FORM 10-K

(Mark One)

x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended January 2, 2000.

- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____.

Commission File Number 0-15782

CEC ENTERTAINMENT, INC.
(Exact name of registrant as specified in its charter)

Kansas	48-0905805
(State or jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4441 West Airport Freeway P.O. Box 152077 Irving, Texas	75015
(Address of principal executive offices)	Zip Code)

Registrant's telephone number, including area code:(972) 258-8507

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Common Stock, par value $.10 each
(Title of Class)

Class A Preferred Stock, par value $60.00 each
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No -

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. -

At March 13, 2000, an aggregate of 26,770,790 shares of the registrant's Common Stock, par value of $.10 each (being the registrant's only class of common stock), were outstanding, and the aggregate market value thereof (based upon the last reported sale price on March 13, 2000) held by non-affiliates of the registrant was $597,581,303.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement, to be filed pursuant to Section 14(a) of the Act in connection with the registrant's 2000 annual meeting of shareholders, have been incorporated by reference in Part III of this report.

PART I

Item 1. Business

General

CEC Entertainment, Inc. (the "Company"), was incorporated in the State of Kansas in 1980 and is engaged in the family restaurant/entertainment center business. The Company considers this to be its sole industry segment.

The Company operated, as of March 13, 2000, 302 Chuck E. Cheese's ("Chuck E. Cheese's") restaurants. In addition, as of March 13, 2000, franchisees of the Company operated 55 Chuck E.Cheese's restaurants.

Chuck E. Cheese's Restaurants

Business Development

Chuck E. Cheese's restaurants offer a variety of pizza, a salad bar, sandwiches and desserts and feature musical and comic entertainment by life-size, computer-controlled robotic characters, family oriented games, rides and arcade-style activities. The restaurants are intended to appeal to families with children between the ages of 2 and 12. The Company opened its first restaurant in March 1980.

The Company and its franchisees operate in a total of 45 states. The Company owns and operates Chuck E. Cheese's restaurants in 37 states and Canada. See "Item 2. Properties."

The following table sets forth certain information with respect to the Chuck E. Cheese's restaurants owned by the Company (excludes restaurants managed by the Company for others and franchised restaurants):

	1999	1998	1997
Average annual revenues per restaurant (1)	$1,531,000	$1,452,000	$1,437,000
Number of restaurants open at end of period	294	271	246
Percent of total restaurant revenues:			
Food and beverage sales	64.8%	66.2%	68.2%
Game sales	32.4%	30.9%	28.6%
Merchandise sales	2.8%	2.9%	3.2%

- - ------

(1) In computing these averages, only restaurants which were open for a period greater than one year at the beginning of each respective year were included (243, 240 and 225 restaurants in 1999, 1998 and 1997, respectively). Fiscal years 1999 and 1998 consisted of 52 weeks while 1997 consisted of 53 weeks.

The revenues from Chuck E. Cheese's restaurants are seasonal in nature. The restaurants tend to generate more revenues during the first and third fiscal quarters as compared to the second and fourth fiscal quarters.

Each Chuck E. Cheese's restaurant generally employs a general manager, one or two managers, an electronic specialist who is responsible for repair and maintenance of the robotic characters and games, and 45 to 75 food preparation and service employees, most of whom work only part-time.

To maintain a unique and exciting environment in the restaurants, the Company believes it is essential to reinvest capital through the evolution of its games, rides and entertainment packages and continuing enhancement of the facilities. In 1994, the Company initiated a "repositioning" program to evolve and expand its efforts to significantly enhance its Chuck E. Cheese's restaurants. Between March 1994 and September 1997, all Company operated restaurants were remodeled under this program. In 1997, the Company initiated a Phase II upgrade program that generally includes a new game package, enhanced prize and merchandise offerings and improved product presentation and service. The Company completed Phase II upgrades in 107 restaurants in 1997, 117 restaurants in 1998 and 26 restaurants in 1999.

The Company has expanded the customer areas of 56 existing stores since 1995, including 19 stores in 1999. The Company plans to continue its strategy of expanding the customer areas of existing restaurants in 2000. The customer area is typically increased by an average of 1,000 to 4,000 square feet per store.

The Company opened 23, 14 and two new Chuck E. Cheese's restaurants in 1999, 1998 and 1997, respectively. This does not include restaurants acquired from franchisees. The Company anticipates adding approximately 27 to 32 new restaurants in 2000 through a combination of new restaurants and the acquisition of existing restaurants. The Company periodically reevaluates the site characteristics of its restaurants. In the event certain site characteristics considered essential for the success of a restaurant deteriorate, the Company will consider relocating the restaurant to a more desirable site.

The Company believes its ownership of trademarks to the names and character likenesses featured in the robotic animation stage show (and other in-store entertainment) in its restaurants to be an important competitive advantage.

Restaurant Design and Entertainment

Chuck E. Cheese's restaurants are typically located in shopping centers or in free-standing buildings near shopping centers and generally occupy 8,000 to 14,000 square feet in area. Chuck E. Cheese's restaurants are typically divided into three areas: a kitchen and related area (cashier and prize area, salad bar, manager's office, technician's office, restrooms, etc.) occupies approximately 35% of the space, a dining area occupies approximately 25% of the space and an playroom area occupies approximately 40% of the space.

The dining area of each Chuck E. Cheese's restaurant features a variety of comic and musical entertainment by computer-controlled robotic characters, together with video monitors and animated props, located on various stage type settings. The dining area typically provides table and chair seating for 250 to 375 customers.

Each Chuck E. Cheese's restaurant typically contains a family oriented playroom area offering approximately 40 coin- and token-operated attractions, including arcade-style games, kiddie rides, video games, skill oriented games and other similar entertainment. Most games dispense tickets that can be redeemed by guests for prize merchandise such as toys and dolls. Also included in the playroom area are tubes and tunnels suspended from or reaching to the ceiling ("SkyTubes") or other free attractions for young children, with booth and table seating for the entire family. The playroom area normally occupies approximately 60% of the restaurant's customer area and contributes significantly to its revenues. A limited number of free tokens are furnished with food orders. Additional tokens may be purchased. These tokens are used to play the games and rides in the playroom.

Food and Beverage Products

Each Chuck E. Cheese's restaurant offers varieties of pizza, a salad bar, sandwiches and desserts. Soft drinks, coffee and tea are also served, along with beer and wine where permitted by local laws. The Company believes that the quality of its food compares favorably with that of its competitors.

The majority of food, beverages and other supplies used in the Company-operated restaurants is currently distributed under a system-wide agreement with a major food distributor. The Company believes that this distribution system creates certain cost and operational efficiencies for the Company.

Marketing

The primary customer base for the Company's restaurants consists of families having children between 2 and 12 years old. The Company conducts advertising campaigns targeted at families with young children that feature the family entertainment experiences available at Chuck E. Cheese's restaurants and are primarily aimed at increasing the frequency of customer visits. The primary advertising medium continues to be television, due to its broad access to family audiences and its ability to communicate the Chuck E. Cheese's experience. The television advertising campaigns are supplemented by promotional offers in newspapers.

Franchising

The Company began franchising its restaurants in October 1981 and the first franchised restaurant opened in June 1982. At March 13, 2000, 55 Chuck E. Cheese's restaurants were operated by a total of 35 different franchisees, as compared to 54 of such restaurants at March 12, 1999. In September 1996 and December 1998, the Company purchased 19 and six Chuck E. Cheese's restaurants, respectively, owned by its then largest franchisees.

The Chuck E. Cheese's standard franchise related agreements grant to the franchisee the right to develop and operate a restaurant and use the associated trademarks within the standards and guidelines established by the Company. The franchise agreement presently offered by the Company has an initial term of 15 years and includes a 10-year renewal option. The standard agreement provides the Company with a right of first refusal should a franchisee decide to sell a restaurant. The earliest expiration dates of outstanding Chuck E. Cheese's franchises are in 2000.

The franchise agreements governing existing franchised Chuck E. Cheese's restaurants currently require each franchisee to pay: (i) to the Company, in addition to an initial franchise fee of $50,000, a continuing monthly royalty fee equal to 3.8% of gross sales; (ii) to the Advertising Fund [an independent fund established and managed by an association of the Company and its franchisees to pay costs of system-wide advertising (the "Association")] an amount equal to 2.65% of gross sales; and (iii) to the Entertainment Fund (an independent fund established and managed by such Association to further develop and improve entertainment attractions) an amount equal to 0.2% of gross sales. The Chuck E. Cheese's franchise agreements also require franchisees to expend at least 1% of gross sales for local advertising. Under the Chuck E. Cheese's franchise agreements, the Company is required, with respect to Company-operated restaurants, to spend for local advertising and to contribute to the Advertising Fund and the Entertainment Fund at the same rates as franchisees.

Competition

The restaurant and entertainment industries are highly competitive, with a number of major national and regional chains operating in the restaurant or family entertainment business. Although other restaurant chains presently utilize the combined family restaurant / entertainment concept, these competitors primarily operate on a regional, market-by-market basis.

The Company believes that it will continue to encounter competition in the future. Major national and regional chains, some of which may have capital resources as great or greater than the Company, are competitors of the Company. The Company believes that the principal competitive factors affecting Chuck E. Cheese's restaurants are the relative quality of food and service, quality and variety of offered entertainment, and location and attractiveness of the restaurants as compared to its competitors in the restaurant or entertainment industries.

Trademarks

The Company, through a wholly owned subsidiary, owns various trademarks, including "Chuck E. Cheese" and "ShowBiz" that are used in connection with the restaurants and have been registered with the United States Patent and Trademark Office. The duration of such trademarks is unlimited, subject to continued use. The Company believes that it holds the necessary rights for protection of the marks considered essential to conduct its present restaurant operations.

Government Regulation

The development and operation of Chuck E. Cheese's restaurants are subject to various federal, state and local laws and regulations, including but not limited to those that impose restrictions, levy a fee or tax, or require a permit or license on the service of alcoholic beverages and the operation of games and rides. The Company is subject to the Fair Labor Standards Act, the Americans With Disabilities Act, and Family Medical Leave Act mandates. A significant portion of the Company's restaurant personnel are paid at rates related to the minimum wage established by federal and state law. Increases in such minimum wage result in higher labor costs to the Company, which may be partially offset by price increases and operational efficiencies.

Working Capital Practices

The Company attempts to maintain only sufficient inventory of supplies in the restaurants which it operates to satisfy current operational needs. The Company's accounts receivable consist primarily of credit card receivables and franchise royalties.

Employees

The Company's employment varies seasonally, with the greatest number being employed during the summer months. On March 13, 2000, the Company employed approximately 15,648 employees, including 15,323 in the operation of Chuck E. Cheese's restaurants and 325 employed by the Company in the Company's executive offices. None of the Company's employees are members of any union or collective bargaining group. The Company considers its employee relations to be good.

Item 2. Properties

The following table sets forth certain information regarding the Chuck E. Cheese's restaurants operated by the Company as of March 13, 2000.

Chuck E.

Domestic	Cheese's
Alabama	5
Arkansas	4
California	54
Colorado	6
Connecticut	5
Delaware	1
Florida	18
Georgia	8
Idaho	1
Illinois	17
Indiana	8
Iowa	4
Kansas	3
Kentucky	2
Louisiana	5
Maryland	10
Massachusetts	10
Michigan	12
Minnesota	4
Mississippi	1
Missouri	7
Nebraska	2
Nevada	3
New Hampshire	2
New Jersey	10
New Mexico	1
New York	9
North Carolina	4
Ohio	15
Oklahoma	3
Pennsylvania	10
Rhode Island	1
South Carolina	4
Tennessee	6
Texas	30
Virginia	8
Wisconsin	7
	300
International	
Canada	2
	302

Of the 302 Chuck E. Cheese's restaurants owned by the Company as of March 13, 2000, 274 occupy leased premises and 28 occupy owned premises. The leases of these restaurants will expire at various times from 2000 to 2028, as described in the table below.

Year of Expiration	Number of Restaurants	Range of Renewal Options (Years)
2000	19	None to 15
2001	34	None to 15
2002	60	None to 20
2003 and thereafter	161	None to 20

The leases of Chuck E. Cheese's restaurants contain terms which vary from lease to lease, although a typical lease provides for a primary term of 10 years, with two additional five-year options to renew, and provides for annual minimum rent payments of approximately $6.00 to $25.00 per square foot, subject to periodic adjustment. The restaurant leases require the Company to pay the cost of repairs, insurance and real estate taxes and, in many instances, provide for additional rent equal to the amount by which a percentage (typically 6%) of gross revenues exceeds the minimum rent.

Item 3. Legal Proceedings.

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 in 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.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of security holders during the fourth quarter of 1999.

P A R T I I

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

As of March 13, 2000, there were an aggregate of 26,770,798 shares of the Company's Common Stock outstanding and approximately 3,461 stockholders of record.

The Company's Common Stock is listed on the New York Stock Exchange under the symbol "CEC". Prior to July 9, 1998, the Company's Common Stock was listed on the National Market System of the National Association of Securities Dealers Automated Quotation ("NASDAQ") system under the symbol "SHBZ". The following table sets forth the highest and lowest prices per share of the Common Stock during each quarterly period within the two most recent years, as reported on the New York Stock Exchange and National Market System of NASDAQ (adjusted for a three-for-two stock split in the form of a 50% stock dividend of the Company's common stock on July 23, 1999):

		High	Low
1999			
	- 1st quarter	$ 24 1/8	$ 15
	- 2nd quarter	29 7/8	21 11/16
	- 3rd quarter	36 9/16	25 3/4
	- 4th quarter	35 1/4	23 1/2
1998			
	- 1st quarter	$ 22 5/8	$ 13 1/4
	- 2nd quarter	26 7/8	21 29/32
	- 3rd quarter	26 5/8	11 29/32
	- 4th quarter	20	12 13/16

The Company may not pay any dividends to holders of its Common Stock (except in shares of Common Stock) unless an amount equal to all dividends then accrued on its Class A Preferred Stock par value $60.00 per share ("the Preferred Stock") has been paid or set aside to be paid. A dividend to holders of record of Preferred Stock as of January 2, 2000 in the amount of $1.20 per share will be paid on

April 2, 2000.

The Company has not paid any cash dividends on its Common Stock and has no present intention of paying cash dividends thereon in the future. The Company plans to retain any earnings to finance anticipated capital expenditures, repurchase the Company's common stock and reduce its long-term debt. Future dividend policy with respect to the Common Stock will be determined by the Board of Directors of the Company, taking into consideration factors such as future earnings, capital requirements, potential loan agreement restrictions and the financial condition of the Company.

Item 6. Selected Financial Data.

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

349	325	312	314	319

- - ---------------------

(1) Fiscal year 1997 was 53 weeks in length while all other fiscal years presented were 52 weeks in length.

(2) No cash dividends on common stock were paid in any of the years presented.

(3) All share and per share information has been adjusted to give effect to three-for-two stock split in the form of a 50% stock dividend of the Company's common stock on July 23, 1999.

Item 7. 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.

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

1999 Compared to 1998
- - ---------------------

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

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

Revenues

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

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

Costs and Expenses

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

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

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

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

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

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

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

Net Income

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

1998 Compared to 1997
- - --------------------

Revenues increased 8.3% to $379.4 million in 1998 from $350.3

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

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

Revenues

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

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

Costs and Expenses

Costs and expenses as a percentage of revenues decreased to 85.5% in 1998 from 87.8% in 1997.

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

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

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

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

Net Income

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

Inflation

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

Financial Condition, Liquidity and Capital Resources

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

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

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

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

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

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

Item 7A: 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.

Item 8. Financial Statements and Supplementary Data

CEC ENTERTAINMENT, INC.
YEARS ENDED JANUARY 2, 2000, JANUARY 3, 1999
AND JANUARY 2, 1998

CONTENTS

INDEPENDENT AUDITORS' REPORT

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

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

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

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

DELOITTE & TOUCHE LLP
Dallas, Texas
March 6, 2000

CEC ENTERTAINMENT, INC.
CONSOLIDATED BALANCE SHEETS
JANUARY 2, 2000 AND JANUARY 3, 1999
(Thousands, except share data)

ASSETS

	January 2, 2000	January 3, 1999
Current assets:		
Cash and cash equivalents	$ 2,731	$ 3,210
Accounts receivable	6,451	4,299
Current portion of notes receivable	7	52
Inventories	7,895	5,842
Prepaid expenses.	4,727	3,643
Current portion of deferred tax asset	776	720

Assets held for resale	13,070	
Total current assets	35,657	17,766
Property and equipment, net	280,624	228,531
Deferred tax asset		1,036
Notes receivable, less current portion, including receivables from related parties of $491 and $361, respectively	491	363
Other assets	8,396	4,532
	$ 325,168	$ 252,228

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Current portion of long-term debt	$ 7,729	$ 9,383
Accounts payable and accrued liabilities	34,294	32,453
Total current liabilities	42,023	41,836
Long-term debt, less current portion	51,567	18,922
Deferred rent	4,110	3,915
Long-term deferred tax liability	2,167	
Other liabilities	1,725	1,300
Commitments and contingencies		
Redeemable preferred stock, $60 par value, redeemable for $2,911 in 2005	2,348	2,306
Shareholders' equity:		
Common stock, $.10 par value; authorized 100,000,000 shares; 33,791,217 and 33,397,956 shares issued, respectively	3,379	3,340
Capital in excess of par value	166,594	161,992
Retained earnings	120,194	76,157
Deferred compensation	(759)	(1,520)
Accumulated other comprehensive income	42	6
Less treasury shares of 6,777,614 and 6,352,014, respectively, at cost	(68,222)	(56,026)
	221,228	183,949
	$ 325,168	$ 252,228

See notes to consolidated financial statements.

CEC ENTERTAINMENT, INC.
CONSOLIDATED STATEMENTS OF EARNINGS
AND COMPREHENSIVE INCOME
YEARS ENDED JANUARY 2, 2000,
JANUARY 3, 1999 AND JANUARY 2, 1998
(Thousands, except per share data)

	1999	1998	1997

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

See notes to consolidated financial statements.

CEC ENTERTAINMENT, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED JANUARY 2, 2000,
JANUARY 3, 1999 AND JANUARY 2, 1998
(Thousands, except per share data)

	Amounts			Shares		
	1999	1998	1997	1999	1998	1997
Common stock and capital in excess of par value:						
Balance, beginning of year.	$165,332	$160,887	$155,947	33,398	32,868	32,279
Stock options exercised	2,680	2,573	2,592	386	524	393
Tax benefit (expense)						

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

See notes to consolidated financial statements.

CEC ENTERTAINMENT, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JANUARY 2, 2000,
JANUARY 3, 1999 AND JANUARY 2, 1998
(Thousands)

	1999	1998	1997

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

See notes to consolidated financial statements.

CEC ENTERTAINMENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JANUARY 2, 2000,
JANUARY 3, 1999 AND JANUARY 2, 1998

1. Summary of significant accounting policies:

Operations:

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

Cheese's restaurants.

Fiscal year:

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

Basis of consolidation:

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

Foreign currency translation:

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

Cash and cash equivalents:

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

Inventories:

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

Property and equipment, depreciation and amortization:

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

1. Summary of significant accounting policies (continued):

Deferred charges and related amortization:

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

Franchise fees and royalties:

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

Earnings per share:

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

Use of estimates and assumptions:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting for stock-based compensation:

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

Recent accounting pronouncements:

Statement of Financial Accounting Standards No. 133 ("SFAS 133") "Accounting for Derivative Instruments and Hedging Activities" became effective for years beginning after June 15, 1999. The Company does not engage in activities requiring separate disclosure under SFAS 133.

2. Accounts receivable:

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

3. Notes receivable:

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

4. Assets held for resale:

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

5. Property and equipment:

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

6. Accounts payable and accrued liabilities:

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

	$ 34,294	$ 32,453

7. Leases:

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

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

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

7. Leases (continued):

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

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

	1999	1998	1997
		(thousands)	

Minimum.	$38,339	$34,276	$32,694
Contingent.	464	365	276
	$38,803	$34,641	$32,970

8. Long-term debt:

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

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

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

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

9. Litigation:

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

10. Redeemable preferred stock:

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

11. Earnings per common share:

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. Net income applicable per common share has been adjusted for the items indicated.

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

	1999	1998	1997
Net income.	$ 44,372	$ 33,730	$ 25,497
Accretion of redeemable preferred stock	(101)	(103)	(104)
Redeemable preferred stock dividends.	(234)	(238)	(238)
Net income applicable to common shares.	$ 44,037	$ 33,389	$ 25,155
Basic:			
Weighted average common shares outstanding.	27,004	27,093	27,603
Earnings per common share . . .	$ 1.63	$ 1.23	$ .91
Diluted:			
Weighted average common shares outstanding.	27,004	27,093	27,603
Potential common shares for stock options and stock grants . .	918	717	623
Weighted average shares outstanding	27,922	27,810	28,226

Earnings per common and potential common shares	$ 1.58	$ 1.20	$ .89

CEC ENTERTAINMENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED JANUARY 2, 2000,
JANUARY 3, 1999 AND JANUARY 2, 1998

12. Franchise fees and royalties:

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

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

13. Cost of sales:

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

14. Income taxes:

The significant components of income tax expense are as follows:

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

14. Income taxes (continued):

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

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

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

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

15. Fair value of financial instruments:

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

16. Supplemental cash flow information:

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

17. Related party transactions:

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

18. Employee benefit plans:

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

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

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

CEC ENTERTAINMENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED JANUARY 2, 2000,
JANUARY 3, 1999 AND JANUARY 2, 1998

18. Employee benefit plans (continued):

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

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

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

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

All stock options are granted at no less than fair market value of the common stock at the grant date. The Company applies the provisions of APB Opinion 25 and related interpretations in accounting for its employee benefit plans. Accordingly, no compensation cost has been recognized for its stock option plans. Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant date for awards under those plans consistent with the method prescribed by SFAS 123, the Company's proforma net income would have been $41.9 million, $31.6 million and $23.1 million in 1998, 1997 and 1996, respectively. Proforma diluted earnings per share would have been $1.50, $1.14 and $.82 per share in 1999, 1998 and 1997, respectively.

18. Employee benefit plans (continued):

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

19. Quarterly results of operations (unaudited):

The following summarizes the unaudited quarterly results of operations for the years ended January 2, 2000 and January 3, 1999 (thousands, except per share data).

	Fiscal year ended January 2, 2000			
	April 14	July 4	Oct. 3	Jan. 2
Revenues.	$118,396	$104,935	$115,583	$101,990
Income before income taxes	23,653	15,576	20,227	12,870
Net income.	14,381	9,471	12,297	8,223
Earnings Per Share:				
Basic	$ .53	$ .35	$ .45	$ .30
Diluted	.52	.34	.44	.29

	Fiscal year ended January 3, 1999			
	April 5	July 5	Oct. 4	Jan. 3
Revenues.	$105,049	$ 88,901	$ 98,106	$ 87,371
Income before income taxes	19,215	11,813	14,264	9,740
Net income	11,683	7,341	8,673	6,033
Earnings Per Share:				
Basic	$ .43	$ .27	$ .32	$ .22
Diluted	.42	.26	.31	.22

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by this item regarding the directors and executive officers of the Company shall be included in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A in connection with the Company's 2000 annual meeting of stockholders and incorporated herein by reference thereto.

Item 11. Executive Compensation

The information required by this item regarding the directors and executive officers of the Company shallbe included in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A in connection with the Company's 2000 annual meeting of stockholders and incorporated herein by reference thereto.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this Item shall be included in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A in connection with Company's 2000 annual meeting of stockholders and is incorporated herein by reference thereto.

Item 13. Certain Relationships and Related Transactions

The information required by this Item regarding the directors and executive officers of the Company shall be included in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A in connection with the Company's 2000 annual meeting of stockholders and is incorporated herein by reference thereto.

PART IV

Item 13. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) The following documents are filed as a part of this report:

(1) Financial Statements and Supplementary Data:

Independent auditors' report.

CEC Entertainment, Inc. consolidated financial statements:

Consolidated balance sheets as of January 2, 2000 and January 3, 1999.

Consolidated statements of earnings for the years ended January 2, 2000, January 3, 1999, and January 2, 1998.

Consolidated statements of shareholders' equity for the years ended January 2, 2000, January 3, 1999, and January 2, 1998.

Consolidated statements of cash flows for the years ended January 2, 2000, January 3, 1999, and January 2, 1998.

Notes to consolidated financial statements.

(2) Exhibits:

Exhibit No.	Description
3(a)(1)	Restated Articles of Incorporation of the Company, dated November 26, 1996 (filed as Exhibit 3.1 to the Company's Registration Statement on Form S-3 (No. 333-22229) and incorporated herein by reference).
3(a)(2)	Amendment to the Restated Articles of Incorporation of the Company, dated June 25, 1998 (filed as Exhibit 3(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended July 5, 1998, and incorporated herein by reference).
3(a)(3)	Amended and Restated Articles of Incorporation of the Company (filed as Exhibit 3(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended July 4, 1999, and incorporated herein by reference).
3(b)(1)	Restated Bylaws of the Company, dated August 16, 1994 (filed as Exhibit 3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994, and incorporated herein by reference).
3(b)(2)	Amendment to the Bylaws, dated May 5, 1995 (filed as Exhibit 3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference).
4(a)	Specimen form of certificate representing $.10 par value Common Stock (filed as Exhibit 4(a) to the Company's Annual Report on Form 10-K for the year ended December 28, 1990, and incorporated herein by reference).
4(b)	Specimen form of certificate representing $60 par value Class A Preferred Stock (filed as Exhibit 4(b) to the Company's Annual Report on Form 10-K for the year ended December 28, 1990, and incorporated herein by reference).
10(a)(1)	Amended and Restated Employment Agreement dated April 14, 1993, between the Company and Richard M. Frank (filed as Exhibit 10(a)(8) to the Company's Quarterly Report on Form 10-Q for the quarter ended

April 2, 1993, and incorporated herein by reference).

10(a)(2)	Amendment No. 1 to the Amended and Restated Employment Agreement dated July 19, 1996, between the Company and Richard M. Frank (filed as Exhibit 10(i) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 27, 1996, and incorporated herein by reference).
10(a)(3)	Amendment No. 2 to the Amended and Restated Employment Agreement dated March 3, 1997, between the Company and Richard M. Frank (filed as Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 28, 1997, and incorporated herein by reference).
10(b)	Stock Grant Trust Agreement dated January 29, 1992, among the Company, Richard M. Frank, Ronald F. Saupe and Kevin J. Shepherd (filed as Exhibit 10(a)(7) to the Company's Annual Report on Form 10-K for the year ended December 27, 1991, and incorporated herein by reference).

10(c)(1)	Employment Agreement dated January 4, 1994, between the Company and Michael H. Magusiak (filed as Exhibit 10(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1993, and incorporated herein by reference).
10(c)(2)	Amendment to the Employment Agreement dated December 11, 1997, between the Company and Michael H. Magusiak (filed as Exhibit 10(c)(2) to the Company's Annual Report on Form 10-K for the year ended January 2, 1998, and incorporated herein by reference).
10(c)(3)	Employment Agreement, dated April 28, 1999, between Michael H. Magusiak and the Company (filed as Exhibit 10 (a) to the Company's Quarterly Report on Form 10-Q for the quarter ended April 4, 1999, and incorporated herein by reference).
10(d)	Note Purchase Agreement dated June 15, 1995, between Allstate Life Insurance Company, Connecticut Mutual Life Insurance Company, C M Life Insurance Company, MassMutual Corporate Value Partners Limited, Massachusetts Mutual Life Insurance Company, Modern Woodmen of America, and the Company (filed as Exhibit 10 (a)(1) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference).
10(e)	10.02% Series A Senior Note Due 2001, in the stated amount of $10,000,000.00, dated June 15, 1995, between Allstate Life Insurance Company and the Company (filed as Exhibit 10 (b)(1) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference).
10(f)(1)	10.02% Series A Senior Note Due 2001, in

the stated amount of $1,000,000.00, dated June 15, 1995, between Connecticut Mutual Life Insurance Company and the Company (filed as Exhibit 10 (c)(1) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference).

10(f)(2)	10.02% Series A Senior Note Due 2001, in the stated amount of $1,000,000.00, dated June 15, 1995, between Connecticut Mutual Life Insurance Company and the Company (filed as Exhibit 10 (c)(2) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference).
10(f)(3)	10.02% Series A Senior Note Due 2001, in the stated amount of $1,000,000.00, dated June 15, 1995, between Connecticut Mutual Life Insurance Company and the Company (filed as Exhibit 10 (c)(3) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference).
10(g)(1)	10.02% Series A Senior Note Due 2001, in the stated amount of $1,000,000.00, dated June 15, 1995, between C M Life Insurance Company and the Company (filed as Exhibit 10 (d)(1) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference).
10(g)(2)	10.02% Series A Senior Note Due 2001, in the stated amount of $1,000,000.00, dated June 15, 1995, between C M Life Insurance Company and the Company (filed as Exhibit 10 (d)(2) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference).

10(h)(1)	Floating Rate Series B Senior Note Due 2000, in the stated amount of $2,000,000.00, dated June 15, 1995, between Massachusetts Mutual Life Insurance Company and the Company (filed as Exhibit 10 (e)(1) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference).
10(h)(2)	Floating Rate Series B Senior Note Due 2000, in the stated amount of $2,000,000.00, dated June 15, 1995, between Massachusetts Mutual Life Insurance Company and the Company (filed as Exhibit 10 (e)(2) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference).
10(h)(3)	Floating Rate Series B Senior Note Due 2000, in the stated amount of $2,000,000.00, dated June 15, 1995, between Massachusetts Mutual Life Insurance Company and the Company (filed as Exhibit 10 (e)(3) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and

incorporated herein by reference).

10(i) Floating Rate Series B Senior Note Due 2000, in the stated amount of $4,000,000.00, dated June 15, 1995, between MassMutual Corporate Value Partners Limited (I/N/O Webell & Co.) and the Company (filed as Exhibit 10 (f)(1) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference).

10(j) Floating Rate Series A Senior Note Due 2001, in the stated amount of $3,000,000.00, dated June 15, 1995, between Modern Woodmen of America and the Company (filed as Exhibit 10 (g)(1) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference).

10(k)(1) Loan Agreement in the stated amount of $5,000,000.00, dated June 27, 1995, between Bank One, Texas, N.A. and the Company (filed as Exhibit 10 (h)(1) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference).

10(k)(2) Revolving Credit Note in the stated amount of $5,000,000, dated June 27, 1995, between Bank One, Texas, N.A. and the Company (filed as Exhibit 10 (h)(2) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference).

10(l)(1) Modification and Extension Agreement (to the Loan Agreement dated June 27, 1995) in the stated amount of $15,000,000.00, dated August 1, 1996, between Bank One, Texas, N.A. and the Company (filed as Exhibit 10 (h)(1) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 27, 1996, and incorporated herein by reference).

10(l)(2) Restated Revolving Credit Note in the stated amount of $15,000,000, dated August 1, 1996, between Bank One, Texas, N.A. and the Company (filed as Exhibit 10 (h)(2) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 27, 1996, and incorporated herein by reference).

10(m)(1) Second Modification And Extension Agreement, in the stated amount of $15,000,000.00, dated June 14, 1998, between Bank One, Texas, N.A. and the Company (filed as Exhibit 10 (a)(1) to the Company's Quarterly Report on Form 10-Q for the quarter ended July 5, 1998, and incorporated herein by reference).

10(m)(2) Second Restated Revolving Credit Note, in the stated amount of $15,000,000.00, dated June 14, 1998, between Bank One, Texas, N.A. and the Company (filed as Exhibit 10 (a)(2) to the Company's Quarterly Report on Form 10-Q for the quarter ended July 5, 1998, and incorporated herein by reference).

10(n)(1)	Third Modification Agreement, in the stated amount of $30,000,000.00, dated December 4, 1998, between Bank One, Texas, N.A. and the Company (filed as Exhibit 10 (a)(1) to the Company's Quarterly Report on Form 10-Q for the quarter ended July 5, 1998, and incorporated herein by reference).
10(n)(2)	Third Restated Revolving Credit Note, in the stated amount of $30,000,000.00, dated December 4, 1998, between Bank One, Texas, N.A. and the Company (filed as Exhibit 10 (a)(2) to the Company's Quarterly Report on Form 10-Q for the quarter ended July 5, 1998, and incorporated herein by reference).
10(o)(1)	Fourth Modification and Extension Agreement, in the stated amount of $45,000,000.00, dated July 16, 1999, between Bank One, Texas, N.A. and the Company (filed as Exhibit 10 (b)(1) to the Company's Quarterly Report on Form 10-Q for the quarter ended October 3, 1999, and incorporated herein by reference).
10(o)(2)	Fourth Restated Revolving Credit Note, in the stated amount of $45,000,000.00, dated July 16, 1999, between Bank One, Texas, N.A. and the Company (filed as Exhibit 10 (b)(2) to the Company's Quarterly Report on Form 10-Q for the quarter ended October 3, 1999, and incorporated herein by reference).
10(p)(1)	Supplemental Agreement, dated as of September 29, 1997, relating to the Note Purchase Agreements dated as of June 15, 1995, between Allstate Life Insurance Company, Massachusetts Mutual Life Insurance Company, MassMutual Corporate Value Partners Limited, CM Life Insurance Company, Modern Woodmen of America and the Company (filed as Exhibit 10(m)(1) to the Company's Annual Report on Form 10-K for the year ended January 2, 1998, and incorporated herein by reference).
10(p)(2)	Supplemental Agreement, dated as of September 29, 1997, relating to the Note Purchase Agreements dated as of June 15, 1995, between Bank One, Texas, N.A. and the Company (filed as Exhibit 10(m)(2) to the Company's Annual Report on Form 10-K for the year ended January 2, 1998, and incorporated herein by reference).
10(q)(1)	1988 Non-Statutory Stock Option Plan (filed as Exhibit A to the Company's Proxy Statement for Annual Meeting of Stockholders to be held on June 8, 1995, and incorporated herein by reference).
10(q)(2)	Specimen form of Contract under the 1988 Non-Statutory Stock Option Plan of the Company, as amended to date (filed as Exhibit 10 (d) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 28, 1996, and incorporated herein by reference).

10(r)(1)	1997 Non-Statutory Stock Option Plan (filed as Exhibit 4.1 to Form S-8 (No. 333-41039), and incorporated herein by reference).

10(r)(2)	Specimen form of Contract under the 1997 Non-Statutory Stock Option Plan of the Company, as amended to date (filed as Exhibit 10(o)(2) to the Company's Annual Report on Form 10-K for the year ended January 2, 1998, and incorporated herein by reference).
10(s)(1)	Stock Grant Plan of the Company, as amended to date (filed as Exhibit 10(d)(1) to the Company's Annual Report on Form 10-K for the year ended December 31, 1993, and incorporated herein by reference).
10(s)(2)	Specimen form of Certificate of Participation to certain participants under the Stock Grant Plan of the Company (filed as Exhibit 10(e)(3) to the Company's Annual Report on Form 10-K for the year ended December 29, 1989, and incorporated herein by reference).
10(t)(1)	Non-Employee Directors Stock Option Plan (filed as Exhibit B to the Company's Proxy Statement for Annual Meeting of Stockholders to be held on June 8, 1995, and incorporated herein by reference).
10(t)(2)	Specimen form of Contract under the Non-Employee Directors Stock Option Plan of the Company, as amended to date (filed as Exhibit 10(s)(2) to the Company's Annual Report on Form 10-K for the year ended December 27, 1996, and incorporated herein by reference).
10(u)(1)	Specimen form of the Company's current Franchise Agreement (filed as Exhibit 10(r)(1) to the Company's Annual Report on Form 10-K for the year ended January 2, 1998, and incorporated herein by reference).
10(u)(2)	Specimen form of the Company's current Development Agreement (filed as Exhibit 10(r)(2) to the Company's Annual Report on Form 10-K for the year ended January 2, 1998, and incorporated herein by reference).
10(v)(1)	Rights Agreement, dated as on November 19, 1997, by and between the Company and the Rights Agent (filed as Exhibit A to Exhibit 1 of the Company's Registration Statement on Form 8-A (No. 001-13687) and incorporated herein by reference).
10(v)(2)	Form of Certificate of Designation of the Preferred Shares under the Rights Agreement, dated as on November 19, 1997, by and between the Company and the Rights Agent (filed as Exhibit B to Exhibit 1 of the Company's Registration Statement on Form 8-A (No. 001-13687) and incorporated herein by reference).

10(v)(3)	Form of Right Certificate under the Rights Agreement, dated as on November 19, 1997, by and between the Company and the Rights Agent (filed as Exhibit C to Exhibit 1 of the Company's Registration Statement on Form 8-A (No. 001-13687) and incorporated herein by reference).
10(w)(1)	Entertainment Operating Fund Line of Credit, in the stated amount of $200,000.00, dated December 31, 1999, between International Association of CEC Entertainment, Inc. and the Company.
10(w)(2)	National Advertising Fund Line of Credit, in the stated amount of $1,200,000.00, dated December 31, 1999, between International Association of CEC Entertainment, Inc. and the Company.
10(w)(3)	National Media Fund Line of Credit, in the stated amount of $1,200,000.00, dated December 31, 1999, between International Association of CEC Entertainment, Inc. and the Company.

10(x)	Asset Purchase Agreement, dated as of June 23, 1999, by and among CEC Entertainment, Inc. and Discovery Zone, Inc., and Discovery Zone Licensing, Inc., as Sellers, and DZ Party, Inc., and Discovery Zone (Puerto Rico), Inc., as Consenting Parties (filed as Exhibit 10 (a)(2) to the Company's Quarterly Report on Form 10-Q for the quarter ended July 4, 1999, and incorporated herein by reference).
23	Independent Auditors Consent of Deloitte & Touche LLP
27	Financial Data Schedule

(b) Reports on Form 8-K:

No reports on Form 8-K were filed in the fourth quarter of 1999.

(c) Exhibits pursuant to Item 601 of Regulation S-K:

Pursuant to Item 601(b)(4) of Regulation S-K, there have been excluded from the exhibits filed pursuant to this report instruments defining the right of holders of long-term debt of the Company where the total amount of the securities authorized under each such instrument does not exceed 10% of the total assets of the Company. The Company hereby agrees to furnish a copy of any such instruments to the Commission upon request.

(d) Financial Statements excluded from the annual report to shareholders by Rule 14A - 3(b):

No financial statements are excluded from the annual report to the Company's shareholders by Rule 14a - 3(b).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 31, 1999 CEC Entertainment, Inc.

By: /s/ Richard M. Frank
Richard M. Frank
Chairman of the Board and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Richard M. Frank Chairman of the Board, Richard M. Frank	March 31, 1999 Chief Executive Officer, and Director (Principal Executive Officer)	
/s/ Michael H. Magusiak Michael H. Magusiak	President and Director	March 31, 1999
/s/ Larry G. Page Larry G. Page	Executive Vice President, Treasurer, (Principal Financial Officer and Principal Accounting Officer)	March 31, 1999
/s/ Raymond E. Wooldridge Ray Wooldridge	Director	March 31, 1999
/s/ Tim T. Morris Tim T. Morris	Director	March 31, 1999
/s/ Walter Tyree Walter Tyree	Director	March 31, 1999
/s/ Louis P. Neeb Louis P. Neeb	Director	March 31, 1999

/s/ Cynthia I. Pharr
- - ---------------------------

Cynthia I. Pharr	Director	March 31, 1999

EXHIBIT INDEX

Exhibit No.	Description	Page no.
10(w)(1)	Entertainment Operating Fund Line of Credit, in the stated amount of $200,000, dated December 31, 1999, between International Association of CEC Entertainment, Inc. and the Company.	41
10(w)(2)	National Advertising Fund Line of Credit, in the stated amount of$1,200,000.00, dated December 31, 1999, between International Association of CEC Entertainment, Inc. and the Company.	45
10(w)(3)	National Media Fund Line of Credit, in the stated amount of $1,200,000.00, dated December 31, 1999, betwen International Association of CEC Entertainment, Inc. and the Company.	49
23	Independent Auditor's Consent of Deloitte & Touche LLP	53

Exhibit 10 (w)(1)

ENTERTAINMENT OPERATING FUND LINE OF CREDIT

By this Agreement, dated as of December 31, 1999, CEC ENTERTAINMENT, INC. ("Lender") and INTERNATIONAL ASSOCIATION OF CEC ENTERTAINMENT, INC., ("Borrower") (hereinafter collectively referred to as "Parties") hereby agree as follows:

1. Revolving Commitment. Subject to the terms and conditions in this Agreement, Lender agrees to advance to Borrower from time to time amounts not to exceed Two Hundred Thousand and no/100 Dollars ($200,000.00) in the aggregate outstanding at any one time. No new advance shall be made under this Agreement after December 31, 2000. Subject to the foregoing limitations, Borrower may borrow, repay, prepay and reborrow amounts under this Agreement.

2. Note. Borrower's obligation to repay amounts borrowed under this Agreement is further evidenced by an Entertainment Operating Fund Promissory Note, (the "Note") bearing the same date as this Agreement. Payment of principal and interest, and accrual of interest, on amounts borrowed under this Agreement shall be as provided in the Note.

3. Use of Proceeds. Borrower shall use amounts borrowed under this Agreement only to purchase goods and services related to the development of entertainment software, showtapes and other entertainment research and development (collectively, the "Project"). Upon Lender's reasonable request, Borrower shall provide copies of invoices and other documents which evidence Borrower's compliance with this Section 3.

4. Records and Reports. Upon Lender's reasonable request, Borrower shall provide reports and copies of invoices, canceled checks and other business records pertaining a proposed advance, to the Project, this Agreement or the Note.

5. Condition to Loans. The obligation of Lender to make advances under this Agreement is subject to the satisfaction of each of the following conditions:

(a) No default under this Agreement, and no event which would constitute a default but for the giving of notice or the passage of time thereafter, shall have occurred and be continuing on the date of such advance;

(b) The representations and warranties of Borrower set forth in this Agreement shall be true as of the date of such advance;

(c) Lender shall have received any document or information previously requested from Borrower pursuant to this Agreement; and

(d) No material adverse change has occurred, in Lender's sole determination, in the businesses of Lender's restaurants or in the financial condition of Borrower.

6. Representation and Warranties. Borrower represents and warrants that: (a) Borrower is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Texas; (b) the execution, delivery and performance of this Agreement and the Note have been duly authorized by all necessary corporate

action; and (c) this Agreement and the Note constitute the valid and binding obligations of Borrower and are enforceable in accordance with their terms

7. Default. Borrower shall be in default under this Agreement if one or more of the following events shall have occurred and be continuing:

(a) The failure by Borrower to make any payment of principal or interest on the Note within ten (10) days after the same becomes due and payable;

(b) The failure by Borrower to perform any of its obligations, except the payment of principal and interest, arising under the Note, this Agreement or any other agreement between Borrower and Lender with in five (5) days after written notice of such failure; or

(c) The filing by or against the Borrower of a voluntary or involuntary proceeding seeking liquidation, reorganization or other relief with respect to Borrower or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official for Borrower or any substantial part of its property and, in the case of any involuntary proceeding not consented to by Borrower, such proceeding is not dismissed within sixty (60) days.

8. Remedies. The following remedies are available to Lender if Borrower is in default under this Agreement: (a) the outstanding principal and accrued interest under the Note shall mature and become automatically due and payable, without notice or demand; (b) Lender may terminate its commitment to advance monies under this Agreement; and (c) Lender may exercise any other remedies permitted by law or equity.

9. Notices. Any notice under this Agreement shall be effective upon actual receipt or upon delivery to the United States Postal Service, with first class postage, addressed as follow (or to such other address subsequently provided by the party hereto):

To Lender:

CEC Entertainment, Inc.
4441 West Airport Freeway
Irvine, Texas 75062
Attention: Counsel

To Borrower:

International Association of CEC Entertainment, Inc.
4441 West Airport Freeway
Irving, Texas 75062
Attention: Mike Hilton

10. Miscellaneous.

(a) No failure or delay by Lender in exercising any right, power or privilege under this Agreement or the Note shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any further exercise thereof or the exercise of any other right, power or privilege.

(b) The captions used in this Agreement are for convenience only and shall not be deemed to amplify, modify or limit the provisions hereof.

(c) Words of any gender used in the Agreement shall be construed to include any other gender, and words in the singular shall include the plural and vice versa, unless the context otherwise requires.

(d) This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, legal representatives, successors and assigns.

(e) This Agreement, together with the Note, contains the entire agreement of the parties hereto with respect to the subject matter hereof and can be altered, amended or modified only by written instrument executed by both parties.

(f) This Agreement may be executed in multiple copies, each of which shall be deemed an original, and all of such copies shall together constitute one and the same instrument.

(g) Time is of the essence in the performance of each obligation, covenant and condition under this Agreement.

(h) This Agreement shall be governed by the laws of the State of Texas.

11. Prior Agreements. This Agreement amends, supersedes, and replaces all previous agreements related to the Project.

IN WITNESS HEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives as of the date first appearing above.

CEC ENTERTAINMENT, INC.

By:________________________________
Name: _____________________________
Title: ____________________________

INTERNATIONAL ASSOCIATION OF CEC ENTERTAINMENT, INC.

By: _____________________________________
Michael A. Hilton
President

Exhibit 10 (w)(2)

NATIONAL ADVERTISING FUND LINE OF CREDIT

By this Agreement, dated as of December 31, 1999, CEC ENTERTAINMENT, INC. ("Lender") and INTERNATIONAL ASSOCIATION OF CEC ENTERTAINMENT, INC., ("Borrower") (hereinafter collectively referred to as "Parties") hereby agree as follows:

1. Revolving Commitment. Subject to the terms and conditions in this Agreement, Lender agrees to advance to Borrower from time to time amounts not to exceed One Million Two Hundred Thousand and no/100 Dollars ($1,200,000.00) in the aggregate outstanding at any one time. No new advance shall be made under this Agreement after December 31, 2000. Subject to the foregoing limitations, Borrower may borrow, repay, prepay and reborrow amounts under this Agreement.

2. Note. Borrower's obligation to repay amounts borrowed under this Agreement is further evidenced by an National Advertising Production Fund Promissory Note, (the "Note") bearing the same date as this Agreement. Payment of principal and interest, and accrual of interest, on amounts borrowed under this Agreement shall be as provided in the Note.

3. Use of Proceeds. Borrower shall use amounts borrowed under this Agreement only to purchase goods and services related to the production of electronic and hardcopy advertising materials (collectively, the "Project"). Upon Lender's reasonable request, Borrower shall provide copies of invoices and other documents which evidence Borrower's compliance with this Section 3.

4. Records and Reports. Upon Lender's reasonable request, Borrower shall provide reports and copies of invoices, canceled checks and other business records pertaining a proposed advance, to the Project, this Agreement or the Note.

5. Condition to Loans. The obligation of Lender to make advances under this Agreement is subject to the satisfaction of each of the following conditions:

(a) No default under this Agreement, and no event which would constitute a default but for the giving of notice or the passage of time thereafter, shall have occurred and be continuing on the date of such advance;

(b) The representations and warranties of Borrower set forth in this Agreement shall be true as of the date of such advance;

(c) Borrower pursuant to this Agreement; and

(d) No material adverse change has occurred, in Lender's sole determination, in the businesses of Lender's restaurants or in the financial condition of Borrower.

6. Representation and Warranties. Borrower represents and warrants that: (a) Borrower is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Texas; (b) the execution delivery and performance of this Agreement and the Note have been duly authorized by all necessary corporate action; and (c) this Agreement and the Note constitute the valid and binding obligations of Borrower and are enforceable in accordance with their terms.

7. Default. Borrower shall be in default under this Agreement if one or more of the following events shall have occurred and be continuing:

(a) The failure by Borrower to make any payment of principal or interest on the Note within ten (10) days after the same becomes due and payable;

(b) The failure by Borrower to perform any of its obligations, except the payment of principal and interest, arising under the Note, this Agreement or any other agreement between Borrower and Lender with in five (5) days after written notice of such failure; or

(c) The filing by or against the Borrower of a voluntary or involuntary proceeding seeking liquidation, reorganization or other relief with respect to Borrower or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official for Borrower or any substantial part of its property and, in the case of any involuntary proceeding not consented to by Borrower, such proceeding is not dismissed within sixty (60) days.

8. Remedies. The following remedies are available to Lender if Borrower is in default under this Agreement: (a) the outstanding principal and accrued interest under the Note shall mature and become automatically due and payable, without notice or demand; (b) Lender may terminate its commitment to advance monies under this Agreement; and (c) Lender may exercise any other remedies permitted by law or equity.

9. Notices. Any notice under this Agreement shall be effective upon actual receipt or upon delivery to the United States Postal Service, with first class postage, addressed as follow (or to such other address subsequently provided by the party hereto):

To Lender:

CEC Entertainment, Inc.
4441 West Airport Freeway
Irving, Texas 75062
Attention: Counsel

To Borrower:

International Association of CEC Entertainment, Inc.
4441 West Airport Freeway
Irving, Texas 75062
Attention: Mike Hilton

10. Miscellaneous.

(a) No failure or delay by Lender in exercising any right, power or privilege under this Agreement or the Note shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any further exercise thereof or the exercise of any other right, power or privilege.

(b) The captions used in this Agreement are for convenience only and shall not be deemed to amplify, modify or limit the provisions hereof.

(c) Words of any gender used in the Agreement shall be construed to include any other gender, and words in the singular shall include the plural and vice versa, unless the context otherwise requires.

(d) This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, legal representatives, successors and assigns.

(e) This Agreement, together with the Note, contains the entire agreement of the parties hereto with respect to the subject matter hereof and can be altered, amended or modified only by written instrument executed by both parties.

(f) This Agreement may be executed in multiple copies, each of which shall be deemed an original, and all of such copies shall together constitute one and the same instrument.

(g) Time is of the essence in the performance of each obligation, covenant and condition under this Agreement.

(h) This Agreement shall be governed by the laws of the State of Texas.

11. Prior Agreements. This Agreement amends, supersedes, and replaces all previous agreements related to the Project.

IN WITNESS HEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives as of the date first appearing above.

CEC ENTERTAINMENT, INC.

By: _______________________________
Name: _____________________________
Title: _____________________________

INTERNATIONAL ASSOCIATION OF
CEC ENTERTAINMENT, INC.

By: ___________________________________
Michael A. Hilton
President

Exhibit 10 (w)(3)

NATIONAL MEDIA FUND LINE OF CREDIT

By this Agreement, dated as of December 31, 1999, CEC ENTERTAINMENT, INC. ("Lender") and INTERNATIONAL ASSOCIATION OF CEC ENTERTAINMENT, INC. ("Borrower") (hereinafter collectively referred to as "Parties"), hereby agree as follows:

1. Revolving Commitment. Subject to the terms and conditions in this Agreement, Lender agrees to advance to Borrower from time to time amounts not to exceed One Million Two Hundred Thousand and no/100 Dollars ($1,200,000.00) in the aggregate outstanding at any one time. No new advance shall be made under this Agreement after December 31, 2000. Subject to the foregoing limitations, Borrower may borrow, repay, prepay and reborrow amounts under this Agreement.

2. Note. Borrower's obligation to repay amounts borrowed under this Agreement is further evidenced by an National Media Fund Promissory Note, (the "Note") bearing the same date as this Agreement. Payment of principal and interest, and accrual of interest, on amounts borrowed under this Agreement shall be as provided in the Note.

3. Use of Proceeds. Borrower shall use amounts borrowed under this Agreement only to purchase goods and services related to network media services (collectively, the "Project"). Upon Lender's reasonable request, Borrower shall provide copies of invoices and other documents which evidence Borrower's compliance with this Section 3.

4. Records and Reports. Upon Lender's reasonable request, Borrower shall provide reports and copies of invoices, canceled checks and other business records pertaining a proposed advance, to the Project, this Agreement or the Note.

5. Condition to Loans. The obligation of Lender to make advances under this Agreement is subject to the satisfaction of each of the following conditions:

(a) No default under this Agreement, and no event which would constitute a default but for the giving of notice or the passage of time thereafter, shall have occurred and be continuing on the date of such advance;

(b) The representations and warranties of Borrower set forth in this Agreement shall be true as of the date of such advance;

(c) Lender shall have received any document or information previously requested from Borrower pursuant to this Agreement; and

(d) No material adverse change has occurred, in Lender's sole determination, in the businesses of Lender's restaurants or in the financial condition of Borrower.

6. Representation and Warranties. Borrower represents and warrants that: (a) Borrower is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Texas; (b) the execution, delivery and performance of this Agreement and the Note have been duly authorized by all necessary corporate action; and (c) this Agreement and the Note constitute the valid and binding obligations of Borrower and are enforceable in accordance with their terms.

7. Default. Borrower shall be in default under this Agreement if one or more of the following events shall have occurred and be continuing:

(a) The failure by Borrower to make any payment of principal or interest on the Note within ten (10) days after the same becomes due and payable;

(b) The failure by Borrower to perform any of its obligations, except the payment of principal and interest, arising under the Note, this Agreement or any other agreement between Borrower and Lender with in five (5) days after written notice of such failure; or

(c) The filing by or against the Borrower of a voluntary or involuntary proceeding seeking liquidation, reorganization or other relief with respect to Borrower or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official for Borrower or any substantial part of its property and, in the case of any involuntary proceeding not consented to by Borrower, such proceeding is not dismissed within sixty (60) days.

8. Remedies. The following remedies are available to Lender if Borrower is in default under this Agreement: (a) the outstanding principal and accrued interest under the Note shall mature and become automatically due and payable, without notice or demand; (b) Lender may terminate its commitment to advance monies under this Agreement; and (c) Lender may exercise any other remedies permitted by law or equity.

9. Notices. Any notice under this Agreement shall be effective upon actual receipt or upon delivery to the United States Postal Service, with first class postage, addressed as follow (or to such other address subsequently provided by the party hereto):

To Lender:

CEC Entertainment, Inc.
4441 West Airport Freeway
Irving, Texas 75062
Attention: Counsel

To Borrower:

International Association of CEC Entertainment,Inc.
4441 West Airport Freeway
Irving, Texas 75062
Attention: Mike Hilton

10. Miscellaneous.

(a) No failure or delay by Lender in exercising any right, power or privilege under this Agreement or the Note shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any further exercise thereof or the exercise of any other right, power or privilege.

(b) The captions used in this Agreement are for convenience only and shall not be deemed to amplify, modify or limit the provisions hereof

(c) Words of any gender used in the Agreement shall be construed to include any other gender, and words in the singular shall include the plural and vice versa, unless the context otherwise requires.

(d) This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, legal representatives, successors and assigns.

(e) This Agreement, together with the Note, contains the entire agreement of the parties hereto with respect to the subject matter hereof and can be altered, amended or modified only by written instrument executed by both parties.

(f) This Agreement may be executed in multiple copies, each of which shall be deemed an original, and all of such copies shall together constitute one and the same instrument.

(g) Time is of the essence in the performance of each obligation, covenant and condition under this Agreement.

(h) This Agreement shall be governed by the laws of the State of Texas.

11. Prior Agreements. This Agreement amends, supersedes, and replaces all previous agreements related to the Project.

IN WITNESS HEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives as of the date first appearing above.

CEC ENTERTAINMENT, INC.

By: ______________________________
Name: ___________________________
Title: ___________________________

INTERNATIONAL ASSOCIATION OF CEC
ENTERTAINMENT, INC.

By: ______________________________
Michael A. Hilton
President

INDEPENDENT AUDITOR'S CONSENT

We consent to the incorporation by refrence in Registration Satement No. 333-41039 of CEC Entertainment, Inc. on Form S-8 of our report dated March 6, 2000, appearing in the Annual Report on Form 10-K of ShowBiz Pizza Time, Inc. for the year ended January 2, 2000.

Dallas, Texas
March 29, 2000

<ARTICLE> 5

<PERIOD-TYPE>	12-MOS
<FISCAL-YEAR-END>	JAN-02-2000
<PERIOD-END>	JAN-02-2000
<CASH>	2,731
<SECURITIES>	0
<RECEIVABLES>	6,458
<ALLOWANCES>	0
<INVENTORY>	7,895
<CURRENT-ASSETS>	35,657
<PP&E>	425,676
<DEPRECIATION>	145,052
<TOTAL-ASSETS>	325,168
<CURRENT-LIABILITIES>	42,023
<BONDS>	51,567
<COMMON>	3,379
<PREFERRED-MANDATORY>	2,348
<PREFERRED>	0
<OTHER-SE>	217,849
<TOTAL-LIABILITY-AND-EQUITY>	325,168
<SALES>	437,581
<TOTAL-REVENUES>	440,904
<CGS>	198,922
<TOTAL-COSTS>	368,578
<OTHER-EXPENSES>	0
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	2,195
<INCOME-PRETAX>	72,326
<INCOME-TAX>	27,954
<INCOME-CONTINUING>	44,372
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	44,372
<EPS-BASIC>	1.63
<EPS-DILUTED>	1.58