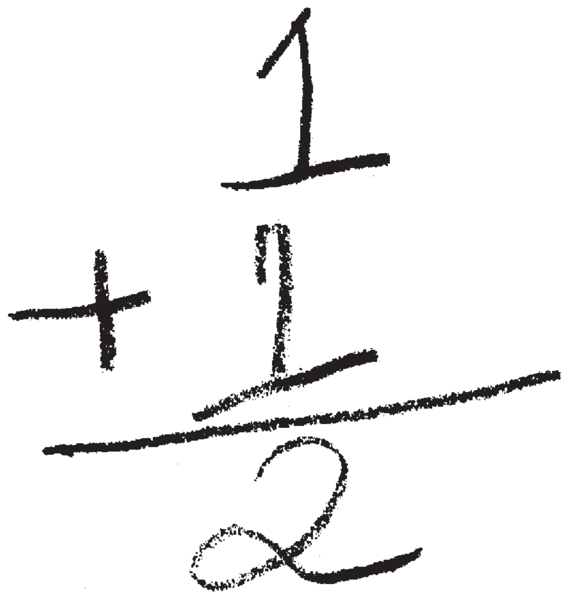


F I N A N C I A L R E V I E W

Selected financial data

(Thousands, except per share and store data)	1999	1998	1997	1996	1995
OPERATING RESULTS (1)					
Revenues	**$440,904**	$379,427	$350,267	$293,990	$263,783
Costs and expenses	**368,578**	324,395	307,558	271,769	263,408
Income before income taxes	**72,326**	55,032	42,709	22,221	375
Income taxes:					
Current expense	**24,807**	9,160	3,417	2,855	701
Deferred expense (benefit)	**3,147**	12,142	13,795	6,145	(389)
	27,954	21,302	17,212	9,000	312
Net income	**$ 44,372**	$ 33,730	$ 25,497	$ 13,221	$ 63
PER SHARE (2) (3)					
Basic:					
Net income (loss)	**$ 1.63**	$ 1.23	$ .91	$ .47	$ (.01)
Weighted average shares outstanding	**27,004**	27,093	27,603	27,309	27,147
Diluted:					
Net income (loss)	**$ 1.58**	$ 1.20	$ .89	$ .47	$ (.01)
Weighted average shares outstanding	**27,922**	27,810	28,226	27,716	27,147
CASH FLOW DATA					
Cash provided by operations	**$ 76,686**	$ 68,614	$ 69,478	$ 48,362	$ 27,810
Cash used in investing activities	**(100,344)**	(65,622)	(43,805)	(51,868)	(30,548)
Cash provided by (used in) financing activities	**23,179**	(7,057)	(21,800)	1,319	5,946
BALANCE SHEET DATA					
Total assets	**$325,168**	$252,228	$226,368	$216,580	$199,010
Long-term obligations (including current portion and redeemable preferred stock)	**63,369**	31,911	30,713	39,571	39,244
Shareholders' equity	**221,228**	183,949	155,938	141,476	126,487
NUMBER OF RESTAURANTS AT YEAR END					
Company operated	**294**	271	249	244	226
Franchise	**55**	54	63	70	93
	349	325	312	314	319

(1) Fiscal year 1997 was 53 weeks in length while all other fiscal years presented were 52 weeks in length.
(2) No cash dividends on common stock were paid in any of the years presented.
(3) All share and per share information has been adjusted to give effect to three-for-two stock split in the form of a 50% stock dividend of the Company's common stock on July 23, 1999.

Quarterly results of operations

(Thousands, except per share data)

		Revenues	Income Before Income Taxes	Net Income	Earnings Per Share		Stock Market Data	
					Basic	Diluted	High	Low
1999	1st Quarter	**$ 118,396**	**$ 23,653**	**$ 14,381**	**$ 0.53**	**$ 0.52**	**$24⅛**	**$15**
	2nd Quarter	**104,935**	**15,576**	**9,471**	**0.35**	**0.34**	**29⅞**	**21 11/16**
	3rd Quarter	**115,583**	**20,227**	**12,297**	**0.45**	**0.44**	**36 9/16**	**25¾**
	4th Quarter	**101,990**	**12,870**	**8,223**	**0.30**	**0.29**	**35¼**	**23½**
		$ 440,904	**$ 72,326**	**$ 44,372**	**$ 1.63**	**$ 1.58**		
1998	1st Quarter	$105,049	$19,215	$11,683	$0.43	$0.42	$22⅝	$13¼
	2nd Quarter	88,901	11,813	7,341	0.27	0.26	26⅞	21 29/32
	3rd Quarter	98,106	14,264	8,673	0.32	0.31	26⅝	11 29/32
	4th Quarter	87,371	9,740	6,033	0.22	0.22	20	12 13/16
		$379,427	$55,032	$33,730	$ 1.23	$1.20		

Management's discussion and analysis

RESULTS OF OPERATIONS

A summary of the results of operations of the Company as a percentage of revenues for the last three fiscal years is shown below.

	1999	1998	1997
Revenues	**100.0%**	100.0%	100.0%
Costs and expenses:			
Cost of sales	**45.1%**	45.9%	46.8%
Selling, general and administrative	**14.9%**	14.9%	15.1%
Depreciation and amortization	**7.0%**	7.3%	7.3%
Interest expense	**.5%**	.7%	.8%
Other operating expenses	**16.1%**	16.7%	17.8%
	83.6%	85.5%	87.8%
Income before income taxes	**16.4%**	14.5%	12.2%

Management's discussion and analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

1999 COMPARED TO 1998 Revenues increased 16.2% to $440.9 million in 1999 from $379.4 million in 1998 primarily due to an increase of 5.7% in sales of the Company's Chuck E. Cheese's restaurants which were open during all of 1999 and 1998 ("comparable store sales"). In addition, the Company opened 23 new restaurants and purchased one restaurant from a franchisee in 1999.

Income before income taxes increased to $72.3 million in 1999 from $55.0 million in 1998. A material portion of operating costs are fixed resulting in an improvement of operating margins at higher sales levels. Net income increased to $44.4 million in 1999 from $33.7 million in 1998. The Company's diluted earnings per share increased to $1.58 per share in 1999 compared to $1.20 per share in 1998.

REVENUES Revenues increased to $440.9 million in 1999 from $379.4 million in 1998. Comparable store sales of Chuck E. Cheese's restaurants increased by 5.7% in 1999. In addition, the Company opened 23 new restaurants and acquired one restaurant from a franchisee in 1999. Average annual revenues per restaurant increased to approximately $1,531,000 in 1999 from approximately $1,452,000 in 1998. Management believes that several factors contributed to the comparable store sales increase with the primary factor being sales increases at Phase II upgraded restaurants. Menu prices increased .4% between the two years.

Revenues from franchise fees and royalties were $3.2 million in 1999 compared to $3.3 million in 1998 primarily due to a reduction in the number of franchise stores. Average annual revenue per franchised restaurant increased due to a 3.7% increase in comparable franchise store sales and higher sales volumes in new franchise restaurants. During 1999, two new franchise restaurants opened.

COSTS AND EXPENSES Costs and expenses as a percentage of revenues decreased to 83.6% in 1999 from 85.5% in 1998.

Cost of sales as a percentage of revenues decreased to 45.1% in 1999 from 45.9% in 1998. Cost of food, beverage, prize and merchandise items as a percentage of restaurant sales decreased to 15.5% in 1999 from 16.0% in 1998 primarily due to an increase in game sales and reduced costs of certain food and beverage products, including cheese costs, and an increase in menu prices. Restaurant labor expenses as a percentage of restaurant sales declined slightly to 26.8% in 1999 from 26.9% in 1998 primarily due the increase in comparable store sales.

Selling, general and administrative expenses as a percentage of revenues was 14.9% in both 1999 and 1998. Efficiencies in advertising and overhead costs were offset by higher preopening expenses and recruiting and training costs in 1999 compared to 1998 due to the greater number of new stores opened in 1999.

Depreciation and amortization expense as a percentage of revenues declined to 7.0% in 1999 from 7.3% in 1998 primarily due to the increase in comparable stores sales.

Interest expense as a percentage of revenues decreased to .5% in 1999 from .7% in 1998 due to the increase in revenues and lower interest rates. Interest expense on the increase in debt incurred to finance assets held for resale has been allocated to the cost basis of such assets.

Other operating expenses decreased as a percentage of revenues to 16.1% in 1999 from 16.7% in 1998 primarily due to the increase in comparable store sales and the fact that a significant portion of operating costs are fixed.

The Company's effective income tax rate was 38.7% in both 1999 and 1998.

NET INCOME The Company had net income of $44.4 million in 1999 compared to $33.7 million in 1998 due to the changes in revenues and expenses discussed above. The Company's diluted earnings per share increased to $1.58 per share in 1999 compared to $1.20 per share in 1998.

1998 COMPARED TO 1997

Revenues increased 8.3% to $379.4 million in 1998 from $350.3 million in 1997 primarily due to an increase of 4.1% in sales of the Company's Chuck E. Cheese's restaurants which were open during all of 1998 and 1997 ("comparable store sales"). In addition, the Company opened 14 new restaurants, purchased eight restaurants from franchisees and three restaurants from joint venture partners in 1998. Fiscal years 1998 and 1997 consisted of 52 and 53 weeks, respectively.

Income before income taxes increased to $55.0 million in 1998 from $42.7 million in 1997. A material portion of operating costs are fixed resulting in an improvement of operating margins at higher sales levels. Net income increased to $33.7 million in 1998 from $25.5 million in 1997. The Company's diluted earnings per share increased to $1.20 per share in 1998 compared to $.89 per share in 1997.

REVENUES Revenues increased to $379.4 million in 1998 from $350.3 million in 1997. Comparable store sales of Chuck E. Cheese's restaurants increased by 4.1% in 1998. In addition, the Company opened 14 new restaurants, acquired eight restaurants from franchisees and three restaurants from joint venture partners in 1998. Average annual revenues per restaurant increased to approximately $1,452,000 in 1998 from approximately $1,437,000 in 1997. Fiscal years 1998 and 1997 consisted of 52 and 53 weeks, respectively. Management believes that several factors contributed to the comparable store sales increase with the primary factor being sales increases at Phase II upgraded restaurants. Menu prices increased 1.8% between the two years.

Revenues from franchise fees and royalties were $3.3 million in 1998, an increase of 2.4% from 1997, primarily due to an increase in comparable franchise store sales of 0.7% in 1998 and higher sales volumes in new franchise restaurants. During 1998, three new franchise restaurants opened, four franchise restaurants closed and eight franchise restaurants were purchased by the Company.

COSTS AND EXPENSES Costs and expenses as a percentage of revenues decreased to 85.5% in 1998 from 87.8% in 1997. Cost of sales as a percentage of revenues decreased to 45.9% in 1998 from 46.8% in 1997. Cost of food, beverage, prize and merchandise items as a percentage of restaurant sales decreased to 16.0% in 1998 from 16.5% in 1997 primarily due to an increase in game sales, reduced costs of certain food and beverage products and an increase in menu prices, partially offset by higher cheese costs. Restaurant labor expenses as a percentage of restaurant sales declined to 26.9% in 1998 from 27.5% in 1997 primarily due to an increase in comparable store sales and more effective utilization of hourly employees.

management's discussion and analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

Selling, general and administrative expenses as a percentage of revenues decreased to 14.9% in 1998 from 15.1% in 1997 primarily due to a reduction in corporate overhead costs and advertising expense as a percentage of revenues partially offset by an increase in preopening costs.

Depreciation and amortization expense as a percentage of revenues remained constant at 7.3% in both 1998 and 1997.

Other operating expenses decreased as a percentage of revenues to 16.7% in 1998 from 17.8% in 1997 primarily due to a decrease in insurance costs including a reduction in prior year reserves and a decrease in rent expense as a percentage of revenues.

NET INCOME The Company had net income of $33.7 million in 1998 compared to $25.5 million in 1997 due to the changes in revenues and expenses discussed above. The Company's diluted earnings per share increased to $1.20 per share in 1998 compared to $.89 per share in 1997.

INFLATION

The Company's cost of operations, including but not limited to labor, supplies, utilities, financing and rental costs, are significantly affected by inflationary factors. The Company pays most of its part-time employees rates that are related to federal and state mandated minimum wage requirements. Management anticipates that any increases in federally mandated minimum wage would result in higher costs to the Company, which the Company expects would be partially offset by menu price increases and increased efficiencies in operations.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operations increased to $76.7 million in 1999 from $68.6 million in 1998. Cash outflow from investing activities for 1999 was $100.3 million primarily related to capital expenditures and the purchase of assets held for resale. Cash inflow from financing activities in 1999 was $23.2 million, primarily related to borrowings on the Company's line of credit. The Company's primary requirements for cash relate to planned capital expenditures, the repurchase of the Company's common stock and debt service. The Company expects that it will satisfy such requirements from cash provided by operations and, if necessary, funds available under its line of credit.

In July 1999, the Company acquired for approximately $19 million, 13 owned properties, the rights to seven leased properties, two parcels of undeveloped real estate, and substantially all furniture, fixtures, equipment and intellectual properties owned by Discovery Zone, Inc.® The Company has converted 10 of the acquired properties to Chuck E. Cheese's restaurants and plans to sell substantially all of the remaining properties, furniture, fixtures and equipment.

In 2000, the Company plans to add 27 to 32 stores including new stores and acquisitions of existing stores from franchisees. The Company currently anticipates its cost of opening new stores to average approximately $1.8 million per store which will vary depending upon many factors including the size of the store and whether the Company acquires land or the store is an in-line or free-standing building. In addition to new store openings, the Company plans to expand the seating capacity of approximately 17 high sales volume stores in 2000, including 12 stores which will receive an enhanced showroom package. The Company completed its Phase II upgrade program in 1999 at an average cost of approximately $160,000 per store. A Phase II upgrade consists of a new game package, enhanced prize and merchandise offerings, and improved product presentation and service. During 1999, the Company opened 23 new restaurants, acquired one restaurant from a franchisee, expanded the customer area of 19 restaurants and completed Phase II upgrades in 26 restaurants. The Company currently estimates that capital expenditures in 2000, including expenditures for new store openings, existing store expansions and equipment investments, will be approximately $86 million. The Company plans to finance these expenditures through cash flow from operations and, if necessary, borrowings under the Company's line of credit.

In July 1998, the Company announced that it planned to purchase shares of the Company's common stock at an aggregate purchase price of up to $15 million. In September 1999, the Company completed this plan and announced an additional plan to purchase shares of the Company's common stock at an aggregate purchase price of up to $25 million. As of March 13, 2000, the Company has purchased shares of its common stock under the $25 million plan at an aggregate purchase price of approximately $8.9 million.

In 2000, the Company's line of credit agreement was amended to provide borrowings of up to $55 million with $10 million maturing in 2000 and $45 million maturing in 2001. The Company's current credit facility of $68.7 million consists of $13.7 million in term notes and a $55 million line of credit. Term notes totaling $12 million with annual principal payments of $6 million and annual interest of 10.02% mature in 2001. Term notes totaling $1.7 million with quarterly principal payments of $833,000 and annual interest equal to LIBOR plus 3.5% mature in 2000. Interest under the $55 million line of credit is dependent on earnings and debt levels of the Company and ranges from prime minus 0.5% to plus 0.5% or, at the Company's option, LIBOR plus 1% to 2.5%. Currently, any borrowings under this line of credit would be at the prime rate minus 0.5% or LIBOR plus 1%. As of March 13, 2000, there was $38 million in borrowings under this line of credit. The Company is required to comply with certain financial ratio tests during the terms of the loan agreements. The Company is currently considering increasing the available borrowings under the line of credit agreement and extending the maturity date.

Certain statements in this report may constitute "forward-looking statements" which are subject to known and unknown risks and uncertainties including, among other things, certain economic conditions, competition, development factors and operating costs that may cause the actual results to differ materially from results implied by such forward-looking statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is subject to market risk in the form of interest rate risk and foreign currency risk. Both interest rate risk and foreign currency risk are immaterial to the Company.

Consolidated balance sheets

(Thousands, except share data)	January 2, 2000	January 3, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 2,731**	$ 3,210
Accounts receivable	**6,451**	4,299
Current portion of notes receivable	**7**	52
Inventories	**7,895**	5,842
Prepaid expenses	**4,727**	3,643
Current portion of deferred tax asset	**776**	720
Assets held for resale	**13,070**	
Total current assets	**35,657**	17,766
Property and equipment, net	**280,624**	228,531
Deferred tax asset		1,036
Notes receivable, less current portion, including receivables from related parties of $491 and $361, respectively	**491**	363
Other assets	**8,396**	4,532
	$325,168	$252,228
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	**$ 7,729**	$ 9,383
Accounts payable and accrued liabilities	**34,294**	32,453
Total current liabilities	**42,023**	41,836
Long-term debt, less current portion	**51,567**	18,922
Deferred rent	**4,110**	3,915
Long-term deferred tax liability	**2,167**	
Other liabilities	**1,725**	1,300
Commitments and contingencies		
Redeemable preferred stock, $60 par value, redeemable for $2,911 in 2005	**2,348**	2,306
Shareholders' equity:		
Common stock, $.10 par value; authorized 100,000,000 shares; 33,791,217 and 33,397,956 shares issued, respectively	**3,379**	3,340
Capital in excess of par value	**166,594**	161,992
Retained earnings	**120,194**	76,157
Deferred compensation	**(759)**	(1,520)
Accumulated other comprehensive income	**42**	6
Less treasury shares of 6,777,614 and 6,352,014, respectively, at cost	**(68,222)**	(56,026)
	221,228	183,949
	$325,168	$252,228

See notes to consolidated financial statements.

Consolidated Statements of Earnings and Comprehensive Income

(Thousands, except per share data)	Years Ended January 2, 1999	January 3, 1998	January 2, 1997
Food and beverage revenues	**$283,951**	$248,948	$235,898
Games and merchandise revenues	**153,630**	126,612	109,518
Franchise fees and royalties	**3,164**	3,304	3,227
Interest income, including related party income of $63, $65 and $244, respectively	**159**	543	1,095
Joint venture income		20	529
	440,904	379,427	350,267
Costs and expenses:			
Cost of sales	**198,922**	173,890	163,713
Selling, general and administrative expenses	**65,706**	56,690	53,037
Depreciation and amortization	**30,963**	27,620	25,524
Interest expense	**2,195**	2,694	2,866
Other operating expenses	**70,792**	63,501	62,418
	368,578	324,395	307,558
Income before income taxes	**72,326**	55,032	42,709
Income taxes:			
Current expense	**24,807**	9,160	3,417
Deferred expense	**3,147**	12,142	13,795
	27,954	21,302	17,212
Net income	**44,372**	33,730	25,497
Other comprehensive income, net of tax:			
Foreign currency translation	**36**	6	
Comprehensive income	**$ 44,408**	$ 33,736	$ 25,497
Earnings per share:			
Basic:			
Net income	**$ 1.63**	$ 1.23	$ .91
Weighted average shares outstanding	**27,004**	27,093	27,603
Diluted:			
Net income	**$ 1.58**	$ 1.20	$ .89
Weighted average shares outstanding	**27,922**	27,810	28,226

See notes to consolidated financial statements.

Consolidated statements of shareholders' equity

	Amounts			Shares		
	Years Ended			Years Ended		
	January 2, 1999	January 3, 1998	January 2, 1997	January 2, 1999	January 3, 1998	January 2, 1997
Common stock and capital in excess of par value:						
Balance, beginning of year.	**$165,332**	$160,887	$155,947	**33,398**	32,868	32,279
Stock options exercised	**2,680**	2,573	2,592	**386**	524	393
Tax benefit (expense) from exercise of stock options and stock grants	**1,842**	1,775	(14)			
Stock issued under 401(k) plan	**142**	97	59	**8**	6	4
Stock grant plan			2,293			192
Other	**(23)**		10	**(1)**		
Balance, end of year	**169,973**	165,332	160,887	**33,791**	33,398	32,868
Retained earnings:						
Balance, beginning of year	**76,157**	42,768	17,613			
Net Income	**44,372**	33,730	25,497			
Redeemable preferred stock accretion	**(101)**	(103)	(104)			
Redeemable preferred stock dividend, $4.80 per share	**(234)**	(238)	(238)			
Balance, end of year	**120,194**	76,157	42,768			
Deferred compensation:						
Balance, beginning of year	**(1,520)**	(2,280)	(1,821)			
Amortization of deferred compensation	**761**	760	1,821			
Stock grant plan			(2,280)			
Balance, end of year	**(759)**	(1,520)	(2,280)			
Accumulated other comprehensive income:						
Balance, beginning of year	**6**					
Foreign currency translation	**36**	6				
Balance, end of year	**42**	6				
Treasury shares:						
Balance, beginning of year	**(56,026)**	(45,437)	(30,263)	**6,352**	5,742	4,664
Treasury stock acquired	**(12,196)**	(10,589)	(15,174)	**426**	610	1,078
Balance, end of year	**(68,222)**	(56,026)	(45,437)	**6,778**	6,352	5,742
Total shareholders' equity	**$221,228**	$183,949	$155,938			

See notes to consolidated financial statements.

Consolidated Statements of Cash flows

(Thousands)	January 2, 1999	January 3, 1998	January 2, 1997
	Years Ended		
Operating activities:			
Net income	**$ 44,372**	$ 33,730	$ 25,497
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization	**30,963**	27,620	25,524
Deferred income tax expense	**3,147**	12,142	13,795
Compensation expense under stock grant plan	**761**	760	1,821
Other	**466**	(44)	153
Net change in receivables, inventories, prepaids, payables and accrued liabilities	**(3,023)**	(5,594)	2,688
Cash provided by operations	**76,686**	68,614	69,478
Investing activities:			
Purchases of property and equipment	**(82,819)**	(66,704)	(48,451)
Payments received on notes receivable	**1,327**	2,503	7,376
Additions to notes receivable	**(1,410)**	(690)	(2,500)
Change in investments and other assets	**(4,372)**	(731)	(230)
Purchase of assets held for resale	**(13,070)**		
Cash used in investing activities	**(100,344)**	(65,622)	(43,805)
Financing activities:			
Proceeds from debt and line of credit	**51,270**	4,479	
Payments on debt and line of credit	**(20,279)**	(3,376)	(9,142)
Redeemable preferred stock dividends	**(234)**	(238)	(238)
Acquisition of treasury stock	**(12,196)**	(10,589)	(15,174)
Exercise of stock options	**2,680**	2,573	2,592
Other	**1,938**	94	162
Cash provided by (used in) financing activities	**23,179**	(7,057)	(21,800)
Increase (decrease) in cash and cash equivalents	**(479)**	(4,065)	3,873
Cash and cash equivalents, beginning of year	**3,210**	7,275	3,402
Cash and cash equivalents, end of year	**$ 2,731**	$ 3,210	$ 7,275

See notes to consolidated financial statements.

Notes to consolidated financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS CEC Entertainment, Inc. (the "Company") operates and franchises family restaurant/entertainment centers as Chuck E. Cheese's restaurants.

FISCAL YEAR The Company's fiscal year is 52 or 53 weeks and ends on the Sunday nearest December 31. References to 1999, 1998 and 1997 are for the fiscal years ended January 2, 2000, January 3, 1999 and January 2, 1998, respectively. Fiscal years 1999 and 1998 were each 52 weeks in length, while fiscal year 1997 was 53 weeks in length.

BASIS OF CONSOLIDATION The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

FOREIGN CURRENCY TRANSLATION The consolidated financial statements are presented in U.S. dollars. The assets and liabilities of the Company's Canadian subsidiary are translated to U.S. dollars at year-end exchange rates, while revenues and expenses are translated at average exchange rates during the year. Adjustments that result from translating amounts are reported as a component of other comprehensive income.

CASH AND CASH EQUIVALENTS Cash and cash equivalents of the Company are composed of demand deposits with banks and short-term cash investments with remaining maturities of three months or less from the date of purchase by the Company.

INVENTORIES Inventories of food, paper products and supplies are stated at the lower of cost or market on a first-in, first-out basis.

PROPERTY AND EQUIPMENT, DEPRECIATION AND AMORTIZATION Property and equipment are stated at cost. Depreciation and amortization are provided by charges to operations over the estimated useful lives of the assets, or the lease term if less, by the straight-line method. All preopening costs are expensed as incurred.

DEFERRED CHARGES AND RELATED AMORTIZATION Deferred charges are amortized over various periods of up to 16 years. All amortization is provided by the straight-line method, which approximates the interest method.

FRANCHISE FEES AND ROYALTIES The Company recognizes initial franchise fees upon fulfillment of all significant obligations to the franchisee. Royalties from franchisees are accrued as earned.

EARNINGS PER SHARE Earnings per common share have been adjusted for a three-for-two split in the form of a 50 percent dividend of the Company's common stock on July 23, 1999.

USE OF ESTIMATES AND ASSUMPTIONS The preparation of financial statements in conformity with generally accepted accounting principles 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 the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ACCOUNTING FOR STOCK-BASED COMPENSATION As permitted by Statement of Financial Accounting Standards No. 123 ("SFAS 123") "Accounting for Stock-Based Compensation," the Company applies the recognition and measurement provisions of Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees" and has disclosed the proforma effects of SFAS 123 (Note 18).

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 133 ("SFAS133") "Accounting for Derivative Instruments and Hedging Activities" became effective for years beginning after June 15, 1999. The Company does not engage in activities requiring separate disclosure under SFAS 133.

2. ACCOUNTS RECEIVABLE

(Thousands)	**1999**	**1998**
Trade	**$1,510**	$1,358
Other	**4,941**	2,954
	6,451	4,312
Less allowance for doubtful collection		(13)
	$6,451	$4,299

3. NOTES RECEIVABLE

The Company's notes receivable at January 2, 2000 and January 3, 1999 arose principally as a result of lines of credit established with the International Association of CEC Entertainment, Inc., a related party (Note 17), and advances to franchisees. The notes have various terms, but most are payable in monthly installments of principal and interest through 2001, with interest rates ranging from 7.5% to 10.5%. Balances of notes receivable are net of an allowance for doubtful collection of $73,000 and $84,000 at January 2, 2000 and January 3, 1999, respectively.

Notes to consolidated financial statements

(continued)

4. ASSETS HELD FOR RESALE

In July 1999, the Company acquired for approximately $19 million in cash, 13 owned properties, the rights to seven leased properties, two parcels of undeveloped real estate, and substantially all furniture, fixtures, equipment and intellectual properties owned by Discovery Zone, Inc. The Company has converted 10 of the acquired properties to Chuck E. Cheese's restaurants and plans to sell substantially all of the remaining properties, furniture, fixtures and equipment. The preliminary allocation of the purchase price was approximately $7.2 million to property and equipment and $11.8 million to assets held for resale. Subsequent to the purchase, the Company has incurred incremental holding costs of $1.3 million related to the assets held for resale. While the Company has not yet finalized the purchase price allocation, it is not expected that the final allocation will be materially different from the results reflected herein.

5. PROPERTY AND EQUIPMENT

(Thousands)	Estimated Lives (in years)	1999	1998
Land	–	**$ 13,752**	$ 8,285
Leasehold improvements	4 - 20	**186,067**	164,380
Buildings	4 - 25	**12,689**	10,788
Furniture, fixtures and equipment	2 - 15	**198,900**	172,028
Property leased under capital leases (Note 7)	10 - 15	**449**	449
		411,857	355,930
Less accumulated depreciation and amortization		**(145,052)**	(132,432)
		266,805	223,498
Construction in progress		**13,819**	5,033
		$ 280,624	$ 228,531

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(Thousands)	1999	1998
Accounts payable	**$14,521**	$13,810
Salaries and wages	**7,766**	7,030
Insurance	**3,525**	4,167
Taxes, other than income	**4,258**	4,370
Other	**4,224**	3,076
	$34,294	$32,453

7. LEASES

The Company leases certain restaurants and related property and equipment under operating and capital leases. All leases require the Company to pay property taxes, insurance and maintenance of the leased assets. The leases generally have initial terms of 7 to 30 years with various renewal options.

Scheduled annual maturities of the obligations for capital and operating leases as of January 2, 2000, are as follows:

(Thousands)

Years	Capital	Operating
2000	**$187**	$ 39,137
2001	**214**	37,496
2002	**214**	30,245
2003	**214**	21,065
2004-2009 (aggregate payments)	**412**	80,865
Minimum future lease payments	**1,241**	$208,808
Less amounts representing interest	**(462)**	
Present value of future minimum lease payments	**779**	
Less current portion	**(62)**	
	$717	

Notes to consolidated financial statements

(continued)

Certain of the Company's real estate leases, both capital and operating, require payment of contingent rent in the event defined revenues exceed specified levels.

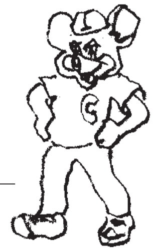
The Company's rent expense is comprised of the following:

(Thousands)	1999	1998	1997
Minimum	**$38,339**	$34,276	$32,694
Contingent	**464**	365	276
	$38,803	$34,641	$32,970

8. LONG-TERM DEBT

(Thousands)	1999	1998
Term loans, 10.02%, due June 2001	**$12,000**	$18,000
Term loans, LIBOR plus 3.5%, due June 2000	**1,667**	5,000
Revolving bank loan, prime minus 0.5% to plus 0.5% or LIBOR plus 1% to 2.5%, due June 2001	**44,850**	4,478
Obligations under capital leases (Note 7)	**779**	827
	59,296	28,305
Less current portion	**(7,729)**	(9,383)
	$51,567	$18,922

In 1999, the Company's line of credit agreement was amended to provide the Company with available borrowings of up to $45 million expiring in June 2001. As of January 2, 2000, the Company's credit facility totals $58.7 million, which consists of $13.7 million in term notes and the $45 million line of credit. Interest on the term notes is payable quarterly. Interest under the line of credit is payable quarterly at rates which are dependent on earnings and debt levels of the Company. Currently, any borrowings under this line of credit would be at prime (8.7% at January 2, 2000) minus 0.5% or, at the Company's option, LIBOR (6.49% at January 2, 2000) plus 1%. At January 2, 2000, there was $44.9 million outstanding under the line of credit. A 3/8% commitment fee is payable on any unused credit line. The Company is required to comply with certain financial ratio tests during the terms of the loan agreements. The weighted average interest rate on long-term debt was 8.44% and 9.62% in 1999 and 1998, respectively. The Company recognized capitalized interest costs of $747,000, $35,000 and $8,400 in 1999, 1998 and 1997, respectively, related to construction period debt and debt incurred to finance the acquisition of assets held for resale.



As of January 2, 2000, scheduled annual maturities of all long-term debt (exclusive of obligations under capital leases) are as follows (thousands):

Years	Amount
2000	$ 7,667
2001	50,850
	$58,517

9. LITIGATION

From time to time the Company is involved in litigation, most of which is incidental to its business. In the Company's opinion, no litigation to which the Company currently is a party is likely to have a material adverse effect on the Company's results of operations, financial condition or cash flows.

10. REDEEMABLE PREFERRED STOCK

As of January 2, 2000 and January 3, 1999, the Company had 48,510 and 49,441 shares, respectively, of its redeemable preferred stock authorized and outstanding. The stock pays dividends at $4.80 per year, subject to a minimum cash flow test. As of January 2, 2000, one quarterly dividend, totaling $58,212 or $1.20 per share, was accrued but not yet paid. The redeemable preferred stock has been recorded at the net present value of the redemption price and is being accreted on the straight-line basis. The Company's restated articles of incorporation provide for the redemption of such shares at $60 per share in 2005. During the continuation of any event of default by the Company, the preferred shareholders will be able to elect a majority of the directors of the Company.

11. EARNINGS PER COMMON SHARE

Earnings per common share ("EPS") are computed in accordance with SFAS 128. Under SFAS 128, basic and diluted EPS replaces primary and fully diluted EPS. Basic EPS is calculated by dividing earnings applicable to common shares by the weighted average number of common shares outstanding. Diluted EPS adjusts for the effect of potential common shares. Net income available per common share has been adjusted for the items indicated.

Notes to consolidated financial statements

(continued)

Earnings per common and potential common shares were computed as follows (thousands, except per share data):

	1999	1998	1997
Net income	**$44,372**	$33,370	$25,497
Accretion of redeemable preferred stock	**(101)**	(103)	(104)
Redeemable preferred stock dividends	**(234)**	(238)	(238)
Net income applicable to common shares	**$44,037**	$33,389	$25,155
Basic:			
Weighted average common shares outstanding	**27,004**	27,093	27,603
Earnings per common share	**$ 1.63**	$ 1.23	$ .91
Diluted:			
Weighted average common shares outstanding	**27,004**	27,093	27,603
Potential common shares for stock options and stock grants	**918**	717	623
Weighted average shares outstanding	**27,922**	27,810	28,226
Earnings per common and potential common shares	**$ 1.58**	$ 1.20	$ .89

12. FRANCHISE FEES AND ROYALTIES

At January 2, 2000, 55 Chuck E. Cheese's restaurants were operated by a total of 35 different franchisees. The standard franchise agreements grant to the franchisee the right to develop and operate a restaurant and use the associated trade names, trademarks and service marks within the standards and guidelines established by the Company.

Initial franchise fees included in revenues were $355,000, $260,000 and $373,000 in 1999, 1998 and 1997, respectively.

13. COST OF SALES

(Thousands)	1999	1998	1997
Food, beverage and related supplies	**$ 58,108**	$ 52,958	$ 50,355
Games and merchandise	**23,250**	19,625	18,339
Labor	**117,564**	101,307	95,019
	$198,922	$173,890	$163,713

14. INCOME TAXES

The significant components of income tax expense are as follows:

(Thousands)	1999	1998	1997
Current expense	**$24,807**	$ 9,160	$ 3,417
Deferred expense:			
Utilization of operating loss carryforwards			16,693
Utilization of tax credit carryforwards		6,595	
Other	**3,147**	5,547	(2,898)
	$27,954	$21,302	$17,212

Deferred income taxes and benefits are provided for differences between financial statement carrying amounts of assets and liabilities and their respective tax bases. Temporary differences and the resulting deferred tax assets and liabilities at January 2, 2000 and January 3, 1999 are as follows:

(Thousands)	1999	1998
Deferred tax asset (liability):		
Current:		
Deferred tax assets:		
Accrued vacation	**$ 412**	$ 404
Unearned gift certificates	**204**	115
Other	**160**	201
Net current deferred tax asset	**$ 776**	$ 720
Non-Current:		
Deferred tax assets (liabilities):		
Deferred rent	**$ 1,435**	$1,365
Asset impairments	**353**	412
Unearned franchise fees	**113**	165
Depreciation	**(4,068)**	(1,156)
Other		250
Net non-current deferred tax asset (liability)	**$(2,167)**	$1,036

Notes to consolidated financial statements

(continued)

A reconciliation of the statutory rate to taxes provided is as follows:

(Thousands)	1999	1998	1997
Statutory rate	**35.0%**	35.0%	35.0%
State income taxes	**5.5%**	6.2%	8.1%
Other	**(1.8%)**	(2.5%)	(2.8%)
Income taxes provided	**38.7%**	38.7%	40.3%

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company has certain financial instruments consisting primarily of cash equivalents, notes receivable, notes payable and redeemable preferred stock. The carrying amount of cash equivalents approximates fair value because of the short maturity of those instruments. The carrying amount of the Company's notes receivable and long-term debt approximates fair value based on the interest rates charged on instruments with similar terms and risks. The estimated fair value of the Company's redeemable preferred stock is $2.9 million.

16. SUPPLEMENTAL CASH FLOW INFORMATION:

(Thousands)	1999	1998	1997
Cash paid during the year for:			
Interest	**$ 2,099**	$2,681	$2,961
Income taxes	**24,511**	9,924	2,753
Supplemental schedule of noncash investing and financing activities:			
Notes and accounts receivable canceled in connection with the acquisition of property and equipment		834	
Investment canceled in connection with the acquisition of property and equipment		668	

17. RELATED PARTY TRANSACTIONS

The Company has granted three separate operating lines of credit to the International Association of CEC Entertainment, Inc. (the “Association”). In December 1999, the lines were renewed to provide the Association with available borrowings of $2.6 million at 10.5% interest and are due December 31, 2000. The Association develops entertainment attractions and produces system wide advertising. Five officers of the Association are also officers of the Company. At January 2, 2000 and January 3, 1999, approximately $491,000 and $361,000, respectively, was outstanding under these lines of credit.

18. EMPLOYEE BENEFIT PLANS

The Company has employee benefit plans that include: a) executive bonus compensation plans based on the performance of the Company; b) non-statutory stock option plans for its employees and non-employee directors; c) a stock grant plan and d) a retirement and savings plan.

The Company’s common stock which could be issued under its initial employee stock option plan was 4,158,057 shares. Any shares granted under this plan had to be granted before December 31, 1998. In 1997, the Company adopted a new employee stock option plan under which an additional 2,737,500 shares may be granted before July 31, 2007. The exercise price for options granted under both plans may not be less than the fair market value of the Company’s common stock at date of grant. Options may not be exercised until the employee has been continuously employed at least one year after the date of grant. Options which expire or terminate may be re-granted under the plan.

In 1995, the Company adopted a stock option plan for its non-employee directors. The number of shares of the Company’s common stock that may be issued under this plan cannot exceed 225,000 shares and the exercise price for options granted may not be less than the fair market value of the Company’s common stock at the date of grant.

Notes to consolidated financial statements

(continued)

At January 2, 2000, there were 1,461,345 shares available for grant. Stock option transactions are summarized as follows for all plans:

	Number of Shares			Weighted Average Exercise Price Per Share		
	1999	**1998**	**1997**	**1999**	**1998**	**1997**
Options outstanding, beginning of year	2,301,474	2,379,447	1,515,767	**$11.19**	$ 9.13	$ 5.72
Granted	796,622	516,918	1,417,073	**17.68**	14.61	11.91
Exercised	(386,440)	(523,254)	(392,168)	**6.94**	4.91	6.61
Terminated	(92,873)	(71,637)	(161,225)	**15.28**	13.41	7.57
Options outstanding, end of year	2,618,783	2,301,474	2,379,447	**13.66**	11.19	9.13

The estimated fair value of options granted was $6.74, $7.54 and $6.12 per share in 1999, 1998 and 1997, respectively. The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 1999: risk free interest rate of 6.5%, 4.6% and 5.9% in 1999, 1998 and 1997, respectively; no dividend yield; expected lives of five years in 1999 and four years in 1998 and 1997; and expected volatility of 30% in 1999 and 1998 and 40% in 1997. Stock options expire five and seven years from the grant date. Stock options vest over various periods ranging from one to four years. The number of stock option shares exercisable at January 2, 2000 was 1,215,570. These stock options have exercise prices ranging from $3.78 to $15.75 per share, a weighted average exercise price of $11.10 per share and a weighted average remaining life of two years. In January 2000, the Company granted 459,466 additional options at an exercise price of $25.56 per share and 12,500 options at an exercise price of $26.05 per share.

The number of shares of the Company's common stock which may have been awarded to senior executives of the Company under the Stock Grant Plan was 2,577,956 shares. No further shares may be awarded under this plan after December 1998. In 1997, 192,750 shares were awarded in connection with an employment agreement effective January 1998. No grants were awarded in 1999 or 1998. Compensation expense recognized by the Company pursuant to this plan was $761,000, $760,000 and $1,821,000 per year in 1999, 1998 and 1997, respectively. All shares vest over periods ranging from 3 years to 6 years and are subject to forfeiture upon termination of the participant's employment by the Company. The shares are nontransferable during the vesting periods. As a result of shares awarded to the Company's Chairman of the Board and Chief Executive Officer, the Company recognized $2.3 million in 1997. The deferred compensation is amortized over the compensated periods of service of three years.

All stock options are granted at no less than fair market value of the common stock at the grant date. The Company applies the provisions of APB Opinion 25 and related Interpretations in accounting for its employee benefit plans. Accordingly, no compensation cost has been recognized for its stock option plans. Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant date for awards under those plans consistent with the method prescribed by SFAS 123, the Company's proforma net income would have been $41.9 million, $31.6 million and $23.1 million in 1999, 1998 and 1997, respectively. Proforma earnings per share assuming dilution would have been $1.50, $1.14 and $.82 per share in 1999, 1998 and 1997, respectively.

The Company has adopted the CEC 401(k) Retirement and Savings Plan, to which it may at its discretion make an annual contribution out of its current or accumulated earnings. Contributions by the Company may be made in the form of its common stock or in cash. The Company made contributions of approximately $142,000 and $97,000 in common stock for the 1998 and 1997 plan years, respectively. The Company plans to contribute $155,000 in common stock for the 1999 plan year.

independent auditors' report

Board of Directors and Shareholders
CEC Entertainment, Inc.
Irving, Texas

We have audited the accompanying consolidated balance sheets of CEC Entertainment, Inc. and subsidiaries as of January 2, 2000 and January 3, 1999, and the related consolidated statements of earnings and comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended January 2, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of CEC Entertainment, Inc. and subsidiaries as of January 2, 2000 and January 3, 1999, and the results of their operations and their cash flows for each of the three years in the period ended January 2, 2000, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Dallas, Texas
March 6, 2000

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