

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Sections 13 or 15(d)
of the Securities Exchange Act of 1934

For the fiscal year ended:
December 29, 1983

Commission file number:
0-10354

PIZZA TIME THEATRE, INC.

(Exact name of registrant as specified in its charter)

California

(State or other jurisdiction
incorporation or organization)

94-2495099

(I.R.S. Employer
Identification No.)

1213 Innsbruck Drive, Sunnyvale, California
(Address of principal executive offices)

94089
(Zip Code)

Registrant's telephone number, including area code (408) 744-7300

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock

8-1/4% Convertible Subordinated Debentures Due 2008

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 for 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 No .

The aggregate market value of Common Stock held by non-affiliates of the Registrant, based upon the reported last sale price of such stock on March 30, 1984, (\$2.25) was \$10,568,882.

On March 20, 1984, there were 6,114,800 shares of Common Stock of Registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference in this Report.

None.

PART I

Item 1. Description of Business

General

The Company operates and franchises "Chuck E. Cheese's Pizza Time Theatre" family entertainment centers. The Company's entertainment center concept is designed to appeal to the family market by combining a restaurant with coin-operated games, playlands, and musical entertainment by distinctive computer-controlled robot characters. The Company has created and manufactures, for use in Company centers and for sale to franchised centers, numerous interchangeable robot characters and groups of robot characters and the system of control computers and software which synchronizes their voices and body and facial movements to dialogue and to original and popular songs in brief cabaret-like presentations ("Cyberamics"). Pizza Time Theatre, Chuck E. Cheese and Cyberamics are all trademarks or service marks of the Company. The Company has also created play structures for a children's playground area in centers large enough to accommodate it.

Company Centers

The following table sets forth certain information regarding the operations of Company-owned centers during the periods indicated (dollar amounts in thousands):

	Year Ended				
	<u>December 30, 1979</u>	<u>December 28, 1980</u>	<u>December 27, 1981</u>	<u>December 30, 1982</u>	<u>December 29, 1983</u>
Average annual- ized revenue per center (1)	\$877	\$1,009	\$1,186	\$1,220	\$1,020 (2)
Centers added during the period	4	8	30	65	52 (2)
Centers closed, converted or sold during the period	--	--	--	--	13 (2)
Centers open at end of period	6	14	44	109	148 (2)

- (1) These figures assume that a center which was open for a portion of the period would have operated at its average monthly level for the full period. Revenues from centers which were not open for at least one month during the period are not included in the table.
- (2) These figures reflect 14 centers acquired from franchisees, 6 centers closed, 4 centers converted to Zapp's Bar & Grill, and 3 centers sold during fiscal year 1983. See "Franchise Operations - Acquisition of Franchises" and "Recent Developments". Revenues from each of 12 acquired centers (14 less 1 closed and 1 sold after acquisition) were annualized and included in the above average after the consummation of the transaction in which the center was acquired. Revenues from the acquired centers prior to acquisition have been annualized and included in the average annual revenue per franchise center. See "Business - Franchise Operations." Revenues from centers closed, converted or sold were eliminated. If revenues from such centers are included, average annualized revenues are approximately \$990,000.

Location and Composition

Of the 148 Company centers in operation at December 29, 1983, 60 were located in California, 19 in Florida, 4 in Nevada, 3 in Alabama, 2 in Tennessee, 4 in Colorado, 5 in Connecticut, 11 in Louisiana, 3 in Oklahoma, 2 in North Carolina, 1 in Alaska, 1 in Mississippi, 4 in Pennsylvania, and 29 in Texas. The centers vary in size from approximately 5,000 square feet to 30,000 square feet, with most centers ranging from 10,000 to 15,000 square feet. Seating at most centers accommodates 300 to 400 persons, and most centers have 75 or more arcade games. Center leases generally have 10-year terms with renewal options.

Other than using the Company's distinctive sign and logo, the centers do not have a uniform exterior. Centers are generally located in attached, general purpose, one-story leased space in suburban shopping centers. Although the Company's centers vary in interior design and layout, each center generally consists of the following restaurant and entertainment areas:

Order and Food Service Area - A multiple-line, fast service-type order area features a uniform menu that includes a variety of pizza selections, sandwiches, salad bar and ice cream sundaes. A variety of beverages is offered, including beer and wine. Television-type monitors in each area indicate when orders are ready to be picked up at the adjoining food service area.

Theatre Dining Room - The main dining area, comprising approximately 50% of the informal bench-and-table seating, is the focal point of the center and contains a majority of the robot characters used in the Company's Cyberamics entertainment system. The characters are either mounted on the walls at a height designed to permit unobstructed viewing of the entire show, or appear on an elevated stage presentation, which allows viewing of the entire cast at once. Approximately every six minutes the cast of robot characters performs an original three-to-five minute cabaret-like presentation of songs and dialogue drawn from a library of 144 musical skits created by the Company. In addition, special event presentations for birthdays and major holidays can be played as required.

Cabaret Lounge - The cabaret lounge, a secondary dining area with a seating capacity of approximately 75, is quieter than the Theatre Dining Room and has a free or token-operated Cyberamics character. Most centers also contain an additional dining area with capacity for approximately 65 persons, which in most cases are TV rooms with a video cassette recorder.

Fantasy Forest Game Preserve - Approximately 2,500 square feet of a typical center is devoted to coin or token-operated games of the following three basic types:

Arcade - games such as air hockey, skeeball and other games which are not video or kiddie in nature represent between 20% to 30% of total center games.

Video - games utilizing a television monitor represent between 30% to 40% of total center games.

Kiddie - rides such as miniature helicopters, rocket ships, carousels and ferris wheels represent between 15% to 40% of total center games.

Merchandise Outlet - Approximately 200 square feet is devoted to a merchandise outlet which sells a line of toys, small gifts, T-shirts and candy. Some stores do not sell merchandise for cash, but distribute it as prizes for winning at arcade games.

Children's Playground - Centers containing 12,000 square feet or more will generally contain a separate children's playground area, located in a designated play room containing recreational equipment for active play. An admission price is charged for entrance to the area.

Center Operations. Company-owned centers are generally open every day from 11:00 a.m. to 11:00 p.m. The Company estimates that approximately 61% of the revenues of a center is attributable

to food, 16% to beverages, 20% to games and 3% to merchandise purchases.

Company center personnel generally include a general manager, one to three center managers, a service and repair technician, a promotional coordinator, and approximately 40 to 50 part-time food preparation and service employees. Operational standards of Company centers are the responsibility of the Company's Vice President - Operations, four divisional managers, and twenty district managers, who regularly visit the centers.

The Company maintains centralized financial and accounting controls for its centers, which operate almost entirely on a cash only basis. Most coin-operated games and entertainment devices in the centers are metered and accept quarters or tokens dispensed from metered vending machines. The Company believes its system of encouraging the use of Chuck E. Cheese tokens and its cash collection and reconciliation provide reasonable cash controls.

All centers are operated in accordance with Company standards and specifications relating to preparation and service of food, maintenance of premises and employee conduct. The Company's training programs include a six-week training program (four weeks at a district training unit and two weeks in an operating unit) for center managers, franchisees and corporate personnel. The Company has developed a series of modules, each consisting of a training film, performance manual, workbook, test and performance evaluation for hourly employees. Thirteen modules have been completed. The Company also conducts a quality analysis program by sending persons to various centers as customers. Such persons report back to the Company, and, depending upon the content of the reports, additional training may be arranged for center personnel.

During the fourth quarter of 1983, the Company introduced a new pizza in all Company and franchise centers following extensive market research and testing. Additional new menu items are scheduled for introduction in 1984.

The Company purchases electronic and computer components, game tokens and components and materials for its robot characters and Cyberamics system from a variety of suppliers, and its Cyberamics manufacturing operations consist primarily of assembly of its system. The Company purchases games and play activities from manufacturers and distributors throughout the country. The Company is not dependent on any single supplier and believes that adequate supplies and alternative sources are available.

Marketing. The Company's marketing program includes television advertising on a local basis. Television buys are made on children's programming, early fringe family programming and selected family specials. Four major promotions throughout the year

are supported by special television commercials. The Company also promotes ongoing promotional activities through local advertising, direct mail, and in-store advertising. Group sales, birthday parties, and fund raising programs implemented by promotional coordinators are aimed at bringing group business into the centers during non-peak periods.

Prior to the opening of a new center, the Company conducts a pre-opening marketing program utilizing press releases, community relations, newspaper advertisements, direct mail, billboards, television spots and special promotions, generally involving Chuck E. Cheese merchandise and game tokens. The Company also attempts to assure maximum customer exposure to its robot characters. Walk-around costume characters appear in the centers and throughout the community, and their images and names are used on proprietary merchandise.

Once a center is open, community activities directed at families with children ages 15 and younger publicize the center in the local area. Use of the walk-around characters in a visitation program to schools, hospitals, sports activities and community events allows creative, cost-effective marketing of the Pizza Time concept outside the centers.

Through October 1983, the Company maintained a national advertising fund to which 1% of the gross revenues of each center, whether franchised or Company-owned, was contributed. Since that time, all centers have been advertised on a local basis.

The Company believes its use of tokens is an important factor in its marketing strategy. Generally, games and amusement devices in the centers will accept both quarters and Chuck E. Cheese tokens. To encourage game play, a certain number of free tokens, depending on the size of the food order, accompany food purchases. Tokens are also offered for sale through bill-changer machines. Since the tokens are valid only for game play within a Pizza Time Theatre center, customers are thereby encouraged to use all their tokens in the center.

Center Development Costs and Financing

The cost of developing new centers depends on the size of the center and varies considerably among metropolitan areas, primarily due to differences in land prices, construction codes and labor costs. Currently, the Company's cash investment to develop and open a typical 12,000 to 15,000 square foot center averages approximately \$590,000, although actual costs range from approximately \$500,000 to \$850,000. The following table sets forth certain information regarding the estimated present costs of developing a typical 12,000 to 15,000 square foot Company center and the financing provided by the Company, the lessor of the land and building and the lessor of equipment.

<u>Description</u>	<u>Approximate Cost</u>	<u>Approximate Financing Provided</u>		
		<u>Company</u>	<u>Real Estate Lessor</u>	<u>Equipment Lessor</u>
Land and Building Leasehold	\$ 850,000	--	\$850,000	--
Improvements	377,500	\$337,500	40,000	--
Cyberamics	103,000	--	--	\$103,000
Games	175,000	145,000	--	30,000
Furniture, fixtures and equipment	177,000	10,000	--	167,000
Pre-opening expenses and working capital	<u>100,000</u>	<u>100,000</u>	<u>--</u>	<u>--</u>
Total	\$1,782,500	\$592,500	\$890,000	\$300,000

Proposed Center Development

The Company does not currently plan to open any new Company centers in fiscal 1984. However, management of the Company will continue to reevaluate the feasibility of new centers, and some may open in 1984 if appropriate.

Because no centers are intended to be opened in 1984, the Company is attempting to renegotiate leases for sites which were previously slated for development in 1984.

Manufacturing and Development

The Company has created and developed Cyberamics as an entertainment system for use in Company centers and for sale to franchises. Cyberamics currently includes 17 pneumatically-operated robot characters and character sets driven by a computer-controlled tape system, and software programs are designed and developed by the Company to synchronize the characters' voices, as well as body and facial movements, to songs and dialogue in original presentations.

The Company in November 1983 curtailed its manufacturing operations and now operates its Cyberamics division as a maintenance facility only. The current Cyberamics facility will be moved to the Company's Hollister, California manufacturing facilities from the Milpitas manufacturing and administrative complex this spring. See "Properties."

The Company is developing a program to change the skits performed by its Cyberamics characters at least three times per year using external sources to produce and develop new programs and entertainment concepts. The Company hopes to implement these programs and concepts in some units in 1984.

Franchise Operations

The Company offers franchises for centers on both a territorial and an individual unit basis, generally only in areas where there is no existing or planned concentration of Company Centers. The following table sets forth certain information regarding the operations of franchised centers during the periods indicated. (Dollar amounts are in thousands.)

	Year Ended				
	<u>December 30, 1979</u>	<u>December 28, 1980</u>	<u>December 27, 1981</u>	<u>December 30, 1982</u>	<u>December 29, 1983</u>
Royalties and franchise fees (1)	\$ 20	\$1,006	\$2,624	\$8,509	\$10,478
Other franchise revenues (1)	\$ 85	\$1,083	\$4,043	\$8,197	\$6,485
Centers open at end of period	1	11	44	95	118 (3)
Average annualized revenue per franchised center (2)	--	\$ 801	\$1,219	\$1,310	\$1,259 (3)

- (1) Consists of revenues from sales to franchises of manufactured equipment and merchandise, including Cyberamics and games, which is recognized at the time of shipment.
- (2) The figures for each period assume that franchise centers open for a portion of the period would have operated at the average monthly level for the full period. The figures are based upon information supplied to the Company by its franchisees. The Company does not participate in franchised center revenues, except to the extent of franchise royalties and other payments from franchisees. Revenues from centers which were not open for at least one month during the period are not included in the table.
- (3) Includes annualized revenues for each of 14 centers acquired from franchisees by the Company in fiscal 1983, for the period prior to the date of the consummation of the transaction in which each center was acquired. Revenues from the acquired centers subsequent to their acquisition by the Company have been annualized and included in the average annual revenue per Company center in a table elsewhere in this Prospectus. See "Company Centers."

Of the 118 franchised centers in operation at December 29, 1983, 8 were in California and the balance were located in 26 other states, Canada, Australia, Puerto Rico, Singapore and Hong Kong. Franchised centers tend to be slightly smaller in size than Company centers and have fewer games.

The Company's objective is to have 10 to 15 franchised centers opened in fiscal 1984. No assurance can be given that the Company's objective can be met.

The Company's standard franchise agreement grants the franchisee the right to use the Company's trade names, trademarks and service marks and the right to develop and operate a center in accordance with the Company's system, which includes standards and specifications related to quality, preparation and service of food, maintenance of premises and employee conduct. The franchisee is required to select the center site (though the Company retains the right of site approval), to provide necessary financing and to bear all other costs in the development and opening of the center.

Under the Company's franchise agreement, the franchisee pays an initial fee, currently \$20,000, and continuing fees based on the monthly gross sales of the franchised center. Such royalties were 6% through 1983, but, will be reduced in 1984 and thereafter as follows:

- 1) Through June 30, 1985, the royalty will be 2%.
- 2) After June 30, 1985, the royalty will be: (a) 4% if the Company has had a plan of reorganization approved by the bankruptcy court in the Company's Chapter 11 Proceedings (see "Legal Proceedings" below); (b) 3% if the Chapter 11 Proceedings are continuing and the Company has had no such plan of reorganization approved; (c) 2% if the Company's assets are liquidated or the bankruptcy proceedings continue under Chapter 7 of the U.S. Bankruptcy Code.

In addition, subject to approval of the Bankruptcy Court, franchisees are required to spend at least 3% of monthly gross sales on advertising and, through October 1983, were required to contribute an additional 1% of monthly gross sales to a national advertising fund. The franchise agreement has an initial term of 20 years with two five-year renewal options which may be exercised upon payment of an amount equal to 25% of the then-current initial franchise fee and compliance with certain other conditions.

Franchisees obtain most services, equipment, games and supplies from persons unaffiliated with the Company, in accordance, however, with the Company's specifications. The Company does not sell food products to its franchisees. Paper goods and other products bearing the Company's name or marks which are used in large quantity are purchased from various non-affiliated manufacturers and distributors. The Company encourages franchisees to purchase such

items directly from suppliers; however, the Company sells such items to its franchisees on request at prices which generally approximate its cost plus a small increment to cover handling and similar expenses. The Cyberamics system, including installation and periodic updating is generally purchased from the Company, currently at a price of \$98,000, which represents the Company's approximate cost. However, components of the system, including software, hardware and robot characters may be purchased from independent suppliers if they meet the Company's established specifications.

As of December 29, 1983, the Company had entered into Territorial Development Letter Agreements with 34 persons and organizations granting to such persons and organizations the right to develop franchised centers within a specified territory. These agreements require that a minimum number of franchised centers be opened over a stated period, typically three to five years, and payment to the Company of a non-refundable territorial development fee of \$5,000 per location at the time the letter agreement is signed. If the centers are not opened on a timely basis, the Company may cancel the agreement. Fees received with respect to such agreements were \$575,000 in fiscal 1980, \$605,000 during fiscal 1981, \$280,000 during fiscal 1982, and \$83,000 during 1983.

When a franchised center is opened, a standard franchise agreement is executed, except that the initial franchise fee is reduced by the non-refundable fee previously paid. Of the 258 centers required to be opened pursuant to such agreements (including centers in Australia, New Zealand, Hong Kong, Canada, Puerto Rico and England, as described below), 129 were open at December 29, 1983. No assurances can be given that all or a substantial percentage of the centers covered by such agreements will be opened. The Company is not actively offering Territorial Development Letter Agreements, but may enter into such agreements in particular areas or to replace any Territorial Development Letter Agreements which may be terminated.

No individual franchisee currently operates more than 14 centers. Certain franchisees, none of whom are officers, directors or employees of the Company, may be shareholders of the Company.

The Company has entered into a management agreement with respect to one franchised center pursuant to which the Company has agreed to manage the center in return for its normal franchise royalties plus a percentage of the profits of the center if certain specified operational objectives are met. The Company may enter into similar arrangements in the future.

Foreign Development

As of December 29, 1983, the Company had entered into the following agreements for foreign franchise development. Further activity has been suspended, however, during the Chapter 11 Proceedings (see "Legal Proceedings" below).

The Company has entered into a Territorial Development Letter Agreement pursuant to which the Company has granted an exclusive right to develop centers in Australia and New Zealand. The franchisee has agreed to pay the Company an initial franchise fee of \$300,000 and, under an amendment to the agreement, which has not been finalized due to the Chapter 11 Proceedings, is required to open several centers over a period of several years. However, if the franchisee does not open the centers as required, the exclusive rights terminate and the Company must return one-half of the initial fee. Continuing franchise royalties for centers which are opened in Australia and New Zealand will be somewhat less than royalties charged for domestic franchises. One center was opened in March 1981, and was subsequently relocated.

The Company has entered into a Territorial Development Letter Agreement which, as amended, requires the opening of 5 centers in a territory in the province of Ontario, Canada through 1991. Two centers in Ontario, Canada have been opened pursuant to such agreement. The Company has also entered into a Territorial Development Letter Agreement requiring the opening of 2 centers in England by 1984, which is currently in default. The Agreements for Canada and England provide for the standard territorial development fee of \$5,000 per center. The Company entered into Territorial Development Letter Agreements for the development of 4 centers in Alberta, Canada, one of which has opened, and 2 units in British Columbia, one of which has opened. These agreements provide for a total territorial development fee of \$10,000 (Canadian) and a franchise fee of \$25,000 (Canadian) per center.

The Company has entered into a Territorial Development Letter Agreement pursuant to which the Company has granted an exclusive right to develop centers in Hong Kong and Singapore. The franchisee has agreed to pay the Company total nonrefundable fees of \$50,000 to reserve the territory. The franchisee is required to open 4 centers within the next 5 years, and the exclusive rights terminate if the centers are not opened as required. Two centers were opened through December 1983. The total royalties payable by the franchisee to the Company will be 3-6% of gross revenues depending on monthly sales volume. No initial franchise fees are payable in addition to the territorial fees. If the franchisee requests foreign language tapes, the franchisee must bear the responsibility for and cost of translating and recording. The Company has agreed to program the Cyberamics system to accommodate the translated tapes.

The Company entered into a Territorial Development Letter Agreement for the development of one center in Puerto Rico which opened in 1983. Skit tapes have been developed in Spanish for the center. The agreement provides for the standard fees.

At such time as centers are opened in other non-English speaking countries, significant Cyberamics programming expenses will be required. The Company expects that Territorial Development Letter Agreements for such territories will have provisions for translating and reprogramming similar to those in the agreements with respect to Hong Kong and Puerto Rico.

The Company entered into a joint venture with ACCOR, a large food service operator in France, for the development of a center in Paris, which opened in April 1984.

Acquisition of Franchises

During 1983, the Company acquired 14 franchises in 8 separate transactions.

In January 1983, the Company acquired a franchised center in Capitola, California, including related assets, for approximately \$412,000 in cash and assumption of certain liabilities totaling approximately \$310,000.

The Company had entered into an agreement with Pizza Entertainment Center (PEC), one of its franchisees, which gave PEC the right to sell any of its 4 centers, including related territorial development rights, to the Company at any date prior to July 16, 1985 for an amount equal to the lesser of 80% of such center's gross sales for the previous one year period or PEC's investment in the centers. In January 1983, PEC exercised its right under the agreement with respect to 2 centers in North Carolina, and, in February 1983, the Company purchased those 2 centers for approximately \$1,332,000. In March 1983, PEC exercised its right with respect to one center in Memphis, Tennessee, and the Company purchased the center for approximately \$834,000 in cash in April 1983. PEC exercised its right with respect to the fourth and last center, in Nashville, Tennessee, and the Company purchased the center in December, 1983 for approximately \$300,000 in cash and a promissory note for \$538,000.

In March 1983, the Company acquired a franchised center in Alaska, including related assets and territorial development rights, for 150,000 shares of the Company's Common Stock, then valued at approximately \$2,269,000. The Company acquired, in June 1983, franchise centers in Northridge, California and Sun Valley, California for a total of approximately \$1,000,000 cash and \$1,743,000 in the form of a one-year promissory note bearing interest at 12%. The Company acquired 2 franchised centers in Tucson, Arizona and 2 franchised centers in El Paso, Texas for cash and assumption of certain liabilities totaling in the aggregate approximately \$2,464,000 in July 1983. In September 1983, the Company acquired franchised centers, including related territorial rights, in Fresno, California, and Bakersfield, California, for assumption of liabilities in the approximate amount of \$1,592,000.

The Company closed one of the two Tucson stores and sold the other to a former employee of the Company. See "Recent Developments." Subsequent to December 29, 1983, the Company sold the Anchorage store for approximately \$1,400,000 in cash, assumption of liabilities and a promissory note.

Recent Developments

In April, 1983, the Company through its subsidiary, Sente Technologies, Inc., acquired a video games business for approximately \$200,000 in cash and Common Stock which was then worth approximately \$2,000,000, intending to enter the coin-operated video games business in October 1983, after the expiration of certain non-competition agreements relating to the video games business which bound two key executives of the Company. The Company settled a lawsuit with Atari, Inc. in May 1983 relating to the Company's activities with respect to video games, and concurrently with such settlement Atari agreed to purchase the consumer (home video cartridge) rights to coin-operated video games developed by the Company. The Company introduced its first games in December.

Subsequent to December 29, 1983, the Company agreed to sell Sente Technologies to BMDC, Inc. The sale is on calendar for approval by the court in the Chapter 11 bankruptcy proceedings on April 25, 1984.

In 1983, the Company began the production of animated video tapes featuring Chuck E. Cheese and other Cyberamics characters which have become popular entertainers in the centers. The video tapes use a process called "Kadabroscope." Although the Company used still, framed pictures produced by its Kadabroscope division in its entertainment centers in November and December 1983, the Company has recently discontinued the Kadabroscope operation.

The Company sold three of its entertainment centers in 1983 to persons who had been employees of the Company until such purchase, and may make more such sales in 1984 to employees who show entrepreneurial promise. The purchase price is typically \$20,000 plus 8% of gross sales from the center, plus the standard franchise royalty fee, and the Company remains liable for lease payments which are not made by the transferee.

Employees

As of December 29, 1983, the Company employed 8,120 persons, of whom 7,308 were center employees and 812 were corporate personnel, including general office employees, center management personnel or center management trainees. Of the 812 corporate employees, 209 were general officer employees or were involved in corporate management, 100 in manufacturing, 34 in engineering and design, 428 were center management personnel and 31 were center management trainees.

Government Regulation

The Company is subject to various federal, state and local laws affecting its business. Federal and state environmental regulations have not had a material effect on the Company's operations, but more stringent and varied requirements of local governmental bodies with respect to zoning, land use and environmental factors have increased, and can be expected to continue to increase, the cost and time of constructing new centers. The most significant of these laws are zoning regulations which restrict the location of facilities which include coin-operated games. In most instances the Company must obtain zoning variances and use permits for its centers. Although the Company has been able to obtain needed variances and permits in the past, changes in zoning laws or in their application could impair the Company's ability to open centers in desired locations.

The Company's centers are subject to various health, sanitation and safety standards and licensing and regulation of the sale of alcoholic beverages. Many states have laws regulating franchise operations which vary from registration and disclosure requirements in the offer and sale of franchises to the application of statutory standards regulating franchise relationships. The Company is also subject to Federal Trade Commission regulations relating to disclosure requirements in the sale of franchises. The Company believes it is operating in substantial compliance with applicable laws and regulations governing its operations.

Competition

The Company believes that its principal direct competition with its entertainment center concept currently is Brock Hotel Corporation ("Brock"), which, as of December 29, 1983, had opened in excess of 160 restaurant units similar to Pizza Time Theatre in concept and operating under the name Showbiz Pizza Place. Although Brock is the Company's principal competition, the Company also derives revenues from Brock as the result of the settlement of litigation arising from a Codevelopment Agreement signed by Brock and the Company in 1979.

The Company's competition has increased, and several companies have opened a few directly competitive centers, although none have operations as extensive as Brock or the Company. Among such competitors are Bullwinkle's, Captain Andy's River Town (a subsidiary of Animated Playhouse Corp.), Celebration Station (a subsidiary of Westarr Development), and Circus Playhouse (a subsidiary of Jewelcor Inc.).

Within the broad business categories of entertainment and leisure and food service, there are a variety of businesses which compete indirectly with the Company. The entertainment and leisure field covers a broad range of participative and non-participative

activities. Theatres, participative and spectator sports and amusement parks are prominent factors in this business sector.

Entertainment centers or arcades generally provide only one of the Pizza Time Theatre activities on a neighborhood level. Most major regional shopping centers now contain a game arcade. With the exception of Aladdin's Castle, a division of Bally Manufacturing Corp., this industry is fragmented.

The Company competes principally with restaurants which offer pizza, although, to a certain extent, it also competes with other fast food restaurants offering inexpensive family meals and in some cases family play activities. The pizza market is currently dominated by chain restaurants. The pattern of market share is generally regional with the exception of Pizza Hut, a subsidiary of Pepsico, Inc., Pizza Inn and Shakey's.

Pizza Hut units represent the largest of the chain-affiliated pizza restaurant market with Pizza Inn and Shakey's following. The balance of the market is fragmented, with most chains operating on a regional basis. The Company also faces competition from local, individually-owned pizza restaurants. Many of the Company's food service competitors have been established longer and have greater financial and other resources than the Company. Competition in the food industry is generally based upon the quality and price of food products offered, location and attractiveness of facilities, advertising and quality of service.

Many of the Company's competitors offer limited entertainment and amusement activities and, have provided and can be expected to continue to provide, entertainment and amusement activities similar to those offered by the Company.

During 1983, the Company reduced its prices to become more competitive. The ability of the Company to pass on future increases in the prices of food products and other items will depend upon a variety of factors, including competitive and economic conditions and governmental regulations. The Company's business may also be affected by changes in consumer preferences in food and consumer habits in dining out, such as might accompany another severe gasoline shortage.

Service Marks and Copyrights

The Company has obtained trademark or service mark registration of its marks Chuck E. Cheese, Pizza Time Theatre and Cyberamics, as well as its Chuck E. Cheese's Pizza Time Theatre logo, in the United States and France. California service mark registrations for the above-mentioned marks, and service mark registrations for some of its robot characters, have been granted. The Company has applied for registration of its marks Chuck E. Cheese and Pizza Time Theatre and its Chuck E. Cheese's Pizza Time Theatre logo in Canada, Denmark and Japan, and has applied for

registration of those marks plus Cyberamics in South Africa, Sweden and West Germany. In addition, copyrights have been issued by the United States Patent Office for certain of the songs and robot characters that are used in the Cyberamics entertainment system.

Executive Officers of Registrant

The following table sets forth certain information regarding the present executive officers of Registrant. Officers are elected to serve indefinitely, at the discretion of the Board of Directors, until such time as their successors are elected and qualified. Certain key employees involved in certain aspects of management are included in the table, although they are not elected officers.

<u>Name</u>	<u>Position with Company</u>	<u>Age</u>
Joseph F. Keenan	Chairman of the Board	42
Henry C. Montgomery	President, Chief Financial Officer & Director	48
Bruce Munro	Executive Vice President, Counsel, Secretary and Director	45
George F. Hellick	Senior Vice President	42
Gene N. Landrum	President of Zapp's Division	47
Robert Lundquist	President of Sente Technologies Division	34
Jack Campbell	Vice President - International	40
Donald K. Marks	Key Employee - Corporate Development	40

Mr. Keenan joined the Company in 1979. Mr. Keenan was the co-founder and President of Kee Games, Inc. and operated that company until its merger with Atari in 1974. Following the merger, Mr. Keenan became President of Atari, and, in November 1978, became Chairman of the Board. In September 1979 Mr. Keenan resigned as chairman of Atari to become President and Chief Operating Officer of the Company, positions he held until September 1983, when he resigned. He became Chairman of the Board in January 1984.

Mr. Montgomery joined the Company in January 1984 and became President in March 1984. He was Executive Vice President and Chief Operating Officer of MicroPro International, a software firm located in San Rafael, California, from 1982 through 1983. Prior to

that time, he held senior financial positions with Pullman, Inc., Saga Corporation, Memorex Corporation and Fairchild Camera & Instrument Corporation.

Mr. Munro joined the Company in March 1982 and was elected an officer of the Company in October 1982. He was promoted to Executive Vice President in September 1983. For more than five years prior to joining the Company, Mr. Munro was a partner of the law firm of Hopkins, Mitchell & Carley.

Mr. Hellick joined the Company in February 1983. Prior to joining the Company, he had been employed for more than seven years by Denny's Inc., most recently as Vice President of Operations for Winchell's Donut Shop, Inc., a subsidiary of Denny's.

Mr. Landrum joined the Company in May 1978 and served as its President until September 1979. He was employed by Atari from May 1976 until May 1978 as Assistant to the Chairman of the Board and chief operating officer of Atari's restaurant division. From 1973 to 1976, he was General Manager of the Consumer Products Division of National Semiconductor Corporation, a manufacturer of electronic products.

Mr. Lundquist joined the Company in February 1980 as director of games and merchandise and was appointed a vice president in December 1981. He has been Senior Vice President and President of Sente Technologies, Inc., the Company's games subsidiary, since April 1983. Prior to joining the Company he was employed by Marriott's Great America, most recently as director of games and arcades for all of Marriott's theme parks.

Mr. Campbell joined the Company in 1979 as franchise project manager. He has served as director of franchise administration and was appointed a Vice President in December 1981. Prior to joining the Company he was an officer of Western Dining Incorporated and Rainbow Horizons, which owned and operated dinner house restaurants.

Mr. Marks joined the Company in July 1978. He resigned as Vice President - Franchise Administration briefly in October 1983 to work in restaurant development for American Franchise Co. in Seattle, Washington, and returned in February 1984. From 1972 until he joined the Company, he held various positions with Holiday Inns, Inc., serving most recently as Vice President of Business Development for the hotel group of Holiday Inns, Inc.

Item 2. Properties

The Company leases the sites of substantially all Company centers. It conducts its own site evaluation and selection, seeking to locate centers in high-traffic retail or commercial areas which draw on a residential market of 90,000 to 150,000 persons within a five-mile radius. Other location considerations include median age

and income levels, number and proximity of schools, and business activity. Because the Company relies on advertising, community-oriented promotional activities and name identification to attract customers to center locations, the centers do not require more costly high-visibility locations or free-standing, single-purpose structures. Accordingly, centers are generally located in attached, general purpose, one-story retail or commercial space in small and medium-sized suburban shopping centers.

Current leases of Company centers vary as to rental provisions, expiration dates and renewal options. A majority of these leases provide for minimum annual rentals and contain a percentage rent provision (generally less than 6% of gross sales of the center) against which the minimum rental is applied. In lieu of the percentage of center revenue or, in certain cases in addition to it, some leases provide for periodic escalations of minimum annual rentals based upon increases in specified indices. Under substantially all of the leases, the Company is required to pay real estate taxes, insurance and maintenance expenses.

The Company owns a small shopping center in Fort Myers, Florida in which one center is located, and 5 restaurant sites in Texas, Florida and California which the Company intends to sell and lease back. The Company may purchase property on which centers are located in the future, subject to arranging sale-leaseback sources.

The Company leases a 32,000 square-foot facility, completed in 1980, which houses its principal executive offices in Sunnyvale, California. The lease has a five-year term with a five-year renewal option, provides for fixed rentals which escalate on a periodic basis and requires the Company to pay real estate taxes, insurance and maintenance. The Company also leases a 42,900 square-foot facility in Hollister, California. The Company has leases for a total of 161,000 square feet of manufacturing, warehouse and office space in Milpitas, California, and 24,000 square feet of office space near its principal offices. The Company is currently moving from such properties, and either the properties will be subleased or the leases terminated. The Cyberamics maintenance facilities and the distribution center will be located in Hollister, and all other Company facilities will be located in Sunnyvale.

Item 3. Legal Proceedings

On March 28, 1984, the Company filed a petition for reorganization under Chapter XI of the U.S. Bankruptcy Code (the "Code"), in the U.S. Bankruptcy Court, Northern District of California (Case No. 584 00941). Under the Code, the Company has been authorized to operate its business as debtor-in-possession until further order of the Court.

On January 25, 1984, certain security holders of the Company filed a class-action lawsuit in the U.S. District Court for the Northern District of California, Southern Division, Presidential Life Insurance Company, et al., v. Joseph F. Keenan, et al., against the Company, its underwriters and its directors and executive officers. The complaint alleges violations of federal and state securities laws in connection with sales of the Company's common stock beginning in 1982 and sales of its 8.25% Convertible Subordinated Debentures in May 1983, and seeks damages in an unspecified amount. Since that date, five additional class-action lawsuits alleging similar violations have been commenced, four in the U.S. District Court for the Northern District of California and one in the U.S. District Court for the Eastern District of Pennsylvania. No response to any of the aforementioned complaints has been filed by any defendant, and no discovery has been commenced. It is anticipated that it will take approximately six months for procedural motions by the various parties (with respect to class certification and other matters) to be heard and resolved. Although it is not possible at this stage in the proceedings to estimate (1) the likelihood that the plaintiffs will prevail in one or more actions, or (2) the amount of the Company's potential liability in these matters, it is anticipated that all actions will be vigorously prosecuted and defended.

On or about April 7, 1983, Robert Allen Black filed an action in the United States District Court for the Northern District Court of California against Nolan K. Bushnell, the Company and Atari. Mr. Black alleges that as a result of an oral agreement made prior to the sale of Atari's pizza restaurant division to the Company in 1978, Mr. Black has equitable or other ownership interests in certain of the characters utilized in the Company's Cyberamics systems. Mr. Black alleges that the named defendants have breached such alleged pre-formation agreement and violated his alleged copyright and trademark rights, and he seeks \$60,000,000 damages and other relief. The matter is still in the discovery stage.

On October 27, 1982, Alan Trustman filed a suit against Chairman Nolan K. Bushnell in the United States District Court for the Northern District Court of California. Mr. Trustman has alleged breach of an oral agreement to co-develop an entertainment concept involving mini-movie theatres. The proposed theatres had no relation to Chuck E. Cheese's Pizza Time Theatres. Summary judgment was granted to the Company in part, and the plaintiff amended his complaint accordingly to reduce the amount of compensatory and punitive damages sought to approximately \$12,000,000. Discovery in the matter is continuing.

The Company is a defendant in several lawsuits brought by lessors who allege that the Company has breached leases allegedly entered into in connection with centers planned but not open. The Company is unable to estimate a range of loss in these matters because not all potential defenses have been explored and because potential damages may be mitigated depending upon the rental status of each property. All such litigation has been stayed by the bankruptcy proceedings.

The Company is the defendant in a lawsuit brought by PEC which alleges that the Company has defaulted on payment of the \$538,000 promissory note in connection with the acquisition of the franchise center in Nashville, Tennessee. See "Description of Business - Acquisition of Franchises."

The Company's St. Louis, Missouri, franchisee filed suit against the Company in January 1984 (Have Pizza, et al., v. Pizza Time Theatre, Inc., Circuit Court of Greene County, Missouri), alleging, among other things, breach of the franchise agreement and seeking damages in an unspecified amount. The case is in the preliminary stages. The Company had sued Have Pizza previously for breach of the franchise agreement.

The Company is the defendant in several lawsuits alleging employment discrimination and other labor-related claims. The Company believes that all such matters are without merit, or cannot be evaluated because the proceedings are in the preliminary stages.

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

None.

PART II

Item 5. Market for the Registrant's Common Stock and Related Security Holder Matters

The Common Stock of the Company has been traded in the over-the-counter market under the NASDAQ symbol CHKY since April 16, 1981. The following table shows, for the fiscal periods indicated prior to August 9, 1982, the high and low closing bid prices as reported by NASDAQ, which represent quotations among dealers, do not include retail mark-ups, mark-downs or commissions and do not necessarily represent actual transactions, and for the fiscal periods after August 9, 1982, the high and low prices at which the Company's Common Stock traded as reported in the NASDAQ National Market System.

<u>1982</u>	<u>High</u>	<u>Low</u>
First Quarter	25	18 1/4
Second Quarter	32 1/2	23 1/2
Third Quarter	29 3/4	20 1/2
Fourth Quarter	27 3/4	14 1/4
 <u>1983</u> 		
First Quarter	20 1/4	15 1/2
Second Quarter	26 5/8	14 1/2
Third Quarter	20 1/2	12
Fourth Quarter	15 1/4	6 1/2

At December 29, 1983 the Company estimates that there were approximately 5,509 holders of record of its Common Stock.

The Company has never declared or paid a cash dividend and anticipates that it will be unable to pay any dividends in the foreseeable future.

Item 6. Selected Financial Data

The information required by this Item is attached to this Form 10-K as part of Appendix 1 and is incorporated herein by reference.

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

The information required by this Item is attached to this Form 10-K as Appendix 1 and incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The following consolidated financial statements are filed with this report.

Report of Independent Certified Public Accountants

Consolidated Balance Sheets - as of December 30, 1982 and December 29, 1983

Consolidated Statements of Operations - fiscal years ended December 27, 1981, December 30, 1982 and December 29, 1983

Consolidated Statements of Shareholders' Equity (Deficit) - fiscal years ended December 27, 1981, December 30, 1982 and December 29, 1983

Consolidated Statements of Changes in Financial Position - fiscal years ended December 27, 1981, December 30, 1982 and December 29, 1983

Notes to Consolidated Financial Statements

Item 9. Disagreements on Accounting and Financial Disclosure

None.

Item 10. Directors and Executive Officers of the Registrant

Information with respect to the directors of the Company is set forth below. Directors are elected each year at the annual shareholders meeting to serve until the next such meeting.

Information required under this item with respect to executive officers of the Company appears in Part I of this Form 10-K.

<u>Name</u>	<u>Position With Company</u>	<u>Age</u>	<u>First Year Elected Director</u>
Joseph F. Keenan	Chairman of the Board	42	1978
Henry C. Montgomery	President, Chief Financial Officer & Director	48	1984
Bruce Munro	Executive Vice President, Counsel, Secretary and Director	45	1982
Joseph W. Callahan	Director	41	1981

Background information with respect to Messrs. Keenan, Munro and Montgomery is included in Part I of the Form 10-K under "Executive Officers of Registrant."

Mr. Callahan became a director of the Company in 1981. From 1973 to 1977, he was employed by Coldwell, Banker in its commercial and industrial sales and leasing division. Since 1977, Mr. Callahan has been engaged in the development and sale of commercial and industrial properties through various entities owned or controlled by Mr. Callahan and others.

Item 11. Executive Compensation.

The following table furnishes information regarding all cash compensation paid with respect to fiscal 1983 by the Company and its subsidiaries to (1) each of the Company's five most highly compensated executive officers whose cash compensation exceeds \$60,000 and (2) all executive officers as a group, for services rendered in all capacities:

<u>Name</u>	<u>Capacities In Which Served</u>	<u>Cash Compensation</u>
Nolan K. Bushnell	Chairman of the Board & Chief Executive Officer	\$ 166,846
Joseph F. Keenan	President, Chief Operating Officer & Director	151,923
Gene N. Landrum	President of Zapp's Division	132,546
Randall L. Pike	Senior Vice President & Chief Financial Officer	119,962
Bruce H. Munro	Vice President, Secretary & General Counsel	114,981
All executive officers as a group (12 persons)		1,219,765

The remuneration described in the table does not include the cost to the Company of furnishing automobiles to all of its executive officers and the cost of maintenance and nonpersonal operating expenses for such automobiles. The aggregate of such

benefits cannot be precisely determined, but the Company believes that it does not exceed \$10,000 as to any officer.

The Company also provided life insurance to its officers in excess of that provided to all salaried employees. The amount provided depended upon the seniority of the officer and the level of his management functions, and did not exceed a yearly premium of \$1,700 for any officer.

Compensation Pursuant to Plans

The Company currently has options outstanding under the Pizza Time Theatre, Inc. Stock Option Plan, adopted in 1979 (the "1979 Employee Plan"); the Pizza Time Theatre, Inc. Incentive Stock Option Plan, adopted in 1980 (the "1980 Director Plan"); the Pizza Time Theatre, Inc. 1982 Employee Incentive Stock Option Plan (the "1982 Incentive Plan"); and the Pizza Time Theatre, Inc. 1982 Nonstatutory Stock Option Plan (the "1982 Nonstatutory Plan"). The Company has, in effect, but has no options outstanding under, the Pizza Time Theatre, Inc. 1983 Employee Incentive Stock Option Plan (the "1983 Incentive Plan") and the Pizza Time Theatre, Inc. 1983 Nonstatutory Stock Option Plan (the "1983 Nonstatutory Plan"). The purpose of these Plans is to enable the Company and its subsidiaries to recruit and retain selected directors and employees and to provide incentives to them to contribute to the success of the Company by providing equity participation in the Company.

The 1979 Employee Plan covered key employees, including officers and directors, of the Company. The 1980 Director Plan covered directors and other persons associated with the Company who were not employees. The Stock Option Committee determined in 1983 that no further options would be granted under the 1979 Employee Plan or the 1980 Director Plan. Options granted under the 1979 Employee Plan remain outstanding until they are exercised or expire in accordance with their terms.

1982 Incentive Plan covers key employees, including officers and directors, of the Company or any subsidiary. However, no person who owns more than 10% of the combined voting power of the Company and any subsidiary is eligible to receive options under the 1982 Incentive Plan. Key employees and directors of the Company or any of its subsidiaries are eligible to receive options under the 1982 Nonstatutory Plan.

The 1983 Incentive Plan covers key employees, including officers and directors, of the Company or any subsidiary. However, no person who owns more than 10% of the combined voting power of the Company and any subsidiary is eligible to receive options under the 1983 Incentive Plan. Key employees and directors of the Company or

any of its subsidiaries are eligible to receive options under the 1983 Nonstatutory Plan.

Neither the Employee Plan nor the Incentive Plans provide for a maximum number of options which may be granted to any individual optionee, although both provide that the aggregate fair market value of the shares for which a recipient may be granted options under the particular Plan in any calendar year may not exceed \$100,000, except in certain circumstances relating to the carryover of unused portions of such allocations. In addition, the Nonstatutory Plans provide that no individual may receive options under a Nonstatutory Plan for more than an aggregate of 10,000 shares of the Company's Common Stock.

Options are granted by a Stock Option Committee, in its discretion, to persons whose performance is important to the Company. The Stock Option Committee does not have formulas or standard procedures for measuring performance.

Options which are granted under all of the foregoing Plans had terms not exceeding five years and had option exercise prices of not less than 100% of the fair market value of the Company's Common Stock at the date of grant. Options granted to employees were generally exercisable in cumulative annual increments of 33-1/3% commencing one year from the date of grant. The precise terms of option agreements are within the discretion of the Stock Option Committee and need not be uniform. Options granted under the 1980 Director Plan were all exercisable immediately upon grant. Options granted under the 1982 Nonstatutory Plan were exercisable in cumulative annual increments of 33-1/3%, with the first increment being exercisable immediately upon grant.

The following table sets forth information with respect to the grant, pursuant to the above-described plans, of options to purchase Common Stock during fiscal 1983 to the individuals and the group named in the cash compensation table above.

<u>Name</u>	<u>Number of Shares Subject to Options</u>	<u>Average Per-Share Exercise Price(1)</u>	<u>Net Value Realized During Year</u>
Nolan K. Bushnell	- 0 -	--	- 0 -
Joseph F. Keenan	- 0 -	--	- 0 -
Gene N. Landrum	5,000	\$7.50	- 0 -
Randall L. Pike	(2)	(2)	- 0 -
Bruce H. Munro	7,500	\$7.25	- 0 -
All executive officers as a group (9 persons)	72,333	\$7.29	\$36,185

- (1) No option exercise price was less than 100% of the fair market value of the Common Stock on the date of grant.
- (2) Mr. Pike resigned on March 23, 1984. Options granted to him which remain exercisable (until April 22, 1984) have exercise prices substantially in excess of the current fair market value of the Common Stock.

Directors' Compensation

Directors are not paid for attending meetings. However, the Company will reimburse directors for costs incurred in attending meetings.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth, as of March 1, 1984, certain information with respect to all persons known by the Company to be the beneficial owners of 5% or more of its outstanding stock, each director or nominee and all officers and directors of the Company as a group:

<u>Name and Address</u>	<u>Beneficial Ownership (1)</u>	
	<u>Number of Class</u>	<u>Percent of Class</u>
Nolan K. Bushnell 1287 Lawrence Station Road Sunnyvale, CA 94086	1,199,385	19.6%
Joseph F. Keenan	198,109	3%
Joseph F. Callahan, Jr.	3,333	*
Bruce H. Munro	11,500	*
Henry C. Montgomery	- 0 -	*
All officers and directors as a group (9 persons)	288,795	4.5%

*Less than 1%

- (1) Includes 70,661 shares covered by options exercisable on or before June 15, 1984, held by officers and directors, of which 20,332 are held by Mr. Keenan, 3,333 are held by Mr. Callahan and 11,500 are held by Mr. Munro.
- (2) Excludes 66,666 shares owned by Nancy N. Bushnell, the wife of Mr. Bushnell, as to which Mr. Bushnell disclaims beneficial ownership.

Changes in Control

In September 1983, Mr. Bushnell entered into a loan agreement pursuant to which he pledged 1,021,000 shares of Common Stock of the Company (16.7% of the shares outstanding) as collateral. Upon the occurrence of any event of default under the loan agreement, the lender may exercise voting rights with respect to such pledged shares, and may sell all or a portion of such shares.

Item 13. Certain Relationships and Related Transactions

In consideration of Mr. Keenan's relinquishment to the Company of certain rights and claims against Atari, which enabled the Company to settle litigation with Atari in May 1983, the Company agreed to pay to Mr. Keenan 10% of amounts in 1983 received and to be received from Atari for research and development fees under license arrangements. Pursuant to this arrangement, Mr. Keenan received \$300,000 from the Company in 1983 and \$160,000 in January 1984.

In connection with the proposed sale of Sente Technologies to BMDC, Inc. (which is subject to bankruptcy court approval), the Company has agreed to pay Mr. Bushnell \$75,000 per year in consideration of research and development assistance to enable the Company to perform its obligations under the research and development agreement with Atari, Inc. dated May 25, 1983.

PART III

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) 1. Consolidated Financial Statements

See Item 8.

2. Consolidated Financial Statement Schedules

Report of Independent Certified Public Accountants on Schedules

Schedules V - Property, Plant and Equipment

VI - Accumulated Depreciation and Amortization of Property, Plant and Equipment

X - Supplementary Income Statement Information

3. Exhibits

3.1 Articles of Incorporation.(1)

3.1.1 Restated Articles of Incorporation.(2)

3.2 Bylaws.(6)

4. Indenture.(5)

10. Pizza Time Theatre, Inc. Salary Deferral Plan.(7)

10.1 Pizza Time Theatre, Inc. Stock Option Plan, as amended (the "Employee Plan").(3)

10.2 Form of option agreement pursuant to Employee Plan.(1)

10.2.1 Form of option agreement, as amended, pursuant to Employee Plan.(1)

10.2.2 Form of option agreement, as amended in 1982, pursuant to Employee Plan.(3)

10.3 Pizza Time Theatre, Inc. Incentive Stock Option Plan (the "Director Plan").(1)

- 10.4 Form of option agreement pursuant to Director Plan.(1)
- 10.5 Lease, dated December 20, 1980, between the Company and Prudential Insurance Company of America.(1)
- 10.6 Equipment Lease and Option Agreement, as amended, between the Company and BEHR Leasing and Financial Corporation.(1)
- 10.7 Form of Franchise Agreement.(1)
- 10.8 Form of Territorial Development Letter Agreement.(1)
- 10.9 Form of Employment Agreement between the Company and Mr. Hellick.(1)
- 10.10 Form of Employment Agreement between the Company and Messrs. Marks and Landrum.(1)
- 10.12 Stock Purchase Agreement, dated January 31, 1980, among the Company and certain investors.(1)
- 10.13 Stock Purchase Agreement, dated October 20, 1980, among the Company and certain investors.(1)
- 10.15 Pizza Time Theatre, Inc. 1982 Employee Incentive Stock Option Plan (the "1982 Incentive Plan").(3)
- 10.16 Form of option agreement pursuant to the Incentive Plan.(3)
- 10.17 Pizza Time Theatre, Inc. 1982 Nonstatutory Stock Option Plan (the "1982 Nonstatutory Plan")(3).
- 10.18 Form of option agreement pursuant to the Nonstatutory Plan.(3)
- 10.19 Letter Agreements dated June 17, 1982 and June 17, 1982 between the Company and The Bank of California, N.A.(4)
- 10.20 Letter Agreement dated November 19, 1982 between the Company and Banque Nationale de Paris.(4)

- 10.21 Letter Agreement dated June 28, 1982 between the Company and Bank of America.(4)
- 10.22.1 Form of Employment Agreement between the Company and Mr. Bushnell.(5)
- 10.22.2 Form of Employment Agreement between the Company and Mr. Keenan.(5)
- 10.23 Pizza Time Theatre, Inc. 1983 Employee Incentive Stock Option Plan (the "1983 Incentive Plan"). (5)
- 10.24 Pizza Time Theatre, Inc. 1983 Nonstatutory Stock Option Plan (the "1983 Nonstatutory Plan").(5)
- 10.25 Research and Development Agreement of May 23, 1983.(8)
- 10.26 Form of Agreement for Sale of Assets (sale of centers to former Company employees).
- 10.27 Asset Acquisition Agreement between BMDC, Inc. and Pizza Time Theatre, Inc., dated March 27, 1984 re Sente Technologies.
- 11. Computation of earnings (loss) per share.
- 22. Subsidiaries of the Registrant.

(1) Filed as Exhibits (bearing the same numerical designation) to Registration Statement No. 2-71167 and incorporated herein by reference.

(2) Filed as Exhibits to Amendment No. 1 to Registration Statement No. 2-74360 and incorporated herein by reference.

(3) Filed as Exhibits (bearing the same numerical designation) to Registrant's Form 10-K for the year ended December 27, 1981 and incorporated herein by reference.

(4) Filed as Exhibits (bearing the same numerical designation) to Post-Effective Amendment No. 4 to Registration Statement No. 77907 and incorporated herein by reference.

(5) Filed as Exhibits (bearing the same numerical designation) to Registration Statement No. 83491 as filed on May 3, 1983, and incorporated herein by reference.

(6) Filed as Exhibits (bearing the same numerical designation) to Amendment No. 1 to Registration Statement No. 83491 and incorporated herein by reference.

(7) Filed as Exhibit 10.25 to Registration Statement No. 2-84545 as filed on June 17, 1983 and incorporated herein by reference.

(8) Filed as Exhibit 10 to Form 8, dated November 28, 1983, amending Registrant's Form 10-Q for the quarter ended June 16, 1983 and incorporated herein by reference.

(b) Reports on Form 8-K

None.

SIGNATURES

Pursuant to the requirements of Sections 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: April 13, 1984

PIZZA TIME THEATRE, INC.

By: HENRY C. MONTGOMERY
Henry C. Montgomery, President

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.

<u>Date</u>	<u>Signature</u>	<u>Title</u>
<u>3/13/84</u>	<u>JOSEPH F. KEENAN</u> Joseph F. Keenan	Chairman of the Board
<u>3/13/84</u>	<u>HENRY C. MONTGOMERY</u> Henry C. Montgomery	President, Chief Financial Officer, and Director (Principal Financial Officer, Principal Executive Officer and Principal Accounting Officer)
<u>3/13/84</u>	<u>BRUCE H. MUNRO</u> Bruce H. Munro	Executive Vice President, General Counsel, Secretary and Director
<u> </u>	<u> </u> Joseph W. Callahan, Jr.	Director

SELECTED FINANCIAL DATA

	Year Ended				
	December 30, 1979	December 28, 1980	December 27, 1981	December 30, 1982	December 29, 1983
Selected Statement of Earnings Data:					
Revenues from Company centers.....	\$2,960,821	\$ 9,336,444	\$29,547,007	\$ 82,580,391	\$ 132,180,101
Royalties and franchise fees.....	---	1,006,000	2,624,254	8,508,940	10,477,789
Other revenues.....	104,918	1,083,084	4,047,653	8,196,737	9,185,415
Total revenues.....	3,065,739	11,425,528	36,218,914	99,286,068	151,843,305
Net income (loss):					
Continuing operations	(1,324,307)	176,879 (1)	2,601,056	7,507,736	(76,348,868)
Discontinued operations, including loss on disposal.....	---	---	---	---	(4,907,220)
Net income (loss).....	(1,324,307)	176,879	2,601,056	7,507,736	(81,256,088)
Net earnings (loss) per share:					
Continuing operations	(.69)	.07 (1)	.58	1.27	(12.65)
Discontinued operations, including loss on disposal.....	---	---	---	---	(0.81)
Net earnings (loss)....	(.69)	.07	.58	1.27	(13.46)
Weighted average shares outstanding.....	1,927,999	2,598,404	4,492,265	5,893,098	6,035,874
Selected Balance Sheet Data:					
Working Capital.....	\$ 397,828	\$ 590,755	\$21,541,261	\$ (4,242,197)	(2)
Total assets.....	3,471,977	9,483,330	60,927,601	110,068,688	117,813,123
Long-term debt.....	1,750,000	1,155,807	4,562,170	32,181,692	626,360
Total shareholders' equity (deficit).....	(576,344)	5,884,485	44,818,352	53,760,477	(25,309,437)

(1) See accompanying Consolidated Financial Statements for cumulative effect of change in accounting method.

(2) Cannot be computed.

The first three quarters of the Company's fiscal year are of twelve weeks duration, and the fourth quarter is of sixteen weeks duration.

Results of Operations

Fiscal 1983 Compared With Fiscal 1982

Revenues from Company centers were \$132,180,000, a 60% increase over fiscal 1982. This increase was primarily a result of 38 additional centers open in fiscal 1983.

Revenues from franchise operations were \$16,963,000, 1.5% higher than in 1982. Franchise revenues did not increase commensurate with the increase in the number of franchise centers due to fewer territorial rights sold in 1983 than in 1982, slower expansion of franchise centers (resulting in fewer equipment and product sales), lower revenues per center, and the acquisition by the Company of two profitable centers, decreasing the royalties payable.

Cost of sales as a percentage of revenues increased by 4% over fiscal 1982, primarily as a result of the Company's efforts to increase food quality and service in the centers. Operating expenses for the centers as a percentage of revenues increased by 14% over fiscal 1982. Such expenses were affected by higher repair and maintenance expenses, especially in the older centers, and by declining per-center sales.

Product costs increased proportionately as a result of the greater number of Company and franchise centers open.

Selling, general and administrative expenses increased to 23.6% of total revenues in 1983 from 17.3% in 1982. The increase was due primarily to the recognition of bad debt, the write-off of goodwill in connection with discontinued center operations, loss on disposal of fixed assets, sales tax assessment upon audit, and the write-off of deferred expenses in connection with the May 1983 debenture offering.

Interest expense in 1983 was \$9,031,000, compared to \$2,285,000 in 1982. Interest expense included \$2,624,000 paid on the Company's 8-1/4% Convertible Subordinated Debentures, \$4,014,000 interest expense on capital leases and \$2,393,000 interest on bank borrowings, \$556,000 of which was capitalized. Interest income was \$504,000 in 1983 compared to \$1,076,000 in 1982.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

Overview

The Company's continued growth in revenues is principally due to growth in the number of Company and franchised centers open during the last three years. The Company sustained a loss in fiscal 1983 due to lower revenues per center and substantial costs and expenses, including interest expense and provision for closing certain stores and writing down certain assets. The following table shows the number of centers in operation at fiscal year-end 1981, 1982 and 1983.

	Company Centers			Franchise Centers			Total		
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Open at beginning of the year	14	44	109	11	44	95	25	88	204
Opened during year	30	58	38	33	58	34	63	116	72
Acquired (Sold)	--	7	11	--	(7)	(11)	--	--	--
Closed or converted	--	--	(10)	--	--	--	--	--	(10)
<u>Open at end of year</u>	<u>44</u>	<u>109</u>	<u>148</u>	<u>44</u>	<u>95</u>	<u>118</u>	<u>88</u>	<u>204</u>	<u>266</u>

Revenues from Company centers consist of total sales of the centers. Royalties and franchise fees include initial fees paid to the Company for territorial development rights and individual franchises, and continuing royalty payments under franchise agreements (6% of franchised center gross sales in 1983). The Company's territorial development agreement grants a right to develop a number of franchises within a specified territory upon payment of a nonrefundable fee of \$5,000 per location. When a franchised center is opened under this arrangement, the \$20,000 fee then due is reduced by the \$5,000 nonrefundable fee previously paid.

Other revenues consist of all revenues from sale of manufactured equipment and merchandise, including Cyberamics and games, and revenues (net of certain expenses) from sale of consumer (home cartridge) rights to video games. Equipment and merchandise are sold to franchise owners at prices approximating cost.

Product costs include amounts related to the production of Cyberamics and other equipment and merchandise. Research and engineering expenses include costs related to the Company's development of video games and animated video tapes.

The Company sustained a net loss in 1983 of \$81,256,000, compared to net income after provision for federal and state taxes of \$7,508,000 in 1982. The Company provided \$45,412,000 for closing unprofitable centers and for writing down the value of assets in connection with the curtailment of certain Company activities. Net loss per share was \$13.46 in 1983, compared to net earnings per share of \$1.27 in 1982.

Fiscal 1982 Compared With Fiscal 1981

Revenues from franchise operations were \$16,706,000, 150% higher than 1981. The increase in initial franchise fees reflects income received from 58 franchised centers opened during 1982, as compared to 33 opened during 1981, and the sale of territorial franchise agreements. The increase in other franchise revenues was principally due to the sale of Cyberamics to franchise owners, royalty revenues from additional franchised centers and the Brock chain of Show Biz Pizza Place restaurants. In June 1982, the Company settled its litigation with Brock resulting in a \$750,000 lump sum payment plus monthly payments of 1.5% to 2% of gross sales of Brock's first 160 Show biz Pizza Place units over the next 14 years.

The increased cost of sales for centers was in line with higher sales for 1982. Operating expenses for the centers were up as the Company expanded its promotional and advertising programs in 1982 over 1981. Also, operating expenses were affected by the higher cost associated with the opening of 58 new centers.

Engineering and product costs include amounts related to the production of Cyberamics units and other products sold to both Company and franchised centers. These costs increased proportionately as a result of the greater number of Company and franchised centers.

Selling, general and administrative expenses increased in 1982 as a result of the expansion of the Company's operations. However, these expenses decreased from 20.7% of total revenues in 1981 to 17.3% of total revenues during 1982.

The Company financed its growth by leasing certain assets and borrowing approximately \$19,300,000 under bank lines of credit. During 1982 interest expense from bank borrowings was \$489,000 of which approximately \$250,000 was capitalized. Interest income in 1982 was \$1,076,000 compared to \$1,071,000 in 1981.

During 1982, the Company opened 58 centers providing a large investment tax credit which resulted in an overall effective tax rate of approximately 15% for 1982.

Net income after provision for federal and state taxes increased from \$2,601,056 in 1981 to \$7,507,736 in 1982. This represents an increase from \$.58 per share in 1981 to \$1.27 per share in 1982. Net income per share was affected by the 31% increase in the average number of shares outstanding.

Fiscal 1981 Compared With Fiscal 1980

Revenues from Company centers in fiscal 1981 increased over fiscal 1980 primarily as a result of 30 new centers opened during fiscal 1981 and increased revenues from existing centers opened in fiscal 1980.

The increase in initial franchise fees was the result of income received from 33 franchised centers opened during fiscal 1981 as compared to 20 franchised centers opened during fiscal 1980. Initial franchise fees in fiscal 1981 and fiscal 1980 included \$605,000 and \$575,000, respectively, related to non-refundable fees from the sale of rights to develop multiple franchises within a specified territory.

The increase in other franchise revenues was principally due to the sale of Cyberamics to franchise owners and royalty revenues from additional franchised centers in operation and from increased revenues of existing franchised centers.

Engineering and product costs include amounts related to the production of Cyberamics for both Company and franchised centers and the cost of other items sold to franchise owners. These costs increased proportionately as a result of the greater number of Company and franchised centers.

Selling, general and administrative expenses increased in 1981 as a result of the expansion of the Company's operations. However, these expenses decreased from 25.1% of total revenues in 1980 to 20.7% of total revenues during 1981.

The Company raised approximately \$36,000,000 from the sale of Common Stock to the public in 1981. These funds were invested in short-term, interest-bearing securities pending utilization. During 1981, interest income from such investments was approximately \$1,070,896 (\$879,000 net of interest expense). Interest expense in 1980 was \$244,000.

Approximately half of the Company center openings in fiscal 1981 occurred during the fourth quarter. This provided a large investment tax credit which, together with an investment tax credit carryforward from 1980, resulted in an overall effective tax rate of approximately 20% for fiscal 1981.

Net income after provision for federal and state taxes increased from \$176,879 in 1980 to \$2,601,056 in 1981. This represents an increase from \$.07 per share in 1980 to \$.58 per share in 1981. Net income per share did not increase at the same rate as net income due to a substantial increase in the number of shares outstanding principally as a result of the issuance of 900,000 shares of Common Stock in an initial public offering in April 1981 and 1,033,166 shares of Common Stock in a second public offering in November 1981.

Liquidity and Capital Resources

On March 28, 1984, the Company filed a petition for reorganization under Chapter 11 of the Federal Bankruptcy Code (the "Code"). Under the Code, the Company has been authorized to operate its business as debtor-in-possession until further order of the Bankruptcy Court (the "Court"). As of January 13, 1984, the Company was not in compliance with the terms of its bank loan agreements, under which approximately \$11 million was owed. On March 22, 1984, Bank of California, as Trustee under the indenture with respect to the Company's 8-1/4% Convertible Subordinated Debentures, notified the Company that the Company was in default under the indenture for failing to generally pay the Company's debts as they become due.

Since the close of the 1983 fiscal year, the Company has reduced its operating staff and general administrative expenses and has devoted substantially all management time to marshalling and conserving its assets, closing or terminating unprofitable operations and preparing a plan for reorganization of the Company and its outstanding debt. The Company has closed 22 unprofitable centers in 1984, in addition to ten closed or converted in 1983.

Working capital will be provided from the operations of remaining centers, the sale of Sente Technologies, which is subject to the approval of the Court, and the sale of the Company's Zapp's Bar & Grill division, which operates four adult centers. The sale of Zapp's is currently being negotiated and will also be subject to Court approval. The Company has been unable to obtain additional bank financing.

Under Chapter 11 of the Code, substantially all the Company's pre-petition liabilities are subject to settlement under a plan of reorganization (which has not been completed) to be voted upon by all impaired classes of creditors and equity security holders. If such a plan is approved by such creditors and security holders, it will be submitted to the Court for confirmation. Substantially all of the Company's pre-petition unsecured debt is in default under the terms of the applicable loan agreements, notes and debentures as the result of the

Chapter 11 proceedings. From the date of filing, the exercise of default remedies, as well as obligations to pay interest on pre-petition unsecured debt, were stayed. The Company may reject executory contracts and lease obligations, and parties affected by such rejections may file claims with the Court.

Impact of Inflation

Significant inflationary factors related to the Company's operations include food and labor costs and occupancy costs of premises. Many employees are paid hourly rates related to the federal minimum wage. Accordingly, inflation-related increases in the minimum wage have increased, and may continue to increase, the Company's costs. Higher costs, coupled with uncertainty among financial institutions about making long-term, fixed-rate mortgage commitments in a period of volatile interest rates, have significantly increased the costs of lessors and developers who lease centers to the Company and, accordingly, have increased rentals under such leases. Furthermore, most of the present leases contain periodic cost-of-living indices. Although no assurances can be given as to the future, the Company has throughout most of the past been able to increase prices to match cost increases. The Company may not be able to match cost increases to the extent that it decreases or maintains prices in order to compete with other food and entertainment centers.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Pizza Time Theatre, Inc.:

We have examined the consolidated balance sheets of Pizza Time Theatre, Inc. and subsidiaries as of December 30, 1982 and December 29, 1983 and the related consolidated statements of operations, shareholders' equity (deficit) and changes in financial position for each of the years in the three-year period ended December 29, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As set forth in note 1 to the consolidated financial statements, on March 28, 1984 Pizza Time Theatre, Inc. filed a petition for reorganization under Chapter 11 of the United States Bankruptcy Code. The process of determining the amount of allowable pre-petition claims has just begun, and the ultimate settlement of these claims will be determined when a plan of reorganization has been agreed to with creditors and confirmed by the Bankruptcy Court.

As described in note 16, the Company is subject to a number of lawsuits, including several class action lawsuits alleging violations of Federal and State securities laws. The final outcome of these lawsuits and its effect, if any, on the Company's consolidated financial statements is not presently determinable.

As described in note 13, the Company has available net operating loss and investment tax credit carryforwards as well as investment tax credit recapture on asset dispositions. Determination of these amounts involve complex State and Federal tax issues and may be contingent upon the terms of the plan of reorganization settling the bankruptcy proceedings.

As described in note 4, the Company has closed thirty-two centers and contemplates closing additional centers. The Company has recorded a reserve for these centers to provide for estimated losses on disposal of assets and estimated lease cancellation costs. In addition, the Company has recorded a reserve against the assets of unprofitable centers. If the Company continues to have unprofitable operations at these or other centers or decides to close more centers, the additional reserve that would be required is not presently determinable.

The accompanying consolidated financial statements have been prepared in conformity with principles of accounting applicable to a going-concern. Continuation of the Company as a going-concern and realization of its assets and liquidation of its liabilities are dependent upon, among other things: (1) confirmation of a Plan of Reorganization (which will, among other things, result in significant adjustments and reclassifications in the amounts reflected as liabilities and shareholders' equity (deficit) in the accompanying consolidated balance sheet), and (2) the ability of the Company to maintain adequate financing, combined with the achievement of profitable continuing operations. The eventual outcome of these matters is not presently determinable. The consolidated balance sheet does not include any adjustment relating to the recoverability and classification of recorded asset amounts or the amount and classification of liabilities that might be necessary should the Company be unable to continue its existence.

In our opinion, subject to the effects on the 1983 consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the matters discussed in the preceding five paragraphs been known, the aforementioned consolidated financial statements present fairly the financial position of Pizza Time Theatre, Inc and subsidiaries at December 29, 1983 and December 30, 1982 and the results of their operations and the changes in their financial position for each of the years in the three-year period ended December 29, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

San Jose, California
March 29, 1984.

PIZZA TIME THEATRE, INC.
(DEBTOR IN POSSESSION)
CONSOLIDATED BALANCE SHEETS
ASSETS

	December 30, <u>1982</u>	December 29, <u>1983</u>
Cash and cash equivalents.....	\$ 3,735,505	\$ ---
Receivables (Note 5).....	5,130,973	5,429,767
Inventories (Note 6).....	12,646,982	3,371,889
Prepaid expenses.....	1,300,009	326,348
Center pre-opening expenses.....	3,247,000	---
Net assets of discontinued operations (Note 3).....	---	4,388,647
Property, equipment and leasehold improvements at cost less accumulated depreciation and amortization (Notes 7 and 9).....	80,449,709	100,812,339
Other assets.....	3,558,510	3,484,133
	<u>\$110,068,688</u>	<u>\$117,813,123</u>

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)

Bank overdraft.....	\$ ---	\$ 2,515,567
Accounts payable.....	9,421,960	8,801,757
Accrued liabilities (Note 8).....	3,260,819	6,033,731
Income taxes payable (Note 13).....	416,264	---
Current debt (Notes 9 and 11).....	7,990,729	39,130,334
8.25% convertible subordinated debentures (Note 10).....	---	50,000,000
Deferred income.....	728,500	1,561,374
Reserve for center closings (Note 4)..	---	34,453,437
Long-term debt, (Note 9).....	32,181,692	626,360
Deferred income.....	973,582	---
Deferred income taxes (Note 13).....	1,334,665	---
Shareholders' equity(deficit)(Note 12):		
Common stock. Authorized 20,000,000 shares; outstanding 5,827,241 in 1982 and 6,108,165 in 1983.....	45,324,150	47,510,324
Retained earnings (deficit).....	<u>8,436,327</u>	<u>(72,819,761)</u>
Total shareholders' equity (deficit).....	53,760,477	(25,309,437)
Commitments and contingencies (Notes 15 and 16).....	<u>\$110,068,688</u>	<u>\$117,813,123</u>

See accompanying notes to consolidated financial statements.

PIZZA TIME THEATRE, INC.
(DEBTOR IN POSSESSION)
CONSOLIDATED STATEMENTS OF OPERATIONS

	<u>Fiscal Year Ended</u>		
	<u>December 27,</u> <u>1981</u>	<u>December 30,</u> <u>1982</u>	<u>December 29,</u> <u>1983</u>
Revenues:			
Company centers.....	\$29,547,007	\$82,580,391	\$132,180,101
Royalties and franchise fees.....	2,624,254	8,508,940	10,477,789
Other revenues.....	4,047,653	8,196,737	9,185,415
Total revenues.....	<u>36,218,914</u>	<u>99,286,068</u>	<u>151,843,305</u>
Costs and expenses:			
Company centers:			
Cost of sales.....	13,472,154	36,539,861	64,429,551
Operating expenses.....	9,592,524	29,712,603	66,022,015
Product costs.....	2,834,582	6,101,313	9,360,078
Research and engineering.....	---	---	559,775
Selling, general and administrative expenses.....	7,503,188	17,155,941	35,818,202
Interest expense (income), net.....	(435,590)	959,114	7,872,796
Provision for center closings/asset write-down (Note 4).....	---	---	45,412,353
Total costs and expenses.....	<u>32,966,858</u>	<u>90,468,832</u>	<u>229,474,770</u>
Income (loss) from continuing operations before income taxes	3,252,056	8,817,236	(77,631,465)
Income taxes (benefit) (Note 13).....	651,000	1,309,500	(1,282,597)
Income (loss) from continuing operations.....	2,601,056	7,507,736	(76,348,868)
Income (loss) from discontinued operations.....	---	---	(3,357,220)
Provision for loss on disposal of discontinued operations (Note 3)....	---	---	(1,550,000)
Net income (loss).....	<u>\$ 2,601,056</u>	<u>\$ 7,507,736</u>	<u>\$(81,256,088)</u>
Earnings (loss) per common share and common share equivalent:			
Continuing operations.....	\$0.58	\$1.27	\$(12.65)
Discontinued operations, including loss on disposal.....	---	---	\$(0.81)
Net earnings (loss).....	<u>\$0.58</u>	<u>\$1.27</u>	<u>\$(13.46)</u>
Weighted average number of common and common equivalent shares outstanding	<u>4,492,265</u>	<u>5,893,098</u>	<u>6,035,874</u>

See accompanying notes to consolidated financial statements.

PIZZA TIME THEATRE, INC.

(DEBTOR IN POSSESSION)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)

	Common Stock		Preferred Stock		Retained Earnings (Accumulated Deficit)	Total
	Number of Shares	Amount	Number of Shares	Amount		
Balance at December 28, 1980.....	2,925,746	\$ 4,233,043	730,980	\$ 3,323,907	\$ (1,672,465)	\$ 5,884,485
Sale of stock under stock option plans.....	102,519	394,467	---	---	---	394,467
Sale of stock to public.....	1,933,166	35,938,344	---	---	---	35,938,344
Conversion of preferred to common stock.....	730,980	3,323,907	(730,980)	(3,323,907)	---	---
Net income.....	---	---	---	---	2,601,056	2,601,056
Balance at December 27, 1981.....	5,692,411	43,889,761	---	---	928,591	44,818,352
Sale of stock under stock option plans.....	90,395	242,923	---	---	---	242,923
Issuance of stock in connection with acquisitions.....	44,435	1,191,466	---	---	---	1,191,466
Net income.....	---	---	---	---	7,507,736	7,507,736
Balance at December 30, 1982.....	5,827,241	45,324,150	---	---	8,436,327	53,760,477
Sale of stock under stock option plans.....	17,781	118,315	---	---	---	118,315
Issuance of stock in connection with acquisitions.....	263,143	2,067,859	---	---	---	2,067,859
Net loss.....	---	---	---	---	(81,256,088)	(81,256,088)
Balance at December 29, 1983.....	6,108,165	\$47,510,324	---	\$ ---	\$(72,819,761)	\$(25,309,437)

See accompanying notes to consolidated financial statements.

PIZZA TIME THEATRE, INC.

(DEBTOR IN POSSESSION)

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Fiscal Year Ended		
	December 27, 1981	December 30, 1982	December 29, 1983
Sources of working capital:			
Net income (loss) from continuing operations.....	\$ 2,601,056	\$ 7,507,736	\$(76,348,868)
Items which do not use working capital:			
Depreciation and amortization.....	2,256,267	8,922,145	21,060,215
Deferred income taxes (benefit)...	334,000	1,000,665	(1,334,665)
Reserve for center closings.....	---	---	34,453,437
Write-down of property, equipment and leasehold improvements.....	---	---	8,500,000
Working capital provided (used) by continuing operations.....	5,191,323	17,430,546	(13,669,881)
Net income (loss) from discontinued operations, including loss on disposal.....	---	---	(4,907,220)
Depreciation and amortization.....	---	---	409,175
Working capital provided (used) by operations.....	5,191,323	17,430,546	(18,167,926)
Net book value of property and equipment dispositions.....	163,223	146,364	7,141,355
Decrease in long-term receivables...	---	145,000	---
Decrease in other assets.....	---	---	74,377
Proceeds from long-term borrowings..	11,407,433	41,212,325	41,173,732
Proceeds from subordinated debentures	---	---	50,000,000
Additions to deferred income.....	188,588	784,994	---
Sale of stock.....	36,332,811	242,923	118,315
Issuance of stock in acquisitions...	---	1,191,466	2,067,859
Decrease in working capital.....	---	17,521,304	98,768,309
	<u>\$53,283,378</u>	<u>\$ 78,674,922</u>	<u>\$181,176,021</u>
Uses of working capital:			
Additions to property and equipment.	\$23,508,754	\$ 62,348,207	\$ 57,473,375
Additions to other assets.....	228,577	2,733,912	---
Decrease in deferred income.....	---	---	973,582
Repayment of long-term debt.....	8,004,786	13,592,803	53,119,838
Reclassification of long-term debt to current.....	---	---	69,609,226
Increase in working capital.....	21,541,261	---	---
	<u>\$53,283,378</u>	<u>\$ 78,674,922</u>	<u>\$181,176,021</u>

PIZZA TIME THEATRE, INC.

(DEBTOR IN POSSESSION)

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION (CONTINUED)

	Fiscal Year Ended		
	December 27, 1981	December 30, 1982	December 29, 1983
Changes in components of working capital:			
Increase (decrease) in current assets:			
Cash.....	\$21,984,627	\$(18,443,291)	\$ (3,735,505)
Receivables.....	1,703,041	2,766,911	298,794
Inventories.....	4,858,246	6,123,228	(9,275,093)
Prepaid expenses.....	284,800	870,629	(973,661)
Center pre-opening expenses.....	1,292,000	1,955,000	(3,247,000)
Net assets of discontinued operations.....	---	---	4,388,647
	<u>30,122,714</u>	<u>(6,727,523)</u>	<u>(12,543,818)</u>
Increase (decrease) in current liabilities:			
Bank overdraft.....	---	---	2,515,567
Accounts payable.....	5,813,162	2,092,813	(620,203)
Accrued liabilities.....	972,370	1,894,388	2,772,912
Income taxes payable.....	317,000	99,264	(416,264)
Current debt.....	628,421	7,197,831	31,139,605
Subordinated debentures.....	---	---	50,000,000
Deferred income.....	850,500	(490,515)	832,874
	<u>8,581,453</u>	<u>10,793,781</u>	<u>86,224,491</u>
Increase (decrease) in working capital.....	<u>\$21,541,261</u>	<u>\$(17,521,304)</u>	<u>\$(98,768,309)</u>

See accompanying notes to consolidated financial statements.

PIZZA TIME THEATRE, INC.

(DEBTOR IN POSSESSION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(e) Inventories

Inventories are stated at the lower of cost (first-in, first-out basis) or market (net realizable value).

(f) Depreciation and Amortization

Depreciation and amortization are provided principally on the straight-line method over the estimated useful lives of the respective assets:

Cyberamics.....	5 years
Coin-operated amusement games.....	3 years
Equipment:	
Computer.....	5 years
Restaurant.....	10 years
Other.....	5-7 years
Building.....	20 years
Building improvements.....	7 years
Leasehold improvements (lesser of estimated useful life or terms of lease).....	3-13 years
Patents, copyrights and designs.....	5 years

(g) Center Pre-opening Expenses

Pre-opening expenses related to new company centers are initially capitalized and expensed over 12 months from the opening date. At December 29, 1983, approximately \$1,293,000 of such deferred costs were written off.

(h) Income Taxes

Deferred income taxes result from timing differences in the recognition of certain revenue and expense items for tax and financial reporting purposes. Investment tax credits are recorded as a reduction of the provision for Federal income taxes in the year realized.

(i) Engineering and Product Costs

Prior to 1983, engineering and product costs consisted of costs associated with the manufacture of Cyberamics and other products related to franchised and Company centers. It was impractical for the Company to separate research and development from sustaining engineering costs. Both types of expenses were charged against income as incurred. Beginning in 1983, the Company separated research and engineering costs from product costs.

(j) Earnings (loss) per Common Share

- Earnings (loss) per common share and common share equivalent are based on the weighted average number of shares outstanding and equivalent shares from dilutive stock options.

(k) Reclassifications

Certain reclassifications have been made to the 1981 and 1982 financial statements to conform to the 1983 presentation.

PIZZA TIME THEATRE, INC.

(DEBTOR IN POSSESSION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(2) Proceedings Under Chapter 11

On March 28, 1984, the Company filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code. It is now operating its businesses as a debtor-in-possession. Under Chapter 11, substantially all pre-petition liabilities are subject to settlement under a plan of reorganization to be voted upon by all impaired classes of creditors and equity security holders and, if approved, submitted for confirmation to the Bankruptcy Court.

As a result of the filing under Chapter 11, substantially all of the Company's pre-petition unsecured debt is in default under the terms of the applicable loan agreements, notes and debentures. From the date of filing, the exercise of default remedies are stayed and certain other contractual obligations may not be enforced against the Company. Obligations to pay interest on pre-petition unsecured debt were stayed upon the filing of the petition. Under Chapter 11, the Company may reject executory contracts and lease obligations. Parties affected by these rejections may file claims with the Bankruptcy Court in the reorganization proceedings.

The Company is currently reviewing claims filed by creditors. Since a deadline for filing such claims has not yet been established by the Bankruptcy Court, it is not possible to determine whether the liabilities indicated in the Company's accounting records adequately reflect the claims of creditors that may ultimately be filed. In addition, any claims filed by creditors which differ from the amount reflected in the Company's records may require resolution by the Bankruptcy Court. It is not currently possible to determine whether the resolution of such differences, if any, will materially affect the 1983 consolidated financial statements.

The accompanying consolidated financial statements have been prepared in conformity with principles of accounting applicable to a going concern. Continuation of the Company as a going concern and realization of its assets and liquidation of its liabilities in the ordinary course of business are dependent upon, among other things, confirmation of a plan of reorganization and the ability of the Company both to maintain adequate financing and to achieve profitable continuing operations. The Company is presently in the process of formulating a plan of reorganization.

PIZZA TIME THEATRE, INC.

(DEBTOR IN POSSESSION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(3) Discontinued Operations

In April 1983, the Company acquired through its Sente Technologies subsidiary a video games business for approximately \$ 2,200,000 of which \$200,000 was in cash and the balance in common stock. Subsequent to December 29, 1983 Pizza Time agreed to sell Sente Technologies to another Company for approximately \$3.9 million in cash and assumption of certain liabilities. The proposed sale is pending approval by the Bankruptcy Court.

In 1983 the Company's Kadabrascope division began development of animated video tapes. Subsequent to December 29, 1983 the operations of Kadabrascope have been discontinued.

The assets and liabilities of Sente Technologies Inc. and Kadabrascope at December 29, 1983 consist of the following:

(in thousands)

Sente Technologies Inc.:

Assets

Accounts receivable.....	\$ 60
Inventory.....	1515
Property, plant and equipment.....	1074
Other assets, primarily goodwill.....	2022
Total assets.....	<u>\$4671</u>

Liabilities

Accrued liabilities.....	<u>\$ 40</u>
Net assets of Sente Technologies Inc.....	<u>\$4631</u>

Kadabrascope:

Equipment and software.....	<u>1308</u>
Total assets of discontinued operations....	\$5939
Provision for loss on disposal of discontinued operations.....	<u>1550</u>
Total net assets of discontinued operations	<u><u>\$4389</u></u>

(4) Center Closing Reserves and Asset Writedowns

In 1983 the Company undertook an evaluation of all aspects of the Company's center operations. As a result of this review management has closed thirty-two centers and contemplates closing additional centers. Included in the provision for these centers is a writedown of the assets of the centers to estimated net realizable value and an allowance for rent cancellation costs. Subsequent to December 29, 1983 management decided to writedown fixed assets at additional centers that were operating unprofitably. In addition, management decided to writedown various other assets that are either surplus as a result of the Company's scaled down operations, or are unlikely to be recovered in the future.

PIZZA TIME THEATRE, INC.

(DEBTOR IN POSSESSION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The major adjustments recorded in 1983 are as follows:

(in millions)

Provision for losses on disposition of 53 centers.....	\$33.30
Writedown of fixed assets at 45 additional centers.....	8.50
Provision for loss on sale of one center subsequent to December 29, 1983.....	0.60
Provision for loss on disposition of two Zapp's centers.....	1.20
Provision for loss on discontinued operations (Sente Technologies Inc and Kadabrascope)..	1.55
Writedown of deferred debenture offering costs	1.67
Writedown of goodwill, relating primarily to center acquisitions.....	2.93
Writedown of center preopening expenses.....	1.29
Writedown of character changes and excess store supplies.....	1.29
Writedown to net realizable value of games held for sale.....	0.82
Adjustment of capitalized interest costs.....	0.64
Writedown of excess inventory.....	3.50
	<u>\$57.29</u>

The major adjustments discussed above, except for the adjustment for capitalized interest costs are properly recorded as fourth quarter adjustments, as they are based on management decisions made either in the fourth quarter or subsequent to December 29, 1983. However there are certain adjustments that could be allocated to the preceding three quarters. The net quarterly impact of these adjustments is presented below.

	First Quarter	Second Quarter	Third Quarter
As previously reported in Form 10Q (unaudited):			
Net income (loss) (in thousands).....	\$ 942	\$(3,255)	\$(3,661)
Earnings (loss) per share.....	.16	(.54)	(.60)
Estimated net effect of certain fourth quarter adjustments:			
Net loss (in thousands).....	(353)	(656)	(849)
Net loss per share.....	(.06)	(.11)	(.14)
Net income (loss), as adjusted.....	589	(3,911)	(4,510)
Earnings (loss) per share, as adjusted	0.10	(.65)	(.74)

The adjustments to prior quarters are based on an estimated allocation of certain adjustments made during the fourth quarter. These adjustments relate primarily to corrections of interest capitalized, depreciation and rent expense and the writedown of certain inventories. The adjustment for depreciation expense could not be specifically identified with a particular quarter or period and consequently was allocated evenly between the first three quarters at approximately \$267,000 per quarter.

PIZZA TIME THEATRE, INC.

(DEBTOR IN POSSESSION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(5) Receivables

A summary of receivables is as follows:

	<u>1982</u>	<u>1983</u>
Trade accounts.....	\$ 3,319,998	\$2,512,437
Lease receivables.....	---	1,533,929
Notes receivable.....	145,000	1,272,809
Royalties and interest receivable.....	<u>1,705,975</u>	<u>1,683,706</u>
	5,170,973	7,002,881
Less allowance for doubtful accounts.....	40,000	1,573,114
Total receivables.....	<u>\$ 5,130,973</u>	<u>\$5,429,767</u>

Lease receivables are due from franchisees for equipment financed by the Company. Notes receivable are also primarily from franchisees and are secured by the assets of the respective franchised centers. The notes have 5 year terms and interest rates ranging from 11-12%.

(6) Inventories

Inventories are as follows:

	<u>1982</u>	<u>1983</u>
Food, beverage, merchandise and supplies...	\$ 3,285,370	\$3,168,326
Raw materials.....	2,712,638	203,563
Work-in-process.....	1,822,779	---
Finished goods.....	938,382	---
Games and other equipment.....	<u>3,887,813</u>	---
	<u>\$12,646,982</u>	<u>\$3,371,889</u>

(7) Property, Equipment and Leasehold Improvements

A summary of property, equipment and leasehold improvements is as follows:

	<u>1982</u>	<u>1983</u>
Cyberamics.....	\$ 2,361,234	\$ 5,736,420
Coin-operated amusement games.....	20,467,139	27,427,968
Restaurant equipment.....	6,253,633	13,166,215
Furniture and equipment.....	1,409,433	1,292,443
Land.....	1,796,239	1,557,329
Buildings.....	1,998,299	3,382,839
Building improvements.....	194,733	200,614
Leasehold improvements.....	37,022,673	49,592,579
Leased equipment under capital leases.....	20,684,673	29,238,495
Computer equipment.....	<u>186,936</u>	<u>1,100,138</u>
	92,374,992	132,695,040
Less accumulated depreciation and amortization.....	<u>11,925,283</u>	<u>31,882,701</u>
	<u>\$80,449,709</u>	<u>\$100,812,339</u>

PIZZA TIME THEATRE, INC.

(DEBTOR IN POSSESSION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Amortization expense on leased equipment under capital leases was approximately \$362,000, \$1,672,000 and \$5,723,000 in 1981, 1982 and 1983, respectively.

In 1982 and 1983, approximately \$250,000 and \$556,000, respectively, in interest expense was capitalized with leasehold improvements. There was no interest capitalization in 1981 as the Company did not have any bank borrowings.

(8) Accrued Liabilities

Accrued liabilities are as follows:

	<u>1982</u>	<u>1983</u>
Payroll and related items.....	\$ 1,549,385	\$1,992,512
Sales and property taxes.....	886,077	1,764,100
Interest and advertising.....	211,852	1,446,389
Other.....	613,505	830,730
	<u>\$ 3,260,819</u>	<u>\$6,033,731</u>

(9) Debt and Notes Payable

A summary of debt is as follows:

	<u>1982</u>	<u>1983</u>
Note payable for acquisition of assets of wood-working company due in two annual principal payments plus interest at 1% below prime beginning January 3, 1983.....	\$ 289,733	\$ 144,867
Mortgage notes payable at interest rates from 9 to 10½% secured by property and due in equal monthly installments through 2001.....	694,794	662,081
Note payable for acquisition of certain assets, due from 1983 to 1985 at interest rates ranging from 10% to 15%.....	656,931	538,000
Notes payable under bank lines of credit.....	14,300,000	7,165,000
Unsecured term loan payable in 20 installments of \$250,000 each at prime plus ½%.....	5,000,000	3,750,000
Note payable secured by property, due in equal monthly installments through 1983.....	332,756	---
Notes payable due January, 1985 and August, 1989 at interest rates of 12.5% and 16% respectively	---	730,492
Obligations under capital leases.....	18,898,207	26,766,254
	<u>40,172,421</u>	<u>39,756,694</u>
Less current portion.....	7,990,729	39,130,334
Long-term debt.....	<u>\$32,181,692</u>	<u>\$ 626,360</u>

The Company is in default on all its pre-petition secured and unsecured debt. Accordingly all debt, except for mortgage notes payable have been classified as current. Ultimate settlement of the Company's debt will be determined when a plan of reorganization has been agreed to with creditors and confirmed by the Bankruptcy Court.

During fiscal 1981, 1982 and 1983, average borrowings under the bank lines were \$419,094, \$1,594,030 and \$11,967,627, respectively. Maximum borrowings were \$2,200,000, \$19,300,000 and \$28,550,000 and the average interest rate was approximately 21%, 12% and 11%, respectively. As of December 27, 1981, December 30, 1982 and December 29, 1983, the interest rates under the bank lines were 16%, 12% and 11%, respectively.

PIZZA TIME THEATRE, INC.

(DEBTOR IN POSSESSION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Interest expense during fiscal 1981, 1982 and 1983, was \$635,303, \$2,284,851, and \$9,030,951 respectively. Included in interest expense for these periods is the interest portion of the capitalized lease payments which was \$443,404, \$1,792,040, and \$4,014,342 respectively. Interest income during these periods was \$1,070,899, \$1,075,737, and \$503,868 respectively.

In August 1981, the Company purchased the land and buildings of a shopping center for \$248,263 in cash and assumption of various mortgage obligations totalling approximately \$751,440.

During 1982, the Company purchased land sites and buildings for existing and future Company restaurant locations for \$2,398,288 in cash and promissory notes and assumption of mortgage obligations totalling approximately \$826,161.

During 1983, the Company purchased equipment and leasehold improvements from one of its franchisees for \$360,000 in cash and a note for \$538,000.

The principal payments required on mortgage notes payable for the next five fiscal years are 1984-\$35,721; 1985-\$39,014; 1986-\$42,618; 1987-\$152,164; 1988-\$28,823 and thereafter-\$363,741.

(10) Convertible Subordinated Debentures

The 8.25% convertible subordinated debentures issued in May 1983 were originally due in May 2008 and were subject to annual sinking fund requirements of \$2,500,000 commencing in May 1994. On March 22, 1984 the Trustee under the Indenture declared the Company in default under the terms of the debenture offering and demanded immediate repayment. The ultimate settlement on these debentures will be subject to the proceedings of the Bankruptcy Court.

(11) Capital Leases

The Company has entered into various agreements which provide lease financing for equipment for Company centers. At December 30, 1982 and December 29, 1983, the Company had leased equipment for 79 centers and 120 centers, respectively. In addition, in 1983 the Company had leased equipment for its corporate offices. The terms of these leases range from five to seven years. As of December 29, 1983, no additional lease financing has been arranged, and the Company is in default under virtually all of these lease agreements.

The following is a schedule of future minimum lease payments together with the present value of the minimum lease payments:

	<u>December 29, 1983</u>
1984.....	\$ 9,889,227
1985.....	9,322,726
1986.....	8,008,879
1987.....	5,222,910
Thereafter.....	<u>1,532,832</u>
Minimum future lease payments.....	33,976,574
Less amounts representing interest at rates from 11% to 18%.....	<u>7,210,320</u>
Present value of minimum future lease payments	<u><u>\$26,766,254</u></u>

PIZZA TIME THEATRE, INC.

(DEBTOR IN POSSESSION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(12) Capital Stock

As of December 29, 1983, the Company had authorized a total of 983,332 shares for issuance under six stock option plans which provide for grant of stock options to employees (including officers and directors) at prices not less than fair value at the date of grant. Under the Company's 1979 and 1982 employee stock option plans, all options have five-year terms and generally options are exercisable commencing one year from the date of grant in cumulative annual installments of 33 1/3%. The terms of the 1980 and 1982 incentive and non-statutory stock option plans are similar to those described above.

A summary of 1982 and 1983 transactions under stock option plans is as follows:

	1982		1983	
	Number of Shares	Exercise Prices	Number of Shares	Exercise Prices
Outstanding at beginning of year.....	309,960	\$ 1.50-21.50	433,892	\$ 1.50-27.25
Granted.....	239,508	15.25-27.25	463,907	7.25-7.50
Exercised.....	90,395	1.50-21.50	14,283	1.50-18.125
Cancelled or expired.....	25,181	3.90-27.25	245,904	1.50-27.25
Outstanding at end of period	<u>433,892</u>	1.50-27.25	<u>637,612</u>	1.50-7.50
Shares exercisable at end of period.....	<u>183,295</u>	1.50-21.50	<u>164,567</u>	1.50-7.50

The Company has also granted a leasing company an option to purchase 66,666 shares of Common Stock at an exercise price of \$18 per share.

In connection with the acquisitions of franchised centers in Alabama, Colorado and Alaska, the Company issued 31,000 shares, 13,435 shares and 150,000 shares of Common Stock, respectively. In addition in connection with the acquisition of a video games business the Company issued 113,143 shares of Common stock.

The Company has never declared or paid a cash dividend and anticipates that, for the foreseeable future, its earnings will be retained for use in its business.

(13) Income Taxes

In 1983, the Company had significant losses and as a result the Company has available a net operating loss carryforward. In addition the Company may have an investment tax credit carryforward resulting from 1983 purchases as well as recapture of investment tax credits on 1983 asset disposals and writedowns. Determination of these amounts involves complex State and Federal tax issues and may be contingent upon the terms of the plan of reorganization settling the bankruptcy proceedings. Consequently, these amounts are not presently determinable.

PIZZA TIME THEATRE, INC.

(DEBTOR IN POSSESSION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Income tax expense for 1981 and 1982 consists of:

	<u>1981</u>	<u>1982</u>
Current:		
United States.....	\$ 39,000	\$ 147,000
Foreign.....	15,000	25,000
State.....	<u>263,000</u>	<u>392,000</u>
	<u>317,000</u>	<u>564,000</u>
Deferred:		
United States.....	300,000	404,500
State.....	<u>34,000</u>	<u>341,000</u>
	<u>334,000</u>	<u>745,500</u>
Total.....	<u><u>\$651,000</u></u>	<u><u>\$1,309,500</u></u>

The provision for income taxes differs from the amount computed by applying the U.S. Federal statutory corporate rate to income before taxes. The reasons for the differences and the tax effect of each are as follows:

	<u>1981</u>	<u>1982</u>
U.S. Federal statutory corporate rate.....	46.0%	46.0%
State income taxes, net of Federal income tax benefit	4.9	4.5
Investment tax credits.....	(29.3)	(36.3)
Surtax exemption.....	(.6)	(.2)
Other.....	<u>(1.0)</u>	<u>.9</u>
Effective rate.....	<u><u>20.0%</u></u>	<u><u>14.9%</u></u>

The sources of deferred income taxes and their effects are as follows:

	<u>1981</u>	<u>1982</u>
Tax depreciation in excess of depreciation reported in the financial statements....	\$215,836	\$597,000
Center pre-opening expenses deferred for financial reporting purposes.....	194,806	291,000
Other.....	<u>(76,642)</u>	<u>(142,500)</u>
Total deferred taxes.....	<u><u>\$334,000</u></u>	<u><u>\$745,500</u></u>

(14) Acquisition of Franchises

In 1983, the Company acquired a total of fourteen franchised centers for approximately \$8.5 million in cash and promissory notes, Company stock valued at approximately \$2.3 million and assumption of certain liabilities and lease obligations totalling approximately \$1.9 million. Prior to December 29, 1983 one of these centers was closed and a second was sold to a former employee. At December 29, 1983, the net assets, revenues and net profit of these acquired centers are presented below as reflected in the consolidated financial statements.

Net assets.....	\$7,891,446
Revenues.....	8,966,395
Net profit.....	110,314

The 1982 proforma financial information for the abovementioned acquisitions has not been presented, as 1982 financial information for the centers is not available.

Subsequent to December 29, 1983 a third center was sold for \$1,400,000 in cash, assumption of liabilities and a promissory note.

PIZZA TIME THEATRE, INC.

(DEBTOR IN POSSESSION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(15) Commitments

The Company leases its center locations and the facility which houses its principal executive offices, warehouse and manufacturing operations under lease agreements which expire at various dates through 2003. The majority of the lease agreements may be renewed, at the option of the Company for 5 to 10 year terms. These agreements have been accounted for as operating leases. Rent expense under these leases was \$2,582,080 in 1981, \$7,072,028 in 1982 and \$13,763,633 in 1983. Real estate taxes, insurance and maintenance expenses are obligations of the Company.

Minimum future rental commitments under these lease agreements as of December 29, 1983 are as follows:

1984.....	\$ 16,642,229
1985.....	16,771,295
1986.....	16,515,201
1987.....	16,131,285
1988.....	16,637,508
Thereafter.....	<u>83,525,061</u>
	<u>\$166,222,579</u>

(16) Litigation

The Company's financial statements are presented on the assumption that it is a going concern and that, except as otherwise disclosed, assets will be realized and liabilities will be discharged in the normal course of business, subject to the provisions of the United States Bankruptcy Code. No adjustments have been recorded relating to the realization and classification of recorded asset amounts, the amounts and classification of liabilities or the effects on existing shareholders' equity (deficit) that might be necessary as a result of the Company's filing for reorganization under Chapter 11 of the Bankruptcy Code. As a result of the Company's filing a petition for reorganization under Chapter 11, all legal proceedings against the Company, with certain exceptions were automatically stayed. This filing, the uncertainty regarding the eventual outcome of the proceeding in reorganization, the effect of significant litigation and other adverse factors threaten the Company's existence as a going concern.

The Company is involved in various legal proceedings. The significant actions are as follows:

(a) The Company has been named as defendant in six class action lawsuits alleging violations of Federal and State securities laws in connection with sales of the Company's common stock and convertible subordinated debentures. The plaintiffs are seeking unspecified damages. At this stage management is unable to predict the outcome of these class actions or the amount of the Company's potential liability in these matters.

PIZZA TIME THEATRE, INC.

(DEBTOR IN POSSESSION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(b) The Company is defendant in litigation alleging breach of contract associated with a codevelopment agreement in which the plaintiff is seeking damages of \$60 million. Management of the Company, based upon consultations with counsel and other information currently available, believes the plaintiff's allegations are without merit and that the outcome of the litigation will not have a material adverse effect on the Company's business or financial condition.

(c) The Company and its former chairman and major stockholder are defendant in litigation alleging breach of an oral codevelopment agreement in which the plaintiff is seeking damages of \$12 million. Management of the Company, based upon consultations with counsel and other information currently available, believes the plaintiff's allegations are without merit and that the outcome of the litigation will not have a material adverse effect on the Company's business or financial condition.

(d) The Company is defendant in litigation with various landlords alleging breach of lease agreements. The outcome of these actions is not presently determinable.

The eventual outcome of the aforementioned matters is not presently determinable.

ACCOUNTANTS' REPORT ON SCHEDULES

The Board of Directors
Pizza Time Theatre, Inc.:

The examinations referred to in our report dated March 29, 1984, included the related supporting schedules for the years ended December 27, 1981, December 30, 1982, and December 29, 1983. In our opinion, subject to the effects on the 1983 schedules of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in our report been known, such schedules present fairly the information set forth therein.

Peat, Marwick, Mitchell & Co.

San Jose, California
March 29, 1984

PIZZA TIME THEATRE, INC.

(DEBTOR IN POSSESSION)

PROPERTY, PLANT AND EQUIPMENT

Years ended December 27, 1981, December 30, 1982, and December 29, 1983

<u>Classification</u>	<u>Balance at Beginning of Period</u>	<u>Additions at Cost</u>	<u>Retirements/ Adjustments</u>	<u>Balance at End of Period</u>
Year ended December 27, 1981:				
Cyberamics.....	\$ 765,378	\$ 230,584	\$ ---	\$ 995,962
Coin-operated amusement games.....	1,686,329	5,359,517	158,429	6,887,417
Restaurant equipment.....	1,463,860	1,913,126	---	3,376,986
Furniture and equipment.....	255,773	330,025	4,793	581,005
Land.....	---	330,000	---	330,000
Building.....	---	600,000	---	600,000
Building improvements.....	---	84,604	---	84,604
Leasehold improvements.....	2,820,018	10,080,805	---	12,900,823
Leased equipment under capital leases	220,000	4,580,093	---	4,800,093
	<u>\$ 7,211,358</u>	<u>\$23,508,754</u>	<u>\$ 163,222</u>	<u>\$ 30,556,890</u>
Year ended December 30, 1982:				
Cyberamics.....	\$ 995,962	\$ 1,422,272	\$ 57,000	\$ 2,361,234
Coin-operated amusement games.....	6,887,417	14,041,835	462,113	20,467,139
Restaurant equipment.....	3,376,986	2,876,896	249	6,253,633
Furniture and equipment.....	581,005	839,171	10,743	1,409,433
Land.....	330,000	1,466,239	---	1,796,239
Building.....	600,000	1,398,299	---	1,998,299
Building improvements.....	84,604	110,129	---	194,733
Leasehold improvements.....	12,900,823	24,121,850	---	37,022,673
Leased equipment under capital leases	4,800,093	15,884,580	---	20,684,673
Computer equipment.....	---	186,936	---	186,936
	<u>\$30,556,890</u>	<u>\$62,348,207</u>	<u>\$ 530,105</u>	<u>\$ 92,374,992</u>
Year ended December 29, 1983:				
Cyberamics.....	\$ 2,361,234	\$ 3,737,242	\$ 362,056	\$ 5,736,420
Coin-operated amusement games.....	20,467,139	10,560,411	3,599,582	27,427,968
Restaurant equipment.....	6,253,633	8,002,857	1,090,275	13,166,215
Furniture and equipment.....	1,409,433	1,395,530	1,512,520	1,292,443
Land.....	1,796,239	805,890	1,044,800	1,557,329
Building.....	1,998,299	2,684,324	1,299,784	3,382,839
Building improvements.....	194,733	5,881	---	200,614
Leasehold improvements.....	37,022,673	16,929,893	4,359,987	49,592,579
Leased equipment under capital leases	20,684,673	12,299,458	3,745,636	29,238,495
Computer equipment.....	186,936	1,051,889	138,687	1,100,138
	<u>\$92,374,992</u>	<u>\$57,473,375</u>	<u>\$17,153,327</u>	<u>\$132,695,040</u>

PIZZA TIME THEATRE, INC.

(DEBTOR IN POSSESSION)

ACCUMULATED DEPRECIATION AND AMORTIZATION OF
PROPERTY, PLANT AND EQUIPMENT

Years ended December 27, 1981, December 30, 1982, and December 29, 1983

<u>Classification</u>	<u>Balance at Beginning of Period</u>	<u>Charges to Costs and Expenses</u>	<u>Adjustments/ Retirements</u>	<u>Balance at End of Period</u>
Year ended December 27, 1981:				
Cyberamics.....	\$ 152,307	\$ 179,499	\$ ---	\$ 331,806
Coin-operated amusement games.....	546,321	941,065	---	1,487,386
Restaurant equipment.....	149,628	198,405	---	348,033
Furniture and equipment.....	53,902	56,419	---	110,321
Building.....	---	6,923	---	6,923
Building improvements.....	---	2,967	---	2,967
Leasehold improvements.....	229,752	507,061	---	736,813
Leased equipment under capital leases	2,417	360,213	---	362,630
	<u>\$ 1,134,327</u>	<u>\$ 2,252,552</u>	<u>\$ ---</u>	<u>\$ 3,386,879</u>
Year ended December 30, 1982:				
Cyberamics.....	\$ 331,806	\$ 318,747	\$ 28,938	\$ 621,615
Coin-operated amusement games.....	1,487,386	4,090,854	346,649	5,231,591
Restaurant equipment.....	348,033	572,295	56	920,272
Furniture and equipment.....	110,321	178,745	8,098	280,968
Building.....	6,923	41,639	---	48,562
Building improvements.....	2,967	19,296	---	22,263
Leasehold improvements.....	736,813	2,025,246	---	2,762,059
Leased equipment under capital leases	362,630	1,671,784	---	2,034,414
Computer equipment.....	---	3,539	---	3,539
	<u>\$ 3,386,879</u>	<u>\$ 8,922,145</u>	<u>\$ 383,741</u>	<u>\$11,925,283</u>
Year ended December 29, 1983:				
Cyberamics.....	\$ 621,615	\$ 879,556	\$ 10,052	\$ 1,491,119
Coin-operated amusement games.....	5,231,591	8,085,339	1,188,281	12,128,649
Restaurant equipment.....	920,272	1,386,676	21,231	2,285,717
Furniture and equipment.....	280,968	416,726	98,752	598,942
Building.....	48,562	179,526	24,764	203,324
Building improvements.....	22,263	21,370	---	43,633
Leasehold improvements.....	2,762,059	4,633,194	7,455	7,387,798
Leased equipment under capital leases	2,034,414	5,722,808	143,726	7,613,496
Computer equipment.....	3,539	144,195	17,711	130,023
	<u>\$11,925,283</u>	<u>\$21,469,390</u>	<u>\$1,511,972</u>	<u>\$31,882,701</u>

PIZZA TIME THEATRE, INC.

(DEBTOR IN POSSESSION)

SUPPLEMENTAL INCOME STATEMENT INFORMATION

Years ended December 27, 1981, December 30, 1982, and December 29, 1983.

	<u>1981</u>	<u>1982</u>	<u>1983</u>
Maintenance and repairs.....	\$ 656,417	\$2,179,914	\$4,913,450
Amortization of intangible assets and pre-opening costs.....	792,343	2,470,587	3,098,602
Taxes, other than payroll and income taxes	179,262	607,484	2,533,864
Advertising costs.....	1,369,381	3,774,112	6,557,497

PIZZA TIME THEATRE, INC.
 (DEBTOR IN POSSESSION)
 CALCULATION OF EARNINGS PER SHARE

	December 27, <u>1981</u>	December 30, <u>1982</u>	December 29, <u>1983</u>
Primary earnings (loss) per share:			
Net earnings (loss) applicable to common stock:			
Continuing operations.....	\$2,601,056	\$7,507,736	\$(76,348,868)
Discontinued operations, including loss on disposal.....	---	---	(4,907,220)
Net earnings (loss).....	<u>2,601,056</u>	<u>7,507,736</u>	<u>(81,256,088)</u>
Average shares of common stock and equivalents outstanding:			
Average common shares outstanding.....	4,275,404	5,759,346	6,035,874
Common stock equivalents-dilutive options	<u>216,861</u>	<u>133,752</u>	---
Average shares of common stock and equivalents outstanding.....	<u>4,492,265</u>	<u>5,893,098</u>	<u>6,035,874</u>
Net earnings (loss) per share:			
Continuing operations.....	\$.58	\$1.27	\$(12.65)
Discontinued operations, including loss on disposal.....	---	---	(0.81)
Net earnings (loss).....	<u>\$.58</u>	<u>\$1.27</u>	<u>\$(13.46)</u>

EXHIBIT 22

Subsidiaries

<u>Name</u>	<u>State of Organization</u>	<u>Percentage Owned by Registrant</u>
Cyberamics, Inc.	California	100
Pizza Time Theatre (Nevada), Inc.	Nevada	100
PTT Financial Corp.	California	100
Scyben, Inc.	Alabama	100
Chuck E. Cheese's PTT, Limited	Ontario, Canada	100

PIZZA TIME THEATRE 1983 ANNUAL REPORT

Date of Origin: 1984

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Submission by Jonathan Sullivan

Version 1.0

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