FORM 10-K

(Mark One)

X Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended January 3, 1999.

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

Commission File Number 0-15782

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

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

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

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

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

None

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

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

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

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

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

At March 12, 1999, an aggregate of 18,082,817 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, 1999) held by non-affiliates of the registrant was $510,288,737.

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 1998 annual meeting of shareholders, have been incorporated by reference in Part III of this report.

PART I

Item 1. Business

General

CEC Entertainment, Inc. (the "Company")(formerly ShowBiz Pizza Time, Inc.), 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, 1999, 276 Chuck E. Cheese's Pizza ("Chuck E. Cheese's") restaurants. In addition, as of March 12, 1999, 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 44 states and the Company has concentrated its ownership and operation of Chuck E. Cheese's restaurants within a 34-state area. See "Item 2. Properties."

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

	1998	1997	1996
Average annual revenues per restaurant (1)	$1,452,000	$1,437,000	$1,286,000
Number of restaurants open at end of period	271	246	240
Percent of total restaurant revenues:			
Food and beverage sales	66.2%	68.2%	70.1%
Game sales	30.9%	28.6%	26.6%
Merchandise sales	2.9%	3.2%	3.3%

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(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 (240, 225 and 213 restaurants in 1998, 1997 and 1996, respectively). Fiscal years 1998 and 1996 consisted of 52 weeks while 1997 consisted of 53 weeks.

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

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

To maintain a unique and exciting environment in the restaurants, the Company believes it is essential to reinvest capital through the evolution of its games, rides and entertainment packages and continuing enhancement of the facilities. In 1994, the Company initiated a "repositioning" program to evolve and expand its efforts to significantly enhance its Chuck E. Cheese's restaurants. Between March 1994 and September 1997, all Company operated restaurants were remodeled under this program. In 1997, the Company initiated a Phase II upgrade program that generally includes a new game package, enhanced prize and merchandise offerings and improved product presentation and service. The Company completed Phase II upgrades in 107 restaurants in 1997, 117 restaurants in 1998 and plans to upgrade the remaining 25 restaurants under this program by the end of the second quarter of 1999.

The Company expanded the customer areas of three, seven, seven and 20 existing stores in 1995, 1996, 1997, and 1998, respectively. The Company plans to continue its strategy of expanding the customer areas of existing restaurants in 1999. The customer area is typically increased by an average of 1,000 to 4,000 square feet per store.

The Company opened one, two and 14 new Chuck E. Cheese's restaurants in 1995, 1997 and 1998, respectively. This does not include restaurants acquired from franchisees. The Company anticipates adding approximately 25 new restaurants in 1999 through a combination of new restaurants and the acquisition of existing restaurants. The Company periodically reevaluates the site characteristics of its restaurants. In the event certain site characteristics considered essential for the success of a restaurant deteriorate, the Company will consider relocating the restaurant to a more desirable site.

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

Restaurant Design and Entertainment

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

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

Each Chuck E. Cheese's restaurant typically contains a family oriented playroom area offering approximately 40 coin- and token-operated attractions, including arcade-style games, kiddie rides, video games, skill oriented games and other similar entertainment. Most games dispense tickets that can be redeemed by guests for prize merchandise such as toys and dolls. Also included in the playroom area are tubes and tunnels suspended from or reaching to the ceiling (Sky-Tubes) 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, 1999, 54 Chuck E. Cheese's restaurants were operated by a total of 37 different franchisees, as compared to 61 of such restaurants at March 13, 1998. In September 1996 and December 1998, the Company purchased 19 and six Chuck E. Cheese's restaurants, respectively, owned by its then largest franchisees. In 1998, the Company sold franchise rights to open up to 10 international franchise restaurants in the future. 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 1999.

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 2.4% 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.

Monterey's Tex-Mex Cafe Restaurants

The Company, through its wholly owned subsidiary BHC Acquisition Corporation ("BAC"), operated 27 Monterey's Tex-Mex Cafe restaurants which were sold in May 1994.

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, franchise royalties, management fees and advances to managed properties.

Employees

The Company's employment varies seasonally, with the greatest number being employed during the summer months. On March 12, 1999, the Company employed approximately 13,800 employees, including 13,600 in the operation of Chuck E. Cheese's restaurants and 200 employed by the Company in the Company's executive offices. None of the Company's employees are members of any union or collective bargaining group. The Company considers its employee relations to be good.

Item 2. Properties

The following table sets forth certain information regarding the Chuck E. Cheese's restaurants operated by the Company as of March 12, 1999.

Domestic	Chuck E. Cheese's
Alabama	5
Arkansas	4
California	51
Colorado	4
Connecticut	5
Delaware	1
Florida	17
Georgia	7
Idaho	1
Illinois	16
Indiana	7
Iowa	4
Kansas	3
Kentucky	1
Louisiana	5
Maryland	10
Massachusetts	10
Michigan	11
Minnesota	1
Missouri	7
Nevada	2
Nebraska	2
New Hampshire	2
New Jersey	9
New York	7
North Carolina	3
Ohio	14
Oklahoma	3
Pennsylvania	9
South Carolina	4
Tennessee	6
Texas	29
Virginia	7
Wisconsin	7
	274
International	
Canada	2
	276

Of the 276 Chuck E. Cheese's restaurants owned by the Company as of March 12, 1999, 253 occupy leased premises and 23 occupy owned premises. The leases of these restaurants will expire at various times from 1999 to 2016, as described in the table below.

Year of Expiration	Number of Restaurants	Range of Renewal Options (Years)
1999	10	5 to 10
2000	23	None to 15
2001	38	None to 15
2002	60	None to 15
2003 and thereafter	122	None to 15

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

Item 3. Legal Proceedings.

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

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

No matters were submitted to a vote of security holders during the fourth quarter of 1998.

P A R T I I

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

As of March 12, 1999, there were an aggregate of 18,082,817 shares of the Company's Common Stock outstanding and approximately 2,661 stockholders of record.

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

	High	Low
1998		
- 1st quarter	$ 33 15/16	$ 19 7/8
- 2nd quarter	40 5/16	32 7/8
- 3rd quarter	39 15/16	17 7/8
- 4th quarter	30	19 1/4

1997		
- 1st quarter	$ 25	$ 16 1/2
- 2nd quarter	27 3/8	17 1/4
- 3rd quarter	26 3/4	20 1/2
- 4th quarter	24 15/16	17 3/8

The Company may not pay any dividends to holders of its Common Stock (except in shares of Common Stock) unless an amount equal to all dividends then accrued on its Class A Preferred Stock par value $60.00 per share ("the Preferred Stock") has been paid or set aside to be paid. A dividend to holders of record of Preferred Stock as of January 3, 1999 in the amount of $1.20 per share will be paid on April 5, 1999.

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 and reduce its long-term debt. Future dividend policy with respect to the Common Stock will be determined by the Board of Directors of the Company, taking into consideration factors such as future earnings, capital requirements, potential loan agreement restrictions and the financial condition of the Company.

Item 6. Selected Financial Data.

	1998	1997	1996	1995	1994
	(Thousands, except per share and store data)				
Operating results (1):					
Revenues	$379,427	$350,267	$293,990	$263,783	$268,515
Costs and expenses	324,395	307,558	271,769	263,408	265,402
Income before income taxes . .	55,032	42,709	22,221	375	3,113
Income taxes:					
Current expense.	9,160	3,417	2,855	701	869
Deferred expense (benefit).	12,142	13,795	6,145	(389)	1,568
	21,302	17,212	9,000	312	2,437
Net income	$33,730	$25,497	$13,221	$ 63	$ 676
Per Share (2):					
Basic:					
Net income (loss)	$ 1.85	$ 1.37	$ .71	$ (.02)	$ .02
Weighted average shares outstanding	18,062	18,402	18,206	18,098	18,115
Diluted:					
Net income (loss)	$ 1.80	$ 1.34	$ .70	$ (.02)	$ .02
Weighted average shares outstanding	18,540	18,817	18,477	18,098	18,191
Cash flow data:					
Cash provided by operations.	$68,614	$69,478	$48,362	$27,810	$30,819
Cash used in investing activities	(65,622)	(43,805)	(51,868)	(30,548)	(22,576)
Cash provided by (used in) financing activities . . .	(7,057)	(21,800)	1,319	5,946	(10,373)

Balance sheet data:

Total assets	$252,228	$226,368	$216,580	$ 199,010	$ 188,308
Long-term obligations (including current portion and redeemable preferred stock)	31,911	30,713	39,571	39,244	33,223
Shareholders' equity	183,949	155,938	141,476	126,487	125,515

Number of restaurants at year end:

Chuck E. Cheese's:					
Company operated.	271	249	244	226	226
Franchise	54	63	70	93	106
	325	312	314	319	332

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(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.

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.

	1998	1997	1996
Revenues	100.0%	100.0%	100.0%
Costs and expenses:			
Cost of sales.	45.9%	46.8%	48.7%
Selling, general and administrative.	14.9%	15.1%	14.8%
Depreciation and amortization.	7.3%	7.3%	8.5%
Interest expense	.7%	.8%	1.2%
Other operating expenses . . .	16.7%	17.8%	19.2%
	85.5%	87.8%	92.4%
Income before income taxes . . .	14.5%	12.2%	7.6%

1998 Compared to 1997
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Revenues increased 8.3% to $379.4 million in 1998 from $350.3 million in 1997 primarily due to an increase of 4.1% in sales of the Company's Chuck E. Cheese's restaurants which were open during all of 1998 and 1997 ("comparable store sales"). In addition, the Company opened 14 new restaurants, purchased eight restaurants from franchisees and three restaurants from joint venture partners in 1998. Fiscal years 1998 and 1997 consisted of 52 and 53 weeks, respectively.

Income before income taxes increased to $55.0 million in 1998 from $42.7 million in 1997. A material portion of operating costs are fixed resulting in an improvement of operating margins at higher sales levels. Net income increased to $33.7 million in 1998 from $25.5 million in 1997. The Company's diluted earnings per share increased to $1.80 per share in 1998 compared to $1.34 per share in 1997.

Revenues

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

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

Costs and Expenses

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

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

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

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

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

Net Income

The Company had net income of $33.7 million in 1998 compared to $25.5 million in 1997 due to the changes in revenues and expenses discussed above. The Company's diluted earnings per share increased to $1.80 per share in 1998 compared $1.34 per share in 1997.

1997 Compared to 1996

Revenues increased 19.1% to $350.3 million in 1997 from $294.0 million in 1996 primarily due to an increase of 10.7% in comparable store sales. In addition, the Company purchased 19 restaurants from its largest franchisee in September 1996. Fiscal years 1997 and 1996 consisted of 53 and 52 weeks, respectively.

Income before income taxes increased to $42.7 million in 1997 from $22.2 million in 1996. A material portion of operating costs are fixed resulting in an improvement of operating margins at higher sales levels. Net income increased to $25.5 million in 1997 from $13.2 million in 1996. The Company's diluted earnings per share increased to $1.34 per share in 1997 compared to $.70 per share in 1996.

Revenues

Revenues increased to $350.3 million in 1997 from $294.0 million in 1996. Comparable store sales of Chuck E. Cheese's restaurants increased by 10.7% in 1997. In addition, the Company purchased 19 restaurants from its largest franchisee in September 1996. Average annual sales per restaurant increased to approximately $1,437,000 in 1997 from approximately $1,286,000 in 1996. Fiscal years 1997 and 1996 consisted of 53 and 52 weeks, respectively. Management believes that several factors contributed to the comparable store sales increase with the primary factor being sales increases at repositioned restaurants. Menu prices increased 2.4% between the two years.

Revenues from franchise fees and royalties were $3.2 million in 1997, a decrease of 12.2% from 1996, primarily due to the Company's purchase of 19 franchise restaurants in September 1996. Comparable franchise store sales increased 9.1% in 1997. During 1997, one new franchise restaurant opened, six franchise restaurants closed and two franchise restaurants were purchased by the Company.

Costs and Expenses

Costs and expenses as a percentage of revenues decreased to 87.8% in 1997 from 92.4% in 1996.

Cost of sales as a percentage of revenues decreased to 46.8% in 1997 from 48.7% in 1996. Cost of food, beverage, prize and merchandise items as a percentage of restaurant sales decreased to 16.5% in 1997 from 17.4% in 1996 primarily due to a 2.4% increase in menu prices and lower cheese costs in 1997. Restaurant labor expenses as a percentage of restaurant sales declined to 27.5% in 1997 from 28.7% in 1996 primarily due to labor efficiencies achieved at higher sales volumes.

Selling, general and administrative expenses as a percentage of revenues increased to 15.1% in 1997 from 14.8% in 1996 primarily due to start-up costs related to the outsourcing and evaluation of a toll-free birthday reservation system, management development expenses and stock offering costs incurred in 1997 for a secondary offering by the Company's largest shareholder.

Depreciation and amortization expense as a percentage of revenues decreased to 7.3% in 1997 from 8.5% in 1996 primarily due to the increase in comparable store sales, a change effected in the first quarter of 1997 in the estimated useful lives of certain fixed assets and the acquisition of restaurants in 1996 with lower depreciation expense than existing restaurants. Depreciation expense was reduced approximately $2.2 million in 1997 due to the change in the estimated useful lives of certain fixed assets based on a review of historical asset utilization.

Interest expense decreased to $2.9 million in 1997 from $3.5 million in 1996 primarily due to a decrease in the Company's outstanding debt between the two periods.

Other operating expenses decreased as a percentage of revenues to 17.8% in 1997 from 19.2% in 1996 primarily due to the increase in comparable store sales and the fact that a significant portion of operating costs such as rent, property taxes and insurance are fixed.

Net Income

The Company had net income of $25.5 million in 1997 compared to $13.2 million in 1996 due to the changes in revenues and expenses discussed above. The Company's diluted earnings per share increased to $1.34 per share in 1997 compared $.70 per share in 1996.

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 decreased slightly to $68.6 million in 1998 from $69.5 million in 1997 primarily due to changes in working capital. Cash outflow from investing activities for 1998 was $65.6 million. Cash outflow from financing activities in 1998 was $7.1 million primarily related to the purchase of treasury stock. 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 1999, the Company plans to add approximately 25 stores including new stores and acquisitions of existing stores from franchisees. The Company currently anticipates its cost of opening new stores to average approximately $1.5 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 continue its strategy of expanding the customer area of stores. The Company also plans to complete Phase II upgrades in 25 stores in the first and second quarter of 1999 at an average cost of $150,000 to $160,000 per store. A Phase II upgrade generally includes a new game package, enhanced prize and merchandise offerings and improved product presentation and service. During 1998, the Company opened 14 new restaurants, acquired eight restaurants from franchisees and three restaurants from joint venture partners, expanded the customer area of 20 restaurants and completed Phase II upgrades in 117 restaurants.

The Company currently estimates that capital expenditures in 1999, including expenditures for remodeling existing stores, new store openings, existing store expansions and equipment investments, will be approximately $65 million. The Company plans to finance these expenditures through cash flow from operations and, if necessary, borrowings under the Company's line of credit.

In 1997, the Company announced that it planned to purchase shares of the Company's common stock at an aggregate purchase price of up to $20 million. In July 1998, the Company completed this plan and announced an additional plan to purchase shares of the Company's common stock at an aggregate purchase price of up to $15 million. As of January 3, 1999 the Company has purchased shares of its common stock under the $15 million plan at an aggregate purchase price of approximately $5.8 million.

In 1998, the Company's line of credit agreement was amended to provide borrowings of up to $30 million and extend the maturity date to June 2000. The Company's total credit facility of $53 million at January 3, 1999 consists of $23 million in term notes and the $30 million line of credit. Term notes totaling $18 million with annual principal payments of $6 million beginning in June 1999 and annual interest of 10.02% mature in 2001. Term notes totaling $5 million with quarterly principal payments of $833,000 and annual interest equal to LIBOR plus 3.5% mature in 2000. Interest under the $30 million line of credit is dependent on earnings and debt levels of the Company and ranges from prime minus 0.5% to plus 0.5% or, at the Company's option, LIBOR plus 1% to 2.5%. Currently, any borrowings under this line of credit would be at the prime rate minus 0.5% or LIBOR plus 1%. As of March 12, 1999, there were no borrowings under this line of credit. The Company is required to comply with certain financial ratio tests during the terms of the loan agreements.

In 1998, the Company purchased computer software and hardware which is Year 2000 compliant. The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. Current systems may be unable to accurately process certain date-based information. The cost of the new software and hardware has been recorded as an asset and is being amortized over its estimated useful life. Other maintenance or modification costs will be expensed as incurred. Accordingly, the Company does not expect the amounts required to be expensed over the next year to have a material effect on its financial position or results of operations or cash flows. The Company expects its Year 2000 date conversion project to be completed in 1999. The Company has initiated formal communication with significant vendors and suppliers to determine their efforts to remediate Year 2000 issues.

Certain statements in this report may constitute -
looking statements'-looking statements.

Item 7A: Quantitative and Qualitative Disclosures About Market Risk

The Company is subject to market risk in the form of interest rate risk and foreign currency risk. Both interest rate risk and foreign currency risk are immaterial to the Company.

Item 8. Financial Statements and Supplementary Data

CEC ENTERTAINMENT, INC.
YEARS ENDED JANUARY 3, 1999, JANUARY 2, 1998
AND DECEMBER 27, 1996

CONTENTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of CEC Entertainment, Inc. (formerly ShowBiz Pizza Time, Inc.) and subsidiaries as of January 3, 1999 and January 2, 1998, and the related consolidated statements of earnings and comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended January 3, 1999. 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 generally accepted auditing standards.
Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.
We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of CEC Entertainment, Inc. and subsidiaries as of January 3, 1999 and January 2, 1998, and the results of their operations and their cash flows for each of the three years in the period ended January 3, 1999, in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP
Dallas, Texas
March 8, 1999

CEC ENTERTAINMENT, INC.
CONSOLIDATED BALANCE SHEETS
JANUARY 3, 1999 AND JANUARY 2, 1998
(Thousands, except share data)

ASSETS

	January 3, 1999	January 2, 1998
Current assets:		
Cash and cash equivalents	$ 3,210	$ 7,275
Accounts receivable, including receivables from related parties of $240 in 1997	4,299	2,996
Current portion of notes receivable, including receivables from related parties of $199 in 1997	52	259
Inventories	5,842	3,975
Prepaid expenses	3,643	3,550
Current portion of deferred tax asset	720	7,237
Total current assets	17,766	25,292
Investments in related parties		668
Property and equipment, net	228,531	187,433
Deferred tax asset	1,036	5,988
Notes receivable, less current portion, including receivables from related parties of $361 and $2,516, respectively	363	2,579
Other assets	4,532	4,408
	$252,228	$226,368

LIABILITIES AND SHAREHOLDERS' EQUITY

	January 3, 1999	January 2, 1998
Current liabilities:		
Current portion of long-term debt	$ 9,383	$ 3,376
Accounts payable and accrued liabilities	32,453	35,665
Total current liabilities	41,836	39,041
Long-term debt, less current portion	18,922	23,826
Deferred rent	3,915	4,052
Other liabilities	1,300	1,300
Commitments and contingencies		
Redeemable preferred stock, $60 par value, redeemable for $2,974 in 2005	2,306	2,211
Shareholders' equity:		
Common stock, $.10 par value; authorized 50,000,000 shares; 22,265,303 and 21,912,277 shares issued, respectively	2,227	2,191
Capital in excess of par value	163,105	158,696

Retained earnings	76,157	42,768
Deferred compensation	(1,520)	(2,280)
Accumulated other comprehensive income	6	
Less treasury shares of 4,234,676 and 3,827,676, respectively, at cost	(56,026)	(45,437)
	183,949	155,938
	$ 252,228	$ 226,368

See notes to consolidated financial statements.

CEC ENTERTAINMENT, INC.
CONSOLIDATED STATEMENTS OF EARNINGS
AND COMPREHENSIVE INCOME
YEARS ENDED JANUARY 3, 1999,
JANUARY 2, 1998 AND DECEMBER 27, 1996
(Thousands, except per share data)

	1998	1997	1996
Food and beverage revenues	$ 248,948	$ 235,898	$ 202,624
Games and merchandise revenues	126,612	109,518	86,444
Franchise fees and royalties	3,304	3,227	3,675
Interest income, including related party income of $65, $244 and $246, respectively.	543	1,095	1,051
Joint venture income	20	529	196
	379,427	350,267	293,990
Costs and expenses:			
Cost of sales	173,890	163,713	143,381
Selling, general and administrative expenses, including related party expenses of $31 and $125 in 1997 and 1996, respectively.	56,690	53,037	43,534
Depreciation and amortization.	27,620	25,524	25,057
Interest expense.	2,694	2,866	3,476
Other operating expenses.	63,501	62,418	56,321
	324,395	307,558	271,769
Income before income taxes	55,032	42,709	22,221
Income taxes:			
Current expense.	9,160	3,417	2,855
Deferred expense	12,142	13,795	6,145
	21,302	17,212	9,000
Net income.	33,730	25,497	13,221
Other comprehensive income, net of tax:			
Foreign currency translation	6		
Comprehensive income	$ 33,736	$ 25,497	$ 13,221
Earnings per share:			
Basic:			
Net income	$ 1.85	$ 1.37	$ .71

Weighted average shares outstanding.	18,062	18,402	18,206
Diluted:			
Net income	$ 1.80	$ 1.34	$ .70
Weighted average shares outstanding.	18,540	18,817	18,477

See notes to consolidated financial statements.

CEC ENTERTAINMENT, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED JANUARY 3, 1999,
JANUARY 2, 1998 AND DECEMBER 27, 1996
(THOUSANDS, EXCEPT PER SHARE DATA)

	AMOUNTS			SHARES		
	1998	1997	1996	1998	1997	1996
Common stock and capital in excess of par value:						
Balance, beginning of year..	$160,887	$155,947	$155,659	21,912	21,519	21,435
Stock options exercised ...	2,573	2,592	937	349	262	77
Tax benefit (expense) from exercise of stock options and stock grants..	1,775	(14)	(655)			
Stock issued under 401(k) plan	97	59	52	4	3	8
Stock grant plan...........		2,293			128	
Stock split costs		10	(30)			
Cancellation of fractional shares.................			(16)			(1)
Balance, end of year........	165,332	160,887	155,947	22,265	21,912	21,519
Retained earnings:						
Balance, beginning of year..................	42,768	17,613	4,733			
Net Income..............	33,730	25,497	13,221			
Redeemable preferred stock accretion........	(103)	(104)	(103)			
Redeemable preferred stock dividend, $4.80 per share.	(238)	(238)	(238)			
Balance, end of year......	76,157	42,768	17,613			
Deferred compensation:						
Balance, beginning of year.	(2,280)	(1,821)	(3,642)			
Amortization of deferred compensation...........	760	1,821	1,821			
Stock grant plan.........		(2,280)				
Balance, end of year.......	(1,520)	(2,280)	(1,821)			
Accumulated other comprehensive income:						
Foreign currency translation............	6					

Balance, end of year......	6					
Treasury shares:						
Balance, beginning of year..	(45,437)	(30,263)	(30,263)	3,828	3,109	3,109
Treasury stock acquired.....	(10,589)	(15,174)		407	719	
Balance, end of year........	(56,026)	(45,437)	(30,263)	4,235	3,828	3,109
Total shareholders' equity...	$183,949	$155,938	$141,476			

See notes to consolidated financial statements.

CEC ENTERTAINMENT, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JANUARY 3, 1999,
JANUARY 2, 1998 AND DECEMBER 27, 1996
(THOUSANDS)

	1998	1997	1996
Operating activities:			
Net income	$ 33,730	$ 25,497	$ 13,221
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization	27,620	25,524	25,057
Deferred income tax expense	12,142	13,795	6,145
Compensation expense under stock grant plan .	760	1,821	1,821
Other	(44)	153	615
Net change in receivables, inventories, prepaids, payables and accrued liabilities.	(5,594)	2,688	1,503
Cash provided by operations.	68,614	69,478	48,362
Investing activities:			
Purchases of property and equipment. . .	(66,704)	(48,451)	(51,719)
Payments received on notes receivable. .	2,503	7,376	3,534
Additions to notes receivable.	(690)	(2,500)	(3,568)
Change in investments and other assets .	(731)	(230)	(115)
Cash used in investing activities.	(65,622)	(43,805)	(51,868)
Financing activities:			
Proceeds from debt and line of credit. .	4,479		7,600
Payments on debt and line of credit. . .	(3,376)	(9,142)	(6,995)
Redeemable preferred stock dividends . .	(238)	(238)	(238)
Acquisition of treasury stock.	(10,589)	(15,174)	
Exercise of stock options.	2,573	2,592	937
Other.	94	162	15
Cash provided by (used in) financing activities.	(7,057)	(21,800)	1,319
Increase (decrease) in cash and cash equivalents	(4,065)	3,873	(2,187)
Cash and cash equivalents, beginning of year .	7,275	3,402	5,589

Cash and cash equivalents, end of year . .	$ 3,210	$ 7,275	$ 3,402

See notes to consolidated financial statements.

CEC ENTERTAINMENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JANUARY 3, 1999,
JANUARY 2, 1998 AND DECEMBER 27, 1996

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 1998, 1997 and 1996 are for the fiscal years ended January 3, 1999, January 2, 1998 and December 27, 1996, respectively. Fiscal years 1998 and 1996 were each 52 weeks in length, while fiscal year 1997 was 53 weeks in length.

Basis of consolidation:

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

Foreign currency translation:

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

Cash and cash equivalents:

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

Inventories:

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

Property and equipment, depreciation and amortization:

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(CONTINUED):

Deferred charges and related amortization:

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

Franchise fees and royalties:

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

Impairment of intangibles and long-lived assets:

Impairment losses are recognized if the future cash flows expected to be generated by the operations applicable to the intangibles and long-lived assets are less than the carrying value of the assets. The impairment loss is equal to the amount by which the carrying value of the assets exceeds the fair value of the assets.

Use of estimates and assumptions:

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

Accounting for stock-based compensation:

As permitted by Statement of Financial Accounting Standards No. 123 ("SFAS 123") "Accounting for Stock- Based compensation," the Company applies the recognition and measurement provisions of Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees" and has disclosed the proforma effects of SFAS 123 (Note 17).

Recent accounting pronouncements:

The Company has adopted Statement of Financial Accounting Standards No. 130 ("SFAS 130") "Reporting Comprehensive Income" which became effective for years beginning after December 15, 1997. Comprehensive income includes changes in equity from transactions and events from nonowner sources.

Statement of Financial Accounting Standards No. 131 ("SFAS 131") "Disclosures about Segments of an Enterprise and Related Information" became effective for years beginning after December 15, 1997. The Company is not engaged in multiple business or geographic segments requiring separate disclosure under SFAS 131.

CEC ENTERTAINMENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JANUARY 3, 1999,
JANUARY 2, 1998 AND DECEMBER 27, 1996

2. ACCOUNTS RECEIVABLE:

	1998	1997
	(THOUSANDS)	
Trade	$ 1,358	$ 1,112
Other	2,954	1,908
	4,312	3,020
Less allowance for doubtful collection	(13)	(24)
	$ 4,299	$ 2,996

3. NOTES RECEIVABLE:

The Company's notes receivable at January 3, 1999 and January 2, 1998 arose principally as a result of lines of credit established with the International Association of CEC Entertainment, Inc., a related party (Note 16), and advances to franchisees, joint ventures and managed properties. All obligors under the notes receivable are principally engaged in the restaurant industry. The notes have various terms, but most are payable in monthly installments of principal and interest through 2001, with interest rates ranging from 7.5% to 12.0%. The notes are generally collateralized by the related property and equipment. Balances of notes receivable are net of an allowance for doubtful collection of $84,000 at both January 3, 1999 and January 2, 1998.

4. PROPERTY AND EQUIPMENT:

	ESTIMATED LIVES	1998	1997
	(IN YEARS)	(THOUSANDS)	
Land	-	$ 8,285	$ 7,515
Leasehold improvements	4 - 20	164,380	150,565
Buildings	4 - 25	10,788	10,348
Furniture, fixtures and equipment	2 - 15	172,028	140,612
Property leased under capital leases(Note 6)	10 - 15	449	1,271
		355,930	310,311
Less accumulated depreciation and amortization		(132,432)	(124,640)
		223,498	185,671
Construction in progress		5,033	1,762
		$228,531	$187,433

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:

	1998	1997
	(THOUSANDS)	
Accounts payable	$ 13,810	$ 13,162
Salaries and wages	7,030	6,591
Insurance	4,167	8,532
Taxes, other than income	4,370	4,096

Other	3,076	3,284
	$ 32,453	$ 35,665

6. LEASES:

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

Following is a summary of property leased under capital leases:

	1998	1997
	(THOUSANDS)	
Buildings and improvements	$ 449	$ 1,271
Less accumulated depreciation	(239)	(1,031)
	$ 210	$ 240

Scheduled annual maturities of the obligations for capital and operating leases as of January 3, 1999, are as follows:

YEARS	CAPITAL	OPERATING
	(THOUSANDS)	
1999	$ 184	$ 34,241
2000	187	33,091
2001	214	30,078
2002	214	22,447
2003	214	13,613
2004-2009 (aggregate payments)	409	30,947
Minimum future lease payments	1,422	$164,417
Less amounts representing interest	(595)	
Present value of future minimum lease payments	827	
Less current portion	(50)	
	$ 777	

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

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

	1998	1997	1996
		(THOUSANDS)	
Minimum	$ 34,276	$ 32,694	$ 30,484
Contingent	365	276	195
	$ 34,641	$ 32,970	$ 30,679

7. LONG-TERM DEBT:

	1998	1997
	(THOUSANDS)	
Term loans, 10.02%, due June 2001	$ 18,000	$ 18,000
Term loans, LIBOR plus 3.5%, due June 2000	5,000	8,332
Revolving bank loan, prime minus 0.5% to plus 0.5% or LIBOR plus 1% to 2.5%, due June 2000	4,478	
Obligations under capital leases (Note 6)	827	870
	28,305	27,202
Less current portion	(9,383)	(3,376)
	$ 18,922	$ 23,826

In 1998, the Company's line of credit agreement was amended to provide the Company with available borrowings of up to $30 million expiring in June 2000. As of January 3,1999, the Company's credit facility totals $53 million, which consists of $23 million in term notes and the $30 million line of credit. Interest on the term notes is payable quarterly. Interest under the line of credit is payable quarterly and dependent on earnings and debt levels of the Company. Currently, any borrowings under this line of credit would be at prime (7.25% at January 3, 1999) minus 0.5% or, at the Company's option, LIBOR (5.066% at January 3, 1999) plus 1%.

At January 3, 1999, there was $4.5 million outstanding under the line of credit. A 3/8% commitment fee is payable on any unused credit line. The Company is required to comply with certain financial ratio tests during the terms of the loan agreements. The weighted average interest rate on long-term debt was 9.62% and 9.73% in 1998 and 1997, respectively.

As of January 3, 1999, scheduled annual maturities of all long-term debt (exclusive of obligations under capital leases) are as follows (thousands):

YEARS	AMOUNT
1999	$ 9,333
2000	12,145
2001	6,000
	$27,478

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8. LITIGATION:

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

9. REDEEMABLE PREFERRED STOCK:

As of January 3, 1999 and January 2, 1998, the Company had 49,441 and 49,570 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 January 3, 1999, one quarterly dividend, totaling $59,329 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.

10. EARNINGS PER COMMON SHARE:

Earnings per common share ("EPS") are computed in accordance with SFAS 128. Under SFAS 128, basic and diluted EPS replaces primary and fully diluted EPS. Basic EPS is calculated by dividing earnings applicable to common shares by the weighted average number of common shares outstanding. Diluted EPS adjusts for the effect of potential common shares. Net income available per common share has been adjusted for the items indicated.

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

	1998	1997	1996
Net income	$ 33,730	$ 25,497	$ 13,221
Accretion of redeemable preferred stock. . .	(103)	(104)	(103)
Redeemable preferred stock dividends	(238)	(238)	(238)
Net income applicable to common shares . . .	$ 33,389	$ 25,155	$ 12,880
Basic:			
Weighted average common shares outstanding. .	18,062	18,402	18,206
Earnings per common share	$ 1.85	$ 1.37	$ .71
Diluted:			
Weighted average common shares outstanding. .	18,062	18,402	18,206
Potential common shares for stock options and stock grants.	478	415	271
Weighted average shares outstanding.	18,540	18,817	18,477

	1998	1997	1996
Earnings per common and potential common shares	$ 1.80	$ 1.34	$ .70

11. FRANCHISE FEES AND ROYALTIES:

At January 3, 1999, 54 Chuck E. Cheese's restaurants were operated by a total of 37 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 $373,000, $172,000 and $274,000 in 1998, 1997 and 1996, respectively.

12. COST OF SALES:

	1998	1997	1996
		(THOUSANDS)	
Food, beverage and related supplies	$ 52,958	$ 50,355	$ 45,681
Games and merchandise	19,625	18,339	14,816
Labor	101,307	95,019	82,884
	$173,890	$163,713	$143,381

13. INCOME TAXES:

The significant components of income tax expense are as follows:

	1998	1997	1996
		(THOUSANDS)	
Current expense	$ 9,160	$ 3,417	$ 2,855
Deferred expense:			
Utilization of operating loss carryforwards		16,693	8,664
Utilization of tax credit carryforwards	6,595		(475)
Other	5,547	(2,898)	(2,044)
	$ 21,302	$ 17,212	$ 9,000

Deferred income taxes and benefits are provided for differences between financial statement carrying amounts of assets and liabilities and their respective tax bases. Temporary differences and the resulting deferred tax assets and liabilities at January 3, 1999 and January 2, 1998 are as follows:

	1998	1997
	(THOUSANDS)	
Deferred Tax Asset:		
Current:		
Deferred tax assets:		
Tax credit carryforwards.		$ 6,595
Accrued vacation.	$ 404	358
Unearned gift certificates	115	72
Other	201	212
Net current deferred tax asset	720	7,237
Non-Current:		
Deferred tax assets:		
Deferred gain		3,605
Deferred rent	1,365	1,411
Asset impairments	412	412
Unearned franchise fees	165	219
Other	250	705
	2,192	6,352
Deferred tax liabilities:		
Depreciation	(1,156)	(364)
Net non-current deferred tax asset	1,036	5,988
Net deferred tax asset	$ 1,756	$ 13,225

13. INCOME TAXES (CONTINUED):

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

	1998	1997	1996
		(THOUSANDS)	
Statutory rate	35.0%	35.0%	35.0%
State income taxes	6.2%	8.1%	9.0%
Tax credits earned			(2.1%)
Other	(2.5%)	(2.8%)	(1.4%)
Income taxes provided.	38.7%	40.3%	40.5%

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 $3.0 million.

15. SUPPLEMENTAL CASH FLOW INFORMATION:

	1998	1997	1996
		(THOUSANDS)	
Cash paid during the year for:			
Interest	$2,681	$2,961	$3,429
Income taxes	9,924	2,753	2,222
Supplemental schedule of noncash investing and financing activities:			
Notes and accounts receivable canceled in connection with the acquisition of property and equipment	834		
Investment canceled in connection with the acquisition of property and equipment	668		

16. RELATED PARTY TRANSACTIONS:

The Hallwood Group, Incorporated ("Hallwood") was the beneficial owner of approximately 2.6 million shares or 14.2% of the outstanding common stock of the Company prior to a secondary public offering in March 1997 in which Hallwood and certain of its affiliates sold all shares held. The directors of Hallwood had served as a majority of the directors of the Company, but resigned after the public offering. The Company did not receive any proceeds from the sale of shares by the selling stockholders.However, the Company paid $305,000 in expenses for the offering.

The Company made payments to Hallwood of $31,000 in 1997 and $125,000 in 1996 for consulting services. The consulting agreement terminated upon the closing of the public offering.In consideration for rent reductions resulting from Hallwood's negotiation of the Company's home office lease agreement in December 1990, the Company had assigned to Hallwood its sublease interest in the home office building with a fair value of approximately $120,000 per year.

16. RELATED PARTY TRANSACTIONS (CONTINUED):

The Company had advanced amounts to a joint venture in which the Company had a 50% interest or less. At January 2, 1998 approximately $610,000 was outstanding under this note. Principal and interest were payable in monthly installments, with interest at prime. The Company also had miscellaneous accounts receivable from the joint venture of approximately $229,000 at January 2, 1998. In January 1998, the Company acquired the interest of its joint venture partner for cash plus forgiveness of all receivables.

The Company has granted three separate operating lines of credit to the International Association of CEC Entertainment, Inc. (the "Association"). In December 1998, the lines were renewed to provide the Association with available borrowings of $1.7 million at 10.5% interest and are due

December 31, 1999. The Association develops entertainment attractions and produces system wide advertising. Five officers of the Association are also officers of the Company. At January 3, 1999 and January 2, 1998, approximately $361,000 and $2,105,000, respectively, was outstanding under these lines of credit. The Company also had miscellaneous accounts receivable from the Association of $11,000 at January 2, 1998.

17. 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 2,772,038 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 925,000 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 150,000 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.

17. EMPLOYEE BENEFIT PLANS (CONTINUED):

At January 3, 1999, there were 562,623 shares available for grant. Stock option transactions are summarized as follows for all plans:

	NUMBER OF SHARES			WEIGHTED AVERAGE EXERCISE PRICE PER SHARE		
	1998	1997	1996	1998	1997	1996
Options outstanding, beginning of year	1,586,298	1,010,511	848,942	$13.70	$8.58	$9.08
Granted	344,612	944,715	276,734	21.91	17.87	8.39
Exercised	(348,836)	(261,445)	(77,495)	7.37	9.92	12.10
Terminated	(47,758)	(107,483)	(37,670)	20.11	11.36	11.01
Options outstanding, end of year	1,534,316	1,586,298	1,010,511	16.79	13.70	8.58

All stock options are granted at no less than fair market value of the common stock at the grant date. The estimated fair value of options granted was $7.54, $6.12 and $3.08 per share in 1998, 1997 and 1996, 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 1998: risk free interest rate of 4.6%, 5.9% and 6.5% in 1998, 1997 and 1996, respectively; no dividend yield; expected lives of four years; and expected volatility of 30% in 1998 and 40% in 1997 and 1996. Stock options expire five and seven years from the grant date. Stock options vest over various periods ranging from one to four years. The number of stock option shares exercisable at January 3, 1999 was 504,564. These stock options have exercise prices ranging from $5.29 to $20.50 per share and have a weighted average exercise price of $12.84 per share. In January 1999, the Company granted 493,926 additional options at an exercise price of $26.25 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 1,718,637 shares. No further shares may be awarded under this plan after December 1998. In 1997, 128,500 shares were awarded in connection with an employment agreement effective January 1998. No grants were awarded in 1998 or 1996. Compensation expense recognized by the Company pursuant to this plan was $760,000 in 1998 and $1,821,000 per yearin 1997 and 1996. All shares vest over periods ranging from 3 years to 6 years and are subject to forfeiture upon termination of the participant's employment by the Company. The shares are nontransferable during the vesting periods.

As a result of shares awarded to the Company's Chairman of the Board and Chief Executive Officer, the Company recognized deferred compensation of $12.0 million in 1993 and $2.3 million in 1997. The deferred compensation is amortized over the compensated periods of service.

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 $31.6 million, $23.1 million and $12.8 million in 1998, 1997 and 1996, respectively. Proforma earnings per share assuming dilution would have been $1.71, $1.23 and $.67 per share in 1998, 1997 and 1996, respectively.

17. EMPLOYEE BENEFIT PLANS (CONTINUED):

The Company has adopted the CEC 401(k) Retirement and Savings Plan, to which it may at its discretion make an annual contribution out of its current or accumulated earnings. Contributions by the Company may be made in the form of its common stock or in cash. The Company made contributions of approximately $97,000 and $59,000 in common stock for the 1997 and 1996 plan years, respectively. The Company plans to contribute $138,000 in common stock for the 1998 plan year.

18. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED):

The following summarizes the unaudited quarterly results of operations for the years ended January 3, 1999 and January 2, 1998 (thousands, except per share data).

	Fiscal year ended January 3, 1999			
	April 5	July 5	Oct. 4	Jan. 3

Revenues	$105,049	$ 88,901	$ 98,106	$ 87,371
Income before income taxes	19,215	11,813	14,264	9,740
Net income	11,683	7,341	8,673	6,033
Earnings Per Share:				
Basic	$ .64	$ .40	$ .48	$ .33
Diluted	.63	.39	.47	.33

	Fiscal year ended January 2, 1998			
	March 28	June 27	Sept. 26	Jan. 2
Revenues	$ 91,594	$ 84,031	$ 85,602	$ 89,040
Income before income taxes	13,333	9,924	10,141	9,311
Net income	7,933	5,905	6,101	5,558
Earnings Per Share:				
Basic	$ .43	$ .32	$ .32	$ .30
Diluted	.42	.31	.32	.30

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

None

P A R T I I I

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 1998 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 1998 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 1998 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 1998 annual meeting of stockholders and is incorporated herein by reference thereto.

P A R T I V

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

(A) THE FOLLOWING DOCUMENTS ARE FILED AS A PART OF THIS REPORT:

(1) Financial Statements and Supplementary Data:

Independent auditors' report.
CEC Entertainment, Inc. consolidated financial statements:
Consolidated balance sheets as of January 3, 1999 and January 2, 1998.
Consolidated statements of earnings for the years ended January 3, 1999, January 2, 1998, and December 27, 1996.
Consolidated statements of shareholders' equity for the years ended January 3, 1999, January 2, 1998, and December 27, 1996.
Consolidated statements of cash flows for the years ended January 3, 1999, January 2, 1998, and December 27, 1996.
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(b)(1)	Restated Bylaws of the Company, dated August 16, 1994 (filed as Exhibit 3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994, and incorporated herein by reference).
3(b)(2)	Amendment to the Bylaws, dated May 5, 1995 (filed as Exhibit 3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference).
4(a)	Specimen form of certificate representing $.10 par value Common Stock (filed as Exhibit 4(a) to the Company's Annual Report on Form 10-K for the year ended December 28, 1990, and incorporated herein by reference).
4(b)	Specimen form of certificate representing $60 par value Class A Preferred Stock (filed as Exhibit 4(b) to the Company's Annual Report on Form 10-K for the year ended December 28, 1990, and incorporated herein by reference).
10(a)(1)	Amended and Restated Employment Agreement dated April 14, 1993, between the Company and Richard M. Frank (filed as Exhibit 10(a)(8) to the Company's Quarterly Report on Form 10-Q for the quarter ended April 2, 1993, and incorporated herein by reference).
10(a)(2)	Amendment No. 1 to the Amended and Restated Employment Agreement dated July 19, 1996, between the Company and Richard M. Frank (filed as Exhibit 10(i) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 27, 1996, and incorporated herein by reference).

10(a)(3)	Amendment No. 2 to the Amended and Restated Employment Agreement dated March 3, 1997, between the Company and Richard M. Frank (filed as Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 28, 1997, and incorporated herein by reference).
10(b)	Stock Grant Trust Agreement dated January 29, 1992, among the Company, Richard M. Frank, Ronald F. Saupe and Kevin J. Shepherd (filed as Exhibit 10(a)(7) to the Company's Annual Report on Form 10-K for the year ended December 27, 1991,and incorporated herein by reference).
10(c)(1)	Employment Agreement dated January 4, 1994, between the Company and Michael H. Magusiak (filed as Exhibit 10(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1993, and incorporated herein by reference).
10(c)(2)	Amendment to the Employment Agreement dated December 11, 1997, between the Company and Michael H. Magusiak (filed as Exhibit 10(c)(2) to the Company's Annual Report on Form 10-K for the year ended January 2, 1998, and incorporated herein by reference).

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

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

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

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

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

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

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

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

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

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

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

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

10(n)(1) Third Modification Agreement, in the stated amount of $30,000,000.00, dated December 4,1998, between Bank One, Texas, N.A. and the Company (filed as Exhibit 10(a)(1) to the Company's Quarterly Report on Form 10-Q for the quarter ended July 5,1998, and incorporated herein by reference).

10(n)(2) Third Restated Revolving Credit Note, in the stated amount of $30,000,000.00, dated December 4, 1998, between Bank One, Texas, N.A. and the Company (filed as Exhibit 10(a)(2) to the Company's Quarterly Report on Form 10-Q for the quarterended July 5, 1998, and incorporated herein by reference).

10(o)(1) Supplemental Agreement, dated as of September 29, 1997, relating to the Note Purchase Agreements dated as of June 15, 1995, between Allstate Life Insurance Company, Massachusetts Mutual Life Insurance Company, MassMutual Corporate Value Partners Limited, CM Life Insurance Company, Modern Woodmen of America and the Company (filed as Exhibit 10(m)(1) to the Company's Annual Report on Form 10-K for the year ended January 2, 1998, and incorporated herein by reference).

10(o)(2) Supplemental Agreement, dated as of September 29, 1997, relating to the Note Purchase Agreements dated as of June 15, 1995, between Bank One, Texas, N.A. and the Company (filed as Exhibit 10(m)(2) to the Company's Annual Report on Form 10-K for the year ended January 2, 1998, and incorporated herein by reference).

10(p)(1) 1988 Non-Statutory Stock Option Plan (filed as Exhibit A to the Company's Proxy Statement for Annual Meeting of Stockholders to be held on June 8, 1995, and incorporated herein by reference).

10(p)(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(q)(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(q)(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(r)(1) Stock Grant Plan of the Company, as amended to date (filed as Exhibit 10(d)(1) to the Company's Annual Report on Form 10-K for the year ended December 31,1993, and incorporated herein by reference).

10(r)(2) Specimen form of Certificate of Participation to certain participants under the Stock Grant Plan of the Company (filed as Exhibit 10(e)(3) to the Company's Annual Report on Form 10-K for the year ended December 29, 1989, and incorporated herein by reference).

10(s)(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(s)(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(t)(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(t)(2)	Specimen form of the Company's current Development Agreement (filed as Exhibit10(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(u)(1)	Rights Agreement, dated as on November 19, 1997, by and between the Company and the Rights Agent (filed as Exhibit A to Exhibit 1 of the Company's Registration Statement on Form 8-A (No. 001-13687) and incorporated herein by reference).
10(u)(2)	Form of Certificate of Designation of the Preferred Shares under the Rights Agreement, dated as on November 19, 1997, by and between the Company and the Rights Agent (filed as Exhibit B to Exhibit 1 of the Company's Registration Statement on Form 8-A (No. 001-13687) and incorporated herein by reference).
10(u)(3)	Form of Right Certificate under the Rights Agreement, dated as on November 19,1997, by and between the Company and the Rights Agent (filed as Exhibit C to Exhibit 1 of the Company's Registration Statement on Form 8-A (No. 001-13687) and incorporated herein by reference).
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 1998.

(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.

(c) FINANCIAL STATEMENTS EXCLUDED FROM THE ANNUAL REPORT TO SHAREHOLDERS BY RULE 14A-3(B):

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

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED,THEREUNTO DULY AUTHORIZED.

Dated: March 31, 1999 CEC Entertainment, Inc.

By: /s/ Richard M. Frank

Richard M. Frank
Chairman of the Board and
Chief Executive Officer

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES AND ON THE DATES INDICATED.

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

EXHIBIT INDEX

Exhibit No.	Description
10(n)(1)	Third Modification agreement, in the stated amount of $30,000,000.00, dated December 4, 1998, between Bank One, Texas, N.A. and the Company (filed as Exhibit 10(a)(1) to the Company's Quarterly report on Form 10-Q for the quarter ended July 5, 1998, and incorporated herein by reference.
10(n)(2)	Third Restated Revolving Credit Note, in the stated amount of $30,000,000.00, dated December 4, 1998, between Bank One Texas, N.A. and the Company (filed as Exhibit 10(a)(2) to the Company's Quarterly Report on Form 10-Q for the quarter ended July 5,1998, and incorporated herein.

23 Independent Auditor's Consent of Deloitte & Touche LLP

Exhibit 10 (n)(1)

THIRD MODIFICATION AGREEMENT

Date: Effective December 4, 1998

Bank One: BANK ONE, TEXAS, NATIONAL ASSOCIATION, a national banking association

Bank One's Address:
1717 Main Street,
3rd Floor
Dallas, Texas 75201

Company: CEC ENTERTAINMENT, INC. (f/k/a ShowBizPizza Time, Inc.), a Kansas corporation

Company's Address: 4441 W. Airport Freeway
Irving, Texas 75062

R E C I T A L S:

A. Bank One and Company entered into a loan evidenced, inter alia, by the following documents:

1. Loan Agreement dated as of June 27, 1995 by and between Company and Bank One for an aggregate loan in the amount of $5,000,000.

2. Revolving Credit Note dated June 27, 1995 in the original principal amount of $5,000,000 signed by Company and payable to Bank One.

B. Bank One and Company modified the Loan to increase its principal balance to $15,000,000, extend the maturity date to June 15, 1998 and make certain other changes in the terms and conditions of the Loan evidenced, inter alia, by the following documents:

1. Modification and Extension Agreement dated August 1, 1996 by and between Company and Bank One for an aggregate loan in the amount of $15,000,000.

2. Restated Revolving Credit Note dated August 1, 1996 in the original principal amount of $15,000,000 signed by Company and payable to Bank One.

C. Bank One and Company modified the Loan to allow for transfer of certain assets and make certain other changes in the terms and conditions of the Loan evidenced, inter alia, by the following documents:

1. Supplemental Agreement ("Supplemental Agreement") dated as of September 29, 1997 by and between Company and Bank One.

2. Guarantee Agreement - ShowBiz Nevada, Inc. dated as of September 29, 1997 made by ShowBiz

Nevada, Inc. in favor of Bank One.

3. Guarantee Agreement - ShowBiz Merchandising, Inc. dated as of September 29, 1997 made by ShowBiz Merchandising, Inc. in favor of Bank One.

4. Guarantee Agreement - SPT Properties Company, Inc. dated as of September 29, 1997 made by SPT Properties Company, Inc. in favor of Bank One.

5. Guarantee Agreement - ShowBiz Cayman Islands, Inc. dated as of September 29, 1997 made by ShowBiz Cayman Islands, Inc. in favor of Bank One.

D. Bank One and Company modified the Loan to extend the maturity date to June 1, 2000 and make certain other changes in the terms and conditions of the Loan evidenced, inter alia, by the following documents:

1. Second Modification and Extension Agreement dated effective June 14, 1998 by and between Company and Bank One for an aggregate loan in the amount of $15,000,000.00.

2. Second Restated Revolving Credit Note dated effective June 14, 1998 in the original principal amount of $15,000,000.00 signed by Company and payable to Bank One.

E. Bank One is the owner and holder of the Note, Loan Agreement, and other Loan Documents.

F. Company has requested that Bank One (i) modify all Loan Documents to evidence Company's new name "CEC Entertainment, Inc.", (ii) increase the principal amount of the Note to $30,000,000.00 and (iii) modify certain other terms of the Note or Loan Documents regarding financial reporting or covenants, and Bank One is willing to do so on the terms set out in this Agreement.

IT IS AGREED:

1. Definitions. The definition of terms used in the Loan Agreement and Supplemental Agreement shall have the same meanings in this Agreement unless otherwise defined. The term "Loan Documents" in Section 1.1 of the Loan Agreement shall be amended to include all the documents described above and this Agreement.

2. Principal Balance. Bank One and Company acknowledge that as of the date hereof the outstanding principal balance of the Note is Zero Dollars ($-0-).

3.Change of Name. The definition of Company in all Loan Documents shall be changed from "ShowBiz Pizza Time, Inc." to "CEC Entertainment, Inc." to reflect the change of name of the Company adopted by the Company through the action of its shareholders and board of directors on or about June 25, 1998 as filed with the Secretary of State of Kansas by a Certificate of Amendment to the Restated Articles of Incorporation of Company on June 25, 1998.

4. Revolving Credit Commitment. The definition of "Revolving Credit Commitment" in Section 1.1. Defined Terms of the Loan Agreement shall be amended as follows:

"Revolving Credit Commitment" shall mean an amount equal to Thirty Million and No/100 Dollars ($30,000,000.00) less the Unsecured LC Exposure Amount, as the same may be reduced from time to time or terminated pursuant to Sections 2.4, 2.11 or 9.1 hereof.

5. Restated Note. The Note shall be restated in a form entitled "Third Restated Revolving Credit Note" which shall state its original principal amount as being Thirty Million and No/100 Dollars ($30,000,000.00) to conform to the amended definition of "Revolving Credit Commitment" stated in this Agreement, a copy of the form is attached as Exhibit "A". The terms "Note(s)" or "Revolving Credit Note(s)" shall include the Third Restated Revolving Credit Note for all purposes and in all Loan Documents. Bank One shall retain the written instrument evidencing the original Revolving Credit Note dated June 27, 1995 in the original principal amount of $5,000,000, the original Restated Revolving Credit Note dated August 1, 1996 in the original principal amount of $15,000,000, and the original Second Restated Revolving Credit Note dated effective June 14, 1988 in the original principal amount of $15,000,000, all of which shall be deemed to be superseded by the written instrument evidencing the Third Restated Revolving Credit Note dated on even date with this Agreement in the original principal amount of $30,000,000. Each such superseded note shall be maked "SUPERSEDED BY THE WRITTEN INSTRUMENT EVIDENCING THE THIRD RESTATED REVOLVING CREDIT NOTE DATED EFFECTIVE DECEMBER 4, 1998" and copies of such notes will be delivered to Company contemporaneously with the execution of this Agreement.

6. Guaranties. Section 5.2. Conditions to All Revolving Credit Loans of the Loan Agreement shall be amended by adding the following paragraph and an additional Section 6.13. Guaranty shall be added to the Loan Agreement as follows:

Section 5.2. Conditions to All Revolving Credit Loans. (d) If a Guaranty from one or more Subsidiary of the Company is reasonably deemed necessary by Bank One, those Subsidiaries of the Company shall have executed and delivered an unconditional Guaranty of payment and performance, in a form reasonably satisfactory to Bank One, of all of the Indebtedness or other obligations of the Company arising or incurred by reason of this Agreement.

Section 6.13. Guaranty. If (i) the Company or any Subsidiary at any time after the Effective Date and prior to the Termination Date shall create or acquire any Subsidiary in any manner whatsoever, and (ii) a Guaranty from any such Subsidiary is reasonably deemed necessary by Bank One, such Subsidiary shall promptly execute a form of Guaranty, in a form reasonably satisfactory to Bank One, guaranteeing the payment and performance of all of the Indebtedness or other obligations of the Company arising or incurred by reason of this Agreement.

The Company and each Subsidiary and any Subsidiary created or acquired in the future, acknowledge that there is adequate consideration for the execution of a Guaranty, including but not limited to the continuing availability of the Commitment, and that the foregoing affirmative covenant is a material inducement to Bank One to make the Commitment during the Commitment Period.

7. Financial Statements and Other Information. Section 6.1. Financial Statements and Other Information of the Loan Agreement shall be amended by adding the following paragraph as follows:

(i) Contingent Liabilities - promptly, and in any event within thirty (30) days after a Responsible Officer of the Company becomes aware of any Material actual or contingent liability affecting the Company or any of its Subsidiaries and which, is required to be disclosed in accordance with GAAP, a written statement of a Responsible Officer describing the nature, amount and status of such matters and what action the Company or a Subsidiary has taken, is taking, or proposes to take with respect thereto.

8. Lease-Backs. Section 8.7. Lease-Backs of the Loan Agreement shall be amended and restated as follows:

SECTION 8.7.Lease-Backs. Notwithstanding the provisions of Section 8.2 hereof, the Company will not and will not permit any Subsidiary to enter into any arrangements, directly or indirectly, with any Person, whereby the Company or any of its Subsidiaries shall sell or transfer any property, whether now owned or hereafter acquired, used or useful in their respective businesses in connection with the rental or lease of the property so sold or transferred or of other property which the Company or any of its Subsidiaries intends to use for substantially for the same purpose or purposes as the property so sold or transferred. Notwithstanding the foregoing prohibition, the Company or its Subsidiaries may enter into an arrangement commonly referred to as a "Sale and Lease-Back ", directly or indirectly, with any Person, whereby the Company or any of its Subsidiaries shall sell or transfer real or personal property used for a restaurant location or operation for a restaurant utilizing the "Chuck E. Cheese" restaurant theme or another restaurant theme or concept developed or utilized by the Company or any of its Subsidiaries, provided, however that (i) the aggregate amount, value or obligations of or related to such "Sales and Lease-Backs" shall not exceed $10,000,000 at any one time, and (ii) such "Sales and Lease-Backs" shall be used only for real or personal property acquired or constructed by the Company or any of its Subsidiaries on or after December 4, 1998.

9. Loans. An additional Section 8.9. Company Indebtedness shall be added to the Loan Agreement as follows:

SECTION 8.9. Company Indebtedness. Except for (i) loans among the Company and its Subsidiaries and Affiliates and (ii) as stated below in this section, on or after October 1, 1998, the Company shall not, and shall not permit any Subsidiary or Affiliate to directly or indirectly, make any loans, otherwise extend credit or make financial accommodations to or for the benefit of any unrelated Person or Persons. The Company or its Subsidiaries or Affiliates may make loans, otherwise extend credit or make financial accommodations to or for the benefit of any unrelated Person or Persons in the ordinary course of business of the Company, Subsidiaries or Affiliates provided that the aggregate of such loans, credit or accommodations to all such Persons shall not exceed $5,000,000 at any one time without the prior written approval of Bank One, which approval may be granted or withheld in the sole discretion of Bank One.

10. Acknowledgment of Indebtedness. Company acknowledges that as of the date of this Agreement, it is well and truly indebted to Bank One pursuant to the terms of the Note, as modified hereby. Company hereby promises to pay to Bank One the indebtedness evidenced by the Note in accordance with the terms thereof, as modified hereby, and shall observe, comply with, and perform all of the obligations, terms, and conditions under or in connection with the Note and all other Loan Documents.

11. Ratification of Loan Documents. Except as provided herein, the terms and provisions of the Note and the other Loan Documents shall remain

unchanged and shall remain in full force and effect. Any modification herein of the Note, Loan Agreement and the other Loan Documents shall in no way impair the security of the Loan Documents for the payment of the Note. The promissory notes defined herein and in all other Loan Documents as the "Note" or "Revolving Credit Note(s)" shall hereafter mean the Note as modified by this Agreement. The Loan Agreement, the Note and the other Loan Documents as modified and amended hereby are hereby ratified and confirmed in all respects.

12. Ratification by Guarantors. Each of ShowBiz Nevada, Inc., a Nevada corporation, ShowBiz Merchandising, Inc., a Nevada corporation, SPT Properties Company, Inc., a Nevada corporation, and ShowBiz Cayman Islands, Inc., a Cayman Islands corporation, ratifies and confirms its respective Guarantee Agreements dated as of September 29, 1997, as being binding and continuing and consent to the terms of this Agreement.

13. No Waiver. Company acknowledges that the execution of this Agreement by Bank One is not intended nor shall it be construed as (I) an actual or implied waiver of any default under the Note or any other Loan Document or (ii) an actual or implied waiver of any condition or obligation imposed upon Company pursuant to the Note or any other Loan Document, except to the extent expressly set forth herein.

14. Expenses. Contemporaneously with the execution and delivery hereof, Company shall pay, or cause to be paid, all reasonable costs and expenses incident to the preparation hereof and the consummation of the transactions specified herein, including without limitation fees and expenses of legal counsel to Bank One.

15. Counterparts. This Agreement may be executed in any number of counterparts with the same effect as if all parties hereto had signed the same document. All such counterparts shall be construed together and shall constitute one instrument; but in making proof hereof it shall only be necessary to produce one such counterpart.

16. Benefit. The terms and provisions hereof shall be binding upon and inure to the benefit of the parties hereto, their heirs, representatives, successors and permitted assigns.

17. Release and Waiver of Usury Claim. Company hereby releases Bank One, its successors and assigns, from all claims, demands, liabilities and causes of action which Company may be entitled to assert (although no such claims are known to exist) against Bank One by reason of Bank One's contracting, charging or receiving for the use, forbearance or detention of money, interest on the Loan evidenced by the Note prior to the execution of this Agreement in excess of that permitted to be charged to Company under applicable law.

18. Release and Waiver of Other Claims. In consideration of the terms, conditions and provisions of this Agreement and the other benefits received by Company hereunder, Company further hereby releases, relinquishes and forever discharges Bank One, as well as its parent and subsidiary corporations, predecessors, successors, assigns, agents, officers, directors, employees, representatives, attorneys and accountants of and from any and all claims, demands, actions, causes of action of any and every kind or character, whether known or unknown, which Company may have against Bank One and its parent and subsidiary corporations, predecessors, successors, assigns, agents, officers, directors, employees, representatives, attorneys or accountants

arising out of or with respect to any and all transactions solely relating to the Note or any renewal thereof, and/or the Loan Documents, but excluding any other transactions between the parties, occurring prior to the date hereof, including any other loss, expense and/or detriment, of any kind or character, growing out of or in any way connected with or in any way resulting from the acts, actions or omissions of Bank One and its parent and subsidiary corporations, predecessors, successors, assigns, agents, officers, directors, employees, representatives, attorneys, or accountants, and including any loss, cost or damage in connection with any breach of fiduciary duty, breach of any duty of fair dealing, breach of confidence, breach of funding commitment, undue influence, duress, economic coercion, conflict of interest, negligence, bad faith, malpractice, violations of the racketeer influenced and corrupt organizations act, intentional or negligent infliction of mental duress, tortuous interference with contractual relations, tortuous interference with corporate governance or prospective business advantage, breach of contract, deceptive trade practices, libel, slander or conspiracy.

19. Construction. The parties acknowledge that the parties and their counsel have reviewed and had the opportunity to revise this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any amendments or exhibits hereto.

20. Entire Agreement. THIS AGREEMENT, THE NOTE AND THE WRITTEN LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

IN WITNESS WHEREOF, this Agreement is executed effective as of the date first above written.

BANK ONE, TEXAS, National Association

By:
Name: Paul C. Koch
Title: Vice President

CEC ENTERTAINMENT, INC.

By:
Name: Larry G. Page
Title: Executive Vice President, Chief Financial Officer and Treasurer

SHOWBIZ NEVADA, INC.

By:
Name: Don McKechnie
Title: Director and President

SHOWBIZ MERCHANDISING, INC.

By:
Name: Don McKechnie
Title: Director and President

SPT PROPERTIES COMPANY, INC.

By:
Name: Don McKechnie
Title: Director and President

SHOWBIZ CAYMAN ISLANDS, INC.

By:
Name: Don McKechnie
Title: Director and President

STATE OF TEXAS &
&
COUNTY OF DALLAS &

This instrument was acknowledged before me on December 10, 1998, by Paul C. Koch, Vice President of BANK ONE, TEXAS, NATIONAL ASSOCIATION, a national banking association, on behalf of said national association.

Notary Public, State of Texas
(SEAL)

(Please Print Name of Notary)

My Commission expires:

STATE OF TEXAS &
&
COUNTY OF DALLAS &

This instrument was acknowledged before me on December 10, 1998, by Larry G. Page, Executive Vice President, Chief Financial Officer and Treasurer of CEC ENTERTAINMENT, INC., a Kansas corporation, on behalf of said corporation.

Notary Public, State of Texas
(SEAL)

(Please Print Name of Notary)

My Commission expires:

STATE OF TEXAS &
&
COUNTY OF DALLAS &

This instrument was acknowledged before me on December 10, 1998, by Don McKechnie, Director and President of SHOWBIZ NEVADA, INC. a Nevada corporation, on behalf of said corporation.

Notary Public, State of Texas
(SEAL)

(Please Print Name of Notary)

My Commission expires:

STATE OF TEXAS &
&
COUNTY OF DALLAS &

This instrument was acknowledged before me on December 10, 1998, by Don McKechnie, Director and President of SHOWBIZ MERCHANDISING, INC. a Nevada corporation, on behalf of said corporation.

Notary Public, State of Texas

(SEAL)

(Please Print Name of Notary)

My Commission expires:

STATE OF TEXAS &
&
COUNTY OF DALLAS &

This instrument was acknowledged before me on December 10, 1998, by Don McKechnie, Director and President of SPT PROPERTIES COMPANY, INC. a Nevada corporation, on behalf of said corporation.

Notary Public, State of Texas

(SEAL)

(Please Print Name of Notary)

My Commission expires:

STATE OF TEXAS &
&
COUNTY OF DALLAS &

This instrument was acknowledged before me on December 10, 1998, by Don McKechnie, Director and President of SHOWBIZ CAYMAN ISLANDS, INC. a Cayman Islands corporation, on behalf of said corporation.

Notary Public, State of Texas

(SEAL)

(Please Print Name of Notary)

My Commission expires:

Exhibit 10 (n)(2)

THIRD RESTATED REVOLVING CREDIT NOTE

$30,000,000.00 Dallas, Texas - December 4, 1998

FOR VALUE RECEIVED, the undersigned, CEC ENTERTAINMENT, INC. (f/k/a SHOWBIZ PIZZA TIME, INC.), a Kansas corporation ("Company"), hereby unconditionally promises to pay to the order of BANK ONE, TEXAS, N.A. ("Bank One") at the office of Bank One or any successor, currently located at 1717 Main Street, Dallas, Texas 75201, on June 1, 2000 (or on any annual anniversary thereof agreed to in writing by Bank One and the Company), in lawful money of the United States of America and immediately available funds, an amount equal to the lesser of (a) THIRTY MILLION AND NO/100 DOLLARS ($30,000,000.00), or (b) the aggregate unpaid principal amount of all Revolving Credit Loans made by Bank One to the Company pursuant to Section 2.1 of the Loan Agreement, dated as of June 27, 1995, between Bank One and the Company (as amended, modified or supplemented from time to time in accordance with its terms, the "Loan Agreement").

The Company further promises to pay interest (computed on the basis of a 365-day year for the actual days elapsed) in like money on the unpaid principal balance of this Note from time to time outstanding at the annual rates provided in the Loan Agreement. Interest shall be payable at the times and in the manner provided in the Loan Agreement.

All Revolving Credit Loans made by Bank One pursuant to Section 2.1 of the Loan Agreement and all payments of the principal thereof shall be endorsed by the holder of this Note on the schedule annexed hereto (including any additional pages such holder may add to such schedule), which endorsement shall constitute prima facie evidence of the accuracy of the information so endorsed; provided, however, that the failure of the holder of this Note to insert any date or amount or other information on such schedule shall not in any manner affect the obligation of the Company to repay any Revolving Credit Loans in accordance with the terms of the Loan Agreement.

On and after the stated or any accelerated maturity hereof, this Note shall bear interest until paid in full (whether before or after the occurrence of any Event of Default described in Sections 9.1(g) and 9.1(h) of the Loan Agreement) at a rate of 2.5% per annum in excess of the Prime Rate, payable on demand, but in no event in excess of the maximum rate of interest permitted under applicable law. Such interest rate shall change when and as the Prime Rate changes.

This Note is a Revolving Credit Note referred to in the Loan Agreement, is entitled to the benefits thereof and is subject to optional and mandatory prepayment, in whole or in part, as provided therein. Reference is herein made to the Loan Agreement for the rights of the holder to accelerate the unpaid balance hereof prior to maturity.

The Company hereby waives diligence, demand, presentment, protest and notice of any kind, release, surrender or substitution of security, or forbearance or other indulgence, without notice.

This Note and all of the other Loan Documents are intended to be performed in accordance with, and only to the extent permitted by, all applicable usury laws. If any provision hereof or of any of the other Loan Documents or the application thereof to any person or circumstance shall, for any reason and to any extent, be invalid or unenforceable, neither the application of such provision to any other person or circumstance nor the remainder of the instrument in which such provision is contained shall be affected thereby and shall be enforced to the greatest extent permitted by law. It is expressly stipulated and agreed to be the intent of Bank One at all times to comply with the usury and other applicable laws now or hereafter governing the interest payable on the Indebtedness evidenced by this Note. If the applicable law is ever revised, repealed or interpreted so as to render usurious any amount called for under this Note or any of the other Loan Documents, or contracted for, charged, taken, reserved or received with respect to the Indebtedness evidenced by this Note, or if Bank One's exercise of the option to accelerate the maturity of this Note, or if any prepayment by the Company results in the Company's having paid any interest in excess of that permitted by law, then it is the express intent of the Company and Bank One that all excess amounts theretofore collected by Bank One be credited on the principal balance of this Note (or, if this Note and all other Indebtedness arising under or pursuant to the other Loan Documents have been paid in full, refunded to the Company), and the provisions of this Note and the other Loan Documents immediately be deemed reformed and the amounts thereafter collectable hereunder and thereunder reduced, without the necessity of the execution of any new document, so as to comply with the then applicable law, but so as to permit the recovery of the fullest amount otherwise called for hereunder or thereunder. All sums paid, or agreed to be paid, by the Company for the use, forbearance, detention, taking, charging, receiving or reserving of the Indebtedness of the Company to Bank One under this Note or arising under of pursuant to the other Loan Documents shall, to the maximum extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of such Indebtedness until payment in full so that the rate or amount of interest on account of such Indebtedness does not exceed the usury ceiling from time to time in effect and applicable to such Indebtedness for so long as such Indebtedness is outstanding. To the extent federal law permits Bank One to contract for, charge, or receive a greater amount of interest, Bank One will rely upon federal law instead of Texas Finance Code, as supplemented by Texas Credit Title, for the purpose of determining the maximum rate or amount. Additionally, to the maximum extent permitted by applicable law now or hereafter in effect, Bank One may, at its option and from time to time, implement any other method of computing the maximum rate under such Texas Finance Code, as supplemented by Texas Credit Title, or under other applicable law by giving notice, if required, to the Company as provided by applicable law now or hereafter in effect. Notwithstanding anything to the contrary contained herein or in any of the other Loan Documents, it is not the intention of Bank One to accelerate the maturity of any interest that has accrued at the time of such acceleration or to collect unearned interest at the time of such acceleration.

Capitalized terms used herein and not otherwise defined shall have the meaning ascribed to them in the Loan Agreement.

This Note may not be changed, modified, or terminated orally, but only by an agreement in writing signed by the party to be charged.

IN THE EVENT OF ANY LITIGATION WITH RESPECT TO

THIS REVOLVING CREDIT NOTE, COMPANY WAIVES (TO THE EXTENT PERMITTED BY LAW) THE RIGHT TO A TRIAL BY JURY, ALL RIGHTS OF SETOFF AND RIGHTS TO INTERPOSE COUNTERCLAIMS AND CROSS-CLAIMS (UNLESS SUCH SETOFF, COUNTERCLAIM OR CROSS-CLAIM COULD NOT, BY REASON OF ANY APPLICABLE FEDERAL OR STATE PROCEDURAL LAWS, BE INTERPOSED, PLEADED OR ALLEGED IN ANY OTHER ACTION) AND THE DEFENSES OF FORUM NON CONVENIENS AND IMPROPER VENUE. COMPANY HEREBY IRREVOCABLY CONSENTS TO THE NON-EXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF TEXAS AND OF ANY FEDERAL COURT LOCATED IN DALLAS, TEXAS, IN CONNECTION WITH ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS REVOLVING CREDIT NOTE. THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW AND SHALL BE BINDING UPON THE SUCCESSORS AND ASSIGNS OF COMPANY AND INURE TO THE BENEFIT OF BANK ONE AND ITS SUCCESSORS AND ASSIGNS.

If any term or provision of this Revolving Credit Note shall be held invalid, illegal or unenforceable, the validity of all other terms and provisions herein shall in no way be affected thereby.

This Note is restated in accordance with the terms of that certain Third Modification dated on even date herewith by and between Company and Bank One to conform the terms of this Note to the amended definition of "Revolving Credit Commitment" contained in the Third Modification Agreement.

IN WITNESS WHEREOF, the Company has executed and delivered this Note as of the date first written above.

CEC ENTERTAINMENT, INC.

By:
Name: Larry G. Page
Title: Executive Vice President, Chief Financial Officer and Treasurer

STATE OF TEXAS &
&
COUNTY OF DALLAS &

This instrument was acknowledged before me on December 10, 1998, by Larry G. Page, Executive Vice President, Chief Financial Officer and Treasurer of CEC ENTERTAINMENT, INC., a Kansas corporation, on behalf of said corporation.

Notary Public, State of Texas (SEAL)
(Please Print Name of Notary)

My Commission expires:

INDEPENDENT AUDITOR'S 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 March 8, 1999, appearing in the Annual Report on Form 10-K of CEC Entertainment, Inc. for the year ended January 3, 1999.

DELOITTE & TOUCHE LLP
Dallas, Texas
April 1, 1999

WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

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