

FORM 10-K

(Mark One)

- X Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 27, 1996.
- 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

SHOWBIZ PIZZA TIME, INC.

(Exact name of registrant as specified in its charter)

Kansas 48-0905805
(State or jurisdiction of (I.R.S. Employer
incorporation or organization) 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 14, 1997, an aggregate of 18,518,417 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 14, 1997) held by non-affiliates of the registrant was \$ 13,722,126.

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 1996 annual meeting of shareholders, have been incorporated by reference in Part III of this report.

P A R T I

Item 1. Business

General

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

The Company operated, as of March 14, 1997, 245 Chuck E. Cheese's Pizza ("Chuck E. Cheese's") restaurants (including four restaurants managed by the Company for others). In addition, as of March 14, 1997, franchisees of the Company operated 69 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 32-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):

	1996 -----	1995 -----	1994 -----
Average annual revenues per restaurant (1)	\$1,286,000	\$1,178,000	1,206,000
Number of restaurants open at end of period	240	222	220
Percent of total restaurant revenues:			
Food and beverage sales	70.1%	70.2%	71.0%
Game sales	26.6%	26.6%	25.8%
Merchandise sales	3.3%	3.2%	3.2%

- -----

(1) In computing these averages, only restaurants which were open for a period greater than one year at the beginning of each respective year were included (213, 190 and 159 restaurants in 1996, 1995 and 1994, respectively).

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 December 1996, the Company completed 223 restaurants under this program which is approximately 91% of all Company-operated restaurants. The Company plans to reposition the remaining restaurants by the end of the second quarter of 1997.

The Company opened one new Chuck E. Cheese's restaurant in 1995. The Company anticipates opening approximately six to eight new stores in 1997 and approximately 10 to 12 new stores in 1998. 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 activity area occupies approximately 40% of the space.

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

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

Page 3

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 which target families with young children and feature the family entertainment experiences available at Chuck E. Cheese's restaurants, and is 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 14, 1997, 69 Chuck E. Cheese's restaurants were operated by a total of 44 different franchisees, as compared to 93 of such restaurants at March 15, 1996. In September 1996, the Company purchased all of the 19 Chuck E. Cheese's restaurants owned by its largest franchisee. The Company sold four franchises in 1996.

The Company opened a second franchise restaurant in Chile during the fourth quarter of 1996. 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 1997.

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 0.9% 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 0.4% of gross sales. In 1997, the Advertising Fund will increase assessments from .9% of gross sales to 1.4% of gross sales. The Chuck E. Cheese's franchise agreements also require franchisees to expend at least 3% 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.

Page 4

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. Effective May 5, 1994, the Company sold its Monterey's Tex-Mex Cafe restaurants for an aggregate purchase price consisting of approximately \$6.7 million in cash, \$4.7 million in subordinated promissory notes and the retention of a 12 1/2% equity interest in the acquiring company.

Trademarks

The Company owns various trademarks, including "Chuck E. Cheese" and "ShowBiz Pizza" 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 leave 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 14, 1997, the Company employed approximately 11,000 employees, including 10,800 in the operation of Chuck E. Cheese's restaurants and 185 employed by the Company in the Company's executive offices. None of the Company's employees is a member of any union or collective bargaining group. The Company considers its employee relations to be good.

Page 5

Item 2. Properties

The following table sets forth certain information regarding the Chuck E. Cheese's restaurants operated by the Company (excluding four restaurants managed by the Company for others) as of March 14, 1997.

State	Chuck E. Cheese's
-----	-----
Alabama	5
Arkansas	2
California	46
Colorado	4
Connecticut	5
Delaware	1
Florida	15
Georgia	7
Idaho	1
Illinois	15
Indiana	7
Iowa	4
Kansas	3
Kentucky	1
Louisiana	4
Maryland	10
Massachusetts	10
Michigan	11
Missouri	7
Nevada	1
Nebraska	2
New Hampshire	2
New Jersey	9
New York	5
North Carolina	2
Ohio	11
Pennsylvania	9
South Carolina	3
Tennessee	5
Texas	26
Virginia	5
Wisconsin	3

	241
	===

Of the 241 Chuck E. Cheese's restaurants owned by the Company as of March 14, 1997, 226 occupy leased premises and 15 occupy owned premises. The leases of these restaurants will expire at various times from 1997 to 2009, as described in the table below.

Year of Expiration	Number of Restaurants	Range of Renewal Options (Years)
-----	-----	-----
1997	15	None to 10
1998	31	None to 15
1999	15	None to 15
2000	18	None to 15
2001 and thereafter	147	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 \$22.00 per square foot, subject to periodic adjustment. Most of 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 1996.

Page 7

P A R T I I

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

As of March 14, 1997, there were an aggregate of 18,417,910 shares of the Company's Common Stock outstanding and approximately 4,171 stockholders of record.

The Company's Common Stock is 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 National Market System of NASDAQ:

	High	Low
	-----	-----
1996		
- 1st quarter	12 13/16	8
- 2nd quarter	17 5/8	12 1/2
- 3rd quarter	19 1/4	12
- 4th quarter	20	14
1995		
- 1st quarter	\$ 7 3/16	\$ 4 7/8
- 2nd quarter	8 3/16	5 13/16
- 3rd quarter	9 1/16	7 5/16
- 4th quarter	8 15/16	7 1/4

The Company may not pay any dividends to holders of its Common Stock (except in shares of Common Stock) unless an amount equal to all dividends then accrued on its Class A Preferred Stock par value \$60.00 per share ("the Preferred Stock") has been paid or set aside to be paid. A dividend to holders of record of Preferred Stock as of December 27, 1996 in the amount of \$1.20 per share will be paid on March 27, 1997.

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.

Page 8

Item 6. Selected Financial Data.

	1996	1995	1994	1993	1992
	----	----	----	----	----
	(Thousands, except per share and store data)				
Operating results (1):					
Revenues	\$ 293,990	\$ 263,783	\$268,515	\$272,344	\$253,444
Costs and expenses	271,769	263,408	265,402	254,097	228,194
	-----	-----	-----	-----	-----
Income before income taxes	22,221	375	3,113	18,247	25,250
Income taxes:					
Current expense	2,855	701	869	1,751	1,161
Deferred expense (benefit)	6,145	(389)	1,568	4,605	8,586
	-----	-----	-----	-----	-----
	9,000	312	2,437	6,356	9,747
	-----	-----	-----	-----	-----
Net income	\$ 13,221	\$ 63	\$ 676	\$11,891	\$15,503
	=====	=====	=====	=====	=====
Per Share (2):					
Primary:					
Net income (loss)	\$.70	\$ (.02)	\$.02	\$.57	\$.74
Weighted average shares outstanding	18,477	18,098	18,191	20,183	20,493
Fully diluted:					
Net income (loss)	\$.70	\$ (.02)	\$.02	\$.57	\$.74
Weighted average shares outstanding	18,532	218,098	18,191	20,196	20,570
Cash flow data:					
Cash provided by operations	\$ 48,362	\$ 27,810	\$ 30,819	\$ 44,905	\$ 44,246
Cash used in investing activities	(51,868)	(30,548)	(22,576)	(45,909)	(35,872)
Cash provided by (used in) financing activities	1,319	5,946	(10,373)	2,053	(7,631)
Balance sheet data:					
Total assets	\$216,580	\$199,010	\$188,308	\$193,649	\$173,217
Long-term obligations (including current portion and redeemable preferred stock)	39,571	39,244	33,223	29,816	17,743
Shareholders' equity	141,476	126,487	125,515	136,647	132,167
Number of restaurants at year end:					
Chuck E. Cheese's:					
Company operated	244	226	226	215	182
Franchise	70	93	106	110	113
	-----	-----	-----	-----	-----
	314	319	332	325	295

Monterey's Tex-Mex Cafe's			27	28
-----	-----	-----	-----	---
314	319	332	352	323
=====	=====	=====	=====	=====

- (1) Fiscal year 1992 was 53 weeks in length while fiscal years 1996, 1995, 1994, and 1993 were 52 weeks in length.
- (2) No cash dividends on common stock were paid in any of the years presented.

Page 9

Item 7. Management's Discussion and Analysis of Financial Condition and Results Of Operations.

Results of Operations

1996 Compared to 1995

Revenues increased 11.5% to \$294.0 million in 1996 from \$263.8 million in 1995 primarily due to an increase of 9.8% in sales of the Company's Chuck E. Cheese's restaurants which were open during all of 1996 and 1995 ("comparable store sales"). In addition, the Company purchased 19 restaurants from its largest franchisee in September 1996.

Income before income taxes increased to \$22.2 million in 1996 from \$375,000 in 1995. A material portion of operating costs are fixed resulting in an improvement of operating margins at higher sales levels. Net income increased to \$13.2 million in 1996 from \$63,000 in 1995. The Company's primary and fully diluted earnings per share increased to \$.70 per share in 1996 compared to a loss of \$.02 per share in 1995.

A summary of the results of operations of the Company as a percentage of revenues for the last three fiscal years is shown below.

	1996	1995	1994
	----	-----	-----
Revenues	100.0%	100.0%	100.0%
	-----	-----	-----
Costs and expenses:			
Cost of sales	48.7%	51.8%	51.3%
Selling, general and administrative	14.8%	17.0%	17.6%
Depreciation and amortization	8.5%	8.8%	9.7%
Interest expense	1.2%	1.2%	.7%
(Gain) loss on property transactions1%	.1%	(1.0%)
Other operating expenses	19.1%	21.0%	20.5%
	-----	-----	-----
	92.4%	99.9%	98.8%
	-----	-----	-----
Income before income taxes	7.6%	.1%	1.2%
	=====	=====	=====

Revenues

Revenues increased to \$294.0 million in 1996 from \$263.8 million in 1995. Comparable store sales of Chuck E. Cheese's restaurants

increased by 9.8% in 1996. In addition, the Company purchased 19 restaurants from its largest franchisee in September 1996. Average annual sales per restaurant increased to approximately \$1,286,000 in 1996 from approximately \$1,178,000 in 1995. Management believes that several factors contributed to the comparable store sales increase with the primary factor being sales increases at repositioned stores. Menu prices increased 3.2% between the two years.

Revenues from franchise fees and royalties were \$3.7 million in 1996, an increase of 6.1% from 1995, primarily due to an increase in franchise fee income in 1996 and an increase of 3.6% in comparable franchise store sales for 1996. The increase in comparable franchise store sales was partially offset by a decline in the number of franchise restaurants operated each year. During 1996, four new franchise restaurants opened, eight franchise restaurants closed and 19 franchise restaurants were purchased by the Company.

Costs and Expenses

Costs and expenses as a percentage of revenues decreased to 92.4% in 1996 from 99.9% in 1995.

Cost of sales as a percentage of revenues decreased to 48.7% in 1996 from 51.8% in 1995. Cost of food, beverage, prize and merchandise items for Chuck E. Cheese's restaurants as a percentage of restaurant sales decreased to 17.4% in 1996 from 17.9% in 1995 primarily due to a 3.2% increase in menu prices. Labor expenses for Chuck E. Cheese's restaurants as a percentage of restaurant sales declined to 28.7% in 1996 from 30.9% in 1995 primarily due to an increase in comparable store sales and more effective utilization of hourly employees.

Page 10

Selling, general and administrative expenses as a percentage of revenues decreased to 14.8% in 1996 from 17.0% in 1995 primarily due to comparable store sales increases and a reduction of advertising costs between the two periods.

Depreciation and amortization expense as a percentage of revenues decreased to 8.5% in 1996 from 8.8% in 1995 primarily due to the full amortization of certain deferred charges.

Interest expense increased to \$3.5 million in 1996 from \$3.1 million in 1995 primarily due to an increase in the Company's average outstanding debt between the two periods. Debt increased as a result of capital expenditures in connection with the repositioning of 126 and 87 restaurants in 1996 and 1995, respectively.

The Company had a net loss on property transactions of \$263,000 in 1996 and \$136,000 in 1995 due to the replacement of assets arising from the enhancement of facilities and entertainment packages of restaurants. The loss in 1995 was net of a gain of \$100,000 from the sale of certain assets which had been held for resale.

Other operating expenses decreased as a percentage of revenues to 19.1% in 1996 from 21.0% in 1995 primarily due to a decrease in insurance costs, the increase in comparable store sales and the fact that a significant portion of operating costs are fixed.

Net Income

The Company had net income of \$13.2 million in 1996 compared to \$63,000 in 1995 due to the changes in revenues and expenses discussed above. The Company's primary and fully diluted earnings per share increased to \$.70 per share in 1996 compared to a loss of \$.02 per share in 1995.

1995 Compared to 1994

Revenues declined 1.8% to \$263.8 million in 1995 from \$268.5 million in 1994 due to the sale of the Company's Monterey's Tex-Mex Cafe restaurants effective May 5, 1994. Revenue generated by the Company's Chuck E. Cheese's restaurants increased to \$263.3 million in 1995 from \$262.0 million in 1994 due to the net addition of 11 Company restaurants in 1994 and two Company restaurants in 1995. Comparable store sales from the Company's Chuck E. Cheese's restaurants declined by 1.4% from 1994 to 1995. Revenues from the Company's Monterey's Tex-Mex Cafe restaurants were \$6.5 million in 1994.

Income before income taxes decreased to \$375,000 in 1995 from \$3.1 million in 1994. Included in income before taxes in 1994 was a gain of \$5.5 million related to the sale of the Company's Monterey's Tex-Mex Cafe restaurants and a \$2.3 million loss associated with the impairment in fair value of certain Chuck E. Cheese's restaurants. Income before income taxes in 1994 was also reduced by approximately \$900,000 due to a write-off of all unamortized preopening expenses resulting from a change in the estimated future benefit of such expenses. A material portion of operating costs are fixed resulting in an erosion of operating margins at lower sales levels. Net income declined to \$63,000 in 1995 from \$676,000 in 1994.

Revenues

Revenues decreased to \$263.8 million in 1995 from \$268.5 million in 1994 due to the sale of the Company's Monterey's Tex-Mex Cafe restaurants effective May 4, 1994. Comparable store sales of Chuck E. Cheese's restaurants declined by 1.4% from 1994 to 1995. Average annual sales per restaurant decreased to approximately \$1,178,000 in 1995 from approximately \$1,206,000 in 1994. Menu prices were comparable between the two years. The increasing number of completed repositioned restaurants resulted in a 2.3% increase in comparable store sales in the fourth quarter of 1995 compared to the same period of the prior year. This was the first quarter since 1992 that comparable store sales had increased from the prior year.

Page 11

Revenues from franchise fees and royalties were \$3.5 million in 1995, a decrease of 15.1% from 1994, primarily due to a 6.2% decline in comparable franchise store sales for 1995 and a decline in the number of franchise restaurants operated each year. During 1995, one new franchise restaurant opened and 14 franchise restaurants closed.

Costs and Expenses

Costs and expenses as a percentage of revenues increased to 99.9% in 1995 from 98.8% in 1994.

Cost of sales as a percentage of revenues increased to 51.8% in 1995 from 51.3% in 1994. Cost of food, beverage, prize and merchandise items for Chuck E. Cheese's restaurants as a percentage of restaurant sales decreased to 17.9% in 1995 from 18.2% in 1994 primarily due to an increase in game sales as a percentage of total restaurant sales. Labor expenses for Chuck E. Cheese's restaurants as a percentage of restaurant sales increased to 30.9% in 1995 from 30.0% in 1994 primarily due to increased labor rates, reduced management turnover and the decline in comparable store sales.

Selling, general and administrative expenses as a percentage of revenues decreased to 17.0% in 1995 from 17.6% in 1994 primarily

due to a reduction in corporate overhead expenses.

Depreciation and amortization expense as a percentage of revenues decreased to 8.8% in 1995 from 9.7% in 1994. Preopening expense declined due to the write-off of all unamortized preopening expense in the fourth quarter of 1994 resulting from a change in the estimated useful future benefit of such expenses. Depreciation and amortization expense decreased by \$2.8 million in 1995 primarily due to a change effected in the first quarter of 1995 in the estimated useful lives of certain fixed assets based on a review of historical asset utilization that resulted in approximately \$2.3 million of such decrease and the sale of Monterey's Tex-Mex Cafe restaurants in May 1994.

Interest expense increased to \$3.1 million in 1995 from \$1.9 million in 1994 primarily due to an increase in interest rates and the Company's average outstanding debt between the periods.

The Company had a net loss on property transactions of \$136,000 in 1995 compared to a net gain on property transactions of \$2.6 million in 1994. In 1994, the Company recognized a gain of \$5.5 million from the sale of substantially all of the assets of its Monterey's Tex-Mex Cafe restaurants on May 5, 1994. The gain was partially offset by a loss of approximately \$2.3 million in 1994. The loss was a result of the Company's decision to close one Chuck E. Cheese's restaurant and the impairment in fair value of the fixed assets of 10 Chuck E. Cheese's restaurants due to the Company's decision not to renew the leases as a result of the deterioration of site characteristics or the inability to renew the leases at acceptable rental terms. The Company will consider possible relocation of some of the restaurants.

Other operating expenses as a percentage of revenues increased to 21.0% in 1995 from 20.5% in 1994 primarily due to increased rent expense and the decline in comparable store sales.

Net Income

In 1994, the Company established an allowance of approximately \$1.1 million related to deferred tax credit carryforwards which are estimated to expire in 1997. Income tax expense was increased by approximately \$1.1 million as a result of this allowance. The Company's net income decreased to \$63,000 in 1995 from \$676,000 in 1994 due to the changes in revenues and expenses as discussed above. The Company's primary and fully diluted earnings per share decreased to a loss of \$.02 per share in 1995 from earnings of \$.02 per share in 1994.

Inflation

The Company's costs 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 recent increases in federally mandated minimum wage will result in increased labor costs for the Company. Any other increases in such costs 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.

Page 12

Financial Condition, Liquidity and Capital Resources

Cash provided by operations increased to \$48.4 million in 1996 from \$27.8 million in 1995. Cash outflow from investing activities for 1996 was \$51.9 million. Cash inflow from financing activities

in 1996 was \$1.3 million. The Company's primary requirements for cash relate to planned capital expenditures and debt service. The Company expects that it will satisfy such requirements from cash provided by operations and funds available under its line of credit.

The Company repositioned 126, 87 and 10 restaurants in 1996, 1995 and 1994, respectively. Company expenditures relating to the remodeling program averaged approximately \$330,000 per restaurant during 1996 representing total expenditures of approximately \$41.6 million. The Company anticipates remodeling the remaining 21 restaurants in the first half of 1997 at an average cost of approximately \$350,000 per restaurant for a total of approximately \$7.4 million. However, this amount can vary significantly at a particular restaurant depending on several factors, including the restaurant's square footage, the date of the most recent remodel and the existing assets at the restaurant. Expenditures relating to the repositioning program have been financed primarily by cash flow from operations and borrowings under the Company's line of credit.

The Company plans to open approximately six to eight new stores in 1997 and 10 to 12 new stores in 1998. The Company currently anticipates the cost of opening such new stores to average approximately \$1.3 million per store. In addition to such new store openings, the Company plans to expand 10 to 15 existing stores in 1997 by an average of 1,000 to 4,000 square feet per store. The Company also anticipates adding new game packages to as many as 100 stores in 1997 at an average cost of approximately \$150,000 per store. The Company currently estimates that capital expenditures in 1997, including expenditures for the remodeling of existing stores, new store openings, existing store expansions and equipment investments, will be approximately \$40 to \$50 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 August 1996, the Company increased its line of credit to \$15.0 million from \$5.0 million and extended the maturity date from June 1997 to June 1998. Currently, any borrowings under this line of credit would be at prime or at the London Interbank Offered Rate ("LIBOR") plus 2%. As of December 27, 1996, \$7.4 million was outstanding under the line of credit.

The Company believes it will realize substantial benefit in the future from utilization of approximately \$47 million in net operating loss carryforwards to reduce its future federal income tax liability. Such net operating loss carryforwards expire from years 1999 through 2001. Although the use of such carryforwards could, under certain circumstances, be limited, the Company is presently unaware of the occurrence of any event which would result in the imposition of such limitation. The Company has adopted an amendment to its Restated Articles of Incorporation which is intended to prevent changes in ownership of its common stock that would cause such limitation. In addition, the Company has investment tax credit, job tax credit and alternative minimum tax credit carryforwards of approximately \$7 million. The investment tax credit and the job tax credit carryforwards expire in years 1997 through 2010. Tax credit carryforwards can be utilized by the Company only after all net operating loss carryforwards have been realized. If the improvement in the Company's results of operations do not continue, a portion of the net operating loss and tax credit carryforwards could expire prior to utilization, resulting in a charge against income. Taxable income for the five years ending December 27, 1996 was \$66 million. Based on current results of the repositioned restaurants, the Company currently projects future taxable income levels sufficient to realize its net operating loss and tax credit carryforwards prior to their expiration after considering an allowance of \$1.1 million for the estimated expiration of tax credit carryforwards in 1997. However, there can be no assurance that the levels of taxable income will be sufficient to realize these benefits.

Item 8. Financial Statements and Supplementary Data

SHOWBIZ PIZZA TIME, INC.
YEARS ENDED DECEMBER 27, 1996 DECEMBER 29, 1995
AND DECEMBER 30, 1994

CONTENTS

	Page

Independent auditors' report	15
Consolidated financial statements:	
Consolidated balance sheets	16
Consolidated statements of earnings	17
Consolidated statements of shareholders' equity	18
Consolidated statements of cash flows	19
Notes to consolidated financial statements.	20

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
ShowBiz Pizza Time, Inc.
Irving, Texas

We have audited the accompanying consolidated balance sheets of ShowBiz Pizza Time, Inc. and subsidiary as of December 27, 1996 and December 29, 1995, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 27, 1996. 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 ShowBiz Pizza Time, Inc. and subsidiary as of December 27, 1996 and December 29, 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 27, 1996, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for pre-opening costs in 1994.

DELOITTE & TOUCHE LLP

Dallas, Texas
February 21, 1997

Page 15

SHOWBIZ PIZZA TIME, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 27, 1996 AND DECEMBER 29, 1995
(Thousands, except share data)

ASSETS	December 27, 1996 -----	December 29, 1995 -----
Current assets:		
Cash and cash equivalents	\$ 3,402	\$ 5,589
Accounts receivable, including receivables from related parties of \$675 and \$415, respectively.	3,543	3,327
Current portion of notes receivable, including receivables from related parties of \$221 and \$327, respectively	457	608
Inventories	3,368	3,589
Prepaid expenses.	3,185	2,781
Current portion of deferred tax asset	13,633 -----	4,147 -----
Total current assets	27,588 -----	20,041 -----
Investments in related parties	1,315 -----	761 -----
Property and equipment	163,998	137,181
Deferred tax asset	12,296	28,582
Other assets:		
Notes receivable, less current portion, including receivables from related parties of \$2,323 and \$1,983, respectively	7,257	7,072
Other	4,126	5,373
	11,383 -----	12,445 -----

\$216,580	\$199,010
=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Current portion of long-term debt	\$ 1,785	\$ 95
Accounts payable and accrued liabilities. . .	31,738	29,836
	-----	-----
Total current liabilities.	33,523	29,931
	-----	-----
Long-term debt, less current portion	34,668	35,753
	-----	-----
Deferred credits	3,795	3,443
	-----	-----
Other liabilities.	1,010	1,391
	-----	-----
Commitments and contingencies		
Redeemable preferred stock, \$60 par value, redeemable for \$2,974 in 2005	2,108	2,005
	-----	-----
Shareholders' equity:		
Common stock, \$.10 par value; authorized 50,000,000 shares; 21,519,075 and 21,435,092 shares issued, respectively	2,152	2,144
Capital in excess of par value.	153,795	153,515
Retained earnings	17,613	4,733
Deferred compensation	(1,821)	(3,642)
Less treasury shares of 3,109,176 at both dates, at cost.	(30,263)	(30,263)
	-----	-----
	141,476	126,487
	-----	-----
	\$ 216,580	\$ 199,010
	=====	=====

See notes to consolidated financial statements.

SHOWBIZ PIZZA TIME, INC.
CONSOLIDATED STATEMENTS OF EARNINGS
YEARS ENDED DECEMBER 27, 1996,
DECEMBER 29, 1995 AND DECEMBER 30, 1994
(Thousands, except per share data)

	1996	1995	1994
	----	----	----
Food and beverage revenues	\$202,624	\$182,376	\$189,257
Games and merchandise revenues	86,444	76,969	74,331
Franchise fees and royalties	3,675	3,464	4,078
Interest income, including related party income of \$246, \$222, and \$209, respectively.	1,051	872	688
Joint venture income	196	102	161
	-----	-----	-----
	293,990	263,783	268,515
	-----	-----	-----

Costs and expenses:			
Cost of sales	143,381	136,700	137,729
Selling, general and administrative expenses, including related party expenses of \$125 in each year.	43,534	44,794	47,263
Depreciation and amortization	25,057	23,184	26,032
Interest expense.	3,476	3,118	1,861
(Gain) loss on property transactions.	263	136	(2,597)
Other operating expenses.	56,058	55,476	55,114
	-----	-----	-----
	271,769	263,408	265,402
	-----	-----	-----
Income before income taxes	22,221	375	3,113
Income taxes:			
Current expense.	2,855	701	869
Deferred (benefit) expense	6,145	(389)	1,568
	-----	-----	-----
	9,000	312	2,437
	-----	-----	-----
Net income.	\$ 13,221	\$ 63	\$ 676
	=====	=====	=====
Earnings per common and common equivalent share:			
Primary:			
Net income (loss).	\$.70	\$ (.02)	\$.02
Weighted average shares outstanding.	18,477	18,098	18,191
Fully diluted:			
Net income (loss).	\$.70	\$ (.02)	\$.02
Weighted average shares outstanding.	18,532	18,098	18,191

See notes to consolidated financial statements.

Page 17

SHOWBIZ PIZZA TIME, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 27, 1996,
DECEMBER 29, 1995 AND DECEMBER 30, 1994
(Thousands, except per share data)

Common Stock Shares	Par Value	Capital in Excess of Par Value	Retained Earnings	Deferred Compen- sation	Treasury Stock Shares	Cost
-----	-----	-----	-----	-----	-----	-----
Balances, December 31, 1993.						
21,425	\$ 2,143	\$156,511	\$ 4,677	\$ (9,934)	1,569	\$ (16,750)
Net income.						
		676				
Redeemable preferred stock accretion						
		(103)				
Redeemable preferred stock dividends, \$4.80 per share.						
		(238)				
Stock options exercised						
81	8	232				
Tax benefit from exercise of stock options and stock grants						
		(928)				

See notes to consolidated financial statements.

Page 18

SHOWBIZ PIZZA TIME, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 27, 1996,
DECEMBER 29, 1995 AND DECEMBER 30, 1994
(Thousands)

	1996	1995	1994
	----	----	----
Operating activities:			
Net income	\$13,221	\$ 63	\$ 676
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization	25,057	23,184	26,032
Deferred income tax expense (benefit)	6,145	(389)	1,568
(Gain) loss on property transactions	263	136	(2,597)
Compensation expense under stock grant plan	1,821	1,821	2,734
Other	352	418	619
Net change in receivables, inventories, prepaids, payables and accrued liabilities	1,503	2,577	1,787
	-----	-----	-----
Cash provided by operations	48,362	27,810	30,819
	-----	-----	-----
Investing activities:			
Purchases of property and equipment	(51,719)	(28,277)	(29,421)
Proceeds from disposition of property and equipment.		20	6,725
Payments received on notes receivable.	3,534	2,503	2,992
Additions to notes receivable.	(3,568)	(3,047)	(2,169)
Change in investments and other assets.	(115)	(1,747)	(703)
	-----	-----	-----
Cash used in investing activities	(51,868)	(30,548)	(22,576)
	-----	-----	-----
Financing activities:			
Proceeds from line of credit	7,600	38,895	8,535
Payments on line of credit	(6,900)	(32,995)	(5,235)
Reduction of debt and capital lease obligations.	(95)	(59)	(47)
Redeemable preferred stock dividends	(238)	(238)	(238)
Acquisition of treasury stock.			(13,513)
Exercise of stock options.	937	90	240
Other.	15	253	(115)
	-----	-----	-----
Cash provided by (used in) financing activities	1,319	5,946	(10,373)
	-----	-----	-----
Increase (decrease) in cash and cash equivalents.	(2,187)	3,208	(2,130)
Cash and cash equivalents, beginning of year	5,589	2,381	4,511
	-----	-----	-----
Cash and cash equivalents, end of year	\$ 3,402	\$ 5,589	\$ 2,381
	=====	=====	=====

See notes to consolidated financial statements.

Page 19

SHOWBIZ PIZZA TIME, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 27, 1996,
DECEMBER 29, 1995 AND DECEMBER 30, 1994

1. Summary of significant accounting policies:

Operations:

ShowBiz Pizza Time, Inc. (the "Company") operates and franchises family restaurant entertainment centers as Chuck E. Cheese's restaurants, and through BHC Acquisition Corporation ("BAC"), its wholly owned subsidiary, also operated Monterey's Tex-Mex Cafe restaurants. The Monterey's Tex-Mex Cafe restaurants were sold effective May 5, 1994.

Fiscal year:

The Company's fiscal year is 52 or 53 weeks and ends on the Friday nearest December 31. References to 1996, 1995 and 1994 are for the fiscal years ended December 27, 1996, December 29, 1995 and December 30, 1994, respectively. Fiscal years 1996, 1995 and 1994 were each 52 weeks in length.

Basis of consolidation:

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

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. During the first quarter of 1995, the Company changed its estimate of the useful lives of certain fixed assets. As a result of this change, income before income taxes increased approximately \$2.3 million, net income increased approximately \$1.4 million and earnings per share increased approximately \$.12 in 1995.

Deferred charges and related amortization:

In the fourth quarter of 1994, the Company revised its estimate of the future benefit for preopening expenses. As a result, the Company expensed all unamortized preopening expenses of approximately \$900,000. The Company now expenses all preopening expenses as incurred. Previously, preopening expenses were amortized over a two year period. Other deferred charges are amortized over various periods of up to five years. All amortization is provided by the straight-line method, which approximates the interest method.

Page 20

SHOWBIZ PIZZA TIME, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 27, 1996,
DECEMBER 29, 1995 AND DECEMBER 30, 1994

1. Summary of significant accounting policies (continued):

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 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:

The Company has elected to not apply the accounting provisions of the Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" issued by the Financial Accounting Standards Board ("SFAS 123"). In 1996, the Company implemented the disclosure provisions of SFAS 123 (Note 19).

Earnings per share:

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 128 "Earnings per share" effective for years ending after December 15, 1997. The Company does not believe that adoption will have a material impact on earnings per share.

2. Significant transactions:

In September 1996, the Company purchased from its largest franchisee 19 restaurants plus the 49% minority interest of one restaurant previously operated as a joint venture by the Company and seller. In addition to the cash purchase price of \$2.6 million, the Company reimbursed the seller for remodeling costs for three restaurants which had been recently remodeled. The Company assumed no liabilities under the asset purchase. Results of operations for the assets purchased are included in the Company's results from the date of this acquisition.

Effective May 5, 1994, the Company sold its Monterey's Tex-Mex Cafe restaurants for an aggregate purchase price consisting of approximately \$6.7 million in cash, \$4.7 million in subordinated promissory notes and the retention of a 12 1/2% equity interest in the acquiring company. Due to the Company's substantial equity interest, the acquiring company is a related party subsequent to the transaction. Revenues from the Company's Monterey's Tex-Mex Cafe restaurants were \$6.5 million in 1994. Income before income taxes was \$6.3 million in 1994 including a gain of \$5.5

million from the sale.

The Company provided for a loss of approximately \$2.3 million in 1994 as a result of the Company's decision to close one Chuck E. Cheese's restaurant and the impairment in fair value of the fixed assets of 10 Chuck E. Cheese's restaurants. The impairment in fair value of the 10 restaurants was due to the Company's decision not to renew the leases as a result of the deterioration of site characteristics or the inability to renew the leases at acceptable rental terms.

Page 21

SHOWBIZ PIZZA TIME, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 YEARS ENDED DECEMBER 27, 1996,
 DECEMBER 29, 1995 AND DECEMBER 30, 1994

3. Accounts receivable:

	1996	1995
	----	----
	(thousands)	
Trade	\$ 538	\$ 516
Other	3,025	2,886
	-----	-----
	3,563	3,402
Less allowance for doubtful collection.	(20)	(75)
	-----	-----
	\$ 3,543	\$ 3,327
	=====	=====

4. Notes receivable:

The Company's notes receivable at December 27, 1996 and December 29, 1995 arose principally as a result of the sale of restaurants, lines of credit established with the International Association of ShowBiz Pizza Time Restaurants, Inc., a related party (Note 18), 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 \$174,000 and \$354,000 at December 27, 1996 and December 29, 1995, respectively.

5. Property and equipment:

	Estimated Lives (in years)	1996	1995
	-----	-----	-----
		(thousands)	
Land and improvements.	0 - 20	\$ 5,208	\$ 4,630
Leasehold improvements	4 - 20	135,201	118,041
Buildings and improvements	4 - 25	9,161	8,789
Furniture, fixtures and equipment	2 - 15	120,688	97,703
Property leased under capital leases (Note 7)	10 - 15	1,328	1,328
		-----	-----

	271,586	230,491
Less accumulated depreciation and amortization	(108,345)	(94,781)
	<u>163,241</u>	<u>135,710</u>
Construction in progress	757	1,471
	<u>\$ 163,998</u>	<u>\$ 137,181</u>

Page 22

SHOWBIZ PIZZA TIME, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 27, 1996,
DECEMBER 29, 1995 AND DECEMBER 30, 1994

6. Accounts payable and accrued liabilities:

	1996	1995
	-----	-----
	(thousands)	
Accounts payable	\$13,240	\$ 12,851
Salaries and wages	4,292	4,215
Insurance	8,714	8,805
Taxes, other than income	3,037	2,561
Other	2,455	1,404
	-----	-----
	\$ 31,738	\$ 29,836
	=====	=====

7. Leases:

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

Following is a summary of property leased under capital leases:

	1996	1995
	-----	-----
	(thousands)	
Buildings and improvements	\$ 1,328	\$ 1,328
Less accumulated depreciation	(982)	(877)
	-----	-----
	\$ 346	\$ 451
	=====	=====

Scheduled annual maturities of the obligations for capital and operating leases as of December 27, 1996, are as follows:

Years -----	Capital -----	Operating -----
		(thousands)
1997.	\$ 292	\$28,270
1998.	256	26,419
1999.	184	24,731
2000.	187	23,073
2001.	214	20,348
2002-2009 (aggregate payments).	838	27,076
	-----	-----
Minimum future lease payments	1,971	\$149,917
Less amounts representing interest.	(918)	

Present value of future minimum lease payments.	1,053	
Less current portion.	(117)	

	\$ 936	
	=====	

Page 23

SHOWBIZ PIZZA TIME, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 27, 1996
DECEMBER 29, 1995 AND DECEMBER 30, 1994

7. Leases (continued):

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

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

	1996 ----	1995 -----	1994 ----
		(thousands)	
Minimum	\$30,484	\$28,730	\$28,003
Contingent	195	146	216
	-----	-----	-----
	\$30,679	\$28,876	\$28,219
	=====	=====	=====

8. Long-term debt:

	1996 -----	1995 -----
	(thousands)	
Term loans, 10.02%, due June 2001	\$ 18,000	\$ 18,000
Term loans, LIBOR plus 3.5%, due June 2000	10,000	10,000
Term loans, LIBOR plus 3.5%, due October 1997.		5,000
Revolving bank loan, prime plus 0% to .5% or LIBOR plus 2% to 3%, due June 1998	7,400	1,700
Obligations under capital leases (Note 7).	1,053	1,148
	-----	-----
	36,453	35,848
	-----	-----
Less current portion.	(1,785)	(95)

-----	-----
\$ 34,668	\$ 35,753
=====	=====

In August 1996, the Company's line of credit agreement was amended to provide the Company with available borrowings of up to \$15 million expiring in June 1998. In September 1996, the Company prepaid \$5 million in term notes. The Company's credit facility totals \$43 million, which consists of \$28 million in term notes and the \$15 million line of credit. Interest under the line of credit is dependent on earnings and debt levels of the Company. Currently, any borrowings under this line of credit would be at prime (8.25% at December 27, 1996) plus 0% or, at LIBOR (5.5% at December 27, 1996) plus 2%. At December 27, 1996, \$7.4 million was 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.

SHOWBIZ PIZZA TIME, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 27, 1996,
DECEMBER 29, 1995 AND DECEMBER 30, 1994

8. Long-term debt (continued):

As of December 27, 1996, scheduled annual maturities of all long-term debt (exclusive of obligations under capital leases) are as follows (thousands):

Years	Amount
-----	-----
1997.	\$ 1,668
1998.	10,732
1999.	9,333
2000.	7,667
2001.	6,000

	\$35,400
	=====

9. Commitments and contingencies:

The Company has guaranteed certain obligations related to restaurant building and equipment leases. The underlying assets are collateral for the leases and the makers or assignees of all of the obligations are required to perform thereunder before the Company is required to fulfill its guarantee. In the event of default by the maker or assignee, the Company, in almost all cases, may make payment under the guarantees in accordance with the original payment schedule and has the right to locate potential buyers or subtenants for the assets. As of December 27, 1996, such guarantees aggregated approximately \$142,000.

10. 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.

11. Redeemable preferred stock:

As of December 27, 1996, the Company had 49,570 shares of its redeemable preferred stock authorized and outstanding. The stock pays dividends at \$4.80 per year, subject to a minimum cash flow test. As of December 27, 1996, one quarterly dividend, totaling \$59,484 or \$1.20 per share, was accrued but not yet paid. The redeemable preferred stock has been recorded at the net present value 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 shall be able to elect a majority of the directors of the Company.

SHOWBIZ PIZZA TIME, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 YEARS ENDED DECEMBER 27, 1996,
 DECEMBER 29, 1995 AND DECEMBER 30, 1994

12. Earnings per common share:

Earnings per common and common equivalent share were computed based on the weighted average number of common and dilutive common equivalent shares outstanding during the period. Net income available per common share has been adjusted for the items indicated.

Earnings per common and common equivalent share (adjusted for a three-for-two stock split effected May 22, 1996) were computed as follows (thousands, except per share data):

	1996 ----	1995 ----	1994 ----
Net income	\$ 13,221	\$ 63	\$ 676
Accretion of redeemable preferred stock	(103)	(104)	(103)
Redeemable preferred stock dividends	(238)	(238)	(238)
	-----	-----	-----
Adjusted income (loss) applicable to common shares	\$ 12,880	\$ (279)	\$ 335
	=====	=====	=====
Primary:			
Weighted average common shares outstanding	18,207	18,098	18,117
Common equivalent shares for stock options	270		74
	-----	-----	-----
Weighted average shares outstanding	18,477	18,098	18,191
	=====	=====	=====
Earnings (loss) per common and common equivalent share	\$.70	\$ (.02)	\$.02
	=====	=====	=====
Fully Diluted:			
Weighted average common shares outstanding	18,207	18,098	18,117
Common equivalent shares for stock options	325		74
	-----	-----	-----

Weighted average shares outstanding	18,532 =====	18,098 =====	18,191 =====
Earnings (loss) per common and common equivalent share	\$.70 =====	\$ (.02) =====	\$.02 =====

13. Franchise fees and royalties:

At December 27, 1996, 70 Chuck E. Cheese's restaurants were operated by a total of 44 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 \$274,000, \$98,000, and \$315,000 in 1996, 1995 and 1994, respectively.

14. Cost of sales:

	1996 ----	1995 ----	1994 ----
	(thousands)		
Food, beverage and related supplies	\$45,681	\$43,412	\$46,328
Games and merchandise	14,816	13,285	12,369
Labor	82,884	80,003	79,032
	-----	-----	-----
	\$ 143,381	\$136,700	\$137,729
	=====	=====	=====

SHOWBIZ PIZZA TIME, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 27, 1996,
DECEMBER 29, 1995 AND DECEMBER 30, 1994

15. Income taxes:

The significant components of income tax expense are as follows:

	1996 ----	1995 ----	1994 ----
	(thousands)		
Current expense	\$ 2,855	\$ 701	\$ 869
Deferred expense:			
Utilization of operating loss carryforwards	8,664	1,138	2,204
Net tax benefits from exercise of stock options and stock grants	(655)	(654)	(928)
Allowance for tax credit carryforwards expiring in 1997			1,104
Tax credits	(475)	(127)	(237)
Other (primarily temporary differences related to depreciation)	(1,389)	(746)	(575)
	-----	-----	-----

\$ 9,000 \$ 312 \$2,437
 ===== ===== =====

At December 27, 1996, the Company has recorded a deferred tax asset of approximately \$26.0 million reflecting the \$17.5 million tax effect of \$47.0 million in net operating loss carryforwards, \$7.7 million in tax credit carryforwards and tax effected net taxable deductions of \$800,000. Realization of the deferred tax asset is dependent on generating sufficient taxable income prior to expiration of these carryforwards. Tax credit carryforwards can be utilized only after all net operating loss carryforwards have been realized. In 1994, the Company recorded a valuation allowance of \$1.1 million for tax credit carryforwards which are estimated to expire in 1997. Although realization is not assured, the Company believes it is more likely than not that the deferred tax asset will be realized. The amount of the deferred tax asset considered realizable could be reduced in the near term if estimates of future taxable income are reduced.

As of December 27, 1996, the Company has investment tax credit and jobs tax credit carryforwards totaling \$5,258,000 and \$548,000, respectively, and alternative minimum tax credits of \$1,928,000.

A schedule of expiring NOL's and tax credits by fiscal year are as follows:

Years -----	Amount	
	NOL's	Tax Credits
	-----	-----
	(thousands)	
1997.		\$ 1,104
1998.		4,007
1999.	\$14,000	395
2000.	19,000	149
2001.	14,000	19
2002 - 2010		132
	-----	-----
	\$47,000	\$ 5,806
	=====	=====

The Company's alternative minimum tax credits have no expiration date.

SHOWBIZ PIZZA TIME, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 YEARS ENDED DECEMBER 27, 1996,
 DECEMBER 29, 1995 AND DECEMBER 30, 1994

15. Income taxes (continued):

Current tax laws and regulations relating to substantial changes in control may limit the utilization of net operating loss and tax credit carryforwards in any one year. As of December 27, 1996, no limitation of such carryforwards has occurred.

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

	1996 ----	1995 ----	1994 ----
	(thousands)		
Statutory rate	35.0%	34.0%	34.0%
State income taxes	9.0%	106.1%	14.8%
Allowance for tax credit carryforwards . .			35.5%
Tax credits earned	(2.1%)	(33.9%)	(6.9%)
Other	(1.4%)	(23.0%)	.9%
	-----	-----	-----
Income taxes provided	40.5%	83.2%	78.3%
	=====	=====	=====

16. Fair value of financial instruments:

The Company has certain financial instruments consisting primarily of cash, cash equivalents, notes receivable, notes payable and redeemable preferred stock. The carrying amount of cash and 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.

17. Supplemental cash flow information:

	1996 ----	1995 ----	1994 ----
	(thousands)		
Cash paid during the year for:			
Interest	\$3,429	\$3,055	\$1,781
Income taxes	2,222	801	1,389
Supplemental schedule of noncash investing and financing activities:			
Notes received in connection with the disposition of property and equipment			4,650
Investment received in connection with the disposition of property and equipment			438
Notes and accounts receivable canceled in connection with the acquisition of property and equipment.		483	

SHOWBIZ PIZZA TIME, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 27, 1996,
DECEMBER 29, 1995 AND DECEMBER 30, 1994

18. Related party transactions:

The Hallwood Group, Incorporated ("Hallwood") is the beneficial owner of approximately 2.6 million shares or 14.2% of the outstanding common stock of the Company. The directors of Hallwood serve as a majority of the directors of the Company. In February 1997, the Company announced a public offering of 3.2 million shares of common stock to be sold by Hallwood and certain of its affiliates. The selling stockholders have also

granted underwriters an option to purchase an additional 454,746 shares of common stock to cover over allotments, if any. All of the 2.6 million shares owned by Hallwood is offered for sale in the public offering and overallotment option. It is anticipated that after the closing of the public offering, the directors of Hallwood will resign as directors of the Company. The Company will not receive any proceeds from the proposed sale of shares by the selling stockholders.

The Company made annual payments to Hallwood of \$125,000 for consulting services in 1996, 1995 and 1994. The consulting agreement will be 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 assigned to Hallwood its sublease interest in the home office building with a fair value of approximately \$120,000 per year.

The Company has advanced amounts to joint ventures in which the Company has a 50% interest or less. At December 27, 1996, approximately \$757,000 was outstanding under these notes. Principal and interest are payable in monthly installments, with interest at various rates from prime to 12%. The Company also has miscellaneous accounts receivable from joint ventures of approximately \$669,000 and \$410,000 at December 27, 1996 and December 29, 1995, respectively.

The Company has granted three separate operating lines of credit to the International Association of ShowBiz Pizza Time Restaurants, Inc. (the "Association"). In December 1996, the lines were renewed to provide the Association with available borrowings of \$2.5 million at 10.5% interest and are due December 31, 1997. The Association develops entertainment attractions and produces system wide advertising. Two officers of the Association are also officers of the Company. At December 27, 1996, approximately \$1,787,000 was outstanding under these lines of credit. The Company also had miscellaneous accounts receivable from the Association of \$6,000 and \$5,000 at December 27, 1996 and December 29, 1995, respectively.

19. 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.

In 1995, the Company increased the number of shares of the Company's common stock which may be issued under its employee stock option plan by 750,000 shares to an aggregate of 2,772,038 shares. All shares must be granted before December 31, 1998. The exercise price for options granted under the plan 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.

At December 27, 1996, there were 810,515 shares available for grant. Stock option transactions are summarized as follows:

Number of Shares			Weighted Average Exercise Price Per Share		
1996	1995	1994	1996	1995	1994
Options outstanding, beginning of year					
848,942	759,953	558,993	\$9.08	\$10.92	\$15.08
Granted					
276,734	391,860	512,250	8.39	6.08	8.10
Exercised.					
(77,495)	(19,239)	(77,570)	12.10	4.70	2.92
Terminated					
(37,670)	(283,632)	(233,720)	11.01	10.17	17.60
Options outstanding, end of year					
1,010,511	848,942	759,953	8.58	9.08	10.92

All stock options are granted at fair market value of the common stock at the grant date. The estimated fair value of options granted during 1996 was \$3.08 per share. 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 1996: risk free interest rate of 6.5%; no dividend yield; expected lives of four years; and expected volatility of 40%. Stock options expire five 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 December 27, 1996 was 430,794. These stock options have exercise prices ranging from \$5.29 to \$22.33 per share and have a weighed average exercise price of \$10.56 per share. In January 1997, the Company granted 789,933 additional options at exercise prices of \$17.25 to \$17.65 per share.

The number of shares of the Company's common stock which may be awarded to senior executives of the Company under the Stock Grant Plan is 1,718,637 shares. No grants were awarded in 1996, 1995 or 1994. In connection with an employment agreement effective January 1998, the Company granted 105,000 shares in January 1997. Compensation expense recognized by the Company pursuant to this plan was \$1,821,000, \$1,821,000 and \$2,734,000 in 1996, 1995 and 1994, respectively. All shares vest over periods ranging from 3 yeares 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. In 1995, the Company's Chairman of the Board and Chief Executive Officer forfeited 90,000 shares of unvested common stock of the Company previously awarded to him under the Company's stock grant plan. As a result of this forfeiture, deferred compensation and capital in excess of par value were reduced by approximately \$1.7 million. The deferred compensation is amortized over the compensated periods of service through 1997.

SHOWBIZ PIZZA TIME, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 YEARS ENDED DECEMBER 27, 1996,
 DECEMBER 29, 1995 AND DECEMBER 30, 1994

19. Employee benefit plans (continued):

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-based compensation 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 \$12.8 million in 1996 and a net loss of \$154,000 in 1995. Proforma earnings per share would have been \$.67 per share in 1996 and a loss of \$.03 per share in 1995.

The Company has adopted the ShowBiz 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. In 1996, the Company made contributions of approximately \$37,000 and \$15,000 in common stock for the 1995 and 1994 plan years, respectively. The Company plans to contribute \$59,000 in common stock for the 1996 plan year.

20. Quarterly results of operations (unaudited):

The following summarizes the unaudited quarterly results of operations for the years ended December 27, 1996 and December 29, 1995 (thousands, except per share data).

	Fiscal year ended December 27, 1996			
	March 29	June 28	Sept. 27	Dec. 27
	-----	-----	-----	-----
Revenues	\$78,452	\$69,848	\$74,777	\$70,913
Income before income taxes	8,771	3,840	5,993	3,617
Net income	5,175	2,265	3,537	2,244

Per Share:

Primary and fully diluted:

Net income	\$ 0.28	\$ 0.12	\$ 0.19	\$ 0.12
----------------------	---------	---------	---------	---------

	Fiscal year ended December 29, 1995			
	March 31	June 30	Sept. 29	Dec. 29
	-----	-----	-----	-----
Revenues	\$72,751	\$62,643	\$66,976	\$61,413
Income (loss) before				
income taxes	4,266	(1,963)	287	(2,215)
Net income (loss)	2,565	(1,180)	61	(1,383)

Per Share:

Primary and fully diluted:

Net income (loss)	\$.14	\$ (.07)	\$.00	\$ (.08)
-----------------------------	--------	----------	--------	----------

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
 ShowBiz Pizza Time, Inc.
 Irving, Texas

We have audited the consolidated financial statements of ShowBiz Pizza Time, Inc. and subsidiary as of December 27, 1996, and December 29, 1995, and for each of the three years in the period ended December 27, 1996, and have issued our report thereon dated February 21, 1997; such report which discloses a change in the method of accounting for preopening expenses in 1994, is included elsewhere in this Form 10-K. Our audits also included the consolidated financial statement schedule of ShowBiz Pizza Time, Inc. and subsidiary, listed in Item 14. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP
 Dallas, Texas
 February 21, 1997

Page 32

SCHEDULE II

SHOWBIZ PIZZA TIME, INC.
 VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

Column A	Column B	Column C	Column D	Column E
Description	Balance at beginning of period	Additions charged to costs and expenses	Deductions	Balance at end period
-----	-----	-----	-----	-----
(Thousands)				
Allowance for doubtful accounts:				
Years ended:				
December 27, 1996.	\$ 75		\$ 55 (A)	\$ 20
	=====		=====	=====
December 29, 1995.	\$ 475		\$ 400 (A)	\$ 75
	=====		=====	=====
December 30, 1994.	\$ 266	\$ 209		\$ 475
	=====	=====		=====
Reserve for uncollectible notes receivable:				
Years ended:				
December 27, 1996.	\$ 354		\$ 180 (B)	\$ 174
	=====		=====	=====
December 29, 1995	\$ 139	\$ 215		\$ 354

	=====	=====	=====
December 30, 1994			
	\$ 139	\$ 139	
	=====	=====	

- (A) Settlement of previously reserved accounts.
- (B) Adjustment to notes receivable reserve.

Page 33

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 1997 annual meeting of stockholders and is 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 1997 annual meeting of stockholders and is 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 1997 annual meeting of stockholders and is incorporated herein by reference thereto.

Item 13. Certain Relationships and Related Transactions.

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 the Company's 1997 annual meeting of stockholders and is incorporated herein by reference thereto.

P A R T I V

Item 14. 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.
- ShowBiz Pizza Time, Inc. consolidated financial statements:

Consolidated balance sheets as of December 27, 1996 and December 29, 1995.
Consolidated statements of earnings for the years ended December 27, 1996, December 29, 1995, and December 30, 1994.
Consolidated statements of shareholders' equity for the years ended December 27, 1996, December 29, 1995, and December 30, 1994.
Consolidated statements of cash flows for the years ended December 27, 1996, December 29, 1995, and December 30, 1994.
Notes to consolidated financial statements.

(2) Financial Statement Schedules:

ShowBiz Pizza Time, Inc.

II --- Valuation and qualifying accounts and reserves.

Page 34

(3) Exhibits:

Number	Description
-----	-----
3(a)	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(b)	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(c)	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.
10(b)(1)	Consulting Agreement dated January 5, 1989 between the Company and Richard M. Frank (filed as Exhibit 10(a)(5) to the Company's Annual Report on Form 10-K for the year ended December 27, 1991, and incorporated herein by reference).
10(b)(2)	Amendment to Consulting Agreement dated

January 29, 1992, amending the Consulting Agreement dated January 5, 1989 between the Company and Richard M. Frank (filed as Exhibit 10(a)(6) 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) 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(d) 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(e) Financial and Management Consulting Services Agreement between the Company and The Hallwood Group Incorporated (filed as Exhibit 10(i) to the Company's Annual Report on Form 10-K for the year ended December 30, 1988, and incorporated herein by reference).
- 10(f) Stock Purchase and Registration Agreement dated as of May 5, 1992, among the Company, The Hallwood Group Incorporated and certain shareholders of the Company (filed as Exhibit 28 to the Company's Registration Statement on Form S-3 (No. 33-48307) and incorporated herein by reference).

Page 35

- 10(g) 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(h) 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(i)(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(i)(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(i)(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(j)(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(j)(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(k)(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(k)(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(k)(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(l) 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).
- Page 36
- 10(m) 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(n)(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(n) (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(o) (1) Loan Agreement in the stated amount of \$2,000,000.00, dated January 18, 1996, between Bank One, Texas, N.A. and the Company (filed as Exhibit 10 (e) (1) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 28, 1996, and incorporated herein by reference).
- 10(o) (2) Promissory Note in the stated amount of \$2,000,000.00, dated January 18, 1996, between Bank One, Texas, N.A. and the Company (filed as Exhibit 10 (e) (2) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 28, 1996, and incorporated herein by reference).
- 10(o) (3) Security Agreement in the stated amount of \$2,000,000.00, dated January 18, 1996, between Bank One, Texas, N.A. and the Company (filed as Exhibit 10 (e) (3) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 28, 1996, and incorporated herein by reference).
- 10(p) (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(p) (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(q) (1) Non-Statutory Stock Option Plan (filed as Exhibit A to the Company's Proxy Statement for Annual Meeting of Stockholders to be held on June 8, 1995, and incorporated herein by reference).
- 10(q) (2) Specimen form of Contract under the Non-Statutory Stock Option Plan of the Company, as amended to date (filed as Exhibit 10 (d) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 28, 1996, and incorporated herein by reference).
- 10(r) (1) 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).

Page 37

- 10(s) (2) Specimen form of Contract under the Non-Employee Directors Stock Option Plan of the Company, as amended to date.
- 10(t) (1) Specimen form of the Company's current Franchise Agreement (filed as Exhibit 10 (f) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 28, 1996, and incorporated herein by reference).
- 10(t) (2) Specimen form of the Company's current Development Agreement (filed as Exhibit 10 (g) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 28, 1996, and incorporated herein by reference).
- 10(u) (1) Entertainment Operating Fund Line of Credit, in the stated amount of \$250,000.00, dated December 16, 1996, between International Association of ShowBiz Pizza Time Restaurants, Inc. and the Company.
- 10(u) (2) Entertainment Operating Fund Promissory Note, in the stated amount of \$250,000.00, dated December 16, 1996, between International Association of ShowBiz Pizza Time Restaurants, Inc. and the Company.
- 10(v) (1) National Advertising Production Line of Credit, in the stated amount of \$750,000.00, dated December 16, 1996, between International Association of ShowBiz Pizza Time Restaurants, Inc. and the Company.
- 10(v) (2) National Advertising Production Promissory Note, in the stated amount of \$750,000.00, dated December 16, 1996, between International Association of ShowBiz Pizza Time Restaurants, Inc. and the Company.
- 10(w) (1) National Media Fund Line of Credit, in the stated amount of \$1,500,000.00, dated December 16, 1996, between International Association of ShowBiz Pizza Time Restaurants, Inc. and the Company.
- 10(w) (2) National Media Fund Promissory Note, in the stated amount of \$1,500,000.00, dated December 16, 1996, between International Association of ShowBiz Pizza Time Restaurants, Inc. and the Company.

(b) Reports on Form 8-K:

No reports on Form 8-K were filed in the fourth quarter of 1996.

(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 where the total amount of the securities authorized under each instrument does not exceed 10% of the total assets of the Company. The Company hereby agrees to furnish a copy of any such instruments to the Commission upon request.

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

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

SIGNATURES

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

Dated: March 27, 1997 SHOWBIZ PIZZA TIME, INC.

By:-----
 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 ----
Richard M. Frank	Chairman of the Board, Chief Executive Officer, and Director (Principal Executive Officer)	March 14, 1997
----- Michael H. Magusiak	President and Director	March 14, 1997
----- Larry G. Page	Executive Vice President, Treasurer, (Principal Financial Officer and Principal Accounting Officer)	March 14, 1997
- ----- Charles A. Crocco, Jr.	Director	March 14, 1997
- ----- Anthony J. Gumbiner	Director	March 14, 1997
- ----- Robert L. Lynch	Director	March 14, 1997
- ----- J. Thomas Talbot	Director	March 14, 1997

- ----- Brian M. Troup	Director	March 14, 1997
- ----- Louis P. Neeb	Director	March 14, 1997
- ----- Cynthia I. Pharr	Director	March 14, 1997

EXHIBIT INDEX

Exhibit No. -----	Description -----
10(a)(2)	Amendment No. 1 to the Amended and Restated Employment Agreement dated July 19, 1996, between the Company and Richard M. Frank.
10(s)(2)	Specimen form of Contract under the Non-Employee Directors Stock Option Plan of the Company, as amended to date.
10(u)(1)	Entertainment Operating Fund Line of Credit, in the stated amount of \$250,000.00, dated December 16, 1996, between International Association of ShowBiz Pizza Time Restaurants, Inc. and the Company.
10(u)(2)	Entertainment Operating Fund Promissory Note, in the stated amount of \$250,000.00, dated December 16, 1996, between International Association of ShowBiz Pizza Time Restaurants, Inc. and the Company.
10(v)(1)	National Advertising Production Line of Credit, in the stated amount of \$750,000.00, dated December 16, 1996, between International Association of ShowBiz Pizza Time Restaurants, Inc. and the Company.
10(v)(2)	National Advertising Production Promissory Note, in the stated amount of \$750,000.00, dated December 16, 1996, between International Association of ShowBiz Pizza Time Restaurants, Inc. and the Company.
10(w)(1)	National Media Fund Line of Credit, in the stated amount of \$1,500,000.00, dated December 16, 1996, between International Association of ShowBiz Pizza Time Restaurants, Inc. and the Company.
10(w)(2)	National Media Fund Promissory Note, in the stated amount of \$1,500,000.00, dated December 16, 1996, between International Association of ShowBiz Pizza Time Restaurants, Inc. and the Company.

Page 40

10(A)(2)

AMENDMENT NO. 1 TO THE
AMENDED AND RESTATED EMPLOYMENT AGREEMENT
BY AND BETWEEN RICHARD M. FRANK AND
SHOWBIZ PIZZA TIME, INC.

This Amendment No. 1 (the "Amendment") is executed as of this 19th day of July, 1996, by and between Richard M. Frank ("Employee") and ShowBiz Pizza Time, Inc., a Kansas corporation ("Employer").

RECITALS:

WHEREAS, on April 14, 1993, Employee and Employer entered into that certain Amended and Restated Employment Agreement, which was effective as of January 2, 1993 (the "Agreement"), whereby the Employee agreed to serve as Chairman of the Board and Chief Executive Officer of the Employer through the last day of the fiscal year of the Employer ending on or about December 31, 1997; and

WHEREAS, pursuant to the terms of said Agreement, Employee was granted 414,508 shares of common stock of the Employer under the Employer's Stock Grant Plan, such grant to vest at a rate of 20,725 shares for each fiscal quarter of the Employer during the term of the Agreement, except for 20,733 shares that would vest on the last day of the fiscal quarter of the Employer ending on or about December 31, 1997; and

WHEREAS, pursuant to an instrument dated March 31, 1995, the Employee forfeited 60,000 shares of the Employer's common stock that had not yet vested pursuant to the grant made under the Agreement, such forfeiture to occur in increments of 5,000 shares per calendar quarter commencing on March 31, 1995 and running through the remaining term of the Agreement; and

WHEREAS, Employer desires to amend said Agreement to provide extended health benefit coverage for Employee and his family beyond the term of the Agreement; and

WHEREAS, Employee is willing to reduce the monthly automobile allowance he is entitled to under the Agreement by an amount of Four Hundred Dollars (\$400.00) per month:

AGREEMENT

NOW, THEREFORE, in consideration of the reduction in Employee's monthly automobile allowance, together with the above-mentioned forfeiture of 60,000 shares of common stock of the Employer that were unvested under the Agreement and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Agreement is hereby amended in the following respects:

- (1) Paragraph 8 is hereby amended to read as follows:

"8. Automobile. Employer shall pay to Employee the sum of Nine Hundred Dollars (\$900.00) per month (subject to adjustment from time to time in direct proportion to generally applicable adjustment by the Company to its automobile allowances) to reimburse Employee for the use of Employee's automobile in the performance of his duties under this Agreement and Employer shall further pay directly or by reimbursement to Employee (as Employer and Employee may from time to time agree) the premiums upon a policy of collision and liability insurance covering such automobile. All other costs and expenses incurred in the operation and maintenance of Employee's automobile, including but not limited to the cost of all fuel, oil, maintenance and repairs, shall be paid solely by Employee."

- (2) A new paragraph 27 is added to read as follows:

"27. Continuation of Health Benefit Coverage. Upon the termination of Employee's employment for any reason, including a termination due to the expiration of the

Initial Term of this Agreement or any renewal thereof, Employer shall provide Employee and his family the health, medical, hospitalization and dental insurance coverage and/or cost reimbursement benefits set forth in Section 11 hereof, for a period not to exceed the earlier of (I) five (5) years or (ii) the date on which Employee and his family become covered under a policy or plan paid for by a new employer of Employee providing substantially similar coverage and benefits. In the event Employee's employment terminates and this Section 27 becomes effective, and thereafter Employee dies while the benefits provided herein are still in effect, such benefits shall continue for Employee's family until five (5) years have passed following his termination of employment. The benefits set forth under this Section 27 shall be provided in addition to any other payments, benefits or compensation, if any, to which Employee, his estate or his designated beneficiary is entitled due to his termination of employment as set forth in this Agreement."

2

IN WITNESS WHEREOF, the parties have executed this Amendment No. 1 effective as of August 1, 1996.

EMPLOYER:

SHOWBIZ PIZZA TIME, INC.

By: /s/ Michael H. Magusiak

EMPLOYEE:

/s/ Richard M. Frank

Richard M. Frank

3

SHOWBIZ PIZZA TIME, INC.
NON-EMPLOYEE DIRECTORS STOCK OPTION CONTRACT

THIS NON-EMPLOYEE DIRECTORS STOCK OPTION CONTRACT (hereinafter referred to as "Contract") is made and entered into this ---- day of ----- 19-- (the "Granting Date"), by and between SHOWBIZ PIZZA TIME, INC., a Kansas corporation (the "Company"), and - ----- (the "Optionee").

WITNESSETH:

WHEREAS, the Shareholders of the Company (the "Shareholders") have adopted the ShowBiz Pizza Time, Inc. Non-Employee Directors Stock Option Plan (the "Plan"), pursuant to which the President and Chief Financial Officer of the Company (the "Committee") may grant, from time to time, on or prior to June 8, 2000, options to purchase shares of the Common Stock of ShowBiz Pizza Time, Inc. to individuals who are non-employee directors of the Company or of any of its Affiliates, in such amounts and under such form of agreement as shall be determined by the Committee; and

WHEREAS, pursuant to the Plan, the Committee has determined that the Optionee shall be granted an option to purchase shares of the Common Stock of ShowBiz Pizza Time, Inc. on the terms and conditions herein set forth;

NOW, THEREFORE, in consideration of the mutual promises and covenants herein contained and other good and valuable consideration, the parties hereto do hereby agree as follows:

1. Incorporation of the Plan. A copy of the Plan is attached hereto and incorporated herein by reference, and all of the terms, conditions and provisions contained therein shall be deemed to be terms, conditions and provisions of this Contract. All terms used herein which are defined in the Plan shall have the meanings given them in the Plan.
2. Grant of Option. Pursuant to the authorization of the Committee, and subject to the terms, conditions and provisions contained in the Plan and this Contract, the Company hereby grants to the Optionee, an option (the "Option") to purchase from the Company all or any part of an aggregate of ----- (-----) shares of the Common Stock of ShowBiz Pizza Time, Inc., at the purchase price of----- and -----/100 Dollars (\$-----) per share. The date first written above shall be deemed to be the Granting Date of the Option.
3. Period of Exercise. The Option granted hereunder shall be exercisable from time to time by the Optionee subject to the following restrictions:
 - (a) Vesting and Expiration Dates. Optionee may exercise up to an aggregate of Optionee may exercise up to an aggregate of Fifty Percent (50%) of the option on or after -----, 199--, and an aggregate of One Hundred Percent (100%) of the option on or after -----, 199---. The Option shall expire at 12:00 midnight on -----, 200---.
 - (b) Exercise During Lifetime of Optionee. The Option shall be exercisable during the lifetime of the Optionee only by him.
 - (c) Exercise after Death of Optionee. If an Optionee dies while serving as a member of the Board of Directors of the Company, the option shall be exercisable (whether or not exercisable on the date of the death of such Optionee) by the person or persons entitled to do so

under the Optionee's will, or, if the Optionee shall fail to make testamentary disposition of said option or shall die intestate, by the Optionee's legal representative or representatives, at any time prior to the Expiration Date of the option or within ninety (90) days after the date of such death, whichever is the shorter period. If an Optionee dies during the thirty (30) day period described in subsection (a) above, the option shall be exercisable (but only to the extent exercisable on the date of death of such Optionee) by the person or persons described above at any time within the thirty (30) day period described in subsection (a) above or within ninety (90) days after the date of such death, whichever is the longer period, but in no event after the Expiration Date of the option.

- (d) Cessation of Employment. If the directorship of the Optionee is terminated for any reason other than (i) death of the Optionee, or (ii) on account of any act of fraud or intentional misrepresentation or embezzlement, misappropriation or conversion of assets or opportunities of the Company or any Affiliate, an option (to the extent otherwise exercisable on the date of such termination) shall be exercisable by the Optionee at any time prior to the Expiration Date of the option or within thirty (30) days after the date of such termination of the directorship, whichever is the shorter period. The option of the Optionee shall automatically terminate as of the date his or her directorship is terminated, if the directorship is terminated on account of any act of (a) fraud or intentional misrepresentation, or (b) embezzlement, misappropriation or conversion of assets or opportunities of the Company or any Affiliate.
4. Manner of Exercise. The Option granted hereunder shall be exercised by delivering to the Company from time to time within the time limits specified in Paragraph 3 hereof a notice specifying the number of shares the Optionee then desires to purchase (and with respect to which the Optionee has acquired the right to purchase, as described in Paragraph 3(a) above), together with either: (i) a cashier's check payable in United States currency (unless a personal check shall be acceptable to the Company) to the order of the Company for an amount equal to the option price for such number of shares; or (ii) with the prior consent of the Committee, and upon receipt of all regulatory approvals, certificate for Common Stock of the Company, valued at the Fair Market Value (determined as provided in the Plan) of such Common Stock on the date of exercise of this option, as payment of all or any portion of the option price for such number of shares; and (iii) such other instruments or agreements duly signed by the Optionee as in the opinion of counsel for the Company may be necessary or advisable in order that the issuance of such number of shares comply with applicable rules and regulations under the Securities Act of 1933, as amended (the "Act"), any appropriate state securities laws or any requirement of any national securities exchange or market system on which such stock may be traded. As soon as practicable after any such exercise of the Option in whole or in part by the Optionee, the Company will deliver to the Optionee at Optionee's address, as set forth below, a certificate for the number of shares with respect to which the Option shall have been so exercised, issued in the Optionee's name. Such stock certificate shall carry such appropriate legend, and such written instructions shall be given to the Company's transfer agent, as may be deemed necessary or advisable by counsel for the Company to satisfy the requirements of the Act or any state securities law.
5. Withholding. To the extent required by law the Company shall withhold any taxes required to be withheld under any applicable Federal, state or other law and transmit such withheld amounts to the appropriate taxing authority. The Company may condition the transfer of stock after the exercise of the Option upon the Optionee's agreement to remit to the

Company the amount of employment taxes which are required to be withheld or, with the consent of the Committee, to satisfy such withholding obligation by means of Share Withholding, as such term is defined in the Plan.

- 6. Notices. All notices, surrenders and other communications required or allowed to be made or given in connection with the Option granted hereunder shall be in writing, shall be effective when received, and shall be hand delivered or sent by registered or certified mail (i) if to the Company, to ShowBiz Pizza Time, Inc., 4441 West Airport Freeway, Irving, Texas 75062, or (ii) if to the Optionee, to the Optionee at the address shown beneath his signature hereto, or to such other address as to which may have notified the company pursuant to this section.
- 7. Binding Effect. This Contract shall bind, and except as specifically provided in the Plan and this Contract, shall inure to the benefit of, the respective heirs and legal representatives of the parties hereto.
- 8. Governing Law. This Contract and the rights of all persons claiming hereunder shall be construed and determined in accordance with the laws of the State of Texas.

IN WITNESS WHEREOF, the Company has caused this Contract to be executed by its officer hereunto duly authorized and its corporate seal to be hereunto affixed, and the Optionee has hereunto set his hand, as of the date and year first written above.

SHOWBIZ PIZZA TIME, INC.

(CORPORATE SEAL)

By: -----
Richard M. Frank
Chairman and Chief Executive
Officer

ATTEST

Marshall R. Fisco, Jr., Secretary

Optionee Signature

Printed Name : -----
Tax I.D. Number: -----
Address: -----

ENTERTAINMENT OPERATING FUND LINE OF CREDIT

By this Agreement, dated as of December 16, 1996, SHOWBIZ PIZZA TIME, INC. ("Lender") and INTERNATIONAL ASSOCIATION OF SHOWBIZ PIZZA TIME RESTAURANTS, INC., ("Borrower") (hereinafter collectively referred to as "Parties") hereby agree as follows:

1. Revolving Commitment. Subject to the terms and conditions in this Agreement, Lender agrees to advance to Borrower from time to time amounts not to exceed Two Hundred Fifty Thousand and no/100 Dollars (\$250,000.00) in the aggregate outstanding at any one time. No new advance shall be made under this Agreement after December 31, 1997. Subject to the foregoing limitations, Borrower may borrow, repay, prepay and reborrow amounts under this Agreement.

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

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

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

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

- (a) No default under this Agreement, and no event which would constitute a default but for the giving of notice or the passage of time thereafter, shall have occurred and be continuing on the date of such advance;
- (b) The representations and warranties of Borrower set forth in this Agreement shall be true as of the date of such advance;
- (c) Lender shall have received any document or information previously requested from Borrower pursuant to this Agreement; and
- (d) No material adverse change has occurred, in Lender's sole determination, in the businesses of Lender's restaurants or in the financial condition of Borrower.

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

7. Default. Borrower shall be in default under this

Agreement if one or more of the following events shall have occurred and be continuing:

- (a) The failure by Borrower to make any payment of principal or interest on the Note within ten (10) days after the same becomes due and payable;
- (b) The failure by Borrower to perform any of its obligations, except the payment of principal and interest, arising under the Note, this Agreement or any other agreement between Borrower and Lender within five (5) days after written notice of such failure; or
- (c) The filing by or against the Borrower of a voluntary or involuntary proceeding seeking liquidation, reorganization or other relief with respect to Borrower or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official for Borrower or any substantial part of its property and, in the case of any involuntary proceeding not consented to by Borrower, such proceeding is not dismissed within sixty (60) days.

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

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

To Lender:

ShowBiz Pizza Time, Inc.
4441 West Airport Freeway
Irvine, Texas 75062
Attention: Counsel

To Borrower:

International Association of ShowBiz Pizza Time
Restaurants, Inc.
4441 West Airport Freeway
Irving, Texas 75062
Attention: Mike Hilton

10. Miscellaneous.

- (a) No failure or delay by Lender in exercising any right, power or privilege under this Agreement or the Note shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any further exercise thereof or the exercise of any other right, power or privilege.
- (b) The captions used in this Agreement are for convenience only and shall not be deemed to amplify, modify or limit the provisions hereof.
- (c) Words of any gender used in the Agreement shall be construed to include any other gender, and words in the singular shall include the plural and vice versa, unless the context otherwise requires.

- (d) This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, legal representatives, successors and assigns.
- (e) This Agreement, together with the Note, contains the entire agreement of the parties hereto with respect to the subject matter hereof and can be altered, amended or modified only by written instrument executed by both parties.
- (f) This Agreement may be executed in multiple copies, each of which shall be deemed an original, and all of such copies shall together constitute one and the same instrument.
- (g) Time is of the essence in the performance of each obligation, covenant and condition under this Agreement.
- (h) This Agreement shall be governed by the laws of the State of Texas.

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

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

SHOWBIZ PIZZA TIME, INC.

By: -----
Richard M. Frank
Chairman and Chief Executive
Officer

INTERNATIONAL ASSOCIATION OF SHOWBIZ
PIZZA TIME RESTAURANTS, INC.

By: -----
Michael A. Hilton
President

ENTERTAINMENT OPERATING FUND
PROMISSORY NOTE

\$250,000.00

Irving, Texas

Dated as of
December 16, 1996

FOR VALUE RECEIVED, the undersigned INTERNATIONAL ASSOCIATION OF SHOWBIZ PIZZA TIME RESTAURANTS, INC. ("Borrower"), a Texas corporation, promises to pay to SHOWBIZ PIZZA TIME, INC. ("Lender"), a Kansas corporation (hereinafter collectively referred to as "Parties"), the principal sum of TWO HUNDRED FIFTY THOUSAND AND NO/100 DOLLARS (\$250,000.00), or so much thereof as may from time to time be advanced, together with interest accrued on the unpaid principal balance hereof as set forth below.

1. Interest Rate. The unpaid principal amount hereof from time to time outstanding from the date hereof until maturity shall bear interest at ten and one-half percent (10.5%). Interest shall be calculated at the end of each Lender's monthly accounting periods (which will not correspond with calendar months due to Lender's 52 week fiscal year) based on the average between the principal amounts outstanding and unpaid at the beginning of the monthly accounting period and at the end of such period, but shall be charged and collected based on the actual number of days elapsed.

2. Payment of Principal and Interest. Each payment by Borrower to Lender on this Note shall be applied first to fees and/or costs, if any, pursuant to Section 8 hereof and then applies to any accrued interest, and then any remaining portion of the payment after such applications shall be applied to reduction of outstanding principal balance of this Note.

3. Revolving Note. This Note is a "revolving line of credit" note. Principal advances may be made, from time to time, up to the principal amount of this Note, and principal advances may be made, from time to time, up to the principal amount of this Note, and principal payments may, from time to time, be made by Borrower to reduce the principal balance owing pursuant to this Note. This Note may be prepaid in whole or in part at any time without penalty or premium. In no event shall any principal advance be made after December 31, 1997, and all amounts outstanding will be due and payable at that time.

4. Line of Credit Agreement. This Note is issued pursuant to, is entitled to the benefit of, and is subject to the provisions of the Entertainment Operating Fund Line of Credit Agreement (the "Agreement") between Borrower and Lender dated the same date as this Note.

5. Events of Default. The outstanding principal and accrued interest hereon shall mature and become automatically due and payable, without notice or demand, upon the occurrence and during the continuance of any of the following events of default:

- (a) The failure by Borrower to make a payment of any principal or interest on the Note within ten (10) days after the same becomes due and payable;
- (b) The failure by Borrower to perform any of its obligations, except the payment of principal and interest, arising under this Note, the Agreement or any other agreement between Borrower and Lender within five (5) days after receipt of written notice of such failure; or
- (c) The filing by or against the Borrower of a voluntary or involuntary proceeding seeking

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

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

7. Waiver. Borrower, sureties, endorsers, guarantors and any other party now or hereafter liable for the payment of this Note, in whole or in part, hereby severally (a) waive presentment for payment, notice of nonpayment, protest, notice of protest, notice of intent to accelerate, notice of acceleration and all other notices, filing of suit and diligence in collecting this Note or enforcing any other security with respect to same, (b) agree to any substitution, subordination, exchange or release of any such security or the release of any parties primarily or secondarily liable hereon, (c) agree that the Lender shall not be required first to institute suit or exhaust its remedies hereon against the Borrower, or other any party liable or to become liable hereon or to enforce its rights against any or all of them or any security with respect to same, and (d) consent to any extension or postponement of time of payment of this Note and to any other indulgence with respect hereto without notice hereof to any of them.

8. Collection Fees. If this Note is not paid at maturity and is placed in the hands of a collection agency or an attorney for collection, or if it is collected through a bankruptcy or any other court after maturity, then the Lender shall be entitled to reasonable fees and court costs for collection.

9. Limitation of Agreements. All agreements between the Borrower and the Lender, whether now existing or hereafter arising and whether written or oral, are hereby expressly limited so that in no contingency or event, whether by reason of demand or otherwise, shall the amount paid, or agreed to be paid to the Lender for the use, forbearance, or detention of the money to be loaned under this Note or otherwise or for the payment or performance of any covenant or obligation contained herein or in any other document evidencing security or pertaining to the loan evidenced hereby, exceed the maximum amount permissible under applicable law, as now existing or as hereafter amended. If from any circumstances whatsoever fulfillment of any provision hereof or in any of such other documents at the time performance of such provision shall be due, shall involve transcending the limit of validity prescribed by law, then ipso facto, the obligation to be fulfilled shall be reduced to the limit of such validity, and if from any such circumstances the Lender shall ever receive interest (or anything which might be deemed interest under applicable law) which would exceed the highest rate of interest allowed by applicable law, such amount which would be excessive interest shall be applied to the reduction of the principal due hereunder and not to the payment of interest, or if such excessive interest exceeds the unpaid balance of principal of this Note, such excess shall be refunded to the Borrower. All sums paid or agreed to be paid to the Lender shall, to the 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 actual rate of interest on account of such indebtedness is uniform, or does not exceed the maximum rate permitted by applicable law as now existing or hereafter amended, throughout the term thereof. The terms and provisions of this paragraph shall control and supersede every other provision of all agreements between the Lender and the

Borrower.

10. Records. Borrower hereby appoints Lender as the authorized agent of Borrower with full authority to record on the Payment Grid ("Grid") attached hereto as Exhibit A, and incorporated herein by reference for all purposes, the dates of each transaction, amounts of all principal advances, as well as principal and interest payments, made under this Note, and balance due on the Note. This Grid (and all notations made thereto) shall be conclusive evidence of the actual amounts of principal and accrued interest advanced and/or outstanding under this Note.

11. Notice. Any notice required to be provided to Borrower hereunder shall be in writing and shall be deemed sufficiently given or furnished if delivered by personal delivery, telecopy, expedited delivery service with proof of delivery, or by registered or certified United States mail, postage prepaid, at Borrower's address shown below or at Borrower's most current address on file with Lender. Any such notice shall be deemed to have been given at the time of personal delivery, or in the case of telecopy, upon receipt, or in the case of delivery service or mail, as of the date of the first attempted delivery at the address and in the manner provided herein. Borrower promises to give Lender prompt notice of any change in Borrower's address.

12. Miscellaneous.

- (a) No failure or delay by Lender in exercising any right, power or privilege under this Note or the Agreement shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any further exercise thereof or the exercise or any other right, power or privilege.
- (b) The captions used in this Note are for convenience only and shall not be deemed to amplify, modify or limit any provision hereof.
- (c) Words of any gender used in this Note shall be construed to include any other gender, and words in the singular shall include the plural and vice versa, unless the context otherwise requires.
- (d) This Note shall be binding upon and inure to the benefit of the Parties and their respective heirs, legal representatives, successors and assigns.
- (e) This Note, together with the Agreement, contains the entire agreement between the Parties with respect to the subject matter hereof and can be altered, amended or modified only by a written instrument executed by both Parties.
- (f) This Note may be executed in multiple copies, each of which shall be deemed an original, and all of such copies shall together constitute one and the same instrument.
- (g) Time is of the essence in the performance of each obligation, covenant and condition under this Note.
- (h) This Note shall be governed by the laws of the State of Texas.
- (i) This Note is performable in Dallas County, Texas.

Address:
4441 West Airport Freeway
Irving, Texas 75062

INTERNATIONAL ASSOCIATION OF SHOWBIZ
PIZZA TIME RESTAURANTS, INC.

By: -----

Michael A. Hilton
President

NATIONAL ADVERTISING FUND LINE OF CREDIT

By this Agreement, dated as of December 16, 1996, SHOWBIZ PIZZA TIME, INC. ("Lender") and INTERNATIONAL ASSOCIATION OF SHOWBIZ PIZZA TIME RESTAURANTS, INC., ("Borrower") (hereinafter collectively referred to as "Parties") hereby agree as follows:

1. Revolving Commitment. Subject to the terms and conditions in this Agreement, Lender agrees to advance to Borrower from time to time amounts not to exceed Seven Hundred Fifty Thousand and no/100 Dollars (\$750,000.00) in the aggregate outstanding at any one time. No new advance shall be made under this Agreement after December 31, 1997. Subject to the foregoing limitations, Borrower may borrow, repay, prepay and reborrow amounts under this Agreement.

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

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

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

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

- (a) No default under this Agreement, and no event which would constitute a default but for the giving of notice or the passage of time thereafter, shall have occurred and be continuing on the date of such advance;
- (b) The representations and warranties of Borrower set forth in this Agreement shall be true as of the date of such advance;
- (c) Borrower pursuant to this Agreement; and
- (d) No material adverse change has occurred, in Lender's sole determination, in the businesses of Lender's restaurants or in the financial condition of Borrower.

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

7. Default. Borrower shall be in default under this Agreement if one or more of the

following events shall have occurred and be continuing:

- (a) The failure by Borrower to make any payment of principal or interest on the Note within ten (10) days after the same becomes due and payable;
- (b) The failure by Borrower to perform any of its obligations, except the payment of principal and interest, arising under the Note, this Agreement or any other agreement between Borrower and Lender within five (5) days after written notice of such failure; or
- (c) The filing by or against the Borrower of a voluntary or involuntary proceeding seeking liquidation, reorganization or other relief with respect to Borrower or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official for Borrower or any substantial part of its property and, in the case of any involuntary proceeding not consented to by Borrower, such proceeding is not dismissed within sixty (60) days.

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

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

To Lender:

ShowBiz Pizza Time, Inc.
4441 West Airport Freeway
Irving, Texas 75062
Attention: Counsel

To Borrower:

International Association of ShowBiz Pizza Time
Restaurants, Inc.
4441 West Airport Freeway
Irving, Texas 75062
Attention: Mike Hilton

10. Miscellaneous.

- (a) No failure or delay by Lender in exercising any right, power or privilege under this Agreement or the Note shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any further exercise thereof or the exercise of any other right, power or privilege.
- (b) The captions used in this Agreement are for convenience only and shall not be deemed to amplify, modify or limit the provisions hereof.
- (c) Words of any gender used in the Agreement shall be construed to include any other gender, and words in the singular shall include the plural and vice versa, unless the context otherwise requires.
- (d) This Agreement shall be binding upon and shall

inure to the benefit of the parties hereto and their respective heirs, legal representatives, successors and assigns.

- (e) This Agreement, together with the Note, contains the entire agreement of the parties hereto with respect to the subject matter hereof and can be altered, amended or modified only by written instrument executed by both parties.
- (f) This Agreement may be executed in multiple copies, each of which shall be deemed an original, and all of such copies shall together constitute one and the same instrument.
- (g) Time is of the essence in the performance of each obligation, covenant and condition under this Agreement.
- (h) This Agreement shall be governed by the laws of the State of Texas.

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

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

SHOWBIZ PIZZA TIME, INC.

By: -----
Richard M. Frank
Chairman and Chief Executive
Officer

INTERNATIONAL ASSOCIATION OF
SHOWBIZ PIZZA TIME RESTAURANTS, INC.

By: -----
Michael A. Hilton
President

NATIONAL ADVERTISING FUND
PROMISSORY NOTE

\$750,000.00 Irving, Texas Dated as of
December 16, 1996

FOR VALUE RECEIVED, the undersigned INTERNATIONAL ASSOCIATION OF SHOWBIZ PIZZA TIME RESTAURANTS, INC. ("Borrower"), a Texas corporation, promises to pay to SHOWBIZ PIZZA TIME, INC. ("Lender"), a Kansas corporation (hereinafter collectively referred to as "Parties"), the principal sum of SEVEN HUNDRED AND FIFTY THOUSAND AND NO/100 DOLLARS (\$750,000.00), or so much thereof as may from time to time be advanced, together with interest accrued on the unpaid principal balance hereof as set forth below.

1 . Interest Rate. The unpaid principal amount hereof from time to time outstanding from the date hereof until maturity shall bear interest at ten and one-half percent (10.5%). Interest shall be calculated at the end of each Lender's monthly accounting periods (which will not correspond with calendar months due to Lender's 52 week fiscal year) based on the average between the principal amounts outstanding and unpaid at the beginning of the monthly accounting period and at the end of such period, but shall be charged and collected based on the actual number of days elapsed.

2. Payment of Principal and Interest. Each payment by Borrower to Lender on this Note shall be applied first to fees and/or costs, if any, pursuant to Section 8 hereof and then applies to any accrued interest, and then any remaining portion of the payment after such applications shall be applied to reduction of outstanding principal balance of this Note.

3. Revolving Note. This Note is a "revolving line of credit" note. Principal advances may be made, from time to time, up to the principal amount of this Note, and principal advances may be made, from time to time, up to the principal amount of this Note, and principal payments may, from time to time, be made by Borrower to reduce the principal balance owing pursuant to this Note. This Note may be prepaid in whole or in part at any time without penalty or premium. In no event shall any principal advance be made after December 31, 1997, and all amounts outstanding will be due and payable at that time.

4. Line of Credit Agreement. This Note is issued pursuant to, is entitled to the benefit of, and is subject to the provisions of the National Advertising Production Fund Line of Credit Agreement (the "Agreement") between Borrower and Lender dated the same date as this Note.

5. Events of Default. The outstanding principal and accrued interest hereon shall mature and become automatically due and payable, without notice or demand, upon the occurrence and during the continuance of any of the following events of default:

- (a) The failure by Borrower to make a payment of any principal or interest on the Note within ten (10) days after the same becomes due and payable;
- (b) The failure by Borrower to perform any of its obligations, except the payment of principal and interest, arising under this Note, the Agreement or any other agreement between Borrower and Lender within five (5) days after receipt of written notice of such failure; or
- (c) The filing by or against the Borrower of a

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

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

7. Waiver. Borrower, sureties, endorsers, guarantors and any other party now or hereafter liable for the payment of this Note, in whole or in part, hereby severally (a) waive presentment for payment, notice of nonpayment, protest, notice of protest, notice of intent to accelerate, notice of acceleration and all other notices, filing of suit and diligence in collecting this Note or enforcing any other security with respect to same, (b) agree to any substitution, subordination, exchange or release of any such security or the release of any parties primarily or secondarily liable hereon, (c) agree that the Lender shall not be required first to institute suit or exhaust its remedies hereon against the Borrower, or other any party liable or to become liable hereon or to enforce its rights against any or all of them or any security with respect to same, and (d) consent to any extension or postponement of time of payment of this Note and to any other indulgence with respect hereto without notice hereof to any of them.

8. Collection Fees. If this Note is not paid at maturity and is placed in the hands of a collection agency or an attorney for collection, or if it is collected through a bankruptcy or any other court after maturity, then the Lender shall be entitled to reasonable fees and court costs for collection.

9. Limitation of Agreements. All agreements between the Borrower and the Lender, whether now existing or hereafter arising and whether written or oral, are hereby expressly limited so that in no contingency or event, whether by reason of demand or otherwise, shall the amount paid, or agreed to be paid to the Lender for the use, forbearance, or detention of the money to be loaned under this Note or otherwise or for the payment or performance of any covenant or obligation contained herein or in any other document evidencing security or pertaining to the loan evidenced hereby, exceed the maximum amount permissible under applicable law, as now existing or as hereafter amended. If from any circumstances whatsoever fulfillment of any provision hereof or in any of such other documents at the time performance of such provision shall be due, shall involve transcending the limit of validity prescribed by law, then ipso facto, the obligation to be fulfilled shall be reduced to the limit of such validity, and if from any such circumstances the Lender shall ever receive interest (or anything which might be deemed interest under applicable law) which would exceed the highest rate of interest allowed by applicable law, such amount which would be excessive interest shall be applied to the reduction of the principal due hereunder and not to the payment of interest, or if such excessive interest exceeds the unpaid balance of principal of this Note, such excess shall be refunded to the Borrower. All sums paid or agreed to be paid to the Lender shall, to the 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 actual rate of interest on account of such indebtedness is uniform, or does not exceed the maximum rate permitted by applicable law as now existing or hereafter amended, throughout the term thereof. The terms and provisions of this paragraph shall control and supersede every

other provision of all agreements between the Lender and the Borrower.

10. Records. Borrower hereby appoints Lender as the authorized agent of Borrower with full authority to record on the Payment Grid ("Grid") attached hereto as Exhibit A, and incorporated herein by reference for all purposes, the dates of each transaction, amounts of all principal advances, as well as principal and interest payments, made under this Note, and balance due on the Note. This Grid (and all notations made thereto) shall be conclusive evidence of the actual amounts of principal and accrued interest advanced and/or outstanding under this Note.

11. Notice. Any notice required to be provided to Borrower hereunder shall be in writing and shall be deemed sufficiently given or furnished if delivered by personal delivery, telecopy, expedited delivery service with proof of delivery, or by registered or certified United States mail, postage prepaid, at Borrower's address shown below or at Borrower's most current address on file with Lender. Any such notice shall be deemed to have been given at the time of personal delivery, or in the case of telecopy, upon receipt, or in the case of delivery service or mail, as of the date of the first attempted delivery at the address and in the manner provided herein. Borrower promises to give Lender prompt notice of any change in Borrower's address.

12. Miscellaneous.

- (a) No failure or delay by Lender in exercising any right, power or privilege under this Note or the Agreement shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any further exercise thereof or the exercise or any other right, power or privilege.
- (b) The captions used in this Note are for convenience only and shall not be deemed to amplify, modify or limit any provision hereof.
- (c) Words of any gender used in this Note shall be construed to include any other gender, and words in the singular shall include the plural and vice versa, unless the context otherwise requires.
- (d) This Note shall be binding upon and inure to the benefit of the Parties and their respective heirs, legal representatives, successors and assigns.
- (e) This Note, together with the Agreement, contains the entire agreement between the Parties with respect to the subject matter hereof and can be altered, amended or modified only by a written instrument executed by both Parties.
- (f) This Note may be executed in multiple copies, each of which shall be deemed an original, and all of such copies shall together constitute one and the same instrument.
- (g) Time is of the essence in the performance of each obligation, covenant and condition under this Note.
- (h) This Note shall be governed by the laws of the State of Texas.
- (i) This Note is performable in Dallas County, Texas.

Address:
4441 West Airport Freeway
Irving, Texas 75062

INTERNATIONAL ASSOCIATION OF SHOWBIZ
PIZZA TIME REST INC.

By: -----
Michael A. Hilton
President

10 (W) (10)

NATIONAL MEDIA FUND LINE OF CREDIT

By this Agreement, dated as of December 16, 1996, SHOWBIZ PIZZA TIME, INC. ("Lender") and INTERNATIONAL ASSOCIATION OF SHOWBIZ PIZZA TIME RESTAURANTS, INC. ("Borrower") (hereinafter collectively referred to as "Parties"), hereby agree as follows:

1. Revolving Commitment. Subject to the terms and conditions in this Agreement, Lender agrees to advance to Borrower from time to time amounts not to exceed One Million Five Hundred Thousand and no/100 Dollars (\$1,500,000.00) in the aggregate outstanding at any one time. No new advance shall be made under this Agreement after December 31, 1997. Subject to the foregoing limitations, Borrower may borrow, repay, prepay and reborrow amounts under this Agreement.

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

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

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

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

- (a) No default under this Agreement, and no event which would constitute a default but for the giving of notice or the passage of time thereafter, shall have occurred and be continuing on the date of such advance;
- (b) The representations and warranties of Borrower set forth in this Agreement shall be true as of the date of such advance;
- (c) Lender shall have received any document or information previously requested from Borrower pursuant to this Agreement; and
- (d) No material adverse change has occurred, in Lender's sole determination, in the businesses of Lender's restaurants or in the financial condition of Borrower.

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

in accordance with their terms.

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

- (a) The failure by Borrower to make any payment of principal or interest on the Note within ten (10) days after the same becomes due and payable;
- (b) The failure by Borrower to perform any of its obligations, except the payment of principal and interest, arising under the Note, this Agreement or any other agreement between Borrower and Lender within five (5) days after written notice of such failure; or
- (c) The filing by or against the Borrower of a voluntary or involuntary proceeding seeking liquidation, reorganization or other relief with respect to Borrower or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official for Borrower or any substantial part of its property and, in the case of any involuntary proceeding not consented to by Borrower, such proceeding is not dismissed within sixty (60) days.

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

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

To Lender:

ShowBiz Pizza Time, Inc.
4441 West Airport Freeway
Irving, Texas 75062
Attention: Counsel

To Borrower:

International Association of ShowBiz Pizza
Time Restaurants, Inc.
4441 West Airport Freeway
Irving, Texas 75062
Attention: Mike Hilton

10. Miscellaneous.

- (a) No failure or delay by Lender in exercising any right, power or privilege under this Agreement or the Note shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any further exercise thereof or the exercise of any other right, power or privilege.
- (b) The captions used in this Agreement are for convenience only and shall not be deemed to amplify, modify or limit the provisions hereof
- (c) Words of any gender used in the Agreement shall be construed to include any other gender, and words in the singular shall include the plural and vice versa, unless the context otherwise requires.

- (d) This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, legal representatives, successors and assigns.
- (e) This Agreement, together with the Note, contains the entire agreement of the parties hereto with respect to the subject matter hereof and can be altered, amended or modified only by written instrument executed by both parties.
- (f) This Agreement may be executed in multiple copies, each of which shall be deemed an original, and all of such copies shall together constitute one and the same instrument.
- (g) Time is of the essence in the performance of each obligation, covenant and condition under this Agreement.
- (h) This Agreement shall be governed by the laws of the State of Texas.

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

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

SHOWBIZ PIZZA TIME, INC.

By: -----
Richard M. Frank
Chairman and Chief Executive
Officer

INTERNATIONAL ASSOCIATION OF SHOWBIZ
PIZZA TIME RESTAURANTS, INC.

By: -----
Michael A. Hilton
President

NATIONAL MEDIA FUND
PROMISSORY NOTE

\$1,500,000.00 Irving, Texas Dated as of
December 16, 1996

FOR VALUE RECEIVED, the undersigned INTERNATIONAL ASSOCIATION OF SHOWBIZ PIZZA TIME RESTAURANTS, INC. ("Borrower"), a Texas corporation, promises to pay to SHOWBIZ PIZZA TIME, INC. ("Lender"), a Kansas corporation (hereinafter collectively referred to as "Parties"), the principal sum of ONE MILLION FIVE HUNDRED THOUSAND AND NO/100 DOLLARS (\$1,500,000.00), or so much thereof as may from time to time be advanced, together with interest accrued on the unpaid principal balance hereof as set forth below.

1. Interest Rate. The unpaid principal amount hereof from time to time outstanding from the date hereof until maturity shall bear interest at ten and one-half percent (10.5%). Interest shall be calculated at the end of each Lender's monthly accounting periods (which will not correspond with calendar months due to Lender's 52 week fiscal year) based on the average between the principal amounts outstanding and unpaid at the beginning of the monthly accounting period and at the end of such period, but shall be charged and collected based on the actual number of days elapsed.

2. Payment of Principal and Interest. Each payment by Borrower to Lender on this Note shall be applied first to fees and/or costs, if any, pursuant to Section 8 hereof and then applies to any accrued interest, and then any remaining portion of the payment after such applications shall be applied to reduction of outstanding principal balance of this Note.

3. Revolving Note. This Note is a "revolving line of credit" note. Principal advances may be made, from time to time, up to the principal amount of this Note, and principal advances may be made, from time to time, up to the principal amount of this Note, and principal payments may, from time to time, be made by Borrower to reduce the principal balance owing pursuant to this Note. This Note may be prepaid in whole or in part at any time without penalty or premium, In no event shall any principal advance be made after December 31, 1997, and all amounts outstanding will be due and payable at that time.

4. Line of Credit Agreement. This Note is issued pursuant to, is entitled to the benefit of, and is subject to the provisions of the National Media Fund Line of Credit Agreement (the "Agreement") between Borrower and Lender dated the same date as this Note.

5. Events of Default. The outstanding principal and accrued interest hereon shall mature and become automatically due and payable, without notice or demand, upon the occurrence and during the continuance of any of the following events of default:

- (a) The failure by Borrower to make a payment of any principal or interest on the Note within ten (10) days after the same becomes due and payable;
- (b) The failure by Borrower to perform any of its obligations, except the payment of principal and interest, arising under this Note, the Agreement or any other agreement between Borrower and Lender within five (5) days after receipt of written notice of such failure; or
- (c) The filing by or against the Borrower of a voluntary or involuntary proceeding seeking

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

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

7. Waiver. Borrower, sureties, endorsers, guarantors and any other party now or hereafter liable for the payment of this Note, in whole or in part, hereby severally (a) waive presentment for payment, notice of nonpayment, protest, notice of protest, notice of intent to accelerate, notice of acceleration and all other notices, filing of suit and diligence in collecting this Note or enforcing any other security with respect to same, (b) agree to any substitution, subordination, exchange or release of any such security or the release of any parties primarily or secondarily liable hereon, (c) agree that the Lender shall not be required first to institute suit or exhaust its remedies hereon against the Borrower, or other any party liable or to become liable hereon or to enforce its rights against any or all of them or any security with respect to same, and (d) consent to any extension or postponement of time of payment of this Note and to any other indulgence with respect hereto without notice hereof to any of them.

8. Collection Fees. If this Note is not paid at maturity and is placed in the hands of a collection agency or an attorney for collection, or if it is collected through a bankruptcy or any other court after maturity, then the Lender shall be entitled to reasonable fees and court costs for collection.

9. Limitation of Agreements. All agreements between the Borrower and the Lender, whether now existing or hereafter arising and whether written or oral, are hereby expressly limited so that in no contingency or event, whether by reason of demand or otherwise, shall the amount paid, or agreed to be paid to the Lender for the use, forbearance, or detention of the money to be loaned under this Note or otherwise or for the payment or performance of any covenant or obligation contained herein or in any other document evidencing security or pertaining to the loan evidenced hereby, exceed the maximum amount permissible under applicable law, as now existing or as hereafter amended, If from any circumstances whatsoever fulfillment of any provision hereof or in any of such other documents at the time performance of such provision shall be due, shall involve transcending the limit of validity prescribed by law, then ipso facto, the obligation to be fulfilled shall be reduced to the limit of such validity, and if from any such circumstances the Lender shall ever receive interest (or anything which might be deemed interest under applicable law) which would exceed the highest rate of interest allowed by applicable law, such amount which would be excessive interest shall be applied to the reduction of the principal due hereunder and not to the payment of interest, or if such excessive interest, exceeds the unpaid balance of principal of this Note, such excess shall be refunded to the Borrower. All sums paid or agreed to be paid to the Lender shall, to the 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 actual rate of interest on account of such indebtedness is uniform, or does not exceed the maximum rate permitted by applicable law as now existing or hereafter amended, throughout the term thereof. The terms and provisions of this paragraph shall control and supersede every other provision of all agreements between the Lender and the

Borrower.

10. Records. Borrower hereby appoints Lender as the authorized agent of Borrower with full authority to record on the Payment Grid ("Grid") attached hereto as Exhibit A, and incorporated herein by reference for all purposes, the dates of each transaction, amounts of all principal advances, as well as principal and interest payments, made under this Note, and balance due on the Note. This Grid (and all notations made thereto) shall be conclusive evidence of the actual amounts of principal and accrued interest advanced and/or outstanding under this Note.

11. Notice. Any notice required to be provided to Borrower hereunder shall be in writing and shall be deemed sufficiently given or furnished if delivered by personal delivery, telecopy, expedited delivery service with proof of delivery, or by registered or certified United States mail, postage prepaid, at Borrower's address shown below or at Borrower's most current address on file with Lender. Any such notice shall be deemed to have been given at the time of personal delivery, or in the case of telecopy, upon receipt, or in the case of delivery service or mail, as of the date of the first attempted delivery at the address and in the manner provided herein. Borrower promises to give Lender prompt notice of any change in Borrower's address.

12. Miscellaneous.

- (a) No failure or delay by Lender in exercising any right, power or privilege under this Note or the Agreement shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any further exercise thereof or the exercise or any other right, power or privilege.
- (b) The captions used in this Note are for convenience only and shall not be deemed to amplify, modify or limit any provision hereof.
- (c) Words of any gender used in this Note shall be construed to include any other gender, and words in the singular shall include the plural and vice versa, unless the context otherwise requires.
- (d) This Note shall be binding upon and inure to the benefit of the Parties and their respective heirs, legal representatives, successors and assigns.
- (e) This Note, together with the Agreement, contains the entire agreement between the Parties with respect to the subject matter hereof and can be altered, amended or modified only by a written instrument executed by both Parties.
- (f) This Note may be executed in multiple copies, each of which shall be deemed an original, and all of such copies shall together constitute one and the same instrument.
- (g) Time is of the essence in the performance of each obligation, covenant and condition under this Note.
- (h) This Note shall be governed by the laws of the State of Texas.
- (i) This Note is performable in Dallas County, Texas.

Address:
4441 West Airport Freeway
Irving, Texas 75062

INTERNATIONAL ASSOCIATION OF SHOWBIZ
PIZZA TIME RESTAURANTS, INC.

By: -----
Michael A. Hilton
President

<ARTICLE> 5

<PERIOD-TYPE>	YEAR	
<FISCAL-YEAR-END>	DEC-27-1996	
<PERIOD-END>	DEC-27-1996	
<CASH>		3,402
<SECURITIES>		0
<RECEIVABLES>		4,000
<ALLOWANCES>		20
<INVENTORY>		3,368
<CURRENT-ASSETS>		27,588
<PP&E>		272,343
<DEPRECIATION>		108,345
<TOTAL-ASSETS>		216,580
<CURRENT-LIABILITIES>		33,523
<BONDS>		34,668
<COMMON>		2,152
<PREFERRED-MANDATORY>		2,108
<PREFERRED>		0
<OTHER-SE>		139,324
<TOTAL-LIABILITY-AND-EQUITY>		216,580
<SALES>		289,068
<TOTAL-REVENUES>		293,990
<CGS>		143,381
<TOTAL-COSTS>		271,769
<OTHER-EXPENSES>		0
<LOSS-PROVISION>		0
<INTEREST-EXPENSE>		3,476
<INCOME-PRETAX>		22,221
<INCOME-TAX>		9,000
<INCOME-CONTINUING>		0
<DISCONTINUED>		0
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		13,221
<EPS-PRIMARY>		(.70)
<EPS-DILUTED>		(.70)