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 December 31, 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 (State or jurisdiction of incorporation or organization)	**48-0905805** (I.R.S. Employer Identification No.)
4441 West Airport Freeway **P.O. Box 152077** **Irving, Texas** (Address of principal executive offices)	**75015** (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 12, 2001, an aggregate of 27,806,688 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 12, 2000) held by non-affiliates of the registrant was $1,142,042,983.

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.

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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 12, 2001, 328 Chuck E. Cheese’s Pizza ® (“Chuck E. Cheese’s”) restaurants. In addition, as of March 12, 2001, franchisees of the Company operated 54 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 franchised restaurants):

	2000	1999	1998
Average annual revenues per restaurant(1)	$1,576,000	$1,531,000	$1,452,000
Number of restaurants open at end of period	324	294	271
Percent of total restaurant revenues:			
Food and beverage sales	66.8%	64.8%	66.2%
Game sales	30.4%	32.4%	30.9%
Merchandise sales	2.8%	2.8%	2.9%

(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 (254, 243 and 240 restaurants in 2000, 1999 and 1998, respectively). All fiscal years presented consisted of 52 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 2000, the Company initiated a Phase III upgrade program which generally includes a new toddler play area, skill games and rides, kiddie games and rides, sky-tube enhancements, and prize area enhancements with ticket counting machines. The Company completed Phase III upgrades in 27 restaurants in 2000 and plans to complete Phase III upgrades in approximately 100 restaurants in 2001.

The Company has expanded the customer areas of 79 existing stores since 1995, including stores with increased seating capacity due to an enhanced showroom package. In 2000, the Company expanded a total of 23 stores. The Company plans to continue its strategy of expanding the customer areas and seating capacity of selected existing restaurants in 2001. The customer area of expanded stores, other than stores with increased seating capacity due to an enhanced showroom package, is typically increased by an average of 1,000 to 4,000 square feet per store.

The Company has added 31, 24 and 22 Company-operated Chuck E. Cheese's restaurants in 2000, 1999 and 1998, respectively, including restaurants acquired from franchisees. The Company anticipates adding approximately 30 to 34 new restaurants in 2001 through a combination of new restaurants and the acquisition of existing franchise 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 a 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 12, 2001, 54 Chuck E. Cheese's restaurants were operated by a total of 35 different franchisees, as compared to 55 of such restaurants at March 13, 2000. In 1998, the Company sold franchise rights to open international franchise restaurants in the Middle East. Opportunities for further international franchise development are being reviewed by the Company.

The Chuck E. Cheese's standard franchise 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 2001.

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.

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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 12, 2001, the Company employed approximately 17,802 employees, including 17,463 in the operation of Chuck E. Cheese's restaurants and 339 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.

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Item 2. Properties

The following table sets forth certain information regarding the Chuck E. Cheese's restaurants operated by the Company as of March 12, 2001.

Domestic	**Chuck E. Cheese's**
Alabama	5
Arkansas	4
California	53
Colorado	6

Connecticut	5
Delaware	1
Florida	21
Georgia	10
Idaho	1
Illinois	18
Indiana	8
Iowa	3
Kansas	3
Kentucky	2
Louisiana	5
Maryland	10
Massachusetts	11
Michigan	14
Minnesota	5
Mississippi	1
Missouri	7
Nevada	3
Nebraska	2
New Hampshire	2
New Jersey	11
New Mexico	1
New York	12
North Carolina	4
Ohio	15
Oklahoma	3
Pennsylvania	13
Rhode Island	1
South Carolina	4
Tennessee	8
Texas	36
Virginia	10
Wisconsin	8
	326
International	
Canada	2
	328

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Of the 328 Chuck E. Cheese's restaurants owned by the Company as of March 12, 2001, 297 occupy leased premises and 31 occupy owned premises. The leases of these restaurants will expire at various times from 2001 to 2028, as described in the table below.

Year of Expiration	Number of Restaurants	Range of Renewal Options (Years)
2001	26	None to 15
2002	61	None to 15
2003	63	None to 20
2004 and thereafter	147	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.

On June 2, 2000, a purported class action lawsuit against the Company, entitled Freddy Gavarrete, et al. v. CEC Entertainment, Inc., dba Chuck E. Cheese's, et. al., Cause No. 00-08132 FMC (RZx)("Gavarrete"), was filed in the Superior Court of the State of California in the County of Los Angeles. On July 27, 2000, the lawsuit was removed to the United States District Court for the Central District of California. The lawsuit was filed by one former restaurant manager purporting to represent restaurant managers of the Company in California from 1996 to the present. No class of plaintiffs has been certified in this lawsuit. The lawsuit alleges violations of the state wage and hour laws involving unpaid overtime wages and seeks an unspecified amount in damages. The Company believes the lawsuit is without merit and intends to vigorously defend it.

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 2000.

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PART II

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

As of March 12, 2001, there were an aggregate of 27,806,688 shares of the Company's Common Stock outstanding and approximately 2,451 stockholders of record.

The Company's Common Stock is listed on the New York Stock Exchange under the symbol "CEC". 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:

	High	Low
2000		
- 1st quarter	$28 13/16	$19 1/2
- 2nd quarter	31 3/16	22 3/8
- 3rd quarter	32 1/4	25 1/4
- 4th quarter	36	29 5/16
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

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 December 31, 2000 in the amount of $1.20 per share will be paid on April 2, 2001.

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.

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Item 6. Selected Financial Data.

	2000	1999	1998	1997	1996
		(Thousands, except per share and store data)			
Operating results(1):					
Revenues	$506,111	$ 440,904	$379,427	$350,267	$293,990
Costs and expenses	415,377	368,578	324,395	307,558	271,769
Income before income taxes	90,734	72,326	55,032	42,709	22,221
Income taxes:					
Current expense	30,267	24,807	9,160	3,417	2,855
Deferred expense	5,112	3,147	12,142	13,795	6,145
	35,379	27,954	21,302	17,212	9,000
Net income	$ 55,355	$ 44,372	$ 33,730	$ 25,497	$ 13,221
Per Share(2):					
Basic:					
Net income	$ 2.04	$ 1.63	$ 1.23	$ .91	$ .47
Weighted average shares outstanding	26,999	27,004	27,093	27,603	27,309
Diluted:					

Net income	$ 1.98	$ 1.58	$ 1.20	$ .89	$ .47
Weighted average shares outstanding	27,839	27,922	27,810	28,226	27,716
Cash flow data:					
Cash provided by operations	$ 94,085	$ 78,528	$ 68,614	$ 69,478	$ 48,362
Cash used in investing activities	(85,933)	(100,344)	(65,622)	(43,805)	(51,868)
Cash provided by (used in) financing activities	(3,583)	21,337	(7,057)	(21,800)	1,319
Balance sheet data:					
Total assets	$389,375	$ 325,168	$252,228	$226,368	$216,580
Long-term obligations (including current portion and redeemable preferred stock)	57,288	63,369	31,911	30,713	39,571
Shareholders' equity	282,272	221,228	183,949	155,938	141,476
Number of restaurants at year end:					
Company operated	324	294	271	249	244
Franchise	55	55	54	63	70
	379	349	325	312	314

(1) Fiscal year 1997 was 53 weeks in length while all other fiscal years presented were 52 weeks in length.
(2) No cash dividends on common stock were paid in any of the years presented.

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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.

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

2000 Compared to 1999

Revenues

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

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

Costs and Expenses

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

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

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

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

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

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

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

Net Income

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

1999 Compared to 1998

Revenues

Revenues increased 16.2% to $440.9 million in 1999 from $379.4 million in 1998 primarily due to an increase of 5.7% in sales of the Company's Chuck E. Cheese's restaurants which were open during all of 1999 and 1998 ("comparable store sales"). In addition, the Company opened 23 new restaurants and purchased one restaurant from a franchisee in 1999. Average annual revenues per restaurant increased to approximately $1,531,000 in 1999 from approximately $1,452,000 in 1998. Management believes that several factors contributed to the comparable store sales increase with the primary factor being sales increases at Phase II upgraded restaurants. Menu prices increased .4% between the two years.

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

Costs and Expenses

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

Cost of sales as a percentage of revenues decreased to 45.1% in 1999 from 45.9% in 1998. Cost of food, beverage, prize and merchandise items as a percentage of revenues decreased to 15.1% in 1999 from 15.8% in 1998 primarily due to an increase in game sales and reduced costs of certain food and beverage products, including cheese costs, and an increase in menu prices. Restaurant labor expenses as a percentage of revenues remained constant at 26.8% in both 1999 and 1998.

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

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

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

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

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

Net Income

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

Inflation

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

Financial Condition, Liquidity and Capital Resources

Cash provided by operations increased to $94.1 million in 2000 from $78.5 million in 1999. Cash outflow from investing activities for 2000 was $85.9 million primarily related to capital expenditures. Cash outflow from financing activities in 2000 was $3.6 million. The Company's primary requirements for cash relate to planned capital expenditures, the repurchase of the Company's common stock and debt service. The Company expects that it will satisfy such requirements from cash provided by operations and, if necessary, funds available under its line of credit.

In 2001, the Company plans to add 30 to 34 stores including new stores and acquisition of existing stores from franchisees. The Company currently anticipates its cost of opening new stores to average approximately $1.8 million per store which will vary depending upon many factors including the size of the store and whether the store is an in-line or free-standing building. In addition to such new store openings, the Company plans to expand the seating capacity of 10 to 15 high sales volume stores in 2001 including stores which will receive an enhanced showroom package. The Company also plans to complete Phase III upgrades in approximately 100 stores this year at an average cost of approximately $210,000 to $225,000 per store. A Phase III upgrade generally includes a new toddler play area, skill games and rides, kiddie games and rides, sky-tube enhancements, and prize area enhancement with ticket counting machines. During 2000, the Company opened 31 new restaurants, expanded the customer area of 23 restaurants and completed Phase III upgrades in 27 restaurants. The Company currently estimates that capital expenditures in 2001, including expenditures for new store openings, existing store expansions and equipment investments, will be approximately $104 million. The Company plans to finance these expenditures through cash flow from operations and, if necessary, borrowings under the Company's line of credit.

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

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

Certain statements in this report, other than historical information, may be considered forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, and is subject to various risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or

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should underlying assumptions prove incorrect, actual results may differ from those anticipated, estimated or expected. Among the key factors that may have a direct bearing on the Company's operating results, performance or financial condition are its ability to implement its growth strategies, national, regional and local economic conditions affecting the restaurant/entertainment industry, competition within each of the restaurant and entertainment industries, success of its franchise operations, negative publicity, fluctuations in quarterly results of operations, including seasonality and government regulations.

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.

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Item 8. Financial Statements and Supplementary Data

CEC ENTERTAINMENT, INC.
YEARS ENDED DECEMBER 31, 2000, JANUARY 2, 2000
AND JANUARY 3, 1999

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of CEC Entertainment, Inc. and subsidiaries as of December 31, 2000 and January 2, 2000, and the related consolidated statements of earnings and comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of CEC Entertainment, Inc. and subsidiaries as of December 31, 2000 and January 2, 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

Dallas, Texas
February 16, 2001

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CEC ENTERTAINMENT, INC.

CONSOLIDATED BALANCE SHEETS
(Thousands, except share data)

	December 31, 2000	January 2, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,300	$ 2,731
Accounts receivable	12,778	6,458
Inventories	8,436	7,895
Prepaid expenses	4,419	4,727
Deferred tax asset	1,205	776
Assets held for resale	4,211	13,070
Total current assets	38,349	35,657
Property and equipment, net	338,408	280,624
Notes receivable from related parties	1,526	491
Other assets	11,092	8,396
	$ 389,375	$ 325,168
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 6,102	$ 7,729
Accounts payable and accrued liabilities	38,616	34,294
Total current liabilities	44,718	42,023

Long-term debt, less current portion	47,030	51,567
Deferred rent	3,491	4,110
Deferred tax liability	7,708	2,167
Other liabilities	1,725	1,725
Commitments and contingencies		
Redeemable preferred stock, $60 par value, redeemable for $2,888 in 2005	2,431	2,348
Shareholders' equity:		
Common stock, $.10 par value; authorized 100,000,000 shares; 34,585,454 and 33,791,217 shares issued, respectively	3,459	3,379
Capital in excess of par value	177,828	166,594
Retained earnings	175,217	120,194
Deferred compensation		(759)
Accumulated other comprehensive income (loss)	(30)	42
Less treasury shares of 7,039,506 and 6,777,614, respectively, at cost	(74,202)	(68,222)
	282,272	221,228
	$ 389,375	$ 325,168

See notes to consolidated financial statements.

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CEC ENTERTAINMENT, INC.

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME (Thousands, except per share data)

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

Comprehensive income	$ 55,283	$ 44,408	$ 33,736
Earnings per share:			
Basic:			
Net income	$ 2.04	$ 1.63	$ 1.23
Weighted average shares outstanding	26,999	27,004	27,093
Diluted:			
Net income	$ 1.98	$ 1.58	$ 1.20
Weighted average shares outstanding	27,839	27,922	27,810

See notes to consolidated financial statements.

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CEC ENTERTAINMENT, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Thousands, except per share data)

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

Total shareholders' equity	$282,272	$221,228	$183,949

See notes to consolidated financial statements.

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CEC ENTERTAINMENT, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands)

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

See notes to consolidated financial statements.

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CEC ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies:

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

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

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

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

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

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

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

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

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

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

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

Stock-based compensation: As permitted by Statement of Financial Accounting Standards No. 123 ("SFAS 123") "Accounting for Stock-Based Compensation," the Company applies the recognition and measurement provisions of Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees" and has disclosed the proforma effects of SFAS 123 (Note 16).

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1. Summary of significant accounting policies (continued):

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

2. Accounts receivable:

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

3. Notes receivable:

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

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

4. Assets held for resale:

In July 1999, the Company acquired for approximately $19 million in cash, 13 owned properties, the rights to seven leased properties, two parcels of undeveloped real estate, and all furniture, fixtures, equipment and intellectual properties owned by Discovery Zone, Inc. The Company has converted 10 of the acquired properties to Chuck E. Cheese’s restaurants and plans to sell substantially all of the remaining properties, furniture, fixtures and equipment. The final allocation of the purchase price was approximately $7.9 million to property and equipment and $11.1 million to assets held for resale. At December 31, 2000, the remaining assets held for resale total $4.2 million which relate to seven properties recorded at the lower of cost or fair value less estimated selling costs.

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5. Property and equipment:

	2000	1999
	(thousands)	
Land	$ 18,859	$ 13,752
Leasehold improvements	213,447	186,067
Buildings	16,397	12,689
Furniture, fixtures and equipment	236,435	198,900
Property leased under capital leases (Note 8)	449	449
Construction in progress	15,419	13,819

	501,006	425,676
Less accumulated depreciation and amortization	(162,598)	(145,052)
	$ 338,408	$ 280,624

6. Accounts payable and accrued liabilities:

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

7. Long-term debt:

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

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7. Long-term debt (continued):

In 2000, the Company entered into a bank agreement that increased its revolving line of credit facility to a maximum borrowing of $75 million from $55 million and extended the maturity date to 2003 from 2001. As of December 31, 2000, the Company's total credit facilities of $81 million consist of a $75 million line of credit and $6 million in term notes. Interest under the line of credit is payable quarterly at rates which are dependent on earnings and debt levels of the Company. Currently, any borrowings under this line of credit would be at prime (9.50% at December 31, 2000) or, at the Company's option, LIBOR (6.4% at December 31, 2000) plus 1%. At December 31, 2000, there was $46.4 million outstanding under the line of credit. A 3/8% commitment fee is payable on any unused credit line. Interest on the term notes is payable quarterly. The Company is required to comply with certain financial ratio tests during the terms of the loan agreements. The weighted average interest rate on long-term debt was 8.2% and 8.44% in 2000 and 1999, respectively. The Company recognized capitalized interest costs of $670,000, $747,000 and $35,000 in 2000, 1999 and 1998, respectively.

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

Years	Amount

2001	$ 6,000
2003	46,400
	$52,400

8. Commitments and contingencies:

The Company leases certain restaurants and related property and equipment under operating and capital leases. All leases require the Company to pay property taxes, insurance and maintenance of the leased assets. The leases generally have initial terms of 10 to 30 years with various renewal options.

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

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

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8. Commitments and contingencies (continued):

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

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

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

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

9. Redeemable preferred stock:

As of December 31, 2000 and January 2, 2000, the Company had 48,130 and 48,510 shares, respectively, of its redeemable preferred stock authorized and outstanding. The stock pays dividends at $4.80 per year, subject to a minimum cash flow test. As of December 31, 2000, one quarterly dividend, totaling $57,756 or $1.20 per share, was accrued but not yet paid. The redeemable preferred stock has been recorded at the net present value of the redemption price and is being accreted on the straight-line basis. The Company's restated articles of incorporation provide for the redemption of such shares at $60 per share in 2005. During the continuation of any event of default by the Company, the preferred shareholders will be able to elect a majority of the directors of the Company. In 2000, the Company reacquired 380 shares of its redeemable preferred stock.

10. Franchise fees and royalties:

At December 31, 2000, 55 Chuck E. Cheese's restaurants were operated by a total of 35 different franchisees. The standard franchise agreements grant to the franchisee the right to develop and operate a restaurant and use the associated trade names, trademarks and service marks within the standards and guidelines established by the Company. Initial franchise fees included in revenues were $253,000, $355,000 and $260,000 in 2000, 1999 and 1998, respectively.

11. Cost of sales:

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

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12. Income taxes:

The significant components of income tax expense are as follows:

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

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

	2000	1999
	(thousands)	
Current deferred tax asset:		

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

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

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

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13. Earnings per common share:

Basic earnings per common share (“EPS”) is computed by dividing earnings applicable to common shares by the weighted average number of common shares outstanding. Diluted EPS adjusts for the effect of potential common shares from dilutive stock options and stock grants using the treasury stock method. Net income applicable per common share has been adjusted for redeemable preferred stock accretion and dividends. Earnings per common and potential common shares were computed as follows (thousands, except per share data):

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

14. Fair value of financial instruments:

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

15. Supplemental cash flow information:

	2000	1999	1998
		(thousands)	
Cash paid during the year for:			
Interest	$ 3,550	$ 2,099	$2,681
Income taxes	32,824	24,511	9,924
Supplemental schedule of noncash investing and financing activities:			
Notes and accounts receivable canceled in connection with the acquisition of property and equipment			834
Investment canceled in connection with the acquisition of property and equipment			668

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16. Employee benefit plans:

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

The Company's common stock which could be issued under its initial employee stock option plan was 4,158,057 shares. Any shares granted under this plan had to be granted before December 31, 1998. In 1997, the Company adopted a new employee stock option plan under which an additional 3,087,500 shares may be granted before July 31, 2007. The exercise price for options granted under both plans may not be less than the fair market value of the Company's common stock at date of grant. Options may not be exercised until the employee has been continuously employed at least one year after the date of grant. Options which expire or terminate may be re-granted under the plan.

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

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

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

Options outstanding at December 31, 2000:

Options Outstanding	Options Exercisable

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

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16. Employee benefit plans (continued):

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

The number of shares of the Company’s common stock which may have been awarded to senior executives of the Company under the Stock Grant Plan was 2,577,956 shares. No further shares may be awarded under this plan after December 1998. No grants were awarded in 2000, 1999 or 1998. Compensation expense recognized by the Company pursuant to this plan for grants made in 1997 was $759,000, $761,000 and $760,000 per year in 2000, 1999 and 1998, respectively. All shares vest over periods ranging from 3 years to 6 years and are subject to forfeiture upon termination of the participant’s employment by the Company. The shares are nontransferable during the vesting periods. The deferred compensation is amortized over the compensated periods of service of three years.

All stock options are granted at no less than fair market value of the common stock at the grant date. The Company applies the provisions of APB Opinion 25 and related interpretations in accounting for its employee benefit plans. Accordingly, no compensation cost has been recognized for its stock option plans. Had compensation cost for the Company’s stock option plans been determined based on the fair value at the grant date for awards under those plans consistent with the method prescribed by SFAS 123, the Company’s proforma net income would have been $52.5 million, $41.9 million and $31.6 million in 2000, 1999 and 1998, respectively. Proforma diluted earnings per share would have been $1.88, $1.50 and $1.14 per share in 2000, 1999 and 1998, respectively.

The Company has adopted the CEC 401(k) Retirement and Savings Plan, to which it may at its discretion make an annual contribution out of its current or accumulated earnings. Contributions by the Company may be made in the form of its common stock or in cash. The Company made contributions of approximately $155,000 and $142,000 in common stock for the 1999 and 1998 plan years, respectively. The Company plans to contribute $175,000 in common stock for the 2000 plan year.

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17. Quarterly results of operations (unaudited):

The following summarizes the unaudited quarterly results of operations for the years ended December 31, 2000 and January 2, 2000 (thousands, except per share data).

	Fiscal year ended December 31, 2000			
	April 2	July 2	Oct. 1	Dec. 31
Revenues	$141,347	$119,033	$130,301	$115,430
Income before income taxes	30,626	19,773	24,929	15,406
Net income	18,744	12,101	15,257	9,253
Earnings Per Share:				
Basic	$ .69	$ .45	$ .56	$ .34
Diluted	.68	.44	.55	.33

	Fiscal year ended January 2, 2000			
	April 4	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

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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 2001 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 shall be included in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A in connection with the Company's 2001 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 2001 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 2001 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 December 31, 2000 and January 2, 2000.

Consolidated statements of earnings and comprehensive income for the years ended December 31, 2000, January 2, 2000, and January 3, 1999.

Consolidated statements of shareholders' equity for the years ended December 31, 2000, January 2, 2000, and January 3, 1999.

Consolidated statements of cash flows for the years ended December 31, 2000, January 2, 2000, and January 3, 1999.

Notes to consolidated financial statements.

(2) Exhibits:

Number	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)	2001 Employment Agreement dated November 13, 2000, between the Company and Richard M. Frank.
10(b)	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(c)	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(d)	Credit Agreement, in the stated amount of $75,000,000.00, dated July 14, 2000, between the Company, Bank One, Texas, National Association, Suntrust Bank, and the Lenders Party.
10(e)(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).

Number	Description
10(e)(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(f)(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(f)(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(g)(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(g)(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(h)(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(h)(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(i)	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).
23	Independent Auditors Consent of Deloitte & Touche LLP

(b) Reports on Form 8-K:

No reports on Form 8-K were filed in the fourth quarter of 2000.

(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).

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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 30, 2001

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 Richard M. Frank	Chairman of the Board, Chief Executive Officer, and Director (Principal Executive Officer)	March 30, 2001
/s/ Michael H. Magusiak Michael H. Magusiak	President and Director	March 30, 2001
/s/ Rodney Carter Rodney Carter	Executive Vice President, Chief Financial Officer and Treasurer, (Principal Financial Officer and Principal Accounting Officer)	March 30, 2001

/s/ Richard T. Huston Richard T. Huston	Director	March 30, 2001
/s/ Tim T. Morris Tim T. Morris	Director	March 30, 2001
/s/ Louis P. Neeb Louis P. Neeb	Director	March 30, 2001
/s/ Cynthia I. Pharr Cynthia I. Pharr	Director	March 30, 2001
/s/ Walter Tyree Walter Tyree	Director	March 30, 2001
/s/ Raymond E. Wooldridge Raymond E. Wooldridge	Director	March 30, 2001

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EXHIBIT INDEX

Exhibit Number	Description	Page No.
10(a)	2001 Employment Agreement dated November 13, 2000, between the Company and Richard M. Frank.	35
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EXHIBIT 10(a)

2001 EMPLOYMENT AGREEMENT

This 2001 Employment Agreement (the "Agreement") is executed as of the 13th day of November, 2000, by and between RICHARD M. FRANK ("Employee") and CEC ENTERTAINMENT, INC.., a Kansas corporation ("Company").

RECITALS:

WHEREAS, the Employee and the Company have heretofore entered into an agreement whereby Employee is employed by the Company as Chief Executive Officer pursuant to certain terms and conditions; and

WHEREAS, the Board of Directors of the Company (the "Board of Directors") has offered Employee continued employment in consideration for the compensation and the other benefits hereinafter set forth, and Employee is willing to continue in the employ of the Company on these terms;

NOW, THEREFORE, in consideration of the mutual promises hereinafter contained and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, it is agreed:

1. Current Employment Agreement. The Company and Employee heretofore entered into an employment agreement dated March 3, 1997 (the "Current Employment Agreement"). The term of the Current Employment Agreement expires on the last day of the fiscal year of the Company ending on or about December 31, 2000. Company and Employee hereby agree and affirm that the Current Employment Agreement is and shall be in full force and effect through the last day of the fiscal year of the Company ending on or about December 31, 2000.

2. Term. Following the expiration of the Current Employment Agreement, the Company employs Employee and Employee accepts employment from the Company upon the terms and conditions specified in this Agreement. Subject to the provisions regarding termination set forth in Sections 15 and 16 hereof, the term of this Agreement shall begin as of January 1, 2001 (the "Effective Date") and shall terminate on the last day of the fiscal year of the Company ending on or about December 31, 2005 (the "Term").

3. Basic Salary. For services rendered by Employee under this Agreement, the Company shall pay Employee the "Basic Salary," provided for in this Section 3, as follows:

(1) During the Term of Employee's employment under this Agreement, the Employee shall receive as minimum Basic Salary the amount of One Million Dollars ($1,000,000.00) per year. The Basic Salary may be increased in such amounts and on such dates as the Compensation Committee of the Board of Directors may determine from time to time.

(2) The Basic Salary provided for in this Section 3 shall be in addition to any other compensation and/or benefits provided to Employee (i) pursuant to this Agreement or (ii) otherwise at the discretion of the Board of Directors, including, but not limited to, the annual bonus opportunity available to home office employees and officers of the Company at a level

commensurate with his position as Chief Executive Officer.

4. Stock Options. Employee has received from the Company on March 7, 2000 options (the "Stock Options") to purchase two hundred fifty thousand (250,000) shares of the Company's Common Stock, par value $ .10 per share (Common Stock) pursuant to the Company's 1997 Non-Statutory Stock Option Plan. Of the Stock Options granted as described in this Section 4, twenty percent (20%) shall vest on March 7, 2001, forty percent (40%) shall vest on March 7, 2002, sixty percent (60%) shall vest on March 7, 2003,eighty percent (80%) shall vest on March 7, 2004 and one hundred percent (100%) shall vest on March 7, 2005.

5. Severance Pay. If the Company terminates the employment of Employee at any time (other than pursuant to Section 16 hereof), or if a "Change of Control" occurs with respect to the Company and Employee voluntarily terminates his employment with the Company within one year after such a Change of Control, the Company shall be required to pay Employee severance pay in the amount of Three Million Dollars ($3,000,000.00). Such severance pay shall be payable to Employee by the Company in cash on or before the tenth (10th) day after theTermination Date, as defined in Section 15.

For purposes of this Section 5, a "Change of Control" shall be deemed to have occurred with respect to the Company if: (a) any person or group of persons acting in concert, in which person or group of persons the Employee is not an investor, partner, officer, director or member, shall acquire, directly or indirectly, the power to vote, or direct the voting of, more than thirty-three percent (33%) of the then outstanding voting securities of the Company; or (b) during any consecutive eighteen (18) month period a majority of the Company's Board of Directors is elected or appointed and consists of persons who are not directors of the Company as of the Effective Date, and whose election or appointment as directors of the Company was actively opposed by Employee, as evidenced by Employee's vote (in his capacity or capacities, if any, as a director and/or stockholder of the Company) against their election of appointment and by written notice of his opposition to their election or appointment given by Employee to the current directors of the Company not more than five (5) business days following their respective election or appointment; provided, however, that in no event shall a change in composition of the Company's Board of Directors pursuant to an election of Board of Directors members pursuant to Section 4.6 of the Company's Articles of Incorporation, as amended through the date of this Agreement, constitute or result in a "Change of Control" for purposes of this Section 5.

6. Additional Payments.

(a) In the event that any payment or benefit (within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code")), to the Employee or for his benefit paid or payable or distributed or distributable (at any time or from time to time) pursuant to the terms of this Agreement or otherwise in connection with, or arising out of, his employment with the Company or a change in ownership or effective control of the Company or of a substantial portion of its assets (a "Payment" or "Payments"), would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Employee with respect to such excise tax (such excise tax, together with any such interest and penalties, being hereinafter collectively referred to as the "Excise Tax"), then the Employee will be entitled to receive an additional payment or payments, as the case may be (referred to individually or collectively as a "Gross-Up Payment") in an amount such that after payment by the Employee of all taxes (including any interest or penalties imposed with respect to such taxes and the Excise Tax, other than interest and penalties imposed by reason of the Employee's failure to file timely a tax return or pay taxes shown due on his return), including any Excise Tax imposed upon the Gross-Up Payment, the Employee retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) An initial determination as to whether a Gross-Up Payment is required pursuant to this Agreement and the amount of such Gross-Up

Payment shall be made at the Company's expense by an accounting firm selected by the Company and reasonably acceptable to the Employee which is designated as one of the largest national accounting firms in the United States (the "Accounting Firm"). The Accounting Firm shall provide its determination (the "Determination"), together with detailed supporting calculations and documentation to the Company and the Employee within ten (10) days of the Termination Date, as defined in Section 15, or such other time as requested by the Company or by the Employee (provided the Employee reasonably believes that any of the Payments may be subject to the Excise Tax) and if the Accounting Firm determines that no Excise Tax is payable by the Employee with respect to a Payment or Payments, it shall furnish the Employee with an opinion reasonably acceptable to the Employee that he has substantial authority not to report any Excise Tax on his federal tax return with respect to any such Payment or Payments. Within ten (10) days of the delivery of

the Determination to the Employee, the Employee shall have the right to dispute the Determination. The Gross-Up Payment, if any, as determined pursuant to this Section 6(b) shall be paid by the Company to the Employee within five (5) days of the receipt of the Determination. The existence of the dispute shall not in any way affect the Employee's right to receive the Gross-Up Payment in accordance with the Determination. Upon the final resolution of a dispute, the Company shall promptly pay to the Employee any additional amount required by such resolution. If there is no dispute, the Determination shall be binding, final and conclusive upon the Company and the Employee.

(c) The Employee shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten (10) business days after the Employee knows of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Employee shall not pay such claim prior to the expiration of the thirty (30) day period following the date on which he gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Employee in writing prior to the expiration of such period that it desires to contest such claim, the Employee shall:

(i) give the Company any information reasonably requested by the Company relating to such claim,

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company.

(iii) cooperate with the Company in good faith in order to effectively contest such claim, and

(iv) permit the Company to participate in any proceedings relating to such claim, provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Employee harmless, on an after-tax basis, for any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such representation and payment of costs and expenses. Without limitation of the foregoing provisions of this Section 6(c), the Company shall control all proceeding taken in connection with such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Employee to pay the tax claimed and sue for a refund, or contest the claim in any permissible manner, and the Employee agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Employee to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Employee, on an interest-free basis and shall indemnify and hold the Employee harmless, on an after-tax basis, from any Excise Tax or income tax, including interest or penalties with respect thereto, imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Employee with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Employee shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Employee of an amount advanced by the Company pursuant to Section 6(c), the Employee becomes entitled to receive any refund with respect to such claim, the Employee shall (subject to the Company's complying with the requirements of Section 6(c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Employee of an amount advanced by the Company pursuant to Section 6(c), a determination is made that the Employee shall not be entitled to any refund with respect to such claim and the Company does not notify the Employee in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

7. Expenses. Subject to the rules and procedures the Company may specify from time to time, the Company shall reimburse Employee for all reasonable expenses incurred by Employee on behalf of the Company.

8. Automobile. Employer shall pay to Employee the sum of One Thousand Three Hundred Dollars ($1,300.00) per month (subject to adjustment from time to time in direct proportion to generally applicable adjustment by the Company to its automobile allowances) to reimburse Employee for the use of Employee's automobile in the performance of his duties under this Agreement, and the Company shall further pay directly or by reimbursement to Employee (as the Company and Employee may from time to time agree) the premiums upon a policy of collision and liability insurance covering such automobile. All other costs and expenses incurred in the operation and maintenance of Employee's automobile, including but not limited to the cost of all fuel, oil, maintenance and repairs, shall be paid solely by Employee.

9. Duties of Employee. In accepting continued employment by the Company, Employee agrees to undertake and assume the responsibility, subject to the general direction and control of the Board of Directors, of performing for and on behalf of the Company the duties of Chairman of the Board of Directors and Chief Executive Officer of the company, including formulation of the policies and administration of the Company's affairs, and such other duties as are normally associated with and inherent in such capacity. Employee shall have authority to hire the staff necessary to accomplish the Company's goals. In addition, if requested, Employee shall serve as an officer and/or director of any affiliates of the Company without additional compensation.

10. Exclusive Service. Employee shall devote substantially his full

time and attention to rendering services to the Company and in furtherance of the Company's best interests, provided that Employee may make and manage his personal passive investments. During the Term of this Agreement, other than as an officer and/or director of an affiliate of the Company, Employee shall not be employed by any other person or engage in any other business or occupation; provided that Employee may engage in the business of making and managing his personal passive investments.

11. Health and Disability Insurance. The Company shall provide Employee and his family with health, medical, hospitalization and dental insurance coverage and/or cost reimbursement benefits which provide for 100% of such costs and expenses to be paid on behalf of and/or reimbursed to Employee and his family, whether through existing insurance and/or reimbursement plans covering the Company's employees or through special plans relating specifically to Employee, or a combination thereof. For purposes of this Section 11, the Employee's family shall include his spouse and children. The Company shall also provide disability insurance coverage to Employee under any Company plan(s) for such coverage as in effect from time to time for that category or class of the Company's employees which includes the Company's senior executive officers, provided that if necessary to provide Employee with monthly disability income benefits of at least fifty percent (50%) of Employee's Basic Salary in the event of Employee's permanent disability, the Company shall adopt a special plan relating specifically to Employee which results in Employee having coverage providing total disability income benefits of at least 50% of Employee's Basic Salary.

12. Continuation of Health Benefit Coverage. Upon the termination of Employee's employment for any reason, including a termination due to the expiration of the Term of this Agreement or any renewal thereof; the Company shall provide Employee and his family the health, medical, hospitalization and dental insurance coverage and/or cost reimbursement benefits set forth in Section 11 hereof, for a period not to exceed the earlier of (i) five (5) years or (ii) the date on which Employee and his family become covered under a policy or plan paid for by a new employer of Employee providing substantially similar coverage and benefits. In the event Employee's employment terminates and this Section 12 becomes effective, and thereafter Employee dies while the benefits provided herein are still in effect, such benefits shall continue for Employee's family until five (5) years have passed following his termination of employment. The benefits set forth under this Section 12 shall be provided in addition to any other payments, benefits or compensation, if any, to which Employee, his estate of his designated beneficiary is entitled due to his termination of employment as set forth in this Agreement.

13. Life Insurance. The Company shall maintain and pay the premiums on one or more life insurance policies on Employee's life, which may include insurance on Employee's life under any group term life insurance plan maintained from time to time by the Company for its employees. The aggregate face amount(s) of such policy or policies shall be at least Five Hundred Thousand Dollars ($500,000.00).

Any policy of insurance or certificate of insurance under a group term policy maintained by the Company under this Section 13 shall be owned by the Company, and the Employee (or his assignee) shall have the sole right to designate the beneficiary or beneficiaries of the proceeds payable thereunder upon the death of the Employee.

14. Vacation and Days Off. Employee may take reasonable vacations and days off agreeable to the Company and Employee; provided, however, that Employee shall be entitled to at least five (5) weeks of paid vacation per year, which Employee may use at any time during each year, and to the extent not used, during a subsequent year.

15. Termination After Notice. Either Employee or the Company may terminate the employment of Employee at any time during the Term of this Agreement or any renewal thereof upon at least ninety (90) days' prior written notice. In the event of such termination, the Company shall pay to Employee the severance pay provided for under Section 5 hereof, if applicable, together with all other compensation that would otherwise have been payable to Employee, as

provided in Section 17 hereof, and for the purposes of said Section 17, the "Termination Date" shall be the effective date of termination set forth in the ninety (90) days prior written notice referred to in the preceding sentence.

16. Termination Upon Death or Disability.

(a) Upon the termination of Employee's employment due to the death of Employee, the Company shall pay to the estate of Employee certain compensation that would otherwise have been payable to Employee, as provided in Section 17 hereof, and for the purposes of said section, the "Termination Date" shall be the date of Employee's death. If events had occurred prior to Employee's death entitling him to payments under Section 17 but the payments had not yet been made, such payments shall be made to his estate. If Employee dies during the Term of this Agreement and all of the Stock Options listed in Section 4, as well as any other stock options issued to Employee by the Company that are not listed in Section 4 (such other stock options being defined as "Stock Options" for purposes of this Section 16(a)), are not vested at the time of his death, then all such Stock Options that have been outstanding for at least one year shall become immediately vested at Employee's death and shall be exercisable only by the representative of his estate pursuant to the terms of his respective Stock Option agreements or certificates.

(b) (i) During any period of disability, illness or incapacity during the Term of this Agreement, which renders Employee temporarily unable to perform the services required under this Agreement, Employee shall continue to receive the compensation payable under this Agreement. Employee's employment under this Agreement may be terminated as provided below upon Employee's permanent disability (as defined below).

(ii) Employee shall be deemed to have suffered "permanent disability" if Employee is unable by reason of any medically determined physical or mental impairment to perform the duties required of him under this Agreement for a period of one hundred eighty (180) consecutive days in any twelve-month period. Periods of disability arising from unrelated causes shall not be combined. Upon a determination of permanent disability, the Board of Directors may terminate Employee's employment upon thirty (30) days' prior written notice. In the event of such termination, the Company shall pay to Employee certain compensation that would otherwise have been payable to Employee, as provided in Section 17, and for the purposes of said Section, the "Termination Date" shall be the effective date of termination following the Company's notice under the preceding sentence.

17. Payments Due Upon Termination of Employee's Employment. In the event of termination of Employee's employment under this Agreement pursuant to Sections 15 or 16 hereof, the Company shall pay Employee or his estate, as the case may be, the following payments or other items of compensation, for which purpose the "Termination Date" shall be the Termination Date specified in Sections 15 or 16 hereof, whichever is applicable:

(a) Basic Salary that would otherwise have been payable to Employee under Section 3(a) hereof through the Termination Date;

(b) all payments, if any, payable pursuant to Section 5 hereof.

18. Waiver of Breach. The waiver by the Company of a breach of any of the provisions of this Agreement by Employee shall not be construed as a waiver of any subsequent breach of Employee.

19. Binding Effect: Assignment. The rights and obligations of the Company under this Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of the Company, whether by reason of merger,

consolidation, acquisition or other business combination, or otherwise. This Agreement is a personal employment contract that may not be sold, assigned, transferred or pledged as collateral by the Employee.

20. Invalid Provisions. It is understood and agreed that in the event any paragraph, provision or clause of this Agreement or any combination thereof is found to be unenforceable at law, in equity, or under any presently existing or hereafter enacted legislation, regulation or order of the United States, any state of subdivision thereof or any municipality, those findings shall not in any way affect the other paragraphs, provisions or clauses in this Agreement, which shall continue in full force and effect.

21. Performance. This Agreement shall be performed in Dallas County, Texas.

22. Governing Law. This Agreement shall be construed and enforced in accordance with the laws of the State of Texas.

23. Entire Agreement. This Agreement contains the entire agreement of the parties and supersedes all prior agreements and understandings, oral or written, with respect to the subject matter hereof, except to the extent that provisions of the Current Employment Agreement are expressly stated herein to be effective. This Agreement may be changed only by an agreement in writing signed by the party against whom any waiver, change, amendment, modification or discharge is sought.

24. Headings. The headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

25. Notice. Any notice required or permitted to be given under this Agreement to the Company shall be sufficient if in writing and if sent by certified or registered mail, first class, return receipt requested, to the registered office of the Company. Any notice required or permitted to be given under this Agreement to Employee shall be sufficient if in writing and if sent by certified or registered mail, first class, return receipt requested to Employee at his last known address. Employee shall be solely responsible for notifying the Company of his address on the date of this Agreement and all subsequent changes of address.

26. Gender. When the context in which words are used in this Agreement indicate that such is the intent, words in the singular number shall include the plural and vice versa and words in the masculine gender shall include the feminine and neuter genders and vice versa.

IN WITNESS WHEREOF, the parties have executed this Agreement, effective as of the date and year first above written.

COMPANY:

CEC ENTERTAINMENT, INC.

By:

Michael H. Magusiak
President

EMPLOYEE:

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 333-41039 of ShowBiz Pizza Time, Inc. on Form S-8 of our report dated February 16, 2001, appearing in this Annual Report on Form 10-K of CEC Entertainment, Inc. for the year ended December 31, 2000.

/s/ DELOITTE & TOUCHE LLP

Dallas, Texas
March 30, 2001