WHO WANTS MORE?

CEC ENTERTAINMENT, INC. ANNUAL REPORT | 2002

CONTENTS

WE DO!

2002 INTO 2003

In 2002, CEC Entertainment, Inc. marked the 25th anniversary of its Chuck E. Cheese's® concept. The milestone gave us reason to reflect upon how the Company's past has shaped our current position and future course. In looking back, we realize that we have accomplished much en route to our leadership position. In looking ahead, we acknowledge that there is much more to be done if we are to set new standards for operational excellence and shareholder value. Specifically, what we want for the Company is more: more growth, more value, more guests, more opportunity, more fun. For in demanding more for the Company, we expect more of ourselves — establishing not only a mandate for the year ahead, but also a course for success for many years to come.

Financial Highlights

In 2002, CEC Entertainment, Inc. achieved record revenue and earnings despite a weakened economy. During the year, we opened 32 new restaurant-entertainment centers, acquired three restaurants from franchisees, completed 131 remodels and store expansions, repurchased $32 million in outstanding shares of common stock, and embarked on a new "small market" growth initiative. These strategies build upon the significant reinvestment we have made in our business over the last several years and drive long-term shareholder value.

(Thousands, except per share and store data)	2002	2001	2000
Operating Results			
Revenues	$602,201	$562,227	$506,111
Income before taxes	113,660	105,204	90,734
Net income	69,526	64,175	55,355
Earnings Per Share			
Basic	$2.50	$2.30	$2.04
Diluted	$2.46	$2.24	$1.98
Other Information			
Total assets	$539,703	$459,485	$389,375
Long-term obligations (including current portion)	69,791	59,285	57,288
Shareholders' equity	384,668	337,236	282,272
Change in Comparable Store Sales			
Chuck E. Cheese's	(1.0%)	2.6%	2.3%
Number of Restaurants at Year End			
Company operated	384	350	324
Franchise	50	52	55
	434	402	379

Revenues
(in thousands)

2002 ---------- $602,201

2001 ---------- $562,227

2000 ---------- $506,111

Pre-Tax Margins

2002 ---------- 18.9 %

2001 ---------- 18.7%

2000 ---------- 17.9%

Net Income
(in thousands)

2002 ---------- $69,526

2001 ---------- $64,175

2000 ---------- $55,355

Diluted Earnings Per Share

2002 ---------- $2.46

2001 ---------- $2.24

2000 ---------- $1.98

TO OUR SHAREHOLDERS

In 2002, while en route to a seventh consecutive year of record revenues and earnings, we also witnessed a slowdown in the growth rate in CEC Entertainment, Inc.'s financial performance. The weakening economy, declining consumer confidence, and increased unemployment combined to negatively impact guest frequency at our Chuck E. Cheese's® family restaurant and entertainment centers, causing us to fall short of our expectations.

For the year ended December 29, 2002, revenues increased 7.1 percent to $602.2 million from $562.2 million in 2001. Net income improved to $69.5 million from $64.2 million in the previous year, an increase of 8.3 percent. Earnings per share improved to $2.46, up 9.8 percent from $2.24 a year ago. Comparable store sales slipped 1.0 percent in 2002 compared with 2001, the first decline in six years.

Our growth and profitability strategies were both tested and validated in 2002. We were particularly pleased with the rate of new store expansion, with 35 new locations opened or acquired during the year. This keeps us on track with our long-range goal of increasing new unit development at a rate of 10 percent annually, and brings the total number of additional company locations to 142 since 1997. We also reinvested in the business by continuing our program of Phase III enhancements. Eighty percent of Company-owned locations have now been updated. The remaining 52 locations will be completed in 2003. We will also selectively upgrade certain high-performing locations with one or more types of enhancements. The envisioned upgrades to help build sales include game and entertainment enhancements, physical expansions, reconfigured layouts, or exterior upgrades.

2002 had its share of successes. Among them was an exciting new "small market" growth initiative. The strategy will bring our Chuck E. Cheese's concept to population centers with 10,000 to 20,000 children, allowing the Company to penetrate more markets across the United States. Over 200 small market development opportunities have been identified. Featuring a smaller facility that can be constructed at about half of the cost of a typical Chuck E. Cheese's, these locations will offer the same high-energy, high-quality experience as our larger restaurant-entertainment centers, and are targeted to provide an excellent return on investment. We are evaluating various physical configurations and service features at our new Waco, Texas; Lake Jackson, Texas; and Dover, Delaware, locations to strengthen our small market development strategy.

2002 was also remarkable for what we did not do. In the face of one of the most adverse business environments we have encountered, we chose not to depart from our core operating philosophy. While many in our industry felt compelled to cut prices, announce layoffs, and slash advertising budgets, we believed that staying the course was in the best interests of the Company and its shareholders. During this time, we continued to strengthen the Company financially; negotiating a multi-year credit facility with several key relationship banks. In addition, we repurchased $32 million in Company stock.

Implicit in our decision to stay the course is a firm belief in our concept and our strategy. We also recognize the importance of speaking directly to consumers about value, especially in the current economic climate. Dollar for dollar, our concept offers the best combined food and entertainment value available to families. Many guests already know this. Our value meals and token value packages account for approximately 40 percent of total revenue. When newspaper coupons are included in the mix, revenues from special packages increase to nearly 50 percent of our total business.

We believe we can increase guest frequency by elevating the value message in our national advertising campaigns and in-store marketing. We are also introducing new value initiatives. A third value meal and token value deal have

been added to the menu. Updated menu boards with improved graphics that simplify value package selection are being installed system-wide. An "all games one token" promotion will be a focal point of our 2003 "More Fun" campaign. We believe the single-token policy is a strong value initiative that has the ability to build guest frequency over the long term.

While we are disappointed that earnings per share increased by only 9.8 percent in 2002, we are equally optimistic about the long-term prospects for our business. Our Company is financially sound and well positioned. Our conservative balance sheet is stronger today than at any point in the concept's 25-year history. Our restaurant and entertainment centers are physically in the best condition ever. We continue to evolve the concept and grow the business through controlled expansion and increased awareness of our value proposition. And the star of our show — Chuck E. Cheese® — enjoys unrivaled popularity and brand recognition among American children, a position that can only improve as we expand into new markets.

For these reasons, we are confident that our business will rebound. And while we will not sit idle waiting for that moment, be assured that when it does, we stand ready to reap the rewards. We firmly believe that the Company's best days are yet to come, and we look forward to sharing our success with you.

THANK YOU FOR YOUR CONTINUED SUPPORT.

Richard M. Frank

RICHARD M. FRANK
CHAIRMAN, CHIEF EXECUTIVE OFFICER

Michael H. Magusiak

MICHAEL H. MAGUSIAK
PRESIDENT

MORE GROWTH

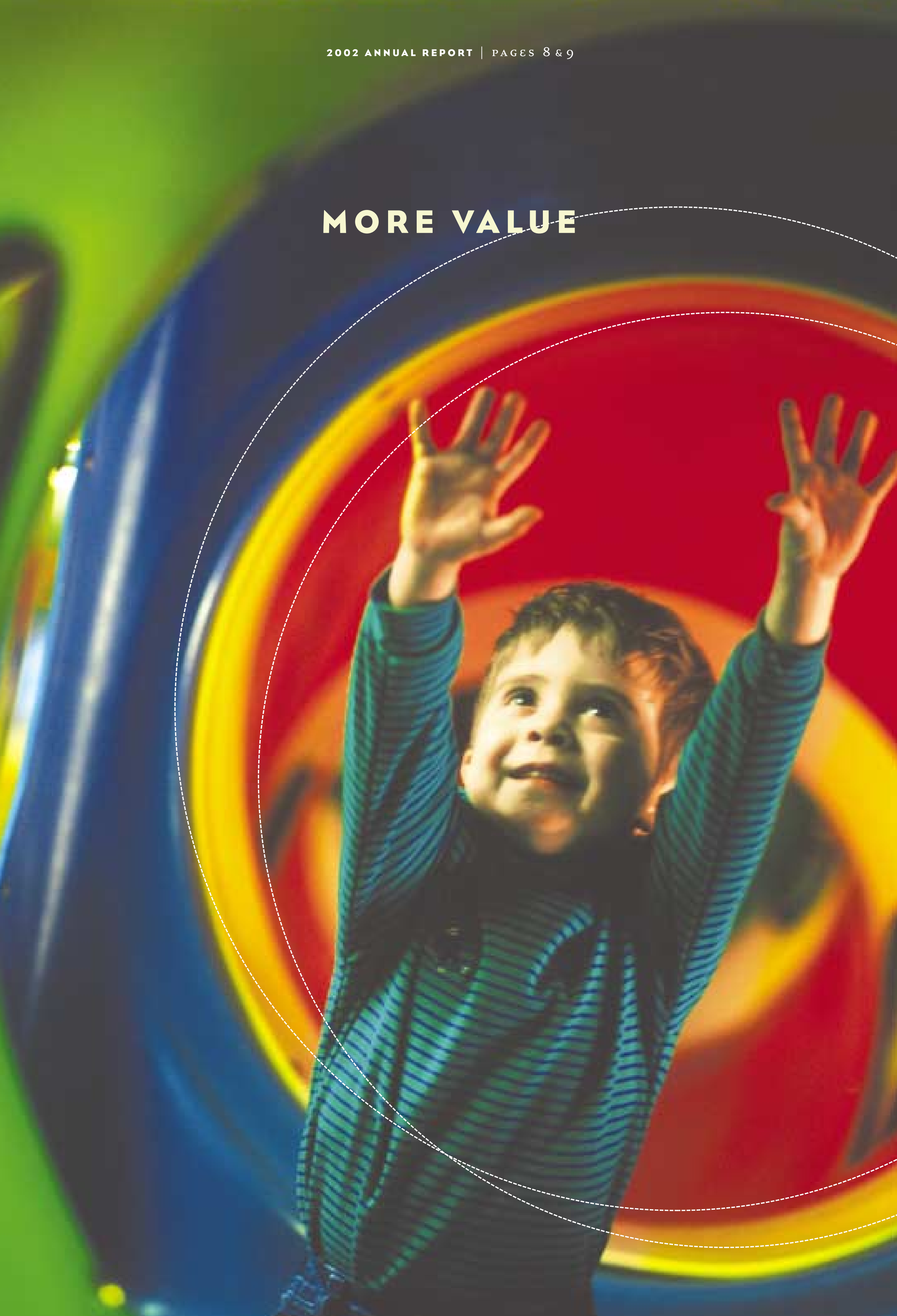
Growth is central to CEC Entertainment's long-term strategy, and essential for enhancing shareholder value. We plan to continue to build the Company store base at about 10 percent a year. We will use a two-pronged approach: development and/or acquisition of new units, and roll-out of a new "small markets" initiative — all while improving operational efficiency across the board. We believe this will allow us to build approximately 350 new stores.

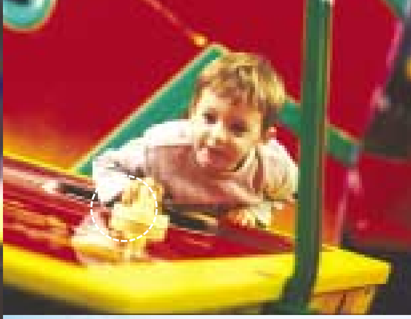
New restaurants remain a focal point of our growth plans, making the Chuck E. Cheese's experience accessible to more families, and increasing the number of guests who visit our restaurant-entertainment centers each year. In 2002, we opened 32 restaurants and acquired three franchised locations, bringing the total number of Company-operated locations to 384. We anticipate another 35 to 40 openings in 2003.

An exciting new growth initiative is our plan to build Chuck E. Cheese's restaurant-entertainment centers in smaller markets. A "small market" is defined as a geographic center with 10,000 to 20,000 kids in our targeted age range, 2 to 11. We have identified more than 200 of these markets nationwide. The small market model offers the same quality Chuck E. Cheese's experience in a smaller physical footprint with a significantly lower capital requirement for start-up, and is expected to provide an excellent return on investment. Our first location opened in Waco, Texas, in June 2002, followed by Lake Jackson, Texas, in November, and Dover, Delaware, in December. Early results have exceeded expectations, and appear to validate the viability of this new market opportunity.

Our goal for growth is simple: give every child in America the chance to experience Chuck E. Cheese, and in doing so, advance the brand, improve performance, and increase shareholder value.

MORE VALUE



Value drives guest satisfaction and frequency. Continual improvement of guests' perception of value is a vital component of evolving the Chuck E. Cheese's concept.

Value goes beyond pricing. It refers to the overall Chuck E. Cheese's experience: safe, clean, and inviting facilities; exciting games and rides; tasty food; and an attentive staff. A sensitivity to pricing is also important. Our value packages make the Chuck E. Cheese's experience more affordable for families. Value packages bundle food, drinks, and tokens in various combinations at a reduced price. When we added a third value meal in many locations last fall, sales attributable to value packages increased substantially, indicating that guests recognize and appreciate this value initiative.

The third value meal is now available nationwide, and additional value initiatives are under way. Guests have responded favorably to these value packages, which has resulted in more flexibility for the guest without a significant impact on the average check. New menu boards with improved graphics simplify value package selection, and are being installed system-wide. In 2003, we will also introduce an "all games one token" initiative. The initiative is a key component of our new "More Fun" advertising campaign, and sends a powerful value message to kids and parents.

We are focused on being the best family entertainment option in the marketplace for one very good reason. Creating a great Chuck E. Cheese's experience translates to happier kids, more satisfied parents who are more likely to return, and ultimately, greater long-term shareholder value.

MORE GUESTS

Guest frequency is the truest test of the validity of our business strategies. We eagerly reach out to our audience and invite them to come — and return — to Chuck E. Cheese's. Our advertising programs represent our first line of communication with kids and parents, as well as the public voice of Chuck E. Cheese — both the lovable, larger-than-life character and the Company that stands behind him.

Our primary advertising is kid-friendly and nationally focused. As the second most heavily promoted brand on commercial television for children ages 2 to 11, Chuck E. Cheese's is advertised on both broadcast and cable networks. We also seek out Spanish language and bilingual children's programming as the demographic base of Latino children grows in markets around the country. In addition, we are the principal underwriter of children's educational programs on PBS. Our corporate sponsorship of three of PBS' top children's shows — Arthur®, Barney & Friends™, and Clifford the Big Red Dog™ — underscores our commitment to quality children's entertainment and helps to elevate parents' perceptions of our brand. Our Web site also expands our presence. It is designed to keep children busy with online games and parents pleased with information about hours and locations, downloadable coupons, and the capability to make birthday party reservations online.

Brand recognition is high. In 2002, Chuck E. Cheese ranked in the top 2 percent of kids' all-time favorite characters — the only so-highly regarded personality besides Santa Claus and the Easter Bunny without a television show or feature-length movie. The proof lies in the numbers. Annual kid visits to Chuck E. Cheese's topped 45 million in 2002. That's a lot of children, no matter how you count them. Yet on the strength of our brand, vitality of our concept, and reach of our marketing and advertising programs, it is just a starting point on which to build in the years ahead.

MORE OPPORTUNITY

Opportunity — in our marketplace and for our people — is one of the Company's greatest resources. The market opportunities that continue to sustain the Company's long-standing record of success also provide our people with the opportunity to grow with the Company over the course of their careers. We reward hard work, sound judgment, team play, and demonstrated performance. The result is an outstanding team of long-time employees with focused experience to execute and evolve the Chuck E. Cheese's concept.

Our operations management team is a case study in how individual performance can propel a company to industry leadership. Mark Flores, a key player in the development of the Western region, joined the Company as a day-shift manager just out of college. Today, 21 years and many promotions later, he is executive vice president, director of operations. Randy Forsythe, now the senior vice president of the Northern region, joined the Company in 1982 as an hourly employee in St. Louis. Mark Wallace was another early 1980s hire who rose through the ranks as he moved around the country. Today he is the Southern region vice president, responsible for 94 locations in 14 states. Gary Spring and Jeff Smith have been similarly successful. Over the last 13 years, Jeff has been promoted from an assistant manager to general manager to district manager to area director to his current position of Western region VP. Gary followed the same fast track, starting as an assistant manager of our Arlington, Texas, location in 1984, and rising to Midwest region vice president in 1997.

These individuals, while exceptional in their achievements, are not the exception at CEC. With average tenure of 7.0 years at the general manager level, 11.6 years at the district manager level, and 18.6 years at the regional vice-president level, our operations managers bring continuity to our concept and consistency to our financial results.

Highly tenured and well tested, our operations personnel thrive on continual improvement and solid long-term financial performance. This philosophy is the foundation of our concept and the hallmark of our business model. It is a model of incomparable business sense, outstanding execution, and superior performance, and one that positions the Company as the leader in the family entertainment marketplace.

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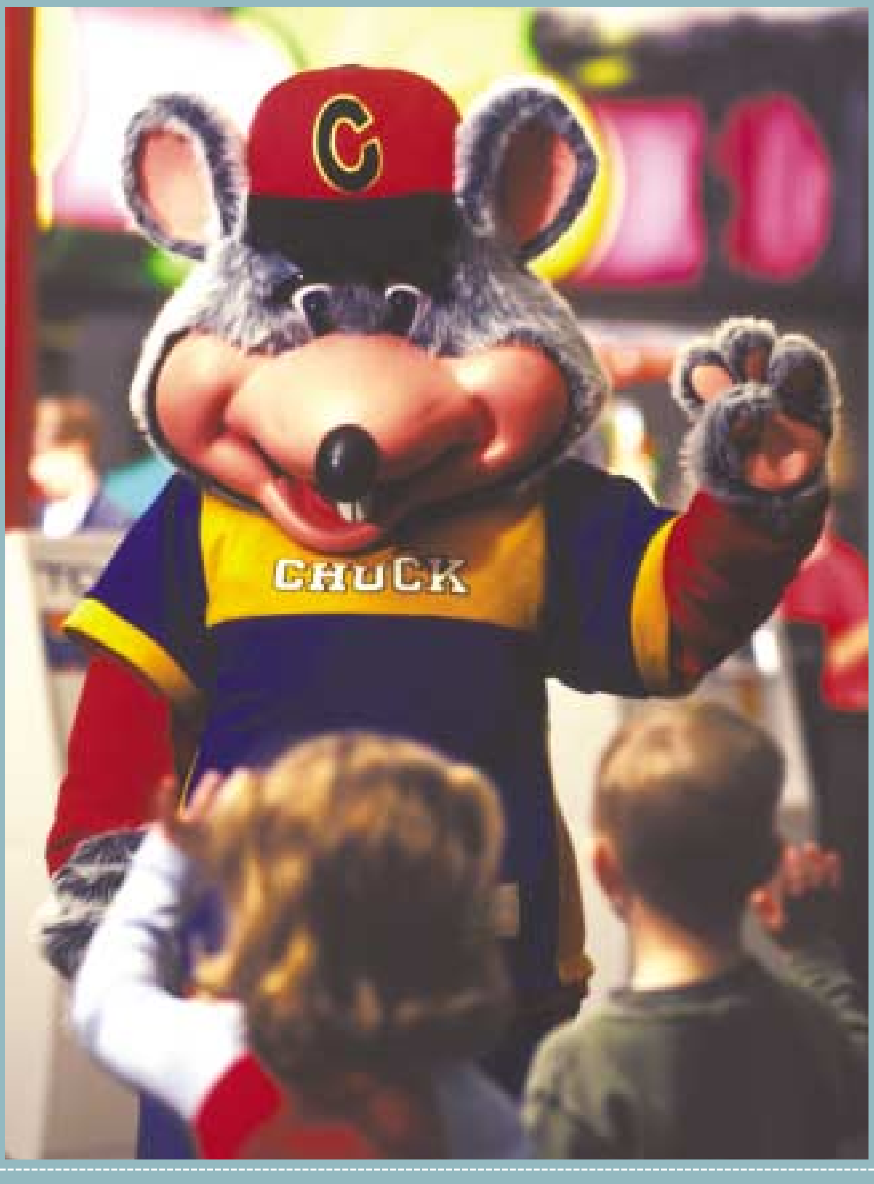
MORE FUN

Fun for everyone. In the final analysis, that is what our business is all about. Kids who love an ultra-cool, pizza-loving mouse named Chuck E. Cheese. Parents who value the experience. Grandparents who cherish the memories. Teenagers who return to work where they once played. Talented people who make a career of the concept. And shareholders who realize long-term value throughout the journey. We acknowledge all who hold a stake in the Company's success, and in fact, count ourselves among many of these constituencies. Perhaps that is why we take our brand of fun so seriously.

In 2002, we marked the Company's 25th anniversary. In reflecting upon the hundreds of millions of American children who have celebrated a birthday or a special day at Chuck E. Cheese's, it struck us that as different as kids are today from our first guests in 1977, there is a generational constant that drives our longevity: the desire for fun. Ask young people under the age of 25 about the best times of their childhood, and Chuck E. Cheese's is invariably mentioned. That is why they will take their children to Chuck E. Cheese's someday, and why their children's children will do the same.

Fun is a universal language that transcends pop culture and generational differences, that speaks well for our future. For as long as there are kids, and parents who love seeing them happy, there will always be a reason for Chuck E. Cheese's.


CHUCK

FINANCIAL REVIEW

2002 IN REVIEW

Despite a difficult economic environment, CEC Entertainment, Inc.'s business model and the strength of its Chuck E. Cheese's concept enabled the Company to post a 9.8-percent increase in diluted earnings per share. While attaining record levels of revenue and earnings, the Company opened 32 new Chuck E. Cheese's. CEC also acquired 3 franchised locations, which in tandem with the 32 newly constructed restaurants maintains the strategy of 10 percent growth annually through new unit development. In addition, 123 Phase III remodels were completed, which translates to 80 percent of Company-owned locations having now been upgraded. The Company also repurchased $32 million in outstanding common stock. The Company's conservative balance sheet and solid operating cash flow provides the financial flexibility to continue its strategic focus on driving shareholder value over the long term.

SELECTED FINANCIAL DATA

(Thousands, except per share and store data)	2002	2001	2000	1999	1998
Operating Results:[1]					
Revenues	$ 602,201	$ 562,227	$ 506,111	$ 440,904	$ 379,427
Costs and expenses	488,541	457,023	415,377	368,578	324,395
Income before income taxes	113,660	105,204	90,734	72,326	55,032
Income taxes	44,134	41,029	35,379	27,954	21,302
Net income	$ 69,526	$ 64,175	$ 55,355	$ 44,372	$ 33,730
Per Share:[2]					
Basic:					
Net income	$ 2.50	$ 2.30	$ 2.04	$ 1.63	$ 1.23
Weighted average shares outstanding	27,674	27,816	26,999	27,004	27,093
Diluted:					
Net income	$ 2.46	$ 2.24	$ 1.98	$ 1.58	$ 1.20
Weighted average shares outstanding	28,175	28,514	27,839	27,922	27,810
Cash Flow Data:					
Cash provided by operations	$ 133,344	$ 119,497	$ 94,085	$ 78,528	$ 68,614
Cash used in investing activities	(109,860)	(108,807)	(85,933)	(100,344)	(65,622)
Cash provided by (used in) financing activities	(14,952)	(14,308)	(3,583)	21,337	(7,057)
Balance Sheet Data:					
Total assets	$ 539,703	$459,485	$389,375	$ 325,168	$252,228
Long-term obligations (including current portion and redeemable preferred stock)	69,791	59,285	57,288	63,369	31,911
Shareholders' equity	384,668	337,236	282,272	221,228	183,949
Number of Restaurants at Year End:					
Company operated	384	350	324	294	271
Franchise	50	52	55	55	54
	434	402	379	349	325

(1) All fiscal years 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 Basic	Earnings Per Share Diluted	Stock Market Data High	Stock Market Data Low
2002							
1st Quarter	$172,793	$ 43,854	$26,796	$0.96	$0.94	$49.95	$41.83
2nd Quarter	142,416	25,080	15,323	0.55	0.54	49.37	40.00
3rd Quarter	148,921	27,071	16,539	0.60	0.59	42.43	32.90
4th Quarter	138,071	17,655	10,868	0.39	0.39	35.80	23.90
	$602,201	$113,660	$69,526	$2.50	$2.46		
2001							
1st Quarter	$163,208	$ 41,286	$25,184	$0.90	$0.88	$44.42	$30.31
2nd Quarter	127,417	20,214	12,331	0.44	0.43	55.50	39.75
3rd Quarter	141,821	26,578	16,213	0.58	0.57	49.49	30.70
4th Quarter	129,781	17,126	10,447	0.37	0.37	44.79	31.95
	$562,227	$105,204	$64,175	$2.30	$2.24		

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.

	2002	2001	2000
Revenues	100.0%	100.0%	100.0%
Costs and expenses:			
Cost of sales	44.2%	44.5%	44.6%
Selling, general and administrative	12.7%	13.4%	14.2%
Depreciation and amortization	6.5%	6.1%	6.6%
Interest expense	.2%	.4%	.7%
Other operating expenses	17.5%	16.9%	16.0%
	81.1%	81.3%	82.1%
Income before income taxes	18.9%	18.7%	17.9%

2002 COMPARED TO 2001

Revenues ~ Revenues increased 7.1% to $602.2 million in 2002 from $562.2 million in 2001 due to new restaurants. The Company opened 32 new restaurants, acquired three restaurants from franchisees, and closed one restaurant in 2002. Sales of the Company's Chuck E. Cheese's restaurants which were open during all of 2002 and 2001 ("comparable store sales") decreased 1.0%. The Company completed Phase III upgrades in 105 restaurants in 2001 and 123 restaurants in 2002. Average annual revenues per restaurant increased to approximately $1,641,000 in 2002 from approximately $1,634,000 in 2001. Menu prices increased 0.4% between the two years.

Revenues from franchise fees and royalties were $3.2 million in both 2002 and 2001. One new franchise restaurant opened and three franchise restaurants were acquired by the Company during 2002. Franchise comparable store sales decreased 0.4% in 2002.

Costs and Expenses ~ Costs and expenses as a percentage of revenues decreased to 81.1% in 2002 from 81.3% in 2001.

Cost of sales as a percentage of revenues decreased to 44.2% in 2002 from 44.5% in 2001. Cost of food, beverage, and related supplies as a percentage of revenues decreased to 12.2% in 2002 from 12.8% in 2001 primarily due to lower cheese costs. Cost of games and merchandise decreased to 4.2% in 2002 from 4.4% in 2001 due to buying efficiencies. Restaurant labor expenses as a percentage of revenues increased to 27.8% in 2002 from 27.3% in 2001 primarily due to the decrease in comparable store sales and higher average wage rates.

Selling, general and administrative expenses as a percentage of revenues declined to 12.7% in 2002 from 13.4% in 2001 primarily due to scale efficiencies in advertising expense and corporate overhead costs.

Depreciation and amortization expense as a percentage of revenues increased to 6.5% in 2002 from 6.1% in 2001 primarily due to increased capital expenditures and the decrease in comparable store sales.

Interest expense as a percentage of revenues was 0.2% in 2002 compared to 0.4% in 2001 primarily due to a reduction in interest rates.

Other operating expenses increased as a percentage of revenues to 17.5% in 2002 from 16.9% in 2001 primarily due to higher insurance costs. Insurance expense increased approximately $5.3 million in 2002 compared to 2001 due to several factors, including higher premiums, claim loss experience, and medical costs.

The Company's effective income tax rate was 38.8% in 2002 and 39.0% in 2001 due to lower estimated state tax rates.

NET INCOME ~ The Company had net income of $69.5 million in 2002 compared to $64.2 million in 2001 due to the changes in revenues and expenses discussed above. The Company's diluted earnings per share increased to $2.46 per share in 2002 compared to $2.24 per share in 2001.

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 in 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 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 0.4% in 2001 compared to 0.7% 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.

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 $133.3 million in 2002 from $119.5 million in 2001. Cash outflow from investing activities for 2002 was $109.9 million primarily related to capital expenditures. Cash outflow from financing activities in 2002 was $15.0 million primarily related to repurchase of the Company's common stock net of proceeds received from the line of credit and 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 2003, the Company plans to add 35 to 40 restaurants, including new restaurants and the acquisition of existing restaurants from franchisees. The Company currently anticipates its cost of opening new restaurants in large markets to average approximately $2.4 million per store which will vary depending upon many factors, including the size of the restaurants and whether the Company acquires land or the store is an in-line or free-standing building. The Company has identified approximately 150 additional market areas for traditional restaurants. In smaller demographic markets, the Company plans to open restaurants with less retail space and lower capital costs than traditional restaurants. The Company believes its smaller market strategy increases potential development opportunities by approximately 200 restaurants, resulting in an identified development potential of 350 restaurants. In 2002, the Company opened three smaller market restaurants averaging less than 6,900 square feet at an average capital cost of approximately $700,000 per store. The Company believes approximately 60% of the new restaurants opened in 2003 will be in large market areas with the remaining new restaurants opened in small markets. During 2002, the Company opened 32 new restaurants, including three smaller market restaurants, and acquired three restaurants from a franchisee.

In addition to such new store openings, the Company has initiated several strategies to increase revenues and earnings over the long term. In 2003, the Company plans to complete its Phase III upgrade program with the upgrade of an additional 52 restaurants. The average cost of a Phase III upgrade is 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. In 2003, the Company also plans to initiate a game rotation plan which will have a capital cost of approximately $50,000 per store. The primary components of this initiative are to provide new and transferred games and rides and enhanced consumer marketing materials including a new menu board. The Company also plans to complete a major remodel or reconfiguration in a select number of restaurants that are believed to have the greatest opportunity to significantly increase sales and provide a high return on investment. The major components of a reconfiguration include a reallocation of space between the dining and game room areas, expansion of the space allocated to the game room, an increase in the number of games, and new exterior signage. During 2002, the Company opened 32 new restaurants, expanded the customer area of four restaurants, and completed Phase III upgrades in 123 restaurants. The Company currently estimates that capital expenditures in 2003, including expenditures for new store openings, existing store expansions, and equipment investments, will be approximately $90 million. The Company plans to finance these expenditures through cash flow from operations and, if necessary, borrowings under the Company's line of credit.

In July 2002, the Company announced it had completed a $25 million plan to repurchase shares of the Company's common stock approved in July 2001 and announced a new plan to repurchase shares of the Company's common stock on the open market at an aggregate purchase price of up to $25 million. As of February 10, 2003, the Company has purchased shares of its common stock under the $25 million plan approved in July 2002 at an aggregate purchase price of approximately $14.4 million. Beginning in 1993 through February 10, 2003, the Company has repurchased 7.8 million shares of the Company's common stock on the open market at an aggregate purchase price of $124.3 million.

In 2002, the Company entered into a new line of credit agreement which provides borrowings of up to $100 million and matures in 2005. 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 .75% to 1.50%. Currently, any borrowings under this line of credit would be at the prime rate or LIBOR plus .875%. As of February 10, 2003, there was $42.0 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 29, 2002:

	Cash Obligations Due by Year					
(Thousands)	Total	2003	2004	2005	2006	Thereafter
Operating leases	$333,502	$49,552	$47,988	$44,685	$41,575	$149,702
Revolving line of credit	62,000			62,000		
Capital lease obligations	624	214	214	196		
Redeemable preferred stock	2,797			2,797		
	$398,923	$49,766	$48,202	$109,678	$41,575	$149,702

In addition to the above, the Company estimates that the accrued liabilities for group medical, general liability, and workers compensation claims of approximately $11.7 million as of December 29, 2002 will be paid as follows: $6.9 million to be paid in 2003 and the remainder paid over the six-year period from 2004 - 2009.

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, store sales cannibalization, success of its franchise operations, negative publicity, fluctuations in quarterly results of operations, including seasonality, government regulations, weather, school holidays, commodity, insurance, 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.

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 29, 2002 and December 30, 2001, 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 29, 2002. 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 29, 2002 and December 30, 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 29, 2002, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP

Dallas, Texas
February 17, 2003

CONSOLIDATED BALANCE SHEETS

(Thousands, except share data)	December 29, 2002	December 30, 2001
Assets		
Current assets:		
Cash and cash equivalents	$ 12,214	$ 3,682
Accounts receivable, net	11,270	11,603
Inventories	10,716	9,556
Prepaid expenses	5,500	4,794
Deferred tax asset	1,319	1,234
Total current assets	41,019	30,869
Property and equipment, net	493,533	423,267
Other assets:		
Assets held for resale		2,231
Notes receivable from related parties	3,825	2,055
Other	1,326	1,063
	5,151	5,349
	$539,703	$459,485
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 143	$ 121
Accounts payable and accrued liabilities	43,002	39,738
Total current liabilities	43,145	39,859
Long-term debt, less current portion	62,349	51,942
Deferred rent	4,086	3,401
Deferred tax liability	38,156	19,825
Other accrued liabilities	4,750	4,750
Commitments and contingencies		
Redeemable preferred stock, $60 par value, redeemable for $2,797 in 2005	2,549	2,472
Shareholders' equity:		
Common stock, $.10 par value; authorized 100,000,000 shares; 35,669,773 and 35,325,273 shares issued, respectively	3,567	3,533
Capital in excess of par value	201,936	192,041
Retained earnings	308,277	239,070
Accumulated other comprehensive loss	(91)	(178)
Less treasury shares of 8,409,169 and 7,586,106, respectively, at cost	(129,021)	(97,230)
	384,668	337,236
	$539,703	$459,485

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

(Thousands, except per share data)	Fiscal Year 2002	2001	2000
Food and beverage revenues	$400,119	$380,014	$336,062
Games and merchandise revenues	198,466	178,766	166,566
Franchise fees and royalties	3,188	3,173	3,252
Interest income, including related party income of $404, $181 and $105, respectively	428	274	231
	602,201	562,227	506,111
Costs and expenses:			
Cost of sales	266,357	250,138	225,748
Selling, general and administrative expenses	76,621	75,275	71,944
Depreciation and amortization	39,243	34,397	33,410
Interest expense	1,201	2,036	3,546
Other operating expenses	105,119	95,177	80,729
	488,541	457,023	415,377
Income before income taxes	113,660	105,204	90,734
Income taxes	44,134	41,029	35,379
Net income	69,526	64,175	55,355
Other comprehensive income (loss), net of tax:			
Foreign currency translation	87	(148)	(72)
Comprehensive income	$ 69,613	$ 64,027	$ 55,283
Earnings per share:			
Basic:			
Net income	$ 2.50	$ 2.30	$ 2.04
Weighted average shares outstanding	27,674	27,816	26,999
Diluted:			
Net income	$ 2.46	$ 2.24	$ 1.98
Weighted average shares outstanding	28,175	28,514	27,839

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Thousands, except per share data)	Fiscal Year – Amounts 2002	2001	2000	Fiscal Year - Shares 2002	2001	2000
Common stock and capital in excess of par value:						
Balance, beginning of year	$195,574	$181,287	$169,973	35,325	34,585	33,791
Stock options exercised	6,367	10,547	8,727	338	785	789
Tax benefit from exercise of stock options and stock grants	3,265	4,174	2,432			
Stock issued under 401(k) plan	297	176	155	7	5	5
Treasury stock retired and reserved for 401(k) plan		(610)			(50)	
Balance, end of year	205,503	195,574	181,287	35,670	35,325	34,585
Retained earnings:						
Balance, beginning of year	239,070	175,217	120,194			
Net income	69,526	64,175	55,355			
Redeemable preferred stock accretion	(95)	(91)	(100)			
Redeemable preferred stock dividend, $4.80 per share	(224)	(231)	(232)			
Balance, end of year	308,277	239,070	175,217			
Deferred compensation:						
Balance, beginning of year			(759)			
Amortization of deferred compensation			759			
Balance, end of year						
Accumulated other comprehensive income:						
Balance, beginning of year	(178)	(30)	42			
Foreign currency translation	87	(148)	(72)			
Balance, end of year	(91)	(178)	(30)			
Treasury shares:						
Balance, beginning of year	(97,230)	(74,202)	(68,222)	7,586	7,040	6,778
Treasury stock acquired	(31,791)	(23,638)	(5,980)	823	596	262
Treasury stock retired and reserved for 401(k) plan		610			(50)	
Balance, end of year	(129,021)	(97,230)	(74,202)	8,409	7,586	7,040
Total shareholders' equity	$384,668	$337,236	$282,272			

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands)	2002	2001	2000
		Fiscal Year	
Operating activities:			
Net income	$ 69,526	$ 64,175	$ 55,355
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization	39,243	34,397	33,410
Deferred income tax expense	18,246	12,088	5,112
Tax benefit from exercise of stock options and stock grants	3,265	4,174	2,432
Compensation expense under stock grant plan			759
Other	1,333	836	(752)
Net change in receivables, inventories, prepaids, payables and accrued liabilities	1,731	3,827	(2,231)
Cash provided by operations	133,344	119,497	94,085
Investing activities:			
Purchases of property and equipment	(108,126)	(111,202)	(95,076)
Proceeds from dispositions of property and equipment		297	835
Payments received on notes receivable	2,201	2,677	826
Additions to notes receivable	(3,971)	(3,206)	(1,854)
Change in other assets	(426)	647	327
Sale of assets held for resale	462	1,980	9,009
Cash used in investing activities	(109,860)	(108,807)	(85,933)
Financing activities:			
Proceeds from debt and line of credit	52,375	37,100	36,098
Payments on debt and line of credit	(41,946)	(38,169)	(42,262)
Redeemable preferred stock dividends	(224)	(231)	(233)
Acquisition of treasury stock	(31,791)	(23,638)	(5,980)
Exercise of stock options	6,367	10,547	8,727
Other	267	83	67
Cash used in financing activities	(14,952)	(14,308)	(3,583)
Increase (decrease) in cash and cash equivalents	8,532	(3,618)	4,569
Cash and cash equivalents, beginning of year	3,682	7,300	2,731
Cash and cash equivalents, end of year	$ 12,214	$ 3,682	$ 7,300

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Summary of Significant Accounting Policies

Operations ~ CEC Entertainment, Inc. and its subsidiaries (the "Company") operate and franchise 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 2002, 2001, and 2000 are for the fiscal years ended December 29, 2002, December 30, 2001, and December 31, 2000, respectively. Fiscal years 2002, 2001, and 2000 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 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 10 to 20 years. All pre-opening costs are expensed as incurred.

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

Advertising Costs ~ Production costs for commercials are expensed in the year in which the commercials are initially aired. All other advertising costs are expensed as incurred. The total amounts charged to advertising expense were approximately $24.4 million, $24.0 million, and $22.0 million in 2002, 2001, and 2000, 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 2001and 2000 amounts have been made to conform to the 2002 presentation.

Stock-Based Compensation ~ In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" ("SFAS 148"), which amends No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also amends the disclosure provisions of SFAS 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation, and requires disclosure about those effects in both annual and interim financial statements. The disclosure provisions of SFAS 148 are effective for the Company's first quarter of fiscal 2003. The Company has elected to continue to apply Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" in accounting for its stock compensation plans and has disclosed the proforma effects of SFAS 123 (Note 15). The adoption of SFAS 148 is not expected to have an impact on the Company's consolidated results of operations, financial position, or cash flows.

Consolidation of Variable Interest Entities ~ In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46") which becomes effective in the third quarter of 2003. FIN 46 clarifies the application of Accounting Research Bulletin No. 51 for certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Beginning on the first day of fiscal 2003, the Company will consolidate the financial statements of the International Association of CEC Entertainment, Inc. (the "Association"), a related party (Note 3), in accordance with FIN 46. The consolidation of the Association is not expected to have a material impact on the Company's consolidated results of operations, financial position, or cash flows.

Accounting for the Impairment or Disposal of Long-Lived Assets ~ The Company has adopted Statement of Accounting Standards No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), dated August 2001. This statement supersedes SFAS 121, "Accounting for the

Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting provisions of Accounting Principles Board ("APB") Opinion No. 30, "Reporting Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS 144 requires that the same accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and it broadens the presentation of discontinued operations to include more disposal transactions. Although adoption of SFAS 144 did not have any significant effects in fiscal 2002, store closings in the future could be presented as discontinued operations under SFAS 144.

2 Accounts Receivable

(Thousands)	2002	2001
Trade	$2,495	$2,648
Income tax receivable	3,915	2,867
Vendor rebates receivable	3,108	3,142
Construction allowances from landlords	779	831
Other	973	2,115
	$11,270	$11,603

3 Notes Receivable and Related Party Transactions

The Company and its franchisees contribute a percentage of revenues ("Assessments") to 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 employees of the Company. The Company has granted two separate operating lines of credit to the Association. In December 2002, the lines were renewed to provide the Association with available borrowings of $6.0 million at interest of prime plus 2.0% (6.25% at December 29, 2002) and are due December 31, 2003. At December 29, 2002, and December 30, 2001, approximately $3,825,000 and $2,037,000, respectively, were outstanding under these lines of credit. The Company also had accounts payable to the Association of $2,475,000 and $1,341,000 at December 29, 2002 and December 30, 2001 for December and other 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 fully reserved with allowances for doubtful collection of $50,227 and $50,897 at December 29, 2002, and December 30, 2001, respectively.

4 Property and Equipment

(Thousands)	2002	2001
Land	$ 36,329	$ 25,948
Leasehold improvements	263,625	232,351
Buildings	44,186	30,393
Furniture, fixtures and equipment	299,251	258,661
Property leased under capital leases (Note 7)	449	449
	643,840	547,802
Less accumulated depreciation and amortization	(169,836)	(151,891)
Net property and equipment in service	474,004	395,911
Construction in progress	7,305	11,137
Game and restaurant equipment held for future service	12,224	16,219
	$ 493,533	$ 423,267

In 2002, the Company sold assets held for resale for approximately $462,000 and the remaining balance of $1.8 million was reclassified to property and equipment.

5 Accounts Payable and Accrued Liabilities

(Thousands)	2002	2001
Current:		
Accounts payable	$ 19,933	$19,906
Salaries and wages	7,630	7,723
Insurance	6,896	3,588
Taxes, other than income	5,488	5,708
Other	3,055	2,813
	$43,002	$39,738
Long-term:		
Insurance	$ 4,750	$ 4,750

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

6 Long-term Debt

(Thousands)	2002	2001
Revolving bank loan, prime or LIBOR plus .75% to 1.5%, due December 2005	$62,000	
Revolving bank loan, prime or LIBOR plus 1.0% to 1.75%, due July 2003		$51,450
Obligations under capital leases (Note 7)	492	613
	62,492	52,063
Less current portion	(143)	(121)
	$ 62,349	$51,942

In 2002, the Company entered into a new line of credit agreement which provides the Company with a revolving credit facility of $100 million and matures in 2005. Proceeds from the new facility were used to pay the Company's previous line of credit. Interest under the new line of credit is payable 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 (4.25% at December 29, 2002) or, at the Company's option, LIBOR (1.42% at December 29, 2002) plus 0.875%. A 0.225% 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 3.1% and 6.5% in 2002 and 2001, respectively. The Company capitalized interest costs of $176,000, $306,000, and $670,000 in 2002, 2001, and 2000, respectively.

7 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 29, 2002, are as follows:

(Thousands)	Capital	Operating
Years		
2003	$ 214	$ 49,552
2004	214	47,988
2005	196	44,685
2006		41,575
2007		36,174
2008-2028 (aggregate payments)		113,528
Minimum future lease payments	624	$333,502
Less amounts representing interest	(132)	
Present value of future minimum lease payments	492	
Less current portion	(143)	
Long-term capital lease obligation	$349	

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)	2002	2001	2000
Minimum	$ 51,195	$47,884	$43,019
Contingent	330	452	447
	$ 51,525	$48,336	$43,466

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.

8 Redeemable Preferred Stock

As of December 29, 2002, and December 30, 2001, the Company had 46,610 and 47,037 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 29, 2002, one quarterly dividend, totaling $55,932 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 2002, the Company reacquired 427 shares of its redeemable preferred stock.

9 Franchise Fees and Royalties

At December 29, 2002, 50 Chuck E. Cheese's restaurants were operated by a total of 32 different franchisees. The standard franchise agreements grant to the franchisee the right to construct and operate a restaurant and use the associated trade names, trademarks, and service marks within the standards and guidelines established by the Company. Franchise fees included in revenues were $240,000, $114,000, and $253,000 in 2002, 2001, and 2000, respectively.

10 Cost of Sales

(Thousands)	2002	2001	2000
Food, beverage and related supplies	$ 73,690	$ 72,006	$ 64,169
Games and merchandise	25,490	24,871	25,371
Labor	167,177	153,261	136,208
	$266,357	$250,138	$225,748

11 Income Taxes

The significant components of income tax expense are as follows:

(Thousands)	2002	2001	2000
Current expense:			
Federal	$ 18,571	$20,957	$23,439
State	4,052	3,810	4,396
Tax benefit from exercise of stock options and grants	3,265	4,174	2,432
Total current expense	25,888	28,941	30,267
Deferred expense:			
Temporary differences	18,246	12,088	5,112
	$44,134	$41,029	$35,379

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)	2002	2001
Current deferred tax asset:		
Accrued vacation	$ 766	$ 676
Unearned gift certificates	406	418
Other	147	140
	$ 1,319	$ 1,234
Non-current deferred tax asset (liability):		
Deferred rent	$ 1,580	$ 1,311
Unearned franchise fees	92	112
Depreciation	(39,471)	(21,285)
Other	(357)	37
	$(38,156)	$(19,825)

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

	2002	2001	2000
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	3.9%	3.9%	3.8%
Other	(.1)%	.1%	.2%
Effective tax rate	38.8%	39.0%	39.0%

12 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.

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 (in thousands, except per share data):

	2002	2001	2000
Net income	$69,526	$ 64,175	$ 55,355
Accretion of redeemable preferred stock	(95)	(91)	(100)
Redeemable preferred stock dividends	(224)	(231)	(232)
Net income applicable to common shares	$69,207	$63,853	$55,023
Basic:			
Weighted average common shares outstanding	27,674	27,816	26,999
Earnings per common share	$ 2.50	$ 2.30	$ 2.04
Diluted:			
Weighted average common shares outstanding	27,674	27,816	26,999
Potential common shares for stock options and stock grants	501	698	840
Weighted average shares outstanding	28,175	28,514	27,839
Earnings per common and potential common shares	$ 2.46	$ 2.24	$ 1.98

14 Supplemental Cash Flow Information

(Thousands)	2002	2001	2000
Cash paid during the year for:			
Interest	$ 1,216	$ 2,167	$ 3,550
Income taxes	26,936	25,168	32,824

15 Employee Benefit Plans

The Company has employee benefit plans that include: a) incentive 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 5,787,500 shares, as amended in 2002, 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 value of the Company's common stock at the date of grant.

At December 29, 2002, there were 2,193,539 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		
	2002	2001	2000	2002	2001	2000
Options outstanding, beginning of year	2,650,611	2,488,368	2,618,783	$25.26	$17.95	$13.66
Granted	792,299	989,957	884,329	43.45	34.09	24.59
Exercised	(337,656)	(784,669)	(788,789)	18.86	13.44	11.06
Terminated	(79,779)	(43,045)	(225,955)	29.42	21.27	18.84
Options outstanding, end of year	3,025,475	2,650,611	2,488,368	30.63	25.26	17.95

Options outstanding at December 29, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares Outstanding as of 12/29/02	Weighted Avg. Remaining Contractual Life	Weighted Average Exercise Price	Shares Exercisable as of 12/29/02	Weighted Average Exercise Price
$13.67 - $19.94	643,402	2.8	$16.39	451,328	$15.91
$22.44 - $24.88	372,005	4.2	23.31	175,083	23.28
$25.08 - $29.50	288,086	4.0	25.65	51,342	25.80
$30.06 - $39.60	936,782	5.0	34.00	56,319	33.93
$40.30 - $54.27	785,200	6.1	43.56		
$13.67 - $54.27	3,025,475	4.6	30.63	734,072	19.74

Stock options expire seven years from the grant date. Stock options vest over various periods ranging from one to four years. In January 2003, the Company granted 1,480,302 additional options to employees at an exercise price of $29.99 per share and 20,000 options to its non-employee directors at an exercise price of $30.96 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 in 2000. 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 $62.8 million, $59.6 million, and $52.5 million in 2002, 2001, and 2000, respectively. Proforma diluted earnings per share would have been $2.22, $2.08, and $1.88 per share in 2002, 2001, and 2000, respectively.

For the proforma calculations above, the estimated fair value of options granted was $14.69, $11.91, and $9.39 per share in 2002, 2001, and 2000, 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 4.34%, 4.80%, and 6.46% in 2002, 2001, and 2000, 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. At December 29, 2002, 44,895 shares remained available for grant under the plan. The Company made contributions of approximately $297,000 and $176,000 in common stock for the 2001 and 2000 plan years, respectively. The Company accrued $356,000 for contributions for the 2002 plan year which will be paid in common stock in 2003.

BOARD OF DIRECTORS

Richard M. Frank
Richard T. Huston
Michael H. Magusiak
Tim T. Morris
Louis P. Neeb
Cynthia I. Pharr
Walter Tyree
Raymond E. Wooldridge

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 AND TREASURER

Gene Cramm
EXECUTIVE VICE PRESIDENT GAMES, ENTERTAINMENT, FRANCHISE AND CONCEPT EVOLUTION

Mark A. Flores
EXECUTIVE VICE PRESIDENT OPERATIONS

Richard T. Huston
EXECUTIVE VICE PRESIDENT MARKETING

Thomas W. Oliver
EXECUTIVE VICE PRESIDENT GENERAL COUNSEL

Randy Forsythe
SENIOR VICE PRESIDENT OPERATIONS, NORTHERN REGION

Sandra J. Brown
VICE PRESIDENT PAYROLL, ACCOUNTS PAYABLE AND INVENTORY

Kenny L. Bullock
VICE PRESIDENT REAL ESTATE

Joe Elliott
VICE PRESIDENT RESEARCH AND DEVELOPMENT

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

Steven Hatton
VICE PRESIDENT OPERATIONS, FIELD SUPPORT

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

Jeff S. Smith
VICE PRESIDENT OPERATIONS, WESTERN REGION

Gary Spring
VICE PRESIDENT OPERATIONS, MIDWEST REGION

Mark Wallace
VICE PRESIDENT OPERATIONS, SOUTHERN REGION

Alice Winters
ASSISTANT CORPORATE SECRETARY

The officers identified above are employed by CEC Entertainment, Inc. and its subsidiaries.

CORPORATE INFORMATION

Executive Offices

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

Annual Shareholder Meeting

May 29, 2003
9:00 AM
Harvey Hotel
4545 W. John Carpenter Freeway
Irving, Texas 75063

Stock Transfer Agent and Registrar

Equiserve Trust Company, N.A.
46 Harvard Street
Westwood, Massachusetts 02909-2398
800/730-6001

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 2002 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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CEC ENTERTAINMENT INC.
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