CEC Entertainment, Inc.

ANNUAL REPORT

2000

2000 was yet another outstanding year for CEC Entertainment — culminating in a 17th consecutive quarter of record revenues and earnings. The Company's strong financial position enabled us to open 31 new restaurants, expand 23 existing restaurants, complete 27 Phase III remodels, retire $6.2 million in debt, and repurchase $6.0 million of our common stock. Our 2001 initiatives are in place to support further strong growth, solid return on investment, and excellent value for shareholders.

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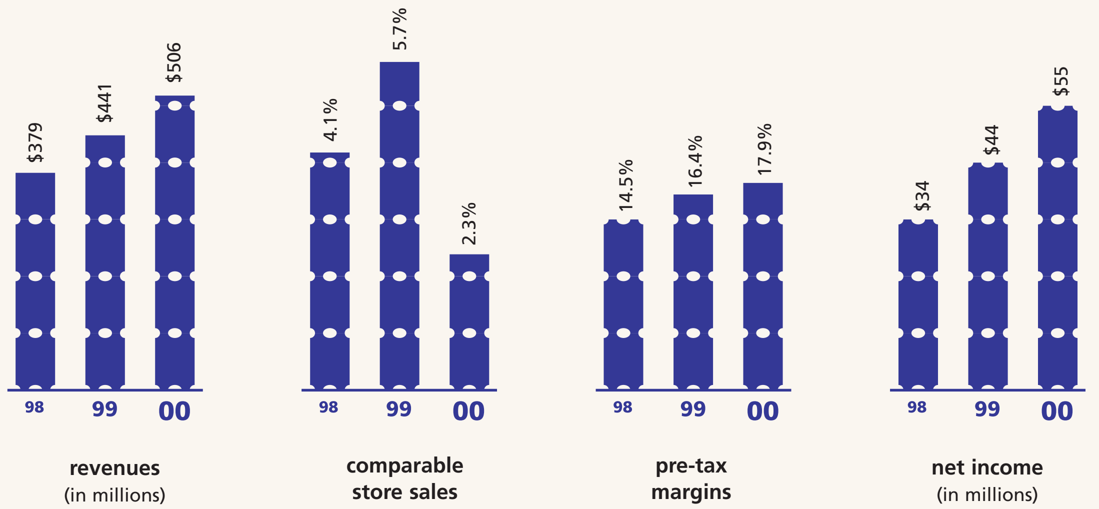
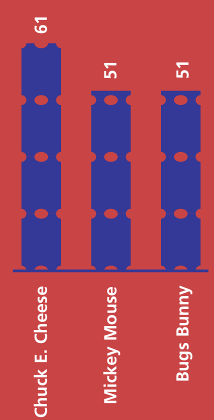


(thousands, except per share data)	**2000**	1999	1998
Operating Results			
Revenues	**$506,111**	$440,904	$379,427
Income before taxes	**90,734**	72,326	55,032
Net income	**55,355**	44,372	33,730
Earnings Per Share			
Basic	**$2.04**	$1.63	$1.23
Diluted	**1.98**	1.58	1.20
Balance Sheet Data			
Total assets	**$389,375**	$325,168	$252,228
Long-term obligations (including current portion)	**57,288**	63,369	31,911
Shareholders' equity	**282,272**	221,228	183,949
Increase in comparable store sales			
Chuck E. Cheese's	**2.3%**	5.7%	4.1%
Number of restaurants at year end			
Company operated	**324**	294	271
Franchise	**55**	55	54
	379	349	325

CEC Entertainment, Inc. is a business where success is counted in smiles and the ultimate prizes are tickets. Those tickets, which reward a productive day of play for our guests, also represent a winning business strategy that serves our shareholders well. The strategy begins with a larger-than-life mouse named Chuck E. Cheese,® an icon of American childhood whose fun-loving, kid-hugging, high-fiving antics are designed to 2-3 **Engage** youngsters and parents at our 379 restaurant-entertainment centers across the United States, Canada, and South and Central America. While Chuck E. works his magic to capture hearts and imaginations, we seek opportunities to 4-5 **Enhance** the concept, giving our guests a reason to stay longer and visit more often, and affording us a solid base for growth. Growth is further supported by plans to 6-7 **Expand** within our existing markets, as well as to increase square footage of existing high-volume locations. Ultimately, the Company's success lies in the hands of our people, whose ability to 8-9 **Execute** our strategy is measured directly by top- and bottom-line performance. As the 10-11 **Letter to Shareholders** and 14-15 **Financial Review** show, we're at the top of our game — and like the 40 million kids who visit Chuck E. Cheese's® each year, we're holding the ticket to continued success.

2000



Look where Chuck E. ranks among other popular characters*:
In 2000, Chuck E. Cheese's popularity among American children surpassed that of some of the planet's most cherished childhood characters. Contributing to Chuck E. Cheese's high Q Score is the current line of licensed products (some pictured right).

* Spring 2000 Cartoon Q Ranking Study

Kids are great judges of character. So the fact our character — a heartwarming mouse named Chuck E. Cheese — is one of the best loved and most recognized characters among American children is no small feat. Rather, it's an indication of the strength of our unique family restaurant and entertainment concept, a concept that grows stronger each year. **Recent national marketing surveys** reveal that Chuck E. Cheese's has a 99-percent-plus awareness among families with young children. Among children ages six to eight, Chuck E. Cheese is more popular than some of the greatest American pop icons of our time, including Mickey Mouse,® Barbie,® and Batman.® **Since Chuck E.'s first debut** in 1977, the Chuck E. Cheese's experience has become an American rite of passage. Murmur "Chuck E. Cheese's!" to a child, and you're sure to elicit an ear-to-ear grin and a story about a fun-loving mouse. Ask a young adult about Chuck E. Cheese's, and they'll likely recall a special birthday party, a good report card, or a lazy summer day when Mom loaded the neighborhood kids into the station wagon or minivan for a day of playtime, pizza and prizes. Mention Chuck E. Cheese's to the over-30 crowd, and they're sure to recount many fun-filled days spent with their kids or grandchildren.

What makes Chuck E. Cheese's so engaging across a broad demographic spectrum and three generations of Americans is a simple but powerful idea. Build a family-oriented restaurant that combines a kid-friendly menu with a self-contained entertainment center. Make the surroundings light, bright and stimulating, and the entertainment safe, wholesome and enriching. Bring the concept to life with a larger-than-life character who makes a lasting impression on guests with his playful demeanor. Support the concept with a talented and dedicated staff who understands the needs of the guests and believes that hard work can be fun. Enhance the concept as necessary to stay in touch with the times. Finally, remain true to the mission — to be a place Where a Kid Can Be a Kid® and ultimately, where a family's fondest memories are made.

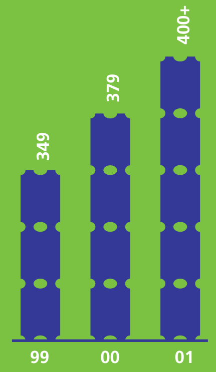
ENGAGE

ENHANCE

Making things better requires vision and courage. It is also a pattern for continued success — particularly for our Chuck E. Cheese's concept, which sets the standard for excellence within the family restaurant and entertainment industry. **We discovered long ago** that while modest incremental improvements are important, they are not enough to sustain strong results in a competitive marketplace. Seven years ago, we adopted a philosophy of periodic, high-impact major enhancements. The success of our Phase I remodels not only energized our concept, but also super-charged our financial performance. The program proved its value again in 1998-1999, when Phase II improvements brought customers in record numbers. **Evolving the concept** is one of our long-term growth strategies, enabling us to stay a step ahead in our marketplace. The latest enhancements to the concept — Phase III — began in late 2000 and will continue through year-end 2003. **Phase III represents a series of guest-driven improvements** that offer something for everyone. Parents will immediately notice our improved KidCheck.® In addition to better lighting of the KidCheck area, security cameras add another layer of protection to our unique parent-child identification system. Mothers have responded well to the Toddler Zone,™ a kiddie area that provides a mix of toddler-age-appropriate activities in a dedicated, enclosed space. **Rides and games have been upgraded** in both the kiddie and skills areas. For young children, there is a helicopter ride that climbs toward the ceiling and rotates while the child is pedaling. Our Skytubes™ — a perennial favorite and free attraction — now features simulated police cruisers and NASCAR®-style race cars. Older kids — and many fathers — have tested their coordination and visual acuity on video-simulator rides like *Arctic Thunder.™ One of the best-received Phase III enhancements is the Ticket Muncher.™ This automatic ticket- counting machine fascinates children as it tallies up winnings. It's a big hit with parents, too, by speeding service at the prize counter. **As pleased as we are** with the early results from Phase III improvements — returns are exceeding a 30-percent cash-on-cash return on investment — Phase IV enhancements are being considered, reflecting the Company's ongoing commitment to driving long-term performance and shareholder value.

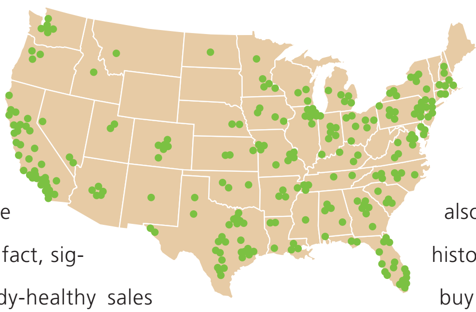
"Phase III" encompasses broad-based concept improvements, and is integral to our commitment to evolve the Chuck E. Cheese's concept. This six-point program —-a new Toddler Zone; improvements to our Skytubes attraction; enhanced kiddie rides and skill games, as well as rides and games targeted to older children; the addition of security cameras to our KidCheck child safety system; and the installment of Ticket Munchers to speed service at the prize counter — ensures that there's something new for all of our guests.

*Midway Games, Inc.



Number of Chuck E. Cheese's locations:
The Company's disciplined growth strategy ensures strong operational performance among new restaurants while growing the concept at a robust 10 percent annually. In 2000, we opened 31 new locations and expect to open 30 to 34 restaurants in 2001. We will also physically expand 10 to 15 existing Chuck E. Cheese's where high demand can provide a solid cash-on-cash return on investment.

Taking our industry-leading Chuck E. Cheese's concept to the next level means not only enhancing it, but also introducing it to a larger and broader audience. New market development is a vital component of our long-term growth strategy. By identifying high-potential markets, purchasing quality real estate, and maintaining a focused, disciplined roll-out plan for new restaurant- entertainment centers, we have successfully grown the concept at a robust 10 percent per year over the last three years. In that time, new locations have consistently made an immediate contribution to the Company's revenue and profit performance, and, in fact, significantly outperform an already-healthy sales average of our existing units. **In keeping with our disciplined growth strategy,** we opened 31 new locations in 2000 and reached an important milestone. In February, we opened our 300th Company-owned location in Littleton, Colorado. In 2001, we expect to open 30 to 34 new restaurant-entertainment centers, including franchise acquisitions. Following our carefully prescribed and well-proven plan for new market development, we anticipate yet another year of strong new unit performance. **A key objective of our strategic plan** is to balance new restaurants with physical expansion of existing locations. Candidates for expansion include restaurant-centers with high demand and higher volume potential. In 2000, we completed 23 expansions, and we'll finish 10 to 15 more in 2001 — bringing the total number of expanded sites to 89 to 94, which represents approximately 26 percent of our concept. **As our market grows, so too has the importance of our marketing strategy.** While continuing to make strong media buys on cable networks Nickelodeon and the Cartoon Network,® we have also — for the first time in Company history — made a national advertising buy on broadcast network television. Beginning in 2001, we will advertise on the ABC network during Saturday morning programming, as well as on the Warner Brothers network during its popular shows such as Pokémon.™ This exciting new initiative extends our reach into more non-cable households — bringing our message to a diverse market segment that represents an additional 30 percent of all households in the United States. By all accounts, Chuck E. Cheese's star power is on the move — and rising.

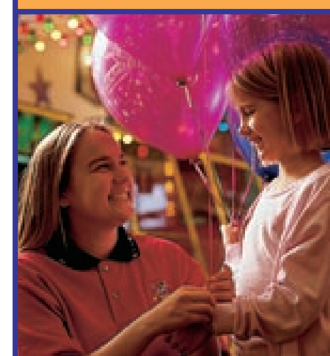


EXPAND

EXECUTE

Our business is entertainment, but our work is not child's play. Keeping our concept on top requires talent, focus, passion, enthusiasm, discipline and commitment — in a word, people. **CEC people represent the best,** brightest and most experienced professionals in the industry, affording us a level of precision in executing strategy that is unequalled in business today. So powerful is this collaboration of talent, vision, drive and commitment, and its inevitable outcome — success — that most of our staff makes a career pursuing excellence in the Chuck E. Cheese's concept. **Our senior management team** is a case in point. Their average tenure is 14.4 years. With the exception of Rodney Carter, executive vice president and CFO, a key addition who joined CEC last summer, and Thomas Oliver, general counsel, our senior executive team's collective employment dates to the 1980s. Chairman and CEO, Dick Frank, joined in 1985. Dick Huston, executive vice president of marketing, also came on board in 1985. Mike Magusiak, president, and Roger Cardinale, executive vice president of development and purchasing, both joined in 1987. Mark Flores, executive vice president and director of operations, has been a part of the team since 1982. Thomas Oliver, executive vice president and general counsel, joined CEC Entertainment last spring, but has been a trusted counselor for many years. **Only Chuck E. Cheese himself** has a tenure greater than any other member of our staff — and only by his whiskers. Gene Cramm, executive vice president of concept evolution and entertainment; Ron Hake, director of real estate; and Alice Winters, assistant treasurer and assistant secretary, as well as several other valued employees, have all celebrated 20th anniversaries with the Company. **This long-standing commitment** to the Company and its mission is mirrored at every level of the organization. The average tenure of our operations team is 16.6 years for our director of operations and regional managers; 10.2 years for district managers; 6.3 years for general managers; and 3.5 years for restaurant managers. **The staying power of our people** is a point of differentiation that brings a constancy of purpose and clarity of vision to Chuck E. Cheese's concept. Ours is a team who truly believes in the concept, and never tires of its mission. Rather, they are energized by its potential, experienced in its execution, and rewarded well for their efforts by the rich legacy of success that is the hallmark of Chuck E. Cheese's.

With an average tenure of 14.4 years, our senior management team is unique for both its loyalty and long-standing successes. Opposite page from left, Gene Cramm, executive VP of concept evolution and entertainment; Roger Cardinale, VP of development and purchasing; Tommy Oliver, general counsel; Rodney Carter, executive VP and CFO; and Dick Huston, executive VP of marketing, and above, Mark Flores, executive VP of operations; are among the key players who bring vision, vitality, continuity and clarity to the Chuck E. Cheese's concept.



Richard M. Frank
CHAIRMAN,
CHIEF EXECUTIVE OFFICER

Michael H. Magusiak
PRESIDENT

To Our Shareholders: We ushered in the new century with a sense of optimism, resolved to build upon an impressive record of financial performance that distinguishes our Company as the industry leader, and positions our Chuck E. Cheese's concept as a perennial winner. **Our optimism was well founded** and duly rewarded. While enroute to a 17th consecutive quarter of record earnings — representing average compounded earnings growth of 43.3 percent within that time frame and 39.7 percent since the Company went public in January 1989 — we learned that the popularity of our Chuck E. Cheese character had surpassed that of Mickey Mouse, Barbie and Batman among kids ages six to eight, our primary target audience. **For the year ended December 31, 2000,** revenues increased 14.8 percent to $506.1 million from $440.9 million in 1999. Earnings before income tax soared 25.5 percent to $90.7 million from $72.3 million a year ago. Net income improved 24.8 percent, increasing to $55.4 million from $44.4 million the previous year. Earnings per share grew 25.3 percent to $1.98, up from $1.58 a year ago. Comparable store sales increased 2.3 percent in 2000, a healthy improvement, particularly when considered within the context of prior years' strong first quarter performance and post-Discovery Zone acquisition sales impact. **The Company's strong cash position** enabled us to open 31 new restaurants, expand 23 existing restaurants, complete 27 Phase III remodels, retire $6.2 million in debt, and repurchase $6.0 million of our common stock. **Our 2000 performance** indicates that we have hit our stride, striking a fine balance between building increased value for shareholders and delivering a valued experience for guests. Our 2001 initiatives are designed to maintain this balance, in support of further strong growth and excellent returns on investment. **The focus of our 2001 plans** is the Phase III remodel program. This initiative of broad-based concept improvements comprises six key enhancements: the Toddler Zone, a self-contained, age-appropriate play space for our youngest guests; improvements to our Skytubes attraction that adds simulated police cruisers and NASCAR®- style cars to the tunnels that snake high above the gameroom; significantly enhanced kiddie rides and skill games, as well as rides and games targeted to older children; the addition of security cameras to our KidCheck child safety system; and the installment of Ticket Munchers to speed service and selection at the prize counter. Each enhancement is targeted specifically to one or more of our four guest constituencies — parent, preteen, youngster or toddler — so that everyone benefits from the exciting changes at Chuck E. Cheese's. **Early results indicate** that guests do indeed appreciate the improvements. In the 27 restaurants remodeled during late 2000, returns are exceeding the internal target of a 30-percent cash return on investment. We are encouraged by the potential positive impact on revenues and earnings both in 2001 and beyond as 100 additional restaurants are remodeled during 2001. By year-end 2001, approximately 39 percent of company restaurants will receive a Phase III remodel. **Our financial position** also sets the stage for new restaurant development and existing restaurant expansion in select markets. In addition to further evolution of our concept, our development and expansion efforts are a key component in realizing our target of growing earnings 20- to 25-percent annually. **Our growth strategy** is one of discipline and control — increasing new store locations by about 10 percent annually, as we have over each of the last three years. This allows us to focus on quality real estate sites and support new operations with experienced operators, both of which increase the likelihood that a new location will make an immediate positive impact on profitability. In 2001, we will open and/or acquire approximately 30 to 34 new restaurant-entertainment centers. We will also proceed with ongoing expansions of existing high-demand sites that we believe can attain an adequate return on investment. Approximately ten to fifteen restaurants are now being considered for possible expansion. **Another exciting initiative** is our advertising and marketing strategy. To support expanded growth in new markets, our television advertising levels will increase by approximately five percent, but economies of scale should yield a slightly lower advertising cost-to- revenue ratio. More significantly, we have made a national advertising buy on broadcast network television — the first in Company history. We will advertise on ABC during Saturday morning programming, as well as on Warner Brothers during popular shows such as Pokémon. By extending our reach into non-cable homes, we will bring our message to a diverse market segment that represents an additional 30 percent of all households in the United States. **Like the young guests** who revel in the prize tickets that reward a day of constructive play at Chuck E. Cheese's, we, too, believe that we hold the ultimate prize in our hands. Our business is financially sound, and our mission — to engage, enhance, expand and execute — is clear. Our performance and potential reflect not only the robustness of our business model, but also the superior execution of that model on a daily basis. Our concept has never been stronger, and our commitment to winning is absolute.

We look forward to sharing our success with you. Thanks for your continued interest and support.

Sincerely,

Richard M. Frank

Richard M. Frank - Chairman, Chief Executive Officer

Michael H. Magusiak

Michael H. Magusiak - President

LETTER

2000

FINANCIALS

SELECTED FINANCIAL DATA

(thousands, except per share and store data)	**2000**	1999	1998	1997	1996
Operating results:[1]					
Revenues	**$506,111**	$440,904	$379,427	$350,267	$293,990
Costs and expenses	**415,377**	368,578	324,395	307,558	271,769
Income before income taxes	**90,734**	72,326	55,032	42,709	22,221
Income taxes:					
Current expense	**30,267**	24,807	9,160	3,417	2,855
Deferred expense	**5,112**	3,147	12,142	13,795	6,145
	35,379	27,954	21,302	17,212	9,000
Net income	**$55,355**	$44,372	$33,730	$25,497	$13,221
Per Share:[2]					
Basic:					
Net income	**$2.04**	$1.63	$1.23	$.91	$.47
Weighted average shares outstanding	**26,999**	27,004	27,093	27,603	27,309
Diluted:					
Net income	**$1.98**	$1.58	$1.20	$.89	$.47
Weighted average shares outstanding	**27,839**	27,922	27,810	28,226	27,716
Cash flow data:					
Cash provided by operations	**$94,085**	$78,528	$68,614	$69,478	$48,362
Cash used in investing activities	**(85,933)**	(100,344)	(65,622)	(43,805)	(51,868)
Cash provided by (used in) financing activities	**(3,583)**	21,337	(7,057)	(21,800)	1,319
Balance sheet data:					
Total assets	**$389,375**	$325,168	$252,228	$226,368	$216,580
Long-term obligations (including current portion and redeemable preferred stock)	**57,288**	63,369	31,911	30,713	39,571
Shareholders' equity	**282,272**	221,228	183,949	155,938	141,476
Number of restaurants at year end:					
Company operated	**324**	294	271	249	244
Franchise	**55**	55	54	63	70
	379	349	325	312	314

(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.

QUARTERLY RESULTS OF OPERATIONS

	Revenues	Income Before Income Taxes	Net Income	Earnings Per Share		Stock Market Data	
				Basic	Diluted	High	Low
2000							
1st Quarter	**$141,347**	**$30,626**	**$18,744**	**$0.69**	**$0.68**	**$28 13/16**	**$19 1/2**
2nd Quarter	**119,033**	**19,773**	**12,101**	**0.45**	**0.44**	**31 3/16**	**22 3/8**
3rd Quarter	**130,301**	**24,929**	**15,257**	**0.56**	**0.55**	**32 1/4**	**25 1/4**
4th Quarter	**115,430**	**15,406**	**9,253**	**0.34**	**0.33**	**36**	**29 5/16**
	$506,111	**$90,734**	**$55,355**	**$2.04**	**$1.98**		
1999							
1st Quarter	$ 118,396	$ 23,653	$ 14,381	$ 0.53	$ 0.52	$24 1/8	$15
2nd Quarter	104,935	15,576	9,471	0.35	0.34	29 7/8	21 11/16
3rd Quarter	115,583	20,227	12,297	0.45	0.44	36 9/16	25 3/4
4th Quarter	101,990	12,870	8,223	0.30	0.29	35 1/4	23 1/2
	$ 440,904	$ 72,326	$ 44,372	$ 1.63	$ 1.58		

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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.

	2000	1999	1998
Revenues	**100.0%**	100.0%	100.0%
Costs and expenses:			
Cost of sales	**44.6%**	45.1%	45.9%
Selling, general and administrative	**14.2%**	14.9%	14.9%
Depreciation and amortization	**6.6%**	7.0%	7.3%
Interest expense	**.7%**	.5%	.7%
Other operating expenses	**16.0%**	16.1%	16.7%
	82.1%	83.6%	85.5%
Income before income taxes	**17.9%**	16.4%	14.5%

2000 Compared to 1999

REVENUES: Revenues increased 14.8% to $506.1 million in 2000 from $440.9 million in 1999 primarily due to new restaurants and an increase of 2.3% in sales of the Company's Chuck E. Cheese's restaurants which were open during all of 2000 and 1999 ("comparable store sales"). The Company opened 31 new restaurants and closed one restaurant in 2000. Average annual revenues per restaurant increased to approximately $1,576,000 in 2000 from approximately $1,531,000 in 1999. Menu prices increased 1.9% between the two years.

Revenues from franchise fees and royalties were $3.3 million in 2000 compared to $3.2 million in 1999 primarily due to a 4.4% increase in comparable franchise store sales. During 2000, one new franchise restaurant opened and one franchise restaurant was closed.

COSTS AND EXPENSES: Costs and expenses as a percentage of revenues decreased to 82.1% in 2000 from 83.6% in 1999.

Cost of sales as a percentage of revenues decreased to 44.6% in 2000 from 45.1% in 1999. Cost of food, beverage, prize and merchandise items as a percentage of revenues decreased to 14.5% in 2000 from 15.1% in 1999 primarily due to a decrease in cheese costs, adjusted prize ticket categories and an increase in menu prices. Restaurant labor expenses as a percentage of revenues increased slightly to 27.0% in 2000 from 26.8% in 1999 primarily due to wage increases and new store staffing.

Selling, general and administrative expenses as a percentage of revenues declined to 14.2% in 2000 from 14.9% in 1999 primarily due to a reduction in advertising and overhead expenses as a percentage of revenues.

Depreciation and amortization expense as a percentage of revenues declined to 6.6% in 2000 from 7.0% in 1999 primarily due to the increase in comparable store sales and new restaurants with higher sales volumes.

Interest expense as a percentage of revenues was .7% in 2000 compared to .5% in 1999. During the twelve months ended July 2000, interest expense on incremental debt incurred to finance assets held for resale was allocated to the basis of such assets.

Other operating expenses decreased as a percentage of revenues to 16.0% in 2000 from 16.1% in 1999 primarily due to the increase in comparable store sales and leveraging of fixed costs with higher revenues.

The Company's effective income tax rate was 39.0% in 2000 compared to 38.7% in 1999 primarily due to higher estimated state tax rates.

NET INCOME: The Company had net income of $55.4 million in 2000 compared to $44.4 million in 1999 due to the changes in revenues and expenses discussed above. The Company's diluted earnings per share increased to $1.98 per share in 2000 compared $1.58 per share in 1999.

1999 Compared to 1998

REVENUES: 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. 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 revenues decreased to 15.1% in 1999 from 15.8% 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 revenues remained constant at 26.8% in both 1999 and 1998.

Selling, general and administrative expenses as a percentage of revenues were 14.9% in both 1999 and 1998. Preopening expenses and recruiting and training costs were higher 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 store 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 was 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.

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 $94.1 million in 2000 from $78.5 million in 1999. Cash outflow from investing activities for 2000 was $85.9 million primarily related to capital expenditures. Cash outflow from financing activities in 2000 was $3.6 million. 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 2001, the Company plans to add 30 to 34 stores including new stores and acquisition 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 store is an in-line or free-standing building. In addition to such new store openings, the Company plans to expand the seating capacity of

10 to 15 high sales volume stores in 2001 including stores which will receive an enhanced showroom package. The Company also plans to complete Phase III upgrades in approximately 100 stores this year at an average cost of approximately $210,000 to $225,000 per store. A Phase III upgrade generally includes a new toddler play area, skill games and rides, kiddie games and rides, Skytube enhancements, and prize area enhancement with ticket counting machines. During 2000, the Company opened 31 new restaurants, expanded the customer area of 23 restaurants and completed Phase III upgrades in 27 restaurants. The Company currently estimates that capital expenditures in 2001, including expenditures for new store openings, existing store expansions and equipment investments, will be approximately $104 million. The Company plans to finance these expenditures through cash flow from operations and, if necessary, borrowings under the Company's line of credit.

Since 1993, the Company has repurchased shares of the Company's common stock on the open market at an aggregate purchase price of $65 million. In September 1999, the Company announced a plan to purchase additional shares of the Company's common stock at an aggregate purchase price of up to $25 million. As of March 12, 2001, the Company has purchased shares of its common stock under the $25 million plan at an aggregate purchase price of approximately $10.9 million.

In 2000, the Company entered into a bank agreement that increases its revolving credit facility to $75 million from $55 million and extends the maturity date to 2003 from 2001. The Company's total credit facilities of $81 million consist of $6 million in term notes and a $75 million line of credit. Term notes totaling $6 million with annual principal payments of $6 million and annual interest of 10.02% mature in 2001. Interest under the $75 million line of credit is dependent on earnings and debt levels of the Company and ranges from prime or, at the Company's option, LIBOR plus 1% to 1.75%. Currently, any borrowings under this line of credit would be at the prime rate or LIBOR plus 1%. As of March 12, 2001, there was $29.5 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.

Certain statements in this report, other than historical information, may be considered forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, and are subject to various risks, uncertainties and assumptions. 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. Among the key factors that may have a direct bearing on the Company's operating results, performance or financial condition are its ability to implement its growth strategies, national, regional and local economic conditions affecting the restaurant/entertainment industry, competition within each of the restaurant and entertainment industries, success of its franchise operations, negative publicity, and fluctuations in quarterly results of operations, including seasonality and government regulations.

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)	December 31, 2000	January 2, 2000
Assets		
Current assets:		
Cash and cash equivalents	**$ 7,300**	$ 2,731
Accounts receivable	**12,778**	6,458
Inventories	**8,436**	7,895
Prepaid expenses	**4,419**	4,727
Deferred tax asset	**1,205**	776
Assets held for resale	**4,211**	13,070
Total current assets	**38,349**	35,657
Property and equipment, net	**338,408**	280,624
Notes receivable from related parties	**1,526**	491
Other assets	**11,092**	8,396
	$389,375	$325,168
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	**$ 6,102**	$ 7,729
Accounts payable and accrued liabilities	**38,616**	34,294
Total current liabilities	**44,718**	42,023
Long-term debt, less current portion	**47,030**	51,567
Deferred rent	**3,491**	4,110
Deferred tax liability	**7,708**	2,167
Other liabilities	**1,725**	1,725
Commitments and contingencies		
Redeemable preferred stock, $60 par value, redeemable for $2,888 in 2005	**2,431**	2,348
Shareholders' equity:		
Common stock, $.10 par value; authorized 100,000,000 shares; 34,585,454 and 33,791,217 shares issued, respectively	**3,459**	3,379
Capital in excess of par value	**177,828**	166,594
Retained earnings	**175,217**	120,194
Deferred compensation		(759)
Accumulated other comprehensive income (loss)	**(30)**	42
Less treasury shares of 7,039,506 and 6,777,614, respectively, at cost	**(74,202)**	(68,222)
	282,272	221,228
	$389,375	$325,168

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

(thousands, except per share data)	2000	1999	1998
Food and beverage revenues	**$336,062**	$283,951	$248,968
Games and merchandise revenues	**166,566**	153,630	126,612
Franchise fees and royalties	**3,252**	3,164	3,304
Interest income, including related party income of $105, $63 and $65, respectively	**231**	159	543
	506,111	440,904	379,427
Costs and expenses:			
Cost of sales	**225,748**	198,922	173,890
Selling, general and administrative expenses	**71,944**	65,706	56,690
Depreciation and amortization	**33,410**	30,963	27,620
Interest expense	**3,546**	2,195	2,694
Other operating expenses	**80,729**	70,792	63,501
	415,377	368,578	324,395
Income before income taxes	**90,734**	72,326	55,032
Income taxes:			
Current expense	**30,267**	24,807	9,160
Deferred expense	**5,112**	3,147	12,142
	35,379	27,954	21,302
Net income	**55,355**	44,372	33,730
Other comprehensive income, net of tax:			
Foreign currency translation	**(72)**	36	6
Comprehensive income	**$ 55,283**	$ 44,408	$ 33,736
Earnings per share:			
Basic:			
Net income	**$ 2.04**	$ 1.63	$ 1.23
Weighted average shares outstanding	**26,999**	27,004	27,093
Diluted:			
Net income	**$ 1.98**	$ 1.58	$ 1.20
Weighted average shares outstanding	**27,839**	27,922	27,810

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(thousands, except per share data)	Amounts 2000	Amounts 1999	Amounts 1998	Shares 2000	Shares 1999	Shares 1998
Common stock and capital in excess of par value:						
Balance, beginning of year	**$169,973**	$165,332	$160,887	**33,791**	33,398	32,868
Stock options exercised	**8,727**	2,680	2,573	**789**	386	524
Tax benefit from exercise of stock options and stock grants	**2,432**	1,842	1,775			
Stock issued under 401(k) plan	**155**	142	97	**5**	8	6
Other		(23)			(1)	
Balance, end of year	**181,287**	169,973	165,332	**34,585**	33,791	33,398
Retained earnings:						
Balance, beginning of year	**120,194**	76,157	42,768			
Net income	**55,355**	44,372	33,730			
Redeemable preferred stock accretion	**(100)**	(101)	(103)			
Redeemable preferred stock dividend, $4.80 per share	**(232)**	(234)	(238)			
Balance, end of year	**175,217**	120,194	76,157			
Deferred compensation:						
Balance, beginning of year	**(759)**	(1,520)	(2,280)			
Amortization of deferred compensation	**759**	761	760			
Balance, end of year		(759)	(1,520)			
Accumulated other comprehensive income:						
Balance, beginning of year	**42**	6				
Foreign currency translation	**(72)**	36	6			
Balance, end of year	**(30)**	42	6			
Treasury shares:						
Balance, beginning of year	**(68,222)**	(56,026)	(45,437)	**6,778**	6,352	5,742
Treasury stock acquired	**(5,980)**	(12,196)	(10,589)	**262**	426	610
Balance, end of year	**(74,202)**	(68,222)	(56,026)	**7,040**	6,778	6,352
Total shareholders' equity	**$282,272**	$221,228	$183,949			

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(thousands)	2000	1999	1998
Operating activities:			
Net income	**$ 55,355**	$ 44,372	$ 33,730
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization	**33,410**	30,963	27,620
Deferred income tax expense	**5,112**	3,147	10,367
Tax benefit from exercise of stock options and stock grants	**2,432**	1,842	1,775
Compensation expense under stock grant plan	**759**	761	760
Other	**(752)**	466	(44)
Net change in receivables, inventories, prepaids, payables and accrued liabilities	**(2,231)**	(3,023)	(5,594)
Cash provided by operations	**94,085**	78,528	68,614
Investing activities:			
Purchases of property and equipment	**(92,247)**	(82,819)	(66,704)
Proceeds from disposition of property and equipment	**835**		
Payments received on notes receivable	**826**	1,327	2,503
Additions to notes receivable	**(1,854)**	(1,410)	(690)
Change in investments and other assets	**(2,502)**	(4,372)	(731)
Sale (purchase) of assets held for resale	**9,009**	(13,070)	
Cash used in investing activities	**(85,933)**	(100,344)	(65,622)
Financing activities:			
Proceeds from debt and line of credit	**36,098**	51,270	4,479
Payments on debt and line of credit	**(42,262)**	(20,279)	(3,376)
Redeemable preferred stock dividends	**(233)**	(234)	(238)
Acquisition of treasury stock	**(5,980)**	(12,196)	(10,589)
Exercise of stock options	**8,727**	2,680	2,573
Other	**67**	96	94
Cash provided by (used in) financing activities	**(3,583)**	21,337	(7,057)
Increase (decrease) in cash and cash equivalents	**4,569**	(479)	(4,065)
Cash and cash equivalents, beginning of year	**2,731**	3,210	7,275
Cash and cash equivalents, end of year	**$ 7,300**	$ 2,731	$ 3,210

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 2000, 1999 and 1998 are for the fiscal years ended December 31, 2000, January 2, 2000 and January 3, 1999, respectively. Fiscal years 2000, 1999 and 1998 each consisted of 52 weeks.

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, net of accumulated depreciation and amortization. Depreciation and amortization are provided by charges to operations over the estimated useful lives of the assets by the straight-line method, generally ranging from four to fifteen years for furniture, fixtures and equipment, and 40 years for buildings. Leasehold improvements are amortized over the shorter of their estimated useful lives or the related lease life, generally ranging from ten to 20 years. 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.

ADVERTISING COSTS: The Company expenses advertising costs as incurred. The total amounts charged to advertising expense were approximately $22.0 million, $20.3 million and $18.2 million in 2000, 1999 and 1998, respectively.

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.

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 16).

RECENT ACCOUNTING PRONOUNCEMENTS: Statement of Financial Accounting Standards No. 133 ("SFAS 133") "Accounting for Derivative Instruments and Hedging Activities" and Statement of Financial Accounting Standards No. 138 ("SFAS 138") which amends certain provisions of SFAS 133 became effective for years beginning after June 15, 2000. The Company currently does not utilize derivatives or engage in hedging activities that require separate disclosure under SFAS 133 or SFAS 138.

2. Accounts Receivable

(thousands)	**2000**	1999
Trade	**$ 1,910**	$1,510
Income tax receivable	**2,466**	
Construction allowances from landlords	**2,661**	1,397
Other	**5,741**	3,551
	$12,778	$6,458

3. Notes Receivable

The Company and its franchisees contribute a percentage of revenues to the International Association of CEC Entertainment, Inc. (the "Association"), a related party, to develop entertainment attractions and produce system wide advertising. The Company has granted three separate operating lines of credit to the Association. In December 2000, the lines were renewed to provide the Association with available borrowings of $3.2 million at 10.5% interest and are due December 31, 2001. Five officers of the Association are also officers of the Company. At December 31, 2000 and January 2, 2000, approximately $1,526,000 and $491,000, respectively, was outstanding under these lines of credit.

In addition, the Company has notes receivable from franchisees which have various terms, but most are payable in monthly installments of principal and interest through 2001, with interest rates of 7.5%. Notes receivable from franchisees have been fully reserved with allowances for doubtful collection of $57,647 and $73,000 at December 31, 2000 and January 2, 2000, respectively.

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 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 final allocation of the purchase price was approximately $7.9 million to property and equipment and $11.1 million to assets held for resale. At December 31, 2000, the remaining assets held for resale total $4.2 million which relate to seven properties recorded at the lower of cost or fair value less estimated selling costs.

5. Property and Equipment

(thousands)	**2000**	1999
Land	**$ 18,859**	$ 13,752
Leasehold improvements	**213,447**	186,067
Buildings	**16,397**	12,689
Furniture, fixtures and equipment	**236,435**	198,900
Property leased under capital leases (Note 8)	**449**	449
Construction in progress	**15,419**	13,819
	501,006	425,676
Less accumulated depreciation and amortization	**(162,598)**	(145,052)
	$ 338,408	$ 280,624

6. Accounts Payable and Accrued Liabilities

(thousands)	**2000**	1999
Accounts payable	**$18,453**	$14,521
Salaries and wages	**8,366**	7,766
Insurance	**2,559**	3,525
Taxes, other than income	**5,253**	4,258
Other	**3,985**	4,224
	$38,616	$34,294

7. Long-term Debt

(thousands)	**2000**	1999
Revolving bank loan, prime minus 0.5% to plus 0.5% or LIBOR plus 1% to 2.5%, due July 2003	**$46,400**	$44,850
Term loans, 10.02%, due June 2001	**6,000**	12,000
Term loans, LIBOR plus 3.5%, due June 2000		1,667
Obligations under capital leases (Note 8)	**732**	779
	53,132	59,296
Less current portion	**(6,102)**	(7,729)
	$47,030	$51,567

In 2000, the Company entered into a bank agreement that increased its revolving line of credit facility to a maximum borrowing of $75 million from $55 million and extended the maturity date to 2003 from 2001. As of December 31, 2000, the Company's total credit facilities of $81 million consist of a $75 million line of credit and $6 million in term notes. 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 (9.50% at December 31, 2000) or, at the Company's option, LIBOR (6.4% at December 31, 2000) plus 1%. At December 31, 2000, there was $46.4 million outstanding under the line of credit. A ⅜% commitment fee is payable on any unused credit line. Interest on the term notes is payable quarterly. 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 8.2% and 8.44% in 2000 and 1999, respectively. The Company recognized capitalized interest costs of $670,000, $747,000 and $35,000 in 2000, 1999 and 1998, respectively.

As of December 31, 2000, scheduled annual maturities of all long-term debt (exclusive of obligations under capital leases) are as follows (thousands):

Years	*Amount*
2001	$ 6,000
2003	46,400
	$52,400

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Commitments and Contingencies

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 10 to 30 years with various renewal options.

Scheduled annual maturities of the obligations for capital and operating leases as of December 31, 2000, are as follows:

(thousands)	*Capital*	*Operating*
Years		
2001	$ 231	$ 42,064
2002	214	36,248
2003	214	27,612
2004	214	21,706
2005	196	18,895
2006-2028 (aggregate payments)		78,539
Minimum future lease payments	1,069	$225,064
Less amounts representing interest	(337)	
Present value of future minimum lease payments	732	
Less current portion	(102)	
	$ 630	

Certain of the Company's real estate leases, require payment of contingent rent based on a percentage of sales. Deferred rent is provided to recognize the minimum rent expense on a straight-line basis when rental payments are not made on such basis.

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

(thousands)	**2000**	1999	1998
Minimum	**$43,019**	$38,339	$34,276
Contingent	**447**	464	365
	$43,466	$38,803	$34,641

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.

9. Redeemable Preferred Stock

As of December 31, 2000 and January 2, 2000, the Company had 48,130 and 48,510 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 December 31, 2000, one quarterly dividend, totaling $57,756 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. In 2000, the Company reacquired 380 shares of its redeemable preferred stock.

10. Franchise Fees and Royalties

At December 31, 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 $253,000, $355,000 and $260,000 in 2000, 1999 and 1998, respectively.

11. Cost of Sales

(thousands)	**2000**	1999	1998
Food, beverage and related supplies	**$ 64,169**	$ 58,108	$ 52,958
Games and merchandise	**25,371**	23,250	19,625
Labor	**136,208**	117,564	101,307
	$225,748	$198,922	$173,890

12. Income Taxes

The significant components of income tax expense are as follows:

(thousands)	**2000**	1999	1998
Current expense:			
Federal	**$25,442**	$20,795	$ 5,763
State	**4,825**	4,012	3,397
Total current expense	**30,267**	24,807	9,160
Deferred expense:			
Utilization of tax credit carryforwards			6,595
Other	**5,112**	3,147	5,547
	$35,379	$27,954	$21,302

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. The income tax effects of temporary differences which give rise to deferred income tax assets and liabilities are as follows:

(thousands)	**2000**	1999
Current deferred tax asset:		
Accrued vacation	**$ 532**	$ 412
Unearned gift certificates	**344**	204
Other	**329**	160
	$ 1,205	$ 776
Non-current deferred tax asset (liability):		
Deferred rent	**$ 1,351**	$ 1,435
Asset impairments	**317**	353
Unearned franchise fees	**67**	113
Depreciation	**(9,353)**	(4,068)
Other	**(90)**	
	$(7,708)	$ (2,167)

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

(thousands)	2000	1999	1998
Federal statutory rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal benefit	**3.8%**	3.6%	4.0%
Other	**.2%**	.1%	(.3%)
Effective tax rate	**39.0%**	38.7%	38.7%

13. Earnings Per Common Share

Basic earnings per common share ("EPS") is computed 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 from dilutive stock options and stock grants using the treasury stock method. Net income applicable per common share has been adjusted for redeemable preferred stock accretion and dividends. Earnings per common and potential common shares were computed as follows (thousands, except per share data):

	2000	1999	1998
Net income	**$55,355**	$44,372	$33,730
Accretion of redeemable preferred stock	**(100)**	(101)	(103)
Redeemable preferred stock dividends	**(232)**	(234)	(238)
Net income applicable to common shares	**$55,023**	$44,037	$33,389
Basic:			
Weighted average common shares outstanding	**26,999**	27,004	27,093
Earnings per common share	**$ 2.04**	$ 1.63	$ 1.23
Diluted:			
Weighted average common shares outstanding	**26,999**	27,004	27,093
Potential common shares for stock options and stock grants	**840**	918	717
Weighted average shares outstanding	**27,839**	27,922	27,810
Earnings per common and potential common shares	**$ 1.98**	$ 1.58	$ 1.20

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. 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.

15. Supplemental Cash Flow Information

(thousands)	**2000**	1999	1998
Cash paid during the year for:			
Interest	**$3,550**	$ 2,099	$2,681
Income taxes	**32,824**	24,511	9,924
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

16. 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 3,087,500 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.

At December 31, 2000, there were 1,152,971 shares available for grant. Stock option transactions are summarized as follows for all plans:

	Number of Shares			Weighted Average Exercise Price Per Share		
	2000	1999	1998	**2000**	1999	1998
Options outstanding, beginning of year	2,618,783	2,301,474	2,379,447	$13.66	$11.19	$ 9.13
Granted	884,329	796,622	516,918	24.59	17.68	14.61
Exercised	(788,789)	(386,440)	(523,254)	11.06	6.94	4.91
Terminated	(225,955)	(92,873)	(71,637)	18.84	15.28	13.41
Options outstanding, end of year	2,488,368	2,618,783	2,301,474	17.95	13.66	11.19

Options outstanding at December 31, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	*Shares Outstanding as of 12/31/00*	*Weighted Avg. Remaining Contractual Life*	*Weighted Average Exercise Price*	*Shares Exercisable as of 12/31/00*	*Weighted Average Exercise Price*
$ 3.78 – $ 5.52	11,859	.7	$5.00	11,859	$5.00
$ 8.22 – $11.77	494,928	2.0	11.50	494,928	11.50
$13.67 – $19.94	1,159,983	4.4	15.99	360,005	14.40
$22.44 – $33.63	820,609	6.1	24.55	722	24.21
$33.94 – $35.88	989	6.0	34.48		
$ 3.78 – $35.88	2,488,368	4.5	17.95	867,514	12.62

The estimated fair value of options granted was $9.39, $6.74 and $7.54 per share in 2000, 1999 and 1998, 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: risk free interest rate of 6.46%, 6.51% and 4.6% in 2000, 1999 and 1998, respectively; no dividend yield; expected lives of five years in 2000 and 1999 and four years in 1998; and expected volatility of 30%. Stock options expire five and seven years from the grant date. Stock options vest over various periods ranging from one to four years. In January 2001, the Company granted 654,170 additional options to employees at an exercise price of $34.00 per share and 12,500 options to its non-employee directors at an exercise price of $34.00 per share.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. No grants were awarded in 2000, 1999 or 1998. Compensation expense recognized by the Company pursuant to this plan for grants made in 1997 was $759,000, $761,000 and $760,000 per year in 2000, 1999 and 1998, 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. 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 $52.5 million, $41.9 million and $31.6 million in 2000, 1999 and 1998, respectively. Proforma diluted earnings per share would have been $1.88, $1.50 and $1.14 per share in 2000, 1999 and 1998, 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 $155,000 and $142,000 in common stock for the 1999 and 1998 plan years, respectively. The Company plans to contribute $175,000 in common stock for the 2000 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 December 31, 2000 and January 2, 2000, 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 December 31, 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 December 31, 2000 and January 2, 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Dallas, Texas
February 16, 2001

CORPORATE INFORMATION

Board of Directors

Inside Board Members

Richard M. Frank
CHAIRMAN OF THE BOARD
& CHIEF EXECUTIVE OFFICER

Richard T. Huston
EXECUTIVE VICE PRESIDENT -
MARKETING

Michael H. Magusiak
PRESIDENT

Outside Board Members

Tim T. Morris
PARTNER, RIVER ASSOCIATES, LLC

Louis P. Neeb
CHAIRMAN,
MEXICAN RESTAURANTS, INC.
PRESIDENT,
NEEB ENTERPRISES, INC.

Cynthia I. Pharr
PRESIDENT, C. PHARR AND
COMPANY

Walter Tyree
CHIEF OPERATING OFFICER,
BOSTON CHICKEN, TEXAS

Raymond E. Wooldridge
RETIRED VICE CHAIRMAN
AND CHAIRMAN,
EXECUTIVE COMMITTEE,
SOUTHWEST SECURITIES GROUP, INC.

Officers

Richard M. Frank
CHAIRMAN OF THE BOARD
& CHIEF EXECUTIVE OFFICER

Michael H. Magusiak
PRESIDENT

John R. Cardinale
EXECUTIVE VICE PRESIDENT -
DEVELOPMENT AND PURCHASING

Rodney Carter
EXECUTIVE VICE PRESIDENT
AND CHIEF FINANCIAL OFFICER

Gene Cramm
EXECUTIVE VICE PRESIDENT -
CONCEPT EVOLUTION AND
ENTERTAINMENT

Mark A. Flores
EXECUTIVE VICE PRESIDENT
AND DIRECTOR OF OPERATIONS

Richard T. Huston
EXECUTIVE VICE PRESIDENT -
MARKETING

Thomas W. Oliver
EXECUTIVE VICE PRESIDENT -
GENERAL COUNSEL

Randy Forsythe
SENIOR VICE PRESIDENT -
NORTHERN REGION

Bernard J. Yanelli
SENIOR VICE PRESIDENT -
FRANCHISE OPERATIONS

Sandra J. Brown
VICE PRESIDENT -
PAYROLL AND ACCOUNTS PAYABLE

Marshall R. Fisco, Jr.
VICE PRESIDENT - LEGAL AND
CORPORATE SECRETARY

James Mabry
VICE PRESIDENT - CONTROLLER

Catherine R. Olivieri
VICE PRESIDENT -
HUMAN RESOURCES

Ahmet Oner
VICE PRESIDENT -
MANAGEMENT INFORMATION
SYSTEMS

Jon Rice
VICE PRESIDENT - MARKETING

Odom Sherman, Jr.
VICE PRESIDENT - TAXES AND
ASSISTANT TREASURER

Jeff S. Smith
VICE PRESIDENT -
WESTERN REGION

Gary Spring
VICE PRESIDENT -
MIDWEST REGION

Mark Wallace
VICE PRESIDENT -
SOUTHERN REGION

Alice Winters
ASSISTANT TREASURER AND
ASSISTANT SECRETARY

Executive Offices
4441 West Airport Freeway
P.O. Box 152077
Irving, Texas 75015
972/258-8507

Annual Shareholder Meeting
June 28, 2001
9:00 AM
Harvey Hotel
4545 W. John Carpenter Freeway
Irving, Texas

Stock Transfer Agent
And Registrar
Boston Equiserve
46 Harvard Street
Westwood, Massachusetts
02909-2398

Stock Listing
The Company's common stock is traded on the
New York Stock Exchange under the symbol "CEC."

Independent Auditors
Deloitte & Touche, LLP
2200 Ross Avenue
Suite 1600
Dallas, Texas 75201

10-K Availability
The company will furnish any shareholder, without charge, a copy of the Company's annual report filed with the Securities and Exchange commission on Form 10-K for the 2000 fiscal year (including the financial statements and schedules thereto) upon written request from the shareholder addressed to:

Secretary
CEC Entertainment, Inc.
4441 West Airport Freeway
P.O. Box 152077
Irving, Texas 75015

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Squires & Company
Dallas, Texas

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CEC ENTERTAINMENT INC.
2000 ANNUAL REPORT

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