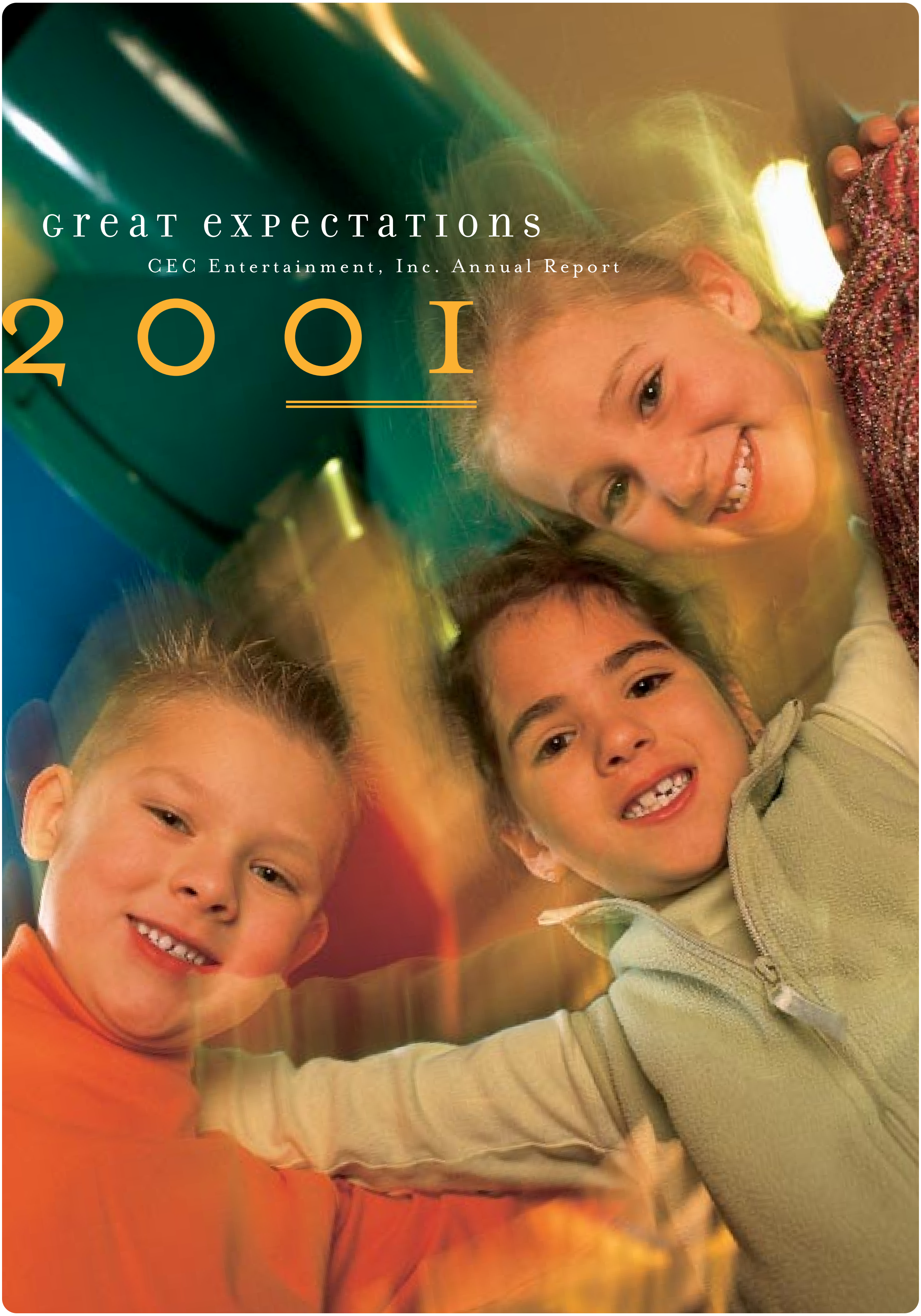
great expectations

CEC Entertainment, Inc. Annual Report

2001



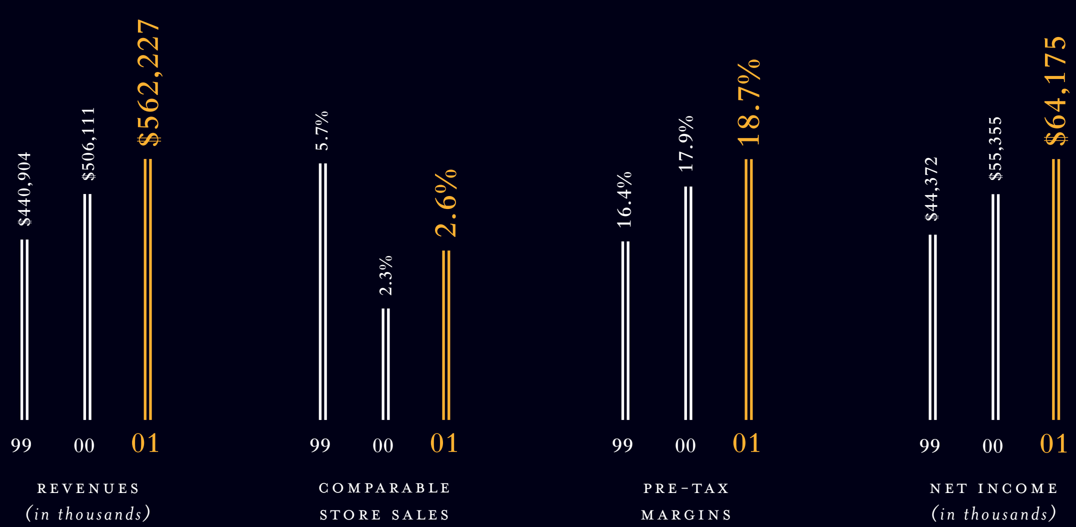
expectations are HIGH

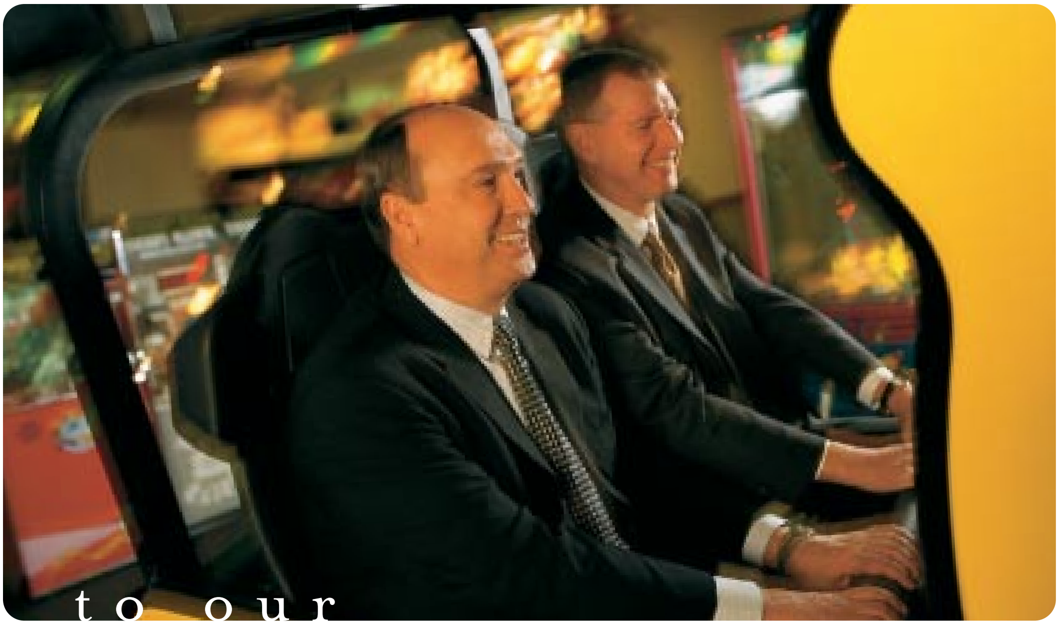
at CEC Entertainment, Inc. Our confidence in the Company's performance is rooted in strong PAST results and an unwavering belief in our Chuck E. Cheese's® concept. From humble beginnings in 1977 to the leadership position we enjoy in the PRESENT, the Company has flourished by continually raising the bar on how we define success. Simply stated, we expect much of ourselves and more for our guests and shareholders. Through good people, clear direction and hard work, our great expectations are realized in the revelry of the 900,000+ kids who visit Chuck E. Cheese's each week. The strategies we employ today are designed in anticipation that our young guests will return in the not-so-distant FUTURE with children of their own — affording us the opportunity to exceed the expectations of a new generation and reward shareholders with exceptional long-term value.

Financial Highlights

In 2001, CEC Entertainment achieved solid financial results despite a difficult operating environment and an uncertain economy. The Company's strong financial position enabled us to pursue strategies that drive value for the long term. During the year, we opened 28 new restaurants, acquired two restaurants from franchisees, completed 105 Phase III remodels, and repurchased $24 million of outstanding shares — to move our business forward and enhance shareholder value.

(thousands, except per share data)	**2001**	2000	1999
Operating Results			
Revenues	**$562,227**	$506,111	$440,904
Income before taxes	**105,204**	90,734	72,326
Net income	**64,175**	55,355	44,372
Earnings per Share			
Basic	**$2.30**	$2.04	$1.63
Diluted	**$2.24**	$1.98	$1.58
Other Information			
Total assets	**$459,485**	$389,375	$325,168
Long-term obligations *(including current portion)*	**59,285**	57,288	63,369
Shareholders' equity	**337,236**	282,272	221,228
Increase in Comparable Store Sales			
Chuck E. Cheese's	**2.6%**	2.3%	5.7%
Number of Restaurants at Year End			
Company operated	**350**	324	294
Franchise	**52**	55	55
	402	379	349





to our shareholders

We began the 2001 fiscal year with great expectations. After an exceptional first quarter of growth in revenues and earnings, we started to see signs of an economy in recession, which challenged our high expectations for the year. The second and third quarters of 2001 tested both our strategy and our resolve. Yet these two quarters and, in fact, the year, also validated the Company's core operating philosophies: the strength of our concept, the advantage of a healthy balance sheet, and the value of a growth strategy that balances bold action with discipline and control.

For the year ended December 30, 2001, revenues increased 11.1 percent to $562.2 million from $506.1 million in 2000. Earnings before income taxes grew 15.9 percent to $105.2 million compared with $90.7 million a year ago. Net income improved to $64.2 million from $55.4 million in the previous year, an increase of 15.9 percent. Earnings per share improved to $2.24, up 13.1 percent from $1.98 a year ago. This marks the sixth consecutive year of growth in earnings, and translates to a compound annual earnings increase of 37.3 percent since the Company went public in 1989. Comparable store sales increased 2.6 percent in 2001, the sixth consecutive year of comparable store sales increases.

While the earnings gains we posted were below our long-term target of 20-25 percent annual growth, we nevertheless prevailed in the face of a weakening economy, mounting cost pressures, and a world forever changed by the tragic events of mid-September. By year end, our performance was again more closely aligned with expectations. This renewed our confidence in the Chuck E. Cheese's concept and validated our long-term strategy even during this time of uncertainty — which we believe was short-term in duration and external in nature.

In 2001, we remained focused on the long-range plans that have yielded shareholders a healthy rate of return and propelled us to the top of the family restaurant-entertainment industry over the last decade. We continued to re-invest in our concept, completing 105 Phase III remodels. Approximately 41 percent of Company-owned locations now boast significantly upgraded entertainment packages. The strong sales performance of these locations, which on a consolidated basis exceeded our internal targets, helped to offset the impact of a negative external environment.

Sustaining growth through new unit development and franchise acquisition was another factor in our positive results for 2001. We continue to expand our base of Company-owned restaurant-entertainment centers by about 10 percent annually. The Company opened 28 Chuck E. Cheese's in 2001 and acquired two franchised locations — on target with expectations — which made an immediate impact on top- and bottom-line performance.

We expect to gain ground in 2002 through continued implementation of our long-range plans. We anticipate that approximately 75 to 80 percent of all Company-owned Chuck E. Cheese's will be upgraded to Phase III standards by year end. In the latter half of 2002, we will begin to test our Phase IV remodels. Our current plans call for locations to be scheduled for Phase IV enhancements approximately two years after a Phase III remodel. Phase IV is expected to combine a rotation of selected games and rides among Chuck E. Cheese's locations in a regional market with the introduction of several new games and rides. The objective is to significantly update the overall entertainment experience at a modest capital cost.

We are also exploring additional growth vehicles that are complementary to our business model, hold the potential to expand our position in the marketplace and provide a solid return on investment. We are developing a small-market version of our Chuck E. Cheese's concept, which should be ready for testing in the summer of 2002. Additionally, our new casual dining and entertainment concept, T.J. Hartford's™, is now in testing in Lewisville, Texas. Featuring a 1200-square-foot gameroom and classic American cuisine with a twist, this casually upscale restaurant targets a broad demographic.

We are excited about our prospects for the future, particularly on the heels of 2001. In demonstrating the Company's ability to drive significant revenue and profit growth despite the difficult environment, we know that our greatest expectations — when based on sound business practices, a strong balance sheet, a seasoned management team and a firm belief in our people and our concept — are within reach. With hard work and your support, we are confident that we will achieve our goals.

We look forward to reporting our progress to you. Thanks for your continued interest and support.

SINCERELY,

RICHARD M. FRANK – Chairman, Chief Executive Officer

MICHAEL H. MAGUSIAK – President


family

BUILDING ON SUCCESS of the PAST

CEC ENTERTAINMENT, INC. IS VIEWED as the leader of our market segment. It is a position for which we worked long and hard, and one that we expect to sustain through a business strategy that has served us well. But even as we look ahead with the greatest of expectations, we also recall a time when the future was not so certain.

DURING THE 1990s, when the Company was known as ShowBiz Pizza Time, Inc., a slate of indoor amusement centers — such as Discovery Zone® and Leaps & Bounds® — were aggressively developing their business models. Consumers perceived little differentiation between the concepts in the marketplace and competition was fierce. The name of the game was survival. By 1998, many had not.

THROUGH THE TRIALS AND TRIBULATIONS OF THE TIMES, we emerged from this era with a newfound conviction and a rising confidence in our business model. Not only had the Company survived, but we had continued to thrive — and grow.

THREE FACTORS UNDERLAY OUR SUCCESS. First, we had distinguished our concept as a fun and wholesome family experience that was embodied in the character of a lovable, life-sized mouse named Chuck E. Cheese®. This branding strategy catapulted Chuck E. into the consciousness of America's children. Chuck E.'s popularity with kids ages 6 to 8 now exceeds that of a mouse named Mickey®, a gal named Barbie®, and the Caped Crusader, too.* Second, we recognized the importance of continual improvement to our facilities and innovation in our operations — a process we call "evolving the concept." Finally, we became a management team that at every level believed in the concept and the abilities of our people.

WHAT RESULTED WAS THE COMPANY'S DRAMATIC REPOSITIONING from arcade attraction to industry leader in the family restaurant and entertainment segment. It also set us on a course for success that was beyond our greatest expectation two decades ago, and the hallmark of our business today.

**Spring 2000 Cartoon Q Ranking Study*

638

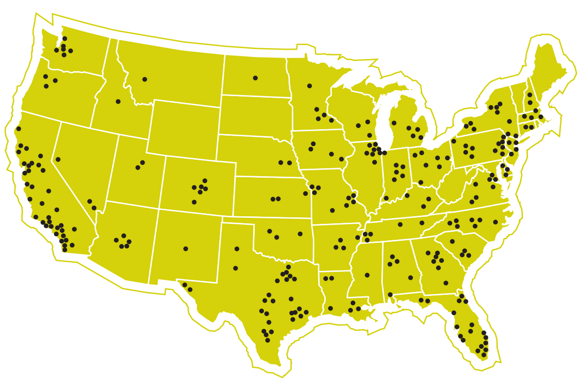
million

kid visits

The number of kid visits we have enjoyed since Chuck E. Cheese's opened in 1977 attests to the popularity and staying power of our concept. Nearly two of every three American children born in the last quarter century have visited Chuck E. Cheese's for pizza, parties, playtime and prizes.

Chuck E. Cheese's is Where a Kid Can Be a Kid.™

Whether the occasion is to celebrate a birthday, mark a kindergarten graduation, have fun on a rainy afternoon, or share a hot, fresh pizza as a family, the Chuck E. Cheese's experience is widely recognized as a rite of passage for American children. The loyalty of two generations of kids and their parents reflects the substance of our concept. It also endows Chuck E. Cheese's with a popularity that endures across generational and demographic lines — providing the basis for good results in the coming years.



We ended 2001 with a commanding market presence and the top-rated concept in the family restaurant/entertainment market. At year end, our network included 402 Chuck E. Cheese's locations.

seeking great results
in the present

THE EMPLOYEES OF CEC ENTERTAINMENT, INC. seek to enhance our guests' experience and increase shareholder value on a daily basis. We achieve both goals and have exceeded the expectations of many with a single strategy: evolving and improving our Chuck E. Cheese's concept.

THIS CORE STRATEGY of continual enhancement to various aspects of our restaurant and entertainment centers — games, rides, kid safety, parent comfort, menu, prizes and value packages — allowed us to leap-frog the competition years ago, and positions us way ahead of the pack today.

WE ARE NOW IMPLEMENTING the third generation of such enhancements — what we call the Phase III remodel program — and Phase IV planning is well underway. Phase III includes enhancements such as the Toddler Zone™, a self-contained, age-appropriate play space for our youngest guests; improvements to our SkyCrawl™ attraction that adds police cruisers and/or NASCAR® cars to the tunnels of sky tubes that snake through the gameroom; significantly enhanced kiddie rides and skill games, as well as rides and games targeted to older children; and the installment of Ticket Munchers™, a fun way to speed service at the prize counter.

OUR GUESTS APPRECIATE the new and exciting changes at Chuck E. Cheese's and shareholders benefit, too. Remodeled locations typically provide immediate and substantial return on the investment. On a consolidated basis, Phase III remodels have exceeded our internal targets.

WE HAVE REINVESTED APPROXIMATELY $150 MILLION to date in Phase I, II and III remodels. The impact is reflected in a long-standing record of solid top- and bottom-line performance and excellent shareholder value. Strong financial performance and a solid balance sheet also afford us flexibility to grow through new unit development, as well as to reduce debt and repurchase stock when opportune. Success gives rise to greater success, giving us reason — and the resources — to expect even greater things in the years ahead.

fun

6.5

years

The average tenure of our general managers at 350 Company-owned Chuck E. Cheese's is extraordinary in the restaurant industry. Our GMs' experience and insight translate to an exceptional capacity for detail and a proven ability to execute strategy with precision and consistency—with expected excellent results.

effort

"E" stands for effort, enthusiasm and excellence.

When kids ask, we tell them that the "E." in Chuck E. Cheese's stands for entertainment. But the "E." actually embodies all that we expect of ourselves — effort, enthusiasm and excellence. It is a commitment that is reflected in the daily contributions of more than 20,000 employees enterprise-wide, as well as in the long-standing tenure of Company management at every level, which ranges from an average of 6.5 years at the general manager level to 13.3 years at the executive level.

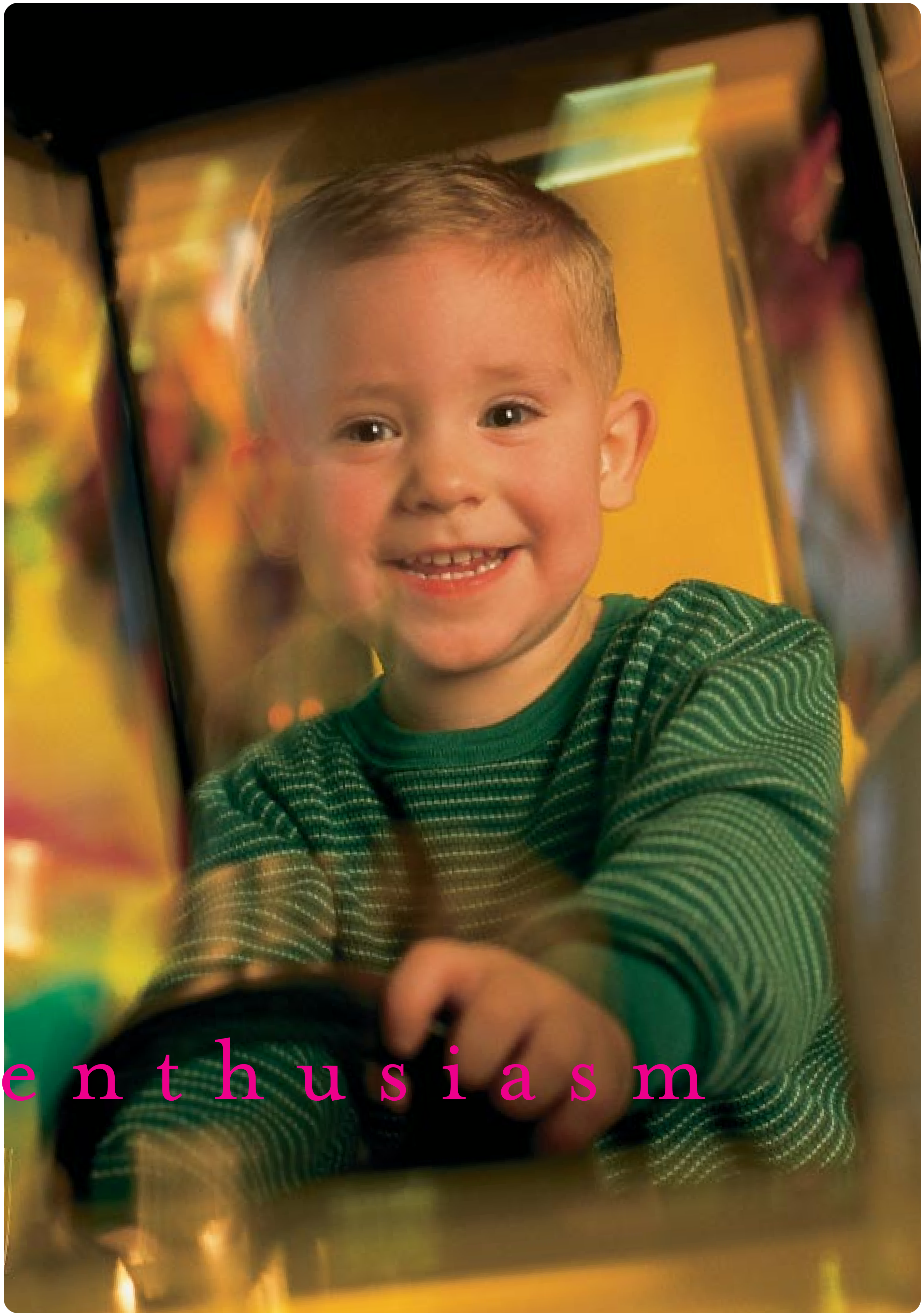
ENVISIONING
a bright FUTURE

TODAY IS THE DAY WE PLANNED FOR YESTERDAY — so we expect tomorrow to be bright for CEC Entertainment. Our great expectations are grounded in a well-executed business strategy that underscores an abiding belief in the power of change and an eagerness to embrace it. The durability of our Chuck E. Cheese's concept year in and year out — and the outstanding shareholder value that has ensued — is proof of our ability to build a solid business on the belief that change is fundamentally good.

WE ALSO RECOGNIZE constancy of purpose as a prerequisite for success, particularly in a business where changing with the times is so essential. We are afforded this advantage by a team of smart, loyal and talented people. Our management group is arguably the longest-tenured operations and strategic team in the business. Their average tenure is 6.5 years for general managers, 10.9 years for district managers, 17.5 years for regional vice presidents, and 13.3 years for the executive management team.

THE PRACTICED EYE AND STEADY HAND of our management team afford us wisdom and agility in the face of both opportunities and challenges presented by the marketplace. As we have witnessed over the last quarter century, kids grow more sophisticated with each generation. Shaped by advances in technology, inundated with information and influenced by television and media, today's kids are increasingly more knowledgeable about the environments in which they learn and play. Parents are more discriminating, too, leading to higher overall expectations from the quality and value of the Chuck E. Cheese's experience.

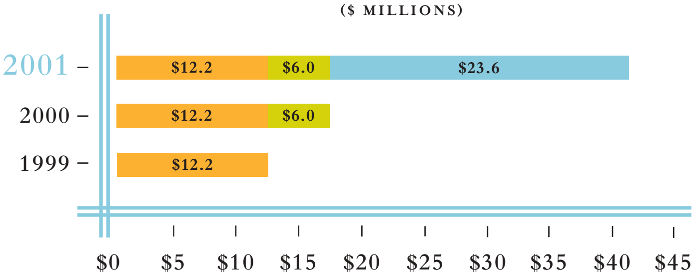
THOSE EVER-HIGHER EXPECTATIONS are a challenge on which we thrive and for which we are uniquely prepared. For the legacy of our Company is this: when we succeed in satisfying the expectations of our guests, we are well on the way to exceeding those of all who share a stake in our success.


enthusiasm

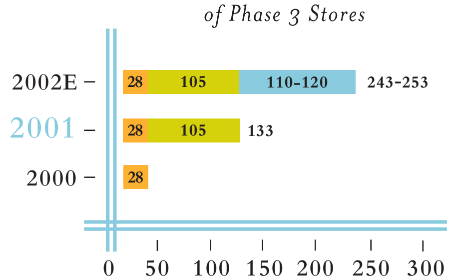
From stock repurchases to the number of Phase III Stores to new stores added — 2001 was a very productive year.

Cumulative Number of New Stores Added

Common Stock Repurchases
($ MILLIONS)



Cumulative Number of Phase 3 Stores



7.66

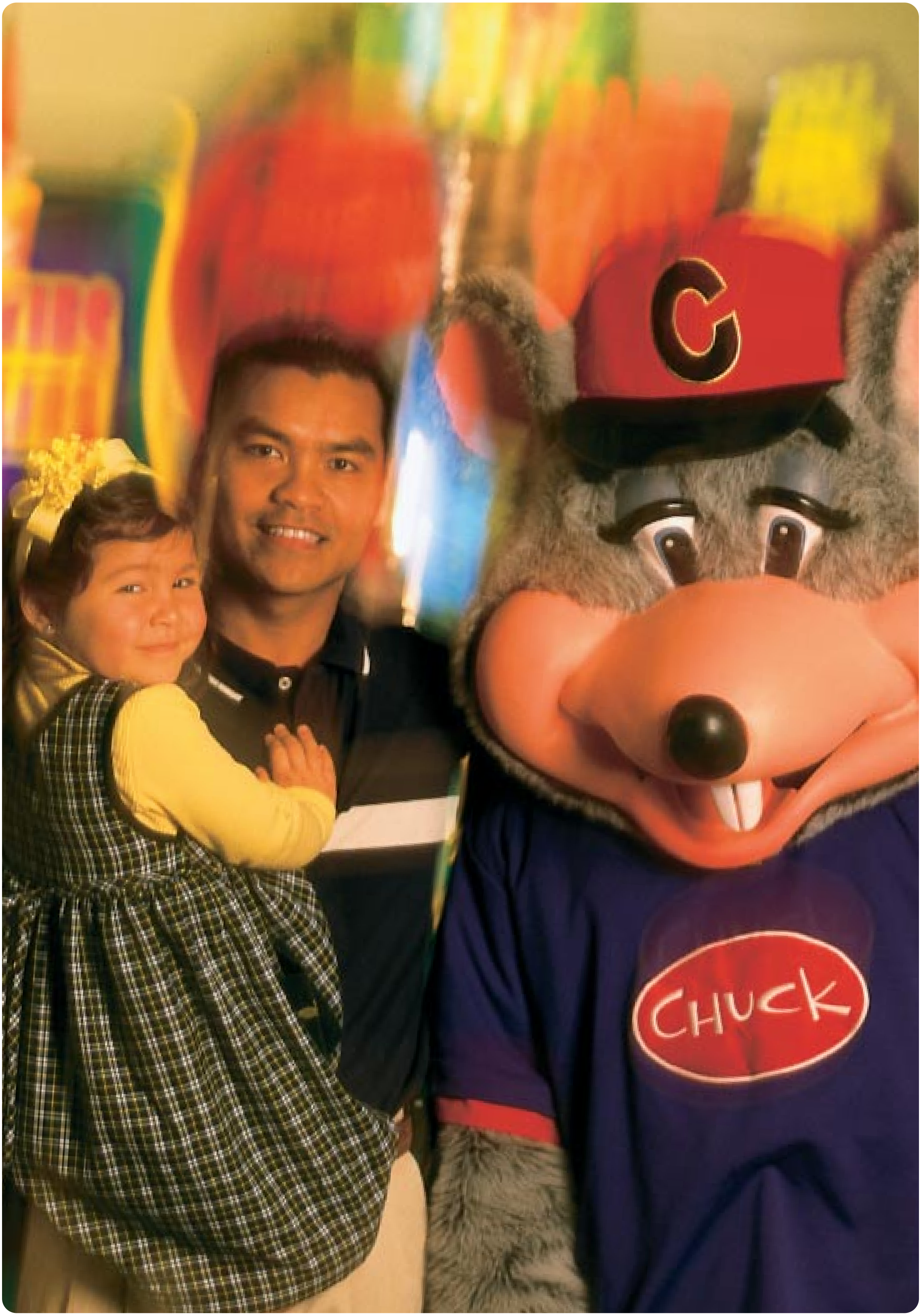
round trips

The number of tickets won by our guests over the last 25 years — if laid end to end — would take Chuck E. Cheese to the moon and back more times than any astronaut in history. The tickets dispensed by our skill games reward a child for a fun day of play, and are yet another aspect of the Chuck E. Cheese's experience that keep our young guests happy with our concept and eager to return.

37.3%

annual earnings growth

The compound annual growth of earnings per share since our Company went public in 1989 reflects the strength of our concept, the appropriateness of our strategies, and the depth of our commitment to providing long-term value for shareholders. During the same time frame, CEC Entertainment's stock price grew at a compound annual rate of 32.4%.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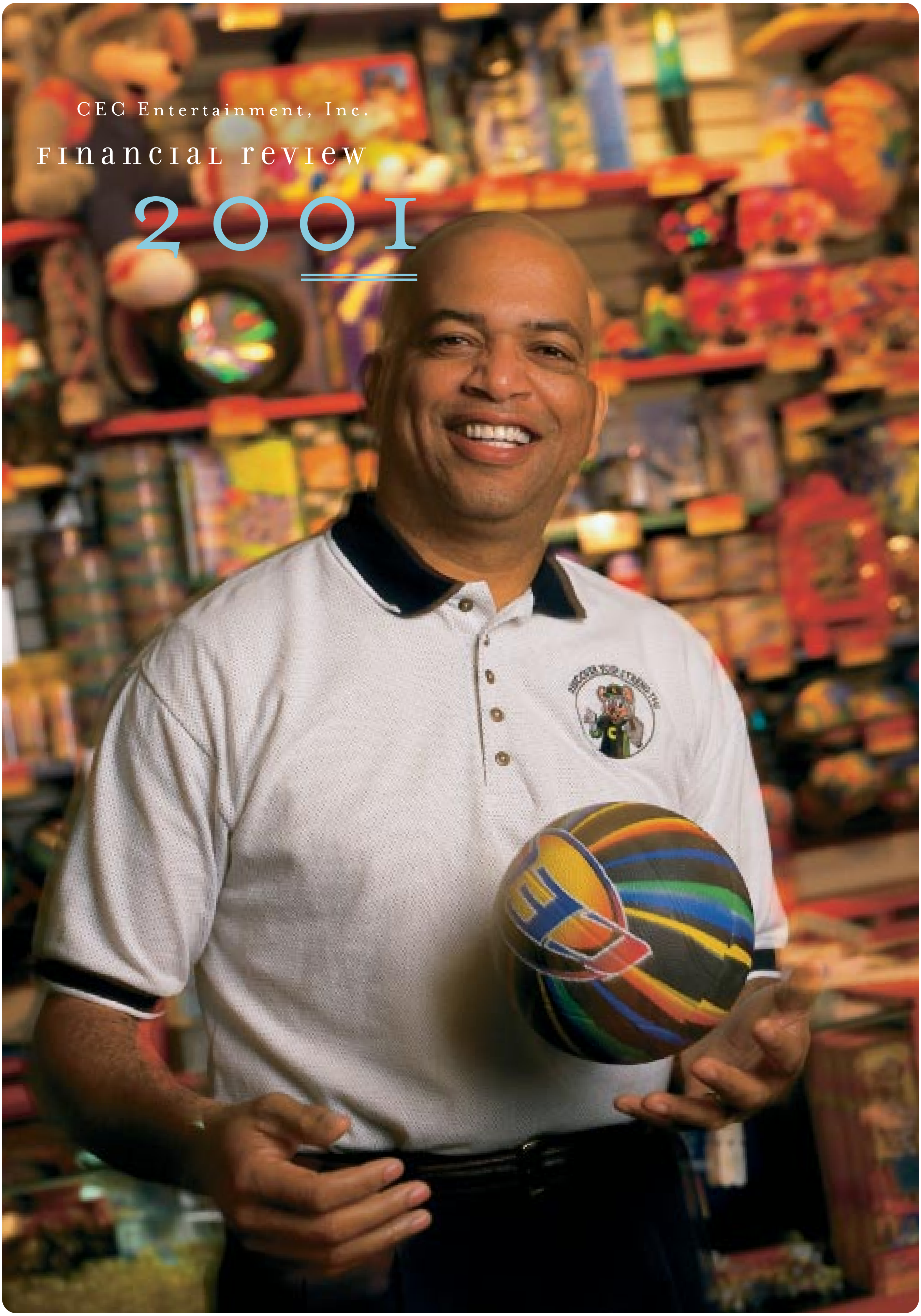
CEC Entertainment, Inc.

Financial Review 2001



2001 in review

CEC Entertainment, Inc.'s track record of solid financial performance arises from a strong operating performance and a strong balance sheet, which allow us to implement planned concept enhancements and afford us the flexibility to fortify our financial position as opportunities arise. Fiscal 2001 was a prime example. Despite a challenging operating environment and an uncertain economy, we had the financial resources to implement the long-term strategy that has underscored our success over the last decade. We opened 28 new Company-owned Chuck E. Cheese's and acquired two franchised locations, maintaining our strategy of annual growth through new unit development. We completed 105 Phase III remodels, which translates to 41 percent of Company-owned locations having now been upgraded. We also repurchased 596,000 shares of the Company's outstanding common stock. These strategies build the Company's financial standing and position us well to meet continued high expectations in the coming year.

(thousands, except per share and store data)	2001	2000	1999	1998	1997
OPERATING RESULTS:[1]					
Revenues	**$ 562,227**	$506,111	$440,904	$379,427	$350,267
Costs and expenses	**457,023**	415,377	368,578	324,395	307,558
Income before income taxes	**105,204**	90,734	72,326	55,032	42,709
Income taxes	**41,029**	35,379	27,954	21,302	17,212
Net income	**$ 64,175**	$ 55,355	$ 44,372	$ 33,730	$ 25,497
PER SHARE:[2]					
Basic:					
Net income	**$ 2.30**	$ 2.04	$ 1.63	$ 1.23	$ .91
Weighted average shares outstanding	**27,816**	26,999	27,004	27,093	27,603
Diluted:					
Net income	**$ 2.24**	$ 1.98	$ 1.58	$ 1.20	$ .89
Weighted average shares outstanding	**28,514**	27,839	27,922	27,810	28,226
CASH FLOW DATA:					
Cash provided by operations	**$ 119,497**	$ 94,085	$ 78,528	$ 68,614	$ 69,478
Cash used in investing activities	**(108,807)**	(85,933)	(100,344)	(65,622)	(43,805)
Cash provided by (used in) financing activities	**(14,308)**	(3,583)	21,337	(7,057)	(21,800)
BALANCE SHEET DATA:					
Total assets	**$ 459,485**	$389,375	$325,168	$252,228	$226,368
Long-term obligations (including current portion and redeemable preferred stock)	**59,285**	57,288	63,369	31,911	30,713
Shareholders' equity	**337,236**	282,272	221,228	183,949	155,938
NUMBER OF RESTAURANTS AT YEAR END:					
Company operated	**350**	324	294	271	249
Franchise	**52**	55	55	54	63
	402	379	349	325	312

(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

(thousands, except per share data)	*Revenues*	*Income Before Income Taxes*	*Net Income*	*Earnings Per Share Basic*	*Earnings Per Share Diluted*	*Stock Market Data High*	*Stock Market Data Low*
2001							
1st Quarter	**$ 163,208**	**$ 41,286**	**$ 25,184**	**$ .90**	**$ .88**	**$44.42**	**$30.31**
2nd Quarter	**127,417**	**20,214**	**12,331**	**.44**	**.43**	**55.50**	**39.75**
3rd Quarter	**141,821**	**26,578**	**16,213**	**.58**	**.57**	**49.49**	**30.70**
4th Quarter	**129,781**	**17,126**	**10,447**	**.37**	**.37**	**44.79**	**31.95**
	$ 562,227	**$105,204**	**$ 64,175**	**$2.30**	**$2.24**		
2000							
1st Quarter	$ 141,347	$ 30,626	$ 18,744	$ .69	$ .68	$28.81	$19.50
2nd Quarter	119,033	19,773	12,101	.45	.44	31.19	22.38
3rd Quarter	130,301	24,929	15,257	.56	.55	32.25	25.25
4th Quarter	115,430	15,406	9,253	.34	.33	36.00	29.31
	$ 506,111	$ 90,734	$ 55,355	$2.04	$1.98		

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.

	2001	2000	1999
Revenues	**100.0%**	100.0%	100.0%
Costs and expenses:			
Cost of sales	**44.5%**	44.6%	45.1%
Selling, general and administrative	**13.4%**	14.2%	14.9%
Depreciation and amortization	**6.1%**	6.6%	7.0%
Interest expense	**.4%**	.7%	.5%
Other operating expenses	**16.9%**	16.0%	16.1%
	81.3%	82.1%	83.6%
Income before income taxes	**18.7%**	17.9%	16.4%

2001 COMPARED TO 2000

Revenues ~ Revenues increased 11.1% to $562.2 million in 2001 from $506.1 million in 2000 primarily due to new restaurants and an increase of 2.6% in sales of the Company's Chuck E. Cheese's restaurants which were open during all of 2001 and 2000 ("comparable store sales"). The Company opened 28 new restaurants, acquired two restaurants from franchisees and closed four restaurants in 2001. The Company completed Phase III upgrades in 28 restaurants in 2000 and 105 restaurants in 2001. Average annual revenues per restaurant increased to approximately $1,634,000 in 2001 from approximately $1,576,000 in 2000. Menu prices increased 2.8% between the two years.

Revenues from franchise fees and royalties were $3.2 million in 2001 compared to $3.3 million in 2000 primarily due to the closing of two franchise restaurants and the acquisition of two franchise restaurants by the Company during 2001. One new franchise restaurant opened during 2001. Franchise comparable store sales increased 3.9% in 2001.

Costs and Expenses ~ Costs and expenses as a percentage of revenues decreased to 81.3% in 2001 from 82.1% in 2000.

Cost of sales as a percentage of revenues decreased to 44.5% in 2001 from 44.6% in 2000. Cost of food, beverage, and related supplies as a percentage of revenues increased slightly to 12.8% in 2001 from 12.7% in 2000. The impact of higher cheese costs was largely offset by the increase in menu prices. Cost of games and merchandise decreased to 4.4% in 2001 from 5.0% in 2000 due to adjusted ticket price categories. Restaurant labor expenses as a percentage of revenues increased slightly to 27.3% in 2001 from 26.9% in 2000 primarily due to higher average wage rates.

Selling, general and administrative expenses as a percentage of revenues declined to 13.4% in 2001 from 14.2% in 2000 primarily due to a reduction in corporate overhead expenses.

Depreciation and amortization expense as a percentage of revenues declined to 6.1% in 2001 from 6.6% in 2000 primarily due to a change in selected depreciable lives. At the beginning of 2001, the estimated useful lives of certain fixed asset categories were changed prospectively based on a review of historical asset utilization. This change in estimate resulted in a reduction of depreciation expense of approximately $2.1 million or $.05 per diluted share after income taxes in 2001.

Interest expense as a percentage of revenues was .4% in 2001 compared to .7% in 2000 primarily due to a reduction in interest rates.

Other operating expenses increased as a percentage of revenues to 16.9% in 2001 from 16.0% in 2000 primarily due to higher insurance costs and utility expenses. Based on an ongoing review of insurance loss claims, the Company recognized an additional $3.1 million in insurance expense in 2001.

The Company's effective income tax rate was 39.0% in both 2001 and 2000.

NET INCOME ~ The Company had net income of $64.2 million in 2001 compared to $55.4 million in 2000 due to the changes in revenues and expenses discussed above. The Company's diluted earnings per share increased to $2.24 per share in 2001 compared to $1.98 per share in 2000.

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, and related supplies as a percentage of revenues decreased to 12.7% in 2000 from 13.2% in 1999 primarily due to a decrease in cheese costs and an increase in menu prices. Cost of games and merchandise decreased to 5.0% in 2000 from 5.3% in 1999 due to adjusted prize ticket categories. Restaurant labor expenses as a percentage of revenues increased slightly to 26.9% in 2000 from 26.6% 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.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

In preparing the Company's financial statements, management is required to make ongoing estimates and judgments based on the information available. Management believes the following critical accounting policies require the most significant estimates and judgments.

The Company estimates its liability for incurred but unsettled general liability and workers compensation related claims under its self insurance retention programs, including reported losses in the process of settlement and unreported losses incurred but not reported. The estimate is based on loss development factors developed through actuarial methods using the actual claim loss experience of the Company subject to adjustment for current trends. Revisions to the estimated liability resulting from ongoing periodic reviews are recognized in the period in which the differences are identified. Significant increases in insurance losses could have a material adverse impact on future operating results.

The Company periodically reviews the estimated useful lives of its depreciable assets based on factors including historical experience, the expected beneficial service period of the asset, the quality and durability of the asset and the Company's maintenance policy including periodic upgrades. Changes in useful lives are made on a prospective basis, unless factors indicate the carrying amounts of the assets may not be recoverable and an impairment write-down is necessary.

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 $119.5 million in 2001 from $94.1 million in 2000. Cash outflow from investing activities for 2001 was $108.8 million primarily related to capital expenditures. Cash outflow from financing activities in 2001 was $14.3 million primarily related to repurchase of the Company's common stock net of proceeds from the exercise of stock options. 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 2002, the Company plans to add 32 to 36 stores including new stores and the acquisition of existing stores from franchisees. The Company currently anticipates its cost of opening new stores to average approximately $2.0 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 two to four high sales volume stores in 2002. The Company also plans to complete Phase III upgrades in 110 to 120 stores at an average cost of approximately $205,000 to $215,000 per store. A Phase III upgrade generally includes a new toddler play area, skill games and rides, kiddie games and rides, sky-tube enhancements, prize area enhancements and kid check enhancements. During 2001, the Company opened 28 new restaurants, expanded the customer area of seven restaurants and completed Phase III upgrades in 105 restaurants. The Company currently estimates that capital expenditures in 2002, including expenditures for new store openings, existing store expansions and equipment investments, will be $105 to $110 million. The Company plans to finance these expenditures through cash flow from operations and, if necessary, borrowings under the Company's line of credit.

Beginning in 1993, the Company has repurchased shares of the Company's common stock on the open market at an aggregate purchase price of $92.5 million. In July 2001, 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 February 11, 2002, the Company has purchased shares of its common stock under the $25 million plan at an aggregate purchase price of approximately $7.6 million.

The Company's credit facility consists of a $75 million revolving line of credit which matures in 2003. Interest under the 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 February 11, 2002, there was $41.2 million in borrowings under this line of credit. The Company is required to comply with certain financial ratio tests during the term of the loan agreement.

The following are contractual cash obligations of the Company as of December 30, 2001:

		Cash Obligations Due by Year				
(thousands)	Total	2002	2003	2004	2005	Thereafter
Operating leases	$277,118	$44,370	$38,632	$33,734	$29,914	$130,468
Revolving line of credit	51,450		51,450			
Capital lease obligations	841	214	214	214	199	
Redeemable preferred stock	2,822				2,822	
	$332,231	$44,584	$90,296	$33,948	$32,935	$130,468

In addition to the above, the Company estimates that the accrued liabilities for group medical, general liability and workers compensation claims of approximately $8.4 million as of December 30, 2001 will be paid as follows: $3.6 million to be paid in 2002 and the remainder paid over the six year period from 2003-2008.

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, fluctuations in quarterly results of operations, including seasonality, government regulations, weather, school holidays, commodity and labor costs.

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.

(thousands, except share data)	*December 30,* 2001	*December 31,* 2000
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 3,682**	$ 7,300
Accounts receivable	**11,603**	12,778
Inventories	**9,556**	8,436
Prepaid expenses	**4,794**	4,419
Deferred tax asset	**1,234**	1,205
Assets held for resale		4,211
Total current assets	**30,869**	38,349
Property and equipment, net	**423,267**	348,513
Other assets:		
Assets held for resale	**2,231**	
Notes receivable from related parties	**2,055**	1,526
Other	**1,063**	987
	5,349	2,513
	$459,485	$389,375
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	**$ 121**	$ 6,102
Accounts payable and accrued liabilities	**39,738**	38,616
Total current liabilities	**39,859**	44,718
Long-term debt, less current portion	**51,942**	47,030
Deferred rent	**3,401**	3,491
Deferred tax liability	**19,825**	7,708
Other accrued liabilities	**4,750**	1,725
Commitments and contingencies		
Redeemable preferred stock, $60 par value, redeemable for $2,822 in 2005	**2,472**	2,431
Shareholders' equity:		
Common stock, $.10 par value; authorized 100,000,000 shares; 35,325,273 and 34,585,454 shares issued, respectively	**3,533**	3,459
Capital in excess of par value	**192,041**	177,828
Retained earnings	**239,070**	175,217
Accumulated other comprehensive loss	**(178)**	(30)
Less treasury shares of 7,586,106 and 7,039,506, respectively, at cost	**(97,230)**	(74,202)
	337,236	282,272
	$459,485	$389,375

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

(thousands, except per share data)	Fiscal Year 2001	2000	1999
Food and beverage revenues	**$380,014**	$336,062	$283,951
Games and merchandise revenues	**178,766**	166,566	153,630
Franchise fees and royalties	**3,173**	3,252	3,164
Interest income, including related party income of $181, $105 and $63, respectively	**274**	231	159
	562,227	506,111	440,904
Costs and expenses:			
Cost of sales	**250,138**	225,748	198,922
Selling, general and administrative expenses	**75,275**	71,944	65,706
Depreciation and amortization	**34,397**	33,410	30,963
Interest expense	**2,036**	3,546	2,195
Other operating expenses	**95,177**	80,729	70,792
	457,023	415,377	368,578
Income before income taxes	**105,204**	90,734	72,326
Income taxes	**41,029**	35,379	27,954
Net income	**64,175**	55,355	44,372
Other comprehensive income (loss), net of tax:			
Foreign currency translation	**(148)**	(72)	36
Comprehensive income	**$ 64,027**	$ 55,283	$ 44,408
Earnings per share:			
Basic:			
Net income	**$ 2.30**	$ 2.04	$ 1.63
Weighted average shares outstanding	**27,816**	26,999	27,004
Diluted:			
Net income	**$ 2.24**	$ 1.98	$ 1.58
Weighted average shares outstanding	**28,514**	27,839	27,922

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(thousands, except per share data)	*Fiscal Year — Amounts* 2001	2000	1999	*Fiscal Year — Shares* 2001	2000	1999
Common stock and capital in excess of par value:						
Balance, beginning of year	**$181,287**	$169,973	$165,332	**34,585**	33,791	33,398
Stock options exercised	**10,547**	8,727	2,680	**785**	789	386
Tax benefit from exercise of stock options and stock grants	**4,174**	2,432	1,842			
Stock issued under 401(k) plan	**176**	155	142	**5**	5	8
Treasury stock retired and reserved for 401(k) plan	**(610)**			**(50)**		
Other			(23)			(1)
Balance, end of year	**195,574**	181,287	169,973	**35,325**	34,585	33,791
Retained earnings:						
Balance, beginning of year	**175,217**	120,194	76,157			
Net income	**64,175**	55,355	44,372			
Redeemable preferred stock accretion	**(91)**	(100)	(101)			
Redeemable preferred stock dividend, $4.80 per share	**(231)**	(232)	(234)			
Balance, end of year	**239,070**	175,217	120,194			
Deferred compensation:						
Balance, beginning of year		(759)	(1,520)			
Amortization of deferred compensation		759	761			
Balance, end of year			(759)			
Accumulated other comprehensive income:						
Balance, beginning of year	**(30)**	42	6			
Foreign currency translation	**(148)**	(72)	36			
Balance, end of year	**(178)**	(30)	42			
Treasury shares:						
Balance, beginning of year	**(74,202)**	(68,222)	(56,026)	**7,040**	6,778	6,352
Treasury stock acquired	**(23,638)**	(5,980)	(12,196)	**596**	262	426
Treasury stock retired and reserved for 401(k) plan	**610**			**(50)**		
Balance, end of year	**(97,230)**	(74,202)	(68,222)	**7,586**	7,040	6,778
Total shareholders' equity	**$337,236**	$282,272	$221,228			

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(thousands)	Fiscal Year 2001	2000	1999
Operating activities:			
Net income	**$ 64,175**	$ 55,355	$ 44,372
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization	**34,397**	33,410	30,963
Deferred income tax expense	**12,088**	5,112	3,147
Tax benefit from exercise of stock options and stock grants	**4,174**	2,432	1,842
Compensation expense under stock grant plan		759	761
Other	**836**	(752)	466
Net change in receivables, inventories, prepaids, payables and accrued liabilities	**3,827**	(2,231)	(3,023)
Cash provided by operations	**119,497**	94,085	78,528
Investing activities:			
Purchases of property and equipment	**(111,202)**	(95,076)	(86,759)
Proceeds from disposition of property and equipment	**297**	835	
Payments received on notes receivable	**2,677**	826	1,327
Additions to notes receivable	**(3,206)**	(1,854)	(1,410)
Change in other assets	**647**	327	(432)
Sale (purchase) of assets held for resale	**1,980**	9,009	(13,070)
Cash used in investing activities	**(108,807)**	(85,933)	(100,344)
Financing activities:			
Proceeds from debt and line of credit	**37,100**	36,098	51,270
Payments on debt and line of credit	**(38,169)**	(42,262)	(20,279)
Redeemable preferred stock dividends	**(231)**	(233)	(234)
Acquisition of treasury stock	**(23,638)**	(5,980)	(12,196)
Exercise of stock options	**10,547**	8,727	2,680
Other	**83**	67	96
Cash provided by (used in) financing activities	**(14,308)**	(3,583)	21,337
Increase (decrease) in cash and cash equivalents	**(3,618)**	4,569	(479)
Cash and cash equivalents, beginning of year	**7,300**	2,731	3,210
Cash and cash equivalents, end of year	**$ 3,682**	$ 7,300	$ 2,731

See 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 2001, 2000 and 1999 are for the fiscal years ended December 30, 2001, December 31, 2000 and January 2, 2000, respectively. Fiscal years 2001, 2000 and 1999 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. At the beginning of 2001, the estimated useful lives of certain fixed asset categories were changed prospectively based on a review of historical asset utilization. This change in estimate reduced depreciation expense by approximately $2.1 million or $.05 per diluted share after income taxes in 2001. 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 20 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.

Franchise Fees and Royalties ~ Initial franchise fees are recognized upon fulfillment of all significant obligations to the franchisee. Royalties from franchisees are accrued as earned.

Advertising Costs ~ Advertising costs are expensed as incurred. The total amounts charged to advertising expense were approximately $24.0 million, $22.0 million and $20.3 million in 2001, 2000 and 1999, 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.

Reclassifications ~ Certain reclassifications of 2000 and 1999 amounts have been made to conform to the 2001 presentation.

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).

2 ACCOUNTS RECEIVABLE

(thousands)	2001	2000
Trade	**$ 2,648**	$ 1,910
Income tax receivable	**2,867**	2,466
Vendor rebates receivable	**3,142**	4,350
Construction allowances from landlords	**831**	2,661
Other	**2,115**	1,391
	$11,603	$12,778

3 NOTES RECEIVABLE AND RELATED PARTY TRANSACTIONS

The Company and its franchisees contribute a percentage of revenues ("Assessments") to the International Association of CEC Entertainment, Inc. (the "Association"), a related party, to develop entertainment attractions and produce and communicate system wide advertising. The Association has ten directors, five of whom are also officers of the Company. The Company has granted two separate operating lines of credit to the Association. In December 2001, the lines were renewed to provide the Association with available borrowings of $6.1 million at 10.5% interest and are due December 31, 2002. At December 30, 2001 and December 31, 2000, approximately $2,037,000 and $1,526,000, respectively, were outstanding under these lines of credit. The Company also had accounts payable to the Association of $1,341,000 and $1,161,000 at December 30, 2001 and December 31, 2000 for December Assessments.

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 2004, with interest rates of 12.0%. Notes receivable from franchisees are partially reserved with allowances for doubtful collection of $50,897 and $57,647 at December 30, 2001 and December 31, 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 30, 2001, the remaining assets held for resale total $2.2 million which relate to five properties recorded at the lower of cost or fair value less estimated selling costs.

5 *PROPERTY AND EQUIPMENT*

(thousands)	2001	2000
Land	**$ 25,948**	$ 18,859
Leasehold improvements	**232,351**	213,447
Buildings	**30,393**	16,397
Furniture, fixtures and equipment	**258,661**	236,435
Property leased under capital leases (Note 8)	**449**	449
	547,802	485,587
Less accumulated depreciation and amortization	**(151,891)**	(162,598)
Net property and equipment in service	**395,911**	322,989
Construction in progress	**11,137**	15,419
Game and restaurant equipment held for future service	**16,219**	10,105
	$ 423,267	$ 348,513

6 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(thousands)	2001	2000
Current:		
Accounts payable	**$19,906**	$18,453
Salaries and wages	**7,723**	8,366
Insurance	**3,588**	2,559
Taxes, other than income	**5,708**	5,253
Other	**2,813**	3,985
	$39,738	$38,616
Long-term:		
Insurance	**$ 4,750**	$ 1,750

Accrued insurance liabilities represent estimated claims incurred but unpaid under the Company's self-insurance retention programs for general liability, workers compensation and certain other insurable risks.

7 LONG-TERM DEBT

(thousands)	2001	2000
Revolving bank loan, prime or LIBOR plus 1% to 1.75%, due July 2003	**$51,450**	$46,400
Term loans, 10.02%, due June 2001		6,000
Obligations under capital leases (Note 8)	**613**	732
	52,063	53,132
Less current portion	**(121)**	(6,102)
	$51,942	$47,030

As of December 30, 2001, the Company's total credit facility consists of a $75 million revolving line of credit. 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 (5.00% at December 30, 2001) or, at the Company's option, LIBOR (1.9% at December 30, 2001) plus 1%. At December 30, 2001, $51.5 million was outstanding under the line of credit which matures in 2003. A 1/4% 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 agreement. The weighted average interest rate on long-term debt was 6.5% and 8.2% in 2001 and 2000, respectively. The Company capitalized interest costs of $306,000, $670,000 and $747,000 in 2001, 2000 and 1999, respectively.

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 20 years with various renewal options.

Scheduled annual maturities of the obligations for capital and operating leases as of December 30, 2001, are as follows

(thousands)	*Capital*	*Operating*
YEARS		
2002	**$ 214**	$ 44,370
2003	**214**	38,632
2004	**214**	33,734
2005	**199**	29,914
2006		27,498
2007-2028 (aggregate payments)		102,970
Minimum future lease payments	**841**	$277,118
Less amounts representing interest	**(228)**	
Present value of future minimum lease payments	**613**	
Less current portion	**(121)**	
	$ 492	

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

(thousands)	2001	2000	1999
Minimum	**$47,884**	$43,019	$38,339
Contingent	**452**	447	464
	$48,336	$43,466	$38,803

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 30, 2001 and December 31, 2000, the Company had 47,037 and 48,130 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 30, 2001, one quarterly dividend, totaling $56,444 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, which approximates the interest method. 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 2001, the Company reacquired 1,093 shares of its redeemable preferred stock.

10 *FRANCHISE FEES AND ROYALTIES*

At December 30, 2001, 52 Chuck E. Cheese's restaurants were operated by a total of 33 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 $114,000, $253,000, and $355,000 in 2001, 2000 and 1999, respectively.

11 *COST OF SALES*

(thousands)	2001	2000	1999
Food, beverage and related supplies	**$ 72,006**	$ 64,169	$ 58,108
Games and merchandise	**24,871**	25,371	23,250
Labor	**153,261**	136,208	117,564
	$250,138	$225,748	$198,922

12 *INCOME TAXES*

The significant components of income tax expense are as follows:

(thousands)	2001	2000	1999
Current expense:			
Federal	**$20,957**	$23,439	$ 19,124
State	**3,810**	4,396	3,841
Tax benefit from exercise of options and grants	**4,174**	2,432	1,842
Total current expense	**28,941**	30,267	24,807
Deferred expense:			
Temporary differences	**12,088**	5,112	3,147
	$41,029	$35,379	$27,954

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)	2001	2000
Current deferred tax asset:		
Accrued vacation	**$ 676**	$ 532
Unearned gift certificates	**418**	344
Other	**140**	329
	$ 1,234	$ 1,205
Non-current deferred tax asset (liability):		
Deferred rent	**$ 1,311**	$ 1,351
Asset impairments	**99**	317
Unearned franchise fees	**112**	67
Depreciation	**(21,285)**	(9,353)
Other	**(62)**	(90)
	$(19,825)	$(7,708)

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

	2001	2000	1999
Federal statutory rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal benefit	**3.9%**	3.8%	3.6%
Other	**.1%**	.2%	.1%
Effective tax rate	**39.0%**	39.0%	38.7%

13 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 $3.2 million.

14 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)	2001	2000	1999
Net income	**$64,175**	$55,355	$44,372
Accretion of redeemable preferred stock	**(91)**	(100)	(101)
Redeemable preferred stock dividends	**(231)**	(232)	(234)
Net income applicable to common shares	**$63,853**	$55,023	$44,037
Basic:			
Weighted average common shares outstanding	**27,816**	26,999	27,004
Earnings per common share	**$ 2.30**	$ 2.04	$ 1.63
Diluted:			
Weighted average common shares outstanding	**27,816**	26,999	27,004
Potential common shares for stock options and stock grants	**698**	840	918
Weighted average shares outstanding	**28,514**	27,839	27,922
Earnings per common and potential common shares	**$ 2.24**	$ 1.98	$ 1.58

15 SUPPLEMENTAL CASH FLOW INFORMATION

(thousands)	2001	2000	1999
Cash paid during the year for:			
Interest	**$ 2,167**	$ 3,550	$ 2,099
Income taxes	**25,168**	32,824	24,511

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 (expired December 1998) 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 4,387,500 shares, as amended in 2001, may be granted before July 31, 2007. The exercise price for options granted under both plans may not be less than the fair 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 value of the Company's common stock at the date of grant.

At December 30, 2001, there were 1,506,059 shares available for grant under the employee and non-employee directors stock option plans. Stock option transactions are summarized as follows for all plans:

	Number of Shares			*Weighted Average Exercise Price Per Share*		
	2001	2000	1999	**2001**	2000	1999
Options outstanding, beginning of year	**2,488,368**	2,618,783	2,301,474	**$17.95**	$13.66	$11.19
Granted	**989,957**	884,329	796,622	**34.09**	24.59	17.68
Exercised	**(784,669)**	(788,789)	(386,440)	**13.44**	11.06	6.94
Terminated	**(43,045)**	(225,955)	(92,873)	**21.27**	18.84	15.28
Options outstanding, end of year	**2,650,611**	2,488,368	2,618,783	**25.26**	17.95	13.66

Options outstanding at December 30, 2001:

	Options Outstanding			*Options Exercisable*	
Range of Exercise Prices	*Shares Outstanding as of 12/30/01*	*Weighted Average Remaining Contractual Life*	*Weighted Average Exercise Price*	*Shares Exercisable as of 12/30/01*	*Weighted Average Exercise Price*
$11.50 - $17.33	349,381	3.3	$14.08	266,520	$13.93
$17.50 - $19.94	535,538	4.1	17.53	218,277	17.52
$22.44 - $25.67	766,978	5.1	24.43	22,846	25.52
$26.05 - $34.06	990,150	6.0	33.86	377	33.22
$35.35 - $54.27	8,564	6.3	45.18	120	35.88
$11.50 - $54.27	2,650,611	5.0	25.26	508,140	16.01

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 2002, the Company granted 760,700 additional options to employees at an exercise price of $43.50 per share and 20,000 options to its non-employee directors at an exercise price of $44.14 per share.

The number of shares of the Company's common stock which were available to be awarded to senior executives of the Company under the Stock Grant Plan was 2,577,956 shares. The stock grant plan expired in December 1998. Compensation expense recognized by the Company pursuant to this plan for grants made in 1997 was $759,000 and $761,000 per year in 2000 and 1999, respectively. All shares vested over periods ranging from three years to six 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 was 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 $59.6 million, $52.5 million and $41.9 million in 2001, 2000 and 1999, respectively. Proforma diluted earnings per share would have been $2.08, $1.88 and $1.50 per share in 2001, 2000 and 1999, respectively.

For the proforma calculations above, the estimated fair value of options granted was $11.91, $9.39 and $6.74 per share in 2001, 2000 and 1999, 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 4.80%, 6.46% and 6.51% in 2001, 2000 and 1999, respectively; no dividend yield; expected lives of five years; and expected volatility of 30%.

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 $176,000 and $155,000 in common stock for the 2000 and 1999 plan years, respectively. The Company plans to contribute $233,000 in common stock for the 2001 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 30, 2001 and December 31, 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 30, 2001. 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 30, 2001 and December 31, 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Dallas, Texas
February 8, 2002

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 -
chief financial officer

Gene Cramm
executive vice president -
concept evolution,
entertainment, games, and
franchise operations

Mark A. Flores
executive vice president -
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

Sandra J. Brown
vice president -
payroll and accounts payable

Marshall R. Fisco, Jr.
vice president - legal
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

May 9, 2002
9:00 AM
Harvey Hotel
4545 W. John Carpenter Freeway
Irving, Texas

stock transfer agent and registrar

Equiserve Trust Company, N.A.
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 2001 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

annual report design

Squires & Company
Dallas, Texas

CEC
entertainment, inc.

CEC ENTERTAINMENT INC.
2001 ANNUAL REPORT

Date of Origin: 2001
Archived: 2-12-07
Version 1.0