

FORM 10-K

(Mark One)

- X Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended January 2, 1998.
- 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 incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

None

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

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

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

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

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

At March 13, 1998, an aggregate of 18,221,235 shares of the registrant's Common Stock, par value of \$.10 each (being the registrant's only class of common stock), were outstanding, and the aggregate market value thereof (based upon the last reported sale price on March 13, 1998) held by non-affiliates of the registrant was \$ 412,456,474.

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 1997 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 13, 1998, 252 Chuck E. Cheese's Pizza ("Chuck E. Cheese's") restaurants. In addition, as of March 13, 1998, franchisees of the Company operated 61 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):

	1997 ----	1996 ----	1995 ----
Average annual revenues per restaurant (1)	\$1,437,000	\$1,286,000	\$1,178,000
Number of restaurants open at end of period	246	240	222
Percent of total restaurant revenues:			
Food and beverage sales	68.2%	70.1%	70.2%
Game sales	28.6%	26.6%	26.6%
Merchandise sales	3.2%	3.3%	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 (225, 213 and 190 restaurants in 1997, 1996 and 1995, respectively). Fiscal year 1997 consisted of 53 weeks while each of fiscal years 1996 and 1995 consisted of 52 weeks.

The revenues from Chuck E. Cheese's restaurants are seasonal in nature. The restaurants tend to generate more revenues during the

first and third fiscal quarters as compared to the second and fourth fiscal quarters.

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

Page 2

To maintain a unique and exciting environment in the restaurants, the Company believes it is essential to reinvest capital through the evolution of its games, rides and entertainment packages and continuing enhancement of the facilities. In 1994, the Company initiated a "repositioning" program to evolve and expand its efforts to significantly enhance its Chuck E. Cheese's restaurants. Between March 1994 and September 1997, all Company operated restaurants were remodeled under this program. In 1997, the Company initiated a Phase II upgrade program that generally includes a new game package, enhanced prize and merchandise offerings and improved product presentation and service. The Company completed Phase II upgrades in 107 restaurants in 1997 and plans to upgrade an additional 100 to 120 restaurants in 1998.

The Company expanded the customer areas of three, seven and seven existing stores in 1995, 1996 and 1997, respectively. The Company plans to expand the customer areas of another 12 to 15 restaurants in 1998. The customer area is typically increased by an average of 1,000 to 4,000 square feet per store.

The Company opened two new Chuck E. Cheese's restaurants in 1997 and one new restaurant in 1995. The Company anticipates adding approximately 18 to 22 new restaurants in 1998 through a combination of new restaurants and the acquisition of existing restaurants. The Company periodically reevaluates the site characteristics of its restaurants. In the event certain site characteristics considered essential for the success of a restaurant deteriorate, the Company will consider relocating the restaurant to a more desirable site.

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

Restaurant Design and Entertainment

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

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

Each Chuck E. Cheese's restaurant typically contains a family oriented playroom area offering approximately 40 coin- and token-operated attractions, including arcade-style games, kiddie rides, video games, skill oriented games and other similar entertainment.

Most games dispense tickets that can be redeemed by guests for prize merchandise such as toys and dolls. Also included in the playroom area are tubes and tunnels suspended from or reaching to the ceiling ("SkyTubes") or other free attractions for young children, with booth and table seating for the entire family. The playroom area normally occupies approximately 60% of the restaurant's 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 targeted at families with young children that feature the family entertainment experiences available at Chuck E. Cheese's restaurants and are primarily aimed at increasing the frequency of customer visits. The primary advertising medium continues to be television, due to its broad access to family audiences and its ability to communicate the Chuck E. Cheese's experience. The television advertising campaigns are supplemented by promotional offers in newspapers.

Franchising

The Company began franchising its restaurants in October 1981 and the first franchised restaurant opened in June 1982. At March 13, 1998, 61 Chuck E. Cheese's restaurants were operated by a total of 39 different franchisees, as compared to 69 of such restaurants at March 14, 1997. In September 1996, the Company purchased all of the 19 Chuck E. Cheese's restaurants owned by its largest franchisee. The Company sold five franchises in 1997. 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 1998.

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 1.4% of gross sales; and (iii) to the Entertainment Fund

(an independent fund established and managed by such Association to further develop and improve entertainment attractions) an amount equal to 0.4% of gross sales. In 1998, the Advertising Fund will increase assessments from 1.4% of gross sales to 2.15% of gross sales. The Chuck E. Cheese's franchise agreements also require franchisees to expend at least 2.0% 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 which were sold in May 1994.

Trademarks

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

Government Regulation

The development and operation of Chuck E. Cheese's restaurants are subject to various federal, state and local laws and regulations, including but not limited to those that impose restrictions, levy a fee or tax, or require a permit or license on the service of alcoholic beverages and the operation of games and rides. The Company is subject to the Fair Labor Standards Act, the Americans With Disabilities Act, and family 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 13, 1998, the Company employed approximately 13,600 employees, including 13,400 in the operation of Chuck E. Cheese's restaurants and 200 employed by the Company in the Company's executive offices. None of the Company's employees 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 as of March 13, 1998.

State -----	Chuck E. Cheese's -----
Alabama	5
Arkansas	4
California	48
Colorado	4
Connecticut	5
Delaware	1
Florida	15
Georgia	7
Idaho	1
Illinois	16
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	3
Ohio	12
Oklahoma	3
Pennsylvania	9
South Carolina	3
Tennessee	5
Texas	26
Virginia	6
Wisconsin	3

	252
	=====

Of the 252 Chuck E. Cheese's restaurants owned by the Company as of March 13, 1998, 233 occupy leased premises and 19 occupy owned premises. The leases of these restaurants will expire at various times from 1998 to 2009, as described in the table below.

Year of Expiration -----	Number of Restaurants -----	Range of Renewal Options (Years) -----
--------------------------------	-----------------------------------	--

1998	27	None to 10
1999	17	None to 15
2000	22	None to 15
2001	37	None to 15
2002 and thereafter	130	None to 15

page 6

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

Item 3. Legal Proceedings.

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

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

No matters were submitted to a vote of security holders during the fourth quarter of 1997.

Page 7

P A R T I I

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

As of March 13, 1998, there were an aggregate of 18,221,235 shares of the Company's Common Stock outstanding and approximately 2,967 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
	----	----
1997		
- 1st quarter	\$ 25	\$ 16 1/2
- 2nd quarter	27 3/8	17 1/4
- 3rd quarter	26 3/4	20 1/2
- 4th quarter	24 15/16	17 3/8

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

The Company may not pay any dividends to holders of its Common Stock (except in shares of Common Stock) unless an amount equal to all dividends then accrued on its Class A Preferred Stock par value \$60.00 per share ("the Preferred Stock") has been paid or set aside to be paid. A dividend to holders of record of Preferred Stock as of January 2, 1998 in the amount of \$1.20 per share will be paid on April 5, 1998.

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.

	1997	1996	1995	1994	1993
	-----	-----	-----	-----	-----
(Thousands, except per share and store data)					
Operating results (1):					
Revenues	\$350,267	\$293,990	\$263,783	\$268,515	272,344
Costs and expenses	307,558	271,769	263,408	265,402	254,097
	-----	-----	-----	-----	-----
Income before income taxes	42,709	22,221	375	3,113	18,247
Income taxes:					
Current expense	3,417	2,855	701	869	1,751
Deferred expense (benefit)	13,795	6,145	(389)	1,568	4,605
	-----	-----	-----	-----	-----
	17,212	9,000	312	2,437	6,356
	-----	-----	-----	-----	-----
Net income	\$ 25,497	\$ 13,221	\$ 63	\$ 676	\$ 11,891
	=====	=====	=====	=====	=====
Per Share (2):					
Basic:					
Net income (loss)	\$ 1.37	\$.71	\$ (.02)	\$.02	\$.60
Weighted average shares outstanding	18,402	18,206	18,098	18,115	19,225
Diluted:					
Net income (loss)	\$ 1.34	\$.70	\$ (.02)	\$.02	\$.57
Weighted average shares outstanding	18,817	18,477	18,098	18,191	20,196
Cash flow data:					
Cash provided by operations	\$69,478	\$48,362	\$27,810	\$ 30,819	\$ 44,905
Cash used in investing					

activities.	(43,805)	(51,868)	(30,548)	(22,576)	(45,909)
Cash provided by (used in)					
financing activities .	(21,800)	1,319	5,946	(10,373)	2,053
Balance sheet data:					
Total assets.	\$226,368	\$216,580	\$199,010	\$188,308	\$193,649
Long-term obligations					
(including current					
portion and redeemable					
preferred stock)	30,713	39,571	39,244	33,223	29,816
Shareholders' equity. . .	155,938	141,476	126,487	125,515	136,647
Number of restaurants at year end:					
Chuck E. Cheese's:					
Company operated.	249	244	226	226	215
Franchise	63	70	93	106	110
	----	----	----	----	----
	312	314	319	332	325
Monterey's Tex-Mex Cafe's . . .					27
	----	----	----	----	----
	312	314	319	332	352
	=====	=====	=====	=====	=====

- - - - -

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

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

(3) During 1997, the Company adopted Statement of Financial Accounting Standards No. 128 "Earnings Per Share" and restated the earnings per share data of prior years.

Page 9

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

Results of Operations

1997 Compared to 1996

- - - - -

Revenues increased 19.1% to \$350.3 million in 1997 from \$294.0 million in 1996 primarily due to an increase of 10.7% in sales of the Company's Chuck E. Cheese's restaurants which were open during all of 1997 and 1996 ("comparable store sales"). In addition, the Company purchased 19 restaurants from its largest franchisee in September 1996. Fiscal years 1997 and 1996 consisted of 53 and 52 weeks, respectively.

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

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

	1997 -----	1996 -----	1995 -----
Revenues	100.0%	100.0%	100.0%
Costs and expenses:			
Cost of sales	46.8%	48.7%	51.8%
Selling, general and administrative	15.1%	14.8%	17.0%
Depreciation and amortization	7.3%	8.5%	8.8%
Interest expense. . . . .	.8%	1.2%	1.2%
(Gain) loss on property transactions. . . . .		.1%	.1%
Other operating expenses.	17.8%	19.1%	21.0%
	-----	-----	-----
	87.8%	92.4%	99.9%
	-----	-----	-----
Income before income taxes	12.2%	7.6%	.1%
	=====	=====	=====

Revenues

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

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

Costs and Expenses

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

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

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

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

on a review of historical asset utilization.

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

Other operating expenses decreased as a percentage of revenues to 17.8% in 1997 from 19.1% in 1996 primarily due to the increase in comparable store sales and the fact that a significant portion of operating costs such as rent, property taxes and insurance are fixed.

Net Income

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

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 comparable stores 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 diluted earnings per share increased to \$.70 per share in 1996 compared to a loss of \$.02 per share in 1995.

Revenues

Revenues increased to \$294.0 million in 1996 from \$263.8 million in 1995. Comparable store sales 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 restaurants. 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 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. Restaurant labor expenses 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.

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 diluted earnings per share increased to \$.70 per share in 1996 compared to a loss of \$.02 per share in 1995.

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 \$69.5 million in 1997 from \$48.4 million in 1996. Cash outflow from investing activities for 1997 was \$43.8 million. Cash outflow from financing activities

in 1997 was \$21.8 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, if necessary, funds available under its line of credit.

In 1997, the Company announced that it plans to purchase shares of the Company's common stock at an aggregate purchase price of up to \$20 million. As of March 13, 1998, the Company has purchased 718,500 shares of its common stock in the open market for an aggregate purchase price of approximately \$15.2 million. The funds required for the stock purchase plan are provided primarily from the Company's current cash balances and operating cash flow.

The Company completed its repositioning program by remodeling 22 restaurants in 1997. In 1996, 1995 and 1994, 126, 87 and 10 restaurants were remodeled, respectively.

In 1997, the Company opened two new stores, acquired three stores from franchisees and acquired one store previously managed by the Company. During 1998, the Company plans to add an additional 18 to 22 stores including new stores and acquisitions of existing stores from franchisees or joint venture partners. The Company currently anticipates its cost of opening new stores to average approximately \$1.5 million per store which will vary depending upon many factors including the size of the store and whether the store is an in-line or free-standing building. In 1997, the Company expanded seven existing stores and plans to expand an additional 12 to 15 stores by the end of 1998. These expansions typically increase the customer area by an average of 1,000 to 4,000 square feet per store. The Company completed 107 Phase II upgrades in 1997 and plans to upgrade an additional 100 to 120 stores in 1998 at an average cost of \$150,000 to \$160,000 per store. A Phase II upgrade generally includes a new game package, enhanced prize and merchandise offerings and improved product presentation and service. The Company currently estimates that capital expenditures in 1998, including expenditures for remodeling existing stores, new store openings, existing store expansions and equipment investments, will be approximately \$55 million. The Company plans to finance these expenditures through cash flow from operations and, if necessary, borrowings under the Company's line of credit.

The Company's total credit facility of \$41.3 million at January 2, 1998 consists of \$26.3 million in term notes and a \$15 million line of credit which expires in June 1998. Term notes totaling \$18 million with annual interest of 10.02% mature in 2001. Term notes totaling \$8.3 million with quarterly principal payments of \$833,000 and annual interest equal to LIBOR plus 3.5% mature in 2000. Interest under the \$15 million line of credit is dependent on earnings and debt levels of the Company and ranges from prime plus 0% to .5% or, at the Company's option, LIBOR plus 2% to 3%. Currently, any borrowings under this line of credit would be at the prime rate or LIBOR plus 2%. As of March 13, 1998, there were no borrowings under this line of credit. The Company is required to comply with certain financial ratio tests during the terms of the loan agreements. The Company plans to extend the maturity of its current line of credit or enter into a new agreement prior to the expiration date of the current agreement.

In 1998, the Company will purchase computer software which will be Year 2000 compliant. The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. Current systems may be unable to accurately process certain date-based information. The cost of the new software will be recorded as an asset and amortized over its estimated useful life. Other maintenance or modification costs will be expensed as incurred. Accordingly, the Company does not expect the amounts required to be expensed over the next two years to have a material effect on its financial position or results of operations or cash flows. The Company expects its Year 2000 date conversion project to be completed in 1999. The Company has initiated formal communication with significant vendors and suppliers to determine their efforts to remediate Year 2000 issues. There can be no guarantee that such issues will be resolved and could result in financial risk to the Company.

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 1998 through 2010. The Company currently projects future taxable income levels sufficient to realize its tax credit carryforwards prior to their expiration. However, there can be no assurance that the levels of taxable income will be sufficient to realize these benefits.

Page 13

Item 8. Financial Statements and Supplementary Data

SHOWBIZ PIZZA TIME, INC.
 YEARS ENDED JANUARY 2, 1998, DECEMBER 27, 1996
 AND DECEMBER 29, 1995

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

page 14

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 January 2, 1998 and December 27, 1996, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended January 2, 1998. 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 January 2, 1998 and December 27, 1996, and the results of their operations and their cash flows for each of the three years in the period ended January 2, 1998, in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP
 Dallas, Texas
 February 27, 1998

page 15

SHOWBIZ PIZZA TIME, INC.
 CONSOLIDATED BALANCE SHEETS
 JANUARY 2, 1998 AND DECEMBER 27, 1996
 (Thousands, except share data)

	ASSETS	January 2, 1998 -----	December 27, 1996 -----
Current assets:			
Cash and cash equivalents		\$ 7,275	\$ 3,402
Accounts receivable, including receivables from related parties of \$240 and \$675, respectively		2,996	3,543
Current portion of notes receivable, including receivables from related parties of \$199 and \$221, respectively		259	457
Inventories		3,975	3,368
Prepaid expenses		3,550	3,185
Current portion of deferred tax asset . .		7,237	13,633
		-----	-----
Total current assets		25,292	27,588
		-----	-----
Investments in related parties		668	1,315
		-----	-----
Property and equipment, net.		187,433	163,998
		-----	-----
Deferred tax asset		5,988	12,296
		-----	-----
Other assets:			
Notes receivable, less current portion,			

including receivables from related parties of \$2,516 and \$2,323, respectively	2,579	7,257
Other	4,408	4,126
	-----	-----
	6,987	11,383
	-----	-----
	\$ 226,368	\$ 216,580
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Current portion of long-term debt	\$ 3,376	\$ 1,785
Accounts payable and accrued liabilities . . .	35,665	31,738
	-----	-----

Total current liabilities	39,041	33,523
	-----	-----

Long-term debt, less current portion	23,826	34,668
	-----	-----

Deferred credits	4,052	3,795
	-----	-----

Other liabilities	1,300	1,010
	-----	-----

Commitments and contingencies

Redeemable preferred stock, \$60 par value, redeemable for \$2,974 in 2005	2,211	2,108
	-----	-----

Shareholders' equity:

Common stock, \$.10 par value; authorized 50,000,000 shares; 21,912,277 and 21,519,075 shares issued, respectively	2,191	2,152
Capital in excess of par value	158,696	153,795
Retained earnings	42,768	17,613
Deferred compensation	(2,280)	(1,821)
Less treasury shares of 3,827,676 and 3,109,176, respectively, at cost	(45,437)	(30,263)
	-----	-----
	155,938	141,476
	-----	-----
	\$ 226,368	\$ 216,580
	=====	=====

See notes to consolidated financial statements.

SHOWBIZ PIZZA TIME, INC.
CONSOLIDATED STATEMENTS OF EARNINGS
YEARS ENDED JANUARY 2, 1998,
DECEMBER 27, 1996 AND DECEMBER 29, 1995
(Thousands, except per share data)

	1997	1996	1995
	-----	-----	-----
Food and beverage revenues	\$ 235,898	\$202,624	\$182,376
Games and merchandise revenues	109,518	86,444	76,969

Franchise fees and royalties	3,227	3,675	3,464
Interest income, including related party income of \$244, \$246 and \$222, respectively.	1,095	1,051	872
Joint venture income	529	196	102
	-----	-----	-----
	350,267	293,990	263,783
	-----	-----	-----
Costs and expenses:			
Cost of sales	163,713	143,381	136,700
Selling, general and administrative expenses, including related party expenses of \$31, \$125 and \$125, respectively.	53,037	43,534	44,794
Depreciation and amortization.	25,524	25,057	23,184
Interest expense.	2,866	3,476	3,118
(Gain) loss on property transactions.	(104)	263	136
Other operating expenses.	62,522	56,058	55,476
	-----	-----	-----
	307,558	271,769	263,408
	-----	-----	-----
Income before income taxes	42,709	22,221	375
Income taxes:			
Current expense.	3,417	2,855	701
Deferred (benefit) expense	13,795	6,145	(389)
	-----	-----	-----
	17,212	9,000	312
	-----	-----	-----
Net income.	\$ 25,497	\$ 13,221	\$ 63
	=====	=====	=====
Net income (loss) applicable to common shares (Note 11)	\$ 25,155	\$ 12,880	\$ (279)
	=====	=====	=====
Earnings per share:			
Basic:			
Net income (loss).	\$ 1.37	\$.71	\$ (.02)
	=====	=====	=====
Weighted average shares outstanding.	18,402	18,206	18,098
	=====	=====	=====
Diluted:			
Net income (loss).	\$ 1.34	\$.70	\$ (.02)
	=====	=====	=====
Weighted average shares outstanding.	18,817	18,477	18,098
	=====	=====	=====

See notes to consolidated financial statements.

Page 17

SHOWBIZ PIZZA TIME, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED JANUARY 2, 1998,
DECEMBER 27, 1996 AND DECEMBER 29, 1995
(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 30, 1994.	21,506	\$ 2,151	\$ 155,815	\$ 5,012	\$ (7,200)	3,109	\$(30,263)
Net income.							

			63				
Redeemable preferred stock accretion	(104)						
Redeemable preferred stock dividends, \$4.80 per share.	(238)						
Stock options exercised							
19 2 88							
Stock grant shares forfeited. . . .							
(90) (9) (1,734)				1,737			
Tax benefit from exercise of stock options and stock grants							
(654)							
Amortization of deferred compensation . . .				1,821			
-----	-----	-----	-----	-----	-----	-----	-----
Balances, December 29, 1995.							
21,435 2,144 153,515 4,733				(3,642)		3,109	(30,263)
Net income.			13,221				
Redeemable preferred stock accretion. . .	(103)						
Redeemable preferred stock dividends, \$4.80 per share.	(238)						
Stock options exercised							
77 7 930							
Tax benefit from exercise of stock options and stock grants	(655)						
Amortization of deferred compensation				1,821			
Stock issued under 401(k) plan.							
8 1 51							
Stock split costs							
(30)							
Cancellation of fractional shares							
(1) (16)							
-----	-----	-----	-----	-----	-----	-----	-----
Balances, December 27, 1996							
21,519 2,152 153,795 17,613				(1,821)		3,109	(30,263)
Net income.			25,497				
Redeemable preferred stock accretion.			(104)				
Redeemable preferred stock dividends, \$4.80 per share.	(238)						
Stock options exercised							
262 26 2,566							
Stock grant plan							
128 13 2,280				(2,280)			
Tax benefit from exercise of stock options and stock grants	(14)						
Treasury stock acquired.						719	(15,174)
Amortization of deferred compensation				1,821			
Stock issued under 401(k) plan.							
3 59							
Stock split costs.							
10							
-----	-----	-----	-----	-----	-----	-----	-----
Balances, January 2, 1998							
21,912 \$ 2,191 \$158,696 \$ 42,768				\$ (2,280)		3,828	\$ (45,437)
=====	=====	=====	=====	=====	=====	=====	=====

See notes to consolidated financial statements.

SHOWBIZ PIZZA TIME, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JANUARY 2, 1998,
DECEMBER 27, 1996 AND DECEMBER 29, 1995
(Thousands)

	1997 ----	1996 -----	1995 -----
Operating activities:			
Net income	\$25,497	\$13,221	\$ 63
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization	25,524	25,057	23,184
Deferred income tax expense (benefit)	13,795	6,145	(389)
(Gain) loss on property transactions	(104)	263	136
Compensation expense under stock grant plan	1,821	1,821	1,821
Other	257	352	418
Net change in receivables, inventories, prepaids, payables and accrued liabilities	2,688	1,503	2,577
	-----	-----	-----
Cash provided by operations	69,478	48,362	27,810
	-----	-----	-----
Investing activities:			
Purchases of property and equipment	(48,451)	(51,719)	(28,277)
Proceeds from disposition of property and equipment			20
Payments received on notes receivable	7,376	3,534	2,503
Additions to notes receivable	(2,500)	(3,568)	(3,047)
Change in investments and other assets	(230)	(115)	(1,747)
	-----	-----	-----
Cash used in investing activities	(43,805)	(51,868)	(30,548)
Financing activities:			
Proceeds from debt and line of credit		7,600	38,895
Payments on debt and line of credit	(9,142)	(6,995)	(33,054)
Redeemable preferred stock dividends	(238)	(238)	(238)
Acquisition of treasury stock	(15,174)		
Exercise of stock options	2,592	937	90
Other	162	15	253
	-----	-----	-----
Cash provided by (used in) financing activities	(21,800)	1,319	5,946
	-----	-----	-----
Increase (decrease) in cash and cash equivalents	3,873	(2,187)	3,208
Cash and cash equivalents, beginning of year	3,402	5,589	2,381
	-----	-----	-----
Cash and cash equivalents, end of year	\$ 7,275	\$ 3,402	\$ 5,589
	=====	=====	=====

See notes to consolidated financial statements.

SHOWBIZ PIZZA TIME, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JANUARY 2, 1998,
DECEMBER 27, 1996 AND DECEMBER 29, 1995

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.

Fiscal year:

The Company's fiscal year is 52 or 53 weeks and ends on the Friday nearest December 31. References to 1997, 1996 and 1995 are for the fiscal years ended January 2, 1998, December 27, 1996 and December 29, 1995, respectively. Fiscal year 1997 was 53 weeks in length, while 1996 and 1995 were each 52 weeks in length.

Basis of consolidation:

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

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 1997, 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 \$2.2 million, net income increased approximately \$1.3 million and basic and diluted earnings per share increased approximately \$.07 in 1997.

Deferred charges and related amortization:

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

Franchise fees and royalties:

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

Page 20

SHOWBIZ PIZZA TIME, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED JANUARY 2, 1998,
DECEMBER 27, 1996 AND DECEMBER 29, 1995

1. Summary of significant accounting policies (continued):

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.

Earnings Per Share

The Financial Accounting Standards Board has issued Statement of Accounting Standards No. 128 ("SFAS 128") "Earnings Per Share" effective for years ending after December 15, 1997. SFAS 128 replaced the presentation of primary and fully diluted earnings per common share with basic and diluted earnings per common share (Note 11). The Company has restated the earnings per share data of prior years to reflect this adoption.

Accounting for stock-based compensation:

Statement of Financial Accounting Standards No. 123 ("SFAS 123") "Accounting for Stock-Based Compensation" became effective for years beginning after December 15, 1995. As permitted by SFAS 123, the Company will continue to apply the recognition and measurement provisions of Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees" and has adopted only the disclosure requirements of SFAS 123 beginning in fiscal 1996. Accordingly, no compensation costs have been recognized in connection with the Company's stock option plans (Note 18).

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.

page 21

SHOWBIZ PIZZA TIME, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED JANUARY 2, 1998,
DECEMBER 27, 1996 AND DECEMBER 29, 1995

3. Accounts receivable:

	1997	1996
	----	-----
	(thousands)	
Trade	\$ 1,112	\$ 538
Other	1,908	3,025
	-----	-----
	3,020	3,563
Less allowance for doubtful collection.	(24)	(20)
	-----	-----

\$ 2,996 \$ 3,543
 ===== =====

4. Notes receivable:

The Company's notes receivable at January 2, 1998 and December 27, 1996 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 17), 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 \$59,000 and \$174,000 at January 2, 1998 and December 27, 1996, respectively.

5. Property and equipment:

	Estimated Lives (in years)	1997 (thousands)	1996 (thousands)
	-----	-----	-----
Land and improvements	0 - 20	\$ 7,515	\$ 5,208
Leasehold improvements	4 - 20	150,565	135,201
Buildings and improvements	4 - 25	10,348	9,161
Furniture, fixtures and equipment.	2 - 15	140,612	120,688
Property leased under capital leases (Note 7)	10 - 15	1,271	1,328
		-----	-----
		310,311	271,586
Less accumulated depreciation and amortization		(124,640)	(108,345)
		-----	-----
		185,671	163,241
Construction in progress		1,762	757
		-----	-----
		\$ 187,433	\$ 163,998
		=====	=====

6. Accounts payable and accrued liabilities:

	1997	1996
	-----	-----
	(thousands)	
Accounts payable	\$ 13,162	\$ 13,240
Salaries and wages	6,591	4,292
Insurance	8,532	8,714
Taxes, other than income	4,096	3,037
Other	3,284	2,455
	-----	-----
	\$ 35,665	\$ 31,738
	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED JANUARY 2, 1998,
DECEMBER 27, 1996 AND DECEMBER 29, 1995

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:

	1997 -----	1996 -----
	(thousands)	
Buildings and improvements	\$ 1,271	\$1,328
Less accumulated depreciation.	(1,031)	(982)
	-----	-----
	\$ 240	\$ 346
	=====	=====

Scheduled annual maturities of the obligations for capital and operating leases as of January 2, 1998, are as follows:

Years -----	Capital -----	Operating -----
	(thousands)	
1998.	\$184	\$26,141
1999.	184	24,521
2000.	184	22,905
2001.	214	20,373
2002.	214	17,980
2003-2009 (aggregate payments).	627	26,084
	-----	-----
Minimum future lease payments	1,607	\$138,004
		=====
Less amounts representing interest.	(737)	

Present value of future minimum lease payments.	870	
Less current portion.	(43)	

	\$ 827	
	=====	

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:

1997 -----	1996 -----	1995 -----
(thousands)		

Minimum	\$32,694	\$30,484	\$28,730
Contingent.	276	195	146
	-----	-----	-----
	\$32,970	\$30,679	\$28,876
	=====	=====	=====

page 23

SHOWBIZ PIZZA TIME, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED JANUARY 2, 1998,
DECEMBER 27, 1996 AND DECEMBER 29, 1995

8. Long-term debt:

	1997	1996
	----	----
	(thousands)	
Term loans, 10.02%, due June 2001	\$ 18,000	\$ 18,000
Term loans, LIBOR plus 3.5%, due June 2000. . . .	8,332	10,000
Revolving bank loan, prime plus 0% to .5% or LIBOR plus 2% to 3%, due June 1998		7,400
Obligations under capital leases (Note 7). . . .	870	1,053
	-----	-----
	27,202	36,453
Less current portion.	(3,376)	(1,785)
	-----	-----
	\$ 23,826	\$ 34,668
	=====	=====

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. As of January 2, 1998, the Company's credit facility totals \$41.3 million, which consists of \$26.3 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 (8.5% at January 2, 1998) plus 0% or, at LIBOR (5.9% at January 2, 1998) plus 2%. At January 2, 1998, there was no outstanding balance 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.

As of January 2, 1998, scheduled annual maturities of all long-term debt (exclusive of obligations under capital leases) are as follows (thousands):

Years	Amount
-----	-----
1998.	\$ 3,333
1999.	9,332
2000.	7,667
2001.	6,000

	\$26,332

9. Litigation:

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

10. Redeemable preferred stock:

As of January 2, 1998, 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 January 2, 1998, 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 JANUARY 2, 1998,
 DECEMBER 27, 1996 AND DECEMBER 29, 1995

11. Earnings per common share:

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

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

	1997 -----	1996 -----	1995 -----
Net income	\$ 25,497	\$ 13,221	\$ 63
Accretion of redeemable preferred stock	(104)	(103)	(104)
Redeemable preferred stock dividends	(238)	(238)	(238)
	-----	-----	-----
Net income (loss) applicable to common shares	\$ 25,155	\$ 12,880	\$ (279)
	=====	=====	=====
Basic:			
Weighted average common shares outstanding	18,402	18,206	18,098
	=====	=====	=====
Earnings (loss) per common shares	\$ 1.37	\$.71	\$ (.02)
	=====	=====	=====

Diluted:

Weighted average common shares			
outstanding	18,402	18,206	18,098
Potential common shares for stock			
options and stock grants	415	271	-----
	-----	-----	-----
Weighted average shares			
outstanding	18,817	18,477	18,098
	=====	=====	=====
Earnings (loss) per common and			
potential common shares	\$ 1.34	\$.70	\$ (.02)
	=====	=====	=====

12. Franchise fees and royalties:

At January 2, 1998, 63 Chuck E. Cheese's restaurants were operated by a total of 40 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 \$172,000, \$274,000, and \$98,000 in 1997, 1996 and 1995, respectively.

13. Cost of sales:

	1997	1996	1995
	----	----	----
	(thousands)		
Food, beverage and related			
supplies	\$ 50,355	\$ 45,681	\$ 43,412
Games and merchandise	18,339	14,816	13,285
Labor	95,019	82,884	80,003
	-----	-----	-----
	\$163,713	\$143,381	\$136,700
	=====	=====	=====

SHOWBIZ PIZZA TIME, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 YEARS ENDED JANUARY 2, 1998,
 DECEMBER 27, 1996 AND DECEMBER 29, 1995

14. Income taxes:

The significant components of income tax expense are as follows:

	1997	1996	1995
	-----	-----	-----
	(thousands)		
Current expense	\$ 3,417	\$ 2,855	\$ 701
Deferred expense:			
Utilization of operating			
loss carryforwards	16,693	8,664	1,138

Net tax benefits from exercise of stockoptions and stock grants . . .	(14)	(655)	(654)
Tax credits		(475)	(127)
Other (primarily temporary differences)	(2,884)	(1,389)	(746)
	-----	-----	-----
	\$ 17,212	\$ 9,000	\$ 312
	=====	=====	=====

At January 2, 1998, the Company has recorded a deferred tax asset of approximately \$13.2 million reflecting \$6.6 million in tax credit carryforwards and tax effected net taxable deductions of \$6.6 million. The temporary timing differences primarily relate to depreciation differences. Realization of tax credits and tax deductions is dependent on generating sufficient taxable income prior to expiration of these carryforwards. Although realization is not assured, the Company believes it is more likely than not that the deferred tax asset will be realized.

As of January 2, 1998, the Company has investment tax credit and jobs tax credit carryforwards totaling \$4,154,000 and \$548,000, respectively, and alternative minimum tax credits of \$1,893,000.

A schedule of expiring tax credits by fiscal year are as follows:

Years	Tax Credits
-----	-----
	(Thousands)
1998	\$ 4,007
1999	395
2000	149
2001	19
2002	0
2003 - 2010	132

	\$ 4,702
	=====

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

SHOWBIZ PIZZA TIME, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED JANUARY 2, 1998,
DECEMBER 27, 1996 AND DECEMBER 29, 1995

14. Income taxes (continued):

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

1997	1996	1995
-----	-----	-----
	(thousands)	

Statutory rate	35.0%	35.0%	34.0%
State income taxes	8.1%	9.0%	106.1%
Tax credits earned		(2.1%)	(33.9%)
Other	(2.8%)	(1.4%)	(23.0%)
	-----	-----	-----
Income taxes provided	40.3%	40.5%	83.2%
	=====	=====	=====

15. 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.

16. Supplemental cash flow information:

	1997	1996	1995
	----	----	----
		(thousands)	
Cash paid during the year for:			
Interest	\$2,961	\$ 3,429	\$ 3,055
Income taxes	2,753	2,222	801
Supplemental schedule of noncash investing and financing activities:			
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 JANUARY 2, 1998,
DECEMBER 27, 1996 AND DECEMBER 29, 1995

17. Related party transactions:

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

The Company made payments to Hallwood of \$31,000 in 1997 and \$125,000 in 1996 and 1995 for consulting services. The

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

The Company has advanced amounts to joint ventures in which the Company has a 50% interest or less. At January 2, 1998, approximately \$610,000 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 \$229,000 and \$669,000 at January 2, 1998 and December 27, 1996, respectively. In January 1998, the Company acquired the interest of its joint venture partner for cash plus forgiveness of all receivables.

The Company has granted three separate operating lines of credit to the International Association of ShowBiz Pizza Time Restaurants, Inc. (the "Association"). In December 1997, the lines were renewed to provide the Association with available borrowings of \$2.6 million at 10.5% interest and are due December 31, 1998. The Association develops entertainment attractions and produces system wide advertising. Five officers of the Association are also officers of the Company. At January 2, 1998, approximately \$2,105,000 was outstanding under these lines of credit. The Company also had miscellaneous accounts receivable from the Association of \$11,000 and \$6,000 at January 2, 1998 and December 27, 1996, respectively.

18. Employee benefit plans:

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

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. Any shares granted under this plan must be granted before December 31, 1998. In 1997, the Company adopted a new employee stock option plan under which an additional 925,000 shares may be granted before July 31, 2007. The exercise price for options granted under both plans may not be less than the fair market value of the Company's common stock at date of grant. Options may not be exercised until the employee has been continuously employed at least one year after the date of grant. Options which expire or terminate may be re-granted under the plan.

page 28

SHOWBIZ PIZZA TIME, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED JANUARY 2, 1998,
DECEMBER 27, 1996 AND DECEMBER 29, 1995

18. Employee benefit plans (continued):

In 1995, the Company adopted a stock option plan for its non-employee directors. The number of shares of the Company's common stock that may be issued under this plan cannot exceed 150,000 shares and the exercise price for options granted may not be less than the fair market value of the Company's common stock at the date of grant.

At January 2, 1998, there were 898,283 shares available for grant. Stock option transactions are summarized as follows for all plans:

	Number of Shares			Weighted Average Exercise Price Per Share		
	1997	1996	1995	1997	1996	1995
Options outstanding, beginning of year.	1,010,511	848,942	759,953	\$8.58	\$9.08	\$10.92
Granted	944,715	276,734	391,860	17.87	8.39	6.08
Exercised.	(261,445)	(77,495)	(19,239)	9.92	12.10	4.70
Terminated	(107,483)	(37,670)	(283,632)	11.36	11.01	10.17
Options outstanding, end of year	1,586,298	1,010,511	848,942	13.70	8.58	9.08

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 1997 was \$6.12 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 1997: risk free interest rate of 5.9%; 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 January 2, 1998 was 565,289. These stock options have exercise prices ranging from \$5.29 to \$24.50 per share and have a weighted average exercise price of \$ 7.96 per share. In January 1998, the Company granted 328,744 additional options at an exercise price of \$21.81 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. In 1997, 128,500 grants were awarded in connection with an employment agreement effective January 1998. No grants were awarded in 1996 or 1995. Compensation expense recognized by the Company pursuant to this plan was \$1,821,000 per year in 1997, 1996 and 1995. All shares vest over periods ranging from 3 years to 6 years and are subject to forfeiture upon termination of the participant's employment by the Company. The shares are nontransferable during the vesting periods.

As a result of shares awarded to the Company's Chairman of the Board and Chief Executive Officer, the Company recognized deferred compensation of \$12.0 million in 1993 and \$2.3 million in 1997. 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 in 1993. 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.

YEARS ENDED JANUARY 2, 1998,
DECEMBER 27, 1996 AND DECEMBER 29, 1995

18. 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 \$23.1 million and \$12.8 million in 1997 and 1996, respectively, and a net loss of \$154,000 in 1995. Proforma earnings per share assuming dilution would have been \$1.23 and \$.67 per share in 1997 and 1996, respectively, 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 1997, the Company made contributions of approximately \$59,000 and \$37,000 in common stock for the 1996 and 1995 plan years, respectively. The Company plans to contribute \$76,000 in common stock for the 1997 plan year.

20. Quarterly results of operations (unaudited):

The following summarizes the unaudited quarterly results of operations for the years ended January 2, 1998 and December 27, 1996 (thousands, except per share data).

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

	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
 Earnings Per Share:				
Basic	\$.28	\$.12	\$.19	\$.12
Diluted . . . . .	.28	.12	.19	.12

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 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 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. 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.

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 January 2, 1998 and December 27, 1996.

Consolidated statements of earnings for the years ended January 2, 1998, December 27, 1996, and December 29, 1995.

Consolidated statements of shareholders' equity for the years ended January 2, 1998, December 27, 1996, and December 29, 1995.

Consolidated statements of cash flows for the years ended January 2, 1998, December 27, 1996, and December 29, 1995.

Notes to consolidated financial statements.

(2) Financial Statement Schedules:

ShowBiz Pizza Time, Inc.

II --- Valuation and qualifying accounts and reserves.

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

reference).

- 10(c) (1) Employment Agreement dated January 4, 1994, between the Company and Michael H. Magusiak (filed as Exhibit 10(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1993, and incorporated herein by reference).
- Page 32
- 10(c) (2) Amendment to the Employment Agreement dated December 11, 1997, between the Company and Michael H. Magusiak.
- 10(d) Note Purchase Agreement dated June 15, 1995, between Allstate Life Insurance Company, Connecticut Mutual Life Insurance Company, C M Life Insurance Company, MassMutual Corporate Value Partners Limited, Massachusetts Mutual Life Insurance Company, Modern Woodmen of America, and the Company (filed as Exhibit 10 (a) (1) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference).
- 10(e) 10.02% Series A Senior Note Due 2001, in the stated amount of \$10,000,000.00, dated June 15, 1995, between Allstate Life Insurance Company and the Company (filed as Exhibit 10 (b) (1) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference).
- 10(f) (1) 10.02% Series A Senior Note Due 2001, in the stated amount of \$1,000,000.00, dated June 15, 1995, between Connecticut Mutual Life Insurance Company and the Company (filed as Exhibit 10 (c) (1) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference).
- 10(f) (2) 10.02% Series A Senior Note Due 2001, in the stated amount of \$1,000,000.00, dated June 15, 1995, between Connecticut Mutual Life Insurance Company and the Company (filed as Exhibit 10 (c) (2) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference).
- 10(f) (3) 10.02% Series A Senior Note Due 2001, in the stated amount of \$1,000,000.00, dated June 15, 1995, between Connecticut Mutual Life Insurance Company and the Company (filed as Exhibit 10 (c) (3) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference).
- 10(g) (1) 10.02% Series A Senior Note Due 2001, in the stated amount of \$1,000,000.00, dated June 15, 1995, between C M Life Insurance Company and the Company (filed as Exhibit 10 (d) (1) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference).
- 10(g) (2) 10.02% Series A Senior Note Due 2001, in the stated amount of \$1,000,000.00, dated June 15, 1995, between C M Life Insurance Company

and the Company (filed as Exhibit 10 (d) (2) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference).

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

Page 33

- 10(i) Floating Rate Series B Senior Note Due 2000, in the stated amount of \$4,000,000.00, dated June 15, 1995, between MassMutual Corporate Value Partners Limited (I/N/O Webell & Co.) and the Company (filed as Exhibit 10 (f) (1) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference).
- 10(j) Floating Rate Series A Senior Note Due 2001, in the stated amount of \$3,000,000.00, dated June 15, 1995, between Modern Woodmen of America and the Company (filed as Exhibit 10 (g) (1) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference).
- 10(k) (1) Loan Agreement in the stated amount of \$5,000,000.00, dated June 27, 1995, between Bank One, Texas, N.A. and the Company (filed as Exhibit 10 (h) (1) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference).
- 10(k) (2) Revolving Credit Note in the stated amount of \$5,000,000, dated June 27, 1995, between Bank One, Texas, N.A. and the Company (filed as Exhibit 10 (h) (2) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference).
- 10(l) (1) Modification and Extension Agreement (to the Loan Agreement dated June 27, 1995) in the stated amount of \$15,000,000.00, dated August 1, 1996, between Bank One, Texas, N.A. and the Company (filed as Exhibit 10 (h) (1) to the Company's Quarterly Report on Form 10-Q

for the quarter ended September 27, 1996, and incorporated herein by reference).

- 10(l) (2) Restated Revolving Credit Note in the stated amount of \$15,000,000, dated August 1, 1996, between Bank One, Texas, N.A. and the Company (filed as Exhibit 10 (h) (2) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 27, 1996, and incorporated herein by reference).
- 10(m) (1) Supplemental Agreement, dated as of September 29, 1997, relating to the Note Purchase Agreements dated as of June 15, 1995, between Allstate Life Insurance Company, Massachusetts Mutual Life Insurance Company, MassMutual Corporate Value Partners Limited, CM Life Insurance Company, Modern Woodmen of America and the Company.
- 10(m) (2) Supplemental Agreement, dated as of September 29, 1997, relating to the Note Purchase Agreements dated as of June 15, 1995, between Bank One, Texas, N.A. and the Company.
- 10(n) (1) 1988 Non-Statutory Stock Option Plan (filed as Exhibit A to the Company's Proxy Statement for Annual Meeting of Stockholders to be held on June 8, 1995, and incorporated herein by reference).
- 10(n) (2) Specimen form of Contract under the 1988 Non-Statutory Stock Option Plan of the Company, as amended to date (filed as Exhibit 10 (d) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 28, 1996, and incorporated herein by reference).
- 10(o) (1) 1997 Non-Statutory Stock Option Plan (filed as Exhibit 4.1 to Form S-8 (No. 333-41039), and incorporated herein by reference).
- 10(o) (2) Specimen form of Contract under the 1997 Non-Statutory Stock Option Plan of the Company, as amended to date.

Page 34

- 10(p) (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(p) (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(q) (1) Non-Employee Directors Stock Option Plan (filed as Exhibit B to the Company's Proxy Statement for Annual Meeting of Stockholders to be held on June 8, 1995, and incorporated herein by reference).
- 10(q) (2) Specimen form of Contract under the Non-Employee Directors Stock Option Plan of the Company, as amended to date (filed as Exhibit 10(s) (2) to the Company's Annual Report on Form 10-K for the year ended December 27, 1996, and incorporated herein by reference).

- 10(r) (1) Specimen form of the Company's current Franchise Agreement.
- 10(r) (2) Specimen form of the Company's current Development Agreement.
- 10(s) (1) Rights Agreement, dated as on November 19, 1997, by and between the Company and the Rights Agent (filed as Exhibit A to Exhibit 1 of the Company's Registration Statement on Form 8-A (No. 001-13687) and incorporated herein by reference).
- 10(s) (2) Form of Certificate of Designation of the Preferred Shares under the Rights Agreement, dated as on November 19, 1997, by and between the Company and the Rights Agent (filed as Exhibit B to Exhibit 1 of the Company's Registration Statement on Form 8-A (No. 001-13687) and incorporated herein by reference).
- 10(s) (3) Form of Right Certificate under the Rights Agreement, dated as on November 19, 1997, by and between the Company and the Rights Agent (filed as Exhibit C to Exhibit 1 of the Company's Registration Statement on Form 8-A (No. 001-13687) and incorporated herein by reference).
- 10(t) (1) National Advertising Fund Line of Credit, in the stated amount of \$800,000.00, dated December 22, 1997, between International Association of ShowBiz Pizza Time Restaurants, Inc. and the Company.
- 10(t) (2) National Advertising Fund Promissory Note, in the stated amount of \$800,000.00, dated December 22, 1997, between International Association of ShowBiz Pizza Time Restaurants, Inc. and the Company.
- 10(u) (1) National Media Fund Line of Credit, in the stated amount of \$1,800,000.00, dated December 22, 1997, between International Association of ShowBiz Pizza Time Restaurants, Inc. and the Company.
- 10(v) (2) National Media Fund Promissory Note, in the stated amount of \$1,800,000.00, dated December 22, 1997, between International Association of ShowBiz Pizza Time Restaurants, Inc. and the Company.
- 23 Independent Auditors Consent of Deloitte & Touche LLP

page 35

(b) Reports on Form 8-K:

No reports on Form 8-K were filed in the fourth quarter of 1997.

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

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

Company hereby agrees to furnish a copy of any such instruments to the Commission upon request.

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

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

page 36

SIGNATURES

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

Dated: March 31, 1998

SHOWBIZ PIZZA TIME, INC.

By: /s/ Richard M. Frank

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

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

Signature	Title	Date
/s/ Richard M. Frank ----- Richard M. Frank	Chairman of the Board, Chief Executive Officer, and Director (Principal Executive Officer)	March 31, 1998
/s/ Michael H. Magusiak ----- Michael H. Magusiak	President and Director	March 31, 1998
/s/ Larry G. Page ----- Larry G. Page	Executive Vice President, Treasurer, (Principal Financial Officer and Principal Accounting Officer)	March 31, 1998
/s/ Raymond E. Wooldridge ----- Ray Wooldridge	Director	March 31, 1998
/s/ Tim T. Morris ----- Tim T. Morris	Director	March 31, 1998
/s/ Walter Tyree -----	Director	March 31, 1998

Walter Tyree

/s/ Louis P. Neeb Director March 31, 1998

Louis P. Neeb

/s/ Cynthia I. Pharr Director March 31, 1998

Cynthia I. Pharr

page 37

EXHIBIT INDEX

Exhibit No. -----	Description -----	Page No.
10(c)(2)	Amendment to the Employment Agreement dated December 11, 1997, between the Company and Michael H. Magusiak.	39
10(m)(1)	Supplemental Agreement, dated as of September 29, 1997, relating to the Note Purchase Agreements dated as of June 15, 1995, between Allstate Life Insurance Company, Massachusetts Mutual Life Insurance Company, MassMutual Corporate Value Partners Limited, CM Life Insurance Company, Modern Woodmen of America and the Company.	42
10(m)(2)	Supplemental Agreement, dated as of September 29, 1997, relating to the Note Purchase Agreements dated as of June 15, 1995, between Bank One, Texas, N.A. and the Company.	62
10(o)(2)	Specimen form of Contract under the 1997 Non-Statutory Stock Option Plan of the Company, as amended to date.	75
10(r)(1)	Specimen form of the Company's current Franchise Agreement.	80
10(r)(2)	Specimen form of the Company's current Development Agreement.	131
10(t)(1)	National Advertising Fund Line of Credit, in the stated amount of \$800,000.00, dated December 22, 1997, between International Association of ShowBiz Pizza Time Restaurants, Inc. and the Company.	161
10(t)(2)	National Advertising Fund Promissory Note, in the stated amount of \$800,000.00, dated December 22, 1997, between International Association of ShowBiz Pizza Time Restaurants, Inc. and the Company.	166

10(u) (1)	National Media Fund Line of Credit, in the stated amount of \$1,800,000.00, dated December 22, 1997, between International Association of ShowBiz Pizza Time Restaurants, Inc. and the Company.	171
10(v) (2)	National Media Fund Promissory Note, in the stated amount of \$1,800,000.00, dated December 22, 1997, between International Association of ShowBiz Pizza Time Restaurants, Inc. and the Company.	176
23	Independent Auditors Consent of Deloitte & Touche LLP	181
27.1	Financial Data Schedule - Fiscal 1997	
27.2	Financial Data Schedule - Fiscal 1996 and 1995, Quarters 1-3, 1996	
27.3	Financial Data Schedule - Quarters 1-3, 1997	

AMENDMENT TO THE EMPLOYMENT AGREEMENT
BY AND BETWEEN MICHAEL H. MAGUSIAK AND
SHOWBIZ PIZZA TIME, INC.

This Amendment (the "Amendment") is executed as of this 11th day of December, 1997, by and between Michael H. Magusiak ("Employee") and ShowBiz Pizza Time, Inc., a Kansas corporation ("Employer").

RECITALS:

WHEREAS, on January 3, 1997, Employee and Employer entered into that certain Employment Agreement, which was effective as of January 6, 1997 (the "Agreement"), whereby the Employee agreed to serve in the employ of Employer through the last day of the fiscal year of the Employer ending on or about December 31, 1999; and

WHEREAS, Employer desires to amend said Agreement to extend the term of the Agreement, award stock options, and amend the automobile allowance for Employee:

NOW, THEREFORE, the Agreement is hereby amended in the following respects:

Paragraph 2 is hereby amended to read as follows:

"2. Term. Subject to the provisions regarding termination set forth in Sections 14, 15, and 16 hereof, the initial term of the Agreement shall begin as of January 6, 1997 (the "Effective Date") and shall terminate on the last day of the fiscal year of the Company ending on or about December 31, 2000 (the "Initial Term")."

The Agreement is hereby amended to include Paragraph 4.1 which shall read as follows:

"4.1. Stock Options. Employee has received from the Company on December 11, 1997 options (the "Stock Options") to purchase twenty-five thousand (25,000) shares of the Company's Common stock, par value \$.10 per share ("Common Stock") pursuant to the ShowBiz Pizza Time, Inc. Non-Statutory Stock Option Plan. Of the Stock Options granted as described in this Section 4.1, 100% of the options shall vest after December 11, 2000."

Paragraph 7 is hereby amended to read as follows:

"7. Automobile. Employer shall pay to Employee the sum of One Thousand Dollars (\$1,000.00) 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."

IN WITNESS WHEREOF, the parties have executed this Amendment effective as of December 11, 1997.

EMPLOYER:

SHOWBIZ PIZZA TIME, INC.

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

EMPLOYEE:

Michael H. Magusiak

10(m) (1)

SHOWBIZ PIZZA TIME, INC.

SUPPLEMENTAL AGREEMENT

Dated as of September 29, 1997

relating to the

Loan Agreements, as amended, dated as of June 27, 1995

by and between

Bank One, Texas, N.A., as Lender

and

ShowBiz Pizza Time, Inc., as Borrower

SHOWBIZ PIZZA TIME, INC.

SUPPLEMENTAL AGREEMENT

as of September 29, 1997

Bank One, Texas, N.A.,
1717 Main Street, 3rd Floor
Dallas, Texas 75201

Re: Loan Agreement, as amended, dated June 27, 1995
executed by ShowBiz Pizza Time, Inc. and Bank One,
Texas, N.A., and Restated Revolving Credit Note
dated August 1, 1996 executed by ShowBiz Pizza
Time, Inc., and payable to Bank One, Texas, N.A. in
the original principal amount of \$15,000,000

Ladies and Gentlemen:

SHOWBIZ PIZZA TIME, INC., a Kansas corporation (the
"Company"), hereby agrees with Bank One, Texas, N.A., a national
banking association ("Bank") as follows:

SECTION 1. Loan Agreement and the Note; Requested Consent. Bank
extended a loan to Company pursuant to the Loan Agreement, as
amended ("Loan Agreement") dated June 27, 1995 executed by ShowBiz
Pizza Time, Inc. and Bank One, Texas, N.A., and Restated Revolving
Credit Note (the "Note") dated August 1, 1996 executed by ShowBiz
Pizza Time, Inc. In the original principal amount of \$15,000,000
which are in effect on the date hereof. Unless the context
otherwise requires, capitalized terms used herein without
definition have the respective meanings ascribed thereto in the
Loan Agreement.

The Company proposes to transfer certain tangible assets at a value
not to exceed \$20,000,000 and certain intellectual property owned
by the Company to direct and indirect wholly-owned subsidiaries of
the Company (such transfers referred to herein collectively as the
"Asset Sale Transaction").

In connection therewith, the Company hereby requests consents from
Bank to enter into and effectuate the Asset Sale Transaction, such
transactions being prohibited by the Loan Agreement, particularly
the limitations on asset sales pursuant to Section 8.2 of the Loan
Agreement. In consideration therefor, prior to or concurrently
with the Asset Sale Transaction, the Company will cause each of
ShowBiz Nevada, Inc., ShowBiz Merchandising, Inc. and SPT
Properties Company, Inc., each a Nevada corporation (collectively,
the "Subsidiary Guarantors"), to execute and deliver a Subsidiary
Guarantee, substantially in the form set forth in Exhibit 1 to this
Supplemental Agreement, unconditionally guaranteeing the Company's
obligations under the Note Purchase Agreements and the Notes.

SECTION 2. Consent. Bank hereby consent to the Asset Sale

Transaction.

SECTION 3. Subsidiary Indebtedness. Except for the Subsidiary Guarantees, the Company will not permit any of the Subsidiary Guarantors to create, assume, incur, guarantee or otherwise become liable in respect of any Indebtedness

SECTION 4. Representations and Warranties of the Company. The Company represents and warrants to you as follows:

Section 4.1. Organization, Authorization, Etc. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Kansas, and has all requisite power and authority to execute, deliver and perform its obligations under this Supplemental Agreement.

The execution, delivery and performance of this Supplemental Agreement have been duly authorized by all necessary action on the part of the Company. This Supplemental Agreement is a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency or other similar laws relating to or affecting the enforcement of creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 4.2. Compliance with Laws, Other Instruments, Etc. The execution, delivery and performance by the Company of this Supplemental Agreement do not and will not (A) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of the Company or any Subsidiary under, any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter or by-laws, or any other agreement or instrument to which the Company or any Subsidiary is bound or by which the Company or any Subsidiary or any of their respective properties may be bound or affected, (B) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to the Company or any Subsidiary or (C) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary.

Section 4.3. Governmental Authorizations, Etc. No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required for the validity of the execution, delivery or performance by the performance by the Company of this Supplemental Agreement.

Section 4.4. No Default, etc. No Event of Default or Default has occurred and is continuing, and neither the Company nor any Subsidiary is in default (whether or not waived) in the performance or observance of any of the terms, covenants or conditions contained in any instrument evidencing any Indebtedness and there is no pending request by the Company (except pursuant to this Supplemental Agreement or the Note Purchase Agreements dated as of June 15, 1995 between the Company and the institutional investor named therein (the "Note Purchase Agreements") with respect to the Asset Sale Transaction) or any Subsidiary for any amendment or waiver in respect of any contemplated or possible default with respect to such Indebtedness and no event has occurred and is continuing which, with notice or lapse of time or both, would become such a default.

Section 4.5. No Undisclosed Fees. The Company has not, directly or indirectly, paid or caused to be paid any consideration (as supplemental or additional interest, a fee or otherwise) to Bank in order to induce Bank to enter into this Supplemental Agreement or take any other action in connection with the transactions contemplated hereby, nor has the Company agreed to make any such payment.

SECTION 5. Representation of the Bank. Bank represent to the Company that Bank is the owner and holder of the Note.

Section 6. Effectiveness of this Supplemental Agreement. This Supplemental Agreement will become effective on the date (the "Effective Date") on which all of the following conditions precedent shall have been satisfied:

Section 6.1. Proceedings. All proceedings taken by the Company in connection with the transactions contemplated hereby and all documents and papers incident thereto shall be satisfactory to Bank, and Bank and its special counsel shall have received all such counterpart originals or certified or other copies of such documents and papers, all in form and substance satisfactory to you, as you or they may reasonably request in connection therewith.

Section 6.2. Execution of this Supplemental Agreement. Counterparts of this Supplemental Agreement shall have been executed and delivered by the Company and Bank.

Section 6.3. Representations and Warranties. The representations and warranties of the Company contained in Section 4 of this Supplemental Agreement shall be true on and as of the Effective Date as though such representations and warranties had been made on and as of the Effective Date, and Bank shall have received a certificate of a senior financial officer of the Company, dated the Effective Date, to such effect.

Section 6.4. Subsidiary Guarantees. A Subsidiary Guarantee, dated on or before the Effective Date, shall have been executed and delivered to Bank by each of the Subsidiary Guarantors, substantially in the form hereinabove recited.

Section 6.5. Opinion of Counsel. Bank shall have received an opinion, dated the Effective Date, addressed to Bank and otherwise satisfactory in scope and substance to Bank, from Marshall Fisco, Esq., Counsel to the Company, substantially in the form set forth in Annex A attached hereto, and covering such other matters incident to the transactions contemplated hereby as Bank may reasonably request.

Section 6.6. Payment of Fees. The Company shall have paid the fees and disbursements of Bank's special counsel as contemplated by Section 7 of this Supplemental Agreement.

Section 7. Expenses. The Company agrees, whether or not the transactions contemplated hereby are consummated, to pay the reasonable fees and disbursements and other charges of Thompson, Coe, Cousins & Irons, L.L.P., Bank's special counsel, for their services rendered in connection with such transactions and with respect to this Supplemental Agreement and any other document delivered pursuant to this Supplemental Agreement and reimburse Bank for Bank's out-of-pocket expenses in connection with the foregoing.

In furtherance of the foregoing, on the Effective Date the Company will pay or cause to be paid the reasonable fees and disbursements and other charges of Thompson, Coe, Cousins & Irons, L.L.P. which are reflected in the statement of Thompson, Coe, Cousins & Irons, L.L.P. delivered to the Company prior to the Effective Date. The Company will also pay promptly upon receipt of supplemental statements therefor, reasonable additional fees, if any, and disbursements of Thompson, Coe, Cousins & Irons, L.L.P. in connection with the transactions contemplated hereby (including disbursements unposted as of the Effective Date).

Section 8. Ratification. The Loan Agreement, Note and all other documents evidencing security for the Note are in all respects ratified and confirmed and the provisions thereof shall remain in full force and effect.

Section 9. Counterparts. This Supplemental Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 10. Governing Law. This Supplemental Agreement shall be governed by and construed in accordance with the laws of the State

ofTexas.

If Bank is in agreement with the foregoing, please sign the form of acceptance in the space below provided, whereupon this Supplemental Agreement shall become a binding agreement between Bank and the Company, subject to becoming effective as hereinabove provided.

SHOWBIZ PIZZA TIME, INC.

By-----
Name:
Title:

ACCEPTED AND AGREED:
Bank:

Bank One, Texas, N.A.
By:-----
Name:
Title:

ANNEX A

(to Supplemental Agreement)

OPINION OF COUNSEL FOR THE COMPANY

The following opinions are to be provided by counsel for the Company, subject to customary assumptions, limitations and qualifications. All capitalized terms used herein without definition shall have the meanings ascribed thereto in the Supplemental Agreement.

1. The Company is a corporation duly organized and validly existing under the laws of the State of Kansas and has all requisite power and authority to execute and deliver the Supplemental Agreement and to perform the provisions thereof.
2. The Supplemental Agreement has been duly authorized, executed and delivered by the Company and constitutes a legal, valid and binding agreement of the Company, enforceable against the Company in accordance with its terms.
3. Each Subsidiary Guarantor is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has all requisite power and authority to execute and deliver its Subsidiary Guarantee and to perform the provisions thereof.
4. Each Subsidiary Guarantee has been duly authorized, executed and delivered by the respective Subsidiary Guarantor and constitutes legal, valid and binding obligations of such Subsidiary Guarantor, enforceable against such Subsidiary Guarantor in accordance with their terms.
5. No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required on the part of the Company or the Subsidiary Guarantors for the validity of the execution and delivery or for the performance by the Company of the Supplemental Agreement or the Subsidiary Guarantees.

6. The consummation of the transactions contemplated by the Supplemental Agreement and the performance of the terms and provisions of the Supplemental Agreement and the Subsidiary Guarantees do not and will not (i) conflict with the charter, by-laws, code of regulations or any other organic documents of the Company or any Subsidiary, (ii) result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of the Company under, any indenture, mortgage, deed of trust, bank loan or credit agreement, or other agreement or instrument known to me, after due inquiry, to which the Company or any Subsidiary is a party or by which the Company or

any Subsidiary or any of their respective properties may be bound or affected, except for the Note Purchase Agreements with respect to the Asset Sale Transaction, or (iii) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree or ruling of any court, arbitrator or Governmental Authority applicable to the Company or any Subsidiary and known to me, after due inquiry, or violate any provision of any law, statute, rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary.

* * * *

This opinion is given solely for your benefit, and for the benefit of the holder from time to time of the Note held by you, in connection with the transactions contemplated by the Supplemental Agreement, and may not be relied upon by any other person for any purpose without my prior written consent.

Exhibit 1
(to the Supplemental Agreement)
GUARANTEE AGREEMENT

GUARANTEE AGREEMENT dated as of -----, ---- made by -----, a ----- corporation (the "Guarantor"), in favor of Bank One, Texas, N.A. (the "Obligee").

WHEREAS, ShowBiz Pizza Time, Inc., a Kansas corporation (the "Company"), has entered into the Loan Agreement, as amended, dated as of June 27, 1995 (the "Loan Agreement" and terms defined therein and not otherwise defined herein are being used herein as so defined) with Bank One, Texas, N.A. ("Bank"), pursuant to which the Company may borrow funds as evidenced by that Restated Revolving Credit Note dated August 1, 1996 in the original amount of \$15,000,000 ("Note");

WHEREAS, the Company has requested the consent of Bank to enter into certain transactions with the Guarantor that are prohibited by the Loan Agreement; and

WHEREAS, it is a condition to obtaining the consent of Bank that the Guarantor execute and deliver this Guarantee Agreement;

NOW, THEREFORE, in consideration of the premises the Guarantor hereby agrees as follows:

SECTION 1. Guarantee. The Guarantor unconditionally and irrevocably guarantees, as primary obligor and not merely as surety,

A. the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all obligations of the Company arising under the Notes and the Loan Agreement, including all extensions, modifications, substitutions, amendments and renewals thereof, whether for principal, interest (including without limitation interest on any overdue principal, premium and interest at the rate specified in the Note and interest accruing or becoming owing both prior to and subsequent to the commencement of any proceeding against or with respect to the Company under any chapter of the Bankruptcy Code of 1978, 11 U.S.C. §101 et seq.), fees, expenses, indemnification or otherwise, and

B. the due and punctual performance and observance by the Company of all covenants, agreements and conditions on its part to be performed and observed under the Note and the Loan Agreement; (all such obligations are called the "Guaranteed Obligations"); provided that the aggregate liability of the Guarantor hereunder in respect of the Guaranteed Obligations shall not exceed at any time the lesser of (1) the amount of the Guaranteed Obligations and (2) ximum amount for which the Guarantor is liable under this Guarantee Agreement without such liability being deemed a fraudulent transfer under applicable Debtor Relief Laws (as hereinafter defined), as determined by a court of competent jurisdiction. As used herein, the term "Debtor Relief Laws" means

any applicable liquidation, conservatorship, bankruptcy, moratorium, rearrangement, insolvency, reorganization or similar debtor relief laws affecting the rights of creditors generally from time to time in effect.

The Guarantor also agrees to pay, in addition to the amount stated above, any and all reasonable expenses (including reasonable counsel fees and expenses) incurred by any Obligees in enforcing any rights under this Guarantee Agreement or in connection with any amendment of this Guarantee Agreement.

Without limiting the generality of the foregoing, this Guarantee Agreement guarantees, to the extent provided herein, the payment of all amounts which constitute part of the Guaranteed Obligations and would be owed by any other Person to any Obligees but for the fact that they are unenforceable or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving such Person.

SECTION 2. Guarantee Absolute. The obligations of the Guarantor under Section 1 of this Guarantee Agreement constitute a present and continuing guaranty of payment and not of collectability and the Guarantor guarantees that the Guaranteed Obligations will be paid strictly in accordance with the terms of the Note and the Loan Agreement, regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of any Obligees with respect thereto. The obligations of the Guarantor under this Guarantee Agreement are independent of the Guaranteed Obligations, and a separate action or actions may be brought and prosecuted against the Guarantor to enforce this Guarantee Agreement, irrespective of whether any action is brought against the Company or any other Person liable for the Guaranteed Obligations or whether the Company or any other such Person is joined in any such action or actions. The liability of the Guarantor under this Guarantee Agreement shall be primary, absolute, irrevocable, and unconditional irrespective of:

- A any lack of validity or enforceability of any Guaranteed Obligation, any Note, the Loan Agreement or any agreement or instrument relating thereto;
- B any change in the time, manner or place of payment of, or in any other term of, all or any of the Guaranteed Obligations, or any other amendment or waiver of or any consent to departure from any Note, the Loan Agreement or this Guarantee Agreement;
- C any taking, exchange, release or non-perfection of any collateral, or any taking, release or amendment or waiver of or consent to departure by the Guarantor or other Person liable, or any other guarantee, for all or any of the Guaranteed Obligations;
- D any manner of application of collateral, or proceeds thereof, to all or any of the Guaranteed Obligations, or any manner of sale or other disposition of any collateral or any other assets of the Company or any other Subsidiary;
- E any change, restructuring or termination of the corporate structure or existence of the Company or any other Subsidiary; or
- F any other circumstance (including without limitation any statute of limitations) that might otherwise constitute a defense, offset or counterclaim available to, or a discharge of, the Company or the Guarantor.

This Guarantee Agreement shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Guaranteed Obligations is rescinded or must otherwise be returned by any Obligees, or any other Person upon the insolvency, bankruptcy or reorganization of the Company or otherwise, all as though such payment had not been made.

SECTION 3. Waivers. The Guarantor hereby irrevocably waives, to the extent permitted by applicable law:

A. promptness, diligence, presentment, notice of acceptance and any other notice with respect to any of the Guaranteed Obligations and this Guarantee Agreement;

B. any requirement that any Obligee or any other Person protect, secure, perfect or insure any Lien or any property subject thereto or exhaust any right or take any action against the Company or any other Person or any collateral;

C. any defense, offset or counterclaim arising by reason of any claim or defense based upon any action by any Obligee;

D. any duty on the part of any Obligee to disclose to the Guarantor any matter, fact or thing relating to the business, operation or condition of any Person and its assets now known or hereafter known by such Obligee; and

E. any rights by which it might be entitled to require suit on an accrued right of action in respect of any of the Guaranteed Obligations or require suit against the Company or the Guarantor or any other Person.

SECTION 4. Waiver of Subrogation and Contribution. The Guarantor shall not assert, enforce, or otherwise exercise (A) any right of subrogation to any of the rights, remedies, powers, privileges or liens of any Obligee or any other beneficiary against the Company or any other obligor on the Guaranteed Obligations or any collateral or other security, or (B) any right of recourse, reimbursement, contribution, indemnification, or similar right against the Company, and the Guarantor hereby waives any and all of the foregoing rights, remedies, powers, privileges and the benefit of, and any right to participate in, any collateral or other security given tny or abligee or any other beneficiary to secure payment of the Guaranteed Obligations, until such time as the Guaranteed Obligations have been paid in full.

SECTION 5. Representations and Warranties. The Guarantor hereby represents and warrants as follows:

A. The Guarantor is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation. The execution, delivery and performance of this Guarantee Agreement have been duly authorized by all necessary action on the part of the Guarantor.

B. The execution, delivery and performance by the Guarantor of this Guarantee Agreement will not (i) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of the Guarantor or any Subsidiary of the Guarantor under, any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter or by-laws, or any other material agreement or instrument to which the Guarantor or any Subsidiary of the Guarantor is bound or by which the Guarantor or any Subsidiary of the Guarantor or any of their respective properties may be bound or affected, (ii) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to the Guarantor or any Subsidiary of the Guarantor or (iii) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to the Guarantor or any Subsidiary of the Guarantor.

C. The Guarantor and the Company are members of the same consolidated group of companies and are engaged in related businesses and the Guarantor will derive substantial direct and indirect benefit from the execution and delivery of this Guarantee Agreement.

SECTION 6. Amendments, Etc. No amendment or waiver of any provision of this Guarantee Agreement and no consent to any departure by the Guarantor therefrom shall in any event be effective unless the same shall be in writing and signed by the Obligee, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given;

provided that no amendment, waiver or consent shall, unless in writing and signed by Obligee, (i) limit the liability of or release the Guarantor hereunder, (ii) postpone any date fixed for, or change the amount of, any payment hereunder.

SECTION 7. Addresses for Notices. All notices and other communications provided for hereunder shall be in writing and (A) by telecopy if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (B) by registered or certified mail with return receipt requested (postage prepaid), or (C) by a recognized overnight delivery service (with charges prepaid). Such notice if sent to the Guarantor shall be addressed to it at the address of the Guarantor provided below its name on the signature page of this Guarantee Agreement or at such other address as the Guarantor may hereafter designate by notice to each Obligee, or if sent to Obligee, shall be addressed to it as set forth in the Loan Agreement. Notices under this Section 7 will be deemed given only when actually received.

SECTION 8. No Waiver; Remedies. No failure on the part of any Obligee to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 9. Continuing Guarantee. This Guarantee Agreement is a continuing guarantee of payment and performance and shall (A) remain in full force and effect until payment in full of the Guaranteed Obligations and all other amounts payable under this Guarantee Agreement, (B) be binding upon the Guarantor, its successors and assigns and (C) inure to the benefit of and be enforceable by the Obligee and their successors, transferees and assigns.

SECTION 10. Jurisdiction and Process; Waiver of Jury Trial. The Guarantor irrevocably submits to the non-exclusive in personam jurisdiction of any Texas State or federal court sitting in Dallas County, Texas, over any suit, action or proceeding arising out of or relating to this Guarantee Agreement. To the fullest extent permitted by applicable law, the Guarantor irrevocably waives and agrees not to assert, by way of motion, as a defense or otherwise, any claim that it is not subject to the in personam jurisdiction of any such court, any objection that it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court and any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

The Guarantor consents to process being served in any suit, action or proceeding of the nature referred to in this Section by mailing a copy thereof by registered or certified mail, postage prepaid, return receipt requested, to the Guarantor at its address specified in Section 7 or at such other address of which Obligee shall then have been notified pursuant to said Section. The Guarantor agrees that such service upon receipt (i) shall be deemed in every respect effective service of process upon it in any such suit, action or proceeding and (ii) shall, to the fullest extent permitted by applicable law, be taken and held to be valid personal service upon and personal delivery to the Guarantor. Notices hereunder shall be conclusively presumed received as evidenced by a delivery receipt furnished by the United States Postal Service or any recognized courier or overnight delivery service. Nothing in this Section 10 shall affect the right of Obligee to serve process in any manner permitted by law, or limit any right Obligee may have to bring proceedings against the Guarantor in the courts of any appropriate jurisdiction or to enforce in any lawful manner a judgment obtained in one jurisdiction in any other jurisdiction.

THE GUARANTOR WAIVES TRIAL BY JURY IN ANY ACTION BROUGHT ON OR WITH RESPECT TO THIS GUARANTEE AGREEMENT OR ANY OTHER DOCUMENT EXECUTED IN CONNECTION HEREWITH.

SECTION 11. Governing Law. This Guarantee Agreement shall be construed and enforced in accordance with, and the rights of the Guarantor and the Obligees shall be governed by, the laws of the State of Texas excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

IN WITNESS WHEREOF, the Guarantor has caused this Guarantee Agreement to be duly executed and delivered as of the date first above written.

[GUARANTOR]

By:-----
Title:
Address:
Attention:
Telephone:
Telecopy:

SHOWBIZ PIZZA TIME, INC.

SUPPLEMENTAL AGREEMENT
Dated as of September 29, 1997
relating to the
Note Purchase Agreements dated as of June 15, 1995

10.02% Series A Senior Notes due 2001
Floating Rate Series B Senior Notes due 2000

SHOWBIZ PIZZA TIME, INC.
SUPPLEMENTAL AGREEMENT

as of September 29,
1997

Re: 10.02% Series A Senior Notes due 2001
Floating Rate Series B Senior Notes due 2000

TO THE SEVERAL NOTEHOLDERS
WHOSE NAMES APPEAR IN THE
ACCEPTANCE FORM AT THE END HEREOF

Ladies and Gentlemen:

SHOWBIZ PIZZA TIME, INC., a Kansas corporation (the "Company"),
hereby agrees with you as follows:

SECTION 1. Note Purchase Agreements and the Notes; Requested Consent. Pursuant to the several Note Purchase Agreements dated as of June 15, 1995 (the "Note Purchase Agreements") entered into by the Company with the institutional investors named in Schedule A thereto, the Company issued and sold \$18,000,000 aggregate principal amount of its 10.02% Series A Senior Notes due 2001 (the "Series A Notes") and \$10,000,000 aggregate principal amount of its Floating Rate Series B Senior Notes due 2000 (the "Series B Notes" and, together with the Series A Notes, the "Notes"), all of which remain outstanding on the date hereof. Unless the context otherwise requires, capitalized terms used herein without definition have the respective meanings ascribed thereto in the Note Purchase Agreements.

The Company proposes to transfer certain tangible assets at a value not to exceed \$20,000,000 and certain intellectual property owned by the Company to direct and indirect wholly-owned subsidiaries of the Company (such transfers referred to herein collectively as the "Asset Sale Transaction").

In connection therewith, the Company hereby requests consents from the holders of the Notes to enter into and effectuate the Asset Sale Transaction, such transactions being prohibited by the Note Purchase Agreements, particularly the limitations on asset sales pursuant to Section 10.3 of the Note Purchase Agreements. In consideration therefor, prior to or concurrently with the Asset Sale Transaction, the Company will cause each of ShowBiz Nevada, Inc., ShowBiz Merchandising, Inc. and SPT Properties Company, Inc.,

each a Nevada corporation (collectively, the "Subsidiary Guarantors"), to execute and deliver a Subsidiary Guarantee, substantially in the form set forth in Exhibit 1 to this Supplemental Agreement, unconditionally guaranteeing the Company's obligations under the Note Purchase Agreements and the Notes.

SECTION 2. Consent. The holders of the Notes hereby consent to the Asset Sale Transaction.

SECTION 3. Subsidiary Indebtedness. Except for the Subsidiary Guarantees, the Company will not permit any of the Subsidiary Guarantors to create, assume, incur, guarantee or otherwise become liable in respect of any Indebtedness (as defined in the Note Purchase Agreements).

SECTION 4. Representations and Warranties of the Company. The Company represents and warrants to you as follows:

Section 4.1 Organization, Authorization, Etc. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Kansas, and has all requisite power and authority to execute, deliver and perform its obligations under this Supplemental Agreement.

The execution, delivery and performance of this Supplemental Agreement have been duly authorized by all necessary action on the part of the Company. This Supplemental Agreement is a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency or other similar laws relating to or affecting the enforcement of creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 4.2 Compliance with Laws, Other Instruments, Etc. The execution, delivery and performance by the Company of this Supplemental Agreement do not and will not (A) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of the Company or any Subsidiary under, any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter or by-laws, or any other agreement or instrument to which the Company or any Subsidiary is bound or by which the Company or any Subsidiary or any of their respective properties may be bound or affected, (B) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to the Company or any Subsidiary or (C) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary.

Section 4.3 Governmental Authorizations, Etc. No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required for the validity of the execution, delivery or performance by the performance by the Company of this Supplemental Agreement.

Section 4.4 No Default, etc. No Event of Default or Default has occurred and is continuing, and neither the Company nor any Subsidiary is in default (whether or not waived) in the performance or observance of any of the terms, covenants or conditions contained in any instrument evidencing any Indebtedness and there is no pending request by the Company (except pursuant to this Supplemental Agreement or the Loan Agreement dated as of June 27, 1995 between the Company and Bank One, Texas, N.A. (the "Bank One Agreement") with respect to the Asset Sale Transaction) or any Subsidiary for any amendment or waiver in respect of any contemplated or possible default with respect to such Indebtedness and no event has occurred and is continuing which, with notice or lapse of time or both, would become such a default.

Section 4.5 No Undisclosed Fees. The Company has not, directly or indirectly, paid or caused to be paid any consideration (as supplemental or additional interest, a fee or otherwise) to any holder of Notes in order to induce such holder to enter into this

Supplemental Agreement or take any other action in connection with the transactions contemplated hereby, nor has the Company agreed to make any such payment.

SECTION 5. Representation of the Noteholder. You represent to the Company that you are the beneficial owner of Notes in the aggregate unpaid principal amount set forth below your name in the acceptance form of this Supplemental Agreement.

SECTION 6. Effectiveness of this Supplemental Agreement. This Supplemental Agreement will become effective on the date (the "Effective Date") on which all of the following conditions precedent shall have been satisfied:

Section 6.1 Proceedings. All proceedings taken by the Company in connection with the transactions contemplated hereby and all documents and papers incident thereto shall be satisfactory to you, and you and your special counsel shall have received all such counterpart originals or certified or other copies of such documents and papers, all in form and substance satisfactory to you, as you or they may reasonably request in connection therewith.

Section 6.2 Execution of this Supplemental Agreement. Counterparts of this Supplemental Agreement shall have been executed and delivered by the Company and the Required Holders.

Section 6.3 Representations and Warranties. The representations and warranties of the Company contained in Section 4 of this Supplemental Agreement shall be true on and as of the Effective Date as though such representations and warranties had been made on and as of the Effective Date, and you shall have received a certificate of a senior financial officer of the Company, dated the Effective Date, to such effect.

Section 6.4 Subsidiary Guarantees. A Subsidiary Guarantee, dated on or before the Effective Date, shall have been executed and delivered to you by each of the Subsidiary Guarantors, substantially in the form hereinabove recited.

Section 6.5 Opinion of Counsel. You shall have received an opinion, dated the Effective Date, addressed to you and otherwise satisfactory in scope and substance to you, from Marshall Fisco, Esq., Counsel to the Company, substantially in the form set forth in Annex A attached hereto, and covering such other matters incident to the transactions contemplated hereby as you may reasonably request.

Section 6.6 Payment of Fees. The Company shall have paid the fees and disbursements of your special counsel as contemplated by Section 7 of this Supplemental Agreement.

SECTION 7. Expenses. Without limiting the generality of Section 15.1 of the Note Purchase Agreements, the Company agrees, whether or not the transactions contemplated hereby are consummated, to pay the reasonable fees and disbursements and other charges of Willkie Farr & Gallagher, your special counsel, for their services rendered in connection with such transactions and with respect to this Supplemental Agreement and any other document delivered pursuant to this Supplemental Agreement and reimburse you for your out-of-pocket expenses in connection with the foregoing.

In furtherance of the foregoing, on the Effective Date the Company will pay or cause to be paid the reasonable fees and disbursements and other charges of Willkie Farr & Gallagher which are reflected in the statement of Willkie Farr & Gallagher delivered to the Company prior to the Effective Date. The Company will also pay promptly upon receipt of supplemental statements therefor, reasonable additional fees, if any, and disbursements of Willkie Farr & Gallagher in connection with the transactions contemplated hereby (including disbursements unposted as of the Effective Date).

SECTION 8. Ratification. The Note Purchase Agreements are in all respects ratified and confirmed and the provisions thereof shall remain in full force and effect.

SECTION 9. Counterparts. This Supplemental Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

SECTION 10. Governing Law. This Supplemental Agreement shall be governed by and construed in accordance with the laws of the State of New York.

If you are in agreement with the foregoing, please sign the form of acceptance in the space below provided, whereupon this Supplemental Agreement shall become a binding agreement between you and the Company, subject to becoming effective as hereinabove provided.

SHOWBIZ PIZZA TIME, INC.

By:-----
Name:
Title:

ACCEPTED AND AGREED:
NOTEHOLDERS:

ALLSTATE LIFE INSURANCE COMPANY

By:-----
Name:
Title:

By:-----

Name:
Title:
Principal Amount of Series A Notes Held: \$10,000,000

MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY

By:-----
Name:
Title:

Principal Amount of Series A Notes Held: \$3,000,000
Principal Amount of Series B Notes Held: \$6,000,000

MASSMUTUAL CORPORATE VALUE PARTNERS LIMITED

By:-----
Name:
Title:
Principal Amount of Series B Notes Held: \$4,000,000

CM LIFE INSURANCE COMPANY

By:-----
Name:
Title:
Principal Amount of Series A Notes Held: \$2,000,000

MODERN WOODMEN OF AMERICA

By:-----
Name:
Title:
Principal Amount of Series A Notes Held: \$3,000,000

ANNEX A
(to Supplemental Agreement)

OPINION OF COUNSEL FOR THE COMPANY

The following opinions are to be provided by counsel for the Company, subject to customary assumptions, limitations and qualifications. All capitalized terms used herein without definition shall have the meanings ascribed thereto in the Supplemental Agreement.

1. The Company is a corporation duly organized and validly existing under the laws of the State of Kansas and has all requisite power and authority to execute and deliver the Supplemental Agreement and to perform the provisions thereof.

2. The Supplemental Agreement has been duly authorized, executed and delivered by the Company and constitutes a legal, valid and binding agreement of the Company, enforceable against the Company in accordance with its terms.

3. Each Subsidiary Guarantor is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has all requisite power and authority to execute and deliver its Subsidiary Guarantee and to perform the provisions thereof.

4. Each Subsidiary Guarantee has been duly authorized, executed and delivered by the respective Subsidiary Guarantor and constitutes legal, valid and binding obligations of such Subsidiary Guarantor, enforceable against such Subsidiary Guarantor in accordance with their terms.

5. No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required on the part of the Company or the Subsidiary Guarantors for the validity of the execution and delivery or for the performance by the Company of the Supplemental Agreement or the Subsidiary Guarantees.

6. The consummation of the transactions contemplated by the Supplemental Agreement and the performance of the terms and provisions of the Supplemental Agreement and the Subsidiary Guarantees do not and will not (i) conflict with the charter, by-laws, code of regulations or any other organic documents of the Company or any Subsidiary, (ii) result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of the Company under, any indenture, mortgage, deed of trust, bank loan or credit agreement, or other agreement or instrument known to me, after due inquiry, to which the Company or any Subsidiary is a party or by which the Company or any Subsidiary or any of their respective properties may be bound or affected, except for the Bank One Agreement with respect to the Asset Sale Transaction, or (iii) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree or ruling of any court, arbitrator or Governmental Authority applicable to the Company or any Subsidiary and known to me, after due inquiry, or violate any provision of any law, statute, rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary.

* * * *

This opinion is given solely for your benefit, and for the benefit of the institutional investor holders from time to time of the Notes held by you, in connection with the transactions contemplated by the Supplemental Agreement, and may not be relied upon by any other person for any purpose without my prior written consent.

Exhibit 1
(to the Supplemental Agreement)

GUARANTEE AGREEMENT

GUARANTEE AGREEMENT dated as of -----, ----- made by -----, a ----- corporation (the "Guarantor"), in favor of the holders from time to time of the Notes referred to below (collectively the "Obligees").

WHEREAS, ShowBiz Pizza Time, Inc., a Kansas corporation (the "Company"), has entered into several Note Purchase Agreements dated as of June 15, 1995 (collectively the "Note Agreements" and terms

defined therein and not otherwise defined herein are being used herein as so defined) with the institutional purchasers listed in Schedule A thereto, pursuant to which the Company has issued and sold to such purchasers \$18,000,000 aggregate principal amount of its 10.02% Series A Senior Notes due 2001 (the "Series A Notes") and \$10,000,000 aggregate principal amount of its Floating Rate Series B Senior Notes due 2000 (the "Series B Notes" and, together with the Series A Notes, the "Notes");

WHEREAS, the Company has requested the consent of the holders of the Notes to enter into certain transactions with the Guarantor that are prohibited by the Note Agreements; and

WHEREAS, it is a condition to obtaining the consent of such holders that the Guarantor execute and deliver this Guarantee Agreement;

NOW, THEREFORE, in consideration of the premises the Guarantor hereby agrees as follows:

SECTION 1. Guarantee. The Guarantor unconditionally and irrevocably guarantees, as primary obligor and not merely as surety,

A. the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all obligations of the Company arising under the Notes and the Note Agreements, including all extensions, modifications, substitutions, amendments and renewals thereof, whether for principal, interest (including without limitation interest on any overdue principal, premium and interest at the rate specified in the Notes and interest accruing or becoming owing both prior to and subsequent to the commencement of any proceeding against or with respect to the Company under any chapter of the Bankruptcy Code of 1978, 11 U.S.C. §101 et seq.), Make-Whole Amount, Additional Amounts, fees, expenses, indemnification or otherwise, and

B. the due and punctual performance and observance by the Company of all covenants, agreements and conditions on its part to be performed and observed under the Notes and the Note Agreements;

(all such obligations are called the "Guaranteed Obligations"); provided that the aggregate liability of the Guarantor hereunder in respect of the Guaranteed Obligations shall not exceed at any time the lesser of (1) the amount of the Guaranteed Obligations and (2) the maximum amount for which the Guarantor is liable under this Guarantee Agreement without such liability being deemed a fraudulent transfer under applicable Debtor Relief Laws (as hereinafter defined), as determined by a court of competent jurisdiction. As used herein, the term "Debtor Relief Laws" means any applicable liquidation, conservatorship, bankruptcy, moratorium, rearrangement, insolvency, reorganization or similar debtor relief laws affecting the rights of creditors generally from time to time in effect.

The Guarantor also agrees to pay, in addition to the amount stated above, any and all reasonable expenses (including reasonable counsel fees and expenses) incurred by any Oblige in enforcing any rights under this Guarantee Agreement or in connection with any amendment of this Guarantee Agreement.

Without limiting the generality of the foregoing, this Guarantee Agreement guarantees, to the extent provided herein, the payment of all amounts which constitute part of the Guaranteed Obligations and would be owed by any other Person to any Oblige but for the fact that they are unenforceable or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving such Person.

SECTION 2. Guarantee Absolute. The obligations of the Guarantor under Section 1 of this Guarantee Agreement constitute a present and continuing guaranty of payment and not of collectability and the Guarantor guarantees that the Guaranteed

Obligations will be paid strictly in accordance with the terms of the Notes and the Note Agreements, regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of any Obligee with respect thereto. The obligations of the Guarantor under this Guarantee Agreement are independent of the Guaranteed Obligations, and a separate action or actions may be brought and prosecuted against the Guarantor to enforce this Guarantee Agreement, irrespective of whether any action is brought against the Company or any other Person liable for the Guaranteed Obligations or whether the Company or any other such Person is joined in any such action or actions. The liability of the Guarantor under this Guarantee Agreement shall be primary, absolute, irrevocable, and unconditional irrespective of:

A. any lack of validity or enforceability of any Guaranteed Obligation, any Note, the Note Agreements or any agreement or instrument relating thereto:

B. any change in the time, manner or place of payment of, or in any other term of, all or any of the Guaranteed Obligations, or any other amendment or waiver of or any consent to departure from any Note, the Note Agreements or this Guarantee Agreement;:

C. any taking, exchange, release or non-perfection of any collateral, or any taking, release or amendment or waiver of or consent to departure by the Guarantor or other Person liable, or any other guarantee, for all or any of the Guaranteed Obligations:

D. any manner of application of collateral, or proceeds thereof, to all or any of the Guaranteed Obligations, or any manner of sale or other disposition of any collateral or any other assets of the Company or any other Subsidiary:

E. any change, restructuring or termination of the corporate structure or existence of the Company or any other Subsidiary; :

F. any other circumstance (including without limitation any statute of limitations) that might otherwise constitute a defense, offset or counterclaim available to, or a discharge of, the Company or the Guarantor.

This Guarantee Agreement shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Guaranteed Obligations is rescinded or must otherwise be returned by any Obligee, or any other Person upon the insolvency, bankruptcy or reorganization of the Company or otherwise, all as though such payment had not been made.

SECTION 3. Waivers. The Guarantor hereby irrevocably waives, to the extent permitted by applicable law::

A. promptness, diligence, presentment, notice of acceptance and any other notice with respect to any of the Guaranteed Obligations and this Guarantee Agreement;:

B. any requirement that any Obligee or any other Person protect, secure, perfect or insure any Lien or any property subject thereto or exhaust any right or take any action against the Company or any other Person or any collateral;:

C. any defense, offset or counterclaim arising by reason of any claim or defense based upon any action by any Obligee;:

D. any duty on the part of any Obligee to disclose to the Guarantor any matter, fact or thing relating to the business, operation or condition of any Person and its assets now known or hereafter known by such Obligee; and:

E. any rights by which it might be entitled to require suit on an accrued right of action in respect of any of the

Guaranteed Obligations or require suit against the Company or the Guarantor or any other Person.

SECTION 4. Waiver of Subrogation and Contribution. The Guarantor shall not assert, enforce, or otherwise exercise (A) any right of subrogation to any of the rights, remedies, powers, privileges or liens of any Obligees or any other beneficiary against the Company or any other obligor on the Guaranteed Obligations or any collateral or other security, or (B) any right of recourse, reimbursement, contribution, indemnification, or similar right against the Company, and the Guarantor hereby waives any and all of the foregoing rights, remedies, powers, privileges and the benefit of, and any right to participate in, any collateral or other security given to any Obligees or any other beneficiary to secure payment of the Guaranteed Obligations, until such time as the Guaranteed Obligations have been paid in full.

SECTION 5. Representations and Warranties. The Guarantor hereby represents and warrants as follows::

A. The Guarantor is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation. The execution, delivery and performance of this Guarantee Agreement have been duly authorized by all necessary action on the part of the Guarantor:

B. The execution, delivery and performance by the Guarantor of this Guarantee Agreement will not (i) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of the Guarantor or any Subsidiary of the Guarantor under, any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter or by-laws, or any other material agreement or instrument to which the Guarantor or any Subsidiary of the Guarantor is bound or by which the Guarantor or any Subsidiary of the Guarantor or any of their respective properties may be bound or affected, (ii) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to the Guarantor or any Subsidiary of the Guarantor or (iii) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to the Guarantor or any Subsidiary of the Guarantor:

C. The Guarantor and the Company are members of the same consolidated group of companies and are engaged in related businesses and the Guarantor will derive substantial direct and indirect benefit from the execution and delivery of this Guarantee Agreement.

SECTION 6. Amendments, Etc. No amendment or waiver of any provision of this Guarantee Agreement and no consent to any departure by the Guarantor therefrom shall in any event be effective unless the same shall be in writing and signed by the Required Holders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided that no amendment, waiver or consent shall, unless in writing and signed by all Obligees, (i) limit the liability of or release the Guarantor hereunder, (ii) postpone any date fixed for, or change the amount of, any payment hereunder or (iii) change the percentage of Notes the holders of which are, or the number of Obligees, required to take any action hereunder.

SECTION 7. Addresses for Notices. All notices and other communications provided for hereunder shall be in writing and (A) by telecopy if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (B) by registered or certified mail with return receipt requested (postage prepaid), or (C) by a recognized overnight delivery service (with charges prepaid). Such notice if sent to the Guarantor shall be addressed to it at the address of the Guarantor provided below its name on the signature page of this

Guarantee Agreement or at such other address as the Guarantor may hereafter designate by notice to each holder of Notes, or if sent to any holder of Notes, shall be addressed to it as set forth in the Note Agreements. Any notice or other communication herein provided to be given to the holders of all outstanding Notes shall be deemed to have been duly given if sent as aforesaid to each of the registered holders of the Notes at the time outstanding at the address for such purpose of such holder as it appears on the Note register maintained by the Company in accordance with the provisions of Section 13.1 of the Note Agreements. Notices under this Section 7 will be deemed given only when actually received.

SECTION 8. No Waiver; Remedies. No failure on the part of any Obligee to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 9. Continuing Guarantee. This Guarantee Agreement is a continuing guarantee of payment and performance and shall (A) remain in full force and effect until payment in full of the Guaranteed Obligations and all other amounts payable under this Guarantee Agreement, (B) be binding upon the Guarantor, its successors and assigns and (C) inure to the benefit of and be enforceable by the Obligees and their successors, transferees and assigns.

SECTION 10. Jurisdiction and Process; Waiver of Jury Trial. The Guarantor irrevocably submits to the non-exclusive in personam jurisdiction of any New York State or federal court sitting in the Borough of Manhattan, The City of New York, over any suit, action or proceeding arising out of or relating to this Guarantee Agreement. To the fullest extent permitted by applicable law, the Guarantor irrevocably waives and agrees not to assert, by way of motion, as a defense or otherwise, any claim that it is not subject to the in personam jurisdiction of any such court, any objection that it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court and any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

The Guarantor consents to process being served in any suit, action or proceeding of the nature referred to in this Section by mailing a copy thereof by registered or certified mail, postage prepaid, return receipt requested, to the Guarantor at its address specified in Section 7 or at such other address of which you shall then have been notified pursuant to said Section. The Guarantor agrees that such service upon receipt (i) shall be deemed in every respect effective service of process upon it in any such suit, action or proceeding and (ii) shall, to the fullest extent permitted by applicable law, be taken and held to be valid personal service upon and personal delivery to the Guarantor. Notices hereunder shall be conclusively presumed received as evidenced by a delivery receipt furnished by the United States Postal Service or any recognized courier or overnight delivery service.

Nothing in this Section 10 shall affect the right of any holder of a Note to serve process in any manner permitted by law, or limit any right that the holders of any of the Notes may have to bring proceedings against the Guarantor in the courts of any appropriate jurisdiction or to enforce in any lawful manner a judgment obtained in one jurisdiction in any other jurisdiction.

THE GUARANTOR WAIVES TRIAL BY JURY IN ANY ACTION BROUGHT ON OR WITH RESPECT TO THIS GUARANTEE AGREEMENT OR ANY OTHER DOCUMENT EXECUTED IN CONNECTION HEREWITH.

SECTION 11. Governing Law. This Guarantee Agreement shall be construed and enforced in accordance with, and the rights of the Guarantor and the Obligees shall be governed by, the laws of the State of New York excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

IN WITNESS WHEREOF, the Guarantor has caused this Guarantee Agreement to be duly executed and delivered as of the date first above written.

[GUARANTOR]

By-----
Title:
Address:
Attention:
Telephone:
Telecopy:

10(o)(2)

SHOWBIZ PIZZA TIME, INC.
1997 NON-STATUTORY STOCK OPTION CONTRACT

THIS 1997 NON-STATUTORY STOCK OPTION CONTRACT (hereinafter referred to as "Contract") is made and entered into on ----- (the "Granting Date"), by and between SHOWBIZ PIZZA TIME, INC., a Kansas corporation (the "Company"), and ----- (the "Optionee").

WITNESSETH:

WHEREAS, the Board of Directors of the Company (the "Board of Directors") has adopted the ShowBiz Pizza Time, Inc. 1997 Non-Statutory Stock Option Plan (the "Plan"), pursuant to which the Stock Option Committee of the Board of Directors (the "Committee") may grant, from time to time, on or prior to July 31, 2007, non-statutory options to purchase shares of the Common Stock of ShowBiz Pizza Time, Inc. to individuals who are directors or key employees of the Company or of any of its subsidiary corporations, 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 Board of Directors, 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 ----- 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:

Page 1 of 4

- (a) Vesting and Expiration Dates. Optionee may exercise up to an aggregate of _____ percent (____%) of the option after _____, and an aggregate of _____ percent (____%) of the option after _____. The Option shall expire at 12:00 midnight on _____.
- (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. The Option shall be exercisable after the death of the Optionee only if the Optionee shall at the time of his death have been an employee of the Company or a subsidiary, and then (i) only by or on behalf of such person or persons to whom the Optionee's rights under the Option shall have been passed by the Optionee's will or, if the right to exercise the Option is not specifically bequeathed by will, by his legal representative or representatives, (ii) only to the extent that the Optionee was entitled to exercise said Option at the date of his death, and (iii) only if said Option is exercised prior to the expiration of three (3) months from the date of his death.
- (d) Cessation of Employment. The Option may not be exercised by the Optionee except while he is an employee of the Company or a subsidiary, or, if he shall cease to be an employee for any other reason other than death after he has been continuously so employed, for at least one (1) year after the Granting Date, he may, but only within ten (10) business days next succeeding such cessation of employment, exercise his option.
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

Page 2 of 4

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.
9. Multiple Counterparts. This Contract may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.
10. Expiration of Offer. If Optionee has not accepted the Company's offer herein contained by signing and returning to the Company one (1) duplicate original of this Contract prior to the expiration of one hundred and twenty (120) days after the Granting Date, then the offer herein contained shall be, withdrawn, void and of no further force or effect.

Page 3 of 4

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: 4441 West Airport
 Freeway
 Irving, Texas 75062

SHOWBIZ PIZZA TIME, INC.
FRANCHISE AGREEMENT

[TERRITORY]

4441 West Airport Freeway
P.O. Box 152077
Irving, TX 75062

TABLE OF CONTENTS

RECITALS 1

1. DEFINITIONS 1

2. GRANT OF RIGHTS 5

2.1 Grant 5

2.2 Exclusivity 5

2.3 Limitation of Rights 5

3. FEES AND CONTRIBUTIONS 5

3.1 Franchise Fee 5

3.1.1 Termination prior to Site Approval 6

3.1.2 Termination after Site Approval 6

3.1.3 Termination after Construction 6

3.2 Royalty Fees 6

3.3 Entertainment Fund 6

3.4 Advertising Fund 6

3.5 Payments and Taxes 6

3.6 Overdue Payments 6

4. SITE SELECTION 7

4.1 Criteria for Site Approval 7

4.2 Approval by Franchisor 7

4.3 Costs of On-Site Evaluation 7

4.4 Executed Lease or Purchase Agreement 7

4.5 Extensions 7

4.6 Relocation 8

5. CONSTRUCTION 8

5.1 Pre-Construction Approval Criteria 8

5.2 Pre-Construction Approval 9

5.3 Commencement of Construction and Extensions 9

5.4 Construction 9

5.5 Opening Assistance 9

5.6 Inspection 10

5.7 Continuing Statements 10

5.8 Installation of Animated Entertainment 10

5.9 Approval for Opening 10

6. TRAINING 10

6.1 Minimum Training 10

6.2 Location and Expenses 10

6.3 Additional Training 11

7. OPERATION 11

7.1 Operational Policies and Cornerstones 11

7.2 Suppliers 12

7.3 General Maintenance 12

7.4 Maintenance of Animated Entertainment 13

7.5 Scheduled Refurbishment 13

7.6 Inspection 13

7.6.1 Testing 13

7.6.2 Recommendations 14

7.6.3 Failure to Correct Deficiencies 14

7.7	Accounting and Records	14
7.7.1	General Accounting Principles	14
7.7.2	Accounting Statements	14
7.7.3	Inspection of Accounting and Records	14
7.7.4	Records of Ownership Interests in Franchisee15	
7.7.5	Sales Records	15
8.	ADVERTISING	15
8.1	General Requirements	15
8.2	Pre-approved Advertising	15
8.3	New Advertising	16
8.4	Minimum Advertising Expenditures	16
8.5	Advertising and Entertainment Funds	16
8.6	Advertising Cooperative	17
9.	REPRESENTATIONS AND WARRANTIES	17
9.1	Representations, Warranties and Covenants of Franchisee17	
9.1.1	Due Incorporation	17
9.1.2	Authorization	18
9.1.3	Execution and Performance	18
9.1.4	Corporate Documents	18
9.1.5	Non-Competition during Term of Agreement	18
9.1.6	Non-Competition after Termination or Non-Renewal of Agreement	18
9.1.7	Additional Covenants	19
9.1.8	Guaranty	19
9.2	Representations, Warranties and Covenants of Franchisor	19
9.2.1	Due Incorporation	19
9.2.2	Authorization	19
9.2.3	Execution and Performance	19
10.	PROPRIETARY RIGHTS AND INFORMATION	20
10.1	Confidential Information	20
10.1.1	Confidentiality Agreements	20
10.1.2	Improvements	20
10.2	Proprietary Marks	20
10.3	Copyrights	21
11.	TRANSFER OF INTEREST	22
11.1	Transfer by Franchisor	22
11.2.	Transfer by Franchisee	22
11.2.1	General Requisites	22
11.2.2	Transfer involving Controlling Interest	23
11.3	Transfer of Interest in Franchisee	23
11.4	Transfer upon Death	23
11.5	Public Offerings	23
12.	INSURANCE AND INDEMNITY	24
12.1	Insurance	24
12.2	Insurance Prior to Commencement	24
12.3	Indemnities	25
12.3.1	Indemnification	25
12.3.2.	Notice and Counsel	26
12.3.3	Settlement and Remedial Actions	26
12.3.4	Expenses	26
12.3.5	Third Party Recovery	26
12.3.6	Survival	26
13.	TERM, RENEWAL AND TERMINATION	27
13.1	Term	27
13.2	Renewal	27
13.3	Termination	27
13.3.1	Termination without Notice	27
13.3.2	Termination with Ten Day Notice	28
13.3.3	Termination with Thirty Day Notice	28
13.4	Obligations upon Termination or Expiration	28
13.5	Option to Purchase	29
14.	REMEDIES AND LIQUIDATED DAMAGES	30
14.1	Remedies	30
14.1.1	Cure	30
14.1.2	Specific Enforcement	30
14.2	Liquidated Damages	30
15.	DUE DILIGENCE AND ASSUMPTION OF RISK	30
16.	DISPUTE RESOLUTION	31
16.1	Mediation	31
16.2	Applicable Law	31
16.3	Jurisdiction and Venue	31
17.	MISCELLANEOUS	32
17.1	Independent Contractors	32
17.2	Entire Agreement	32
17.3	No Waiver	32

17.4 Severability 32
17.5 Notice 32
17.6 Counterparts 33
17.7 Headings 33
17.8 Further Assurances 33
17.9 Compliance with Laws 33

Schedule 1.15 - Schedule of Franchisee's Principals. 37

Attachment A - Cornerstones. 38

Attachment B - Operational Policies. 39
Attachment C - Site Approval Form. 40
Attachment D - Lease Rider 41
Attachment E - Advertising Cooperative Agreement 42
Attachment F - Guaranty Agreement. 43
Attachment G - Principal's Confidentiality Agreement 44
Attachment H - Employee's Confidentiality Agreement. 45

SHOWBIZ PIZZA TIME, INC.
FRANCHISE AGREEMENT

This Franchise Agreement is entered into this ----- of -----1997, by and between ShowBiz Pizza Time, Inc., a Kansas corporation ("Franchisor"), and ----- a ----- corporation ("Franchisee").

RECITALS

1. Franchisor has developed and is the owner of a System for the establishment, development and operation of family-oriented pizza restaurants;
2. Franchisor has developed and is the owner of, or licensee with rights to sublicense, certain Animated Entertainment and Proprietary Marks which are utilized in connection with and identify the System;
3. Franchisee desires to obtain from Franchisor certain rights to use the System, the Animated Entertainment and the Proprietary Marks to develop and establish a Franchised Restaurant at the Site; and
4. Franchisor desires like to grant to Franchisee certain rights to use the System, the Animated Entertainment and the Proprietary Marks to develop and establish a Franchised Restaurants at the Site.

NOW THEREFORE, Franchisor and Franchisee in consideration of the undertakings and commitments set forth herein, agree as follows:

1. DEFINITIONS

As used in this Agreement and the above Recitals, the following capitalized terms shall have the meanings attributed to them in this Section:

- 1.1 "Action" means any cause of action, suit, proceeding, claim, demand, investigation or inquiry (whether a formal proceeding or otherwise) with respect to which Franchisee's indemnity applies.
- 1.2 "Advertising Cooperative" means a group of two or more Franchised Restaurants, as determined by Franchisor, for the purpose of funding, administering and developing regional advertising and promotion programs.
- 1.3 "Advertising Fund" means the fund to which Franchisee will contribute a stated percentage of Gross Sales on a monthly basis

and which will be administered by the Association for the maintenance, administration, direction and preparation of advertising for the System, Proprietary Marks and Animated Entertainment as more fully discussed in Sections 3.4 and 8.5.

1.4 "Agreement" means this Franchise Agreement and all attachments.

1.5 "Animated Entertainment" means the computer hardware and software, artistic designs, scripts and musical scores, staging and lighting techniques and configurations, plans, manuals and specifications, manufacturing know-how and other intellectual property relating to video display entertainment and to three dimensional computer controlled animated characters, including present and future improvements, patents, trademarks, copyrights and other intellectual and artistic property.

1.6 "Area of Dominant Influence" means the geographic area which includes the Protected Territory and an additional -----(----) mile zone extending from the boundaries of the Protected Territory.

1.7 "Association" means the International Association of ShowBiz Pizza Time Restaurants, Inc. which will administer the Entertainment Fund and the Advertising Fund, in accordance with the Association's bylaws and this Agreement and to which Franchisee will have the right to be a member so long as Franchisee is in compliance with this Agreement and the Association's bylaws.

1.8 "Change in Control" means a Transfer of an Equity Interest in Franchisee which, directly or indirectly, causes a change in the number of Persons which can vote more than fifty percent (50%) of the total Equity Interests in Franchisee.

1.9 "Competing Business" means a business which operates a restaurant or food service outlet in combination with entertainment in the form of video games, video displays or computer controlled animated characters.

1.10 "Confidential Information" means the terms of this Franchise Agreement and Attachments and any amendments hereto, the System, the Animated Entertainment, the Operational Policies, Cornerstones, manuals, written directives and all drawings, equipment, recipes, and all other information know-how, techniques, materials and data imparted or made available by Franchisor to Franchisee which is (i) designated as confidential, (ii) known by Franchisee to be considered confidential by Franchisor, or (iii) by its nature inherently or reasonably to be considered confidential.

1.11 "Cornerstones" means the general principals and guidelines under which the Franchisee agrees to establish and operate the Franchised Restaurant, as such principles and guidelines reasonably modified from time to time by Franchisor in order to improve the quality and efficiency of the operation of the System and the Franchised Restaurant. A copy of the current version of the Cornerstones is attached as Attachment A hereto.

1.12 "Entertainment Fund" means the fund to which Franchisee will contribute a monthly basis and to be administered by the Association for the purchase, lease, shipping and installation of software programs and new hardware for Animated Entertainment including the cost of shipping and installation as more fully described in Section 3.3 and 8.5.

1.13 "Equity Interest" means a direct or indirect ownership interest in the capital stock of, partnership or membership interest in, or other equity or ownership interest in (including the right to vote) any type of legal entity.

1.14 "Execution Date" means the date upon which a Franchise Agreement is duly executed between a franchisee and Franchisor.

1.15 "Franchisee" means -----.

1.16 "Franchisee's Principals" means Franchisee's spouse, if Franchisee is an individual, all officers and directors of

Franchisee and all holders of an ownership interest in Franchisee and of any entity directly or indirectly controlling Franchisee, all as listed on Schedule 1.7 attached hereto..

1.17 "Franchised Restaurant" means the family-oriented pizza restaurant that is established and operated by Franchisee utilizing the System, the Proprietary Marks and the Animated Entertainment in accordance with the terms and conditions of this Agreement.

1.18 "Franchisor" means ShowBiz Pizza Time, Inc. or any person or legal entity to which ShowBiz Pizza Time, Inc. assigns or otherwise transfers its rights and obligations contained in this Agreement.

1.19 "Gross Sales" means the total of all sales (not including taxes collected) related to or arising from the operation of the Franchised Restaurant including, without limitation, all monies and receipts from the sale of all beverages, food, merchandise and the operation of rides, amusement games and other attractions in the Franchised Restaurant, as well as all revenue from the sale of tokens.

1.20 "Indemnitees" means the Association, Franchisor and its subsidiaries and affiliates and their respective directors, officers, employees, shareholders, affiliates, successors and assigns.

1.21 "Losses and Expenses" means compensatory, exemplary or punitive damages, fines, penalties, charges, assessments and fees (including reasonable attorneys', experts', accountants' and consultants' fees); interest, court costs, settlement or judgment amounts and other similar amounts incurred, charged against or suffered by the Indemnitees in connection with any Action.

1.22 "Media Fee" means a monthly contribution by Franchisee to the Advertising Fund as more fully discussed in Section 3.4 and 8.5 of this Agreement, the proceeds of which will be used exclusively by the Association for the purpose of purchasing national network television advertising.

1.23 "Minority Interest" means a direct or indirect ownership interest of less than five percent (5%) of the capital stock of, partnership interest in, or other equity interest in (including the right to vote) any type of legal entity.

1.24 "Operational," used in reference to the Franchised Restaurant, means that the Franchised Restaurant that is fully constructed and finished out as approved by Franchisor and is legally permitted to render its services to, and is open to, the general public pursuant to this Agreement.

1.25 "Operational Policies" means the written standards, procedures, rules, regulations, and policies for the operation of a Franchised Restaurant pursuant to the System, as issued from time to time by Franchisor, the current version of which is attached as Attachment B hereto.

1.26 "Person" means an individual, corporation, limited liability company, partnership, association, joint stock company, trust or trustee thereof, estate or executor thereof, unincorporated organization or joint venture, court or governmental unit or any agency or subdivision thereof, or any other legally recognizable entity.

1.27 "Proprietary Marks" means the trademarks, trade names, service marks, logos, emblems and other indicia of origin as designated from time to time by Franchisor, which may be owned by Franchisor or licensed to Franchisor with sublicensing rights, including, but not limited to, the marks: "Chuck E. Cheese" and "ShowBiz Pizza Time".

1.28 "Protected Territory" means ----- in which the Franchisor, so long as Franchisee complies with this Agreement, agrees not to establish or operate other Franchised Restaurants.

1.29 "Site" means the location for the establishment and operation

of the Franchised Restaurant which is approved as per Section 4.2 of this Agreement.

1.30 "System" means the unique system developed and owned by Franchisor for the establishment, development, and operation of family-oriented pizza restaurants, the distinguishing characteristics of which include without limitation, Animated Entertainment; separate areas with a variety of rides, amusement games and other attractions; characteristic decorations, furnishings and materials; specially-designed equipment and equipment layouts; trade secret food products and other special recipes, menus and food and beverage designations; food and beverage preparation and service procedures and techniques; operating procedures for sanitation and maintenance; methods and techniques for inventory and cost controls, record keeping and reporting, personnel training and management, and advertising and promotional programs; Cornerstones; and Operational Policies; all of which may be changed, improved or further developed by Franchisor from time to time.

1.31 "Transfer" means the sale, assignment, conveyance, pledge, gift, mortgage or other encumbrance, whether direct or indirect, in whole or in part, or in one or a series of related transactions or occurrences, of this (i) Agreement or of any or all rights or obligations of herein, (ii) any Equity Interests in Franchisee, or (iii) in the assets of Franchisee.

2. GRANT OF RIGHTS

2.1 Grant Franchisor hereby grants to Franchisee the right, and Franchisee undertakes the obligation, pursuant to the terms and conditions of this Agreement, to establish and operate the Franchised Restaurant at duly approved Site in the Protected Territory.

2.2 Exclusivity For so long as Franchisee is in full compliance with this Agreement, Franchisor will not, without Franchisee's prior written consent, establish or operate, or license anyone other than Franchisee to establish or operate, a Franchised Restaurant(s) in the Protected Territory during the term of this Agreement.

2.3 Limitation of Rights Notwithstanding the provision of Section 2.2, Franchisor reserves the right to sell, market, and distribute goods and services, without obtaining the prior approval of Developer, under any marks (including the Proprietary Marks) through any retail, wholesale, or other channel of distribution, regardless of whether the goods or services are: (i) now existing or hereinafter developed; (ii) part of the System; or (iii) now or at any time hereafter authorized for use or sale at any Franchised Restaurant.

Franchisee shall have no right under this Agreement to sub-license others to use or grant any rights in the Proprietary Marks, the Animated Entertainment or the System.

3. FEES AND CONTRIBUTIONS

3.1 Franchise Fee Prior to or upon the execution of this Agreement, Franchisee shall deliver a franchise fee of Sixty Five Thousand Dollars (US\$65,000.00) in readily available funds. In the event that this Agreement is terminated by Franchisor due to a default of Franchisee, upon Franchisor's receipt of written acknowledgment of termination from Franchisee (including a waiver of claims against Franchisor and a continuing confidentiality and noncompetition undertaking as set forth herein), Franchisor and Franchisee agree to observe the following:

3.1.1 Termination prior to Site Approval Franchisor will refund eighty percent (80%) of the Franchise Fee if the Agreement is terminated prior to Site approval in accordance with Section 4.2.

3.1.2 Termination after Site Approval Franchisor will refund fifty percent (50%) of the franchisee fee after the Site has

been approved but prior to commencement of construction of the Franchised Restaurant.

3.1.3 Termination after Construction After construction of the Franchised Restaurant commences, both Franchisor and Franchisee agree that the franchise fee will be fully earned by Franchisor and nonrefundable.

3.2 Royalty Fees Beginning the calendar month in which the Franchised Restaurant is Operational, on or before the fifteenth (15th) day of each calendar month thereafter, Franchisee agrees to pay a continuing monthly royalty fee equal to [five percent (5%)] of the Gross Sales for the immediately preceding calendar month.

3.3 Entertainment Fund Beginning the calendar month in which the Franchised Restaurant is Operational, on or before the fifteenth (15th) day of each calendar month thereafter, Franchisee agrees to contribute to the Entertainment Fund a continuing monthly contribution equal to four tenths of one percent (.4%) of the Gross Sales for the immediately preceding calendar month.

3.4 Advertising Fund Beginning the calendar month in which the Franchised Restaurant is Operational, on or before the fifteenth (15th) day of each calendar month thereafter, Franchisee agrees to contribute to the Advertising Fund a continuing monthly contribution equal to four tenths of one percent (.4%) of the Gross Sales for the previous calendar month.

Franchisee also agrees to contribute to the Advertising Fund a continuing monthly Media Fee equal to one percent (1%) of the Gross Sales for the previous calendar month to be used exclusively for the purchase of national network television advertising.

3.5 Payments and Taxes All franchise and royalty fees shall be paid directly to Franchisor or its designee. All contributions to the Entertainment Fund and Advertising Fund shall be made directly to the Association unless the Association directs Franchisee otherwise. All payments and contributions shall be in United States dollars and will be made free and clear of any tax, deduction, offset or withholding of any kind. All taxes and penalties on any payment made by Franchisee pursuant to this Agreement now or in the future will be fully borne by Franchisee.

3.6 Overdue Payments Any payment not actually received by Franchisor or its designee when due shall accrue late charges equal to one and one-half percent (1.5%) per month or the maximum rate permitted by law, whichever is less from the date it was due until paid. Such interest charges will be in addition to any other remedies that may be available to Franchisor.

4. SITE SELECTION

4.1 Criteria for Site Approval Franchisor agrees that prior to or within one hundred and twenty (120) days after the execution of a Franchise Agreement, it will locate and obtain the approval of Franchisor for a Site within the Protected Territory for the establishment and operation of the Franchised Restaurant.

To qualify for approval, Franchisee must submit to Franchisor:

(a) a completed site review form substantially in the form of Attachment C.

(b) if the premises for the proposed Site are to be leased, satisfactory evidence that the lessor will agree to the minimum requirements contained in the Lease Rider to be executed between Franchisor, Franchisee and the lessor attached hereto as Attachment D; and

(c) any other information or materials as Franchisor reasonably requires, such as a letter of intent or other document which confirms Franchisee's favorable prospects for obtaining the proposed Site.

4.2 Approval by Franchisor Upon receipt of all requested

documentation as required in Section 4.1, Franchisor will notify Franchisee of its approval or disapproval in writing within a period of 30 (thirty) days from Franchisor's receipt of the complete information requested. Franchisor agrees that it will act in a commercially reasonable manner when approving or disapproving any proposed Site. However, Franchisee agrees that Franchisor will have absolute discretion in approving any proposed Site and Franchisee agrees to accept any of Franchisor's decisions as final.

Franchisee hereby acknowledges and agrees that Franchisor's approval of a site does not constitute an assurance, representation or warranty of any kind, express or implied, as to the suitability of the Site for the Franchised Restaurant or for any other purpose or of the financial success of operating the Franchised Restaurant at such Site.

4.3 Costs of On-Site Evaluation If necessary, Franchisor will undertake for Franchisee one (1) on-site evaluation of a proposed Site free of charge. For all subsequent on-site evaluations, Franchisee agrees to reimburse Franchisor for its reasonable expenses, including, without limitation, travel expenses and a per diem charge for room and board.

4.4 Executed Lease or Purchase Agreement Franchisee will provide Franchisor with a fully executed copy of the lease or purchase agreement with respect to the approved Site within ten (10) days after execution thereof.

4.5 Extensions Franchisor, at its sole discretion and without obligation, may grant a written extension or extensions to the period for approval of a proposed Site. In the event Franchisor grants an extension, Franchisee agrees to pay the Franchisor a non-refundable extension fee of US ----- (-----) for every seven (7) day period of the agreed extension.

4.6 Relocation Once the Franchised Restaurant is established at the proposed Site in accordance with this Agreement, Franchisee may relocate the Franchise Restaurant only upon the prior written consent of Franchisor. Franchisor will not unreasonably withhold its approval of such relocation if: (i) Franchisee has provided Franchisor with at least ninety (90) days prior written notice of its intent to relocate; (ii) Franchisee is not in default under this Agreement; (iii) Franchisee has paid a relocation fee in an amount equal to fifty (50%) of the then-current initial franchise fee for a new franchisee; (iv) the new location is within the Protected Territory; and (v) Franchisee agrees to execute the then-current form of the Franchise Agreement. The Franchisee will receive written notification of Franchisor's decision regarding relocation of the Franchised Restaurant. Upon approval by Franchisor, Franchisee must relocate the Franchised Restaurant within one hundred and eighty (180) days.

5. CONSTRUCTION

5.1 Pre-Construction Approval Criteria Prior to commencing construction on the Site, Franchisor shall provide Franchisee, with plans and specifications for a standard Franchised Restaurant as well as a floor plan for the Site. Franchisee, at its own cost, shall submit to Franchisor for its prior written approval:

(a) Complete plans and specifications which adapt the Franchisor's standard plans and specifications for a Franchised Restaurant in accordance with local or state laws, regulations or ordinances, and which conform to Franchisor's floor plan for the Site. Once approved by Franchisor pursuant to Section 5.2 below, such plans and specifications shall not be modified without the prior written consent of Franchisor;

(b) A statement in the form prescribed by Franchisor and signed by Franchisee, certifying that Franchisee has:

i. complied with all local or state laws, regulations or ordinances in preparing its plans and specifications.

ii. employed a qualified architect or engineer to

prepare construction documents and supervise the construction of the Franchised Restaurant and completion of all improvements (such statement shall also identify the architect or engineer and describe his qualifications in detail);

iii. obtained all such permits and certifications required for lawful construction and operation of the Franchised Restaurant, including, without limitation, zoning, access, sign and fire requirements; and

iv. obtained required licenses to sell beer and/or wine, unless otherwise prohibited, and to operate rides, amusement games and other attractions as required herein.

(c) A construction schedule acceptable to Franchisor.

5.2 Pre-Construction Approval Upon receipt of the above documents, Franchisor will notify Franchisee of its approval or disapproval in writing within a period of ----- (----) days. Franchisor agrees that it will act reasonably in approving or disapproving any plans, specifications, statements and schedules. However, given that the construction and appearance of Franchise Restaurants is critical to the continued success and viability of the System, Franchisee agrees that Franchisor will have absolute discretion in making such decision and Franchisee agrees to accept any of Franchisor's decisions as final.

5.3 Commencement of Construction and Extensions Once the pre-construction approval has been obtained and within six (6) months from the date of execution of this Agreement, Franchisee will commence construction and provide Franchisor with written notice of such commencement within ----- (----) days of such commencement of construction.

Franchisor, at its sole discretion and without obligation, may grant to Franchisee written extensions of this six (6) month period with the understanding that, if granted, Franchisee shall pay to Franchisor a non-refundable extension fee of Two Thousand Five Hundred Dollars (\$2,500) for each thirty (30) day period of extension.

5.4 Construction Franchisee shall complete construction, including all exterior and interior carpentry, electrical, painting and finishing work, and installation of all fixtures, equipment and signs, in accordance with the plans and specifications for the approved Site within:

(a) six (6) months of commencement of construction if the construction is a space conversion of existing premises, or

(b) twelve (12) months of commencement of construction if the construction is the erection of a free-standing building.

Franchisor, at its sole discretion and without obligation, may extend these periods in writing and pursuant to the terms and conditions imposed by Franchisor as consideration for granting such extension.

5.5 Opening Assistance. Franchisor shall provide one (1) representative to provide on-site opening assistance and supervision for a period of seven (7) to ten (10) days, at no charge to Franchisee, if Franchisee requires any additional opening assistance, Franchisor reserves the right to charge an additional fee for such assistance, in addition to obtaining reimbursement from related travel, meals and lodging expenses.

5.6 Inspection Franchisee agrees that Franchisor and its agents shall have the right to inspect the construction at all reasonable times.

5.7 Continuing Statements Beginning with the calendar month offer the pre-construction approval issued by Franchisor and each calendar month thereafter until one (1) calendar month the Franchised Restaurant is Operational, Franchisee shall provide Franchisor, on or before the first Monday of each such month, with

a statement in the form prescribed by Franchisor and signed by Franchisee, certifying Franchisee's continued compliance with and maintenance of the requirements of Section 5.1 (b).

5.8 Installation of Animated Entertainment No later than one hundred fifty (150) days prior to the anticipated date of completion of construction of the Franchised Restaurant, Franchisee shall order the Animated Entertainment and related components specified by Franchisor from the supplier or suppliers designated by Franchisor. All payment terms for the Animated Entertainment shall be agreed to between Franchisee and respective suppliers.

Franchisor shall not have any liability to Franchisee for delivery or the condition of the Animated Entertainment ordered from the supplier or suppliers designated by Franchisor.

After delivery of the Animated Entertainment and preparation for installation of the Animated Entertainment by Franchisee, Franchisor will provide a technician to install the Animated Entertainment. If the technician is required for more than ten (10) days, the Franchisee will pay Franchisor a fee of ----- (-----) per day and shall reimburse Franchisor for additional actual air travel expenses and a per diem charge for room and board. Franchisor and Franchisee shall agree upon the date for installation.

5.9 Approval for Opening Once construction is completed and within ----- (----) days of obtaining Franchisor's written approval for opening, Franchisee shall open the Franchised Restaurant to the public.

6. TRAINING

6.1 Minimum Training. Franchisee shall at all times employ at least one general manager for the Franchised Restaurant and one technician for the maintenance of the Animated Entertainment. Prior to rendering their services, both the general manager and technician shall attend and complete, to Franchisor's satisfaction, initial training conducted by Franchisor.

6.2 Location and Expenses. Franchisor will not charge Franchisee any fee for the training of Franchisee's first restaurant general manager and technician. Franchisor reserves the right to charge a reasonable fee to Franchisee for any additional required or optional training and training for subsequent general managers, managers and technicians. All training shall be provided at such location as Franchisor may designate and Franchisee shall be responsible for Franchisee's employees' travel expenses and room, board and wages during such training.

6.3 Additional Training. Franchisor may periodically make other mandatory or optional training available to Franchisee's employees, as well as other programs, seminars and materials, and Franchisee shall ensure that all employees, as Franchisor may direct, satisfactorily complete any required training within the time specified.

7. OPERATION

7.1 Operational Policies and Cornerstones. Franchisee acknowledges that every detail of the Franchised Restaurant is important to Franchisee, Franchisor and other franchisees in order to develop and maintain the high standards and public image of the System, to increase the demand for the products and services sold by all franchisees under the System, and to protect Franchisor's reputation and goodwill. As such, Franchisee agrees to:

(a) Operate the Franchised Restaurant in accordance with the Operational Policies and Cornerstones to ensure that the highest degree of quality and service is uniformly maintained. If amended or modified by Franchisor, Franchisee agrees that it will fully implement Franchisor's amended Cornerstones and Operational Policies within a period of ----- (-----) months after receipt of

notice of such amendment or modification;

(b) Devote the requisite time, energy and best efforts to the management and operation of the Franchised Restaurant;

(c) Use, prepare, maintain in sufficient supply and offer for sale only such products, materials, ingredients, supplies and paper goods as conform with Franchisor's standards and specifications;

(d) Sell or offer for sale only such products and menu items as meet Franchisor's uniform standards of quality and quantity, as have been expressly approved for sale in writing by Franchisor, and as have been prepared in accordance with Franchisor's methods and techniques;

(e) Use at the Franchised Restaurant only such menus and animated character costumes which comply with the style, pattern and design prescribed by Franchisor;

(f) Purchase and install, at Franchisee's expense, all fixtures, furnishings, signs, and equipment (including, without limitation, video display software which must be updated from time to time, point-of-sale computer hardware and software control systems, and a telephone modem) as Franchisor may reasonably direct from time to time in the Operational Policies or otherwise in writing;

(g) Employ security officers if necessary for secure operation of the Franchised Restaurant;

(h) Employ at least the minimum number of other employees as may be prescribed by Franchisor and to comply with all applicable federal, state and local laws, rules and regulations with respect to such employees;

(i) Cause all employees to wear uniforms of the color, style, and design prescribed by Franchisor;

(j) Make daily and regular use of a Chuck E. Cheese walk-around character costume and all other animated character costumes designated by Franchisor and to maintain such costumes in good condition, as provided in the Operational Policies;

(k) Use the Site only for the operation of the Franchised Restaurant as well as keep and maintain the Franchised Restaurant open and operational for the minimum number of hours and days as reasonably required by Franchisor;

(l) Meet and maintain the highest health standards and ratings applicable to the operation of the Franchised Restaurant; and

(m) Purchase or Lease and maintain the minimum number and type of rides, amusement games and other attractions required by Franchisor, in the understanding that Franchisee is prohibited from leasing any of the foregoing on a "shared revenue" or "coin sharing" basis.

7.2 Suppliers Franchisee shall purchase all equipment, supplies and other products and materials (including animated character costumes) required for the operation of the Franchised Restaurant solely from suppliers approved in writing by Franchisor. To qualify for approval, such suppliers should (i) demonstrate the ability to meet Franchisor's reasonable standards and specifications for such items, and (ii) possess adequate quality controls and capacity to supply Franchisee's needs promptly and reliably.

Franchisor shall have the right to require that its representatives be permitted to inspect the supplier's facilities and that samples from the supplier be delivered, at Franchisor's option, either to Franchisor or to an independent, certified laboratory designated by Franchisor for testing. A charge not to exceed the reasonable cost of the inspection and the actual cost of the test shall be paid by Franchisee or the supplier to Franchisor.

Franchisor reserves the right, at its option, to re-inspect the facilities and products of any such approved supplier and to revoke its approval upon the supplier's failure to continue to meet, in Franchisor's discretion, any of Franchisor's criteria.

7.3 General Maintenance Franchisee shall at all times maintain the Franchised Restaurant in the highest degree of sanitation, repair and condition. Nevertheless, within three (3) months after receipt of notice from Franchisor, Franchisee agrees to make any additions, alterations repairs and replacements that Franchisor reasonably requires for that purpose, including, without limitation, such periodic repainting, equipment repairs and replacement of obsolete signs, games, rides, equipment, and floor coverings (including carpet and tile) as Franchisor may reasonably direct.

7.4 Maintenance of Animated Entertainment Franchisee shall at all times maintain the Animated Entertainment and its components in good repair and working order. Franchisee shall also assist in the installation of all retrofits and replacements to the Animated Entertainment components which are required by Franchisor and paid for out of the Entertainment Fund. Franchisee shall relinquish and deliver to the Entertainment Fund title and possession of any existing components which are replaced by the Fund, and all such replacements shall become the property of Franchisee.

7.5 Scheduled Refurbishment Commencing on January 1 of the second calendar year following the opening of the Franchised Restaurant, Franchisee, at its own expense, shall upgrade and refurbish the Franchised Restaurant annually. Such upgrades and refurbishment include, without limitation, those necessary to conform to the building decor, floor plan, trade dress, exterior signage and decor, color schemes, rides, amusement games and other attractions, food and beverage service, and presentation of trademarks and service marks consistent with the public image then prevailing in the latest of upgraded System restaurants operated by Franchisor. The amount expended for such upgrades and/or refurbishments shall be at least the lesser of:

(a) Fifty Thousand Dollars (\$50,000), or

(b) Four percent (4%) of the Gross Sales of the Franchised Restaurant during the prior calendar year.

Each such upgrade and refurbishment shall be completed by Franchisee on or before June 30 of each respective year. Franchisee shall provide to Franchisor, on or before June 30 of each such year, such reports, records, receipts and other information as Franchisor may request evidencing Franchisee's compliance with this requirement.

Franchisor may, in its sole discretion, defer in writing all or any portion of Franchisee's obligations to upgrade or refurbish the Franchised Restaurant.

7.6 Inspection Franchisee agrees to permit Franchisor or its agents, at any reasonable time, access to the Franchised Restaurant to conduct inspections to ensure compliance with Franchisor's then-current standards and specifications.

7.6.1 Testing In conducting its inspections, Franchisor will have the right to obtain samples of any inventory items without payment therefor, in amounts reasonably necessary for testing by Franchisor or an independent certified laboratory to determine whether said samples meet Franchisor's then-current standards and specifications. Franchisor may require Franchisee to bear the cost of such testing if the item or supplier of the item has not previously been approved by Franchisor or if the sample fails to conform to Franchisor's specifications.

7.6.2 Recommendations Franchisee acknowledges that Franchisor or its agents will have the authority to make immediate recommendations and resolutions to correct any deficiencies detected during such inspections (including ceasing of the use of the non-conforming equipment, advertising materials, products or

supplies).

7.6.3 Failure to Correct Deficiencies In the event Franchisee fails or refuses to implement recommendations or resolutions, Franchisor shall have the right to enter upon the Franchised Restaurant premises for the purpose of making or causing to be made such corrections as may be required, with all costs to be paid by Franchisee.

7.7 Accounting and Records

7.7.1 General Accounting Principles Franchisee shall maintain for at least five (5) years from the dates of preparation, full, complete and accurate books, records and accounts in accordance with generally-accepted accounting principles and in the form and manner prescribed by Franchisor from time to time in the Operational Policies or otherwise in writing.

7.7.2 Accounting Statements In addition to the general accounting requirements, at Franchisee's cost, Franchisee shall submit to Franchisor:

(a) Unaudited quarterly profit and loss statements (in the form prescribed by Franchisor and showing the sources of all income and the amount expended each month during the period on local advertising) and balance sheet within forty five (45) days of the end of each fiscal quarter during the term hereof; and

(b) Unaudited annual statements, as well as a schedule of capital expenditures and a schedule of advertising expenditures, within ninety (90) days of the end of each fiscal year during the term hereof.

7.7.3 Inspection of Accounting and Records. Franchisor or its representatives (including independent auditors, attorneys or agents) shall have the right at all reasonable times to examine, copy (and to remove and return the materials to be copied from the premises on which they are located), at Franchisor's expense, the books, records, and tax returns of Franchisee.

If an inspection should reveal that payments have been understated in any report to Franchisor, then Franchisee shall immediately pay to Franchisor the amount understated upon demand, in addition to interest from the date such amount was due until paid, at one and one-half percent (1.5%) per month or the maximum rate permitted by law, whichever is less.

Notwithstanding the foregoing, if an inspection discloses an understatement in any report of two percent (2%) or more, Franchisee shall reimburse Franchisor for any and all costs and expenses connected with the inspection (including, without limitation, reasonable accounting and attorneys' fees). The foregoing remedies shall be in addition to any other remedies Franchisor may have, including, without limitation, the remedies for default.

7.7.4 Records of Ownership Interests in Franchisee During the term of this Agreement, within ninety (90) days after the end of the Franchisee's fiscal year, Franchisee shall provide Franchisor a list of all Persons owning an Equity Interest in the Franchisee; provided, however, that if Franchisee's shares are publicly traded on a nationally recognized stock exchange, the list of shareholders required shall include only those owning five percent (5%) or more of the shares outstanding.

7.7.5 Sales Records. Franchisee shall record all food, beverage and token sales on cash registers or other machines approved by Franchisor, which shall contain devices or systems that will record accumulated sales and provide such other information and reports as Franchisor may prescribe.

Within eighteen (18) months after receipt of written notification from Franchisor, Franchisee shall install at the Franchised Restaurant as designated by Franchisor, such point-of-sale computer hardware and software control systems and telephone

modems as prescribed by Franchisor. Franchisee will enter into software license agreements as designated by Franchisor for such purposes.

Franchisee shall permit Franchisor to access such systems by telephone at all reasonable times for the purpose of inspecting, monitoring and retrieving information concerning the operation of the Franchised Restaurant. Franchisor shall have telephone access as provided herein at such times, and in such manner as Franchisor shall from time to time specify.

8. ADVERTISING

8.1 General Requirements Recognizing the importance of the standardization of advertising programs to the furtherance of the goodwill and public image of the System, the Franchisor and Franchisee agree that all advertising by Franchisee shall be conducted in a commercially acceptable manner and shall conform to such standards and requirements as Franchisor may specify from time to time in writing.

8.2 Pre-approved Advertising Franchisor may offer from time to time to provide, upon Franchisee's request and at Franchisee's expense, approved local advertising and promotional plans and materials, including, without limitation, newspaper slicks, promotional leaflets and coupons. Television commercials and other advertising material are periodically produced through the Advertising Fund and are available for use by each Franchisee.

8.3 New Advertising Samples of all planned advertising, not previously approved by Franchisor, must be submitted to Franchisor (through the mail, return receipt requested), for Franchisor's prior approval. Upon receipt of such planned advertising, Franchisor will notify Franchisee no later than fifteen (15) days after receipt of the proposed advertising whether such advertising has been approved, with no response being understood as approval.

8.4 Minimum Advertising Expenditures Franchisee shall spend a monthly a minimum of three percent (3.0%) of the Gross Sales of the Franchised Restaurant for local advertising and promotion in Franchisee's Area of Dominant Influence at least two-thirds (2/3) of which amount shall be spent for television advertising or advertising in some other media approved by Franchisor.

[During the term of this Agreement, Franchisor may, upon ninety (90) days prior notice to Franchisee, increase the minimum expenditure amount to an amount not to exceed 5.0% of the Gross Sales of the Franchised Restaurant.]

The minimum expenditure amount will be reduced by an amount equal to Franchisee's contributions to: (i) an Advertising Cooperative, and (ii) the Media Fee while the Media Fee remains in effect.

8.5 Advertising and Entertainment Funds Franchisee and Franchisor agree that the Association or its designee shall maintain and administer an Advertising Fund and Entertainment Fund in accordance with the Association's bylaws. However, the Association and the administration of the Funds will have the following characteristics:

(a) Franchisee will have the right to be a voting member of the Association if it is in compliance with this Agreement and the Association's bylaws;

(b) Except for the Media Fees which will be used as discussed in Section 8.5(c), the Advertising Fund shall be used exclusively to meet any and all costs of maintaining, administering, directing and preparing any type of advertising campaign and other public relations activities;

(c) The Media Fees which are contributed to the Advertising Fund shall only be used to purchase national network television advertising;

(d) The Entertainment Fund shall be used to purchase or lease software programs and new hardware for Animated Entertainment for all System restaurants, including the cost of shipping and installation. The Entertainment Fund may also be used to design, test and implement new entertainment concepts which may not be directly related to the current Animated Entertainment;

(e) All sums paid by Franchisee to the Advertising and Entertainment Fund shall be deposited in accounts with financial institutions maintained by the Association, separate from funds of Franchisor and shall not be used to pay for any of Franchisor's general operating expenses, except for such reasonable administrative costs and overhead, if any, as Franchisor may incur from time to time related to the administration or direction of the Advertising Fund and Entertainment Fund, including, without limitation, conducting market research, preparing marketing and advertising materials, negotiating purchase and lease contracts and collecting and accounting for assessments for the Advertising and Entertainment Funds;

(f) Excess amounts remaining in the Advertising and Entertainment Funds at the end of any taxable year, shall be applied to expenditures in the following taxable year(s);

(g) The Advertising and Entertainment Fund shall not be an asset of Franchisor or its designee.;

(h) Franchisor has the right to terminate the Advertising Fund. The Advertising Fund shall not be terminated, however, until all monies in the Advertising Fund have been expended for advertising and/or promotional purposes, or returned to contributing franchised businesses or those operated by Franchisor or an affiliate, without interest, on the basis of their respective contributions; and

(i) Franchisee and Franchisor agree and acknowledge that the Association or its designees undertake no obligation in administering the Advertising and Entertainment Fund to make expenditures which yield benefits to Franchisee which are equivalent or proportionate to Franchisee's contributions or to ensure that any particular franchisee benefits directly or pro rata from the placement of advertising.

8.6 Advertising Cooperative Franchisor shall have the right, in its discretion, to designate any geographical area as a region for purposes of establishing an Advertising Cooperative to which Franchisee will be a member. Such Cooperative will be established and operated in accordance with an advertising cooperative agreement which is attached hereto as Attachment "E"

9. REPRESENTATIONS AND WARRANTIES

9.1 Representations, Warranties and Covenants of Franchisee

9.1.1 Due Incorporation Franchisee is a corporation, limited liability company or general or limited partnership duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization with all requisite power and authority to enter into this Agreement and perform the obligations contained herein.

9.1.2 Authorization The execution, delivery and performance by Franchisee of this Agreement and all other agreements contemplated herein has been duly authorized by all requisite actions on the part of Franchisee and no further actions are necessary to make this Agreement or such other agreements valid and binding upon it and enforceable against it in accordance with their respective terms.

9.1.3 Execution and Performance Neither the execution, delivery nor performance by Franchisee of this Agreement or any other agreements contemplated hereby will conflict with, or result in a breach of any term or provision of Franchisee's charter by-laws,

articles of organization, or partnership agreement and/or other governing documents and any amendments thereto, any indenture, mortgage, deed of trust or other material contract or agreement to which Franchisee is a party or by which it or any of its assets are bound, or breach any order, writ, injunction or decree of any court, administrative agency or governmental body.

9.1.4 Corporate Documents Certified copies of Franchisee's charter by-laws, articles of organization, partnership agreement and/or other governing documents and any amendments thereto, including board of director's or partner's resolutions authorizing this Agreement have been delivered to Franchisor. Any amendments or changes to such governing or charter documents subsequent to the date of this Agreement, shall not be undertaken without Franchisor's prior written consent.

9.1.5 Non-Competition during Term of Agreement Unless approved by Franchisor in writing, during the term of this Agreement, Franchisee and Franchisee's Principals shall not, directly or indirectly:

(a) Divert or attempt to divert business of any Franchised Restaurant established pursuant to a Franchise Agreement to any competitor, or do or perform any other act injurious or prejudicial to the goodwill associated with Franchisor's Proprietary Marks, the Animated Entertainment and the System;

(b) Employ or seek to employ any person who is employed by Franchisor or by any other franchisee of Franchisor; and

(c) Except as provided for herein, own, maintain, engage in, or have an Equity Interest in a Competing Business; provided that this provision shall not apply to any Minority Interest collectively held by Franchisee or Franchisee's Principals in any publicly-held corporation listed on a national stock exchange.

9.1.6 Non-Competition after Termination or Non-Renewal of Agreement Unless approved by Franchisor in writing, for a period of one (1) year after the expiration and non-renewal or termination of this Agreement or after the approved transfer by Franchisee of its interest in this Agreement, Franchisee and Franchisee's Principals shall not, directly or indirectly:

(a) Divert or attempt to divert business of any Franchised Restaurant established pursuant to a Franchise Agreement to any competitor, or do or perform any other act injurious or prejudicial to the goodwill associated with Franchisor's Proprietary Marks, the Animated Entertainment and the System;

(b) Employ or seek to employ any person who is employed by Franchisor or by any other franchisee of Franchisor; and

(c) Except as provided for herein, own, maintain, engage in, or have within a twenty five (25) mile radius of the Territory; provided that this provision shall not apply to any Minority Interest collectively held by Franchisee or Franchisee's Principals in any publicly-held corporation listed on a national stock exchange.

9.1.7 Additional Covenants At Franchisor's request, Franchisee shall require and obtain for the benefit of Franchisor execution of covenants similar to those set forth in this Section from any and all of its employees having access to materials or information furnished or disclosed to Franchisee by Franchisor.

9.1.8 Guaranty As an inducement and as a condition to Franchisor's execution and acceptance of this Agreement, Franchisor may require any or all of Franchisee's Principals to execute a Guaranty in the form of Attachment F hereto.

9.2 Representations, Warranties and Covenants of Franchisor

9.2.1 Due Incorporation Franchisor is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization with all requisite power and

authority to enter into this Agreement and perform the obligations contained herein.

9.2.2 Authorization The execution, delivery and performance by Franchisor of this Agreement and all other agreements contemplated herein has been duly authorized by all requisite corporate actions and no further actions are necessary to make this Agreement or such other agreements valid and binding upon it and enforceable against it in accordance with their respective terms.

9.2.3 Execution and Performance Neither the execution, delivery nor performance by Franchisor of this Agreement or any other agreements contemplated hereby will conflict with, or result in a breach of any term or provision of Franchisor's articles of incorporation or by-laws, or any indenture, mortgage, deed of trust or other contract or agreement to which Franchisor is a party or by which it or any of its assets are bound, or breach any order, writ, injunction or decree of any court, administrative agency or governmental body.

10. PROPRIETARY RIGHTS AND INFORMATION

10.1 Confidential Information The Franchisee and the Franchisee's Principals shall only communicate, disclose or use the Confidential Information as expressly permitted herein or as required by law. Franchisee and Franchisee's Principals shall disclose the Confidential Information only to such of Franchisee's employees, agents, or independent contractors who must have access to it in connection with their employment.

10.1.1 Confidentiality Agreements Franchisee shall cause Franchisee's Principals and employees having access to the Confidential Information to execute confidentiality agreements substantially in the form of Attachments G and H stating that they will preserve in confidence all Confidential Information. Neither Franchisee, Franchisee's Principal's or their respective employees may at any time, without Franchisor's prior written consent, copy, duplicate, record or otherwise reproduce the Confidential Information, in whole or in part, nor otherwise make the same available to any unauthorized person.

10.1.2 Improvements If Franchisee makes any improvements (as determined by Franchisor) to the Confidential Information, Franchisee and the Franchisee's Principals shall each execute an amendment to this Agreement reflecting such improvements and Franchisor's exclusive ownership thereof. All such improvements shall be considered Confidential Information.

10.2 Proprietary Marks Franchisee acknowledges Franchisor's exclusive ownership, or right to sublicense, of the Proprietary Marks and shall neither directly or indirectly, infringe, contest or otherwise impair Franchisor's exclusive ownership of, and/or license, with respect to the Proprietary Marks either during or after the termination or expiration of this Agreement. Franchisee also expressly acknowledges and agrees that:

(a) The Proprietary Marks will only be used by Franchisee in connection with the operation of the Franchised Restaurant under the System and only in the manner authorized and prescribed by Franchisor herein or by written notification.

(b) Except for the non-exclusive license to use granted herein, Franchisee and Franchisee's Principals acquire no right, title or interest in (or any goodwill associated with) the System, the Proprietary Marks and the Animated Entertainment.

(c) Upon the expiration or termination of this Agreement, no monetary amount shall be assigned as attributable to any goodwill associated with Franchisee's use of the System, the Proprietary Marks or the Animated Entertainment and all goodwill associated with Franchisee's use of the System, the Proprietary Marks and the Animated Entertainment will inure to the benefit of Franchisor or Franchisor's licensors, as the case may be.

(d) Franchisee and Franchisee's Principals shall promptly notify Franchisor of any use by any third party of the Proprietary Marks of which the Franchisee and Franchisee's Principals know or have reason to know is unauthorized.

(e) Franchisee and Franchisee's Principals shall promptly notify Franchisor of any litigation action or claim instituted by any person or legal entity against Franchisor, Franchisee or Franchisee's Principals involving the Proprietary Marks and, if necessary, shall execute any and all documents, and to render such assistance as may, in the opinion of Franchisor's counsel, be reasonably requested to carry out such defense or prosecution.

(f) Franchisee shall operate, advertise and promote the Franchised Restaurant under the Proprietary Marks designated by Franchisor, without prefix or suffix, and shall use no other name or mark and shall refrain from using any of the Proprietary Marks in conjunction with any word or symbol without Franchisor's prior written consent.

(g) This license to use the Proprietary Marks is nonexclusive, and Franchisor has the right: (i) to grant other franchises for the Proprietary Marks, in addition to those franchises already granted to existing franchisees, (ii) to use the Proprietary Marks in connection with the sale of food and other products at wholesale and/or retail outlets in the Protected Territory, and (iii) to develop and establish other systems for the same or similar products and services utilizing the same Proprietary Marks, or any similar or other proprietary marks, and to grant licenses thereto without providing Franchisee any right therein.

(h) Franchisee will use, promote and offer for sale under the Proprietary Marks only those products and services which meet Franchisor's prescribed standards and specifications, as they may be revised by Franchisor from time to time.

(i) Franchisee will execute all documents requested by Franchisor or its counsel that are necessary to obtain protection for the Proprietary Marks or to maintain their continued validity or enforceability and to take no action that would jeopardize the validity or enforceability thereof.

10.3 Copyrights Franchisee and Franchisee's Principals acknowledge that Franchisor owns the worldwide copyright and other ownership rights to all materials provided by Franchisor (in all forms or media now or hereafter known) including, without limitation, the Cornerstones, the Operational Policies, the Animated Entertainment, promotional materials and software. Franchisee also agrees:

(a) If registration of the copyright of any of the materials mentioned above is required by law or deemed advisable by Franchisor, Franchisee agrees to cooperate with and assist Franchisor in obtaining the registration in the name of Franchisor and will not register or attempt to register or assist or be involved in any way with the registration (either directly or indirectly) of such materials;

(b) Franchisee agrees to use proper copyright and other proprietary notices in connection with all copyright materials and conform with Franchisor's standards for protecting its rights; and

(c) Franchisee agrees to promptly cause the execution of any assignments, waivers of rights, or other documents, and take any further actions needed or advisable to ensure that Franchisor has such copyright and other rights described in this Section.

11. TRANSFER OF INTEREST

11.1 Transfer by Franchisor Franchisor shall have the right to transfer or assign this Agreement, its rights to the Proprietary Marks, and all or any part of its rights or obligations herein to any person or legal entity without the consent of Franchisee or Franchisee's Principals. Upon such transfer by Franchisor, any transferee or assignee of Franchisor shall become solely

responsible for all obligations of Franchisor under this Agreement from the date of transfer or assignment.

11.2. Transfer by Franchisee Franchisee and Franchisee's Principals understand and acknowledge that the rights and duties set forth in this Agreement are personal to Franchisee and are granted, in part, in reliance upon the skill, aptitude, business and financial capacity of Franchisee and Franchisee's Principals and their intention of complying with its terms and conditions. Therefore, if the Franchisee and/or Franchisee's Principals desire to Transfer any interest in this Agreement, they must first obtain the prior written approval of Franchisor.

11.2.1 General Requisites Prior to authorizing a Transfer by Franchisee of any interest in this Agreement, Franchisor may require satisfaction of the following:

- (a) Franchisee shall be in compliance with all of the terms and conditions of this Agreement;
- (b) Franchisee and/or any Franchisee's Principal shall remain liable for the performance of its obligations contained in this Agreement through the date of transfer and shall execute all instruments reasonably requested by Franchisee to evidence such liability;
- (c) The transferee shall satisfy, in Franchisor's judgment, Franchisor's then existing criteria for a franchisee including, without limitation: (i) education; (ii) business skill, experience and aptitude; (iii) character and reputation; and (iv) financial resources; and
- (d) The transferee and all owners of any record or beneficial interest in the capital stock (or other interest) of transferee shall execute all instruments (including a new franchise agreement and guarantee) reasonably requested by Franchisor to evidence acceptance and assumption of all of the terms and conditions of this Agreement.

11.2.2 Transfer involving Controlling Interest If the Franchisee does not have a Controlling Interest (as reasonably determined by Franchisor) in the transferee, in addition to the requisite in Section 11.2.1, Franchisor may also require:

- (a) Franchisee pay a transfer fee equal to one-half (1/2) of the then current initial franchise fee for Franchise Agreements;
- (b) At the transferee's expense, the transferee and any of the transferee's employees responsible for the operation of the Franchised Restaurant have satisfactorily completed such training as Franchisor may then require; and
- (c) The transferee has complied with Franchisor's then-current application requirements for a new franchise.

11.3 Transfer of Interest in Franchisee In the event that Franchisee and/or any of Franchisee's Principals desire to accept a bona fide offer from a third party to purchase an Equity Interest in Franchisee, Franchisee and Franchisee's Principals shall notify Franchisor in writing of each such offer, and Franchisor shall have the right and option, exercisable within twenty-one (21) days after receipt of such written notice, to send written notice to the seller that Franchisor or its nominee intends to purchase seller's interest on the same terms and conditions offered by the third party.

In the event the consideration, terms, and/or conditions offered by the third party are such that Franchisor or its nominee may not reasonably be able to furnish the same consideration, terms, and/or conditions, then Franchisor or its nominee, as appropriate, may purchase the interest proposed to be sold for the reasonable equivalent in cash. If the parties cannot agree, within a reasonable time, on the reasonable equivalent in cash of the consideration, terms, and/or conditions offered by the third party, an independent appraiser shall be designated by Franchisor, and

such appraiser's determination shall be binding.

11.4 Transfer upon Death If the interest of the Franchisee or any of Franchisee's Principals is transferred upon death or permanent disability of Franchisee or Franchisee's Principal to the spouse, parents, siblings, nieces, nephews, descendants or spouse's descendants of such Franchisee or Franchisee's Principal, the transferee shall be required to execute a copy of this Agreement, the Guaranty and any ancillary documents required by Franchisor in its sole discretion. All other transfers upon death will be subject to the same conditions as any other inter-vivos transfer.

11.5 Public Offerings Equity Interests in Franchisee and Franchisee's Principals may be offered, only with the prior written consent of Franchisor, which consent shall not be unreasonably withheld. Such approval will be subject to the following:

(a) All registration materials required for such offering by federal or state law shall be submitted to Franchisor for review prior to their being filed with any government agency;

(b) No offering material (for either a public or private offering) shall express or imply (by use of the Proprietary Marks or otherwise) that Franchisor is participating in an underwriting, issuance or public offering of Franchisee, Franchisee's Principals, or Franchisor securities. Franchisor may, at its option, require such offering materials to contain a written statement prescribed by Franchisor concerning the limitations described in the preceding sentence;

(c) Franchisee, Franchisee's Principals and the other participants in the registration and offering must fully indemnify Franchisor in connection with the offering;

(d) For each proposed public offering, other than offerings which are exempt from registration, Franchisee shall pay to Franchisor a nonrefundable fee of Ten Thousand Dollars (\$10,000) or such greater amount as is necessary to reimburse Franchisor for its reasonable costs and expenses associated with reviewing the proposed offering, including, without limitation, legal and accounting fees; and

(e) Franchisee and Franchisee's Principals shall give Franchisor at least sixty (60) days' prior written notice prior to the effective date of any offering or other transaction covered by this Section 11.5.

12. INSURANCE AND INDEMNITY

12.1 Insurance. Franchisee shall obtain at least thirty (30) days prior to commencement of Restaurant construction of the Franchised Restaurant, and maintain throughout the term, such property, casualty and general liability insurance as may be (i) required by law; or (ii) reasonably to protect Franchisee from the risks inherent in construction and operation of the Franchised Restaurant. Franchisor shall have the right to reasonably consent to the types and amounts of coverage and the issuing companies. Such insurance shall:

(a) name the Indemnitees as additional insured parties;

(b) contain no provision which limits or reduces coverage in the event of a claim by any one (1) or more of the Indemnitees;

(c) provide that policy limits shall not be reduced, coverage restricted, canceled, allowed to lapse or otherwise altered or such policy(ies) amended without Franchisor's consent; and

(d) be obtained from reputable insurance companies authorized to do business in all jurisdictions in which the Restaurant is located.

12.2 Insurance Prior to Commencement. Prior to the commencement of

construction and for the entire term of this Agreement, Franchisee shall obtain and maintain insurance protecting Franchisee and the Indemnitees against any demand or claim arising or occurring in connection with the construction and operation of the Franchised Restaurant. Such policies shall: (i) be of the types and for the minimum amounts of coverage indicated in the Operational Policies; (ii) contain a waiver of subrogation in favor of Franchisor; and (iii) shall name the Indemnitees as additional insureds. Franchisee also acknowledges and agrees to:

(a) furnish Franchisor with evidence that Franchisee has obtained the required insurance at least fifteen (15) days prior to the commencement of construction, and each year afterwards, and at any other time a carrier or coverage is changed;

(b) increase the insurance coverage amounts in the amounts indicated by Franchisor upon thirty (30) days prior written notice from Franchisor; and

(c) re-imburse Franchisor for any insurance policies obtained by Franchisor on behalf of Franchisee if Franchisee fails to obtain the insurance required by this Section.

12.3 Indemnities

12.2.1 Indemnification Franchisee and Franchisee's Principals agree to and hereby, jointly and severally, indemnify, defend (by counsel chosen by Franchisor) and agree to hold harmless each Indemnitee from all Losses and Expenses alleged, incurred or assessed in connection with:

- (a) Franchisee's or any Franchisee's Principal's alleged infringement or alleged violation of any trademark or other proprietary name, mark, or right allegedly owned or controlled by a third party;
- (b) The violation, breach or asserted violation or breach, by Franchisee or any of Franchisee's Principals, of any federal, state or local law, regulation, ruling, standard or directive or any industry standard;
- (c) Libel, slander or any other form of defamation of Franchisor, the System or any franchisee or franchisee operating under the System, by Franchisee or by any of Franchisee's Principals;
- (d) The violation or breach by Franchisee or any of Franchisee's Principals, of any warranty, representation, agreement or obligation in this Agreement or in any other agreement, between Franchisee, its subsidiaries and affiliates and Franchisor, its subsidiaries and affiliates or the officers, directors, shareholders, partners, agents, representatives, independent contractors and employees thereof; and
- (e) Acts, errors, or omissions of Franchisee, any of Franchisee's subsidiaries or affiliates or any of Franchisee's Principals and the officers, directors, shareholders, partners, agents, representatives, independent contractors and employees of Franchisee and its subsidiaries and affiliates in connection with the development activities contemplated under this Agreement or the operation of the Franchised Restaurant.

12.2.2. Notice and Counsel Franchisee and each of Franchisee's Principals agree to give Franchisor immediate notice of any Action. Franchisor may engage, at its expense, separate counsel to represent the Indemnitees in such Action and/or elect to assume (but under no circumstance is obligated to undertake) the defense and/or reasonable settlement of any Action. Franchisor's election to settle shall not diminish Franchisee's and each of

Franchisee's Principal's obligation to defend, indemnify and hold the Indemnitees harmless from all Losses and Expenses.

12.2.3 Settlement and Remedial Actions In order to protect persons or property, or its reputation or goodwill, or the reputation or goodwill of others, Franchisor may, at any time and without notice, as it, in its sole judgment deems appropriate, consent or agree to settlements or take such other remedial or corrective actions it deems expedient with respect to any Action if, in Franchisor's sole judgment, there are reasonable grounds to believe that:

(a) any of the acts or circumstances enumerated in Section 12.2.1 ((a) through (d)) above have occurred;

(b) any act, error, or omission as described in Section 12.2.1 (e) may result directly or indirectly in damage, injury, or harm to any person or any property.

12.2.4 Expenses All Losses and Expenses incurred under this Section shall be chargeable to and paid by Franchisee or any of Franchisee's Principals pursuant to Franchisee's obligations of indemnity under this paragraph regardless of any actions, activity or defense undertaken by Franchisor or the subsequent success or failure of such actions, activity, or defense.

12.2.5 Third Party Recovery Under no circumstances shall the Indemnitees be required or obligated to seek recovery from third parties or otherwise mitigate their losses in order to maintain a claim against Franchisee or any of Franchisee's Principals. Franchisee and each of Franchisee's Principals agree that the failure to pursue such recovery or mitigate loss will in no way reduce the amounts recoverable from Franchisee or any of Franchisee's Principals by the Indemnitees.

12.2.6 Survival Franchisee and Franchisee's Principals expressly agree that the terms of this Section 8 shall survive the termination, expiration or transfer of this Agreement or any interest herein.

13. TERM, RENEWAL AND TERMINATION

13.1 Term Unless terminated as provided for herein, the term of this franchise shall be fifteen (15) years starting from the date of opening of the Franchised Restaurant which date shall be specified in writing by Franchisor.

13.2 Renewal Franchisee may, at Franchisee's option, renew this Agreement for one (1) additional period of ten (10) years, provided that at the end of the initial term:

(a) Franchisee has given Franchisor written notice of election to renew not less than nine (9) months nor more than twelve (12) months prior to the end of the initial term;

(b) Franchisee shall have completed to Franchisor's satisfaction all maintenance, refurbishing, renovating and remodeling of the premises and equipment as Franchisor shall require in order to meet Franchisor's then-current standards for Franchised Restaurants;

(c) Franchisee is in compliance with all of the terms of this Agreement and any other agreement between Franchisee and Franchisor;

(d). Franchisee shall have executed upon renewal hereunder Franchisor's then current form of Franchise Agreement, which agreement may have different terms from this Agreement including, without limitation, a royalty fee, contributions and System assessments; provided, however, Franchisee shall be required to pay, in lieu of the then-current initial franchise fee, a renewal fee which shall be fifty percent (50%) of the then-current initial franchise fee as then charged set by Franchisor;

(e) Franchisee and Franchisee's Principals shall execute

a general release, in a form prescribed by Franchisor, of any and all claims against Indemnitees.

13.3 Termination

13.3.1 Termination without Notice This Agreement shall automatically terminate without notice to Franchisee if Franchisee:

- (a) ceases to do business at the Franchised Restaurant;
- (b) causes a threat or danger to the public health or safety in the construction or operation of the Franchised Restaurant;
- (c) or any of Franchisee's Principals is convicted of a felony or any other crime or offense that is reasonably likely, in the sole opinion of Franchisor, to adversely affect the System, the Proprietary Marks, the Animated Entertainment, the goodwill associated therewith, or Franchisor's interest therein;
- (d) copies or duplicates any Animated Entertainment programs or materials or purports to transfer ownership or possession of any Animated Entertainment components or materials without the prior written consent of Franchisor;
- (e) violates the requirements for Transfers contained in Section 11;
- (f) fail to comply with the representations and warranties in Section xxx hereof;
- (g) discloses or divulges the contents of the Operational Policies or other trade secret or confidential information provided Franchisee by Franchisor contrary to the provisions of this Agreement;
- (h) fails to maintain the insurance(s) required by Section 9.1;
- (i) knowingly maintains false books or records, or submits any false reports to Franchisor; or
- (j) fails to cure any default of which it has been given prior notices on two occasions.

13.3.2 Termination with Ten Day Notice Franchisee shall have ten (10) days after its receipt from Franchisor of a written notice to remedy Franchisee's failure, refusal, or neglect to pay promptly any monies due under this Agreement or to submit the financial information or other reports required by Franchisor under this Agreement. If such default is not cured within that time, this Agreement shall terminate without further notice to Franchisee effective immediately upon the expiration of the ten (10) day period.

13.3.3 Termination with Thirty Day Notice Except as otherwise provided in this Section, Franchisee shall have thirty (30) days after its receipt from Franchisor of a written notice within which to remedy any default of the terms of this Agreement and the Attachments hereunder and provide evidence thereof to Franchisor. If any such default is not cured within that time, this Agreement shall terminate without further notice to Franchisee effective immediately upon the expiration of the thirty (30) day period.

13.4 Obligations upon Termination or Expiration Upon termination or expiration of this Agreement for any reason, all rights of Franchisee under this Agreement will immediately terminate and Franchisee will have the following duties which will survive termination of this Agreement:

- (a) Franchisee will promptly pay to Franchisor and its affiliates all sums due under this Agreement and any other agreements, including, without limitation, all damages, costs, expenses, and reasonable attorneys' fees incurred by Franchisor by reason of default on the part of Franchisee, whether or not the

expenses occur before or after the termination or expiration of this Agreement;

(b) Franchisee will immediately cease to operate the Franchised Restaurant and use of the Proprietary Marks, the Animated Entertainment, the System, and the Operational Policies in any manner including any advertising, equipment, format, confidential methods, procedures and techniques associated with the Franchised Restaurant, the Proprietary Marks, the Animated Entertainment, the System, and the Operational Policies;

(c) Franchisee shall immediately return all manuals, including the Operational Policies, records, files, instructions, correspondence, all materials related to operating the Franchised Restaurant, and shall retain no copy or record of any of the foregoing, excepting only Franchisee's copy of this Agreement and of any correspondence between the parties, and any other documents which Franchisee and Franchisee's Principals reasonably need for compliance with any provision of law;

(d) Franchisee will immediately cease to use in any manner whatsoever, any Proprietary Marks and distinctive trade dress, forms, slogans, signs, symbols, devices, or animated character costumes associated with the System;

(e) Franchisee shall take such action as may be necessary to cancel any assumed name or equivalent registration which contains any of the Proprietary Marks, and Franchisee and Franchisee's Principals shall furnish Franchisor with evidence satisfactory to Franchisor of compliance with this obligation within thirty (30) days after termination or expiration of this Agreement; and

(f) Franchisee and Franchisee's Principals shall make such modifications or alterations to the Franchised Restaurant premises and contents operated hereunder immediately upon termination or expiration of this Agreement as may be necessary to prevent the operation of any business thereon by Franchisee, Franchisee's Principals, or others after expiration or termination.

13.5 Option to Purchase Franchisor shall have the right, but not the obligation, to purchase at fair market value (as determined below) any or all of Franchisee's interest in the Franchised Restaurant, including but not limited to (i) the Animated Entertainment components and software, (ii) rides, amusement games and other attractions, (iii) the real estate component of the Franchised Restaurant, (iv) furnishings, fixtures and equipment, and (v) signs, advertising materials and supplies.

Franchisor shall exercise its rights under this Section by giving written notice thereof to Franchisee within thirty (30) days after termination or expiration of this Agreement. Within thirty (30) days after such notice is given by Franchisor, Franchisee and Franchisor shall each, at its own cost, appoint an appraiser who has at least five (5) years of relevant commercial appraisal experience to make an appraisal of the fair market value of Franchisee's interest in each component of the Franchised Restaurant as indicated in Franchisor's initial notice and cause such appraiser to deliver a copy of his appraisal to the other party. The "fair market value" shall be the average of the two appraisals and Franchisor will notify Franchisee if it plans on exercising such right.

14. REMEDIES AND LIQUIDATED DAMAGES

14.1 Remedies Upon the occurrence of an uncured breach, Franchisor may exercise one or more of the following remedies or such other remedies as may be available at law or in equity:

14.1.1 Cure Franchisor, at Franchisor's discretion and without obligation, may cure such breach at Franchisee's expense and, in connection therewith, Franchisee (i) hereby grants to Franchisor all rights and powers necessary or appropriate to accomplish such cure; (ii) shall indemnify and hold the Indemnitees harmless from and against all costs, expenses (including reasonable fees of counsel and other engaged professionals), liabilities,

claims, demands and causes of action (including actions of third parties) incurred by or alleged against any Indemnatee in connection with Franchisor's cure; and (iii) shall reimburse or pay such costs or damages within ten (10) days of receipt of Franchisor's invoice therefor; or

14.1.2 Specific Enforcement Franchisor may, in addition to pursuing any other remedies, specifically enforce Franchisee's and Franchisee's Principal's obligations, covenants and agreements or obtain injunctive or other equitable relief in connection with the violation or anticipated violation of such obligations, covenants and agreements without the necessity of showing (i) actual or threatened harm; (ii) the inadequacy of damages as a remedy; or (iii) likelihood of success on the merits, and without being required to furnish bond or other security. Nothing in this Agreement shall impair Franchisor's right to obtain equitable relief.

14.2 Liquidated Damages Franchisee acknowledges that its uncured breach of any of the terms of this Agreement will materially and adversely affect Franchisor and that the quantum of such damages may not be easily ascertainable. Accordingly, Franchisee agrees that, as liquidated damages for the non-performance of its obligations under this Agreement, in addition to any other remedy available to Franchisor, Franchisee shall pay to Franchisor US\$--- - ----- initially and US\$----- per month per violation for so long as each such violation remains uncured; provided, however, that this provision will only be operative upon material breaches of this Agreement which are in Franchisee's or Franchisee's Principals' control.

15. DUE DILIGENCE AND ASSUMPTION OF RISK

Franchisee and Franchisee's Principals have received, read and understood this Agreement, the documents referred to herein and the Attachments and Schedules hereto including the bylaws of the Association. Franchisee and Franchisee's Principals further acknowledge that they have received the disclosure documents required by the Federal Trade Commission trade regulation rule entitled Disclosure Requirements and Prohibitions Concerning Franchising and Business Opportunity Ventures, at least ten (10) business days prior to the date on which this Agreement was executed. Franchisee and Franchisee's Principals: (i) have had ample time and opportunity to consult with their advisors concerning the potential benefits and risks of entering into this Agreement (ii) have conducted such due diligence and investigation as they desire; (iii) recognize that the business venture described herein involves risks; and (iv) acknowledge that the success of such business venture is dependent upon, among other factors unrelated to Franchisor, the abilities of Franchisee and Franchisee's Principals. FRANCHISOR EXPRESSLY DISCLAIMS THE MAKING OF, AND FRANCHISEE AND EACH OF FRANCHISEE'S PRINCIPALS ACKNOWLEDGE THAT THEY HAVE NOT RECEIVED OR RELIED UPON, ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO THE POTENTIAL PERFORMANCE OR VIABILITY OF THE BUSINESS VENTURE CONTEMPLATED BY THIS AGREEMENT.

16. DISPUTE RESOLUTION

16.1 Mediation Except for infringement of Proprietary Marks, Animated Entertainment or other violation of Franchisor's intellectual property rights, regarding which Franchisor may apply for emergency, special, or injunctive relief, both Franchisor and Franchisee will attempt in good faith to settle any dispute related to this Agreement. If Franchisor and Franchisee are unable to do so, they hereby agree to submit to non-binding mediation prior to bringing such claim, controversy or dispute in a court. The mediation shall be conducted through either an individual mediator or a mediator appointed by a mediation services organization or body, experienced in the mediation of food service business disputes, as agreed upon by Franchisor and Franchisee. The costs and expenses of mediation, including compensation of the mediator, shall be borne by the parties equally. If the parties are unable to resolve the claim, controversy or dispute within ----- (-----) days after the mediator has been appointed, unless such time period is extended by written agreement of the parties, then either party may bring a legal proceeding under the following to resolve such

claim,

16.2 Applicable Law Franchisor and Franchisee agree that this Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Texas without regard to its conflicts of laws provisions.

16.3 Jurisdiction and Venue Franchisor and Franchisee hereby irrevocably submit themselves to the jurisdiction of the state courts of Dallas County, Texas and the Federal District Court for the Northern District of Texas, Dallas Division. However, with respect to any action (i) for monies owed, (ii) for injunctive or other extraordinary relief, or (iii) involving ownership or use of the Proprietary Marks or the Animated Entertainment, Franchisor may bring such action in any state or federal district court which has jurisdiction.

17. MISCELLANEOUS

17.1 Independent Contractors In performing this Agreement, the parties specifically agree that Franchisor and Franchisee's relationship is and always will be solely that of independent contractors. Neither Franchisor or Franchisee shall not represent itself or permit any of its employees, agents, servants, or representatives to represent itself as an employee, agent, servant, or joint venturer of the other. Neither party shall have no right to and shall not attempt to enter into contracts or commitments in the name of or on behalf of the other in any respect whatsoever.

17.2 Entire Agreement This Agreement and the Attachments hereto constitute the entire agreement between Franchisor, Franchisee and Franchisee's Principals concerning the subject matter hereof. All prior agreements, discussions, representations, warranties and covenants are merged herein. THERE ARE NO WARRANTIES, REPRESENTATIONS, COVENANTS OR AGREEMENTS, EXPRESS OR IMPLIED, BETWEEN THE PARTIES EXCEPT THOSE EXPRESSLY SET FORTH IN THIS AGREEMENT. Except those permitted to be made unilaterally by Franchisor, any amendments or modifications of this Agreement shall be in writing and executed by Franchisor and Franchisee.

17.3 No Waiver Either party's failure to exercise any right or remedy or to enforce any obligation, covenant or agreement herein shall not constitute a waiver by, or estoppel of, such party's right to enforce strict compliance with any such obligation, covenant or agreement. No custom or practice shall modify or amend this Agreement. Either party's waiver of, or failure or inability to enforce, any right or remedy shall not impair such party's rights or remedies with respect to subsequent default of the same, similar or different nature. Acceptance of any payment shall not waive any default.

17.4 Severability Should any term, covenant or provision hereof, or the application thereof, be determined by a valid, final, non-appealable order to be invalid or unenforceable, the remaining terms, covenants or provisions hereof shall continue in full force and effect without regard to the invalid or unenforceable provision. In such event such term, covenant or provision shall be deemed modified to impose the maximum duty permitted by law and such term, covenant or provision shall be valid and enforceable in such modified form as if separately stated in and made a part of this Agreement. Notwithstanding the foregoing, if any term hereof is so determined to be invalid or unenforceable and such determination adversely affects, in Franchisor's reasonable judgment, Franchisor's ability to preserve its rights in, or the goodwill underlying, the Proprietary Marks, the Animated Entertainment, the System and/or the Confidential Information, or materially affects Franchisor's other rights hereunder, Franchisor may terminate this Agreement upon notice to Franchisee.

17.5 Notice All notices required or desired to be given hereunder shall be in writing and shall be sent by personal delivery, expedited delivery service, return receipt requested or facsimile to the following addresses or such other addresses as designated by Franchisor or Franchisee in writing pursuant to this Section:

Notices to FRANCHISOR: Director of Franchising
ShowBiz Pizza Time, Inc.
4441 W. Airport Freeway
Post Office Box 152077
Irving, Texas 75062
Tel.

Notices to Franchisee: -----
Tel.
Fax.

Notices posted by personal delivery or given by facsimile shall be deemed given upon receipt. Notice to Franchisee shall constitute notice to Franchisee's Principals.

17.6 Counterparts This Agreement may be executed in any number of counterparts each of which when so executed shall be an original, but all of which together shall constitute one (1) and the same instrument.

17.7 Headings The section headings in this Agreement are for convenient reference only and shall be given no substantive or interpretive effect.

17.8 Further Assurances Franchisor and Franchisee shall execute and deliver any and all additional papers, documents, and other assurances and shall do any and all acts and things reasonably necessary in connection with the performance of their obligations hereunder and to carry out the intent of the parties hereto.

17.9 Compliance with Laws Franchisee agrees to comply at its sole expense with all laws and regulations applicable to this Agreement and the operation of the Franchised Restaurants.

[Signatures appear on following pages]

IN WITNESS WHEREOF, the parties hereto have fully executed, sealed and delivered this Agreement in duplicate on the day and year first above written.

SHOWBIZ PIZZA TIME, INC.
FRANCHISOR

By:-----
Name:-----
Title:-----

STATE OF TEXAS S
COUNTY OF DALLAS S

Before me personally appeared ----- who, after being duly sworn, says that he is the ----- of ShowBiz Pizza Time, Inc., a corporation, organized and existing under the laws of Kansas, and that he has authority to execute under oath and has so executed the above Agreement for and on behalf of such corporation for such purposes therein contained.

WITNESS my hand and official seal this ----day of -----, 19--.

(SEAL)

Notary Public

FRANCHISEE

Attachment G

Principal's Confidentiality Agreement

Attachment H

Employee's Confidentiality Agreement

SHOWBIZ PIZZA TIME, INC.
DEVELOPMENT AGREEMENT

[TERRITORY]

4441 West Airport Freeway
P.O. Box 152077
Irving, TX 75062

TABLE OF CONTENTS

RECITALS . . . . .	.1
1. DEFINITIONS . . . . .	.1
2. GRANT OF RIGHTS . . . . .	.4
2.1 Grant . . . . .	.4
2.2 Exclusivity . . . . .	.4
2.3 Right of First Refusal . . . . .	.4
2.4 Limitation of Rights . . . . .	.5
3. FEES . . . . .	.5
3.1 Development Fee . . . . .	.5
3.2 Franchise Fees . . . . .	.5
3.3 Payment and Taxes . . . . .	.5
4. DEVELOPMENT SCHEDULE . . . . .	.5
4.1 Development Schedule . . . . .	.5
4.2 Ownership Interest . . . . .	.6
4.3 Site Location and Approval . . . . .	.6
4.4 Operational Date . . . . .	.6
4.5 Extensions . . . . .	.6
5. REPRESENTATIONS, WARRANTIES AND COVENANTS . . . . .	.6
5.1 Representations, Warranties and Covenants of Developer	.6
5.1.1 Due Incorporation . . . . .	.6
5.1.2 Authorization . . . . .	.7
5.1.3 Execution and Performance . . . . .	.7
5.1.4 Corporate Documents . . . . .	.7
5.1.5 Non-Competition during Term of Agreement . . . . .	.7
5.1.6 Non-Competition after Termination or Non-renewal of Agreement . . . . .	.7
5.1.7 Additional Covenants . . . . .	.8
5.1.8 Guaranty . . . . .	.8
5.2 Representations, Warranties and Covenants of Franchisor	.8
5.2.1 Due Incorporation . . . . .	.8
5.2.2 Authorization . . . . .	.8
5.2.3 Execution and Performance . . . . .	.8
6. PROPRIETARY INFORMATION . . . . .	.9
6.1 Confidential Information . . . . .	.9
6.1.1 Confidentiality Agreements . . . . .	.9
6.1.2 Improvements . . . . .	.9
6.2 Proprietary Marks . . . . .	.9
7. TRANSFER OF INTEREST . . . . .	.9
7.1 Transfer by Franchisor . . . . .	.9
7.2. Transfer by Franchisee . . . . .	.9
8. INSURANCE AND INDEMNITY	10
8.1 Insurance	10
8.2 Indemnities	11
8.2.1 Indemnification	11
8.2.2. Notice and Counsel	11
8.2.3 Settlement and Remedial Actions	11
8.2.4 Expenses	12
8.2.5 Third Party Recovery	12
8.2.6 Survival	12
9. TERM AND TERMINATION	12
9.1 Term	12
9.3 Termination with Notice	13

10.	REMEDIES AND LIQUIDATED DAMAGES	13
10.1	Remedies	13
10.1.1	Reduction of Exclusivity	13
10.1.2	Cure	13
10.1.3	Specific Enforcement	14
10.2	Liquidated Damages	14
11.	DUE DILIGENCE AND ASSUMPTION OF RISK.	14
12.	DISPUTE RESOLUTION.	15
12.1	Mediation.	15
12.2	Applicable Law	15
12.3	Jurisdiction and Venue	15
13.	MISCELLANEOUS	15
13.1	Independent Contractors.	15
13.2	Entire Agreement	15
13.3	No Waiver.	16
13.4	Severability	16
13.5	Notice	16
13.6	Counterparts	17
13.7	Headings	17
13.8	Further Assurances	17
13.9	Compliance with Laws	17
	ATTACHMENT "A" - FRANCHISE AGREEMENT	21
	ATTACHMENT "B" - DEVELOPER'S PRINCIPALS CONFIDENTIALITY AGREEMENT ²²	
	ATTACHMENT "C" - EMPLOYEE CONFIDENTIALITY AGREEMENT.	23
	ATTACHMENT "D" - GUARANTY.	24

SHOWBIZ PIZZA TIME, INC.
DEVELOPMENT AGREEMENT

This Development Agreement is entered into as of this ----day of , 1997, by and between ShowBiz Pizza Time, Inc., a Kansas corporation ("Franchisor"), and ----- a ----- corporation ("Developer").

RECITALS

1. Franchisor has developed and is the owner of a System for the establishment, development and operation of family-oriented pizza restaurants;
2. Franchisor has developed and is the owner of, or licensee with rights to sublicense, certain Animated Entertainment and Proprietary Marks which are utilized in connection with and identify the System;
3. Developer desires to obtain from Franchisor certain rights to use the System, the Animated Entertainment and the Proprietary Marks to develop and establish Franchised Restaurants in the Territory; and
4. Franchisor desires to grant to Developer certain rights to use the System, the Animated Entertainment and the Proprietary Marks to develop and establish Franchised Restaurants in the Territory.

NOW THEREFORE, Franchisor and Developer in consideration of the undertakings and commitments set forth herein, agree as follows:

1. DEFINITIONS

As used in this Agreement and the above Recitals, the following capitalized terms shall have the meanings attributed to them in this Section:

- 1.1 "Action" means any cause of action, suit, proceeding, claim, demand, investigation or inquiry (whether a formal proceeding or otherwise) with respect to which Developer's indemnity applies.
- 1.2 "Agreement" means this Development Agreement and all attachments.
- 1.3 "Animated Entertainment" means the computer hardware and software, artistic designs, scripts and musical scores, staging and lighting techniques and configurations, plans, manuals and

specifications, manufacturing know-how and other intellectual property relating to video display entertainment and to three dimensional computer controlled animated characters, including present and future improvements, patents, trademarks, copyrights and other intellectual and artistic property.

1.4 "Change in Control" means a transfer of an Equity Interest in Developer which, directly or indirectly, causes a change in the number of Persons which can vote more than fifty percent (50%) of the total Equity Interest in Developer.

1.5 "Competing Business" means a business which operates a restaurant or food service outlet in combination with entertainment in the form of video games, video displays or computer controlled animated characters.

1.6 "Confidential Information" means the terms of the Development Agreement and Franchise Agreement and any amendments thereto, the System, the Animated Entertainment, manuals, written directives and all drawings, equipment, recipes, and all other information know-how, techniques, materials and data imparted or made available by Franchisor which is (i) designated as confidential, (ii) known by Developer to be considered confidential by Franchisor or (iii) by its nature inherently or reasonably considered confidential.

1.7 "Developer" means -----.

1.8 "Developer's Principals" means Developer's spouse, if Developer is an individual, all officers and directors of Developer and all holders of an ownership interest in Developer and of any entity directly or indirectly controlling Developer, all as listed on Schedule 1.7 attached hereto.

1.9 "Development Schedule" means the schedule pursuant to which the Developer will establish Franchised Restaurants as set forth in Section 4.

1.10 "Equity Interest" means a direct or indirect ownership interest in the capital stock of, partnership or membership interest in, or other equity or ownership interest in Developer (including the right to vote) any type of legal entity.

1.11 "Execution Date" means the date upon which a Franchise Agreement is duly executed between a franchisee and Franchisor.

1.12 "Franchise Agreement" means the then-current form of franchise agreement approved by Franchisor and to be executed with franchisees in accordance with this Agreement, the current form of which is attached as Attachment "A."

1.13 "Franchised Restaurant" means a Restaurant opened pursuant to the Development Schedule and operated (i) at a Site approved by Franchisor pursuant to this Agreement and (ii) pursuant to a duly executed Franchise Agreement.

1.14 "Franchisee" means any person or legal entity approved by Franchisor to enter into a Franchise Agreement and to establish a Franchised Restaurant.

1.15 "Franchisor" means ShowBiz Pizza Time, Inc. or any person or legal entity to which ShowBiz Pizza Time, Inc. assigns or otherwise transfers its rights and obligations contained in this Agreement.

1.16 "Indemnitees" means Franchisor and its subsidiaries and affiliates, and directors, officers, employees, shareholders, affiliates, successors and assigns.

1.17 "Losses and Expenses" means compensatory, exemplary or punitive damages, fines, penalties, charges, assessments and fees (including reasonable attorneys', experts', accountants' and consultants' fees); interest, court costs, settlement or judgment amounts and other similar amounts incurred, charged against or suffered by the Indemnitees in connection with any Action.

1.18 "Minority Interest" means a direct or indirect ownership

interest of less than five percent (5%) of the capital stock of, partnership interest in, or other equity interest in (including the right to vote) any type of legal entity.

1.19 "Operational" used in reference to a Franchised Restaurant, means a Franchised Restaurant that is fully constructed and finished out as approved by Franchisor and is legally permitted to render its services to the general public pursuant to a duly executed Franchise Agreement.

1.20 "Person" means an individual, corporation, limited liability company, partnership, association, joint stock company, trust or trustee thereof, estate or executor thereof, unincorporated organization or joint venture, court or governmental unit or any agency or subdivision thereof, or any other legally recognizable entity.

1.21 "Proprietary Marks" means the trademarks, trade names, service marks, logos, emblems and other indicia of origin as designated from time to time by Franchisor, which may be owned by Franchisor or licensed to Franchisor with sublicensing rights, including, but not limited to, the marks: "Chuck E. Cheese" and "ShowBiz Pizza Time."

1.22 "Restaurant" means a family-oriented pizza restaurant operated utilizing the System, the Proprietary Marks and the Animated Entertainment.

1.23 "Site" means the location for the construction and operation of a Franchised Restaurant which has been approved as per Section 4 of this Agreement.

1.24 "System" means the unique system developed and owned by Franchisor for the establishment, development, and operation of family-oriented pizza restaurants, the distinguishing characteristics of which include without limitation, Animated Entertainment; separate areas with a variety of rides, amusement games and other attractions; characteristic decorations, furnishings and materials; specially-designed equipment and equipment layouts; trade secret food products and other special recipes, menus and food and beverage designations; food and beverage preparation and service procedures and techniques; operating procedures for sanitation and maintenance; methods and techniques for inventory and cost controls, record keeping and reporting, personnel training and management, and advertising and promotional programs; cornerstones of operation; and operational policies; all of which may be changed, improved or further developed by Franchisor from time to time.

1.25 "Territory" means ----- in which the Developer develop the System in accordance with the terms and conditions of this Agreement.

1.26 "Transfer" means the sale, assignment, conveyance, pledge, mortgage or other encumbrance, whether direct or indirect, in whole or in part, or in one or a series of related transactions or occurrences, of (i) this Agreement, (ii) any Franchise Agreement between Franchisor and Developer, (iii) any Equity Interests in Developer, or (iv) in the assets of Developer.

2. GRANT OF RIGHTS

2.1 Grant Franchisor hereby grants to Developer the right, and Developer undertakes the obligation, pursuant to the terms and conditions of this Agreement, to establish and operate -----
(---) Franchised Restaurants at duly approved Sites in the Territory and pursuant to duly executed Franchise Agreements.

2.2 Exclusivity For so long as Developer is in compliance with this Agreement, Franchisor will not, without Developer's prior written consent, establish or operate, or license anyone other than Developer to establish or operate Franchised Restaurant in the Territory prior to the last date specified in the Development Schedule.

2.3 Right of First Refusal For a period of two (2) years after the successful and timely completion of the Development Schedule, if Franchisor proposes to establish any additional Franchised Restaurants in the Territory, Developer shall have the right to enter into a new Development Agreement and/or Franchise Agreement to establish such additional Franchised Restaurants under the terms and conditions of the then-current form of Development and/or Franchise Agreements. If the Developer and Franchisor have not executed a new Development and/or Franchise Agreement within a period of thirty (30) days after Franchisor provides written notice to Developer of Franchisor's desire to further develop the Territory, Franchisor will have the right, to the exclusion of Developer, to further develop or establish additional Franchised Restaurant in the Territory on its own or with others.

2.4 Limitation of Rights Notwithstanding Section 2.2, Franchisor reserves the right to sell, market, and distribute goods and services, without obtaining the prior approval of Developer, under any marks (including the Proprietary Marks) through any retail, wholesale, or other channel of distribution, regardless of whether the goods or services are: (i) now existing or hereinafter developed; (ii) part of the System; or (iii) now or at any time hereafter authorized for use or sale at any Franchised Restaurant.

This Agreement is not a Franchise Agreement, and Developer shall have no right to use, or to license to others in any manner, the Proprietary Marks, the Animated Entertainment or the System by virtue hereof.

3. FEES

3.1 Development Fee Upon the execution of this Agreement, Franchisor shall deliver a nonrefundable development fee of -----Dollars (\$-----) in consideration for the administrative and other expenses incurred by Franchisor and for the development opportunities lost or deferred as a result of Franchisor's entering into this Agreement with Developer.

3.2 Franchise Fees Upon the execution of this Agreement, Developer shall deliver a non-refundable franchise fee of Fifteen Thousand Dollars (\$15,000) for the first Franchise Agreement to be executed pursuant to the Development Schedule. Such non-refundable fee, which shall be deemed earned by Franchisor when received, is in consideration for administrative and other expenses incurred by Franchisor and for the development opportunities lost or deferred as a result of Franchisor's entering into this Agreement with Developer. The Developer will deliver all future franchise fees upon the execution of and in accordance with the terms (including franchise fee amounts) and conditions of the respective Franchise Agreement.

3.3 Payment and Taxes All payments made by Developer to Franchisor pursuant to this Agreement will be in United States dollars and will be made free and clear of any tax, deduction, offset or withholding of any kind. All taxes and penalties on any payment made by Developer pursuant to this Agreement now or in the future will be fully borne by Developer.

4. DEVELOPMENT SCHEDULE

4.1 Development Schedule The Developer agrees to execute a Franchise Agreement and establish Franchised Restaurants at Sites in the Territory in accordance with the following Development Schedule:

Execution Date:

Number of Franchised Restaurants
Operated by Developer Directly:

Number of Franchised Restaurants
operated by an Entity in which
Developer has a Majority Equity Interest:

Total Number of Franchised Restaurants:

4.2 Ownership Interest Franchisor and Developer agree that the Developer shall enter into a Franchise Agreement and establish and operate the Franchised Restaurants either directly or by using subsidiaries in which it has a majority Equity Interest.

4.3 Site Location and Approval Developer agrees that prior to or within one hundred and twenty (120) days after the execution of a Franchise Agreement, it will locate or cause the franchisee under the Franchise Agreement in question to locate a Site within the Territory for the establishment and operation of the respective Franchised Restaurant. Within the same one hundred and twenty (120) day period, Developer also agrees that it will cause the franchisee under the respective Franchise Agreement to obtain the approval for such Site from the Franchisor as per the terms and conditions of the respective Franchise Agreement.

4.4 Operational Date Developer agrees that, within a period of -----
- ----- (---) days from the approval by Franchisor of the Site, it will cause the respective Franchised Restaurant to be fully Operational.

4.5 Extensions Developer shall at all times comply with the Development Schedule. However, Franchisor, at its sole discretion and without obligation, may grant a written extension or extensions to Developer for the period of time that the Developer requests. In the event Franchisor grants an extension, Developer agrees to pay Franchisor a non-refundable extension fee of US\$ _____ (_____) for every seven (7) day period of the extension.

5. REPRESENTATIONS, WARRANTIES AND COVENANTS

5.1 Representations, Warranties and Covenants of Developer

5.1.1 Due Incorporation Developer is a corporation, limited liability company, or limited or general partnership duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization with all requisite power and authority to enter into this Agreement and perform the obligations contained herein.

5.1.2 Authorization. The execution, delivery and performance by Developer of this Agreement and all other agreements contemplated herein has been duly authorized by all requisite actions on the part of Developer and no further actions are necessary to make this Agreement or such other agreements valid and binding upon it and enforceable against it in accordance with their respective terms.

5.1.3 Execution and Performance Neither the execution, delivery nor performance by Developer of this Agreement or any other agreements contemplated hereby will conflict with, or result in a breach of any term or provision of Developer's charter, by-laws, articles of organization, or partnership agreement and/or other governing documents and any amendments thereto, any indenture, mortgage, deed of trust or other material contract or agreement to which Developer is a party or by which it or any of its assets are bound, or breach any order, writ, injunction or decree of any court, administrative agency or governmental body.

5.1.4 Corporate Documents Certified copies of Developer's charter, by-laws, articles of organization, partnership agreement and/or other governing documents and any amendments thereto, including board of director's or partner's resolutions authorizing this Agreement have been delivered to Franchisor. Any amendments or changes to such governing or charter documents subsequent to the date of this Agreement, shall not be undertaken without Franchisor's prior written consent.

5.1.5 Non-Competition during Term of Agreement Unless

approved by Franchisor in writing, during the term of this Agreement, Developer and Developer's Principals shall not, directly or indirectly:

(a) Divert or attempt to divert business of any Franchised Restaurant established pursuant to a Franchise Agreement to any competitor, or do or perform any other act injurious or prejudicial to the goodwill associated with Franchisor's Proprietary Marks, the Animated Entertainment and the System;

(b) Employ or seek to employ any person who is employed by Franchisor or by any other franchisee or developer of Franchisor; and

(c) Except as provided for herein, own, maintain, engage in, or have an Equity Interest in a Competing Business; provided that this provision shall not apply to any Minority Interest collectively held by Developer or Developer's Principals in any publicly-held corporation listed on a national stock exchange.

5.1.6 Non-Competition after Termination or Non-renewal of Agreement Unless approved by Franchisor in writing, for a period of one (1) year after the expiration transfer by Developer of its interest in this Agreement, Developer and Developer's Principals shall not, directly or indirectly:

(a) Divert or attempt to divert business of any Franchised Restaurant established pursuant to a Franchise Agreement to any competitor, or do or perform any other act injurious or prejudicial to the goodwill associated with Franchisor's Proprietary Marks, the Animated Entertainment and the System;

(b) Employ or seek to employ any person who is employed by Franchisor or by any other franchisee or developer of Franchisor; and

(c) Except as provided for herein, own, maintain, engage in, or have an Equity Interest in a Competing Business within twenty five (25) miles from the outer boundaries of the Territory; provided that this provision shall not apply to any Minority Interest collectively held by Developer or Developer's Principals in any publicly-held corporation.

5.1.7 Additional Covenants At Franchisor's request, Developer shall require and obtain for the benefit of Franchisor execution of covenants similar to those set forth in this Section from any and all of its employees having access to materials or information furnished or disclosed to Developer by Franchisor.

5.1.8 Guaranty As an inducement and as a condition to Franchisor execution and acceptance of this Agreement, Franchisor may require any or all of Developer's Principals to execute a Guaranty in the form of Attachment D hereto.

5.2 Representations, Warranties and Covenants of Franchisor

5.2.1 Due Incorporation Franchisor is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization with all requisite power and authority to enter into this Agreement and perform the obligations contained herein.

5.2.2 Authorization The execution, delivery and performance by Franchisor of this Agreement and all other agreements contemplated herein has been duly authorized by all requisite corporate actions and no further actions are necessary to make this Agreement or such other agreements valid and binding upon it and enforceable against it in accordance with their respective terms.

5.2.3 Execution and Performance Neither the execution, delivery nor performance by Franchisor of this Agreement or any other agreements contemplated hereby will conflict with, or result in a breach of any term or provision of Franchisor's articles of incorporation or by-laws, or any indenture, mortgage, deed of trust

or other contract or agreement to which Franchisor is a party or by which it or any of its assets are bound, or breach any order, writ, injunction or decree of any court, administrative agency or governmental body.

6. PROPRIETARY INFORMATION

6.1 Confidential Information The Developer and the Developer's Principals shall only communicate, disclose or use the Confidential Information as expressly permitted herein or as required by law. Developer and Developer's Principals shall disclose the Confidential Information only to such of Developer's employees, agents, or independent contractors who must have access to it in connection with their employment.

6.1.1 Confidentiality Agreements Developer shall cause Developer's Principals and employees having access to the Confidential Information to execute confidentiality agreements substantially in the form of Attachments B and C stating that they will preserve in confidence all Confidential Information. Neither Developer, Developer's Principal's or their respective employees may at any time, without Franchisor's prior written consent, copy, duplicate, record or otherwise reproduce the Confidential Information, in whole or in part, nor otherwise make the same available to any unauthorized person.

6.1.2 Improvements If Developer makes any improvements (as determined by Franchisor) to the Confidential Information, Developer and the Developer's Principals shall each execute an amendment to this Agreement reflecting such improvements and Franchisor's exclusive ownership thereof. All such improvements, which are hereby assigned to Franchisor, shall be considered Confidential Information.

6.2 Proprietary Marks Developer acknowledges Franchisor's exclusive ownership of the Proprietary Marks and shall neither directly or indirectly contest or impair Franchisor's exclusive ownership of, and/or license with respect to, the Proprietary Marks.

7. TRANSFER OF INTEREST

7.1 Transfer by Franchisor Franchisor shall have the right to transfer or assign this Agreement, its rights to the Proprietary Marks, and all or any part of its rights or obligations herein to any person or legal entity without the consent of Developer or Developer's Principals. Upon such transfer by Franchisor, any transferee or assignee of Franchisor shall become solely responsible for all obligations of Franchisor under this Agreement from the date of transfer or assignment.

7.2. Transfer by Franchisee Developer and Developer's Principals understand and acknowledge that the rights and duties set forth in this Development Agreement are personal to Developer and are granted, in part, in reliance upon the skill, aptitude, business and financial capacity of Developer and Developer's Principals and their intention of complying with its terms and conditions. Therefore, if the Developer and/or Developer's Principals desire to Transfer any interest in this Agreement, they must first obtain the prior written approval of Franchisor.

Prior to authorizing such Transfer, Franchisor may require, among other things, satisfaction of the following:

(a) Developer shall be in compliance with all of the terms and conditions of this Agreement;

(b) Developer and/or any Developer's Principal shall remain liable for the performance of its obligations contained in this Agreement through the date of transfer and shall execute all instruments reasonably requested by Developer to evidence such liability;

(c) The transferee shall satisfy, in Franchisor's judgment, Franchisor's then existing criteria for a developer including,

without limitation: (i) education; (ii) business skill, experience and aptitude; (iii) character and reputation; and (iv) financial resources;

(d) The transferee and all owners of any record or beneficial interest in the capital stock (or other interest) of transferee shall execute all instruments (including a new development agreement and guarantee) reasonably requested by Franchisor to evidence acceptance and assumption of all of the terms and conditions of this Agreement; and

(e) If the Developer does not have a majority Equity Interest (as reasonably determined by Franchisor) in the transferee, Franchisor may request a transfer fee equal to one-half (1/2) of the development fee contained herein.

8. INSURANCE AND INDEMNITY

8.1 Insurance During the entire term of this Agreement, Developer must maintain comprehensive general liability insurance (including property damage), and personal injury coverage, workers' compensation and employer's liability insurance, automobile liability insurance, and other insurance that is required or customary in the Territory. The insurance must be underwritten by an insurance company satisfactory to Franchisor and name Franchisor as an additional insured party. The insurance policies must provide that they may not be canceled or changed without at least thirty (30) days prior written notice to Franchisor. Developer must furnish Franchisor with evidence that Developer has obtained the required insurance before the first Franchised Restaurant is opened, and each year afterwards, and at any other time a carrier or coverage is changed. Franchisor may, in its sole discretion, require Developer to increase its insurance coverage amounts by providing thirty (30) days prior written notice. If Developer fails to obtain the insurance required by this Section, Franchisor may (but is not required to) purchase insurance on Developer's behalf at Developer's sole cost and expense.

8.2 Indemnities

8.2.1 Indemnification Developer and Developer's Principals agree to and hereby, jointly and severally, indemnify, defend (by counsel chosen by Franchisor) and agree to hold harmless each Indemnitee from all Losses and Expenses alleged, incurred or assessed in connection with:

- (a) Developer's or any Developer's Principal's alleged infringement or alleged violation of any trademark or other proprietary name, mark, or right allegedly owned or controlled by a third party;
- (b) The violation, breach or asserted violation or breach, by Developer or any of Developer's Principals, of any federal, state or local law, regulation, ruling, standard or directive or any industry standard;
- (c) Libel, slander or any other form of defamation of Franchisor, the System or any developer or franchisee operating under the System, by Developer or by any of Developer's Principals;
- (d) The violation or breach by Developer or any of Developer's Principals, of any warranty, representation, agreement or obligation in this Agreement or in any other agreement, between Developer, its subsidiaries and affiliates and Franchisor, its subsidiaries and affiliates or the officers, directors, shareholders, partners, agents, representatives, independent contractors and employees thereof; and
- (e) Acts, errors, or omissions of Developer, any of Developer's subsidiaries or affiliates or any of Developer's Principals and the officers, directors,

shareholders, partners, agents, representatives, independent contractors and employees of Developer and its subsidiaries and affiliates in connection with the development activities contemplated under this Agreement or the operation of a Franchised Restaurant.

8.2.2. Notice and Counsel Developer and each of Developer's Principals agree to give Franchisor immediate notice of any Action. Franchisor may engage, at its expense, separate counsel to represent the Indemnitees in such Action and/or elect to assume (but under no circumstance is obligated to undertake) the defense and/or reasonable settlement of any Action. Franchisor's election to settle shall not diminish Developer's and each of Developer's Principal's obligation to defend, indemnify and hold the Indemnitees harmless from all Losses and Expenses.

8.2.3 Settlement and Remedial Actions In order to protect persons or property, or its reputation or goodwill, or the reputation or goodwill of others, Franchisor may, at any time and without notice, as it, in its sole judgment deems appropriate, consent or agree to settlements or take such other remedial or corrective actions it deems expedient with respect to any Action if, in Franchisor's sole judgment, there are reasonable grounds to believe that:

(a) any of the acts or circumstances enumerated in Section 8.2.1 ((a) through (d)) above have occurred;

(b) any act, error, or omission as described in Section 8.2.1 (e) may result directly or indirectly in damage, injury, or harm to any person or any property.

8.2.4 Expenses All Losses and Expenses incurred under this Section shall be chargeable to and paid by Developer or any of Developer's Principals pursuant to Developer's obligations of indemnity under this paragraph regardless of any actions, activity or defense undertaken by Franchisor or the subsequent success or failure of such actions, activity, or defense.

8.2.5 Third Party Recovery Under no circumstances shall the Indemnitees be required or obligated to seek recovery from third parties or otherwise mitigate their losses in order to maintain a claim against Developer or any of Developer's Principals. Developer and each of Developer's Principals agree that the failure to pursue such recovery or mitigate loss will in no way reduce the amounts recoverable from Developer or any of Developer's Principals by the Indemnitees.

8.2.6 Survival Developer and Developer's Principals expressly agree that the terms of this Section 8 shall survive the termination, expiration or transfer of this Agreement or any interest herein.

9. TERM AND TERMINATION

9.1 Term Unless terminated as provided for herein, the term of this Agreement and all rights granted hereunder shall expire on the date on which Developer successfully and in a timely manner completes the Development Schedule.

9.2 Termination without Notice This Agreement shall automatically terminate without notice to Developer if:

(a) Developer is adjudicated bankrupt or makes a general assignment for the benefit of creditors;

(b) A bankruptcy petition is filed against, by or with the consent of, Developer;

(c) Developer is adjudicated bankrupt, or a bill in equity or other proceeding for the appointment of a receiver of Developer or other custodian or Trustee for Developer's

business or assets is filed and consented to by Developer;

- (d) A receiver or other custodian or trustee (permanent or temporary) of Developer's assets or property, or any part thereof, is appointed by any court of competent jurisdiction;
- (e) Proceedings for a composition with creditors under any state or federal law is instituted by or against Developer, or a final judgment remains unsatisfied or of record for thirty (30) days or longer (unless a supersedeas bond is filed);
- (f) Execution is levied against Developer's assets or property, or suit to foreclose any lien or mortgage against the premises or equipment of any restaurant established pursuant hereto is instituted against Developer and not dismissed within thirty (30) days.

9.3 Termination with Notice Franchisor or Developer may terminate this Agreement upon the breach or non-compliance by the other of any material obligation contained in this Agreement. Upon such breach or non-compliance, the non-breaching party will provide the breaching party with written notice of such breach. The breaching party shall have a period of thirty (30) working days from the date of the receipt of the notice to remedy the breach or non-compliance. If the breach or default is not remedied within the aforementioned period, this Agreement shall be terminated without the need for further notice or court order.

10. REMEDIES AND LIQUIDATED DAMAGES

10.1 Remedies Upon the occurrence of an uncured breach and subsequent termination pursuant to section 9, Franchisor may exercise one or more of the following remedies or such other remedies as may be available at law or in equity (each of the following remedies are nonexclusive and noncumulative):

10.1.1 Reduction of Exclusivity Franchisor, at its sole discretion, can completely terminate or, alternatively, reduce the number of Franchised Restaurants that Developer was given the right to develop and establish pursuant to the Development Schedule or terminate or reduce the territorial exclusivity granted Developer pursuant to Section 2 in the understanding that this Agreement will remain in effect and will be considered to be amended accordingly.

10.1.2 Cure Franchisor, at Franchisor's discretion and without obligation, may cure such breach at Developer's expense and, in connection therewith, Developer (i) hereby grants to Franchisor all rights and powers necessary or appropriate to accomplish such cure; (ii) shall indemnify and hold the Indemnitees harmless from and against all costs, expenses (including reasonable fees of counsel and other engaged professionals), liabilities, claims, demands and causes of action (including actions of third parties) incurred by or alleged against any Indemnitee in connection with Franchisor's cure; and (iii) shall reimburse or pay such costs or damages within ten (10) days of receipt of Franchisor's invoice therefor;

10.1.3 Specific Enforcement Franchisor may, in addition to pursuing any other remedies, specifically enforce Developer's and Developer's Principal's obligations, covenants and agreements or obtain injunctive or other equitable relief in connection with the violation or anticipated violation of such obligations, covenants and agreements without the necessity of showing (i) actual or threatened harm; (ii) the inadequacy of damages as a remedy; or (iii) likelihood of success on the merits, and without being required to furnish bond or other security. Nothing in this Agreement shall impair Franchisor's right to obtain equitable relief.

10.2 Liquidated Damages Developer acknowledges that its uncured breach of any of the terms of this Agreement will materially and adversely affect Franchisor and that the quantum of such damages

may not be easily ascertainable. Accordingly, Developer agrees that, as liquidated damages for the non-performance of its obligations under this Agreement, in addition to any other remedy available to Franchisor, Developer shall pay to Franchisor US\$----- initially and US\$----- per month per violation for so long as each such violation remains uncured; provided, however, that this provision will only be operative upon material breaches of this Agreement which are in Developer's or Developer's Principals' control.

11. DUE DILIGENCE AND ASSUMPTION OF RISK

Developer and Developer's Principals have received, read and understood this Agreement, the documents referred to herein and the Attachments and Schedules hereto. Developer and Developer's Principals further acknowledge that they have received the disclosure documents required by the Federal Trade Commission trade regulation rule entitled Disclosure Requirements and Prohibitions Concerning Franchising and Business Opportunity Ventures, at least ten (10) business days prior to the date on which this Agreement was executed. Developer and Developer's Principals: (i) have had ample time and opportunity to consult with their advisors concerning the potential benefits and risks of entering into this Agreement; (ii) have conducted such due diligence and investigation as they desire; (iii) recognize that the business venture described herein involves risks; and (iv) acknowledge that the success of such business venture is dependent upon, among other factors unrelated to Franchisor, the abilities of Developer and Developer's Principals. FRANCHISOR EXPRESSLY DISCLAIMS THE MAKING OF, AND DEVELOPER AND EACH OF DEVELOPER'S PRINCIPALS ACKNOWLEDGE THAT THEY HAVE NOT RECEIVED OR RELIED UPON, ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO THE POTENTIAL PERFORMANCE OR VIABILITY OF THE BUSINESS VENTURE CONTEMPLATED BY THIS AGREEMENT.

12. DISPUTE RESOLUTION

12.1 Mediation Except for infringement of Proprietary Marks, Animated Entertainment or other violation of Franchisor's intellectual property rights, regarding which Franchisor may apply for emergency, special, or injunctive relief, both Franchisor and Developer will attempt in good faith to settle any dispute related to this Agreement. If Franchisor and Developer are unable to do so, they hereby agree to submit to non-binding mediation prior to bringing such claim, controversy or dispute in a court. The mediation shall be conducted through either an individual mediator or a mediator appointed by a mediation services organization or body, experienced in the mediation of food service business disputes, as agreed upon by Franchisor and Developer. The costs and expenses of mediation, including compensation of the mediator, shall be borne by the parties equally. If the parties are unable to resolve the claim, controversy or dispute within ----- (---) days after the mediator has been appointed, unless such time period is extended by written agreement of the parties, then either party may bring a legal proceeding under the following to resolve such claim,

[CONSIDER BINDING ARBITRATION CLAUSE]

12.2 Applicable Law Franchisor and Developer agree that this Agreement shall be governed, construed and enforced in accordance with the laws of the State of Texas without regard to its conflicts of laws provisions.

12.3 Jurisdiction and Venue Franchisor and Developer hereby irrevocably submit themselves to the jurisdiction of the state courts of Dallas County, Texas and the Federal District Court for the Northern District of Texas, Dallas Division. However, with respect to any action (i) for monies owed, (ii) for injunctive or other extraordinary relief, or (iii) involving ownership or use of the Proprietary Marks or the Animated Entertainment, Franchisor may bring such action in any state or federal district court which has jurisdiction.

13. MISCELLANEOUS

13.1 Independent Contractors In performing this Agreement, the parties specifically agree that Franchisor and Developer's relationship is and always will be solely that of independent contractors. Neither Franchisor or Developer shall not represent itself or permit any of its employees, agents, servants, or representatives to represent itself as an employee, agent, servant, or joint venturer of the other. Neither party shall have no right to and shall not attempt to enter into contracts or commitments in the name of or on behalf of the other in any respect whatsoever.

13.2 Entire Agreement This Agreement and the Attachments hereto constitute the entire agreement between Franchisor, Developer and Developer's Principals concerning the subject matter hereof. All prior agreements, discussions, representations, warranties and covenants are merged herein. THERE ARE NO WARRANTIES, REPRESENTATIONS, COVENANTS OR AGREEMENTS, EXPRESS OR IMPLIED, BETWEEN THE PARTIES EXCEPT THOSE EXPRESSLY SET FORTH IN THIS AGREEMENT. Except those permitted to be made unilaterally by Franchisor, any amendments or modifications of this Agreement shall be in writing and executed by Franchisor and Developer.

13.3 No Waiver Either party's failure to exercise any right or remedy or to enforce any obligation, covenant or agreement herein shall not constitute a waiver by, or estoppel of, such party's right to enforce strict compliance with any such obligation, covenant or agreement. No custom or practice shall modify or amend this Agreement. Either party's waiver of, or failure or inability to enforce, any right or remedy shall not impair such party's rights or remedies with respect to subsequent default of the same, similar or different nature. Acceptance of any payment shall not waive any default.

13.4 Severability Should any term, covenant or provision hereof, or the application thereof, be determined by a valid, final, non-appealable order to be invalid or unenforceable, the remaining terms, covenants or provisions hereof shall continue in full force and effect without regard to the invalid or unenforceable provision. In such event such term, covenant or provision shall be deemed modified to impose the maximum duty permitted by law and such term, covenant or provision shall be valid and enforceable in such modified form as if separately stated in and made a part of this Agreement. Notwithstanding the foregoing, if any term hereof is so determined to be invalid or unenforceable and such determination adversely affects, in Franchisor's reasonable judgment, Franchisor's ability to preserve its rights in, or the goodwill underlying, the Proprietary Marks, the Animated Entertainment, the System and/or the Confidential Information, or materially effects Franchisor's other rights hereunder, Franchisor may terminate this Agreement upon notice to Developer.

13.5 Notice All notices required or desired to be given hereunder shall be in writing and shall be sent by personal delivery, expedited delivery service, return receipt requested or facsimile to the following addresses or such other addresses as designated by Franchisor or Developer in writing pursuant to this Section:

Notices to FRANCHISOR: Director of Franchising
 ShowBiz Pizza Time, Inc.
 4441 W. Airport Freeway
 Post Office Box 152077
 Irving, Texas 75062
 Tel.
 Fax.

Notices to DEVELOPER: Tel.
 Fax.

Notices posted by personal delivery or given by facsimile shall be deemed given upon receipt. Notice to Developer shall

constitute notice to Developer's Principals.

13.6 Counterparts This Agreement may be executed in any number of counterparts each of which when so executed shall be an original, but all of which together shall constitute one (1) and the same instrument.

13.7 Headings The section headings in this Agreement are for convenient reference only and shall be given no substantive or interpretive effect.

13.8 Further Assurances Franchisor and Developer shall execute and deliver any and all additional papers, documents, and other assurances and shall do any and all acts and things reasonably necessary in connection with the performance of their obligations hereunder and to carry out the intent of the parties hereto.

13.9 Compliance with Laws Developer agrees to comply at its sole expense with all laws and regulations applicable to this Agreement and the operation of the Franchised Restaurants.

[Signatures appear on following pages]

IN WITNESS WHEREOF, the parties hereto have fully executed and delivered this Agreement on the day and year first above written.

SHOWBIZ PIZZA TIME, INC.

By:
Name:
Title:

STATE OF TEXAS S
S
COUNTY OF DALLAS S

Before me personally appeared----- who, after being duly sworn, says that he is the ----- of ShowBiz Pizza Time, Inc., a corporation, organized and existing under the laws of Kansas, and that he has authority to execute under oath and has so executed the above Agreement for and on behalf of such corporation for such purposes therein contained.

WITNESS my hand and official seal this ---day of -----, 19--.

(SEAL)

Notary Public

DEVELOPER:

By:
Name:
Title:

STATE OF S
S
COUNTY OF S

Before me personally appeared ----- who, after being duly sworn, says that he is the ----- of -----, a (corporation)

(partnership), organized and existing under the laws of -----, and that he has authority to execute under oath and has so executed the above Agreement for and on behalf of such (corporation) (partnership) for the purposes therein contained.

WITNESS my hand and official seal this --- day of -----, 199-.

(seal)

Notary Public

SCHEDULE 1.7

SCHEDULED DEVELOPER'S PRINCIPALS

ATTACHMENT "A" - FRANCHISE AGREEMENT

ATTACHMENT "B" - DEVELOPER'S PRINCIPALS CONFIDENTIALITY AGREEMENT

ATTACHMENT "C" - EMPLOYEE CONFIDENTIALITY AGREEMENT

ATTACHMENT "D" - GUARANTY

As an inducement to ShowBiz Pizza Time, Inc. ("Franchisor") to execute the foregoing Development Agreement and the Attachments, the undersigned, jointly and severally, hereby agree to be individually bound by all the terms and conditions of the above Development Agreement including any amendments or modifications thereto whenever made (hereinafter the "Agreement") and unconditionally and irrevocably guarantee to Franchisor and its successors and assigns that all of Developer's obligations under the Agreement will be punctually paid and performed.

Upon default by Developer or notice from Franchisor, the undersigned will immediately make each payment and perform each obligation required of Developer under the Agreement. Without affecting the obligations of the undersigned under this Guaranty, Franchisor may, without notice to the undersigned, renew, extend, modify, amend or release any indebtedness or obligation of Developer, or settle, adjust, or compromise any claims against Developer.

The undersigned waive all demands and notices of every kind with respect to this Guaranty and the Agreement, including, without limitation, notice of the amendment or modification of this Guaranty or the Agreement the demand for payment or performance by Developer, any default by Developer or any guarantor, and any release of any guarantor or other security for the Agreement or the obligations of Developer.

Franchisor may pursue its rights against the undersigned without first exhausting its remedies against Developer and without joining any other guarantor hereto and no delay on the part of Franchisor in the exercise of any right or remedy shall operate as a waiver of such right or remedy, and no single or partial exercise by Franchisor of any right or remedy shall preclude the further exercise of such right or remedy.

Upon receipt by Franchisor of notice of the death of an individual guarantor, the estate of such guarantor will be bound by this Guaranty but only for defaults and obligations hereunder existing at the time of death, and the obligations of the other guarantors hereunder will continue in full force and effect.

IN WITNESS WHEREOF, each of the undersigned has signed this Guaranty as of the date of the Agreement.

Witnesses:

Guarantors:

STATE OF S
COUNTY OF S

Before me personally appeared the following persons, -----,
- ----- who are known to me to be the persons who
executed the foregoing Guaranty and each acknowledged the same to
be his or her free act and deed for the purposes therein
contained.

WITNESS my hand and official seal this ---day of -----,
199-.

Notary Public in and for
the State of -----

NATIONAL ADVERTISING FUND LINE OF CREDIT

By this Agreement, dated as of December 22, 1997, 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 Eight Hundred Thousand and no/100 Dollars (\$800,000.00) in the aggregate outstanding at any one time. No new advance shall be made under this Agreement after December 31, 1998. Subject to the foregoing limitations, Borrower may borrow, repay, prepay and reborrow amounts under this Agreement.

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

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

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

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

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

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

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

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

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

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

To Lender:

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

10(t)(2)

NATIONAL ADVERTISING FUND
PROMISSORY NOTE

\$800,000.00

Irving, Texas

Dated as of
December 22, 1997

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 EIGHT HUNDRED THOUSAND AND NO/100 DOLLARS (\$800,000.00), 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, 1998, 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

NATIONAL MEDIA FUND LINE OF CREDIT

By this Agreement, dated as of December 22, 1997, 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 Eight Hundred Thousand and no/100 Dollars (\$1,800,000.00) in the aggregate outstanding at any one time. No new advance shall be made under this Agreement after December 31, 1998. 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

10(v)(2)

NATIONAL MEDIA FUND
PROMISSORY NOTE

\$1,800,000.00

Irving, Texas

Dated as of
December 22, 1997

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 EIGHT HUNDRED THOUSAND AND NO/100 DOLLARS (\$1,800,000.00), 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, 1998, 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

PIZZA TIME RESTAURANTS, INC.

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

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in this Registration Statement (No. 333-41039) of ShowBiz Pizza Time, Inc. on Form S-8 of our report dated February 27, 1998, appearing in the Annual Report on Form 10-K of ShowBiz Pizza Time, Inc. for the year ended January 2, 1998.

Deloitte & Touche LLP

Dallas, Texas
April 1, 1998

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

<ARTICLE> 5

<PERIOD-TYPE>	YEAR
<FISCAL-YEAR-END>	JAN-02-1998
PERIOD-END>	JAN-02-1998
<CASH>	7,725
<SECURITIES>	0
<RECEIVABLES>	3,255
<ALLOWANCES>	24
<INVENTORY>	3,975
<CURRENT-ASSETS>	25,292
<PP&E>	312,073
<DEPRECIATION>	124,640
<TOTAL-ASSETS>	226,368
<CURRENT-LIABILITIES>	39,041
<BONDS>	23,826
<COMMON>	2,191
<PREFERRED-MANDATORY>	2,211
<PREFERRED>	0
<OTHER-SE>	153,747
<TOTAL-LIABILITY-AND-EQUITY>	226,368
<SALES>	345,416
<TOTAL-REVENUES>	350,267
<CGS>	163,713
<TOTAL-COSTS>	307,558
<OTHER-EXPENSES>	0
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	2,866
<INCOME-PRETAX>	42,709
<INCOME-TAX>	17,212
<INCOME-CONTINUING>	25,497
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	25,497
<EPS-PRIMARY>	1.37
<EPS-DILUTED>	1.34

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

<ARTICLE> 5
 <LEGEND>
 <RESTATED>

<PERIOD-TYPE>	YEAR	YEAR	QTR 1	QTR 2	QTR 3
<FISCAL-YEAR-END>	DEC-27-1996	DEC-29-1995	DEC-27-1996	DEC-27-1996	DEC-27-1996
<PERIOD-END>	DEC-27-1996	DEC-29-1995	MAR-29-1996	JUN-28-1996	SEP-27-1996
<CASH>	3,402	5,589	11,100	10,006	3,798
<SECURITIES>	0	0	0	0	0
<RECEIVABLES>	4,000	3,935	3,089	3,077	4,081
<ALLOWANCES>	20	75	33	82	30
<INVENTORY>	3,368	3,589	4,000	3,808	3,791
<CURRENT-ASSETS>	27,588	20,041	27,150	29,479	24,420
<PP&E>	272,343	231,962	235,426	245,221	262,476
<DEPRECIATION>	108,345	94,781	93,101	98,940	104,557
<TOTAL-ASSETS>	216,580	199,010	206,883	207,146	212,341
<CURRENT-LIABILITIES>	33,523	29,931	33,843	31,567	35,544
<BONDS>	34,668	35,753	34,031	33,997	31,735
<COMMON>	2,108	2,144	1,431	2,056	2,082
<PREFERRED-MANDATORY>	2,152	2,005	2,030	2,146	2,147
<PREFERRED>	0	0	0	0	0
<OTHER-SE>	139,324	124,343	130,590	132,334	136,110
<TOTAL-LIABILITY-AND-EQUITY>	216,580	199,010	206,883	207,146	212,341
<SALES>	289,068	259,345	76,960	145,672	219,142
<TOTAL-REVENUES>	293,990	263,783	78,452	148,300	223,077
<CGS>	143,381	136,700	37,460	72,160	108,290
<TOTAL-COSTS>	271,769	263,408	69,681	135,689	204,473
<OTHER-EXPENSES>	0	0	0	0	0
<LOSS-PROVISION>	0	0	0	0	0
<INTEREST-EXPENSE>	3,476	3,118	891	1,753	2,635
<INCOME-PRETAX>	22,221	375	8,771	12,611	18,604
<INCOME-TAX>	9,000	312	3,596	5,171	7,627
<INCOME-CONTINUING>	13,221	63	5,175	7,440	10,977
<DISCONTINUED>	0	0	0	0	0
<EXTRAORDINARY>	0	0	0	0	0
<CHANGES>	0	0	0	0	0
<NET-INCOME>	13,221	63	5,175	7,440	10,977
<EPS-PRIMARY>	.71	(.02)	.28	.40	.59
<EPS-DILUTED>	.70	(.02)	.28	.39	.58

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

<ARTICLE> 5
<LEGEND>
<RESTATED>

<PERIOD-TYPE>	QTR 1	QTR 2	QTR 3
<FISCAL-YEAR-END>	JAN-02-1998	JAN-02-1998	JAN-02-1998
<PERIOD-END>	MAR-28-1997	JUN-27-1997	SEP-26-1997
<CASH>	10,966	12,677	21,098
<SECURITIES>	0	0	0
<RECEIVABLES>	3,360	3,016	4,153
<ALLOWANCES>	15	8	39
<INVENTORY>	3,864	3,731	4,189
<CURRENT-ASSETS>	36,612	39,319	48,994
<PP&E>	274,559	285,197	292,835
<DEPRECIATION>	106,000	112,116	118,376
<TOTAL-ASSETS>	224,152	227,573	231,027
<CURRENT-LIABILITIES>	39,374	37,013	35,858
<BONDS>	26,402	25,516	24,672
<COMMON>	2,164	2,178	2,186
<PREFERRED-MANDATORY>	2,133	2,159	2,185
<PREFERRED>	0	0	0
<OTHER-SE>	149,149	155,671	161,059
<TOTAL-LIABILITY-AND-EQUITY>	224,152	227,573	231,027
<SALES>	90,280	173,126	257,507
<TOTAL-REVENUES>	91,594	175,625	261,227
<CGS>	42,194	81,582	121,385
<TOTAL-COSTS>	78,261	152,368	227,829
<OTHER-EXPENSES>	0	0	0
<LOSS-PROVISION>	0	0	0
<INTEREST-EXPENSE>	690	1,417	2,148
<INCOME-PRETAX>	13,333	23,257	33,398
<INCOME-TAX>	5,400	9,419	13,459
<INCOME-CONTINUING>	7,933	13,838	19,939
<DISCONTINUED>	0	0	0
<EXTRAORDINARY>	0	0	0
<CHANGES>	0	0	0
<NET-INCOME>	7,933	13,838	19,939
<EPS-PRIMARY>	.43	.74	1.07
<EPS-DILUTED>	.42	.72	1.04