, LLC

By: /s/ Maribel Alamillo
Name: Maribel Alamillo
Title: Manager

DEUTSCHE BANK AG NEW YORK BRANCH, as Administrative Agent

By: /s/ Alicia Schug
Name: Alicia Schug
Title: Vice President

By: /s/ Marguerite Sutton
Name: Marguerite Sutton
Title: Vice President

EXHIBIT 31.1

CERTIFICATION 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
(Chief Executive Officer)

I, Thomas Leverton, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the fiscal quarter ended July 1, 2018 of CEC Entertainment, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

    c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

August 10, 2018

/s/ Thomas Leverton

Thomas Leverton
Chief Executive Officer and Director

EXHIBIT 31.2

CERTIFICATION 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
(Chief Financial Officer)

I, Dale R. Black, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the fiscal quarter ended July 1, 2018 of CEC Entertainment, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 10, 2018

/s/ Dale R. Black
Dale R. Black
Executive Vice President, Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(Chief Executive Officer)

In connection with the Quarterly Report of CEC Entertainment, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended July 1, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certifies, that to the best of my knowledge and belief:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 10, 2018

/s/ Thomas Leverton

Thomas Leverton
Chief Executive Officer and Director

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(Chief Financial Officer)

In connection with the Quarterly Report of CEC Entertainment, Inc. (the “Company”) on Form 10-Q for the fiscal quarter ended July 1, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned certifies, that to the best of my knowledge and belief:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 10, 2018

/s/ Dale R. Black

Dale R. Black
Executive Vice President, Chief Financial Officer